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Securing the Future
GETTING DOWN TO BUSINESS IN SUB-SAHARAN AFRICA
Arena Debate

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In cooperation with Renaissance Group

Moderator:

Tracy Corrigan, Editor-in-Chief, The Wall Street Journal Europe

Panelists:

Mark Cutifani, Chief Executive Officer, AngloGold Ashanti Ltd.

Alexander Ivanov, Vice-Chairman of the Management Board, Bank for Development and Foreign Economic Affairs (Vnesheconombank) state corporation

Stephen Jennings, Chief Executive Officer, Renaissance Group

Vladimir Kremer, Chairman of the Russia-South African Business Council;
Managing Director, Renova Group

Andrei Kuzyaev, President, LUKOIL Overseas Holding Ltd.; Vice-President,
LUKOIL JSC

Raila Odinga, Prime Minister, Republic of Kenya

Nikolai Zelenski, Chief Executive Officer, Nord Gold N.V.

T. Corrigan:

Ladies and gentlemen, thank you very much for joining us. I would like to welcome you to our session on Getting Down to Business in Sub-Saharan Africa. Before I introduce our guest, I would like to set the scene a little bit. This session is called Getting Down to Business, but I think one of the things we may learn about today is that Africa has already been getting down to business. There have been 11 African countries which have grown at more than 7% in the last 10 years. So, there is already a growth story in Africa and I think what we would like to talk about today is some of what has been happening in the last decade and what the prospects are for future growth, whether the boom is sustainable, and indeed, how the rest of the world can both help and harness such growth.

I would like to introduce the members of my panel starting on my right, Stephen Jennings, Chief Executive Officer of the Renaissance Bank Group. He has been in Russia for 20 years I think. We are also pleased to have Raila Odinga, the Prime Minister of the Republic of Kenya with us; Andrei Kuzyaev, the President of LUKOIL Overseas; Vladimir Kremer, who is the Chairman of two groups today – he is the Chairman of the Russia–South African Business Council, and also is a Managing Director the Renova Group; Nikolai Zelenski, the Chief Executive Officer of Nord Gold N.V; and, finally, Mark Cutifani, the Chief Executive Officer of AngloGold Ashanti Ltd.

Perhaps I could start with you Stephen, since you have been developing your business in Africa for quite a while now. Could you perhaps just give us a little bit of a sense of how you have seen the African economy develop in the last decade and what in your view has been fuelling that growth and how sustainable it is?

S. Jennings:

I think the facts on the African story are clearly and surprisingly not very well understood. The growth take-off in Africa really started way back in 1995. The GDP growth started to accelerate over 15 years ago. Sub-Saharan Africa is going through the same kind of transition that Asia went through 30 years ago. As time

goes by that process is broadening and it is accelerating. So, 90% of countries in Sub-Saharan Africa not only have strong economic growth, but they have a rapid movement towards democracy and pluralism, and rapidly improving health and education statistics. So, from a very low level, they are going through a very broadly based modernization and development process, which is very robust and has been sustained for some time. The limits are that it is commodity driven, and it is not because the non-commodity based economies are doing just as well as the commodity based ones; the methods are another cycle that we have seen before. But, this is also wrong, because after the crisis in 2008, Africa was the only region in world that had no cause of negative GDP growth. So, that growth continued despite global turbulence. Those are the introductory comments I would like to make.

T. Corrigan:

Mr. Cutifani, you have been there for a pretty long time as well, and you have been involved with quite a wide range of African countries. Can you give us a sense of where growth has been for you, and how the economies are evolving?

M. Cutifani:

We are involved in 12 countries across Africa. Certainly, in our case with the strengthened commodity process we have been very aggressively developing our gold business and we currently have five new projects under construction, spending around USD 4 billion over the next three to five years in countries like the Democratic Republic of Congo, Ghana, Tanzania, and Guinea. So, for us, it is a very important part of the world, and certainly we have seen structures and processes improve. And, from our point of view, governance and a whole range of other things have been important in us making decisions to support growth in the region. So I am very positive and very optimistic about the continent.

T. Corrigan:

Prime Minister, perhaps you could give us a sense of how you see Kenya fitting into this picture, and what makes Kenya different from some of the other countries, because I think it is not so much a commodity story as some of the other countries, and that some of the other guests are involved with.

R. Odinga:

Before I talk specifically about Kenya, let me just confirm what I have been saying for the last 20 years: that I am an Afro-optimist believing in the ability of Africans to develop Africa. This has not been confirmed because, as you know, 10 years ago or 20 years ago people talked about Africa as a helpless case. But things have really turned around in the continent, and that is why we are here in St. Petersburg talking about doing business in Africa. But, I believe for us to be able to realize our full potential we need to complete the political and economic transformation that is going on right now on the continent. The political transformation means we need to complete the democratization process. The economic transformation basically means the regional integration and industrialization of the continent. We are one of those economies that are not commodity driven, we tend farms and do not trade in commodities, but we have added more value to what we have. By having processing industries in our country, we have added value to our agricultural produce. Agriculture constitutes a very large percentage of our GDP. Then we have the service industry, which is also fairly developed, and we also have tourism, which is part of the service industry, and also ICT. We want to continue to expand this. Also this year we discovered oil, which we did not have in the past. However, we believe very strongly that we cannot fully replicate the East Asian model, which is based on becoming factories for the West. We do think that African economies can develop by becoming factories for the larger African market and intra-African trade. This is where we are putting emphasis. To be able to do this, we believe we must develop infrastructure that connects Africa, so that we can expand intra-African trade.

