The Africa Business Agenda

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Doing business in Africa – from the perpective of CEOs and PwC executives on the continent

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6. The development agenda

When we look at the development agenda in Africa, it is helpful to consider the impact of development through the lens of government and public sector organisations' main objectives. Most respondents in our survey are private sector companies and their view of these objectives provides us with a good sense of whether they are aligned to a common development agenda and if there are areas where deeper alignment would make a difference. Our findings suggest that there are areas where the public and private sectors could do more to work together towards a common development agenda.

The first major objective on the development agenda is to develop a deeper understanding of stakeholders and their expectations. Companies, governments and other development partners must communicate better with stakeholders to understand who they are and what they want.

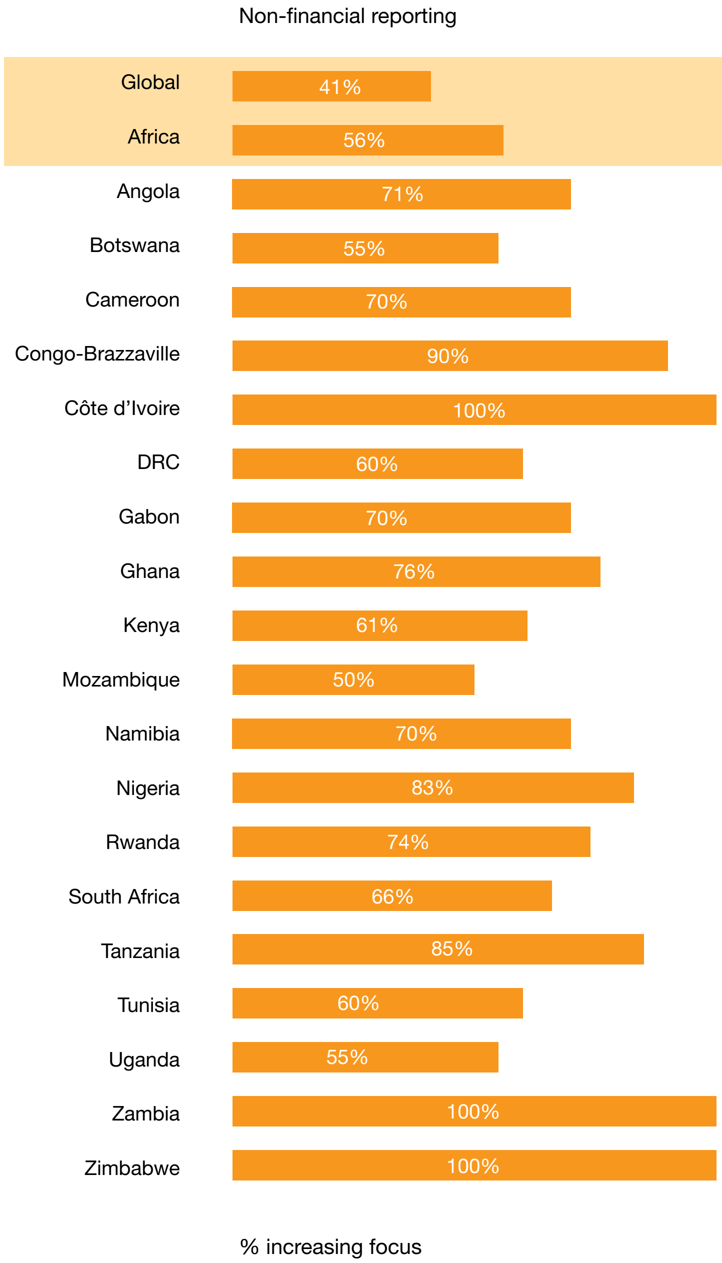
We asked CEOs about a range of stakeholders and how much they influence strategy. The three most influential stakeholder groups are customers, government and competitors. Over 80% of survey respondents also say that supply chain partners, capital providers (like creditors and investors), employees and local communities influence their business strategy. Social media and traditional media are also influential but non-governmental organisations (NGOs) have much less influence.

