

**Business in Africa:**  
*A Changing Perspective*

by

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## Introduction

Thank you for that warm introduction. I would like to thank the Austrian Development Agency (ADA) for inviting me to deliver the annual development dialogue and for offering the opportunity to share my views about the future of Africa. I believe that this “Business in Africa” dialogue is one of the many series aimed at having a better understanding of Africa – an understanding that gives a different perspective from the typical stereotypes that are often informed by the media.

In my mind, this earnest quest for better understanding means that you already sense that Africa is the last growth frontier and as such of strategic importance to the global economy.

By the end of 2010, seventeen countries across Africa would have celebrated their 50 years of independence. Golden anniversaries offer opportunities for reflection and stock-taking and assessing the environment of business in Africa is one of the many ways of this stock taking exercise.

African’s story is a complex one. One view of Africa is from the lenses of a continent that have been smeared with civil wars, military take-over, armed insurrections and genocide. Another view however reflects an Africa that has made giant strides towards a more open society; free elections and successful economic development strategies with beneficial outcomes to its citizens. And one that has become a veritable destination for investment and increasingly open to business.

The latter is the Africa that most are increasingly identifying with leading to changing perceptions about the continent. As recently as May 2000, the *Economist* had as its lead caption “Africa: The Hopeless continent” Yet, a decade later, the same magazine under the banner “Uncaging the Lions” asserts that the 21<sup>st</sup> century is shaping up to be that of emerging markets with Africa dubbed as an “economic lion” ready to take its place beside the Chinese dragon and the Indian tiger.

This changing perception no doubt is also fuelled by the numerous success stories from Mali’s mango exports and Nigeria’s “Nollywood”, to Rwanda’s gorilla tourism and to Kenya’s cut flowers—stories that paint a robust picture of a continent that is clearly on the move.

My objective is to help highlight the current trends we see coming out of Africa and hope this will indeed make you think again about this emergent Africa and the opportunities for the future.

### **Africa before the global economic crisis**

If I had been invited to speak to you a few months ago, my remarks would have been greatly influenced by the adverse impact from food, fuel and financial crisis on Africa. But Africa is turning the corner and I can say that it is on the path of an economic rebound. I believe that the continent is perhaps at about the same point now as where India was 20 years ago and where China was 30 years ago... just before their economic boom set in.

The reasons for the optimism are obvious. For the first time in two decades, the region has shown it can grow and was growing at the same rate as the rest of the developing world, except China and India. Years of tough choices – to mobilize more domestic resources, redirect wasteful spending, invest in basic education and health, reform public utilities, reduce protectionist policies, introduce interest rate and exchange rate flexibility and encourage competition - had finally begun to yield dividends, and to translate into growing incomes. Private capital flows to Africa were nearing \$55 billion. GDP grew by 5.7 percent in 2006 and 6.1 percent in 2007. Foreign aid in the form of new money and debt forgiveness was rising.

Growth returns as economic storm ebbs: Africa's gross domestic product (GDP) will expand by 3.8 percent in 2010 and is projected to rise to 4.6 percent in 2011. This is after dropping to about 1.1 percent in 2009. This is the first sign that Africa is recovering from the negative impact of the 2007-2008 food, fuel and the worst global economic crisis since the Great Depression.

This recovery is a sine-qua-non for job creation and poverty reduction. Sustained growth over a decade has been in part responsible for the decline in poverty with the percentage of Africans living on less than \$1.25/day reducing from 58 percent to 50 percent between 1995 and 2007.

Africa has also shown that it is competitive at the factory floor, rivaling India, China and Vietnam. And despite the cost of doing business still being high, an Africa country – Rwanda – topped the charts of the Seventh Edition of the Doing Business Report last year.

Social outcomes have improved across Africa – with primary education almost universal with close to parity in genders; reduced child mortality and improvements in access to clean water.

Notwithstanding recent cases of unconstitutional governments, notable strides in and gains have been made across the continent when it comes to democratization. African leaders are increasingly embracing governance as fundamental to development. They have also opened up the political space, freeing the creative potentials of Africans and boosting public accountability.

### **Challenges still remain**

However, Africa's recovery – of which I have just spoken – remains fragile and growth expansion remains lower than the 5.3 percent average growth rate posted by the continent's best 15 performing countries for more than a decade prior to the triple crisis. Growth has also been without jobs on a continent that saw a 10 percent increase in unemployment last year and where about 200 million youth are without jobs, even as another seven-to-ten million more youngsters join that unemployment line each year. These lower than expected growth levels make regaining the momentum on progress toward the Millennium Development Goals (MDGs) painful and slow, especially given inadequate development assistance of an estimated at \$50 billion a year needed to meet the MDGs in 2015.

