

# 10 Minutes

## on investing in Africa



September 2011

### *Revise assumptions, rethink strategies to succeed in the new Africa*

#### Highlights

In Africa, natural resource assets are still sought after, but foreign investors are now increasingly attracted to infrastructure and consumer sectors.

Africa's traditional business partners, the US and Europe, face stiff competition from emerging-market investors who have been quicker to seize the new opportunities.

With more potential partners to choose from, the expectations of African people and policy makers have risen.

These developments are creating opportunities for global investors to partner profitably with African stakeholders in their countries' continued economic progress.

Africa, for many global investors, no longer conjures up images of war, famine, and poverty, but rather promises opportunity and growth. The continent is home to some of the world's fastest-growing economies and offers the highest risk-adjusted returns on foreign direct investment among emerging economies.<sup>1</sup>

Businesses from other emerging markets have been relatively quick to recognize Africa's potential, even as many Western investors remain skeptical about it. Chinese and Indian businesses, in particular, are rapidly expanding in Africa while presenting its people and policymakers with new development opportunities.

As worldwide investors vie for a piece of the action on the once-overlooked continent, the expectations of African stakeholders have risen. To succeed, investors will have to look beyond dazzling returns and one-off projects, and sign on as participating partners in Africa's long-term growth and development.

"Trade, not aid" is shaping the new Africa. With the right approach, the opportunities for foreign investors far exceed the risks.

1. Manage Africa's diversity with regional strategies. Africa is made up of mostly small markets with varying practices and cultures. So how does one achieve efficiency and scale? Think regionally, as many African governments do, while respecting the diversity that is the hallmark of Africa.
2. Size up the competition. Businesses from emerging economies often enjoy particular advantages when it comes to operating in Africa's complex environment. Understand them, not only as competitors but potential business partners.
3. Dot the i's and cross the t's—maybe more than once. Many African governments are implementing political and economic reforms. Be fully compliant with the evolving regulatory systems. And be ready to adapt as they change.
4. Put down roots and invest in the local society. The most successful deal makers are looking beyond high short-term returns. Their deals reflect African stakeholder involvement and broad economic interest of the country and the region.

<sup>1</sup> United Nations Conference on Trade and Development, "FDI in Africa hits record, and continent has highest returns on investment of all developing regions," September 24, 2008.

## At a glance

*Africa's Regional Economic Communities may well be building blocks for an African Economic Community. That would have the scale to rival China and India, as the middle class on the continent continues to expand.*

It's a mistake to think of Africa as a monolith; it's home to 54 sovereign states, with uneven development, numerous small markets, and varied practices and regulations. So how does one navigate Africa's complexity?

One approach is to segment Africa regionally, as encouraged by its own policy makers. Africa's regional economic communities (RECs) have either established free trade areas or are working toward it.

---

### Understanding Africa's Regional Economic Communities

---

#### **Economic Community of West African States (ECOWAS)**

Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea-Bissau, Liberia, Mali, Nigeria, Senegal, Sierra Leone, Togo

---

#### **Economic Community of Central African States (ECCAS)**

Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Republic of the Congo, Rwanda, São Tomé & Príncipe

---

#### **Southern African Development Community (SADC)**

Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

---

#### **Common Market for Eastern and Southern Africa (COMESA)**

Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe

---

#### **Intergovernmental Authority on Development (IGAD)**

Djibouti, Ethiopia, Kenya, Somalia, Sudan, Uganda

---

#### **East African Community (EAC)**

Burundi, Kenya, Rwanda, Tanzania, Uganda

---

## 01

## Know the basics

Africa's average rate of growth rate, which slowed to 3.1% during the economic recession, bounced back to almost 5% this year. It is projected to accelerate to 5.8% in 2012, not far behind the projected growth rate of 8% in emerging Asia.<sup>2</sup> These averages, however, mask Africa's regional variations that are shown in Figure 1. Interestingly, Africa's recent high performers have been low-income countries—such as Uganda, Mozambique, and Zambia—and not its oil exporters. On average, these countries registered growth of almost 5% in 2009 and 2010.<sup>3</sup>

