THE NEW AFRICA

EMERGING OPPORTUNITIES FOR BUSINESS AND AFRICA

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THE NEW AFRICA
EMERGING OPPORTUNITIES FOR BUSINESS AND AFRICA

FOREWORD

The world is waking up to **A NEW AFRICA**. The predominant theme in the emerging narrative is no longer war, famine and disease but rather strong economic performance. The resources industry has played an important role in this shift but economic diversification is coming to many African countries, where an expanding consumer base is fuelling growth in other sectors. And measurable improvements in governance and human development suggest that these changes will be lasting.

Investors are realising that **AFRICA IS GOOD FOR BUSINESS**. Strong economic growth, business friendly reforms, mature financial institutions and some large economies (South Africa, Nigeria and Egypt among them) add up to an enticing proposition. It is no wonder that foreign investment in Africa is showing strong growth and that returns on investment in Africa, both foreign and domestic, are among the highest in the world.

Increased investor interest is having a beneficial impact on many African countries: **BUSINESS IS GOOD FOR AFRICA**. Investment is creating jobs which have a wide ripple effect. And foreign companies are helping to develop domestic industries through the transfer of skills and technology and by generating demand for extended supply chains.

A sharper investor appetite for African opportunities is sparking a virtuous circle of developments. As companies wake up to Africa's potential, they are making investments which develop local industries. As those economies grow, they present yet more opportunities to investors and spur governments to make their business environment more attractive to investors.

Africa has turned a new page. The prospects look bright and this is only the start of the story.

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Photo: World Bank

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AFRICA'S PROSPECTS ARE IMPROVING

There is a new African narrative emerging. For decades, postcolonial Africa has commonly been portrayed in pessimistic terms; economic stagnation, political instability, armed conflict, poverty, famine and disease are key themes in that narrative. However, the end of the Cold War marked a decisive shift in Africa's prospects. This shift was given momentum by a longer-term process of political, economic and regulatory reform that was initiated in the 1990s. Armed conflict reduced significantly, providing the relative stability required for economic growth and development. Inflation was brought under control, foreign debt and budget deficits reduced, state-owned enterprises privatised, regulatory and legal systems strengthened, and many African economies were opened up to international trade.

African economic output has more than doubled over the past decade

These structural changes have helped create an environment in many African countries that has invigorated markets and commerce, and is increasingly conducive to business and investment. Furthermore, widespread reform, together with steady improvement in political governance, the commodities boom, substantially increased levels of disposable income, urbanisation, and a rapidly developing tertiary sector, are all contributing to a sustained and sustainable growth path for Africa.

Beyond the anecdotal, there is a growing and diverse body of hard evidence to support this view, demonstrating that the economic and broader developmental prospects for Africa have improved considerably over the past decade and that Africa is on a sustainable longer term growth trajectory:

African economic output has more than doubled over the past decade. In its most recent World Economic Outlook paper (April 2011), the IMF forecasts 5.5 per cent GDP growth for Sub-Saharan Africa in 2011 and 6 per cent in 2012, with robust growth forecast in countries like Ghana, Kenya, Ethiopia, Angola, Botswana, Tanzania, Uganda and Nigeria[1].

Photo: World Bank

1 IMF, World Economic Outlook: Tensions from the Two-Speed Recovery, April 2011.

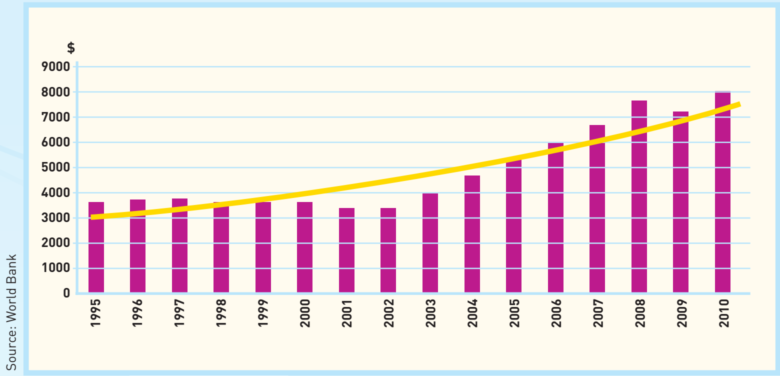


Figure1: GDP growth for Africa

An important driver of this growth has been the resources industry, underpinned by the Asian manufacturing boom and higher commodity prices. However, the resources industry has helped spearhead broader changes. Renowned economist, Paul Collier, argues the scale of what is likely to happen is not widely appreciated. Future discoveries and resulting exports will be around five times their current level (based on what remains unexplored in Africa versus currently known sub-soil assets), and that this will have a profoundly positive impact on Africa's future growth[2].

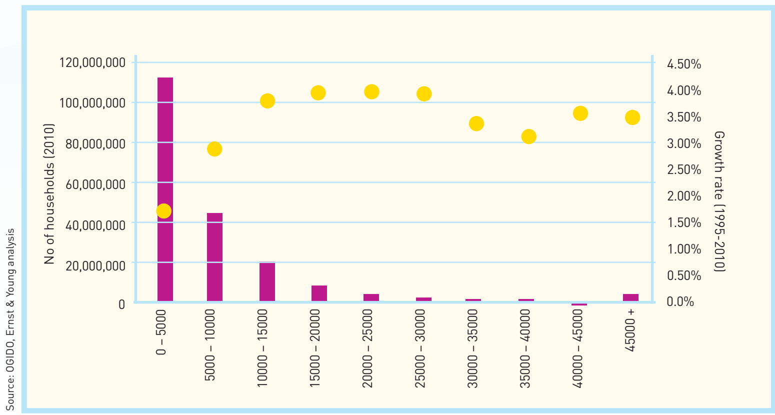


Figure 2: African consumer growth patterns

However, growth has not simply been a factor of resources and the commodity boom. Many African economies are diversifying beyond resources, with very high growth levels in sectors such as telecommunications, financial services and consumer products. So, looking forward, and according to the IMF, "Growth ... is expected to be broad based. Domestic demand is expected to remain strong on the basis of rising real incomes and sustained private and public investment."

Underpinning the growing domestic demand is the fact that Africa's population of over 1 billion people is becoming increasingly wealthier. Ernst & Young's analysis of consumer growth trends over the past 15 years shows strong growth in the middle market and a corresponding rise in disposable income. We anticipate that this consumer growth pattern will accelerate over the next 15 years, driven by urbanisation, population growth and continued economic development. Rising domestic demand for and consumption of an ever-broadening range of products and services, growing intra-African trade and the increasing diversification of many of the economies on the continent are expected to provide a multiplier effect to the emerging potential evident in Africa today.

> Africa's population of over 1 billion people is becoming increasingly wealthier

It should perhaps be unsurprising then that the growth rates of many individual African countries have been impressive and sustained. According to research done by *The Economist*, 6 African countries have been among the 10 fastest growing economies in the world over the past decade; and 7 African countries are forecast to be among the 10 fastest growing economies over the next five years (Nigeria, Ethiopia and Mozambique

2 See Paul Collier, The Plundered Planet: Why We Must – and How We Can – Manage Nature For Global Prosperity, New York: Oxford U.P., 2010; and 'The case for investing in Africa,' McKinsey Quarterly, June 2010.

World's ten fastest growing economies
Annual average GDP growth %

2001–2010		2011–2015	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	Ethiopia	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	Tanzania	7.2
Kazakhstan	8.2	Vietnam	7.2
Chad	7.9	Congo	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	Nigeria	6.8

* Excluding countries less than 10M population and Iraq and Afghanistan

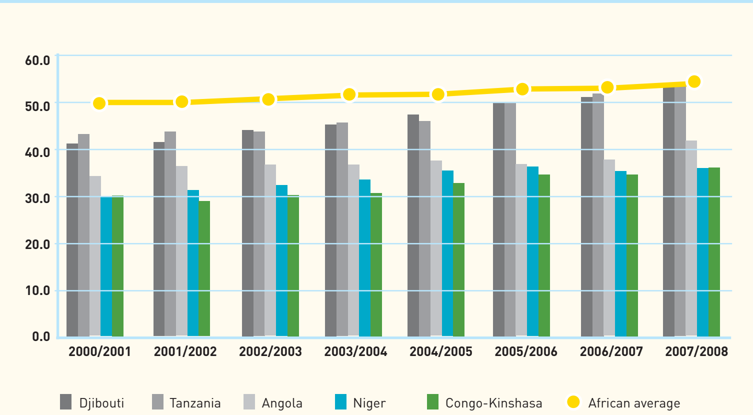
2010 estimate Forecast

Sources: *The Economist*; IMF

Figure 3:
Outperformance of African economies

are on both lists). Further, *The Economist* predicts that over the next five years, the average African economy will grow faster than its Asian counterpart.

