

Emerging Market Talk/corporAID Multilogue
Doing Business in Africa

Keynote
Robert Mudida, Strathmore Business School

EINE INITIATIVE VON



MIT UNTERSTÜTZUNG VON



AUSTRIAN
DEVELOPMENT
AGENCY



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Key Note Address

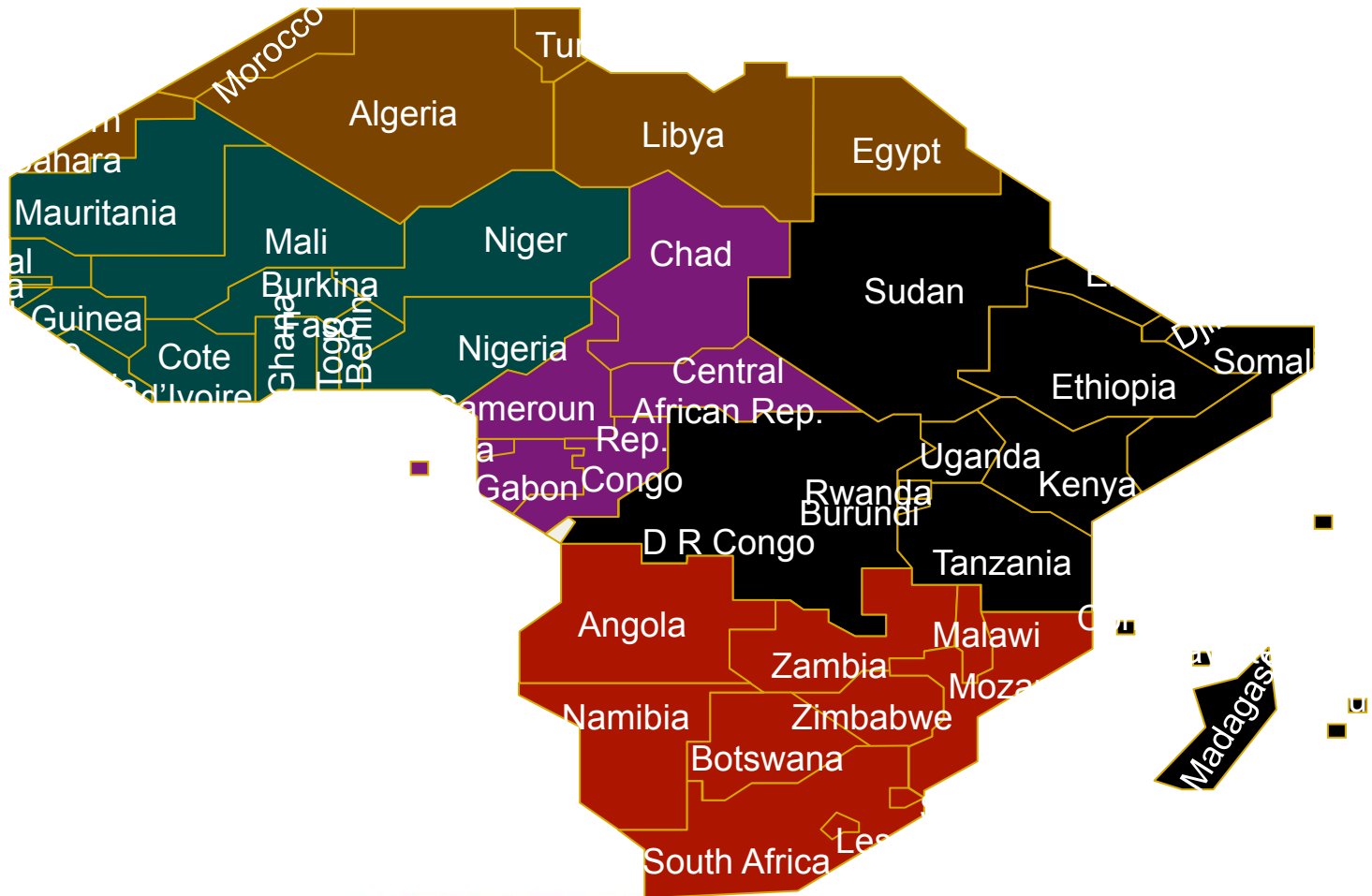
Doing Business in Africa: Opportunities and Challenges

