THE NETWORK OF LEADERS
CRITICALEYE

A new frontier for business?

A continent with a population of just over 1 billion people and with an abundance of natural resources should have a bustling economy with organisations knocking the door down to get a piece of the action. However, Africa has been rife with political and social instability (much still ongoing) and thus often makes headlines for the wrong reasons. In the past, this has made organisations wary of expanding onto the continent. However, there has been increased interest in Africa of late.

This article gives an overview of the political, social and economic landscape on the continent. Criticaleye asked **Neill Blundell** *(Eversheds),* **Muhtar Kent** *(The Coca-Cola Company),* **Richard Laing** *(CDC Group),* **Paul Nunes** *(Accenture),* **Samuel J. Palmisano** *(IBM),* **Loïc Sadoulet** *(INSEAD) and* **Katherine Tweedie** *(World Economic Forum) about the opportunities on the continent.*

"Africa is really going to blossom in the next decade," says Muhtar Kent, Chairman of the Board and Chief Executive Officer of The Coca-Cola Company.

Perhaps owing to its economy being semi-detached from the world's and, therefore, not as affected by the global economic slowdown, Africa's prospects for growth are higher than those of other markets. McKinsey & Company contends that the rate of return on foreign investment is currently higher than in any other developing region. In fact, foreign direct investment (FDI) rose from $9.8 billion in 2000 to $88 billion in 2008.

According to Paul Nunes, Executive Research Fellow at the Accenture Institute for High Performance, "Businesses not planning and acting *now* [to get into Africa] will miss the boat – as many did when it came to China."

However, Katherine Tweedie, Head of Africa at the World Economic Forum does not agree. She says, "There is a misconception that Africa was not affected by the slowdown. There was a slowdown in demand, as most resources are purchased by countries that were affected. However, momentum is growing."

Richard Laing, Chief Executive of CDC Group, explains why there is a perception that Africa's economy is semi-detached: "Africa now has a large domestic economy, which was not founded on irresponsible levels of underpriced debt. These local economies kept motoring forward, disregarding the economic woes elsewhere in the world."

According to McKinsey, the reasons for a surge in growth on the continent are threefold:

1. Government action to end armed conflicts has increased political stability, making it more attractive to businesses.

2. Improved *macroeconomic* conditions – governments have reduced the inflation rate from 22 per cent in the 1990s to 8 per cent in the 2000s. Foreign debt has been trimmed by a quarter and budget deficits have shrunk by two-thirds.

3. Governments undertook *microeconomic* reforms to create a better business climate by adopting policies to energise markets. They have:

   a. Privatised state-owned enterprises
   b. Increased openness of trade and lowered corporate taxes
   c. Strengthened regulatory and legal systems
   d. Provided critical physical and social infrastructure

Katherine believes the future of Africa is tied to the growth of the BRIC (Brazil, Russia, India and China) economies. Why are BRICs dominating FDI on the continent? The simple reason is that companies from emerging markets such as these are more likely to invest in Africa because "they have a different perception of risk," she says. To these companies, Africa does not hold the political risk that Western organisations perceive.

There is a perception that BRIC companies are more successful in Africa as they are more willing to arrange facilitation payments. However, there is a disagreement about whether bribes are a major issue. When asked why organisations from emerging markets were more likely to invest in Africa, one expert said, "They know how to diversify their portfolios to get what they want." However, organisations in developed countries are concerned about this.

Africa is really going to blossom in the next decade

Neill Blundell, Head of the Eversheds Fraud Group, says, "Those companies based in the developed world are becoming increasingly concerned at the level of bribery and corruption risk that they are exposed to in Africa. The US has not been shy at targeting companies for breaches of their Foreign Corrupt Practices Act ('FCPA'). This legislation, which outlaws extra territorial bribery of government officials and imposes books and accounting requirements on companies listed in the US, is being outclassed by the new UK Bribery Act 2010. This legislation, which comes into effect in April 2011, outlaws all types of bribery (including facilitation payments) anywhere in the world, including commercial to commercial bribery and will target any corporate, wherever incorporated, that at least does part of its business in the UK. Clearly, the potential repercussions of falling foul of the FCPA or the Bribery Act will see many companies from the developed world, with operations in the US and/or the UK, being very concerned at entering certain jurisdictions."

CHALLENGES

Sub-Saharan Africa has been largely ignored by global organisations. There is a tendency for Western companies to shy away from the continent due to the political and civil unrest, and the differences in business culture.

Loïc Sadoulet, Affiliate Professor of Economics and Academic Director, INSEAD Africa Initiative says that there has to be a "demystification of Africa". Western organisations aren't used to the governance structure.

Often thought of as a single entity, Africa is in fact 54 separate countries, each with their own political systems, risks and opportunities. Due to these separate entities, there are often conflicts over regional dominance, resources and national power. It is believed, for example, that, as water resources continue to dwindle, conflicts will arise.