Clare Akamanzi of the Rwanda Development Board attributes NGOs' weaker influence with the private sector to their stronger relationships with the government – at least in Rwanda – whereas their interactions with the private sector tend to be commercial in nature.

'Their purchasing and supply chains occur in the private sector. NGOs are consumers,' she says, adding that some NGOs partner with private sector companies to extend their outreach efforts to rural areas, where private sector companies may already operate. Even so, their relationships with the public sector tend to be much stronger.

Figure 15: Greater focus on non-financial reporting

Q: To what extent does your organisation plan to increase its focus on non-financial reporting (including corporate responsibility reporting) over the next 12 months?



Wherever they operate, businesses are under pressure to be good corporate citizens and to engage ethically with the broader society and environment in which they operate. Overall, many CEOs in Africa confirmed that they would be maintaining or increasing their organisation's focus on corporate citizenship initiatives, including non-financial reporting. But, as was the case with some of our other questions, levels of commitment also varied considerably between different countries.

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To execute on the development agenda, the public and private sectors need to improve connections and break down silos. Preconceptions about who does what must change.

Our survey respondents also point to a number of risks to the development agenda in Africa. We can ask whether public-private sector alignment is adequate to address risks like economic volatility, bribery and corruption, inflation, exchange rate volatility, government debt, over-regulation, capital market stability and the protectionist tendencies of national governments. Other threats include an increasing tax burden, inadequate infrastructure and protections for intellectual property and major social unrest.

In some countries, like the Democratic Republic of the Congo, CEOs are very concerned about political stability. Mbanzi Elof Moupondo, Managing Director of Sodeico says that "a lack of political safety and stability acts as a disincentive to efficient growth, undermining companies' vision and ambition and the development of industries.' He calls the troubled eastern region of the DRC 'our Achilles heel', a view that many others share not just in the DRC, but in neighbouring countries as well.

We also asked survey respondents to tell us whether the public sector has worked to adequately address risks and in some areas, like improving infrastructure, the answer is mostly 'yes'. CEOs identify infrastructure as a top-tier government priority and in this area, most say that the public sector is executing on its mandate. In other areas, like whether government has done enough to reduce the regulatory burden or drive effective regional tax framework convergence, the answer is more mixed.

For example, government may enforce regulatory requirements but 70% of CEOs in our survey also say that they are strengthening frameworks supporting ethical behaviour in their own corporate cultures. Diversity requirements working in concert with a commitment in the private sector will achieve far more. Roughly half of CEOs also say that their companies prioritise philanthropy or social enterprise initiatives, volunteering/ community work and reducing their environmental footprint.

