Rita Babihuga-Nsanze: “The solutions are in Africa itself”

Economist Rita Babihuga-Nsanze discusses Africa’s vast potential. AI and sustainable financing are tools to leverage demographic trends and build a resilient, climate-proof future for Africa, which is positioned to become a central player in the global economy.



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Whether for climate change or food and energy security, solutions to the grand challenges

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the world faces may be found in Africa. It's time to start seeing the continent's vast potential.

So says Rita Babihuga-Nsanze in an interview with IESE economics professor Nuria Mas, which took place during IESE's 2024 Global Alumni Reunion (GAR) in Madrid on the theme of *The courage to create the future*.

A seasoned economist, Babihuga-Nsanze worked for the International Monetary Fund, Moody's Investors Service and Barclays Investment Bank in London, before joining Africa Finance Corporation (AFC) in 2019. AFC is a pan-African financial institution that makes public-private investments in major infrastructure development projects across the continent.

Here, she discusses the global outlook and how AI might be used to boost development and help build a climate-proof, more resilient future.



Nuria Mas: What's your assessment of the economic moment we're in? What do you think will be the impact of Trump 2.0 on the world and, in particular, on Africa?

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Rita Babihuga-Nsanze: I think we ought to focus on the structural shifts happening across the global economy, rather than on the cyclical impact of what a Trump Administration might or might not do. We already have some sense of what he will do, based on his previous four years in office. His mix of policies are fairly radical — tariffs, deregulation, mass deportations — but not unfamiliar. All sorts of impacts are being studied and discussed in terms of how this will affect the U.S. economy and, more broadly, the world.

From an African perspective, what most concerns us is the knock-on effect with regard to China. We know there will probably be direct impacts in terms of disruption in global trade. China is in a difficult position. We're already seeing the impacts of a Chinese slowdown on various commodity-focused African economies. The potential for a deeper slowdown has massive implications, not just for African countries, but for other frontier and emerging markets.

We also know that a deleveraging process, such as after a housing market shock, takes time to be rectified. In Japan, it took 20 years for private sector banks to fully repair themselves, while in the U.S. and Spain, it was a decade-long process. By all accounts, China is only at the beginning of this process. And at a time when China needs to refocus on domestic demand and boosting consumption, for there to be the extra shock of higher tariffs and disruption to global trade, that, to me, is the thing we should be focusing on in terms of global economic impacts.

NM: What about the impact of a stronger dollar?

RBN: We've had five years of strong dollar impacts. This has led to a borrowing crisis, which isn't unique to Africa. Many countries have leveraged up over the past decade. But for African countries, being squeezed out of global financial markets and facing tighter borrowing conditions present a particular risk for the sovereign, because the public sector is then unable to provide impetus to the economy for long-term development.

Reaping demographic dividends

NM: Let's talk about demographics. In many parts of the world, populations are projected to decline, except for in Africa. Does this present an opportunity?

RBN: By 2050, a quarter of the world's population is expected to be located in Africa. This raises a serious question for the world in terms of inclusive growth: how to put this population to work and minimize potentially disruptive adverse effects, which will be felt by Europe as

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the closest continent.

Over the past 50 years, the growth epicenter of the world has been shifting East, largely to China. But because of the structural challenges that China now faces, including an aging population, a growth slowdown now appears inevitable there, meaning that the growth epicenter will migrate elsewhere. Africa — with its natural resources and growing population, while many advanced and middle-income countries are facing population constraints — will become the growth center of the world.

Many African countries are currently experiencing what I would call “automatic growth,” meaning they are achieving some level of economic expansion without significant reform momentum (as seen in countries like India) or substantial capital investments. This growth is likely to be further supported by increasingly favorable demographic trends. By the time these trends are realized, much of the world won’t be growing at all.

So then the question becomes: how do we make sure these countries can reap their demographic dividends, maximizing the impact of their labor force? This demands more public-sector investment in human capacity-building and skilling today, so governments are able to make the most of their demographic dividend in the future.

AI opportunities and disruption

NM: Could artificial intelligence (AI) be a solution, helping to maximize this potential?

RBN: It depends. Traditionally the expectation was that, as China moved up the development ladder, a lot of labor-intensive light manufacturing would move to Africa. Indeed, that was the case for Ethiopia, which has a large population, relatively high literacy rates, lots of land, and so it has been building industrial parks and putting in place policies to attract some of that manufacturing base.

However, there’s a danger that AI might actually disrupt that transfer. For example, the Chinese are already able to automate a lot of textile manufacturing. Everything from cutting, spinning, weaving and knitting to quality control can be done even better by machines than humans. So, if overall productivity and output can be improved by AI, the critical question — and potential risk for African countries relying on this kind of transfer to absorb their future labor force — becomes: why would companies move production to a country where labor costs are not necessarily significantly lower, when they can invest in more AI automation to

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increase efficiency and productivity?

NM: Are you seeing evidence of this kind of disruption as a result of AI?

RBN: Not yet. What we do see is, because African countries cannot compete in the way China did initially, on wages, they're trying to differentiate themselves on the sustainability front. As Western consumers get increasingly fed up with fast fashion, they're looking for more sustainable ways of consuming textiles: this becomes an entry point for some African countries.