Talent

Another challenge that Africa faces is its available pool of talent. Encouragingly, there has been a trend of repatriation of highly educated and skilled Africans, many of whom are starting businesses or running divisions of global organisations. These individuals are sharing their experiences and business knowledge, a key element of growing the economy. The élite that came out of Africa now have an opportunity to go home.

TIPS FOR ENTERING SUB-SAHARAN AFRICA

Although, one doesn't step lightly into investing into sub-Saharan Africa, we asked experts for their advice on what organisations should be considering when investing in Africa:

- Remember that sub-Saharan Africa is not one country – there are over 40 and they are all different
- Ensure that you are sensitive to the local business and social climate, which can be radically country by country (or even within the same country)
- Be absolutely sure it is where you want to be
- It will take a long time – consider that it will take much longer to break through than in other markets
- Be sure you have the patience and the budget
- It is essential to have trustworthy and reliable local partners. "Get that wrong, and the risk rises dramatically," says Richard
- Be aware that, in Africa, Western organisations will be on a more level playing field with competition from, for example, India, China, Brazil and Argentina

However, there is still the risk of a brain drain from the continent. This concerns some, but Loïc believes that it should not be stopped: "Brain circulation should be encouraged - different cultures will bring a different perspective to the business world," he says.

Education and the provision of skills to individuals should be a key element of the plans of individual African governments as lacking these talent resources is hugely debilitating to business growth and sophistication. Loïc contends that talent should be managed like a supply chain, and a pipeline of talent should be fostered. In fact, organisations are now doing this - "The private sector is taking on the roll of skill development," says Katherine. "The private sector and government should be working together to ensure skills are developed."

OPPORTUNITIES

Telecommunications

One sector with high growth in Africa is telecommunications. Mobile technology on the continent has leapfrogged fixed-line communication. However, although there are more mobile users in Africa than in North America, the market is still under-penetrated.

In fact, by 2012, it is expected that 6 out of 10 Africans will have a mobile phone. Recent studies by the World Bank and Vodafone suggest that, with every 10 per cent increase in mobile phone penetration, a country's GDP increases by 0.6 per cent.

Why are BRICs dominating FDI on the continent? They have a different perception of risk

There is such an opportunity in the telecommunications sector that IBM has made a significant commitment to the continent. For example, the organisation has signed a 10-year agreement with Bharti Airtel to manage the latter's computing technology across Africa. Samuel J. Palmisano, Chairman, President and Chief Executive Officer of IBM, says, "We see our strategic relationship with Bharti Airtel as a powerful example of building a smarter planet. We have achieved great success together in India, and now we are bringing that model to Africa. By building a 21st century telecommunications infrastructure for the continent – in effect, treating all of Africa as a system of systems – we expect to help spark transformation not just in communications but across all sectors of society – empowering businesses, governments and individual citizens to connect, innovate and achieve economic growth."

Many telecommunications organisations have been using Africa as a breeding ground for innovation. A good example of this is M-PESA, a mobile phone based money transfer system. Relatively unheard of in the Western world, this system allows users to transfer money onto their SIM cards, allowing for easy payment to other users or a safer way to transport money in places where having large sums of cash can be dangerous. It is also very beneficial for individuals who do not have a bank account (by some estimations, close to 80 per cent of the population).

CONSUMERISM

Africa already has a population of 1 billion – a consumer base richer than that of India – and that number is expected to double by 2050. Furthermore, its growing middle class already numbers 350 million - a huge market with amazing potential.

An offshoot of a growing economy is a higher demand for consumer facing products, and consumers form a critical part of any economy's growth.

According to Katherine, there is a great opportunity for consumer facing products. For example, Nestlé has made a large commitment to the continent and Nigeria is already one of the top 10 fastest-growing drinks markets in the world.

There are still incredible challenges facing African consumers. More than 50 per cent of the population live below the poverty line. Due to this, many 'informal markets' have emerged - markets that are neither taxed nor monitored by the government and thus not included in the calculation of the Gross National Product.

The population also can experience irregular and informal income streams and therefore lack disposable income to purchase goods. However, the number of households with discretionary incomes is expected to more than double over the next 10 years, reaching 128 million. According to McKinsey, by 2030, the combined spending power of the continent's top 18 cities will be $1.3 trillion.

Africa is also experiencing the highest rate of urbanisation in the world with 41 per cent expected this year. Nigeria, the most populous country in Sub-Sahara, has an urbanisation rate of 52 per cent.

Richard Laing says, "Many Africans now have a degree of discretionary spend for goods and services beyond the basic staples of life. They want consumer goods, better food, fashionable clothes, electronic goods, savings products, insurance, better healthcare, better education, and so on. And they are prepared to pay for them."

Brain circulation should be encouraged - different cultures bring a different perspective to business

Featuring commentary from:

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