T. Corrigan:

The infrastructure is a huge issue that we should go back to. But before we do, as you mentioned oil briefly, perhaps I could ask Andrei, being from an energy company, to tell us a little bit about the opportunities in Africa from that perspective?

A. Kuzyaev:

Thank you for inviting us to speak to you today and to exchange views. I completely agree with the Prime Minister: for a long time we, and here I am first and foremost referring to Russia, did not pay much attention to Africa. When we visited African countries at the start of the 2000s, everywhere we went we saw industrial and social infrastructure built with the help of the Soviet Union. However, in the 1990s this kind of cooperation became a thing of the past. Today it is obvious that Africa offers enormous opportunities for both the Russian economy and Russian businesses.

How important is Africa to Russia? Last year, for instance, West Africa accounted for 50% of LUKOIL's investments in geological surveying. This shows just how important West African and African projects in general are for our company. This is not merely a matter of tens, or even of hundreds of millions of dollars – in total we have invested approximately USD 1 billion in geological surveying in West Africa.

The prospects are breathtaking. When we first came to countries like Ghana, Sierra Leone, and Ivory Coast, we were only counting on extracting oil there. Today, the oil and gas reserves discovered there have been proven and oil extraction has begun. In order for this region to develop, the energy issue needs to be solved first, because the majority of West African countries are forced to import energy resources. The set up and development of their own energy capacity is a key requirement for the long-term economic growth of African countries.

There are many opportunities for Russian oil and gas extraction companies to invest. These countries await us. Nobody has forgotten the cooperation that took place decades ago. European, American, and Asian companies, especially Chinese companies, are active in Africa. But in order to balance out the interests of the

various players and to ensure effective economic growth, the presence of Russian companies is necessary.

T. Corrigan:

Vladimir then, you are also involved in Africa and you raised the issue of your own investment in infrastructure. How important has it been for you, and how important would it continue to be for you to see development in infrastructure? Also, perhaps we could start by talking a bit about whether there is going to be sufficient investment in infrastructure to allow Africa to continue to grow at its current rate.

V. Kremer:

Africa plays a very important role in the activities of Renova Group. Our interests are concentrated in the Southern African Development Community (SADC), which makes up a large part of the continent. In other words, this is sub-Saharan Africa. It is made up of 14 countries with a total GDP of approximately USD 750 billion and a population of 250 million people. This is a massive economy.

Renova Group is investing large amounts of money in the region. Renova Group's main project in the SADC is the extraction of manganese ore in the Kalahari desert and in Mpumalanga province (Republic of South Africa). Eighty percent of the world's manganese ore reserves are located in the provinces around the Kalahari. We started up this business seven years ago. Over the last seven years we have built a mine with an annual production capacity of 2.5 million tonnes of ore, and acquired a silicomanganese production plant in Mpumalanga province. This year production at the mine reached full capacity.

We are very pleased with how our business is doing, and the situation in the market today gives us good reason to be optimistic. Renova Group's total investments in manganese amount to approximately USD 400 million. We have already carried out a feasibility study for a brownfield project, and we have plans to expand our production of alloys. In the near future we are going to launch a sinter plant; this will

be an agglomeration facility. We are currently also considering the possibility of building two new highly efficient furnaces for producing alloys.

Thus we have a very optimistic outlook on both the situation in Africa and in the commodities market. We hope that the situation will improve even further in the near future. However, as you correctly noted, Tracy, there are infrastructure problems on the continent. Even in a country that is as developed as South Africa, there are major logistical problems. Whether we like it or not, we need to work on improving infrastructure, we need to fix the logistics, because the carrying capacity of railways is very low. We also need to work on improving infrastructure because the main players, the companies that extract iron ore – BHP Billiton, Samancor, ArcelorMittal – are active there. What we have is a battle over resources.

The South African President, Jacob Zuma, made a speech in February in which he set out the main priorities for infrastructure development in South Africa. When he met Dmitry Medvedev during the BRICS summit, he invited Russian companies to take part in large infrastructure projects in South Africa. Over the next seven years, the South African government plans to invest approximately USD 40 billion in infrastructure. Of this USD 40 billion, USD 26 billion is to be invested in transport, including railways, and USD 14 billion in port infrastructure, including the ports of Saldanha and Ngqura. These are iron ore and manganese ports. There is a lot of room for large Russian companies, both public and private, to participate. Russian Railways and the Ministry of Transport could take part in these projects. Renova and EVRAZ are going to participate. Norilsk Nickel plans to do so as well.