However, the reality is that sustainable economic growth cannot happen in a socio-political vacuum. An important part of the reason why there has been such impressive



Source: Mo Ibrahim Foundation

Figure 4:
Trend of Ibrahim Index scores

economic progress over the past 15 years is the fact that there has also been political and social progress. The reality is that most African countries have transitioned or are transitioning towards some form of participatory democracy. In 2011, at least 17 African countries are scheduled to have national democratic elections, including Benin, Uganda, Chad, Madagascar, Zambia, Cameroon, the DRC, Liberia, Gabon, and, perhaps most importantly, the recently completed Nigerian elections; earlier in the year, we saw the referendum in Southern Sudan go off remarkably smoothly and peacefully; civil society in many African countries has become increasingly active, and the totalitarian dictator is becoming the exception rather than the norm in Africa. Critically too, the Ibrahim Index of African Governance[3], which provides a comprehensive analysis of the quality of governance across the continent, shows a steady improvement over the past decade. This reflects a significant decline in armed conflict and an increase in political liberalisation.

Alongside the acceleration in economic growth and political progress, there has also been improvement on some of the human development indicators. According to the World Bank, "progress on the Millennium Development Goals has been sufficiently rapid that many countries (such as Malawi, Ghana and Ethiopia) are likely to reach most of the goals, if not by 2015 then soon thereafter. Africa's poverty rate was falling at one percentage point a year, from 59 per cent in 1995 to 50 per cent in 2005. Child mortality rates are declining; HIV/AIDS is stabilizing; and primary completion rates are rising faster in Africa than anywhere else."[4] Two other recent analytical studies back up the view that African poverty and income inequality is falling rapidly, and that, conversely, real household consumption is rapidly rising[5].

3 The Ibrahim Index provides a comprehensive ranking of African countries according to the quality of governance in its broadest sense. It uses 84 outcomes-based criteria across 4 main categories (and 13 sub-categories): a) Safety and Rule of Law; b) Participation and Human Rights; c) Sustainable Economic Opportunity; and d) Human Development.
4 The World Bank, "Africa's Future and the World Bank's Role in It".
5 In their paper, "African Poverty is Falling," Xavier Sala-i-Martin and Maxim Pinkovskiy reveal that there has been a sharp reduction in poverty and income inequality since 1995, and that, further, this trend has been widespread right across the continent. Alwyn Young, in "The African Growth Miracle," shows that African household consumption has grown 3 times faster than what is generally reported in international data sources.

SYLVIA SOLF

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With colleagues, **David Bridgman**, Regional Manager, Investment Climate, Investment Climate Advisory Services in Africa, World Bank Group, and **Melissa Johns**, Senior Private Sector Development Specialist, Investment Climate Reform Advisory, World Bank Group

Since the launch of Doing Business[6], what have you seen as the major trends in Africa?

Performance across Africa varies. Mauritius, for example, is ranked 20th globally in the ease of doing business, followed by South Africa (34th), Botswana (52nd), Rwanda (58th), and Ghana (67th). On the other hand, 9 of the 10 economies ranked lowest are in Sub-Saharan Africa. On average, the region still ranks 137th in the world. This indicates that local businesses and investors in Africa still encounter more red tape and less property rights protections than in other regions. But the trends we observe are encouraging.

> Regulatory reforms can send a strong signal of governments' commitment to sound institutions and policies. It is becoming easier to do business in Africa

While relatively little was happening in Sub-Saharan Africa earlier on, the momentum for regulatory reform has picked up across the continent. In 2004, only 38 per cent of countries in the region implemented business regulation reforms. Over the past 3 years, on average 60 per cent or more did. Sub-Saharan Africa has had the greatest increase in regulatory reform activity of all regions – off a low base.

The majority focused on simplifying business start-up procedures, property registration or customs processes to facilitate trading. In all three areas, countries implemented more regulatory reforms than in any other region. Particularly trade facilitation programs were often spurred by regional integration efforts. Trade cargo can move more easily within trade blocs such as the Southern Africa Customs Union thanks to a common transit document that can be used in all member nations. Other results are starting to show. For example, the average time to start a business in the region fell from 62 to 45 days, and cost from 233 per cent to 95.4 per cent of income per capita. The average time to import and export, albeit still the longest in the world, has fallen by about a week thanks to measures such as electronic data interchange systems in Madagascar, Mali and Tanzania, or reduced delays at ports and customs in Benin. So the direction of change is positive, and the potential of these measures can be great. For example, a study in Sub-Saharan Africa finds that a 10 per cent reduction in exporting cost is associated with an increase in exports by 4.7 per cent, a greater impact than would come from further reductions in tariffs.

Regulatory reforms such as the ones tracked by Doing Business can send a strong signal of governments' commitment to sound institutions and policies. From this perspective, it is becoming easier to do business in Africa.

Which countries stand out as reformers?

Among the 30 economies globally that improved the regulatory environment for domestic firms the most over the past five

6. The Doing Business project analyzes regulations that apply to an economy's businesses during their life cycle, including start-up and operations, trading across borders, paying taxes, and closing a business. Through the indicators the project is able to track changes in those areas across the world.

years, a third are in Sub-Saharan Africa—Burkina Faso, Ghana, Madagascar, Malawi, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, and Sierra Leone. Last year, Rwanda, Cape Verde, and Zambia were among the 10 economies worldwide that most improved the ease of doing business for local firms.

> …reformers recognise that bringing more economic activity to the formal sector through business and job creation is the most promising way to reduce poverty

Such consistent reformers generally follow a longer-term agenda aimed at increasing the competitiveness of their firms and economies. Business regulation reform programs are part of that agenda and cover multiple areas. Since 2005, Rwanda, for example, has implemented 22 business regulation reforms in the areas measured by *Doing Business*. To give just one example of some of the results, starting a business required nine procedures and cost 223 percent of income per capita in 2005. Today, it takes two procedures and three days—and costs 8.9 per cent of income per capita. Rwanda also introduced commercial legislation including a new company law, insolvency law, and secured transactions law, all aimed at strengthening investor and property rights protections.

Mauritius is the highest ranked economy in the region and ranked 20th of 183 globally, and has continued to make changes to ease doing business ranging from introducing commercial divisions at the court, and overhauling the property registry, to implementing a new insolvency act.

What is the evidence that the reforms you highlight in Doing Business have had an impact?

With more economic opportunities, regulatory constraints on businesses have become more pressing. Governments increasingly focus on reducing these constraints. And reformers recognise that bringing more economic activity to the formal sector through business and job creation is the most promising way to reduce poverty.

Since 2007, more than 20 African governments have used Doing Business as a framework for policy reform. They have used the measurements to identify opportunities for regulatory reform, foster competition across multiple parts of government, and monitor progress. Some have specific targets: Rwanda to be among the top 100 globally; Senegal to appear in the top 10 in Africa. Leaders in each country are using these national goals to spur further action.

Cross-country analysis has also shown that regulatory reforms encourage entrepreneurship and competition, and enhance firm productivity — all factors contributing to economic growth. A recent review of regulatory reforms in four small African economies tracked an increase of over 50,000 new formal jobs in the first three years after straightforward measures to make it easier to start a business and related reforms.

An exciting development over the past couple of years has been a rise in systematic peer-learning. During peer-learning events in Mauritius and Rwanda, ministers and private sector representatives from 10-15 countries met to exchange knowledge to feed into their regulatory reform agenda. Mauritius, Rwanda, and Botswana are among the ones taking the lead.

Photo: World Bank

NANCY DUBOSSE

Head of Research, Economic Governance Programme at IDASA – the Institute for Democracy in Africa

What is the trend in governance and where are the success stories?

Perhaps the easiest indicator to track is national elections which are becoming more routine and more regular across large parts of the continent. 2011 is a big year for Africa; 14 countries will hold presidential elections. Several have already taken place, most notably the referendum, which led to the formation of South Sudan, and presidential elections in Uganda and Nigeria. Still to come are Cameroon, the Democratic Republic of Congo, Egypt, and Liberia.

On the other hand, there are the existing tough cases – Zimbabwe, Equatorial Guinea, Swaziland and so on. But these instances are becoming more isolated. Amongst the successes - Ghana, where a very closely contested election was accepted by all parties; Kenya which has bounced back from violence in 2007 and now has a legitimate internationally recognised constitution; the progress in Lesotho since civil strife burnt down their capital city. Finding successes is not difficult, accepting that they are successes requires a change in mindset. Where a country has passed through the democratic door, the region ensures that it remains there. Debates are largely about the problems of democracy not the problem with democracy[7].

> 2011 is a big year for Africa; 14 countries will hold presidential elections

African citizens have now turned their attention to their standards of living and the economic opportunities available in their countries. According to our Afrobarometer public opinion survey (2008) in Mozambique, one-third described their standard of living as 'fairly bad' and 'very bad'. Forty-two per cent of South Africans believe that the economic conditions in the country are much worse as compared to twelve months ago. Even the more successful democracies in Africa are struggling to provide basic social services, which, in turn, undermine sustainable growth. Recent events in Tunisia, Algeria, and Egypt have shown us that not only economic growth but also citizen perceptions of their welfare are critical to political stability.

