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BUSINESS IN AFRICA: THE RISKS, REWARDS AND CHALLENGES

With its diverse and plentiful resources, and a continent-wide desire among governments to create jobs and bolster their national economies, Africa is a place of interest for the international business community.

In an April 2014 report, the World Bank said that sub-Saharan Africa “continues to make impressive strides” in sustaining economic growth, emerging from a five-year period of weakness and stagnation in the global economy. Developed countries around the world have taken notice of Africa’s rise as a business center; in 2012, U.S. President Barack Obama issued the U.S. Strategy Toward Sub-Saharan Africa, in which the American government outlined its effort to spur economic growth through trade and investment in African nations.

Those opportunities are multiplying. According to the American website Export.gov, as of 2012, U.S. trade to and from Africa had tripled over the previous decade, with U.S. exports to sub-Saharan Africa topping \$21 billion. The site also notes that Africa is home to six of the top 10 fastest-growing countries in the world, and that the International Monetary Fund projected sub-Saharan Africa to grow between 5 and 6 percent per year through 2014.

Other developed nations are also investing in the expansion of African business. In December 2013, the government of the United Kingdom announced a new partnership in east Africa. The partnership is aimed at utilizing commercial initiatives to help those in Tanzania’s lower class benefit from the region’s economic growth, with an eye toward ending reliance on foreign aid by creating jobs and boosting the country’s business community.





The effort to invest in Africa is ongoing throughout the developed world. Associations such as the U.K.'s Business Council for Africa and the Canadian Council for Africa exist to connect investors and entrepreneurs in those countries with opportunities.

Africa is becoming an increasingly important player on the world stage. But if an investor or entrepreneur is to invest in an African business, or venture to Africa to set up a new business, what can he or she expect once involved? What are the real risks and potential rewards for doing business in Africa?

UNDERSTANDING AFRICA

Those in the Western world often think of Africa as a single entity, as if it were a country on its own, with laws, customs and conditions that are universally applicable across its entirety.

But Africa is anything but homogenous. It is a continent with 54 sovereign states and other territories that have complete or limited international recognition. It is the world's second-largest continent both in terms of land area and population, with a vast variance in climate, culture, customs and natural resources.

It is a continent with a great deal of political diversity and includes countries that are stable with well-developed economies, and countries that are poor and unstable — some of which are reeling from the effects of war and continuous tribal friction.

With all of that in mind, the success of a business venture in Africa has a great deal to do with its location and with the investors' appetite for risk.

According to Marius Maritz, chairman of South Africa-based Certified Master Auditors Inc., South Africa is the continent's most developed country, both from an economic and infrastructural standpoint. Most outside businesses look there first to gain a toehold in Africa. But oil and gas production accounts for a relatively small portion of South Africa's GDP, compared to countries such as Egypt and Nigeria, and the latter two countries are often more fruitful places to invest in an energy venture.

Political climate is another important factor in choosing a location to do business. African governments range from capitalistic democracies to authoritarian dictatorships. The stability of a country's government has a major impact on unemployment rates, and to that end, Africa has some of the world's highest unemployment rates. According to a list based on research conducted between 2007 and 2013, African countries accounted for five of the 10 highest unemployment rates in the world. As of 2011, Zimbabwe had an unemployment rate of 70 percent, the fourth highest in the world. Not coincidentally, Zimbabwe has also

endured a high level of unrest and political upheaval in recent years.

With unrest come crime and corruption, which are endemic to Africa's poorer countries but which affect even the most developed countries on the continent. Still recovering from generations of apartheid, and the violence used to enforce it, South Africa endures high crime rates. It is something ingrained in the society, said Maritz, and only the passage of time, with future generations brought up in an environment of peace, will quell the country's crime rates.

With all the potential pitfalls and areas of caution that await a business investor in Africa, why would anyone even look at African nations for expansion? It's because the potential rewards are tremendous.

A FERTILE LAND

Africa is known for its vast supply of natural resources. The continent is rich with oil, gas and other energy sources. It's well known for its gemstone mines, particularly diamonds. It has some of the most lush, dense tropical rain forests on Earth, which are home to thousands of species of flora and fauna not found anywhere else.