Alongside infrastructure development, an energy development programme is also being implemented in South Africa. It is the world's largest. The government has just adopted the Integrated Resource Plan which envisages the launch of 17.5 gigawatts of alternative energy and 9.6 gigawatts of nuclear power capacity. The nuclear power portion of the programme has a price tag of USD 50 billion. Eight extremely powerful power-generating units are being built using modern technology.

As the Co-Chairman of the Russia–South African Business Council, I put a lot of effort into ensuring that Russian companies, in particular Rosatom, play an active

role in developing nuclear power in South Africa. The volume of investments is colossal. I am very optimistic about the prospects of Russian companies in SADC countries and in South Africa.

T. Corrigan:

Well, I think that is a really interesting point. When we talk about infrastructure, we are not just talking about roads and buildings, but we are also talking about power. I wonder what your experience has been in applying those things, because there is a problem in Africa with power, is that not true? There is already not enough power in many countries to support the growth that the economies are producing. Has that been an issue for you, and are you as optimistic as Vladimir, or can you see some issues?

N. Zelenski:

On the whole, we have a very positive outlook on Africa. Africa already accounts for approximately half of all of our company's production and approximately half of our profits. We have a presence in Burkina Faso and in Guinea. For example, evidence of our positive outlook can be seen in the fact that the next mine which we are commissioning is located in Burkina Faso. This is our second mine in this country. As for energy constraints, this is one of the most serious problems in the region. Many West African countries do not produce their own power, they are forced to either import electricity or to generate it using diesel generators, which is extremely expensive. There is no doubt that this slows down large projects, in the mining sector, for instance. However, the quality of the mineral and raw material base of African countries is an asset. Although electricity produced by diesel generators is very costly, it is still possible to obtain the necessary levels of profitability and return on invested capital.

Nevertheless, the lack of power generation capacity is of course a major problem for the development of African countries. For instance, this is the number one problem that Burkina Faso faces. Small business and the local population suffer because of

electricity shortages and very frequent rolling power outages. Burkina Faso is developing rapidly, but it would probably develop much quicker if small businesses and the local population had access to the electricity that they need.

We need to think about this problem and to deploy common efforts in order to solve it. Countries need to cooperate with each other: for instance, if a country is not landlocked and has access to coal, it can produce electricity and export it to other countries. It is possible that the World Bank and other similar organizations will get involved in the construction of power infrastructure in Africa. But for now, insufficient electricity supply is the number one constraint. It has a greater negative impact on the African economy than the shortage of roads and railways.

T. Corrigan:

Mark, we were talking just before the session about the demands that you find when you go into Africa in terms of infrastructure, that you are not simply going in and building mines anymore, but you are doing something much broader than that. Is that something that you can tell us a little bit about? Also, can you tell us whether you think that is something that is happening more broadly with multinationals in Africa, or is there going to be a problem in terms of coming up with the investment for the vast infrastructure demands, in particular with the power that we have been talking about?

M. Cutifani:

Well, as a company we have been working on a new development model, one where we are leading in terms of our work in Africa. To put it into context, Africa as a continent is home to 40% of the world's natural resources and it has 15% of the world's population. So, the natural resources per head of population is four times more than the rest of the world. So, we see our role as a partner with countries in developing those resources. But, at the end of the day, we have a terrible reputation as an industry. So, the thing that we are thinking through is how we can change that reputation. We believe that instead of being labelled as part of the extractive

industries, we should be labelled as part of the development industry. We do not want it to sound like a trip to the dentist. We want people to think about mining as something able to develop countries and improve lives.

So, for example, with our latest project in the Democratic Republic of Congo, 40% of our capital will be dedicated to the construction of energy, roads, hospitals, and educational facilities that actually support the local communities directly. We think that if the mining industry thinks in this way, and if the tourism industry, governments in major population centres, and other groups start to think about making the contribution to build communities within Africa, we will be able to establish infrastructure hubs through the continent, which will ultimately be connected in terms of how we build and integrate the infrastructure for the continent. So, we are leading the conversation in terms of the mining industry, but we would encourage all industries to start thinking about partnering with governments in putting those infrastructures in place. So that, for example, is taking place in the Democratic Republic of Congo, where we are bringing power, roads, education, health and other facilities, which also allows the agricultural community around our operations to have an access facility to other markets in the region. We are starting to change the very nature of the communities in which we work. We think that is the way we as industries have to think about making a real contribution to the future development of Africa.

T. Corrigan:

Part of the reason that you are doing that, and I guess other companies are doing that as well, is that governments are also asking more of companies that go in to mine your commodities, or drill your oil. Can you talk a bit more about that partnership with companies, and also perhaps a little bit what companies have done to help create infrastructure? I think there have also been quite a lot of structural governance changes within Africa. I think for example, there are quite a lot of African countries where it takes less time to open a business that it does in Russia, for example. So, perhaps you could talk to us a little bit about that.