How does democratic governance contribute to sustainable socioeconomic growth and development?

Clearly, it is possible for substantial economic development to take place without democracy; and it is equally true that democracies do not always make the best economic policy choices. But research and our experience suggest that non-democracies are fragile and their end can be abrupt, while democracies have a tendency to self correction over time. Furthermore, the principles underpinning good governance can advance socio-economic growth and development by fostering a sense of ownership and agency among citizens.

It is generally accepted that poor countries are not poorly resourced; that is, the most well-endowed countries tend to be among the poorest when it comes to socio-economic development indicators. The poverty actually

7 Graham, Paul. (2010). "Strengthening Cooperation Between Europe and Africa on Democratic Reform", Challenges and politics of supporting democratization processes in Africa –setting the scene, 11 October 2010. Paul Graham is the Executive Director of Idasa.

stems from mismanagement, a lack of accountability, and a leadership vacuum. Democratic governance addresses this by creating systems which allow for these resources to be utilized in a fair and equitable manner. Indeed those signatory to the African Charter have committed to pursuing good governance under the belief that this is the best way to ensure that Africans are empowered to pursue quality and meaning in every area of their lives.

How can the private sector contribute to good governance?

One should not underestimate the extent to which Africa is becoming economically integrated. There are approximately 14 regional economic communities, with most African countries belonging to at least 2. Tanzania, for example, is a member of the East African Community (EAC), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the African Union (AU). There are also trans-continental efforts for economic cooperation like the Economic Partnership Agreements signed between individual African communities and the EU.

> The private sector should advocate where they can for transparent systems

There are, therefore, incentives and pressures towards adopting common political values and trajectories. At the same time, countries are becoming aware of the tremendous sub-regional diversity in challenges being faced by individual states. Finding one size fits all in any area of democratic governance support is difficult. This is one of the reasons why Idasa argues very strongly for the creation of flexible, durable and competent national non-state institutions capable of both monitoring and building democratic capabilities in as many African countries as possible.

Companies doing business in the developing world should adhere to some of the new measures that are being put into place. One of them is the Publish What You Pay (PWYP) campaign, a global network of civil society organisations calling for transparency in revenues in the extractive industries. The PWYP now has more than 600 member organisations.

Another is the Extractive Industries Transparency Initiative (EITI), a coalition of interest groups, which seeks better governance in the extractive sector of developing countries by encouraging the full publication of company payments and government revenues. Twenty-four countries have achieved EITI candidate status, sixteen of which are African countries including Cameroon, Democratic Republic of Congo, Gabon, Mali and Zambia. Fifty of the world's largest oil, gas and mining companies actively participate in the EITI process. The EITI has also won the support of over 80 global investment institutions.

There are also issues of social responsibility that companies can undertake in the areas in which they do business. Ensuring against the exploitation of local residents is a minimum standard. Consultation of local communities in resource utilization or extraction and the creation of forward linkages in the communities are higher standards that companies should strive for.

Open societies invoke confidence, reduce risk. Information is vital to the day-to-day functioning of a democracy; particularly the private sector. Success in business is partially based on the policies and practice surrounding procurement, administrative procedures, contracts, public finance expenditures, and service delivery. The private sector should advocate where they can for transparent systems. The absence of such will only undermine current progress and possibly create new inequalities and political instability.

AFRICA IS GOOD FOR BUSINESS

> Africa as a whole and many individual African countries compare very favourably with other Emerging and Developing market regions

Trade, investment and doing business are all important aspects of the new African growth narrative. There remains a common perception that it is more difficult to do business in Africa than in most other regions in the world. And there are no doubt very real challenges, not least of which is the sheer size and diversity of the continent. In terms of landmass alone, Africa is staggering: all of China, the United States, India, Europe, Argentina, and New Zealand could fit within the African continent. There are over 50 countries on the continent; and while their borders were, in many instances, carved arbitrarily by colonial powers, national sovereignty is jealously guarded. Africa's one billion inhabitants are also culturally, ethnically and religiously diverse and speak numerous languages and dialects. However, as a place to do business, Africa as a whole and many individual African countries compare very favourably with other Emerging and Developing market regions.

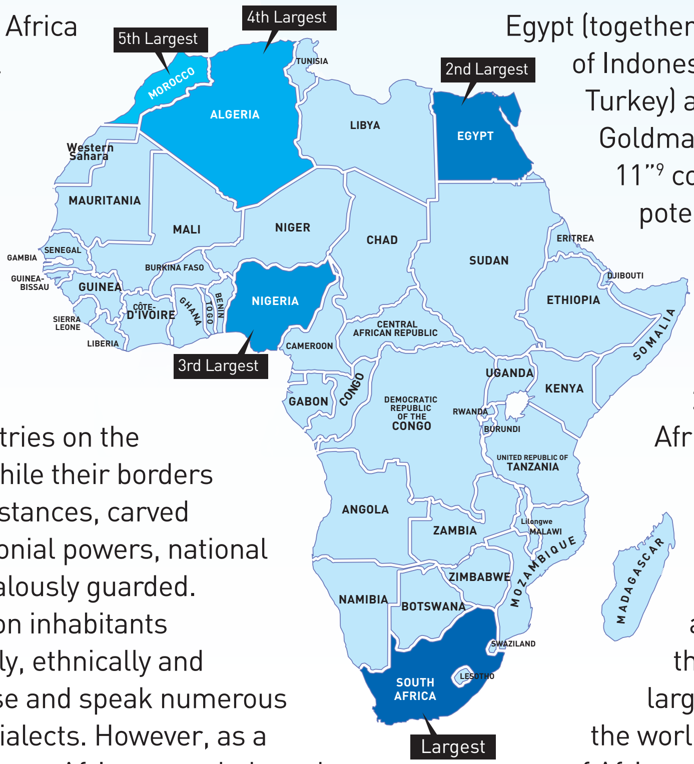


Figure 5: The relative size of African economies today

One argument that one sometimes encounters is that economies in Africa are simply too small to matter. However, South Africa is the 26th largest economy in the world, (ahead of a number of East Asian, Middle Eastern, Latin American and European economies) – more importantly, it is the 10th largest emerging-type economy, only behind the BRICs[8], Mexico, Indonesia, Poland, Turkey, and Saudi Arabia. Egypt and Nigeria are respectively the 40th and 41st largest economies in the world (putting them in the top quartile), marginally behind Malaysia, and ahead of the likes of Ireland, Israel, Chile, all of the East and Central European countries (except Poland), New Zealand and Vietnam. Both Nigeria and Egypt (together with the likes of Indonesia, Mexico and Turkey) are also listed by Goldman Sachs as "Next 11"[9] countries, with a high potential of becoming, alongside the BRICs, the world's largest economies in the 21st century. Other African economies like Algeria, the world's 48th largest economy, and Morocco, 59th, are sizable too (in the top third of the largest economies in the world), while a number of African economies, including Angola, Ghana, Tanzania, the Congo, Mozambique, Ethiopia, Chad, Rwanda, and Zambia are all growing at rapid and

8 Brazil, Russia, India and China
9 "How Exciting is Africa's Potential," Goldman Sachs Strategy Series, October 2010.

sustained rates, and an increasing number will soon be more significant in global terms.

A key enabler of growth and investment has been the trend of 'business friendly' reform. In the last four years, for example, Ghana, Egypt, Kenya, Botswana, Burkina Faso, Senegal, Liberia, Cape Verde, Zambia and Rwanda (that is, 10 African countries) have all featured in the World Bank's top 10 business reformers list, a sign of the tremendous strides being made in terms of implementing business friendly policies.

> A key enabler of growth and investment has been the trend of 'business friendly' reform

This progress is translating into steadily improving performance by many African countries in the World Bank's Ease of Doing Business rankings. In fact, 8 African countries (Mauritius, South Africa, Botswana, Tunisia, Rwanda, Ghana, Namibia, and Zambia) are ahead of the highest ranked BRIC country (China); a total of 19 African countries are ahead of India.

The highest ranked African country, Mauritius, ranks ahead of the likes of Germany, France, Belgium, Switzerland, the Netherlands, Austria, Israel, Malaysia and Taiwan. South Africa, the next highest ranked African country, is ahead of almost every other emerging-type market except Thailand, Malaysia and some of the Central European and Baltic states, and is way ahead of any of the BRIC countries, as well as the likes of Spain, Italy, the UAE and Turkey.