**University of Business and Commerce,
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Welcome to Africa



But Africa is not one country

57 Countries, Approx. 3000 identities.



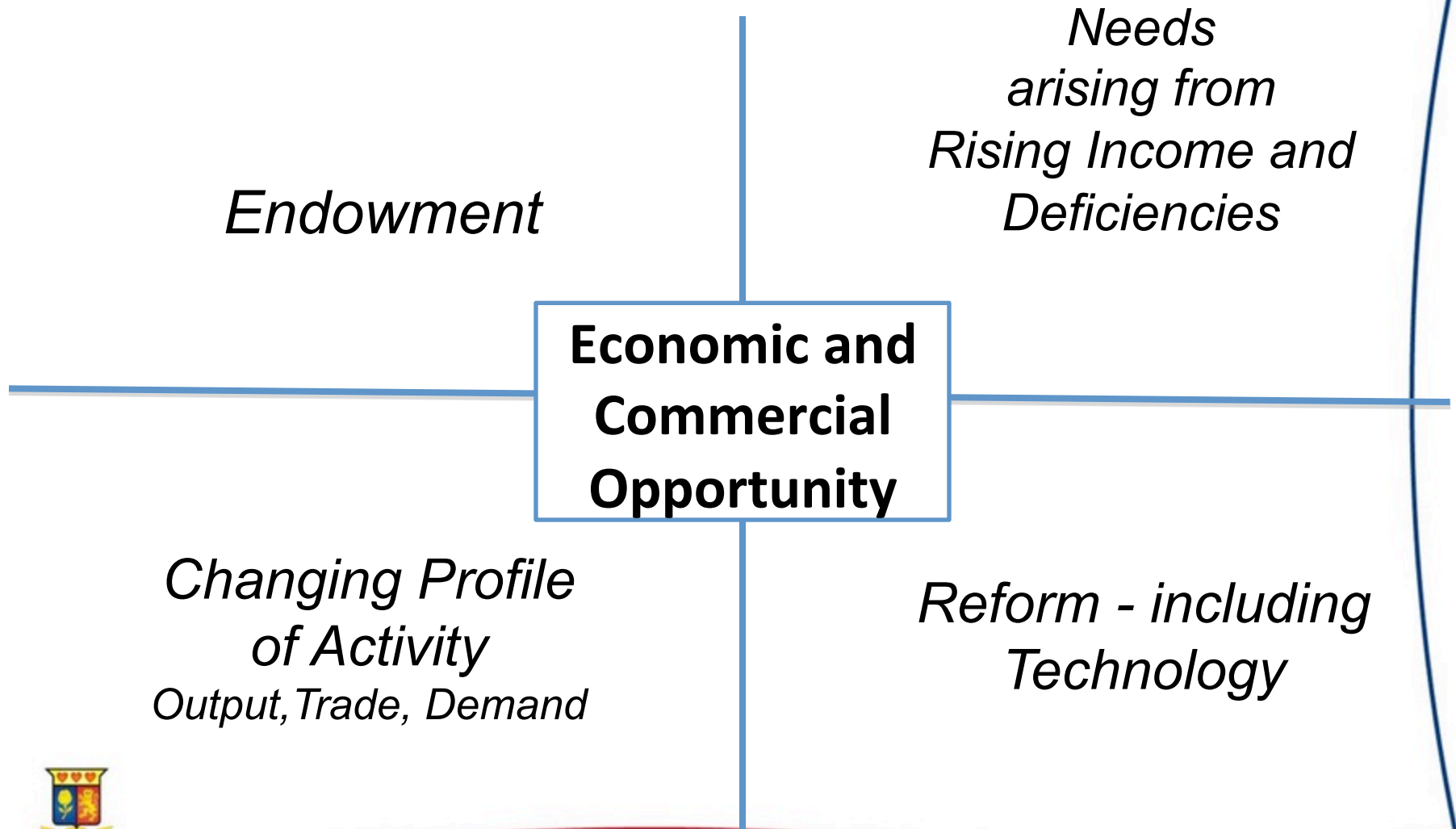


Africa is very diverse but commonalities are plenty

- Growth Economies , Aspiring & Hopeful Consumers
- Traditional at the Heart but looking out!
- Hope for a better Tomorrow
- Community/Affinity ; Celebration
- Externalisation of Challenges & of course Responsibility
- Assumptions – It' s better elsewhere!!



Drivers of opportunity in Africa





Endowments-population

- Africa population expected to rise to 2billion by 2050
- Proportion of Africans under 15 years expected to rise to 45% and this will necessitate
 - Demand for Educational Skills
 - Increase in Employment
 - Increase in Consumerism
- With these opportunities Africa can be classified as the next frontier and the next market for business expansion and development.





Endowments

- Natural Resources
 - 30% of known global stock and Stock of Minerals in Africa
 - 10% of Oil and 8% of Gas Reserves
- Preferential Access
 - AGOA
 - EU/African Trade Agreement (Cotonou Agreement)



Endowments-profile of African agriculture

- Arable land is 9.1% of Africa's land area with
 - Agricultural land approx. 44% of total land area
 - Permanent Cropland 1.1% of land area in 2012 from 0.9% in 2011
 - 4.2% of total land under cereal production
- Africa hosts a huge spectrum of suitable agro-climatic conditions that allow a broad range of diverse agricultural production
 - However, it is still importing large quantities of agricultural and food products that may be produced within the continent
 - Challenge of commercial and processing infrastructure continue to hinder exploitation of some products





Endowments-Rising population means that more food is required

- Decline in Food availability as demand increases
 - Africa's population is expected to rise to 2bn by 2050 at current rates of growth
 - Population expansion has led to 3% lower per capita food production
 - Africa needs to double its overall production in order to meet future demand from a growing population