R. Odinga:

Yes, we realized that public funding alone was completely inadequate as far as infrastructure development is concerned. That is why we recognized the need for partnerships. The private–public partnership as it is now known is the road to go. Because of this, we are now in a situation where we have hired a consultancy. For example, in terms of roads, funding comes from the World Bank. You can actually engage in a partnership. What we call the Northern Corridor is one thing we are trying to do jointly with the private sector. This can be done with other infrastructure projects like energy, for example. We are making partnerships with companies in geothermal operation and development, for example, in power development, and so on. Another one is railway, airport, and port construction. We have had one of the most ambitious infrastructure development projects on the continent both before and since independence. There is what we call the LAPSSET Corridor, that is the Lamu, South Sudan, and Ethiopia Transport Corridor. This aims at putting up a new port in Lamu and then constructing a railway line to connect with Addis Ababa in Ethiopia and Juba in South Sudan. It is intended eventually to go to the Central African Republic, the Congo, and Douala in Cameroon, linking the Atlantic Ocean with the Indian Ocean and making it the biggest infrastructure development project on the continent. This would facilitate intra-African trade, because we have been talking about African trade but we have not recognized what is inhibiting it, which is infrastructure. How can trade be conducted with the Central African Republic, which is about 1,000 kilometres away? There are no links, because the country itself is landlocked and they have to go around the Cape, all the way to Nigeria, or to Cameroon, and so on. So, this is something that has been a pipe dream and is now based in reality. Remember Cecil Rhodes at the turn of the last century talked about a trans-African highway running from the Cape to Cairo and that has not been realized? We are now building it bit by bit to reach Cairo.

So, how do we propose to do this? We intend to have an investment conference. We have hired the *Financial Times* of London to work on this. We are going to have

a conference to invite the private sector to partner with us in phase one, to link Kenya, Ethiopia, and South Sudan. When that is done we will move on to phase two, which will bring countries along it, that is the Central African Republic, the Democratic Republic of Congo, the Republic of the Congo itself, and others. Then Nigeria can connect with this, and then that will facilitate real intra-African trade. We think that this way you will be able to benefit from this market. The African market is not small. Currently, the GDP of Sub-Saharan Africa is about USD 1 trillion, and is bound to double within the next 10 years and will quadruple in the next 20 years. So, it is a big market, and in our view this is the road to go. And in order to replicate the Asian model, African countries can only work within Africa. So, Africa will become a different market to that in the Asian countries, that made the West their market with factories in China, India, and Korea. Africa can become the market for the African countries.

T. Corrigan:

Fuelling that is, of course, the growth of the African consumer and this would be a good moment to talk a little bit about the demographic story of Africa, which I understand is something you are quite an expert on Stephen. So, would you like to comment on that?

S. Jennings:

Africa has this unusual combination of being the poorest part of the world, but South Africa is the fastest growing region in the world. One of the impacts of this is leapfrogging. We sort of faced this with telecoms. Nigeria went from 800,000 landlines to 70 million mobile lines literally in six years. We also see this now in infrastructure. The fastest growing economy of this year will be (and I do not know if anyone would guess) Sierra Leone. Sierra Leone is going to grow at about 45% this year. That growth is based upon several billion dollars of infrastructure, mainly in iron ore, which involves large-scale railways, towns, ports, and other infrastructure. But guess what, every other resource near that railway line now has export access.

So, the whole region has been opened up over three or four years. I think in a lot of areas we are going to see this kind of leapfrogging. As far as consumers are concerned, Africa is experiencing the most rapid urbanization in the history of mankind. Africa is urbanizing and has a bigger demographic dividend than Asia ever had now combined with this high growth.

A huge part of the Asian success story was this urbanization and having these very young, dynamic populations. The Chinese demographic dividend begins to run out in five or six years' time, the African one has another 20 or 30 years to go. So, it is going to be a huge force for change and modernization for a long time.

T. Corrigan:

When the Chinese demographic runs out, that could be a problem to a degree, could it not? How dependent do you think that Africa is on strong Asian and Western growth to continue to develop at this current rate?

S. Jennings:

You know, I believe that in a few years, people will realize that not only is Africa the fastest growing region, but the source of the lowest risk. It has the least leverage, it is the least exposed to the West's problems, it has the strongest demographics, and it has the most robust organic modernization. So, it is not immune to a slowdown in China, or economic problems in the West, but it is definitely the most insulated. I think as time goes by people will realize that is a very positive attribute to have.

T. Corrigan:

What about the way in which other countries will be affected? Let us go back to Russia for example. I do not know if any of you can answer this. How can Russia benefit from African growth? Obviously we are in a global economy where there are not many countries with growth at this sort of rate. So, is this an opportunity for Russia, not only in terms of the commodity side, but in terms of the African consumer and the demographic patterns that we just touched on? Vladimir.

V. Kremer:

As I mentioned earlier, Russia can help African countries to develop alternative energy. Renova Group is bidding for tenders for the construction of solar farms and solar panel production plants. We have to give our African colleagues credit where it is due: the Integrated Resource Plan is a comprehensive programme covering the development of conventional, alternative, and nuclear energy up to 2030. This is an exemplary programme. It focuses a lot on the development of solar power. There are plans to commission 8.4 gigawatts of capacity by 2030.