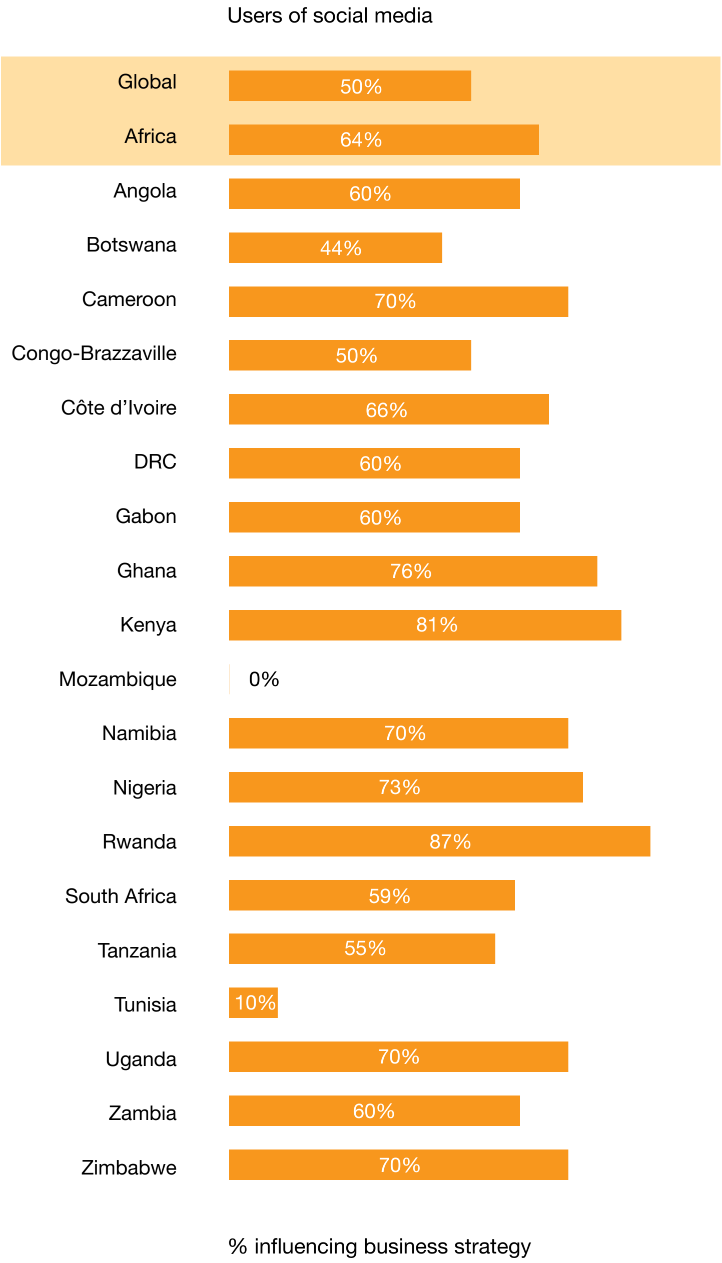
Transparency and accountability help to break down silo walls and improve delivery of public and private services alike, and transparency is very much a part of the development agenda in Africa. In PwC's recent global survey on accounting and reporting by central governments ('Global IPSAS survey: Towards a new era in government accounting and reporting'), the trend towards accrual accounting among respondents in Africa is pronounced. Sound and transparent public accounting improves the quality of financial information and facilitates comparison across governments and organisations. It also builds trust.

In terms of the public sector doing what it says it will, we asked CEOs what the top three priority areas are they believe government should focus on. These are improving infrastructure, ensuring financial sector stability and reducing poverty and inequality. We also asked respondents whether they believe government is taking adequate steps to address these priorities, and at least with regard to infrastructure and the financial sector, the answer is mostly affirmative, although in some markets, like Tanzania, the answer is somewhat mixed.

Pascal Lesoinne, Managing Director of Tanzania Portland Cement Company, agrees that government should prioritise infrastructure because 'at the moment, moving goods in Tanzania is too expensive, which means in the end, the customer bears the brunt.' Although the port of Dar es Salaam is an entry point for many goods travelling to landlocked countries like Rwanda, Malawi and Zambia, the cost of inadequate transport infrastructure is still too high. Mr Lesoinne also worries that poverty could become a threat to the economy and stability of Tanzania.

Figure 16: Social media users increasingly influential

Q: Thinking about your stakeholders, to what extent do users of social media have a significant influence on your business strategy?



A significantly higher percentage of CEOs in Africa recognise the power of social media users compared to their global counterparts. This may be best interpreted in the context of business in Africa's focus on customer service and growing client bases – and CEOs' understanding of the critical influence of the social media on public perceptions.