- Decline in the share of African products in world agricultural Imports
- Decline in the share of Agriculture sector in total employment will worsen poverty



Drivers of opportunity in Africa

- Changing Pattern of Needs
 - Moving from a *subsistence* economy where expenditure is dominated by food spending
 - Spending lower proportion of income on food
 - Greater proportion on
 - clothing, furnishing etc
 - Health
 - Transport
 - Communication
 - Education
 - Tourism



Nature of the emerging opportunity

- The opportunities in the medium term will be driven by the following key factors
 - Economic growth
 - Dynamics of population and urbanisation
 - Reform
 - Deficiencies






Nature of emerging opportunities-sectors to look out for


- Agriculture
 - Despite the its current challenges induced by security
 - Progress will be driven by reform, especially shift towards market driven agriculture and commercial agriculture
- Distribution
 - Driven by Reform especially infrastructure upgrade in Transport Sector
 - Increasing Income (albeit, concentrating upwards) will encourage organised Retail, Entertainment etc with implications for Mall Development
- Education
 - Skill Gaps
 - Reform induced demand for skills – Power industry
 - Greater private spend on education is driven by collapse of public provision and recognition of the role of education in social mobility
 - Remedial Studies; Vocational Education



Nature of emerging opportunities-sectors to look out for

- Manufacturing
 - Stance towards import substitution
 - Improvements in Agricultural productivity
- Infrastructure – especially at sub-national Level
 - Reform Programme
 - Growth in GDP, particularly in Aviation Sector
- Technology
-  Housing

Typical challenges

- Are Consumers Ready for Your Offering/structure ?
- Developing Bureaucracy — Turbulence - *Regulations , Exch Rate , Policies (Dominant Home Players)*
- Governance and Ethical Conduct/Cultural Interference
- Talent pool and Suitability
- Developing Infrastructure - *Hard and Soft*
- Availability of Willing/Capable Partners
-  Pervasive Dominant Logics eg Data/Insight ?

