The flicker of a brighter future

The prospect of investing in sub-Saharan Africa can cause businesses to break out in a cold sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets, where war, famine, AIDS and disaster are always lurking. This week an annual World Bank study once again muted Africa as the most difficult region in which to do business. But not everyone sees it like that. Graham Mackay, who runs S&A Miller, the world’s second-largest brewer, has said that “if there was any truth to Africa, we’d be investing in it.”

Mr Mackay, whose firm has its origins in South Africa, is one of plenty of business leaders to see opportunities in the continent. Companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephonies. The region’s economy is growing steadily (see chart 1) and could expand by 5.8% this year. In part this is because of a commodities boom and debt forgiveness. But more peace, political stability and better economic manage-

ment have done their bit, too.

Nevertheless, there is a long way to go and still plenty to frighten away investors.

Chad, for instance, recently demanded that Chevron and Petrobas pay $900m in taxes or face expulsion, even though both companies thought they had met their obligations.

The government also decided it wants a share in the oil consortium. Some companies come up with a litany of complaints. One construction firm built a road in a West African country only to have half the work declared invalid during the day - stowed at night by people digging out steel reinforcements. After similar misfortunes elsewhere, it eventually quit the region.

Doing business in Africa is hard work. The World Bank study measures things like red tape and taxes. South Africa, Mauritius, Namibia and Botswana rank among the best 50 countries in the world. But of the 35 least business-friendly, 27 are in sub-Saharan Africa. Some are impossibly harsh; if firms paid all taxes due in Sierra Leone, they would spend almost three times their total pre-tax in the Democratic Republic of Congo, registering a business takes 155 days and costs almost five times the average Congolese’s annual income of $1,600.

For many African entrepreneurs, operating legally brings too many headaches and too few benefits. As a result, 42% of the region’s economy is informal, the highest proportion in the world (see chart 2 on next page). This hinders firms from growing and stifles much-needed employment outside the civil service. In Malawi only 50,000 people out of a population of 13m have formal jobs in the private sector.

Moving goods across borders takes a lot longer than it would in Europe - 27% of exports from Africa to Europe are blocked, and 40% of goods are stopped. But investment is rising sharply, if slowly, but progress: 27% of African businesses say they expect to increase output over the next year, and 27% that they expect to increase their investment.

Steady Improvement

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Growth on track

Of course, it is the private sector that is doing the growing. The World Bank study shows that 44% of businesses intend to increase their output and 43% plan to increase their investment.

It’s all a slow, slow start, but who can blame anyone for coming out of their shell? The region is growing and businesses are moving. The flicker of a brighter future is on the horizon.
of patience. At the Chirinda border-post between Zimbabwe and Zambia, an end- less line of trucks languishes, waiting sometimes days to clear customs. This keeps African markets small and frag- mented. Ayub Makulany, a Beniyan entre- preneur who now helps African busi- nesses, says red tape is one of the main problems for business. "The government is a broken-down bureaucracy in many places. If they were in business, they would be bankrupt," he sighs.

Bad roads, or a lack of them, add to the difficulties. Reliable electricity is rare. Cure- rent fluctuations are hard to stomach. Purchasing power is in short supply. Al- most half of the 70,000 sub-Saharan Afri- cans live on less than $1 a day. The pool of qualified staff is small. Africa claims the lives of employees and customers alike. And, according to surveys from Transparency International, a Berlin-based corrup- tion watchdog, gold is still seen as a huge problem. Countries like Côte d'Ivoire and Zimbabwe, once regional powerhouses, have descended into political and econ- omic ruin.

With such a formidable list of hazards, no wonder many investors stay away. The costs and risks—not to mention the hassle—handily seem worth it. Africa captures less than 3% of global foreign direct invest- ment. And most of this is from mining and oil companies, which have little choice but to go where the minerals are.

Yet some of the entrepreneurs who manage to succeed in Africa find that the rewards are great. When Celtel, a mobile- phone operator, set up in Zambia eight years ago, it concentrated on the densely populated corridor between Victoria Falls (on the border with Zimbabwe), Lusaka and the industrial copper belt. This was thought to be the only area in which to do business. Yet in 2003, the company de- cided to invest in rural services, too, and was astonished at the result.

Although most rural customers had never used a telephone, they were keen to have one. This encouraged more people in the cities to obtain mobile phones to talk to relatives in the countryside. The introduc- tion of M2U, a service that allows callers to use text-messaging to send airtime credit to other mobile users, produced a series of new services.