### Diversifying economy

Mining and oil remain big businesses, but now there are two other major growth areas: infrastructure (the key to integrating Africa's resources and markets with the global economy) and the consumer market with all the allied industries developing around both. Telecom, financial services, retail, pharmaceuticals, and cleantech are only some sectors on the rise. Telecom is a booming industry; mobile subscriptions on the continent grew from less than 50 million to almost 350 million between 2003 and 2008. In Kenya, for instance, it has accounted for about a fourth of the country's GDP in the past decade. Thanks to the explosion of cell phones, mobile banking has taken off:

nearly 70% of Kenyan adults now access financial services, compared with below 5% in 2006.<sup>4</sup>

### A thriving middle class

These statistics are not surprising for those who have noticed Africa's expanding middle class. One recent estimate puts its size at 313 million, or just over a third of the total population, making it about the same size as China's or India's. The African middle class, however, remains more vulnerable: about 20% is made up of individuals who could fall below the global poverty line of \$2 per person per day in the event of an economic shock.<sup>5</sup>

### Engaged governments

Generalizations about Africa should be resisted, but investors have noticed the active role of public policy in Africa's development. In many countries, this is particularly evident in the infrastructure sector. For example, Nigeria's \$347 million Lekki Toll Road Concession is a public-private partnership between Lagos State and the Lekki Concession Company, whose shareholders include Macquarie Bank of Australia, Old Mutual of South Africa, and African Development Bank (among others). The project's success is attributed to local participation, which ensured prompt resolution of issues as they arose.<sup>6</sup>

**Figure 1: Africa's regions are growing at varying speeds**  
(Real GDP growth, in percentage)

	2009	2010	2011
<b>Africa</b>	<b>3.1%</b>	<b>4.9%</b>	<b>3.7%</b>
Central	2.6%	4.7%	5.3%
Eastern	5.7%	6.2%	6.7%
Northern	3.5%	4.6%	0.7%
Southern	-0.5%	3.3%	4.5%
Western	5.6%	6.7%	6.0%

Source: African Development Bank

2 African Development Bank, African Economic Outlook 2011, and International Monetary Fund, Regional Economic Outlook, May 2011.

3 Harry G. Broadman, "More resilient than meets the eye," African Analyst 2010. Country groupings are based on IMF categories.

4 William Wallis, Andrew England and Katrina Manson, "Africa: Ripe for reappraisal," *Financial Times*, May 18, 2011.

5 African Development Bank, "The Middle of the Pyramid: Dynamics of the Middle Class in Africa," April 20, 2011. The report defines the middle class as those with per capita daily consumption of \$2-\$20 in 2005 purchasing power parity US dollars.

6 World Economic Forum, "Paving the Way: Maximizing the Value of Private Finance in Infrastructure," August 2010.

# 02

## Understand the new players in Africa

Foreign direct investment (FDI) in Africa stood at \$55 billion in 2010.<sup>7</sup> The headline, however, is not the volume, but the source of this investment.

### A magnet for China, India, and others

As Figure 2, shows, the US and Europe continue to account for almost 80% of FDI in Africa, but Asia's contribution expanded significantly between 1995 and 2008. The changing profile of FDI inflows into Africa is an indication of how China and India have been able to take advantage of their trade partnership with Africa (see Figure 3) to increase their investments on the continent. Africa's exports to Asia now equal those to the US or European Union.

Africa's natural resources continue to be a draw, but businesses from China, India, Brazil, Turkey, etc., are now diversifying into sectors such as telecom, food processing, pharmaceuticals, and tourism. One of the largest M&A deals worldwide in 2010 was the \$9 billion purchase of the telecom operations of Kuwait's Zain in 15 African countries by the Indian mobile operator Bharti Airtel.<sup>8</sup>

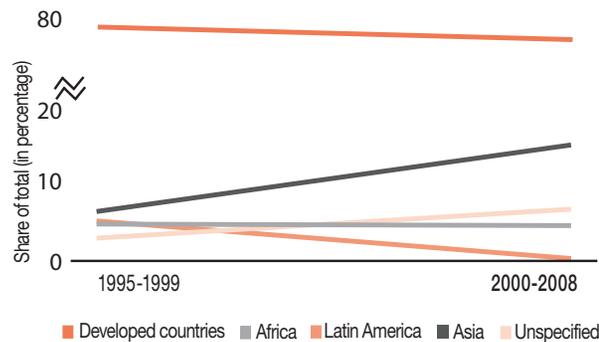
### Different strokes

Indian and Chinese companies may have common interests in Africa but their approaches differ greatly. Most Chinese businesses that have poured investments into Africa are state owned or state controlled. They would typically enter the markets by building their own facilities, remain highly vertically integrated, and mostly sell to government

entities. Now, with competition increasing, Chinese companies are showing keen interest in building partnerships with the local private sector. Indian companies in Africa are typically privately owned. They tend to enter the market by acquiring existing businesses, and are more integrated into the local society, conducting most of their business with private African entities.<sup>9</sup>