But Africa has another vast resource — its people. Thiru Govender, a South African expat and now a Charlotte, N.C.-based partner with accounting firm Elliott Davis, said governments across the continent are enthusiastically supporting international efforts to promote business, and combined with an unemployment rate that is, collectively, one of the world's highest, Africa has vast opportunities for workforce development, particularly in the area of unskilled or minimally skilled labor.

Employment opportunities for members of the unskilled and lower-income groups of African society are turning these groups into consumers of previously inaccessible and unaffordable goods. For example, Govender said, cell phones represent one of the exploding markets among lower-income tiers. People who may not have enough to eat on a day-to-day basis still covet cell phones because they're a modern convenience and something of a status symbol.

Further up the spending ladder, luxury automobiles represent another exploding market. South Africa — the African nation widely regarded as the most "first world" of all nations on the continent — has the highest per-capita population of luxury car owners of any country in the world.

The middle class — in the Western sense of the term — is a very small segment in the African population, which is mostly either very rich or very poor. But the African middle class is growing, and as more people benefit from foreign investment in the form of job creation and access to previously unattainable luxury goods, the middle class

has the potential to boom in much the same way it did in the U.S. and Europe during the early and mid-20th century. The potential for consumer spending in Africa is incredible, and companies based in Africa and elsewhere are only starting to nibble at the edges of what it could become.

THE PLAYING FIELD

Even in the age of on-demand information, Africa remains mostly a mystery to the Western world. Ask a group of Westerners to describe what they envision when they think of Africa, and you might get a different answer from each person.

Africa can't be defined by one set of traits, and its people can't be defined by a common set of characteristics. That's critical to remember when considering how and where to invest in the African business sphere.

From the Mediterranean coast in the north to the Cape of Good Hope in the south, from the Atlantic shore on the west to the Red Sea, Indian Ocean and Madagascar on the east, the continent varies tremendously. Here are some items to consider.

Climate: Africa is virtually bisected by the equator, which means the continent is almost entirely free of winter weather such as ice and snow storms, with the exception of high mountain elevations. What Africa does contain is the world's largest desert — the Sahara — which engulfs most of the continent's northernmost third — along with thick tropical rain forests in the continent's middle third and savanna grasslands throughout much of the southernmost portions of the continent.

Tropical storms make landfall on the African coastline less frequently than in other parts of the world, but when they do, they can be destructive to local infrastructure. Cyclone Haruna struck the coast of Madagascar in February 2013, killing 26. Cyclone Hellen struck the Mozambique Channel in March 2014 as a Category 4 storm — one of the strongest on record to hit the channel — causing extensive flooding in Mozambique and killing at least eight.

Madagascar and Mozambique are among the nations with coastline that faces the prevailing wind — the African Easterly Jet — and are susceptible to major tropical cyclones. The west coast of Africa, facing the Atlantic Ocean, is less susceptible to tropical storms because the prevailing wind carries weather systems away from the coast. But those same prevailing winds can also create destructive wet-season monsoons capable of damaging infrastructure across wide areas.

The oil-rich Sahara provides its own set of climate-related challenges, with intense sandstorms and some of

the hottest mean temperatures on Earth.

When starting or developing a business in an African nation, or investing in an existing business, it is critical to consider how well the business is designed to cope with the environmental hazards it could encounter. The design of the infrastructure, such as the integrity of paved roads and the ability of a shipping port to withstand wind, rain and flooding, are key factors to consider. Along with that, consider the preparedness of local authorities to respond to a natural disaster. The preparedness of the regional or national government could make a major difference in whether businesses are incapacitated for days, weeks or months, and whether the local business community is able to recover at all.

Customs: Local and regional customs can have a profound impact on how business is conducted. The sum total of what is acceptable and not acceptable, tolerated and not tolerated, during business dealings has been shaped by a variety of factors, including indigenous cultures, the European influence of African colonialism in the 19th and 20th centuries and the resulting racial conflict that affected the continent — South Africa in particular — up until the 1990s.

On an introductory level, a basic rule of African business is that it is done in person. Although technology is becoming ever more prevalent in many corners of the continent, the acceptance of technology as a pathway to driving business is still lagging behind. Many African businesspeople still prefer deals be done in person, and an in-person introduction and a handshake still mean much more than a videoconference and a document sent in an email attachment.