Infrastructure – energy, roads, rail, ports, etc. - remain a critical bottleneck. Less than 25% of the population of SSA has access to electricity, compared to 40% access in other low income regions. The consequence is that that Africa is not less competitive beyond the factory floor but is also constrained from taking advantage of the 2% increase in growth and 40% rise in productivity that results from better infrastructure.

Access to finance by households and firms remains a barrier to the development of the private sector and a threat to Africa's revival. Credit to the private sector remains low at 14% of GDP and only accounts for less than 30% of total Bank assets in a continent where only 20 percent of adults hold a bank account at a formal or semi-formal financial institution. Interest costs of 8 percent on the continent compared to 4.8 percent worldwide as well as collateral requirements remain exorbitant.

### **Africa emerging as a vitally strategic continent.**

African governments have also increasingly adopted policies to energize markets: increased role of the private sector as many State-owned companies are restructured or outrightly sold; strengthened regulatory and legal systems; improvements in governance and macroeconomic policies; better management of

favorable commodity revenue and capital flows; and higher investments healthcare and education. In Nigeria for instance, more than 116 enterprises changed from state to private ownership between 1999 and 2006. .

These structural changes have helped fuel the productivity of the African economy and largely account for the continent's ability to weather the global downturn better than most with the projected growth rates of 3.8 and 4.5 percent in 2010-2011, faster than Latin America, and Europe and Central Asia.

A fundamental point to highlight is that this growth story is hardly limited to the extractive industries despite the fact that eleven of its countries rank among the top ten sources for at least one major mineral and the continent likely to produce 13 percent of global oil by 2015, up from 9 percent in 1998.

As many as 200 million Africans will enter the consumer goods market by 2015. Banking and telecommunications are growing rapidly too, and infrastructure expenditures - of about \$45 billion per year - are rising significantly faster in Africa than in the world as a whole.

The continent also accounts for more than one-quarter of the world's arable land. And the fact that it only currently generates only 10 percent of global agricultural output implies that there is huge potential for growth in a sector now expanding only moderately, at a rate of 2 to 5 percent a year.

For many companies, this is a future worth investing in.

And private capital is already taking note. Between 2000 and 2008, FDI increased from \$10 billion to \$88 billion – more than India (\$42 billion) and even more remarkably, catching up with China (\$108 billion). Since 1990, SSA almost tripled its exports and diversified its trade partners. Chinese imports alone from SSA increased dramatically from US\$64 million to over US\$13 billion.

### **Promising long-term growth prospects.**

#### An increasingly globalized world:

A critical question is whether Africa's surge represents a one-time event or an economic takeoff. The continent's growth also picked up during the oil boom of the 1970s but slowed sharply when oil and other commodity prices collapsed during the subsequent two decades.

Today, individual African economies could suffer many disappointments and setbacks. While short-term risks remain, our analysis suggests that Africa has strong long-term growth prospects, propelled both by external trends in the global economy and internal changes in the continent's societies and economies.

Although Africa is more than a story about resources, it will continue to profit from rising global demand for oil, natural gas, minerals, food, arable land, and the like. Africa boasts an abundance of riches: 10 percent of the world's reserves of oil, 40 percent of its gold, and 80 to 90 percent of the chromium and the platinum metal group. Those are just the known reserves; no doubt more lies undiscovered.

Demand for commodities is growing fastest in the world's emerging economies, particularly in Asia and the Middle East. Despite long-standing commercial ties with Europe, Africa now conducts half its trade with developing economic regions ("South-South" exchanges). From 1990 through 2008, Asia's share of African trade doubled, to 28 percent, while Western Europe's portion shrank, to 28 percent, from 51 percent.

This geographic shift has given rise to new forms of economic relationships, in which governments strike multiple long-term deals at once. China, for example, has bid for access to ten million tons of copper and two million tons of cobalt in the Democratic Republic of the Congo in exchange for a \$6 billion package of infrastructure investments, including mine improvements, roads, rail, hospitals, and schools. India, Brazil, and Middle East economies are also forging new broad-based investment partnerships in Africa. The global race for commodities also gives African governments more bargaining power, so they are negotiating better deals that capture more value from their resources. Buyers are now willing to make up-front payments (in addition to resource extraction royalties) and to share management skills and technology.

