

Africa Rising: Doing Business in Africa

REGENT BUSINESS SCHOOL

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Press Release
20th June 2014

"If one could speak two languages well and was raised on tea and baguettes for breakfast, in places where the most mundane daily business on the street is conducted in four languages, where horse carts park at cyber cafes, where would one go? Where could one go? Why, with a smile and a handshake, very far, indeed!" T.K. Naliaka

Naliaka's emotive, yet short and snappy anecdote of trade in an African setting illustrates the scope and complexity of doing business in the African continent. According to the United Nations Trade Agency (UNCTAD), Africa offers the highest return on direct foreign investment in the world, far exceeding all other global regions. However, as much as Africa has much to offer in terms of trade, the business environment is littered with legal, political, social and economic challenges. The recent *Africa Rising* moniker epitomises this new narrative, diligently championed by Western countries and the World Bank.

Is it not strange that the same western countries until recently portrayed Africa as the 'dark continent'? Africa, they had affirmed was a place of suffering, full of savagery and incessant conflicts, wars and famines. Foreign aid was necessary and Africa needed "saving"- all in the interest of exploiting the material wealth of the continent.

Why then the sudden interest in Africa? Numerous conspiracy theories have developed as a result of this rhetorical question. In the broadest context, two paradigms have surfaced. There are those theorists who believe that the West's new interest in Africa is simply an act of redemption, atoning for their past exploitative and unbecoming conduct of colonising the continent. Others opine that the West has suddenly realised that the continent is the last frontier and ideal environment for new business opportunity in the context of a transformed brand of global capitalism.

Notwithstanding this conjecture, is there truth to the new *Africa Rising* narrative? As much as we believe that the West is rebranding Africa as a 'continent of opportunity' for

self-serving interests, and some would argue the same for China, India and Russia, the new narrative bears some truth. New economic growth figures, averaging at about 4 percent, give much credence to the claim that indeed Africa is 'rising'. The continent's commodities boom and mineral and oil wealth have definitely benefitted state coffers, however, with little 'trickle down' effect. The majority of the people fail to benefit from this so called new commercial relationship. Simply put, it is an old story reframed to continue an old exploitive trade relationship that exacerbates dependency. Moreover, there has been a real change in perception by investors, as noted in a new report from Ernest & Young's Africa 2013 "Attractiveness Survey". The change reflects not only an overall transformation in Africa's image, but also shifting investment patterns.

Contrary to stereotypical views, the new narrative portrays a continent where the 'winds of change' are stimulating economic reforms. Africa is becoming more conducive to business development. The new transformation is playing a significant role in promoting Africa as a viable business partner in the global market. Through the influence of the World Bank's "constructive engagement' policies, trade has been liberalised, import restrictions and price controls on many primary and secondary products have been removed and various measures to regulate the financial and banking sectors have been many implemented. These new developments clearly indicate that continent has created the necessary conditions for economic growth and a thriving local and international business community.

Business Opportunities

Africa is definitely 'rising' and the private sector is the key to this new advance. Conflicts and wars though prevalent have diminished in terms of occurrence. New democratic dispensations have added to good governance. Innovative financial markets are opening up and trade is improving. Most importantly, though, economic growth is surging.

More specifically, it is the new consumer-based market of almost one billion that offers the greatest opportunity for trade in Africa. The middle class is growing and the demand for consumer products and services is commensurate. The rapid expansion of telecommunications is a prime example of the new consumer demand. From 1999 to 2004, cell phone use in Africa grew at an annual rate of 58 percent, whereas in Asia, the region with the next highest growth, cell phone use grew at a paltry 35 percent. According to the Praekelt Foundation, Africa now is the second largest user of cell phones, globally.

Definitely, Africa is of increasing strategic significance to the global economy. Despite the global recession, many African nations emerged as key markets for global investors. It is particularly interesting that in 2009 (soon after the food and financial crisis) many

countries in Africa outperformed the economies of developed countries, admittedly from a lower base.

The demography of Africa is another factor which suggests opportunity. It is one of the most populated and youngest markets in the world, with more than one-half of its population under 24 years of age. Global population projections estimate that by 2050, Africa will have a population of 2 billion. The projections also suggest that the proportion of Africa's youth (under 15 years) is expected to rise to 45 percent of the total population. This quite obviously raises some interesting possibilities. As a result, the demand for educational skills, employment and consumerism will increase substantially.

While petroleum products are the driving force behind much of international trade, other sectors offer impressive growth. The BRICS countries are rapidly increasing their business dealings with Africa, whilst the USA and the European Union consolidate their old trading partnerships. In addition, the continent currently represents one of the largest untapped potential for investment as it is one of the richest natural resource regions in the world. Africa is the third-fastest growing economic region in the world and its rate of urbanisation is higher than that of India.

Given the above snapshot of opportunities that the continent provides, what are the prospects and risks of doing business in Africa? As mentioned previously, just as Africa offers enormous opportunities, there are also risks of doing business. The key economic risks range from fragile fiscal and monetary policies, high inflation, currency volatility, high tax rates, issues of nationalisation, skills shortages, inadequate infrastructure and red tape.

There is no 'one size fits all' strategy for doing business in Africa. Even though the continent is the common denominator, each country has its own unique history, socio-economic and political system and culture. There is very little that can be considered definitive when doing business on the continent. Moreover, through hindsight, anecdotal stories, observation and experience it is possible to arrive at some fundamental critical principles which could possibly assist in formulating insights that support doing business in Africa.