It's popular in Western business to say there is no substitute for being there. In African business — particularly in South African business — it's a must. Business doesn't get done unless you're in the same room. To try to make a deal happen any other way could be viewed as disrespectful.

Unions: Another important factor to consider is the role of unions in African business. Much like in the Western world, unions are a powerful force in shaping the African business landscape. But in Africa, where labor laws are ingrained in the culture, unions hold even more sway in determining how business gets done.

A failure to understand how unions and labor laws are ingrained into the culture of many African nations can have disastrous consequences for business owners and investors. Govender says that in South African plants and factories, manual laborers will, on most occasions, readily





follow the directions of their union leaders, no questions asked. If the union leaders order a strike, the workers will strike — and strikes can often last for weeks or months.

Unions also hold a great deal of sway over how day-to-day business is conducted. Unionized employees, for example, are often not held to the same accountability standards as in Western countries. Repeatedly calling in sick might serve as grounds for termination in the U.S and Europe, but that is often not the case in Africa.

Most of the South African labor force is unionized, and the unions' ability to manipulate how and when business gets done is tolerated without much corporate or political opposition. That fact is the essential difference between how business is conducted in South Africa, and how it might be conducted in the U.S. or U.K., where there are more checks and balances in place between unions and companies.

Politics: With 54 sovereign states, outside business investors can expect to find a wide range of political conditions throughout Africa, exerting many different forces on the business climate.

The continent's political atmosphere includes developed, stable governments in countries such as South Africa, Nigeria and Kenya, economies still recovering from the ravages of civil war in countries such as Angola and Mozambique, and countries still caught in the transformational turmoil of the Arab Spring, such as Egypt, Libya and Tunisia.

Governmental stability and political strife have a profound impact on a country's ability to support and sustain a thriving business community, which is why it is important for any business owner or investor to learn about the country — and even more specifically, the region — to be targeted for investment.

Every region will almost certainly have political positives and negatives. The stability and advanced infrastructure of South Africa is somewhat offset by a culture in which crime and violence are still endemic. On the other hand, unstable countries such as Egypt, and recovering, developing countries such as Mozambique and Ethiopia, are quietly developing a manufacturing base due to the migration of manufacturing from Asia and the readily available supply of unskilled labor. This is why it's critical for any outside businessperson to learn about the region of interest on a granular level and not make sweeping judgments based on news reports.

In most cases — though not always — the most developed countries in Africa provide the greatest benefit for outside investors.

CORRUPTION

Many African countries continue to struggle with the ability to enforce laws, which includes the ability to enforce ethical business practices. As a result, corruption is still a widespread concern throughout most of the continent.

According to the 2013 corruption perceptions index compiled by Transparency International, all but a small portion of the continent's countries rated a score of 40 or below, placing them on the scale's bottom third as it relates to clean business practices.

A total of 177 countries around the world were ranked according to ethical business practices. Libya ranked 172, South Sudan 173, Sudan 174 and Somalia 175, giving Africa the largest share of the bottom 10. Kenya (136), Nigeria (144) and Tanzania (111) are among the other notable countries that ranked on the bottom half of the list.

The most ethical African countries included Namibia (57), Lesotho (55), Ghana (63), South Africa (72) and Senegal (77). By contrast, notable Western countries included Canada (9), Germany (12), the U.S. (19), France (22) and the U.K. (14).

When doing business in Africa, the burden of preventing corruption falls on the shoulders of the businesses themselves. According to both Maritz and Govender, before a business sets foot in Africa, it must have a well-defined set of corporate governance guidelines that make clear what is considered ethical and what is considered unethical, and then communicate those guidelines to those who will be conducting business on the company's behalf.

Bribery is one of the most common forms of corruption throughout the continent, and a business that is unwilling to engage in bribery may find it difficult to make deals in some circles where bribery is an accepted part of the cost of doing business. But maintaining ethical practices will benefit a business in the end, as it will often get government officials — who are extremely interested in job creation and improving the image of their countries — on the business' side.

Ultimately, if a business is creating jobs and solidifying its position in the marketplace through further investments, it will gain the respect and backing of local, regional and national governments, which is the most direct and effective way to overcome the endemic bribery and corruption issues that still plague wide swaths of Africa.