Similarly, in terms of Financial Market Development (or the relative maturity of financial and capital markets infrastructure – certainly a key factor for investors), and based on the World Economic Forum's Global Competitive Index, 4 African countries (South Africa, Mauritius, Namibia and Kenya) are ranked ahead of the United States. South Africa, in fact, is ranked 9th overall, putting it ahead of every single emerging market except Malaysia, as well as France, the UK, the US, Germany, and Japan. The table below provides a broader sample of some of the more specific sub-rankings under the overall pillar of Financial Market Development to further illustrate the point. This selection of different countries from different parts of the continent (south, east, west and north) are all on an upward trend in terms of business regulatory reform and economic growth, and all score in the top quartile of countries in the world on factors that are critical to relative investor and business friendliness.

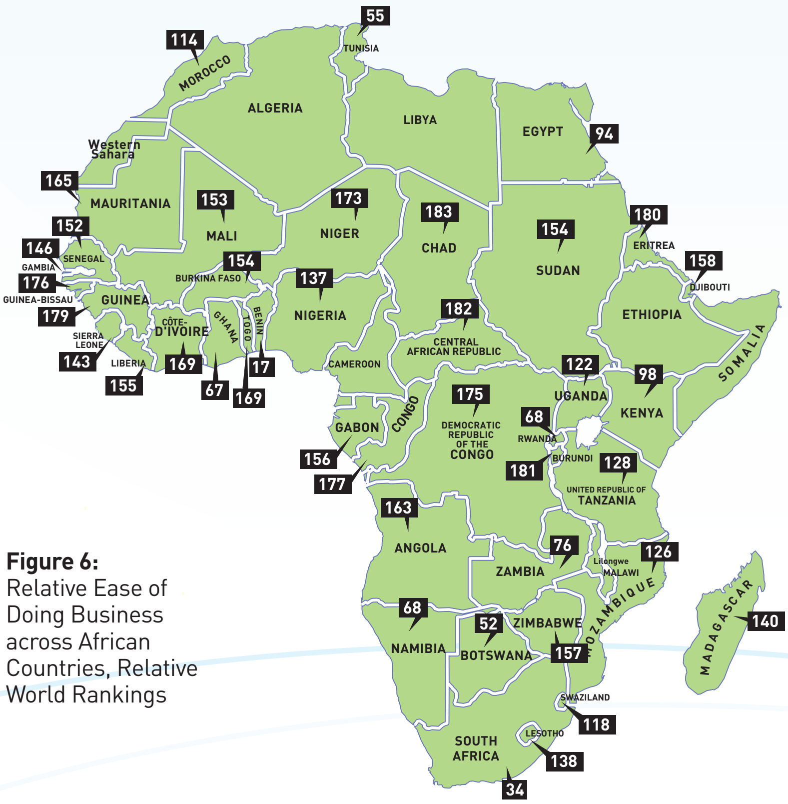


Figure 6:
Relative Ease of Doing Business across African Countries, Relative World Rankings

Relative World Rankings

	SOUTH AFRICA	MAURITIUS	GHANA	RWANDA	NAMIBIA	TUNISIA
Regulation of securities exchange	1st	28th	–	–	–	–
Strength of auditing and reporting standards	1st	–	–	–	11th	–
Efficacy of corporate boards	2nd	–	–	3rd	21st	–
Soundness of banks	6th	16th	–	–	–	–
Legal rights index	6th	–	39th	20th	–	–
Protection of minority shareholders' interests	6th	16th	–	42nd	14th	11th
Availability of financial services	7th	–	–	–	–	–
Financing through local equity markets	7th	–	38th	–	–	25th
Strength of investor protection	10th	12th	33rd	27th	–	–
Restriction on capital flows	–	8th	–	–	–	–
Total tax rate	–	17th	42nd	–	–	–
Business impact of rules on FDI	–	8th	–	–	–	6th

Source: World Economic Forum Competitiveness Indicators

So, Africa has all the makings of a compelling investment proposition – natural resources, rapid economic and population growth, maturing political systems, and a rapidly improving environment in which to invest and do business. It should perhaps be unsurprising then that returns on investment in Africa are among the highest (if not the highest) in the world. In fact, this is not only a recent trend. One of the key conclusions of a 1999 United Nations Conference on Trade and Development (UNCTAD) report[10] was that during the 1990s profitability from FDI into Africa was higher than in most other host regions in the world. Among the examples cited was the case of US FDI into Africa, which averaged a rate of return of 29 per cent between 1990 and 1997, substantially higher than any other region for the same period.

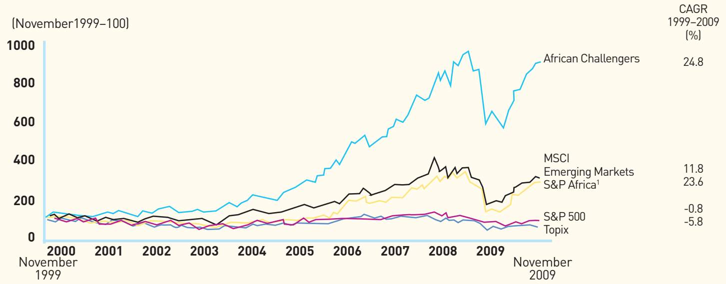
> ...during the 1990s profitability from FDI into Africa was higher than in most other host regions in the world

This assertion of high investment returns from Africa is supported by several more recent studies[11], including a recent Boston Consulting Group study of 40 African companies (a group they call the "African Challengers"). A US$100 investment in a

10 UNCTAD, 'Foreign Direct Investment in Africa: Performance and Potential,' 1999.
11 These include Boston Consulting Group, "The African Challengers: Global competitors emerge from the overlooked continent"; Collier and Warnholz, "Now's the Time to Invest in Africa," Harvard Business Review, Feb 2009; Warnholz, "Is Investment in Africa low despite high profits?"Working Paper, Centre for Study of African Economics, 2008; McKinsey Global Institute, "Lions on the move: The progress and potential of African economies," June 2010.

fictional 'index' comprising the 40 selected African companies in November 2000 would have grown by 25 per cent CAGR through 2009, versus 11.8 per cent for the MSCI Emerging Markets index and a negative return for the S&P 500.

Ten-year total shareholder returns



Sources: Bloomburg; Thompson Reuters; BCG analysis.
Note: Stock Indexes are based on the major national stock exchange: TSRs of the African challengers are weighted by market capitalisation. The following companies are not listed or did not have available TSR data: Sonatrach, ONA Group, Al Ezz Group, Office Cherifien des Phosphates, Egyptair, Elsewedy Cables, Cevital, Royal Air Maroc, SABMillar, Groupe Elloumi and Banco Africano de Investimentos.
[1] Data available only since February 2005.

Figure 7: Indexed performance of the BCG African Challengers

Another empirical study by Jean-Louis Warnholz of the Centre for the Study of African Economies at Oxford University provides robust evidence of high returns in Africa from three different perspectives. He, first, studies a total of almost 7000 listed companies, covering all of Africa and selected Asian (China, India, Vietnam, Bangladesh, and Indonesia) and Latin American (Brazil, Argentina, Peru, Chile, Colombia, Uruguay, Panama and Paraguay) countries. Across three key investment performance indicators, namely profit margins, ROE and ROC, the African group of companies substantially outperforms the Asian and Latin American companies.

> Again, the data shows substantial profit margins (above 20 per cent) for most African countries

Next, Warnholz, uses data from the World Bank's Regional Program on Enterprise Development (RPED) to investigate if the trend for larger listed companies is robust across a random sample of firms of varying sizes and characteristics (here he focuses on 15 countries in Sub Saharan Africa, 8 in South America as well as Bangladesh, India and Vietnam). The smallest enterprises he studies have at least five employees, the largest employ over 500. Again, the data shows substantial profit margins (above 20 per cent) and ROC for most African countries.

Finally, Warnolz analyses inflation adjusted returns on emerging Sub-Saharan African stock markets in Nigeria, Ghana, Kenya, Namibia and Botswana. Over the 5 years from 2002-2007, real returns from these markets were close to 30 per cent, almost triple that of S&P 500 companies.

Photo: World Bank

Some African Growth Stories

SABMILLER

Over the past 2 decades, South African Breweries (SAB) grew from its original South African base, and is today the world's second largest brewer (now SABMiller) spanning 75 countries across six continents, and employing 70,000 people. SABMiller occupies number 1 or 2 position in over 90 per cent of the markets in which they operate including China (number 1), India (2), number 1 in all 6 countries they operate in in Latin America, most European (primarily East), USA (2), and most of the African markets they operate in. Growth across Sub-Saharan Africa was the cornerstone of this global growth strategy, and today Africa accounts for over a third of SABMiller's earnings. Africa remains a key part of the growth agenda, and over $1.5bn in capital expenditure has been invested across the continent over the past four years.

"If there was more of Africa, we'd be investing in it"

Graham Mackay, SABMiller CEO.