Competitors should pay attention to the unique advantages these investors enjoy. China's official Africa policy encourages state-owned companies to invest there and Indian private companies are applying lessons learned in their own complex and diverse home market to manage the uncertainties and difficulties that are endemic to Africa.

**Figure 2: Asians step up their investments into Africa**  
FDI inflows into Africa (1995-2008)

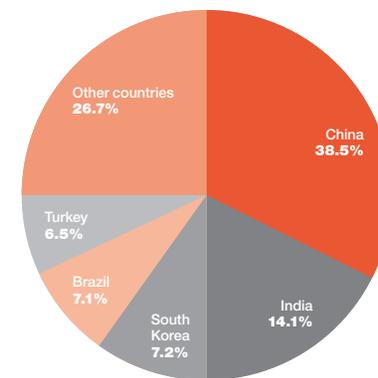


Source: UNCTAD, OECD

7 UN Conference on Trade and Development (UNCTAD), World Investment Report 2011, July 26, 2011.

8 Reuters, "Bharti Airtel closes \$9 billion Zain Africa deal," June 9, 2010.

**Figure 3: Africa expands its global commercial ties**  
Distribution of Africa's total trade with emerging economies (2009, in percentage)



Source: OECD Development Center calculations—ComTrade data

9 Harry G. Broadman, "China and India go to Africa," Foreign Affairs, March-April 2008.

## 03

## Take the long view

With more potential partners to choose from, many African governments are implementing new development agendas. Regulatory and tax systems are evolving. This is a positive development in the long run, but a source of short-term uncertainty. Here are some approaches worth considering for managing the risks of doing business in Africa.

**1. Carefully select the location for point of entry or expansion.** Many countries are competing to become the “gateway to Africa,” often by offering significant tax benefits for holding company structures. As Figure 4 shows, they have signed tax treaties with a number of African states to avoid double taxation, which investors can legitimately take advantage of. The US, in contrast, has only four: with Egypt, Tunisia, Morocco, and South Africa. Withholding tax legislation varies across countries. For example, Uganda has very different tax agreements with the UK and the Netherlands, while Nigeria’s tax rate for all countries party to such treaties is the same.

A word of caution: the reasons for selecting a location should be substantive and not simply about tax benefits. For lasting success, select regional hubs that have infrastructure and skills to support the business. General Electric, for example, sees Kenya as

the platform to grow its business in East Africa. Other popular regional hubs for multinationals include Morocco for North Africa, South Africa for Southern Africa, and Nigeria and Ghana for West Africa.

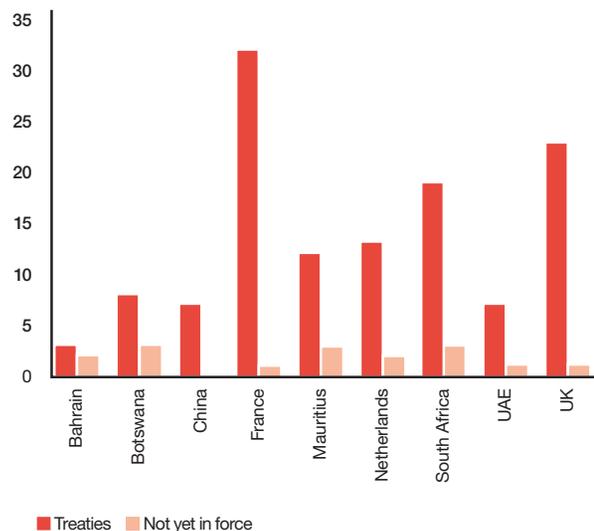
### 2. Comply with the law—and its interpretation.