THE COUNTRIES

Once a strong overarching view of what one can expect when exploring the African business landscape has been developed, the next step is to gain an in-depth

understanding of individual countries, with an eye toward finding the nation with the most ideal combination of all business-affecting factors. These include political climate, government incentives, employable population, natural resources, infrastructure and an overall upward trend in the development of the nation to suit the growth of the business in question.

The 2010 book "Emerging Africa: How 17 Countries Are Leading the Way," by Steven Radelet, identifies 17 African nations that are steadily emerging from the poverty and instability of post-European colonialism to a new era of societal and economic development.

Not all of the book's identified nations are equally prepared for an influx of Western investment, however. Mozambique, as referenced earlier, still struggles with political instability despite a 5.3 percent growth in annual per-capita income from 1996 to 2008. Rwanda, with a 3.7 percent growth rate in the same category over the same time span, is still picking up the pieces after being ravaged by civil war and genocide in the 1990s.

But all of the identified nations are trending upward in some key economic indicators.

Apart from South Africa, which is well documented as the most developed of African nations and the often-referenced "Gateway to Africa" for Western business, here are a selection of other nations that possess the potential to offer fertile ground for Western business investment, both now and in the future.

BOTSWANA

A landlocked country bordered by Namibia, Zimbabwe and South Africa in the southernmost portion of the continent, Botswana is arguably Africa's greatest economic success story of the past 40 years.

Since attaining independence from the U.K. in 1966, Botswana averaged a 9 percent economic growth rate until 1999 — the highest in the world over that span. According to "Emerging Africa," Botswana has averaged 4.1 percent in annual income growth per capita from 1996 to 2008, and experienced a 68 percent cumulative increase in average real income over the same span — figures that are at the top of the list in both categories among the book's 17 emerging countries.

Botswana's strong performance has been aided significantly by the diamond-mining industry and ecotourism, a growing industry in the region that now accounts for more than 10 percent of the country's GDP. Although virtually no nation in Africa is regarded as a "clean" nation by corruption watchdog Transparency International, Botswana ranks among the least corrupt in

Africa. Those facts, combined with a conservative fiscal policy and foreign policy, have helped protect Botswana's money and resources from unscrupulous business entities, making it one of the safest African nations in which to do business.

Botswana's chief impediment to business growth is its climate. Much of the country lies within the Kalahari Desert. The Kalahari isn't a desert in the sense of the Sahara — it isn't completely arid and baked by triple-digit Fahrenheit temperatures year-round. Large portions are covered by grasslands that can provide good livestock grazing areas during wet seasons — a reason why agriculture is another economic driver in Botswana.

But the lack of year-round precipitation, combined with overgrazing, has made the landscape susceptible to soil erosion and dust storms during periods of drought, much like the American Great Plains during the Dust Bowl of the 1930s.

The lack of year-round rainfall contributes to a general lack of water sources. Deep-well drilling has helped ease the water burden somewhat, but collected rainwater is still a major water source — and even then, rainwater can only sustain about 5 percent of the country's agriculture.

GHANA

A small country of about 92,000 square miles, Ghana occupies a section of south-facing Atlantic coastline between Cote D'Ivoire and Togo. Its status as a stable and relatively prosperous nation has made it attractive to Western investors for decades.

Ghana's growth has been buoyed by a stable government, particularly over the past 20 years. Its current constitution has been in place only since 1992, but it was the first African nation to declare independence from European colonization, breaking away from the U.K. in 1957.

Ghana's political stability has much to do with its wealth of natural resources and its ability to manage them to the country's financial benefit. The thriving agricultural and mineral-mining sectors have turned Ghana into a key exporter. The country is becoming a rising force in oil exportation — an ascent that has only picked up speed since the 2007 discovery of an oil field that contains an estimated 3 billion barrels of crude oil. According to the site ghanaoilwatch.org, the country produced 120,000 barrels a day in 2010, and that number could increase to 2.5 million barrels per day by the end of 2014.

Bauxite, gold and phosphates are the primary minerals mined and exported from Ghana, and cocoa is one of the country's main agricultural exports.





Ghana is also one of the most technologically advanced nations in Africa, especially in its telecommunications infrastructure. Approximately 80 percent of the population has either mobile or fixed-line phone service. Ghana was also one of the first Internet-connected countries in Africa and now has more than 160 Internet service providers licensed to do business within the country.