MTN

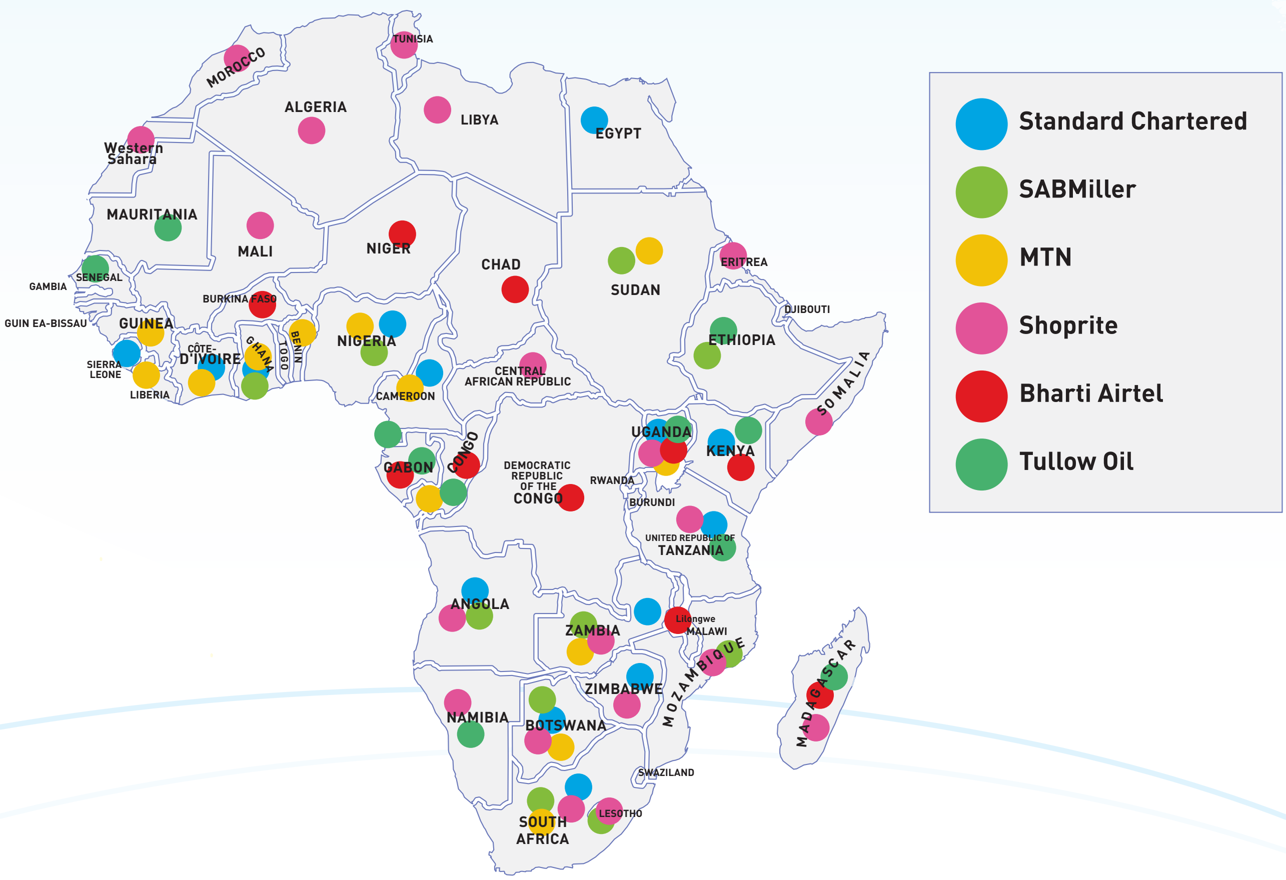
In the space of 15 years, MTN grew from startup to being the largest primary listing on the Johannesburg Stock Exchange. From its South African roots, it today operates in 21 countries in Africa and the Middle East. In 2009 (its 15th year of existence), MTN passed the 100 million subscriber market. MTN is number 1 or 2 in 19 of the 21 markets in which they operate, including South Africa (number 2, with 32 per cent market share); Nigeria (number 1, 50 per cent); Ghana (number 1, 55 per cent); Iran (number 1 or 2, 40 per cent). Nigeria has been a particularly big success story for MTN. From acquiring 1 of 4 licenses in 2001, they have grown their subscriber base to 35 million (over 50 per cent of the current market), and last year generated over US$1bn in revenue out of Nigeria (at a 61 per cent EBITDA margin).

BHARTI AIRTEL

Bharti Airtel is one of a new generation of emerging market investors into Africa. The Indian telecommunications company, with over 150 million mobile subscribers in India, bought Zain's African assets last year for $10.7bn, and with it a significant presence in a diverse group of 16 African countries (Burkina Faso, Chad, Congo Brazzaville, Democratic Republic of Congo, Gabon, Ghana, Kenya, Madagascar, Malawi, Niger, Nigeria, Seychelles, Sierra Leone, Tanzania, Uganda and Zambia). On the back of this acquisition, it was also announced that IBM would partner with Bharti to consolidate the different IT environments across the 16 African operations into an integrated IT system and oversee the management of all of the applications, data centre operations, servers, storage and desktop services. This will significantly expand the IBM presence in Africa as well.

"Africa is a huge continent and will remain a very important new market. My focus for the next one to two years is to execute the business model and strategy in these 16 countries and maybe look at other markets after that. As a continent, this will have bigger potential than even India."

MANOJ KOHLI, HEAD OF BHARTI AIRTEL'S INTERNATIONAL OPERATIONS



SHOPRITE

"We have taken a firm decision that Africa is where our future lies and whence a substantial part of our growth will come from"

CHRISTO WIESE, SHOPRITE CHAIR.

Shoprite has evolved from an eight-store, provincial operation in 1979 into what is today the largest food retailer on the African continent (operating upwards of 130 stores in 16 African countries, and employing 88 000 people across the continent). What is quite interesting about Shoprite's approach into the rest of Africa is the relatively wide geographical diversification. The strategy has generally been to test the trading environment initially with a small presence. This has allowed management to assess the viability of further investment in each market.

TULLOW OIL

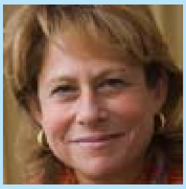
"We started in Africa, Tullow is an African business, it's where we have made our money, it's where we see our future and in very simple terms, we like it!"

AIDAN HEAVEY, TULLOW OIL CEO

Tullow, a FTSE 100 company with Irish roots, is the leading independent oil company in Africa. The company began its African foray in 1986 in Senegal, with a venture to rework old gas fields. It was in 2004, with the acquisition of the South African company, Energy Africa, that Tullow really began to scale up its African operations. This acquisition brought with it five African oil producing countries and more than doubled their oil reserves. Since then, Tullow has steadily grown its African presence, and is now poised for a new phase of growth, with production coming online in its Jubilee field in Ghana and the imminent commercialisation of significant discoveries in Uganda.

STANDARD CHARTERED

Standard Chartered has deep roots in Africa. The company was formed in 1969 through a merger of two banks, one of which, The Standard Bank of British South Africa, was founded in South Africa in 1862, and by the 1960s had extended its footprint across Southern, Central, East and West Africa. Today, Standard Chartered is present in 14 Sub-Sahara African countries, with Nigeria being the largest market, but with strong growth across a number of markets, including Kenya, Ghana and Zambia. In the 2010 financial year, the African region delivered double-digit profit growth and 9 per cent of total Group profit before tax.



CYNTHIA CARROLL

Chief Executive Officer, Anglo American plc

As a long-standing investor in Africa, what attractions do you see in the continent?

Africa offers good business opportunities. In the mining sector, with global resources becoming scarcer, Africa represents the final frontier. It hosts about 30 percent of global mineral resources and produces more than 60 metal and mineral products, including gold, platinum group minerals (PGMs), copper, nickel, diamonds, aluminium, uranium, manganese, chromium, bauxite and cobalt.

And what keeps you investing there?

Anglo American has 93 years of history in South Africa. We re-listed in London to take advantage of global markets but over 40 per cent of our assets remain in South Africa and we are comfortable with that. Three of our 7 main business groups (platinum, iron ore and thermal coal) and two of our key associates (diamonds and manganese) operate out of South Africa. These are all globally competitive businesses and we are investing in them: $20bn in Capex in South Africa over the last 10 years for a future growth pipeline of almost $15bn.

> Three of our 7 main business groups operate out of South Africa. These are all globally competitive businesses and we are investing behind them

What do you look for when investing?

An open well-regulated market where we know the rules to be reliable and fair. In the mining industry, lead-times are long and we need to be able to plan up to at least 10-20 years ahead with confidence. There has to be a strategic fit with government plans.

Transparency is another key ingredient. As a company we are committed to publish what we pay. In South Africa we contribute tax revenue for the government of $1.2 billion, putting us among the highest South African taxpayers. In return we want to know the strategic direction government wants the country to take and to understand the decision-making process. "No nasty surprises please" is a familiar refrain. Big investment decisions need to be based on mutual trust.

