INVESTING IN AFRICA… IS IT A CONTIENT WORTH EXPLORING?

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The current African business climate

Africa is a continent with significant investment potential for both domestic and international investors. Although general western investment focus seems to be on the BRIC (Brazil, Russia, India, China) markets, many savvy businesses are looking further afield for less tapped-into emerging regions that may offer greater financial returns. The African continent is a good example, especially as it is seeing its strongest economic growth since the 1970s, partly thanks to rising interest in its oil, gas and mining sectors. A World Bank report (Governance Matters 2007) also found that African nations had shown greatest improvement and taken the biggest steps in reducing corruption over the past 10 years.

Headlines about famine, war and disease, however, have somewhat overshadowed recognition of the 13 African countries, which have so far achieved middle income status. In addition, sky-high oil prices have hampered African infrastructure projects, meaning there is still a lot of work to be done in this area. In addition, sub-Saharan Africa is, on average, the most difficult place to do business in the world when it comes to red tape. Due to low reform figures, over 40% of the region's economy is informal - the highest proportion in the world.

Despite these considerations, it cannot be denied that Africa is a continent that is rich in natural resources and has a highly cost-effective labor base; it is for these reasons amongst others, that it has a substantial amount to offer. Organizations such as The New Partnership for Africa's Development (NEPAD), which has been conceived by African Heads of State, with the fundamental objective to promote sustainable development on the African continent and the Investment Climate Facility for Africa (ICF), which seeks to tackle the misperception that currently exists about Africa as an investment destination and place to do business, are working to combat negative preconceptions about doing business in Africa and improve conditions for foreign investors.

Of course, it would be a mistake to lump the entire continent together. There are over 50 countries in Africa and each has its own unique offering.

Africa - the land of opportunity

A growing number of firms now talk of sub-Saharan Africa as a land of opportunity. Outside of troubled countries such as Sudan and Zimbabwe, there is healthy economic growth. GDP in each of the 14 sub-Saharan African countries has grown by at least 5% a year since the mid-1990s. Botswana and South Africa have long topped 'best African business environment' charts, and other countries are making quiet progress. For example, since Uganda started to improve its business environment in the early 1990s, private investment as a share of GDP has more than doubled. Overall, the forecast from the World Bank is that Africa will post an average growth rate higher than many industrialized economies, notwithstanding the global financial crisis.

There is unmet demand for many goods and services. Competitors are often rare, and thus margins fat. Furthermore, according to the World Bank, economies in Africa implemented more business reforms in 2007/08 than in any previous year covered. And three of the top 10 reformers worldwide for that time period are African: Senegal, Burkina Faso and Botswana. Three post-conflict countries – Liberia, Rwanda and Sierra Leone – are reforming fast too. Mauritius, the country with the region's most favorable business regulations, continues to reform. This focus on reform comes after several years of record economic growth in Africa. Annual growth has averaged nearly 6% in the past decade, thanks to better macroeconomic conditions and greater peace on the continent. All in all, opportunities for investment are perhaps better than they have ever been.

Foreign investment - who is ahead of the game?

The recently issued report from the United Nations Conference on Trade and Development (UNCTAD) subtitled *'Transnational Corporations and the Infrastructure Challenge'*, showed Africa's Foreign Direct Investment (FDI) in 2007 continued to be geographically concentrated: the top 10 host countries accounted for over 82% of total inflows and nine countries received inflows of US$ 1 billion or more. The surge in FDI to the region, and its profitability, were driven by the boom in global commodity prices and by Africa's changing policy environment. North Africa attracted 42% and sub-Saharan Africa 58% of FDI to the region. Investment in African least developed countries also grew for the second consecutive year.

The report also showed that Transnational Corporations (TNCs) from the United States and Europe were the main investors in the continent, followed by African investors, particularly from South Africa. TNCs from Asia concentrated mainly on oil and gas extraction and on infrastructure. Prospects for increased FDI inflows in 2008 are promising in light of continued high prices for commodities, large projects already announced for the year, and forthcoming payments from previously concluded cross-border mergers and acquisitions (M&As). This could result in a fourth consecutive year of FDI growth on the continent.

As the UNCTAD report shows, China in particular has recently taken advantage of the business opportunities Africa offer, especially in terms of the continent's rich natural resources that promise to keep China's booming, fuel-guzzling economy going. There is copper to mine in Zambia and iron ore to extract in Gabon. Sudan, with its huge oil reserves, is the number one recipient of Chinese investment, and sells some two-thirds of its oil to Beijing.