As is the case throughout the continent, Ghana deals with issues connected to corruption and transparency in its business practices. Transparency International's 2013 Corruption Perceptions Index gave Ghana a score of 46 out of 100, ranking the country 63rd out of 177 countries — better than most of Africa, but still low by developed-world standards.

NAMIBIA

Bordering the Atlantic Ocean, Namibia is a country in southwestern Africa bordered on the south by South Africa, the east by Botswana and the north by Angola and Zambia. It was one of the last areas of Africa to fall under European rule, when Germany claimed it as a colony in 1884, and called it German South-West Africa.

South Africa overtook the colony in 1915 after defeating the occupying German forces as part of the South-West Africa Campaign during World War I. Following the war, it was declared a League of Nations mandate territory, under South African rule. It remained under South African administration until 1966, when the United Nations terminated the mandate, beginning a 23-year civil war that ultimately led to the formation of the Republic of Namibia in 1990.

Today, Namibia retains close economic and cultural ties to South Africa, allowing it to develop one of the most advanced and stable economies in Africa. With a strong banking sector, an agricultural sector that accounts for 13 percent of the country's GNP and a mining sector that accounts for 10 percent of the country's GNP, Namibia is widely regarded as one of the strongest of the emerging African markets. In 2013, Bloomberg named Namibia the top emerging economy on the continent. "Emerging Africa" notes that Namibia had a 2.4 percent rise in annual income growth per capita from 1996 to 2008.

Namibia's chief concerns center on unemployment, which ran at a rate of 27.4 percent in 2012, and a high cost of living, due to the fact that many staples, such as cereal and grains, are largely imported. The Namibian government places a priority on employment of Namibian citizens over employment of foreigners, which is something any business in Namibia needs to consider when deciding how to set up operations and build a work force.

MALI

Much of the western Africa country of Mali is located in the Sahara, but the majority of the country's population — which includes the capital and largest city of Bamako — lives in the southern portion of the country, which also contains most of Mali's arable soil, fed by the Niger and Senegal rivers.

The one-time French colony has a population that relies heavily on subsistence farming. It's a major reason why, despite recent economic growth, Mali is one of the poorest nations in the world, heavily reliant on foreign aid.

However, Mali is rich in natural resources, particularly metals and minerals, which makes mining an important and growing part of the Malian economy and makes the nation one of particular interest to outside investors.

The Malian mining industry is particularly dependent on gold, which accounted for about 80 percent of the country's mining activity in the first decade of the 21st century. As of the end of the 1990s, Mali was the third-largest African exporter of gold, after South Africa and Ghana, and overall, gold was the country's third-largest export after cotton and livestock.

However, the gold-mining industry in Mali has endured criticism. The industry has displaced villages and primarily employs foreigners, meaning the population of Mali sees little direct benefit from the mining activity. The industry is also poorly regulated, particularly in smaller mining operations, in which child labor is frequently used.

As a poor nation, Mali still lacks many oversight and regulatory factors, but the mining industry alone — which also includes limestone, salt and phosphate — possesses the potential to turn Mali into an industrial nerve center in Africa.

TANZANIA

A former British colony located in eastern Africa along the Indian Ocean, Tanzania's economy is heavily dependent on agriculture and mining, as are many nations in Africa. What sets Tanzania apart, however, is that it has one of the fastest-growing industrial sectors in Africa, which now accounts for 22 percent of the country's GDP.

Tanzania's geographic position on the Indian Ocean makes it an ideal area for processing raw goods prior to shipping — and Tanzania is capable of a high level of shipping volume. The country's largest city, Dar es Salaam, has the fourth-largest port on the continent's Indian Ocean coastline. As such, the backbone of Tanzania's industrial sector is built on the processing of agricultural products such as beef, tobacco, sugar, salt and metals.

However, the country's industrial sector is burdened

by ongoing power shortages due to droughts that have compromised the power-generating ability of the country's hydroelectric dams. The problem is in the early stages of being remedied, as the privatization of the country's electric supply 2003 has begun the process of diversification of electricity sources.