We also want to see shared or similar value systems. What sort of society does the country want? One with jobs yes, but jobs that come with respect for safety, human rights and welfare of both employees and local communities; for building a productive capacity that will be sustainable well into the future; and showing care for the environment. We hope that increasingly governments in Africa will seek out those companies which act with integrity and wider social commitment.

We want to be investing in countries which have strong and independent judiciaries. There is no better signal to send out to the international marketplace than that of a national legal system which upholds the rule of law and is seen to withstand political or other pressures.

We want to be able to draw on a healthy and well-educated workforce. We provide over 100,000 direct jobs in South Africa. We are strongly committed to our employees' health and development and that of their dependents as demonstrated by our HIV/AIDS programme. But we recognise that the wider challenge has to be addressed in partnership with others including government.

...just 1 per cent of our procurement diverted to local spend is equal to 125 per cent of our annual social investment budget

Lastly we also want to see a commitment to improving infrastructure. As mining activities move into ever more remote locations, we welcome efforts by governments to facilitate the supporting transport and other infrastructure including electric power. In the mining industry, capital outlays are large so again we need to look to deliver via public-private partnership.

Partnership is in fact the key word. We need to know that we will be working together to the same mutual ends, not getting caught up in the politics.

What do you see as the primary contribution that business such as yours can make towards Africa's development?

The business community has the power to make a real difference in alleviating and eliminating poverty in a number of ways. For example at Anglo American, we spend $10.4bn annually on procuring goods and services, around three quarters of that from developing countries. And just 1 per cent of our procurement diverted to local spend is equal to 125 per cent of our annual social investment budget. The amount that we spend each year in procurement from emerging market economies is comparable to the aid budgets of the UK, France or Germany – it's a huge sum of money and a massive development opportunity. But that is just one aspect – there is the training and capacity-building, the creation of jobs and small businesses and the provision of an open and accountable governance framework in which this can all take place.

Photo: World Bank

GODFREY DAVIES

Chief Financial Officer, CDC Group plc

How much of your investment is focused on Africa and why?

As a development finance institution (DFI), CDC's mission is to foster economic growth in developing countries by investing in promising businesses. Since its inception in 1948 CDC has directed a significant proportion of its capital to investments in Africa, and the current CDC investment policy is to make 75 per cent of new investments in low-income countries and 50 per cent of new investments in sub-Saharan Africa. It's not surprising therefore, that 44 per cent of CDC's investment portfolio is in Africa, with a combined value of £877m.

> Good returns are possible from making responsible investments in Africa

How would you describe the overall prospects for Africa?

The prospects for Africa are very good. The continent as a whole has enjoyed growth of 5 per cent on average over the last decade, which is very encouraging, and the signs are positive for further growth. Citibank is predicting that Africa's share of global GDP will rise from 4 per cent in 2010 to 7 per cent in 2030 and will reach 12 per cent by 2050.

There is greater willingness at a governmental level to allow the private sector to take on more functions that were previously reserved for the state-owned or public sector organisations. The World Bank's Ease of Doing Business Report also makes it clear that regulation and reform over the past decade has improved the opportunities for commercial organisations to operate profitably in Africa. For example, Ghana rose ten places in the most recent ranking, Cameroon five places, Rwanda 12 places and Uganda was up seven places.

What are the key drivers and enablers of growth in Africa?

CDC sees five key drivers of growth in Africa. First, regulatory reform in areas such as land ownership, financial services and investment is unlocking potential in African economies by putting access to financial instruments into the hands of entrepreneurial individuals. For example, in Senegal a pilot scheme is allowing farmers to securitise their land assets, creating wealth for investment.

Second, consumer demand in Africa should not be underestimated. A growing and rapidly urbanising population will create an enormous consumer boom, as the continent's appetite for all manner of goods and services starts to drive growth in all sectors from food and FMCG to construction and real estate.

Third, the population of Africa is young and growing. Not only does this provide a readily available, and competitive labour force, but Africa is less burdened by the costs associated with ageing populations. Education and training resources need to be in place to harness this potential.

Fourth, capital inflows are driving growth in Africa. This includes FDI, which in part is increasing thanks to the new awareness of Africa as an investment destination. Not to be underestimated, however, are Diaspora remittances which are larger in value than FDI. According to the World Bank 2010 remittances exceeded US$20bn after a small decrease in 2009 due to the global financial crisis. Remittances are also a less volatile source of capital and they actually tend to increase during times of uncertainty rather than decreasing as FDI does. Furthermore remittances stay in Africa whereas FDI will eventually exit the continent.

Finally, rising commodity prices have also been a factor as they are acting as a trigger for wider economic growth.

While CDC has a developmental objective, you expect a return from your investments. What kind of returns are you seeing from your investments in Africa?

As a fund-of-funds investor CDC works with 71 fund managers across the world and has a diverse portfolio from which returns range between 5 per cent and 20 per cent depending on the region, sector and vintage of the fund, together with the quality and investment strategy of the management team.

At CDC we believe that making returns that are appropriate for the geography and sector of the investment is a fundamental part of development economics. Companies that don't make profits can't grow and are not sustainable. Furthermore, as a DFI one of CDC's objectives is to demonstrate to commercial investors that good returns are possible from making responsible investments in Africa.

> Africa is a place that any investor should consider very seriously because the factors for investment success are gathering momentum

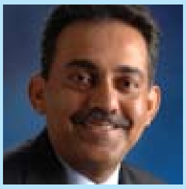
Profitable companies are good for economies too. For example, in 2010 CDC's portfolio companies paid over US$3bn in local taxes and provided jobs to almost 800,000 people. Furthermore, since 2004 CDC has made profits of over £1.6bn. This has been reinvested in developing countries and CDC's portfolio of investments in Africa is now worth over £877m and includes over 400 companies.

What do you see as the primary contribution of the private sector to Africa's development?

The fundamental provision that the private sector makes is employment. In the first instance jobs provide salaries, which stimulate demand, generate taxes and so on. Of equal importance, however, is how private sector jobs move economies onto a more formal footing. Private sector companies create a workforce with proper employment contracts, which in turn creates individual security and stability. Formal employment also reinforces and builds the system and structures on which modern economies are built – bank accounts, domestic savings, pensions, social care provision and so on. Currently, about 70 per cent of Africa's economic activity is in the informal sector. The private sector will make a significant contribution to changing this.

What is your message to anyone considering investment in Africa?

Firstly, Africa is a place that any investor should consider very seriously because the factors for investment success are gathering momentum. Secondly, however, it should be said that investing in Africa isn't easy. Africa is a vast continent of over 50 countries, each of which is different and has its own set of challenges. Yet the fundamental rules of investing are the same. Before committing capital it's important to gather the appropriate information, understand the market dynamics and ensure the deal terms are favourable. Finally, Africa is a place where extraordinary returns are possible because demand for capital is huge and supply is lacking. Investing in Africa is also an extraordinary human adventure.



V. SHANKAR

CEO for Europe, the Middle East, Africa and the Americas, Standard Chartered plc

As a bank with a deep-rooted history across the continent, how have you seen Africa evolve as an investment destination?

Africa is a very exciting investment destination. The bank has been making profit in Africa, growing its business, assisting its local communities, and ensuring its clients grow with it, for 146 years. We very much believe in the "Africa story".

> The new Africa is about much more than commodities, which already account for less than a quarter of the continent's GDP. At Standard Chartered, we see enormous potential for growth through financing a new class of consumers, agriculture and infrastructure

Thankfully the reality has – in the vast majority of cases - moved far beyond the international perception of Africa as a "begging bowl" with endemic governance issues. The commodities boom, relative political stability and progressive economic management are setting the foundations for more businesses to make more money in Africa. But the new Africa is about much more than commodities, which already account for less than a quarter of the continent's GDP. At Standard Chartered, we see enormous potential for growth through financing a new class of consumers, agriculture and infrastructure. The bottom line is that Africa's investment landscape has fundamentally changed for the better.

What more needs to be done to further accelerate capital flows and economic growth?

The priority is to ensure that the private sector is allowed a full and free role in African economies. Whenever this has been allowed, African economies have prospered. Good progress has indeed been made in Africa in terms of cutting bureaucracy and red tape, and enhancing governance and transparency. However, more does need to be done by African authorities to provide a level playing field for international companies and to address protectionism. As part of an improved investment climate, the legal

Photo: Standard Chartered

systems need continued reform so that all businesses can act with greater confidence.

A further force for accelerating growth comes from within Africa itself: micro, small and medium enterprises. These play a major role in generating growth, as well as sustainably reducing poverty, providing access to finance and increasing financial participation. Much more needs to be done by government and the private sector to assist local businesses, facilitate their growth and build economic capacity.