In fact, China is beginning to rival the US as the main investor in the African continent, so much so that the country's involvement in the region has drawn complaints that low Chinese bids are freezing out Western companies. With two of the world's super powers already reaping the rewards of doing business in Africa, it is surely only a matter of time before the rest of the world follows suit.

Obstacles to consider

Despite this promising outlook, many risks still remain. The continent still has an extremely fragmented business landscape as well as severe problems of political upheaval, war, corruption and an HIV/AIDS pandemic. In addition, cumbersome logistics, poor infrastructure, abundant red tape, and a shortage of skilled workers remain real challenges. Local entrepreneurs face other problems as well, such as lack of capital - despite the rapid growth of micro-finance in some parts of Africa.

Excessive and ineffective bureaucracy can often stifle and inhibit good business practice. In a region in which the state remains a major economic actor, investors must deal with governments and nascent regulators (which is why corruption is rife in some countries). Those inclined to behave legally need patience and tenacity.

Africa's infrastructure is another issue that needs to be addressed. Day-to-day business across the continent is so often thwarted by practical struggles with transport, logistics, energy and technology. The cost of closing Africa's infrastructure gap is a mammoth task.

Developing Africa's capital markets and increasing access to finance and credit for enterprises is crucial. Linked to this is the need to strengthen property rights and improve the legal and enforcement systems that protect and promote legitimate business.

Brand Africa

Many businesses in the continent now talk of doing their bit to improve 'brand Africa'. After consultations for the 'Commission for Africa' report, prepared with the 2005 G8 summit in mind, a group of big multinationals including De Beers, Nestlé and Standard Chartered has formed Business Action for Africa (BAA). The idea was to work with governments and non-governmental organizations to improve business conditions in the region. As well as applying collective pressure to governments, BAA intends to promote good business practices and a more balanced view of Africa.

The Investment Climate Facility for Africa (ICF), launched in October 2005, has provided another way for the private sector to contribute. In the 24 countries subjecting themselves to the scrutiny of their peers under the New Partnership for Africa's Development (NEPAD) initiative, the ICF aims to bring the private sector and governments together to improve investment conditions. Over its intended seven-year life, the ICF wants to double investment and raise the number of registered firms by 40%. An independent trust, the ICF is banking on the strong African private-sector representation on its board to find pragmatic solutions. Backed by key African institutions, international donor agencies and big private-sector firms, it is now trying to raise US$550m.

NEPAD reflects the belief of African leaders that they have the responsibility, together with the African people, to address the lack of development and growth on the continent and the pressing problems of poverty and social exclusion that face the majority of the African population, as well as Africa's increasing marginalization from global markets for goods, services and capital.

The above organizations, and others like them, will hopefully prove to be the vehicle through which the continent will be united and promoted, thereby increasing Africa's competitiveness in global markets and putting it on a path of sustainable growth and development.

Creativity and local knowledge are key

Doing business in Africa is no harder than anywhere else – it simply requires a different set of skills. Creativity is also needed to adapt to local conditions and demand. Whichever African country is invested in, what is vital is to make sure you have a thorough understanding of local culture and mindsets – hiring local talent is a great way to do this.

It would be fair to say that Africa operates on unique business model to the rest of the world. African people in general are very hardy in themselves, having to cope with difficult environmental and political situations, so in general, their outlook on bad times is far more optimistic than business leaders in other regions. This is clearly demonstrated in recent research by McKinney Rogers into global business leaders' views on the current economic climate. The results from Africa were particularly interesting and indeed bucked the global trend. Although business leaders in Africa conceded their region is experiencing an economic downturn, when asked about the likelihood of sliding into a full-blown recession, they were among the most optimistic of respondents. This is a marked difference in opinion to those polled in Europe and the US, who said they expected to experience a recession in just six to 12 months.

But this doesn't mean that African businesspeople are complacent. They also said their organizations have advanced plans in place to reduce the risk of exposure in the event that they are affected by economic recession. Again, this contrasts strongly with other regions where less than one-third of respondents (32%) said that advanced plans had been made.

Overall, African business leaders are more optimistic than their global counterparts. They place great value on moving into and developing new markets in the event of a recession, more so than other business leaders. They are building a culture of determination against the impact of a recession, putting their houses in order by having a clear focus and strategy in place, as well as ensuring resources are allocated to provide the best return on investment. Whereas some regions see only negative aspects of the threat of recession, African business leaders see it as an opportunity. Conversely, as much of the developed world edges closer to recession, investment opportunities in Africa seem increasingly appealing.

As Graham Mackay, boss of SABMiller, the brewing giant, formerly of South Africa but now headquartered in London and with interests in 29 African countries, says, "If there was any more of Africa, we'd be investing in it!"