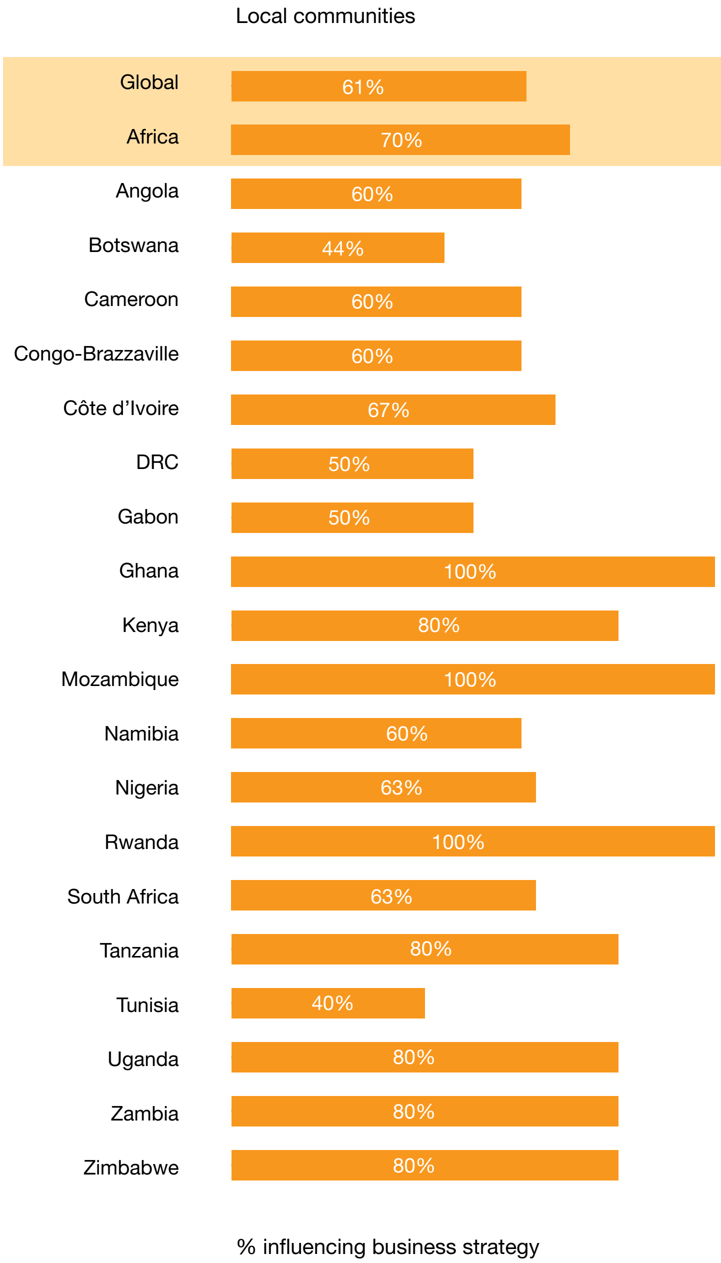
When we asked companies what areas they themselves are investing in to advance the development agenda, their priorities were somewhat different: building a skilled workforce, supporting workforce health and reducing poverty and inequality. This is one of the main challenges to alignment between the public and private sectors' development agendas: they are widely seen to be good at different aspects of it.

To fully realise the benefits of growth, we need deeper alignment. Many CEOs have told us that government education systems do not produce graduates with real-world skills who can compete effectively in today's workplaces. They must invest heavily in recent graduates to bring them up to speed. Government health programmes may be viewed in a dim light as well. Therefore, companies must pick up the slack, training and providing healthcare for their workforce.

At the same time, we would argue that the public sector's commitment to improving infrastructure and ensuring financial sector stability, together with the private sector's strengths in skills training and healthcare provision, should work together towards a common priority: reducing poverty and inequality. For many CEOs in Africa, both the public and the private sectors are viewed as contributing substantially towards this common goal, a common development objective among both.

Figure 17: Local communities an important consideration for CEOs in Africa

Q: Thinking about your stakeholders, to what extent do local communities have a significant influence on your business?