Standard Chartered has identified small and medium enterprises as a priority business area – can you say more about why?

This is not a decision taken on the basis of old-fashioned "corporate social responsibility". Standard Chartered rightly sees its support of the SME sector as a commercial opportunity – offering the opportunity to generate profits for financiers by supporting those businesses that create jobs and growth. Profit equates to sustainability, and sustainability equates to long-term profits.

Small and medium enterprises already account for between 30 to 60 per cent of African GDP and we forecast that the sector will be the main driver of sustainable economic growth in Africa over the next 10 years

Our strategy plays to our strengths as an international bank with international investors, clients and international capabilities. And we are using our international network, products and services to provide microfinance institutions – those organisations that hand out the small loans to some of the poorest people – with debt finance and innovative solutions to their business problems, including local currency funding and foreign currency hedging.

The same is true with our SME business. Again, the sector represents an exciting commercial opportunity. SMEs already account for between 30 to 60 per cent of African GDP and we forecast that the sector will be the main driver of sustainable economic growth in Africa over the next 10 years. The bank's competitive advantage in this sector is driven by its international expertise and capabilities and deep local knowledge. Supporting SMEs is no longer a local issue. Customers increasingly request more sophisticated products and services to match their ambitions. The introduction of international products and services is again where the bank can add the greatest value to its customers in Africa. It is about recognising the opportunity, realising what you can offer, and responding to the market.

What is your view on the rise of Asian, and particularly Chinese, investment in Africa?

We need to recognise the benefits of Chinese engagement in Africa, and also that of other Asian investors like India and Korea. The most beneficial impact that Asian investment has had in Africa is in terms of international perceptions: Africa is no longer seen as a relative underperformer on the world stage. Investors believe in China and India's growth; they believe in what this means for demand in commodities, and China's and increasingly India's need for what Africa produces. This has helped correct the chronic undervaluation of African assets. And this story is about much more than commodities: last year Standard Chartered supported the $10 billion landmark acquisition by India's largest telecoms company, Bharti Airtel, of Zain's African business – servicing 42 million customers in 15 countries across Africa.

Supporting Asian investment, alongside supporting the growth of the private sector – from larger investors to micro, small and medium enterprises – will result in even more exciting opportunities for all on the continent in the future.

BUSINESS IS GOOD FOR AFRICA

Business is a driver of economic and social development. As the World Bank's Sylvia Solf, interviewed for this Report, says, "A vibrant private sector with firms investing and creating jobs is key to promoting growth and expanding opportunities for everyone, particularly the poor. A few years ago, the World Bank conducted a survey capturing the perspectives of poor people around the world, Voices of the Poor. The two most effective ways out of poverty cited were starting a business or finding a job in an existing firm."

A vibrant private sector with firms investing and creating jobs is key to promoting growth and expanding opportunities for everyone, particularly the poor


Photo: SABMiller plc

The biggest and most sustainable contribution that business can make to Africa's development is by doing good business: creating jobs and economic opportunities, together with new goods and services. Foreign Direct Investment created 1.7 million jobs[12] across Africa between 2003 and 2010.

Larger firms can also have an important contribution through the opportunities they create through their value chains for suppliers and distributors. By connecting domestic industry with foreign markets, technology and capital, investors can help build the capacity and competitiveness of local firms. Their value added to economies, including their contribution to tax revenues, is often as large as or larger than the aid programmes of aid agencies. In general, the impact that companies can have through their core business operations far exceeds the impact they can have through their traditional, philanthropic corporate social responsibility programmes.

There is a growing body of evidence to underpin this story. For example, Professor Ethan Kapstein, whose interview is presented later in this Section, has demonstrated the large positive impact that business can have by doing good business. The policy implication of this is that if governments want to leverage the development impact of business, they should focus on creating the enabling environment for business to thrive.

Beyond this, there has been a growing interest in "inclusive business" models – core business models that are both profitable but also have an enhanced development impact, through engaging poor people as consumers, employees, suppliers or distributors. The early evidence suggests a range of business benefits, including access to new growth markets and more secure supply chains. The scaling of such models is often hindered by the same factors that hinder the scaling of all business models – such as weaknesses in the investment climate – which, in turn, implies that the priorities of national governments should be on tackling these bottlenecks. At the same time, some donor agencies are experimenting with innovative financing and support mechanisms that help scale these ideas – such as by sharing early stage risk, or building the capacity of poor people to access the opportunities created.

So while Africa offers significant opportunities for business, business also offers significant opportunities for Africa.

12 Ernst & Young research, as part of their "Africa Attractiveness" Study.

GRAHAM MACKAY

Chief Executive Officer, SABMiller plc

You have argued that business is fuelling growth in Africa. What do you base this argument on?

Since 2000, when *The Economist* ran an article entitled 'Hopeless Africa', the continent has confounded expectations; earlier this year, *The Economist* ran a story with the headline "A more hopeful continent" and the strap line "Africa is now one of the world's fastest-growing regions". Economic growth has accelerated in 27 of Africa's 30 largest economies. The continent's inflation rate has fallen from 22 per cent in the 1990s to 8 per cent since 2000. Between 2000 and 2008, Africa's GDP grew by 4.9 per cent a year, faster than the global average of 3.8 per cent. By 2008 it had reached $1.6 trillion. Foreign debt has fallen from 82 per cent of GDP to 59 per cent, while budget deficits have shrunk from 4.6 per cent of GDP to 1.8 per cent. Finally, Africa was the only region apart from Asia in which GDP actually rose during the 2009 global recession.

> It is business that has been the primary contributor to the continent's development

That's an impressive record of growth, especially given the dire predictions at the turn of the century. And this growth has not been driven by foreign aid, nor by reforming governments, nor (solely) by revenues generated from oil and other natural resources – it is business that has been the primary contributor to the continent's development. Economic development requires wealth to be created, and the only engine for doing that is business. Governments can ensure the conditions for wealth creation, but they cannot make it happen.

Has this economic growth coincided with increased evidence of business activity?

The evidence suggests strongly that Africa's growth has been fuelled by investment. Between 2000 and 2008, foreign direct investment in Africa increased from $10 billion to $88 billion – a figure nearly twice the level of Official Development Assistance. During this period, major consumer goods companies such as Procter & Gamble and India's Tata Motors have been moving into the continent. At the same time, Africa has spawned its own enterprise, now boasting 20 home-grown companies with revenues of more than $3 billion.

Sectors such as telecoms, banking, tourism and construction are flourishing. Since 2000, for example, telecoms firms in Africa have signed up more than 316 million new mobile phone subscribers – more than the entire population of the USA. And since 1998, the revenues of Africa's 500 largest companies (excluding banks) have grown at an average of 8.3 per cent a year.

These statistics show that the world is waking up to Africa's potential. It's discovering what we at SABMiller have known for many years – namely, that Africa offers great opportunities for business.

In what ways does business contribute to Africa's development?

Let me use the case of SABMiller as an example. Our contribution to African economies goes much further than the products we supply. In 2008 we asked Professor Ethan Kapstein of INSEAD to calculate the economic impact of our business in Uganda. He concluded that in 2007, Nile Breweries and its employees directly or indirectly generated $92 million in added value. He also found that for every job directly based at Nile Breweries, a hundred other workers – farmers, distributors, retailers and so on – depended on the company for some part of their livelihood. That's roughly 44,000 jobs in the economy as a whole – a major contribution for a single company.

Our contribution to the local economy and community has other dimensions, too. In some countries we run a scheme whereby company truck drivers can progress to running their own independent distribution businesses. We also provide funding and business training for many of our small retailers. Our KickStart scheme promotes entrepreneurship and business skills among disadvantaged 18 to 35-year olds. In the 16 years since it started, KickStart participants have set up more than 3,200 small businesses.

> What we need, more than anything, is the right infrastructure and support from governments to enable us to continue creating wealth and contributing to Africa's economic growth

SABMiller companies also run comprehensive healthcare programmes tackling infectious diseases such as HIV/Aids, TB and malaria. These originally started as a service to our own employees, but now extend to our supply chain and the wider community. We also ensure that people living near our breweries have access to our water resources. We are active, too, in a range of programmes to tackle alcohol abuse.

Can business also have an impact at a policy level?

A company like SABMiller is able to exert influence on corporate governance and business standards by operating ethically, supporting business associations and training our people to a high standard. Many of our employees go on to other jobs in the public and private sectors, or get seconded to government to share their expertise.

We have also contributed to government policy and the regulatory infrastructure. In countries such as Lesotho, Malawi, Uganda, Swaziland and Zambia, we have been part of the consultation to develop national alcohol policies. In Tanzania and South Africa, we are working with the government on water policy. Also in South Africa, we helped to coordinate and distribute ballot papers for the first democratic election in 1994.

More recently we sent observers to oversee the referendum in Southern Sudan, having previously helped the government to establish property rights and a workable excise policy. In all these ways, we are deploying our skills and resources to support governments and communities across Africa.