Accessing the opportunities: challenges

- Human Capital Development
 - Significant skill shortages co-existing with unemployment
- Vulnerability to global shocks
- Competitiveness
- Security
 - Security threat remains, along the traditional fault lines:
 - Ethnocentric Political discourse
 - Religion
 - Economic
 - Slowing and unbalanced GDP growth
 - High and rising unemployment



Challenges of doing business in Africa

- Progress in 'overall' ease of Doing Business Rankings remains slow
- Power outages among the highest in the World
- Inland transportation costs higher than other regions
- Attracting FDI into diversified and higher value-added sectors still a challenge
- African firms are some of the most highly taxed in the world





Despite the challenges opportunities are evident but

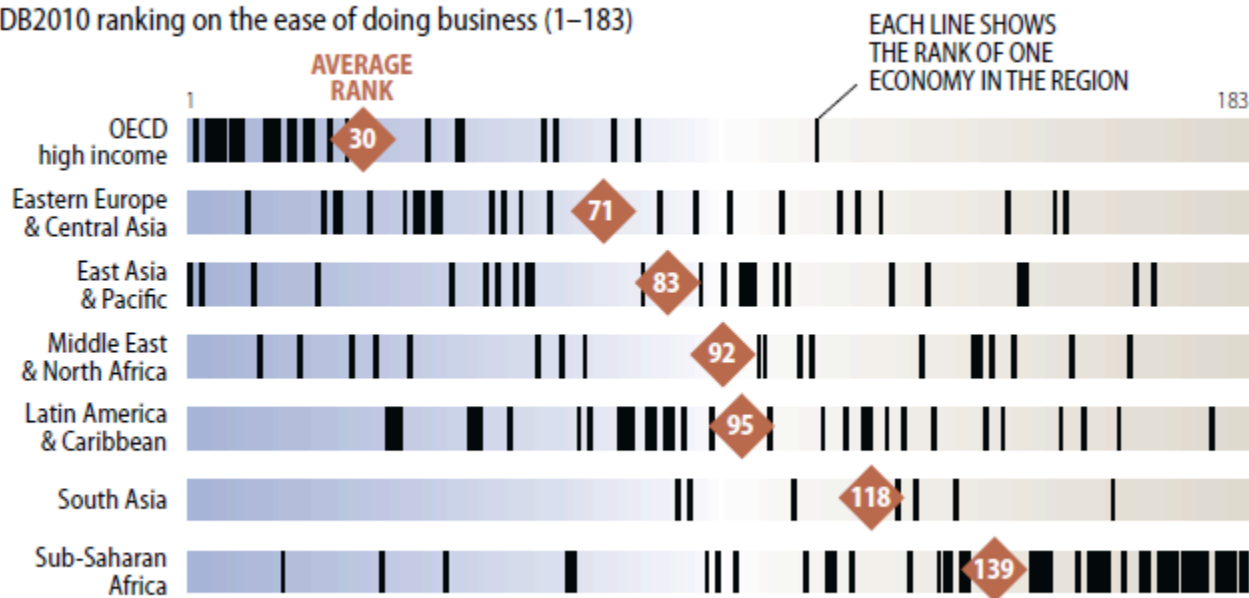
- Be Aware & Respectful - Culture , Tradition.
- Global Norms vs Local Nuances - The rules sometimes come 2nd
- Town centric strategy yes but ...*Nairobi is not Kenya ;Lagos is not Nigeria.*
- We are all fathers, Mothers, brothers, sisters with Needs
- One Size Will Not Fit All