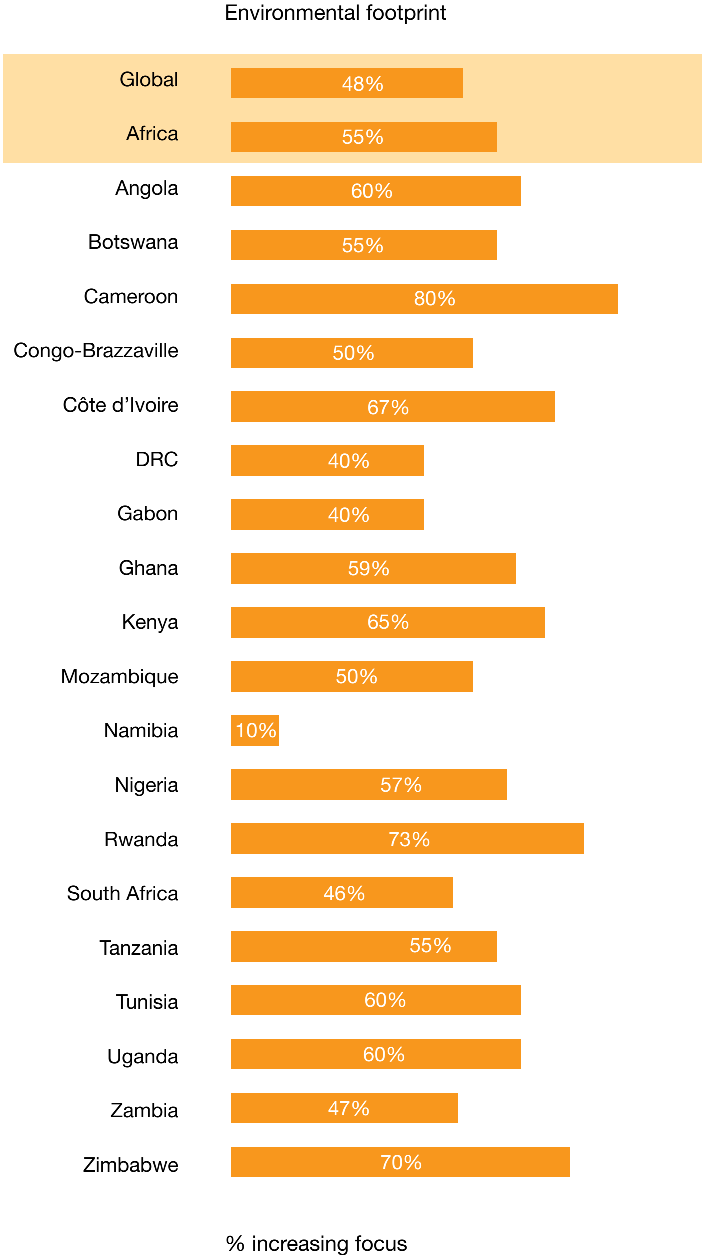
Being a good corporate citizen demands that businesses engage ethically with the broader society and environment in which they operate. This requires engaging with a range of stakeholders, including local communities, and addressing their interests within business strategies. Our survey results show that two thirds of CEOs in Africa take local communities into account as they develop their corporate strategies.

For Jean Kacou Diagou, founder and CEO of Nouvelle Société Interafricaine d'Assurances in Côte d'Ivoire, a banking and insurance group, the public sector should provide a long-term vision, 'enabling investors to know where to invest wisely'. He says that leaders could then address any blockages, even at a regional level, between economies. 'These blockages slow the development of a region, and therefore of every country,' he says. Addressing them could mean focusing on training and investment, such as through regional high-level training institutes for example.

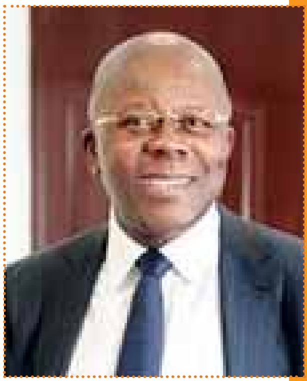
Another important objective of the development agenda in Africa is innovation. Thirty-seven percent of CEOs in our survey say that the public sector is taking adequate steps to support innovation in the private sector, and 30% say that the government works to maintain a level playing field despite its stakes in private enterprises. These are pervasive and complex issues in Africa, but improved connectivity and transparency is helping to address them.

Figure 18: Focus on reducing environmental footprint

Q: To what extent does your organisation plan to increase focus on reducing its environmental footprint over the next 12 months?



The link between ethical leadership, company strategy and sustainability is well established. It is therefore encouraging that a significant proportion of CEOs in Africa plan to increase their focus on reducing their business' environmental footprint in the immediate future.



"In Gabon there is a project we are looking at with a lot of attention and in which we are absolutely sure of investing because the future of our country in the area of services depends on it,' he says. The 4G mobile telephone project will allow telephone and television services to reach rural areas, he says. 'These interest us very much and we are going to invest."