Is there more that can be done to optimise the contribution that business can make?

Growth could be faster still if governments, in particular, were more active in creating the right conditions. There are three areas in particular where governments could do more. First, invest in Africa's hard infrastructure, such as functioning ports, good roads and services such as power and water. Lack of this kind of infrastructure remains one of the biggest obstacles to Africa's development.

Second, improve the so-called 'soft' infrastructure. This covers a range of factors that make it easier to do business – good governance, the rule of law, transparent regulation, sound property rights, a supportive investment climate, efficient administration, trade-friendly customs regimes and of course a lack of corruption.

And finally, we would like to see governments making progress in regional trade agreements. Despite some recent improvements, cross-border trade within Africa remains slower, costlier and more cumbersome than in any other region. African trade tariffs are still among the highest in the world – on average, 50 per cent higher than those in Latin America and Asia. Much could be achieved by creating more free-trade areas and making existing agreements work better.

The continent has been good for SABMiller and I'm in no doubt that SABMiller has been good for Africa. As I've often said, if there was more of Africa, we'd invest in it. What we need, more than anything, is the right infrastructure and support from governments to enable us to continue creating wealth and contributing to Africa's economic growth. If governments can meet their responsibilities on this score, Africa's prospects are bright. Like China 30 years ago and India 20 years ago, the continent could be on the point of economic lift-off.

PROFESSOR ETHAN KAPSTEIN

INSEAD Chair of Political Economy and Visiting Fellow,
Center for Global Development

You have published a number of studies on the impact of business in Africa. Why do you see these studies as important?

About 15 years ago, I discussed with Harvard Business School Press the idea of writing a book about the impact of foreign direct investment in developing countries, but at that time companies were not willing to do in-depth case studies on their operations to enable that type of analysis. I gave up on that book project until Unilever asked me to do a study on their economic impact in South Africa, published in 2008. Traditionally there have been very few companies willing to look seriously at that their impact on the ground – looking at data and facts – and moving beyond their CSR reports. In this respect, Unilever made a bold move.

> There are a lot of important things that businesses contribute to development, but they have traditionally done a bad job of making their case and engaging the public with the data

Since then, I have worked with a number of businesses looking at their impacts, including SABMiller in Uganda and Standard Chartered in Ghana. My hope is that these sorts of studies will act as a motivator for other companies to look more seriously at measuring their impact. There are a lot of important things that businesses contribute to development, but they have traditionally done a bad job of making their case and engaging the public with the data.

What is driving business interest in measuring their impact?

For the companies that I have worked with, developing countries are an important element in their business – with the growth of their companies tied to the growth of these markets. Understanding their impact on these economies is therefore important to their business strategy, and to their investors.

What have been your main findings?

The messages are overwhelmingly positive from the studies I have conducted so far. Looking at the direct and indirect impacts of these companies' investment, there are strong employment impacts, and very significant value add to the economy (in terms of salaries, taxes and profit).

In 2005, Unilever South Africa and its employees were directly or indirectly responsible for generating output of more than R32 billion and, in the process, supporting approximately 100,000 jobs throughout the South African economy. This means that for every job directly based at Unilever South Africa, another 22 workers depended upon the company for some part of their livelihood. In total this represents 0.8 per cent of total South African employment. The analysis shows that Unilever's contribution to value added throughout the economy amounted to R12.5 billion in 2005 - 0.9 per cent of the country's GDP. Combining direct and indirect taxes, as well as the taxes paid by their suppliers, Unilever South Africa was responsible for generating R4 billion, or 0.9 per cent of total government tax revenue.

SABMiller's Uganda subsidiary, Nile Breweries, was directly or indirectly responsible for generating value added of US$92m (including US$55m in taxes) and approximately 44,000 jobs throughout the Ugandan economy in 2007 – approximately 100 jobs for farmers and workers were supported for every job directly based at Nile Breweries. In 2009, some 8,000 farmers earned close to 70 per cent of their income by growing sorghum for Nile Breweries. Between 2002 and 2007, farmer income increased seven-fold. Nile Breweries provides farmers with a guaranteed minimum price for their sorghum, providing them with an important 'insurance policy' in the face of significant commodity price volatility.

One of the most powerful impacts a company can have is through the purchases it makes from suppliers

In the case of Standard Chartered in Ghana, in 2009, it provided Ghanaian businesses, consumers and government agencies with nearly US$900 million of financing, more than any other private commercial bank operating in the country. That lending generated US$400 million of value-added in the nation's economy, equivalent to 2.6 per cent of GDP. Meanwhile, the bank's activities helped support 156,000 jobs in Ghana, equal to about 1.5 per cent of the active workforce.

What can business do to further enhance their impact?

In each case I have looked at, I recommend specific actions that companies can take to increase their impact. For instance, one of the most powerful impacts a company can have is through the purchases it makes from suppliers. Enhancing local sourcing, and helping suppliers maintain and improve their productivity levels so that they remain competitive can have very large benefits for the economy. More broadly, companies need to continue to do serious research to enhance their impact on the ground.

Photo: World Bank

What can governments do to enhance the positive impacts of business?

Above all, governments must drive progress on international and intra-African trade. Beyond that, governments must ensure a policy environment that promotes private sector investment, enhances the ease of doing business and drives the growth of small and medium enterprises. Without this, countries will not be able to generate economic growth and reduce poverty, inequality, and unemployment.

INITIAL CONCLUSIONS: **THINKING DIFFERENTLY**

A sharper investor appetite for African opportunities is sparking a virtuous circle of developments on the continent. As companies wake up to Africa's potential, they are making investments which develop local industries. As those economies grow, they present yet more opportunities to investors and spur governments to make their business environment more attractive to investors. The results speak for themselves: returns on investment in Africa are among the highest in the world, and growth rates in some markets have been staggering.

> Companies which invest early can get a foothold in the world's next emerging region

But Africa can still be a daunting prospect. Size is the most immediate stumbling block: its landmass could contain China, the United States, India, Europe, Argentina and New Zealand. And its 50-plus countries share borders which were, in many instances, carved arbitrarily by colonial powers. Moreover, Africa's one billion inhabitants are culturally, ethnically and religiously diverse and speak numerous languages and dialects.

So where to start?

We believe five principles are an essential basis for any African growth strategy:

1. Build critical mass.

Many African countries are minnows in the world of global investment but the continent's amassed economic strength is greater than that of Brazil and Russia, and close to that of India. By integrating operations across multiple African countries, investors can find the size of market they often need. Investing in several countries at once can also spread unavoidable risks, such as political instability.

2. Focus on the opportunities but think about the long term.

Africa's GDP growth is predicted to exceed the global average for at least the next few years. Some individual African countries are achieving double digit growth. Consumers are rising out of poverty and there are still vast untapped pools of resources. Africa may still be predominantly poor and underdeveloped but this reality is rapidly changing. Companies which invest early can get a foothold in the world's next emerging region.

3. Slice the market differently.

When companies formulate their growth strategy, the temptation is often to focus on countries. We propose, instead, a kaleidoscopic view of the market potential. Regional trade zones are playing an increasingly important role and cannot be ignored. Urbanisation continues, and by 2025 the UN predicts that nearly 50 per cent of Africans will live in a city, many of them small or medium-sized. In light of this trend, many companies must focus specifically on the urban environment; a countrywide focus can skew assessments of market potential. The growing importance of urban corridors is also often ignored: strings of individually minor conurbations, linked by transport infrastructure can present an appetising market to some investors but are challenging to pin down in the absence of detailed data.

4. Focus on the fundamentals.

CDC Group plc acknowledges the scale and difficulty of Africa but nonetheless says, "the fundamental rules of investing are the same. Before committing capital it's important to gather the appropriate information, understand the market dynamics and ensure the deal terms are favourable."

5. Think differently about how to serve the market.

The investment fundamentals may be the same in Africa as in any other region but the way those fundamentals are applied should sometimes have special local relevance. For example, some consumer products which at first glance are unaffordable for most Africans can be taken to market in unconventional ways.

> For those companies that are ready to innovate to serve the needs of African consumers, the market potential is huge

In some Nairobi townships, toothpaste vendors sell their wares by the squirt rather than by the tube – opening up new market opportunities at the base of the pyramid. Companies are also realising that when consumers have very limited disposable income, the choice is not between differently branded products but between entirely different products. Beneficiation is also important to many African governments, and not just in the mining sector where the term is more familiar; right now there is a wave of innovation around so-called inclusive business models that have found commercially successful ways to engage poor people as consumers, suppliers and distributors. For those companies that are ready to innovate to serve the needs of African consumers, the market potential is huge. And with that comes the opportunity for the further acceleration of Africa's growth and development prospects.

Photo: World Bank

Photo: World Bank

Business Action for Africa is the international network of businesses and development partners, working together in support of Africa's future.

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