With reference to the risks involved in doing business in Africa, there are those who assert that an investor should initiate the business process and deal with the risks as they arise. In sharp contrast, there are some who recommended that potential risks are dealt with upfront, noting that in the end, due diligence could very well determine the success or failure of a business.

A good starting point to any business venture in Africa is to refer to the World Bank's *Ease of doing business index* (<http://www.doingbusiness.org/>). Ease of doing business ranks economies from 1 to 189, with first place being the best. A high ranking (a low numerical rank) means that the regulatory environment is conducive to business operation. The index averages the country's percentile rankings on ten topics covered in the World Bank's Doing Business. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

Another worthwhile investment one can make prior to commencing any business venture in Africa is to undertake a market study on the country of location. In this respect, it is recommended that advice of a reliable business intelligence agency is sought. Many of these agencies have a good track record in terms of guiding business through 'unchartered waters' within the continent.

A 'SWOT' analysis of the various factors involved in doing business in Africa, together with a correct assessment of investment opportunities is an absolute essential. It can be likened to undertaking a research exercise – you need to pose the correct questions and have the 'bigger picture' in mind. Initial work at the outset will pay the necessary dividends later, especially in terms of capitalising on the myriad business opportunities that Africa has to offer.

Business Advocacy

Despite the abundance of economic data, there is very little qualitative information available on the challenges experienced in doing business in Africa.

For example, the population of most African countries is heterogeneous, especially in terms of ethnicity, culture, language and religion. Each ethnic group exhibits differing religious, cultural and linguistic traits. National identity is complex and difficult to generalise. It is important to have a working knowledge of the official language of the country of business location. A basic knowledge of the local customs is a necessity. The business environments are generally quite informal and bargaining is part of the business psyche of most entrepreneurs. Local people are generally personable and have deeply rooted traditions. Building a social rapport for sustainability of business is an imperative. Patience is always a virtue when trading in Africa. Investors repeatedly note that nowhere else is there such a direct correlation between careful planning and a successful outcome.

It is important to maintain awareness of noteworthy events such as elections and understand their potential effect on a venture. Investors need to have an understanding of the political association of the major stakeholders involved in the transaction, both

business partners and regulators that may need to approve the transaction. Networking is crucial to business success in Africa. This can include targeting politicians, business leaders and key members of the civil service. Investors need to identify the decision-makers and implementers and establish a network of indirect contacts. As far as possible, though, a new business venture should use local networks that already exist rather than those imposed from the outside. Most importantly, it is necessary to choose wisely when it comes to local agents, as this decision will probably be the most important business decision one can make. These local agents have a good local working knowledge of local business environments.

In terms of political dispensation, many countries in Africa are 'one party' states and a lack of effective opposition is widespread. The primary political challenge of doing business in Africa is the prevalence of undemocratic or ineffective governance structures. In recent years, though, there is a gradual move towards more transparent and accountable governments. There are now fewer armed conflicts and political instability has become less frequent, especially when compare to a few decades ago. Elections have now become the norm in Africa, and there are increasingly more examples of peaceful transfers of power. Within this context, government decisions on almost every business transaction often takes long, which may affect investment decisions or marketing strategies. Policies and tender procedures are also not always consistently executed. Long delays in payment by parts of government, likewise, may cause difficulties in particular for business development.

There is a skills deficit in most African countries. The legacy of colonialism and the problems and challenges of development in the post democratic dispensation has led to the majority of the labour force being under skilled and therefore unemployment is rife. Skilled labour is available, but comes at a price due to shortages of especially technical and managerial skills. Governments of many African countries place great emphasis on the creation of job opportunities. In this respect, labour regulations are well defined and compliance is essential. This may contribute to some problems, especially in dealing with an inflexible labour market and cumbersome procedures. Recent government policies which are investment friendly are making a positive difference, in this respect. Many African governments are sensitive when dealing with health issues such as HIV/Aids. This must be factored to any anticipated business venture in Africa.

In addition to the above, there are various other factors which impinge on the success of doing business in Africa. They range from issues such as the length of establishing and registering a new venture, dealing with construction permits, registering property, acquiring credit, and procuring electricity, tax implications, enforcing contracts, procuring suitable labour and corruption. Indeed, there are many more and a detailed market survey will assist in unraveling them.

Finally, understanding the various challenges of doing business in 21st century Africa can greatly enhance the likelihood of success, especially in terms of capitalising on the wealth of opportunities offered by the continent. Africa is definitely emerging. The recent global financial crisis caused little damage and may even prove beneficial for Africa, in the sense that investors are more favourably inclined towards emerging markets given the weak outlook in most western countries. Factors such as favourable demographics, a steady flow of investments, abundant resources and political and economic reforms can only contribute to a stronger rate of economic development in Africa.

Africa offers all the opportunities of doing successful business. In response, the future business venture in Africa needs to chart and steer a cautious but courageous entrepreneurial path. As Winston Churchill mentioned “A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty”.

It is in this context that REGENT Business School operates in Africa. We believe that the success of African business schools is dependent on the extent to which their teaching and learning and research addresses some of the issues above and the extent to which they prepare their graduates to understand and provide ethical leadership, specifically with the view to enabling them to discover the entrepreneurial opportunities for African social and economic development. For after all, we are Africa.

We welcome any suggestions, comments or critique.

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