Alain Ditona Moussavou, CEO of Caisse de Dépôts et Consignations du Gabon (CDC)
The CDC is a public financial institution created by the Government of Gabon in 2010 and aimed at revitalising the national economy.

Government and governance in Africa

Public sector entities and their stakeholders need to understand the full, long-term economic impact of their decisions on financial performance, financial position and cash flows. Accrual accounting is a key driver to increasing capacity and improving quality in the government finance function.

African economies are growing at rapid rates and this will continue over the coming years. At the same time, this also fosters more competition between countries on the continent to attract investments, increase access to credit, develop local champions and retain talent.

If governments do not want to fall behind, they will need to implement policies strategically to create political, monetary and fiscal stability as well as organise public administration to respond to an increasing demand for public goods, services and infrastructure.

This context also creates a direct challenge to governments to improve the management of resources. At the same time, and as part of a global public reform movement, reporting high-quality information to stakeholders (like citizens and parliament, donors, investors and financial markets) is fundamental to creating conditions for sustainable growth.

"Business, particularly big business, is a vital component in alleviating poverty as it can generate large numbers of jobs quickly, when it invests capital into industry. We help develop the career growth paths of employees and assist in promoting leadership qualities. We also focus on trying to take the bureaucracy out of doing your job, which can often be an immense source of frustration for many levels of employees."

Marcel von Aulock, CEO of Tsogo Sun (South Africa)

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Better accounting leads to better reporting, which provides the information necessary for better decision making, which in turn should lead to better use of public resources by governments and better risk assessment and confidence among external investors. Recent publications from the IMF demonstrate that countries that are more transparent have better credit ratings, better fiscal discipline and lower borrowing costs.

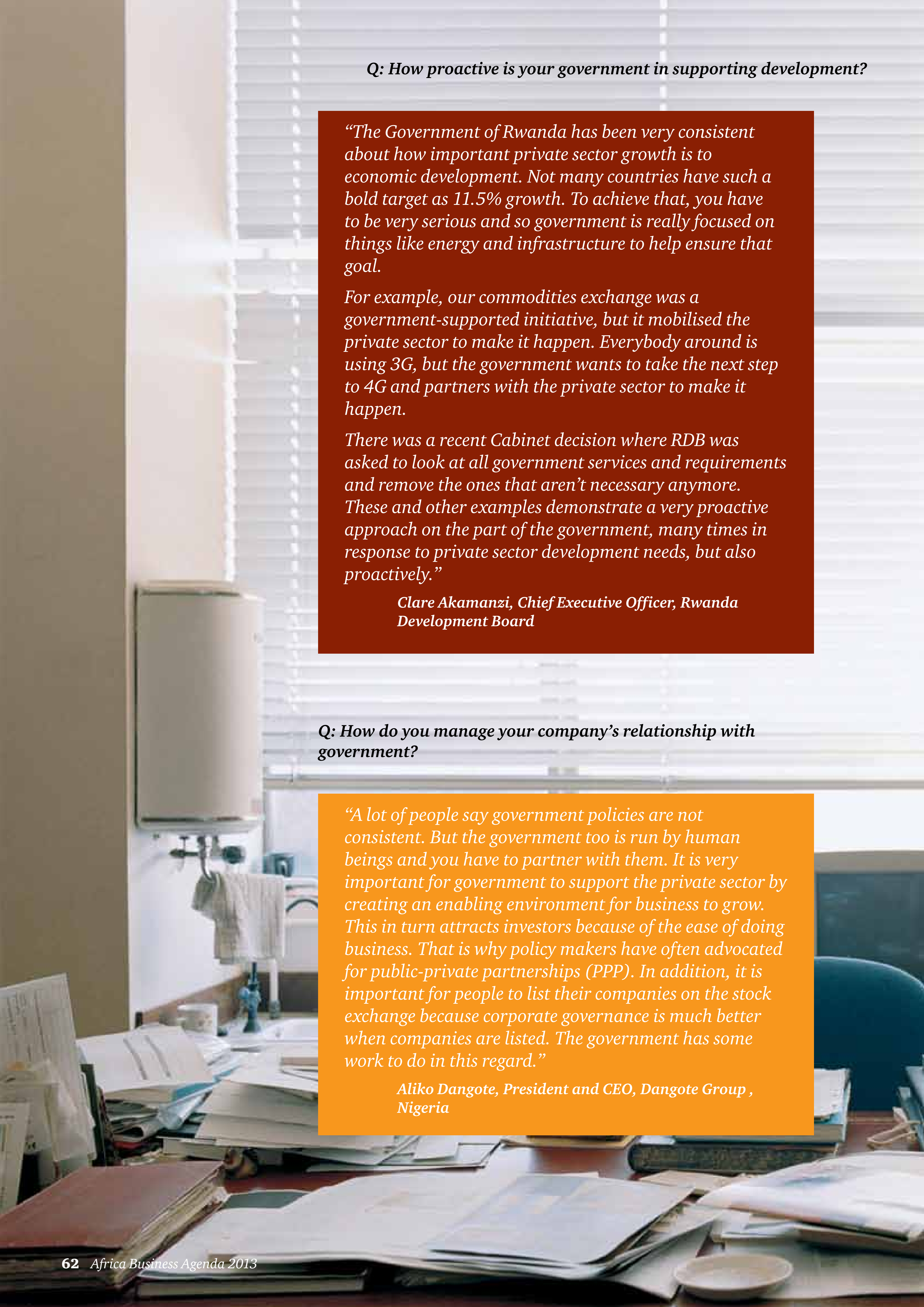
In 2012, our teams at PwC took the initiative to draw a panorama of public accounting worldwide. Results from the survey indicate that there is a great diversity in government accounting practices. Most of the countries surveyed report that they follow the cash or modified cash basis of accounting, where cash payments and receipts are recorded as they occur, while 24% only follow the accrual basis, where transactions and economic events are recorded and reported when they occur regardless of when cash transactions occur.