There is a company that is part of Renova Group which produces and installs solar panels, and sets up solar farms. That is why, apart from our active involvement in the development of Africa's mineral and raw material base, we have also devised a large-scale solar power development programme. It is starting off in the Kalahari region, in South Africa. We also have a solar farm development programme in other SADC countries. I believe that this will provide an impetus for the development of solar power in Africa and for Russian companies to participate in this process.

N. Zelenski:

I would like to add that Africa clearly stands out because of the quality of its raw material base. The fact that Africa's reserves have not been fully explored is the reason why Africa lags behind other regions in terms of development. But it is also an advantage. The quality of the reserves that remain in Africa is far superior to the quality of reserves in other countries throughout the world.

Stephen Jennings came to Russia 20 years ago, he came at the right time and became a billionaire here. I think that many investors, including Russian investors, can do the same, they can go to Africa, work there and make billions of dollars in profits.

T. Corrigan:

And do you think that Russian companies, other than commodities companies, are starting to go into Russia and to Africa more rapidly now?

N. Zelenski:

Mining companies will probably go first. But, as Vladimir said, energy companies, and later banks, will also go, as the market grows. Sberbank, which is currently active in countries neighbouring Russia, will probably also take a stake in the financial institutions of African countries. A very large youth population and rising incomes are both serving to increasingly attract businesses from other sectors.

T. Corrigan:

We were talking about the infrastructure that you were putting in earlier, but with this demographic growth there are obviously new demands as well. We have seen a big jump in life expectancy in Africa. Do you think that is going to be a difficult challenge in terms of developing the education and healthcare infrastructure, which we have not really talked about yet?

M. Cutifani:

Absolutely, but in the areas that we have worked we obviously found a willing partner in the shape of governments. It is interesting to note that I am the head of a mining company, but I am also the spokesperson for health in South Africa. We have two fairly significant hospitals in South Africa, plus we have another six on the continent. So, I think to be successful, and again to be able to partner with governments, we have to be multi-skilled, we have to add value and provide something that the governments see value in. If we can do that well, we obviously create value for those communities, and if we create values for those communities, then hopefully we will be asked to come back.

T. Corrigan:

Is that an interim stage though? Because that is not the way business happens in Russia, for example.

M. Cutifani:

It is interesting. I am about to go to Sydney and participate in a debate concerning the mining industry and the fact that they now have a super tax. In my view, the reason they have a super tax is because they are not partnering with governments. They are not partnering with communities, and this is a problem across the world. In the mining industry, we have to change our approach, we have to become value creators in all dimensions in communities if we are going to have the future that we think we should have. I think it is a broad conversation. In each community in Africa, we need to address the issues that the community sees, and not what we think the community should see. It is what the community sees, and if we can make value and create value with our partners, then hopefully we will be asked to come back.

T. Corrigan:

Prime Minister, could you tell us about the infrastructure needs in terms of healthcare and education? What your hopes and goals for Kenya and for Africa more broadly?

R. Odinga:

Basically, as has already been said, you can see that Africa's population is predominantly young. In Kenya, based on the 2009 census, 72% of the population is below 35 years of age. We can benefit from this demographic dividend by providing proper skills and training. We realize that our education system is not quite aligned with the demands of Vision 2030, which is our economic development project. So, what we are doing right now is to align our training with Vision 2030, so that the right skills are there for the industries, in other words, with the demands of the market. That is what we are trying to do right now.

We therefore are also demanding that whoever is investing must also put something into training. For example, in terms of raw materials and mining extraction, we do not want to be just a source of raw materials, there must also be some benefit. In other words, processing raw materials, there need to be other values added to whatever is coming out of Kenya. Therefore, logical corporate social responsibility is part of it – the company makes a contribution for training people to complement the government's efforts in this regard. We, of course, as a government, have put in funds to open up the country for investments in infrastructure. We are putting in quite a lot of money in terms of road construction and in terms of energy. We had a capacity of just 1,000 megawatts four years ago. It has gone up to 1,500, and we want to move to 10,000 megawatts in the next five years in terms of energy, which will then enable us to attract more investment in the country. We have also put in quite a bit in terms of water, provisions for sanitation, and railways. For example, work has been done on expanding and modernizing our colonial railway line that was constructed at the turn of the last century and changing to a standard gauge, which had not been there before. We had had the colonial period gauge. And, as I mentioned already, we are also making similar steps in Ethiopia and Southern Sudan generally. So, we see the route that African countries should go to invest in infrastructure development, but they must do this in partnership with the private sector where it is possible, and governments should provide their resources. But also training, generally, is essential for development, it is *sine qua non* for Africa's economic takeoff in our view.

T. Corrigan:

I would like to take some questions from the audience. I think there are some microphones, if they could be passed around. We have heard an interesting story so far on infrastructure development, the emergence of the African consumer, and a growth story that seems to be persisting despite the slowdown elsewhere in the world.

If you have a question, could you possibly raise your hand and then say who you are and where you are from before you ask the question. There is a gentleman in the front row over here, could someone take a microphone to him?

C. Okeahalam:

Hello. Thanks for that Tracy. I have a few observations and a quick question.

