



Owusu-Ankomah
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Assessing Africa's business future: An interview with the CEO of Absa

The CEO of one of South Africa's largest financial-services companies discusses the state of business in Africa.

David Fine

Maria Ramos could not have chosen a more difficult moment to become chief executive officer of Absa, a Barclays subsidiary that is one of South Africa's largest financial-services companies. Taking over the job in March 2009 in the midst of the global financial crisis, Ramos, an economist by training, has had to call upon the broad range of skills she honed in a career split between the private sector and public service. Before joining Absa, Ramos was CEO of Transnet, where she gained an international reputation for her leadership in helping to turn around that giant state-owned transport and logistics company.

In an interview with McKinsey's David Fine, Ramos discusses Africa's economic prospects, the status of the continent's financial sector and the way the crisis has affected it, and the importance of financial inclusiveness to economic development.

McKinsey: *How would you describe the state of the African economy?*

Maria Ramos: Africa did not go through the recession unscathed. That's not possible; we're part of the global economy. But we did relatively OK, given the depth of the global recession. If you look across the African economies, the biggest ones do reflect the downturn. But we're starting to see African economies come back—whether you look at Botswana, Ghana, Nigeria, South Africa, Tanzania, Zambia—and show some decent growth. Going into the global crisis and recession, African economies were already growing pretty strongly.

It's also important to realize that it's a vast continent, with a lot of very different economies. But this is

a continent with solid growth opportunities in many of those economies.

McKinsey: *What are the drivers and enablers of growth in Africa?*

Maria Ramos: In many countries, there is absolutely no doubt that the focus continues to be, and will remain for some time, on commodities. But we also need to understand that it's not just the commodity endowment that is driving the potential of those economies. It's also what's happened in the last decade and a half around the investment in people, systems, and social and physical infrastructure, as well as increasing government stability and sounder fiscal policies. Those moves are beginning to pay dividends.

McKinsey: *Some people see Africa as the last frontier, the last of the world's really big growth opportunities. Yet it's the continent most in need of aid. What is your view on the seemingly contradictory nature of Africa's situation?*

Maria Ramos: We live on a continent where there is still significant poverty and where we still need to have the likes of nongovernmental agencies come in and offer support. I think we should see that not as a negative but rather as an enabler. Africa is much more than a recipient of aid flows. We have countries with large economies and the makings of an economic base that will be increasingly attractive to foreign direct investment and domestic investment.

The notion of the "last frontier" creates an image in my mind that anything goes. It isn't like that. It's

Maria Ramos



Vital statistics

Born February 22, 1959, in Lisbon, Portugal

Married

Education

Graduated with a bachelor of commerce in economics in 1987 from the University of the Witwatersrand

Earned an MS in economics in 1992 from the University of London

Career highlights

Absa

- CEO (2009–present)

Transnet

- CEO (2004–09)

South African National Treasury, Pretoria

- Director general (1996–2003)

South African Department of Finance and Financial Planning

- Deputy director general (1995–96)

Fast facts

Served as an economist on the transitional executive council for the African National Congress's Department of Economic Planning from 1989 to 1995

Lectured on economics at the University of the Witwatersrand, the London School of Economics, and the University of South Africa

Ranked by *Fortune* magazine as one of the “50 Most Powerful Women in Business” from 2004 to 2007

Has served as a director on the boards of Sanlam and Remgro

not an anything-goes kind of place. But it is a place where there are many, many opportunities and a heck of a lot of talent. I have always felt that the biggest resource on our continent isn't natural resources—irrespective of how important those are. It's actually the talent, the people. And if we just continue to invest in talent, that's what's going to give Africa its comparative advantage.

McKinsey: *What advice do you have for multinationals seeking to invest in Africa?*

Maria Ramos: The first piece of advice I give our teams—and remind myself of—is that we need to do very thorough due diligence. We need to understand that if we are going to invest in another country, we must understand that environment well, irrespective of whether you're investing in Africa or investing in any other geography.

You are going to find some challenges in Africa that you probably wouldn't be finding if you were investing, for example, in parts of Europe. There

certainly will be challenges in some aspects of infrastructure and in telecommunications—the World Bank says that African countries lag behind their peers in other parts of the developing world by just about every measure of infrastructure coverage. If you do encounter challenges, what's required is a thorough engagement and commitment to the investment you're making. Sometimes investments have longer return horizons than they do at other times, and that requires you to put some of your best people, technology, and systems on the job. There are no shortcuts. This is not one of those places where you're going to come in and make a quick buck and leave. That said, we believe that countries offering the strongest growth potential in the coming years are Angola, Ghana, Nigeria, Uganda, and Zambia, which are likely to be the biggest gainers from development in the mining, energy, and other infrastructure sectors.

The big issue is financing—for example, how to cross the divide and provide funding solutions to African countries and businesses. In some cases,

there will be a need for governments to support the financing solutions. This will reduce the risk and naturally reduce the cost of funding. Public–private partnerships, which are already being seen, may become more prevalent on the continent.