However, as cash accounting systems fail to capture information on public sector assets and liabilities and present a very short-term view of public finances in primary financial reports, an increasing number of governments are now eager to use accrual-based accounting frameworks.

A major shift to accrual accounting is expected in Africa among 11 countries over the next five years, which demonstrates that African governments are interested in building up their credibility, enhancing transparency and fighting fraud and corruption. However, governments should understand that the full benefits of implementing accrual accounting can best be captured as part of a wider programme of finance reform.

Governments surveyed see an opportunity, and even the necessity, to improve in specific areas of financial management. Fixed asset management and cost accounting are viewed as key areas in which information improvements can increase insight and, consequently, overall effectiveness of the finance function. Performance management and long-term planning and forecasting provide additional insight in terms of the future of the finance function and the long-term sustainability of government policies. Improving these areas will enable a government to demonstrate its usefulness by providing insights into business performance and contributing to the creation of public value.

Ultimately, a long-term view is essential for sound management of public finances and an efficient and cost-effective finance function is essential for achieving it.



Q: How proactive is your government in supporting development?

"The Government of Rwanda has been very consistent about how important private sector growth is to economic development. Not many countries have such a bold target as 11.5% growth. To achieve that, you have to be very serious and so government is really focused on things like energy and infrastructure to help ensure that goal.

For example, our commodities exchange was a government-supported initiative, but it mobilised the private sector to make it happen. Everybody around is using 3G, but the government wants to take the next step to 4G and partners with the private sector to make it happen.

There was a recent Cabinet decision where RDB was asked to look at all government services and requirements and remove the ones that aren't necessary anymore. These and other examples demonstrate a very proactive approach on the part of the government, many times in response to private sector development needs, but also proactively."

Clare Akamanzi, Chief Executive Officer, Rwanda Development Board

Q: How do you manage your company's relationship with government?

"A lot of people say government policies are not consistent. But the government too is run by human beings and you have to partner with them. It is very important for government to support the private sector by creating an enabling environment for business to grow. This in turn attracts investors because of the ease of doing business. That is why policy makers have often advocated for public-private partnerships (PPP). In addition, it is important for people to list their companies on the stock exchange because corporate governance is much better when companies are listed. The government has some work to do in this regard."