T. Corrigan:

Sorry, could you please say who you are?

C. Okeahalam:

My name is Charles Okeahalam. I am Nigerian but I live in South Africa and I run an investment holding company that has investments in nine countries in Sub-Saharan African and two in the Maghreb region.

Africa is not a country, it is a continent. So, when this debate takes place about Africa, we get lost, because are we talking about Kenya, or Nigeria, or South Africa, which are different players with different issues. Are we talking about the Democratic Republic of Congo, what are we talking about? There is a different set of issues there.

The second issue I have is because we are so heterogeneous, we have a lot of different threats and opportunities. As business people running around the continent, we see different opportunities and different threats in different markets. So, one of the key things that we are looking to do now is to broaden beyond the Chinese and Indian presence in Africa. That is one of the things that brings me here.

I was going to London and my typical kind of route does not include St. Petersburg, but a partner at a meeting last week said, "Why do you not divert into Russia? Have you ever been there before?" I said, "No", and he told me it is full of technocracy, ability, and technical knowledge. "Come and visit Russia." And so we did.

We are here looking at opportunities involving Russia looking to come into Africa to have a bigger role on the continent, which it is doing already to some extent. We want them to come in to bring some competition to that market, so that we have better terms *vis-à-vis* the Chinese and other players there to make it a much more competitive market. We welcome the skills that Russia has, but we are looking for joint ventures with Russian companies as opposed to simply saying, “We want Russians to invest.” We are keen, and some of us are keen to invest here. If we saw opportunities in Russian markets, we would. We also have a mogul-oligarch structure in parts of Africa. We have people with billions of dollars and I know some of them. They would be able to invest here if the opportunities and rates and returns were adequate.

My one question is to the gentleman from LUKOIL, Andrei. I was wondering if you could give us a view as to whether you have considered other markets for energy beyond oil, and what you might do if so. Also, do you know about the players in that particular market? I know you are an oil player primarily, but I was wondering if you had a view about energy beyond oil.

A. Kuzyaev:

That is correct, our company does indeed extract oil. But we also extract natural gas and produce electricity.

As for Africa, it is not homogeneous. Even neighbouring countries do not resemble each other: there are different levels of development, different needs, and different infrastructural problems. Each country requires a tailored approach.

When we talk about today’s Africa, we need to understand a number of things. There are regions where the oil extraction industry is developed – first and foremost, Nigeria. There are countries, where setting up extraction takes a long time, but where growth prospects are still bright, where it is possible to reach production levels of 2 million barrels per day. Angola falls into this category. It is also clear that Africa is entering the gas era. Alternative energy sources and nuclear power do provide additional capacity, but the gas fields that are now being opened up in East

and West Africa will be the main source of energy. The small projects which we talked about could be linked up with local power generation systems. Africa needs an integrated energy system, reliable sources of raw materials (above all, gas), and it needs the most up-to-date energy solutions.

Now, concerning LUKOIL. When we go to a high-risk region like Africa, first of all we look for opportunities that allow us to minimize the risks, and these opportunities are primarily tied to oil. But we are not ruling out the possibility of developing our gas business in the future. If we find gas in the course of our hydrocarbon exploration work, we will think long and hard about what to do with it. There are several options, including the production of liquefied natural gas, and the export of gas. We are considering carrying out projects together with other Russian companies, especially mining companies. We are building power capacity that will allow us to supply the mining industry with electricity. Clearly, in doing all this we are partnering with African states that want to create sustainable electricity markets for their populations.

We are also interested in fostering alliances with local investors. We already have experience of such alliances with Nigerian companies, and we are prepared to develop this kind of cooperation further. The localization of investments and the participation of local investors improves the quality of our investments.

T. Corrigan:

Just the other point that you raised, which is the fact we have been talking about Africa as a single investment entity and obviously, in practice, it is very diverse. Does anyone have anything to add on to that? For example, from an investment perspective whether you view it as a pan-Africa story, or a regional story, or if it needs to be viewed on a country-by-country basis?

S. Jennings:

Yes, I think it is both. These are very different countries, different ethnicities, different histories, and different infrastructure. You know, vastly different. Clearly

there are some general things that apply across 90% of Sub-Saharan Africa. So, this growth is broad, it is deep. You know, in terms of health statistics, infant mortality across Sub-Saharan Africa is falling 5% a year compound. In Kenya it is falling at 8% a year compound. So, in five years it has halved, something that earlier took 25 years. But, it is happening all across the continent. So, these are big things, and then there are a lot of local idiosyncrasies, which are critical when you are actually running a business and making investments.