McKinsey: *How would you describe political risk in Africa to corporate board members?*

Maria Ramos: Most boards are pretty sophisticated—they can distinguish between the different countries and their political risks. But I also want to make the point that most countries in Africa have actually made great progress in the last 15 or 20 years in dealing with political risk. Of course, there are still some countries where we are currently experiencing political risk and uncertainty and even war. But those are a minority.

McKinsey: *How did the South African and African financial systems fare in the crisis?*

Maria Ramos: South Africa has come through this crisis with a banking sector that has actually done very well, thanks to regulators who acted ahead of the curve. The fact that we've been disciplined about the implementation of Basel II,¹ for example, has been a good thing. South Africa as a country committed itself to some of the IMF² disciplines around reviewing its own banking system and financial system. As a consequence, South Africa has undergone several reviews through the IMF's and World Bank's Financial Sector Assessment Program and published the results. Interestingly enough, many of the African countries have not had their banking systems decimated, in part because these systems were not as sophisticated and as integrated into the global financial system as banks in the developed part of the world.

As we consider the proposed changes to the regulatory framework currently under discussion in the

aftermath of the global financial crisis and the recession that has accompanied it, we need to remind ourselves that we need a sounder, safer, global financial system.

The regulation that we take on board has to be suitable for the countries that we are operating in. But you need to test that principle against the need to be a global player and to keep up with and be connected to the global financial system. The measures that you adopt have to suit your domestic economy but also have to keep you on the same trajectory as what's going on globally.

McKinsey: *How do you assess the evolution of the financial sector in Africa?*

Maria Ramos: One of the barriers to doing business for many years has been the fact that we haven't really had, in many countries, very well-developed and very deep financial markets. In some countries, we're beginning to see some development in that regard. In fact, we're starting to see more African countries get credit ratings, allowing them to access capital markets and to raise money. That's a great development. We are starting to see stock markets emerge and become better traded, with more liquidity. I happen to believe that we need more regionalization. You'll get more liquidity if we were to have, for example, a regional stock market as opposed to just individual country stock markets. But I'm also very conscious of the fact that we've been talking about that for a long time. I think this is probably one of the things that we don't do as well as we should—we often talk about things but we don't really get down to the actual implementation fast enough, before people in other parts of the world move ahead and take the space from a market point of view.

McKinsey: *What about the issue of financial inclusiveness—moving people from the rolls of the unbanked?*

¹ An international agreement on minimum capital requirements.

² International Monetary Fund.

Maria Ramos: If you want economic development, you need to broaden financial access and inclusion. We are beginning to see some of that, but not to the extent and at the pace we ought to see in many countries. Some reports suggest that only around one-quarter of Africans have bank accounts. As banks in South Africa, we have had to think long and hard and were pushed to extend services to the many South Africans who, often for political reasons, had not been included in financial services. The more we move down the road of inclusiveness—across many African countries—the better we are going to get at finding the connection between economic development and economic opportunity. That would also create great opportunities for financial institutions. And there are lessons to be learned from India about how to do entry-level banking.

McKinsey: *What is your view on China's increasing role in Africa, and how do you see that playing out over time?*

Maria Ramos: It's an interesting thing that China attracts so much attention in relation to Africa. China has become a more and more dominant player in the global economy. You're going to be hard-pressed to find a big global company that looks at the world and doesn't think of having a presence in China. Yet when we think about China in relation to Africa, we think there's something unnatural about the Chinese investing in African countries.

The first point I want to make is that China's relationship with Africa is not a new relationship. It is an old relationship. What we have seen is China looking at Africa and saying, what are the opportunities? We need resources and commodities—

where are they available? Where do we look for them? Are there business and investment opportunities? So, of course, China is investing. Perhaps they just see different opportunities. Maybe they are able to respond to those opportunities faster. I think they certainly respond to them without the same conditions other investors look for.

We should not underestimate the Chinese—they are smart investors. And in some cases they are aggressive investors too, in the sense that when they see an opportunity, they are going to pursue it, and pursue it really hard.

McKinsey: *How should foreigners, and particularly potential investors, view the current social and political situation in South Africa?*

Maria Ramos: The important thing to remember is that South Africa has a strong constitution. We're a democracy. Our country has a solid legal framework, and since this country became a democracy, that actually has never failed us. Crime is however still a concern. It's incumbent on us, as South Africans, to keep in perspective that we need to put our trust in our legal system to ensure that the perpetrators of crime will be judged in an appropriate court and that the process will be followed. Crime is one of the challenges we face, and the government is trying to deal with it and has put an enormous amount of resources behind the effort. But as businesspeople, it's one of the things that we need to constantly remind the government of. South Africa isn't going to fall apart because we have experienced these events. They are tragic. They grab the global headlines and that's not good. But this is not the way to judge our country's performance. ○