Political risk continues to be a reality, as is clear from the ongoing turmoil in North Africa. Companies can, however, manage such uncertainties by being fully compliant with the law in every scenario. This requires understanding the letter of the law as well as how it is enforced, and thoroughly documenting the process should questions arise later. A less careful approach could have damaging consequences, such as the inability to repatriate earnings, as many African states have exchange controls in place.

### 3. Build on a strong foundation.

Groupe Bolloré, the industrial conglomerate, shares its long history in West Africa with many French businesses. Its strong track record gave the company the confidence to step out of its comfort zone. Recently, the company reorganized its port and transport businesses under a new English brand, Bolloré Africa Logistics, to expand in the south and east. Today Groupe Bolloré has a larger footprint in Africa than most multinationals.<sup>10</sup>

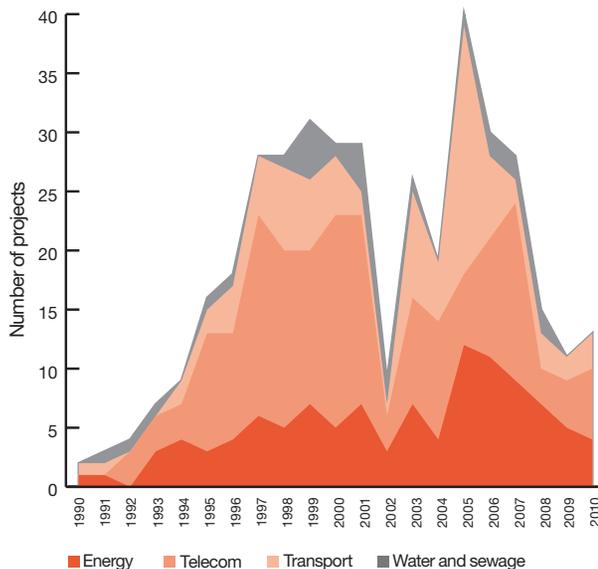
**Figure 4: Competing to be the springboard to Africa**  
Countries with the most tax treaties with African states



## 04

## Invest in Africa's growth and development

**Figure 5: Infrastructure hit by the global recession shows signs of recovery**  
Investment in projects by sector in Sub-Saharan Africa



Source: The World Bank and PPIAF, PPI Project Database, April 2010

Companies with well thought out Africa strategies understand the tremendous potential—and challenges—associated with doing business in the world's youngest continent. With over 40% of its population below 15 years,<sup>11</sup> Africa is rich in human capital but in great need of jobs, education, and skills. Some global companies have made such investments part of their business agendas in Africa.

### Cultivating local entrepreneurs:

An integral component of Coca-Cola's growth strategy is the "5 by 20" program, designed to empower 5 million women entrepreneurs worldwide to act as Coca-Cola's "micro-distribution centers" by 2020. The company has honed this strategy in Africa where it has developed an extensive network of women distributors to supply retailers in far-flung corners—often by foot, bicycle, or pushcart.<sup>12</sup>

### Developing Africa as a manufacturing and services location:

India's Tata Group has been exporting vehicles to South Africa since 1998. Recently, it opened a large auto assembly plant just outside Pretoria. The company has made transferring technical know-how, building skills, and developing an all-South African workforce its priorities.<sup>13</sup> Companies such as French Telecom and Dell Computers have established call service centers in Morocco.<sup>14</sup>

11 African Development Bank, "World Population Day-Harnessing Potentials of Africa's Youthful Population," December 7, 2010.

12 The Coca-Cola Company Pledges to Empower 5 Million Women Entrepreneurs by 2020, Press Release, September 21, 2010.

13 "Tata Opens Truck Plant in South Africa," *allAfrica.com*, July 25, 2011.