Despite progress, regulatory barriers are still pervasive

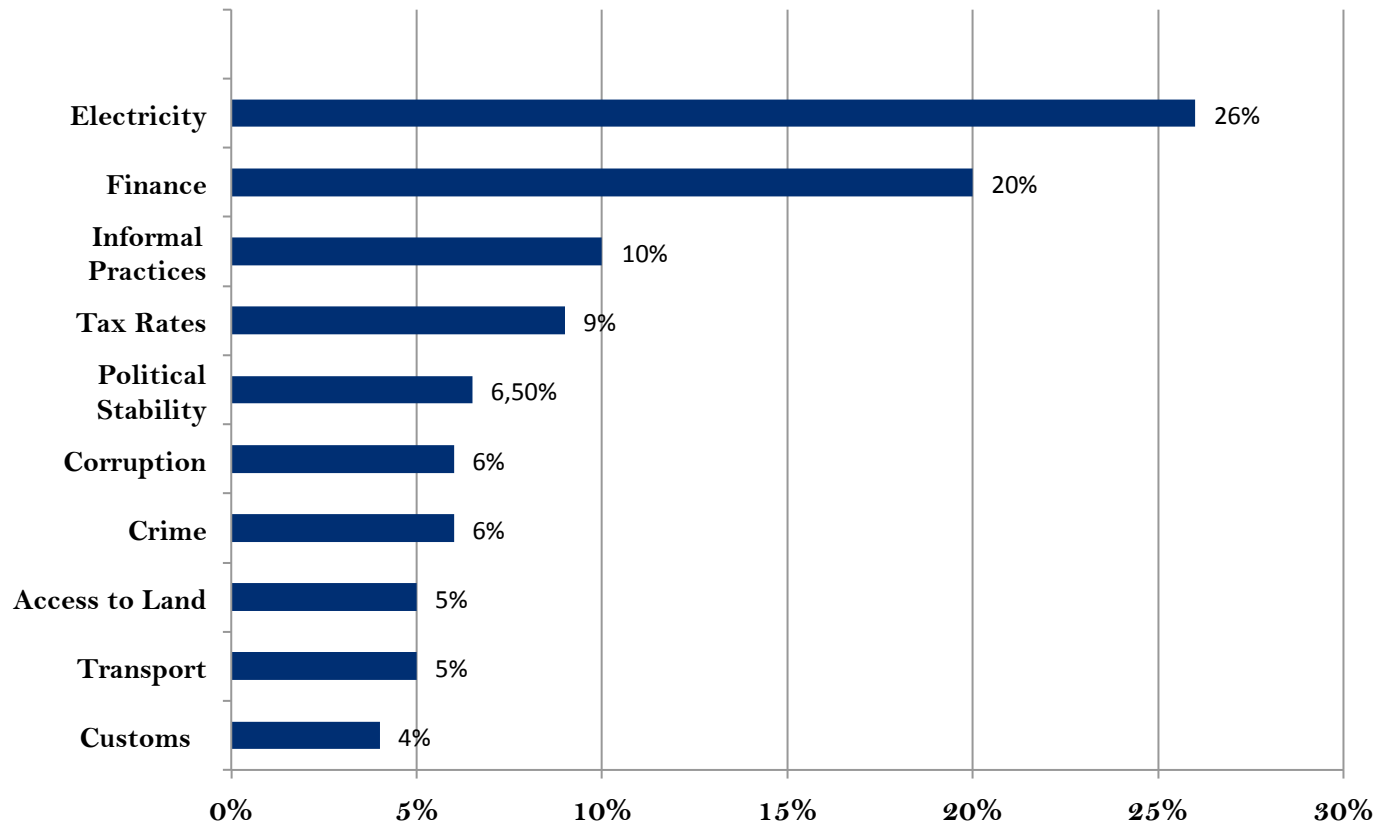
Which regions have some of the most business-friendly regulations?

DB2010 ranking on the ease of doing business (1–183)



Source: Doing Business database.