While Africa's resource sectors have drawn the most new foreign capital, it has also flowed into tourism, textiles, construction, banking, and telecommunications, as well as a broad range of countries.

#### The rise of the African urban consumer

Africa's long-term growth will increasingly reflect interrelated social and demographic changes creating new domestic engines of growth. Key among these will be urbanization, an expanding labor force, and the rise of the middle-class African consumer. In 1980, just 28 percent of Africans lived in cities. Today, 40 percent of the continent's one billion people do—a proportion roughly comparable to China's and larger than India's.

By 2030, that share is projected to rise to 50 percent, and Africa's top 18 cities will have a combined spending power of \$1.3 trillion. It is important to highlight that urbanization can breed misery if it creates slums. But it can also boost productivity as is the case in Africa – as workers move from agricultural work into urban jobs raising demand, and investment in the process.

Meanwhile, Africa's labor force is expanding, in contrast to what's happening in much of the rest of the world. The continent has more than 500 million people of working age. By 2040, their number is projected to exceed 1.1 billion—more than in China or India—lifting GDP growth. Over the last 20 years, three-quarters of the continent's increase in GDP per capita came from an expanding workforce, the rest from higher labor productivity.

Turning this demographic shift into opportunities would depend on the ability to provide these youths with the education and skills they need, creating a large workforce with the potential of becoming a significant source of rising global consumption and production.

Finally, many Africans are joining the ranks of the world's consumers. In 2000, roughly 59 million households on the continent had \$5,000 or more in income—above which they start spending roughly half of it on nonfood items. By 2014, the number of such households could reach 106 million. Africa already has more middle-class households (defined as those with incomes of \$20,000 or above) than India. Africa's rising consumption will create more demand for local products, sparking a cycle of increasing domestic growth.

#### Tourism as an emerging source of growth

Over the past 20 years, tourism has emerged as an important source of revenues and growth in Africa with a steady growth rate of 5 percent per annum and accounting for 8 percent of GDP. Not many stories of Africa report the more than 29 million tourists that visited the continent in 2008 of which 45% were to Southern Africa, 35% to East Africa, and 20% to West and Central Africa creating more than 10 million direct and indirect jobs and US\$42 billion in export revenues in the process.

### ICT as a growth enabler:

The advent of ICT has been critical to the development of the economies in Africa and has become the source of more than \$60 billion in private investments between 198 and 2008. It has not only helped to bridge the knowledge gap between African and rest of the world, it has also offered transformational opportunities by enabling access to finance; and enhancing the dynamism and efficiency of the markets. The example of Kenya's M-Pesa is one of the most successful examples of mobile money service since its launch in 2007 – generating more than 8.8 million users, many of them without access to a bank account. On average US\$1.96 million is transferred through M-PESA per day, mostly in small amounts averaging US\$20 per transaction.

### **Africa's diverse growth paths**

While Africa's collective long-term prospects are strong, the growth trajectories of its individual countries will certainly differ. Key to this is the levels of economic diversification and exports per capita.

For most of the countries in Africa, economic diversification implies a shift from agrarian to urban economies with multiple sectors contributing to growth. It is estimated that on average, each 15 percent increase in manufacturing and services as a portion of GDP is associated with a doubling of income per capita.

This is particularly important and calls attention to the importance of expanding intra-African trade given that most African states are small individually. For example, 26 of the 48 countries in SSA have populations less than 10 million and the region's annual total income is only \$505 billion, not even twice that of Belgium (with a population of 10 million).

It is clear that Africa's prospects lies on its ability to have more integrated and larger markets enabled by improved infrastructure and regulatory systems. These are essential conditions for enhancing competitiveness globally with other low-cost emerging economies. Already, studies show that Africa is as productive as China and India but that the Africans' overall costs are higher because of poor infrastructure and regulation—problems that the right policy reforms could fix.

### **What Are Africans Saying**

Over the past few months, the World Bank has been engaged with African stakeholders to better understand their perceptions as well as characterizations of the challenges facing the continent. This has been part of the Bank's effort to renew its strategy for supporting Africa.

So far, three major themes have emerged. The first is a clearer definition of the role of government vis-à-vis the private sector in development – calling into being the importance of Public-Private Partnerships (PPPs), improved investment climate and access to finance.

Second, is the importance of regional integration – not only to support trade but also for efficient infrastructure solutions. Thirdly is the role of citizens in ensuring better governance.

While these themes are still indicative, as partners of Africa's development, our role should be to support an agenda that has been set by Africans themselves - an agenda that seeks greater partnership and less patronage.