OTHER NATIONS

Other nations identified in "Emerging Africa" include some of Africa's island nations, such as Cape Verde, Mauritius, Seychelles, and Sao Tome and Principe, all of which experienced annual income growth per capita of between 2.5 and 5 percent from 1996 to 2008.

Beyond the 17 countries identified as emerging economies, a number of other African countries are on the threshold of gaining status as an emerging country, including Liberia, Kenya, Senegal and Sierra Leone, all of which have shown many of the same economic growth characteristics, but over a shorter time span. Liberia, for example has shown a 3.1 percent growth in annual per capita income from 2005 to 2008, after the nation was ravaged by a pair of civil wars between 1996 and 2003.

THINGS TO REMEMBER

Business is all about risk, and determining one's appetite for risk, and doing business in Africa is no exception. The continent provides business owners and investors with a wealth of opportunities on many fronts. Its abundance of resources makes it a fertile land for agriculture and manufacturing. It has a massive potential workforce that, if employed, could spur incredible economic growth.

But Africa is also dealing with many of the same problems that have habitually plagued the developing world. The infrastructure, although built to developed-world standards in some areas such as South Africa, is largely undeveloped and incapable of supporting large-scale business growth without substantial outside investment. The population in most countries still deals with widespread poverty. Corruption and bribery are still accepted parts of how business is conducted throughout the continent, leaving it up to the business to determine and enforce its own moral code — and, in some corners, live with the consequences of lost business should it decide not to engage in corrupt practices.

But if a business, or an individual investor, can position itself to successfully navigate the problems that continue to plague the African continent, the rewards can be great. Those who invest in Africa are investing in one of the world's most potential-laden economies, and at some point, that potential will become reality.



DOING BUSINESS IN AFRICA: A FIRSTHAND ACCOUNT

Bas Vloet is co-founder and CEO of Florius Flowers, a company that grows floral plants in Kenya and Ethiopia and ships them to destinations around the world. Below, Vloet offers an insider's perspective on what it's like to do business in Africa.

What are some of the benefits of doing business in Africa?

The production costs are low, as far as land, labor and energy. More important, for our industry in particular, the natural climate is very favorable. We can grow flowers year-round without the need for greenhouses.

What are some of the problems you have encountered in doing business in Africa, and how have you overcome those problems?

The biggest problem is bureaucracy. There are many time-consuming processes that are involved in imports, exports, foreign currency repatriation, tax payments, land acquisition and application of permits.

How is the relationship between government and business in Africa, in your experience?

It can best be described as a love-hate relationship. The government is trying hard to create favorable conditions for foreign investors. These include duty-free privileges and tax holidays. On the other hand, the government is slow in solving day-to-day problems.

What advice would you give to a business owner who is considering entering the African marketplace?

Have patience, because everything needs more time than you're used to.



SELECTED AFRICAN COUNTRIES AT A GLANCE
(GDPs listed by purchasing power parity)

Algeria

Capital: Algiers
Population: 38.7 million
GDP: \$302 billion
Corporate tax rate: 19 percent

Botswana

Capital: Gaborone
Population: 2.1 million
GDP: \$36 billion
Corporate tax rate: 15 percent

Egypt

Capital: Cairo
Population: 86 million
GDP: \$275 billion
Corporate tax rate: 20 percent

Kenya

Capital: Nairobi
Population: 44 million
GDP: 77 billion
Corporate tax rate: 30 to 37.5 percent

Nigeria

Capital: Abuja
Population: 174.5 million
GDP: \$478 billion
Corporate tax rate: 30 percent

Senegal

Capital: Dakar
Population: 13.5 million
GDP: \$26 billion
Corporate tax rate: 25 percent

South Africa

Capital: Pretoria (executive), Cape Town (legislative)
Population: 53 million
GDP: \$623 billion
Corporate tax rate: 28 percent

Tanzania

Capital: Dodoma
Population: 45 million
GDP: \$74 billion
Corporate tax rate: 30 percent



SUGGESTED READING

“Emerging Africa: How 17 Countries are Leading the Way”

By Steven Radelet
Brookings Institution Press, 2010

“African Economic Development”

By Emanuel Nnadozie
Emerald Group Publishing, 2003

“A Guide to African Political and Economic Development”

Edited by Guy Arnold
Routledge, 2001



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