Top Constraints facing the private sector in sub-Saharan Africa



Source: World Bank Enterprise Surveys

Extractive Institutions

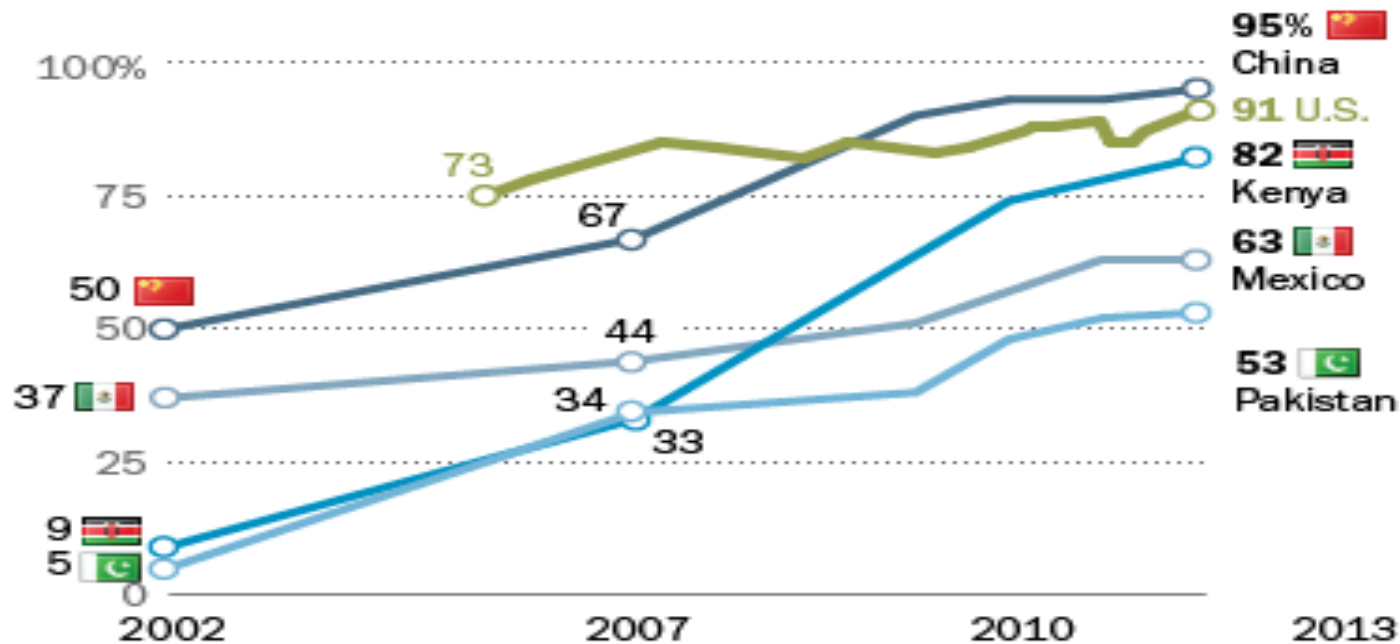
- There is also the fact that African countries, especially those rich in resources, often fall prey to what the economist Daron Acemoglu and the political scientist James Robinson have termed “extractive institutions”: policies and practices that are designed to capture the wealth and resources of a society for the benefit of a small but politically powerful elite.
- One result of this is staggering inequality, the effects of which are sometimes masked by positive growth statistics.



Sharp rise of cell ownership

Sharp Rise of Cell Phone Ownership in Select Countries

Percent of adults who own a cell phone



PEW RESEARCH CENTER



The M-Pesa Case



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M-PESA is the new, easy and affordable way to send money home.
 * Please see following advertisement for a list of Authorized M-PESA Agents.

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Is the evidence contradictory?

- The evidence seems contradictory but both perspectives, the positive and negative are right, or at least reflect aspects of a more complex reality, which neither fully captures.
- The skeptics focus too much on the region's commodity exports that they fail to grasp the extent to which recent growth is a result of economic reforms.
- The optimists meanwhile underestimate the extent to which the region's remaining problems will be difficult to overcome since they are rooted in the political economy.