14 Henry Newrick, "Morocco - Fast Emerging as the Call Centre Capital of Europe," *Ecademy*, January 4, 2011.

### Teaming up with local and global entrepreneurs:

PwC's *14th Annual Global CEO Survey* found that while many CEOs worldwide scaled back their investments in recent years, CEOs in Africa remained intent on pursuing rapid growth. Africa's homegrown multinationals can be useful partners; Wal-Mart's \$2.4 billion merger with South African retailer Massmart gave the company an immediate footprint in 14 African countries.<sup>15</sup> Others are forging global partnerships. IBM has signed a 10-year agreement with India's Bharti Airtel to deploy and manage its IT infrastructure and applications in Africa.<sup>16</sup>

### Demonstrating long-term commitment:

Wal-Mart is accelerating its expansion across Africa, planning to increase Massmart store numbers by more than 8.6% to 340 outlets in its 2012 financial year.<sup>17</sup> The company is working closely with its African stakeholders in ensuring the success of this venture. It is keeping all jobs intact for at least two years and honoring existing contracts with labor unions. It has also promised to establish programs to develop local suppliers and boost farmer income.<sup>18</sup>

Clearly, companies that are differentiating between Africa's attractive growth story and the hard work of true development are reaping rich rewards.

15 "South Africa Clears Wal-Mart Deal," DealBook, *The New York Times*, May 31, 2011.

16 IBM press room, "Bharti Airtel and IBM Finalize Agreement to Transform Mobile Communications in Africa," January 14, 2011.

17 Janice Kew, "Wal-Mart's Massmart Expands in Africa as Regional Competition Increases," *Bloomberg News*, August 25, 2011.

18 "South Africa Clears Wal-Mart Deal," DealBook, *The New York Times*, May 31, 2011.

## Upcoming 10Minutes topics

### **Workplace flexibility**

Flexibility over time and place has long been one of the best incentives companies can offer to improve retention. Yet these options are now almost standard practice among top US companies. 10Minutes addresses the question: “How can businesses make over flexibility approaches to better attract and engage employees?”

### **Leading an innovative company**

Operational efficiency is necessary to running the business today, but it's not enough to build the business of tomorrow. CEOs recognize they need to innovate to sustain share and target new growth trajectories. 10Minutes discusses important organizational and cultural attributes to consider that can make or break the best idea.

### **Next-generation business intelligence**

The business information companies collect has changed radically in recent years, with more unstructured data available through the Web, email, blogs and other multimedia sources. Tried and true methods for managing traditional data are no longer up to the task. 10Minutes explores how leading companies are treating different types of data differently, to gain greater insight into their operations, customers, and performance.

## How PwC can help

To have a deeper discussion about investing in Africa, please contact:

In Africa:

**Simon Venables**  
Transactions and Corporate Finance Leader –  
Southern Africa  
PwC South Africa  
Phone: +27 11 797 5660  
Email: [simon.venables@za.pwc.com](mailto:simon.venables@za.pwc.com)

**Vishal Agarwal**  
Transaction Services and Infrastructure Leader –  
East Africa  
PwC Kenya  
Phone: +254 20 285 5581  
Email: [vishal.agarwal@ke.pwc.com](mailto:vishal.agarwal@ke.pwc.com)

**Vish Ashiagbor**  
Transaction Services Leader – West Africa  
PwC Ghana and Nigeria  
Phone: +233 21 761 465  
Email: [vish.ashiagbor@gh.pwc.com](mailto:vish.ashiagbor@gh.pwc.com)

**Maged Ezzeldeen**  
Transaction Services Leader - North Africa  
PwC Egypt  
Phone: +202 2 2759 7700  
Email: [maged.ezzeldeen@eg.pwc.com](mailto:maged.ezzeldeen@eg.pwc.com)

In the US:

**Gilles de Vignemont**  
Leader – Africa Tax Desk  
PwC  
Phone: +1 646 471 1301  
Email: [gilles.j.de.vignemont@us.pwc.com](mailto:gilles.j.de.vignemont@us.pwc.com)

**Martyn Curragh**  
Leader – US Transaction Services  
PwC  
Phone: +1 646 471 2622  
Email: [martyn.curragh@us.pwc.com](mailto:martyn.curragh@us.pwc.com)

**Harry Broadman**  
Chief Economist – Emerging Markets Leader  
PwC  
Phone: +1 202 312 0807  
Email: [harry.g.broadman@us.pwc.com](mailto:harry.g.broadman@us.pwc.com)

**Tell us how you like 10Minutes by sending  
an email to [10Minutes@us.pwc.com](mailto:10Minutes@us.pwc.com).**

**Experience the 10Minutes series  
with enhanced multimedia on your  
iPad. Look for “PwC 10Minutes”  
in the iTunes App store.**