M. Cutifani:

I think Stephen picked that up very well. I think that it is both. But, I will make one observation from the perspective of a mining company, and I suspect that it is a sign for many industrial companies. Most of the people that work within our operations (and we have 40,000 employees across Africa in 12 different countries) come from a rural background with limited education. Our industry is one that allows people to work in an industrial setting coming from that type of environment, by first helping people with some basic education, bridging school levels, and then introducing our processes in a new way. For example, we have adopted what I will call a Toyota Management Model, but we have made our operating processes very transparent to help people understand an industrial process, which they have not been exposed to before. We have found that the rapid take-up and the improvement of skills has been exceptional and beyond anything that we have seen in other jurisdictions. So, in our case, we have learned many important lessons, showing that by giving the children a chance and providing a bridging process in terms of education, what you get is quite amazing. So, we are very optimistic in being able to help create a bridge from a rural setting into an industrial setting. It does not need as much work as you probably think if you have your processes done properly, and it makes one hell of a difference. At the moment we have improved productivity three, four, and five fold. It is our quickest improving cost structure across the globe, and for us that is a great opportunity.

T. Corrigan:

OK, we will take a couple more questions please. The gentleman in the second row from the back.

From the audience:

I would like to address a question to Prime Minister Odinga. Earlier this year some significant oil discoveries were made in your country and at a very preliminary stage, initial indications from geologists suggest a potential rival that may even outstrip those in neighbouring in Uganda. However, Uganda has had issues with retrospectively trying to implement and create an oil law and a hydrocarbon law to govern the extraction of crude. I wonder how Kenya is going to confront the same challenge. Obviously, you have two competing needs. You have the legitimate desire for your people to enjoy a better life and to reap the rewards of any benefits that accrue as a result of the crude oil. But, at the same time you want to encourage investments and you want to make sure that foreign investors are willing to spend vast amounts of capital to bring the oil to the surface. How can you reconcile those two needs more broadly and specifically, how are you progressing plans to develop a hydrocarbon law?

R. Odinga:

First, I just wanted to talk about what the gentleman from Nigeria raised about the heterogeneity of Africa. Yes, it is true that the countries of the continent are heterogeneous to a certain extent, but they are also fairly homogeneous in other respects. For example, in terms of poverty, in terms of lack of industrialization, in terms of the need for infrastructural development, there are actually a number of things that are shared in common. And when you meet at the African Union level there are things we all recognize. Firstly, the building blocks toward African integration are the regional blocs. Like in Eastern Africa you have the East African Community. You have SADC in the south, you have ECOWAS in the west and so on and so forth. But first you need to complete this integration and make these

markets open, and then this will turn into trans-African trade. The main hindrance to this has been infrastructure development, and that is why we are addressing this on the continent level.

T. Corrigan:

OK, we will go back to the question, but just quickly on that, do you see further development of that trade block and further currency union being potentially a desirable development?

R. Odinga:

Yes. If you talk specifically about the East African Community, which, as you know, has a customs union with common markets, we are not moving towards a common currency, not with what the euro area is going through right now. This is probably not the right time to be doing that. But there is the intention to move in that direction. I must point out one issue: we are only three months old in this league as a country with oil. We have unknown quantities of oil right now. We are still in the process of fully quantifying, but it still seems that we have more resources than other countries around us.

We know from experience that oil can either be a blessing or a curse. We know some countries where oil has just been a curse, but we know other countries where oil has been a blessing and can actually bring happiness to the people. So, we are going to look at international best practices, because we are not pioneers in this field. We know the pitfalls and we can avoid them. So, what we are doing right now is developing a legal framework that will enable us to manage this oil sector more effectively for the benefit of the people of our country, and not just this generation but for future generations. There is the example of Norway, where the oil revenue has been invested for future generations.

T. Corrigan:

So you are interested in having some sort of sovereign wealth fund, develop some kind of sovereign wealth fund with the revenues?

R. Odinga:

Yes, exactly. We will invest for the future. Also, we will use it for the benefit of the present generation as well. So, we have hired consultants and are working with our team in developing the international best practices, to develop the legal framework for our country.

T. Corrigan:

One more question, I think there was one in the back row.

A. Kuzyaev:

It is true that all developing countries face serious problems. It was mentioned that in one particular country that neighbours Kenya, the oil legislation was changed significantly following the discovery of oil. This is a very serious obstacle to long-term investment. Oil extraction requires investments of between 30 and 40 years. The geological surveying process alone lasts between five and ten years, after which there is a lot of work that takes place to develop and operate the field. On average, 10 to 15 years passes between the start of exploration and the start of extraction. If there is no tax stability, if the tax legislation is inadequate, if the country's leaders have no intention of developing this sector, if from the very beginning there is only a desire to divide everything up and to trample over investor interests, then there is a very serious problem.

Ten years has gone by since oil was discovered in Uganda, but to date, we still have not seen a significant increase in extraction. There are other instances of investors preferring to invest in a country which may be poor, which may be grappling with serious social problems, but which has stable tax legislation and coordinates its development with investors. In the cases of Kenya, Uganda, and Ivory Coast, investors come to these countries not knowing whether there is any oil

and gas there or not. This represents a serious risk for investors. The likelihood of finding oil and gas is roughly 10–15%; so in nine cases out of ten you risk losing your investments.

Given these enormous risks, stability is necessary. This is one of the main question marks hanging over investments in mining and in natural resources in African countries. Where we work, we have obtained the necessary guarantees: this is very important.

T. Corrigan:

And are you seeing a general improvement in the level of legal stability? I know you are operating in various countries, but broadly speaking, would you say that there has been an improvement in the reliability of the legal framework across these countries?