Key aspects of strategy in Africa

What we mean by Strategy – the answer to two questions



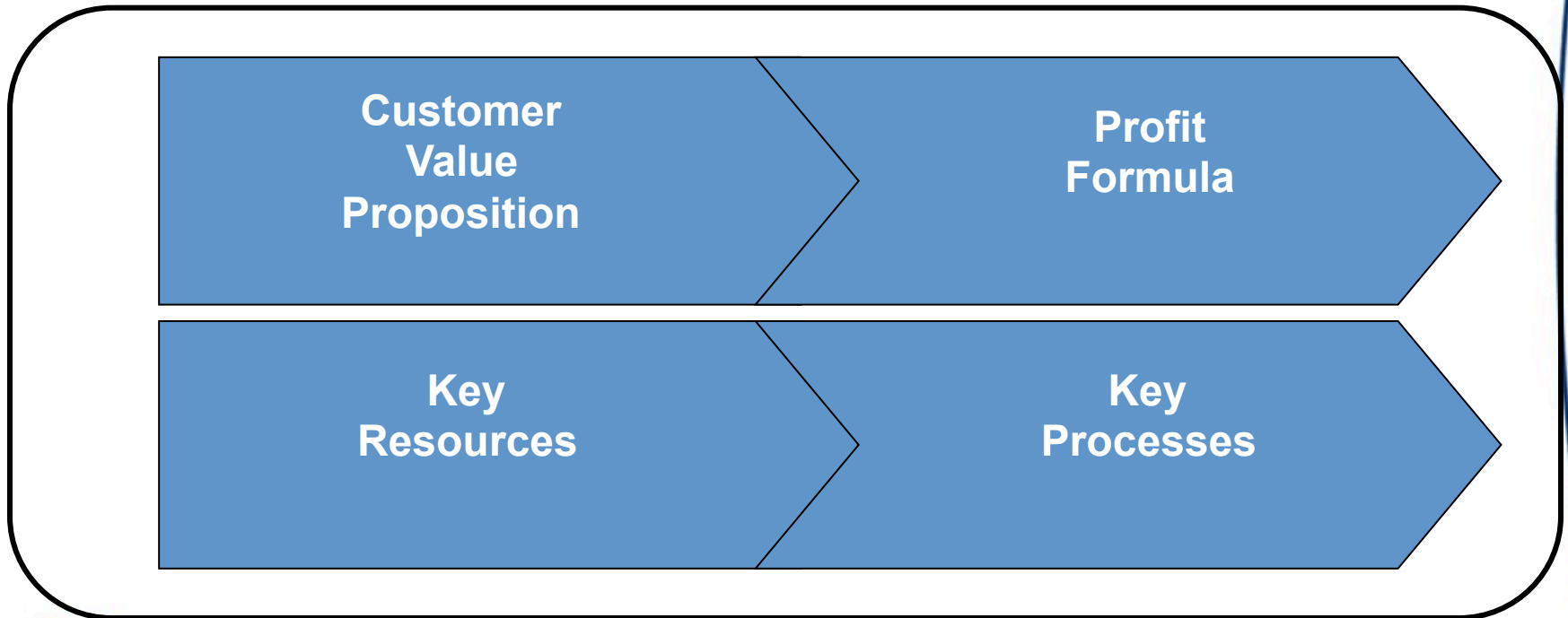
Do not lose sight of the future

- Turbulence often result in major structural shifts
 - Those who take advantage of them today will be the winners tomorrow
- Keep an eye on the trends that will shape the future
 - Shifting centers of economic activity
 - Emergence of a new class of consumers
 - Over burden public sector, removing part of the burden
 -  – Demographic changes

Re-think your strategy

Re-invent your Business Model

A Business Model consists of four interlocking elements that create and deliver value:



Business model adaptation in Africa

- Adapt your strategies.
 - To succeed, entrants may need to modify their business models for each nation. **They may have to adapt to the voids in a country's product markets, its input markets, or both.**
 - In choosing to adapt, *companies must retain their core business propositions even as they adapt their business models*, if they make shifts that are too radical, these firms will lose their advantages of global scale and global branding.



Community relations

- Must understand the local community & dynamics, particularly around tribal & religious leadership
- Cultural adaptation necessary (e.g. eating, religion, languages)
- Positive community relationships can be beneficial and create strong advocates





Further Readings on Doing Business in Africa

- Five Pillars for Doing Business in Africa by Robert Mudida and Alejandro Lago, IESE Insight Review, 2015.
- Business in Africa, The Economist, 2016





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The end

Thank You

