Africa – The Time Has Come

By Baroness Lynda Chalker
Published: Creating Openings for Africa, by Africa Matters Ltd, March 2012

The speed of the new wave of interest towards Africa in the last few years is remarkable, thanks mainly to the growth of stronger economies and democracies on the continent. This growing interest in the emerging markets of Asia and Africa is being reinforced by the global economic turbulence being felt particularly in the developed markets. These developments present unique opportunities in Africa. A rising return on investment, an increased need for raw materials and a growing middle class in some African countries are all proving important factors for investment decisions.

In this global economy, the case for Regional Economic Communities (RECs) represents one of Africa’s best hopes for attracting continuing investment and development. The proposed Africa Free Trade Area (AFTA) which is planned for 2017 will make available a market of well over 800m people.

Some would argue that market size alone is not sufficient grounds for guaranteeing real returns on investment. This is true, but sustained returns are crucial for raising the investment portfolio in terms of harnessing the comparative advantages when countries work together through integration.

Why Africa? Why not? Country by country analysis shows sustained progress in these countries in the last few years. The Africa Competitiveness Report 2011 highlights the competitive advantages that make the continent an ideal destination for investment. Times CEO summit held recently in London highlighted the growing opportunities in Africa. In one of the articles in the
supplement on Africa, the point was made that upgrading ports, airports, highways and railways will help fuel growth.

Africa is recovering quickly from the global downturn; estimated to grow by 5+% a year in 2011-12. This will make the continent the fastest growing region in the world, apart from China and India. The macro outlook for the continent is favourable: modest inflation, steadier exchange rates and a smaller debt burden. Businesses can no longer afford to ignore Africa.

Opportunities for investment across Africa include: value addition in terms of cleaning coffee and tea; the processing of food products and hides and skins for export; tourism, mining; the construction industry and horticulture and floriculture. All these and other opportunities make Africa as a continent an attractive destination for FDI.

In 2011, major deals were concluded. These included Bharti Airtel (India), which bought Zain’s African assets for US$10.7bn; NTT (Japan) completed the takeover of South Africa’s Dimension Data for US$3.2bn; and Massmart accepted a US$2.1bn bid by Walmart (US) for a 51% stake, pending official approval. Additionally mergers and acquisitions are highly profitable in the banking sector.

It is true that Africa has an infrastructure deficit; however important mechanisms have been put in place to address these challenges. The Infrastructure Consortium for Africa (ICA) was launched in 2005, to support and promote increased investment in infrastructure in Africa, from both public and private sources. Improved infrastructure is key to accelerating Africa’s growth, reducing poverty, realizing the Millennium Development Goals (MDGs) and promoting regional integration. ICA acts as a platform to
catalyse donor and private sector financing of infrastructure projects and programmes on the continent.

Investors and those interested in doing business in Africa must take account of the following:

• Baseline surveys and preparation is key
• Local contacts ensure minimal delays and local knowledge
• Legal and regulatory frameworks must be fully understood
• Local branding and advertising imperative
• Awareness of cultural sensitivities vital
• Close relationship with leaders and understanding local systems

According to the Economic Intelligence Unit (EIU), some of the key features of the 54 countries on the continent; include hosting 29 stock exchanges; over 1bn people, speaking over 1,000 languages, with 41% under the age of 15; 52 cities of at least 1m people, with mobile phone penetration of about 50%; over 300m people now classified as “middle class”, up 27% from 2000; 60% share of the world’s arable land yet to be cultivated; and 10% of world’s oil reserves, 40% of gold reserves, and 80-90% of chromium and platinum group metals.

A survey done by FDI Intelligence, shows that investors are now drawn towards long-term investment ventures for Africa rather than the more speculative and short term deals reminiscent of the past. Most are following the growing stability of most part of Africa with keen interest. The driving influences include;

• Emerging middle class and growing consumerism
• High economic growth rates
• High commodity prices
• Increasing political stability
• Favourable demographics
• Improving capital markets infrastructure
• Need for greater diversification
• Reduced levels of bribery and corruption
• Agricultural potential

This is Africa’s time.

Baroness Lynda Chalker is Chairman of Africa Matters Limited, Chairman of Pasco Risk Management, a Trustee and Board Member of the Global Leadership Foundation, a Trustee & Board Member of the Investment Climate Facility for Africa.