A. Kuzyaev:

Most of our contracts are production sharing agreements or 30-year concession agreements. If we notice significant changes that go against the interests of investors in a given country, we will then think very hard before we invest there. Just for your information Tracy, carrying out a geological survey for one offshore deepwater well costs between USD 100–150 million. Running the oil platform together with the well drilling equipment costs USD 1–1.5 million per day. This is the kind of risk that oil companies take on. It is therefore very important for the relationship between investors and the state to be built on mutual trust.

T. Corrigan:

OK. Any more questions?

M. Rakhmangulov:

Mark Rakhmangulov, Higher School of Economics (Russian Federation).

It was mentioned that investments in African countries carry big risks. I wanted to find out about what the governments of the countries of origin of these esteemed businessmen, and more specifically the Russian government, are doing to help minimize these risks for businesses entering new markets.

To what extent are you satisfied with your cooperation with the government and with the assistance that the government has provided? What could be done to make this cooperation more effective? Thank you.

V. Kremer:

It is true that legislation in Africa is very diverse, and that it is being amended significantly, for instance in South Africa. There are the so-called Black Economic Empowerment regulations: a minimum of 26% of the equity of companies developing the country's mineral and raw material base must be held by local investors. Today, the B-BBEE – Broad-Based Black Economic Empowerment regulations – are being increasingly applied. In a nutshell, this means that local investors must hold a stake of at least 51%. Recently, the Indigenization and Economic Empowerment Regulations were introduced in Zimbabwe. This is almost the same thing as the B-BBEE regulations in South Africa. Basically, you have to give up 51% – the majority equity interest in a company – to local investors for free. Of course, we need to keep this in mind.

As for the Russian government's participation, we see it across the board in Africa. Earlier, the following question was asked: how do we react to China's de facto dominance? I would like to note that we should also not write off India. It is true that large Chinese state companies and private Indian companies are coming to Africa on a massive scale.

It is worth noting that, for example, in the Republic of South Africa, Russian businesses are viewed very favourably, because everyone remembers how the Soviet Union helped the African National Congress. So instinctively, there is a favourable opinion of Russians. We should also keep in mind that the approach that Russian businesses opt for differs markedly from the Chinese one. The Chinese

bring their own workers to African countries. Meanwhile, we create jobs for the local population, so we compare favourably with the Chinese in this respect.

Recently, Renova Group put forward a proposal to the Russian government. We proposed setting up a unified structure – the Coordinating Committee for Economic Cooperation with Sub-Saharan Africa. This resulted in the creation of a publicly traded company, in which Vnesheconombank plays a leading role. What this is really about is major investments in Sub-Saharan African countries. It is also about safeguarding Russian state interests and securing our geopolitical influence in the region. The revolutions in the Maghreb countries and the political situation in these countries today are prompting the Russian state, and the Ministry of Foreign Affairs in particular, to pay special attention to Sub-Saharan Africa. The state has started offering us a lot of assistance.

T. Corrigan:

Please keep your answer very short, Mr. Kuzyaev, because we are running out of time. Thank you.

A. Kuzyaev:

It is very important to discuss foreign economic policy and what entrepreneurs are doing. We frequently leave these topics by the wayside, but this is a key aspect to consider when discussing Africa.

I would like to say that there is an opportunity there for Russia to seize in Africa. We can, and we should, have a presence in Africa. We should not let this opportunity pass us by. Africa awaits us. Russian industry produces goods that are in demand in Africa. I am not only referring to the oil and gas and energy sectors.

In addition, today we are receiving robust state support, first and foremost on the foreign policy front. A set system of intergovernmental relations is in place. But if we want to have a presence in the African market, we need a more proactive foreign economic policy, and we need to develop further the system of government guarantees, subsidies, and loans.

T. Corrigan:

Thank you. We are running out of time. I just wanted to wind up by asking all of you to tell me in three words what is your greatest hope for Africa in the next ten years; starting with Prime Minister Odinga.

R. Odinga:

I think that the Africa pessimists have been proved wrong. I see Africa as the final frontier of economic development and growth. My prediction is that in this century Africa is going to claim its rightful place in the community of mankind. The African economy is going to grow much faster than in any other part of the world. I want us to be able to work and live in peace. Thank you.

T. Corrigan:

Thank you. Andrei, what is your hope or your prediction for Africa in the next ten years? Very quickly please.

A. Kuzyaev:

Africa will continue to grow, and this represents an opportunity for everyone who wants to grow together with Africa.

T. Corrigan:

Vladimir.

V. Kremer:

The future consolidation of the manganese industry in the Kalahari.

T. Corrigan:

Excellent. Nikolai?

N. Zelenski:

It seems to me that all of the right preconditions are in place for economic growth in African countries to take off. Historically, these countries have always lacked stability and good governance. I would like to wish Africa both of these things. It is necessary not just to want to obtain something in the short-term, but also to look to the future. Africa has a very young population and needs to grow its wealth over a long period of time. I sincerely hope that African countries will achieve stability and good governance.