One reason why it may be difficult to prevent the transfer of light manufacturing that I mentioned earlier has to do with what has happened with global supply chains, particularly since COVID and the trade wars during the first Trump Administration. The demand for supply chain diversification has grown significantly, driven by the need for greater resilience and national security considerations. African countries are acutely aware of these trends, and some have been trying to position themselves as alternative manufacturing bases to China. Consequently, the potentially disruptive effects of AI must be analyzed within this context.

Regardless of whether some manufacturing is transferred from China, the real issue lies in what happens when automation is introduced: will it displace the very manufacturing jobs Africa needs to absorb its labor force? Studies show that for many industries, automation doesn't necessarily lead to more unemployment because workers displaced by automation can be used in other, higher productivity contexts. It's still too early to tell whether AI will have a negative impact on employment.

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NM: Which African nations have been harnessing digital technology to good effect?

RBN: I would say Kenya has been transformational with M-Pesa (mobile phone-based service for money transfers, payments and microfinancing). A lot depends on the context. As we know, AI's potential depends on the availability of data to feed and train the machines, the interoperability of systems, and the regulatory environment. In parts of West Africa, traditional banking is much more dominant, but we've also seen a huge shift toward fintech ecosystems that go beyond mobile money services and include digital payment infrastructure and merchant services. Some jurisdictions with their strong reform environments, like Rwanda, demonstrate a greater appetite for more broad-based technological transformation touching many sectors of the economy. Interestingly, the drive for innovation and creativity often seems stronger in countries with fewer natural resources or commodities.

NM: What are some of the AI opportunities that you see?

RBN: We see AI being used in a variety of ways, from predicting weather patterns, which helps farmers optimize their planting season, to predicting malaria outbreaks, enabling better

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allocation of limited resources and improved health outcomes.

However, the potential of AI at an institution such as AFC goes beyond using AI solely for process improvements and efficiencies. What if we could leverage AI on a much larger scale — to guide investments that solve some of Africa's most intractable challenges and help drive structural economic transformation? That's where the real frontier lies.

So, if AI is as powerful as it promises to be, can it take everything learned from the boom-and-bust cycles in Asia and Latin America, and, using that data, help us identify and prioritize the best development path tailored to our unique context? This is where AI could truly be transformational. While AI can undoubtedly help us to perform existing tasks more efficiently — and that's interesting — it's not as revolutionary as using it to envision and implement entirely new approaches that had never been considered before.

Climate-proof development

NM: With Africa being one of the regions most vulnerable to the impacts of climate change, how might AI help deliver sustainable solutions?

RBN: AFC develops infrastructure assets across critical sectors such as power, transport, logistics, digital infrastructure and heavy industry — essential building blocks for a country's productivity. However, it's clear to us that we can't develop these assets effectively without addressing the most significant risk of our time: climate change.

Studies indicate that two-thirds of the infrastructure that Africa needs in power, transport and logistics has yet to be built. This means that we have a unique opportunity — and responsibility — to construct infrastructure designed to withstand future climate scenarios. Why build a road that will be washed away by a flood in five years? Every project we undertake in certain critical sectors must be climate-proofed.

For example, when building a port, we need to build it based on climate projections for the next, say, 50 to 100 years to ensure its resilience. This approach applies to existing infrastructure assets as well. With limited resources, Africa cannot afford to lose towns, bridges and other vital infrastructure to climate impacts. By embedding resilience into everything we build and maintain, we aim to safeguard our investments and ensure sustainable development for the continent.

NM: Where does the capital come from for all these ambitious development

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projects?

RBN: The capital is within Africa itself. AFC is an African-owned development finance institution dedicated to creating solutions for Africa's development challenges. While we welcome equity investments from outside the continent, the majority of our equity capital base comes from domestic public and private sources. By some estimates, there is something like $2-$4 trillion of excess savings on the African continent, held in pension funds, insurance funds, sovereign wealth funds and central bank reserves. Much of this capital, however, is currently invested outside Africa, often in low-yielding assets. This figure likely underrepresents the true potential, given the significant size of Africa's informal economy, where much wealth remains untapped and unchanneled into long-term development.

When we examine the development trajectories of other regions — such as China and Southeast Asia — a common theme emerges: they first looked inward, building the financial infrastructure to mobilize local savings and drive domestic investment. For Africa, with its predominantly young and growing population, infrastructure investment offers an excellent fit as an asset class, particularly for state pension funds, seeking better alignment with long-term growth opportunities.

At AFC, we set a capital-raising target of approximately $1 billion every five years, and we consistently achieve this almost entirely within the continent. This reflects the untapped potential of Africa's domestic capital. Looking ahead, we believe there is even more opportunity to unlock.

MORE INFO: The full interview between Nuria Mas and Rita Babihuga-Nsanze is available to Alumni Members to watch on demand via the IESE Alumni website.

READ ALSO: Sameh Shenouda, Executive Director and Chief Investment Officer of Africa Finance Corporation, discusses AFC's transformational infrastructure projects with IESE Prof. Ahmad Rahnema Alavi as part of the special report "Leaping ahead: Lessons from Africa for making strides in business" published in *IESE Business School Insight* magazine.

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