

# Pray, do say why and how I should do Business in Africa

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*“Among the Igbo the art of conversation is regarded very highly, and proverbs are the palm-oil with which words are eaten.”*

*Chinua Achebe*

This paper is a sequel to a previous article penned by the authors, titled *Africa Rising: Doing Business in Africa*. The two-part paper which was published through *Bizcommunity.com* elicited a huge global and local response. We had both individuals and corporates enquiring about various aspects of trading in Africa. The authors were also interviewed on radio. The reaction to the paper clarified in our minds the perspective that there is much ignorance about Africa and negative stereotypical images of the continent continue to prevail. The content of that paper’s relevance is sustained. The negative metaphors of Africa and questions of ignorance, though, are themes that will have to be revisited many times.

There is growing optimism that Africa is rising, with statistics pointing to upbeat figures and this has been a magnet for much-needed investment. It appears that the second gold rush to Africa is fast becoming a highway for global trade. Many companies, from both developed and emerging economies, alike, are considering expansion of their operations into Africa.

Equally, there is a misconception that Africa is one country with various commonalities. Africa is a large continent of 55 countries each with diverse cultures. Challenges such as language barriers, political instability, location, corporate governance, currency differences and poor infrastructure are manifest. In the same vein, the continent provides opportunities for development and growth for those with sound business acumen and a huge appetite for risk.

Recent economic indicators point to the fact that Gross domestic product (GDP) on the continent has been growing at a fast pace of 5 percent with Nigeria, Ghana, Mozambique, Tanzania, Burundi and Angola as key target markets and it was recently announced that 5 percent of foreign direct investment (FDI) from South Africa has gone to the African continent. Corporates such as Massmart, Woolworths, MTN and Shoprite can testify to this.

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.

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.

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.

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.

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.

Commitment to growth must include the use of local intelligence, local operations, local staff and consumer insights. These are key to success in addition to the acknowledgement of cultural nuances, as building relationships is critical but acknowledging respect for the locals is even greater.

Of the top ten fastest growing economies in the world, six are in Africa and rich in natural resources. Indeed, there are bright signals of hope beckoning for trade 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.

This is just a simple tale of why and how you should do business in Africa.

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