Aliko Dangote, President and CEO, Dangote Group , Nigeria

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The energy agenda

Companies in Africa are facing increasingly complex environments with changing investment drivers. In the energy sector, tightening regulatory requirements aimed at increasing the 'take' of governments, a shortage of skilled labour, general rising costs and higher stakeholder expectations are common features across the continent. Most CEOs in our survey—across a broad range of industry sectors—cite 'energy and raw materials costs' as a threat to their company's growth potential, and less than a third say that their governments are helping companies to secure access to natural resources.

The traditional resource powerhouses of Egypt, Libya and Algeria have experienced profound political upheaval. Meanwhile, Nigeria and Angola are continuing to grow in oil wealth and prominence.

But of more significance is the fact that countries such as Mozambique, Tanzania and Ghana are becoming more influential. Recent global developments such as shale gas may revolutionise the world's energy markets over the next 20 years, resulting in lower oil prices, higher global GDP, a changing geopolitical landscape and shifting business models for oil and gas companies.

For the most part, the oil and gas industry has weathered the global economic crisis well. Reduced access to liquidity has meant a greater reliance on cash reserves and cost containment. Meanwhile, continued investments from the likes of China, India and Brazil have resulted in increased discoveries and production even though costs are rising.

Oil and gas companies are expecting acreage/licence acquisition costs to increase and the race to secure sufficient supply is expected to fuel very competitive bidding for the next round of licences in African markets.

Mozambique and Gabon have had bidding rounds in 2013 and 2012, respectively, and Namibia issued licences in 2010. Others such as Kenya, Algeria, Equatorial Guinea and Uganda are expected to do so in the coming years.

At the same time, infrastructure development and access to basic services like electricity are more important than ever as African economies develop and grow. The time frame for realising gains on investments in energy-intensive infrastructure is longer, but there is vast potential nonetheless.

Factors driving investment in oil and gas

Oil and gas companies are driven by demand, but the landscape is shifting as growing economies like India and China not only require more resources to fuel their economies, but are also making significant investments or commitments across Africa to secure access to resources.

This, coupled with a changing energy demand profile among developed nations like the US, is impacting the geopolitical outlook.

New oil and gas finds in countries like Libya, Angola and Ghana and gas discoveries or expansion in Mozambique and Tanzania are also changing the investment profile of Africa as a region. Increasingly, Africa is seen as an area of exploration and development.

Global oil and gas prices and growing demand for commodities are fuelling investment. But price alone is not the only investment driver. Regulatory compliance and scarcity also play a role. Companies must weigh the cost of compliance with local regulations and international requirements against the scarcity of resources, demand and the challenges in extracting them.

Looking ahead, companies are investing in securing greater exploration or acquiring greater acreage, followed by securing supplies. Some companies are also acquiring speculative licences and exploration rights with the sole aim of selling the rights on for a substantial profit. In the face of these and other risks and challenges there are also enormous opportunities and potential, which can help companies to focus on the energy agenda in Africa.

"CEOs of African companies are optimistic because the level of growth in most African countries is positive. But the weakness, if we can talk about a weakness, is that in general this growth is driven by commodities. African leaders are conscious of this fact. So most countries are currently implementing diversification policies to make sure that the extraction and exportation of raw materials does not become the only economic activity driving growth and that the other branches of their economies also contribute. We see industrialisation in a range of sectors such as mining, petroleum and forestry. But we also see the development of policies for other areas such as tourism.

The main concern of the wood sector internationally at the moment is traceability. The person buying furniture at an international level today wants to know what steps went into making this furniture. The end client is now looking for this type of information. This calls for an organisation that will allow for guaranteeing the origin and traceability of all the products that are proposed. And we are making this a priority because it is simply vital. No company in the international wood sector today can imagine succeeding if it does not equip itself with the technological tools that will allow for the guaranteeing of the origin and production methods of the different materials that it puts on the market."

Serge Rufin Okana, Managing Director, La Société Nationale des Bois du Gabon
The SNBG is a leading wood transformation and export company based in Gabon.

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