Most people do not have bank ac-counts and the service has become a con- venient and cheap way to transfer money. In villages it has also emerged as a substi- tute for cash, with people using airtime to pay for their shopping. Shopkeepers cash in their accumulated phone credits with people who make money by offering call- ers use of their mobile phones as a sort of public phone. With the past two years, Celtel's Zambian customers have grown from 300,000 people.

Celtel found that it succeeded if it adapted products and services to local tastes, needs and small budgets. A similar adjustment is to be found in Uganda, where aAAMiller at first depended on im- ported milk to make its beer. It developed Eagle, a beer made from cheaper, locally grown sorghum and negociated a re- duction in its excise tax. The reduction in costs was used to lower the sale price. The cheaper beer, resembling lager, sold well and has now been introduced to other countries in the region. Most drinks are also sold in returnable glass bottles, which are cheaper than cans.

Although many Africans are poor, they are willing to pay for what they need. The plentiful creativity and entrepreneurship in the informal economy can be harnessed to cater to them. Prepaid telephone cards and soft drinks, often distributed via inform- al networks, can be found in tiny stalls in the most remote corners of Africa, despite all the difficulties with transport.

In Ghana Barclays, a British bank, started working with "Susu collectors," who gather savings daily from informal traders without access to banking, to keep their money safe. There are an estimated 5,000 Susu collectors in the country, each working with an average of 400 clients. This is a $350m market that exists below the traditional banking radar. Barclays now offers special bank accounts, training and lending to the Susu collectors, who can provide credit to their clients. The bank was taken shock over the amount of money, sophistication and willingness to save in the informal economy.

Such results take patience and imagin- a tion. In Nigeria South Africa's MTN, the largest mobile phone company in the re- gion, had to build its own microwave transmission backbone and power sup- plies. It now enjoys a 45% market share, with over 9.5m subscribers. In Uganda it erected the first solar phonebase, used by local fishermen, on Lake Victoria. Many of the rural branches of South Africa's Stan- dard Bank rely on satellite transmission, diesel generators and solar power. Its iso- lated branch on a Lake Victoria island wa- s recently featured on CNN Swamp Man, a television show about riverine cultures money from the sky: with no land- ing strip, planes drop bags of cash to be collected by staff and security guards. Hav- ing bought a local bank, improved service and invested in more branches, Standard Bank now serves almost half the Ugandan market.

For such companies, the reward for cop- ing with the risk and the hassle comes in large returns and a lack of competition. Successful businesses can expect to enjoy comfortable margins, re-investing them for their time and investment. aAAMiller's best operating margins are in Africa, MTN's are over 42%.

Successful investors say that Africa can be too much of a headache for other emerging markets, but that doing business requires good local knowledge. South African companies tend to be well placed to operate in the re- gion—though Peter Wharton-Hood of Standard Bank cautions that: "You can't have South Africa dumped into Kapslala." aAAMiller believes that its African assets help it better to understand the cultural sensitivities in the continent. Dimension Data (DST)，a South African re company that now operates globally, finds emerging markets easier under than the intensely competitive and unfamiliar European or North American ones.

Finding a local partner helps. Locals may not bring much capital or technical expertise, but their knowledge and net- works bring a local bank, improved service and Nigeria and hope to understand what's go- ing on without a local partner," says James McCormack, who is in charge of Africa at Diltada. It is also a way of avoiding dis- trust in foreign companies, which are often perceived as mammoths banging in to make a quick buck or to wreck local busi- nesses. South African supermarkets, for example, have been accused of undermin- ing local workers and squeezing local suppli- ers. aAAMiller's African operations are joint ventures with locals, some of them government-owned. Andre Baxter, in charge of Africa at aAAMiller, admits that this is not always smooth sailing. It is "an educa- tional process for both sides." Managing by consensus can be slow, but having local shareholders and the government on board pays off in the long run.

"Moving forward requires a clever and re- silient people is also tricky. "The depth of talent in Africa is huge," says Standard Bank's Mr Wharton-Hood. Experience is, however, often thin. Most foreign firms have to work very hard to under- standing well trained staff to stay is not easy. Besides generous salaries and perks such as medical cover, promises of excelling career prospects— at home and abroad—may be needed to keep people happy.

Size and national diversity make a difference, too. Nigeria, a highly federal state, who have re- search projects on business in Africa at the 10
South African Institute for International Affairs, a think-tank, says large foreign companies are in a much better position than small or local ones to weather Af-
rica’s frustrations. They have easier access to money; they can negotiate extensions, incentives and tax breaks from govern-
ments that local companies can only dream of; they can invest time and money in understanding and navigating Byran-
tea regulations; and they have enough power to say no to corruption without get-
ing hassled. Celtel refused to pay its way into the Democratic Republic of Congo. This delayed negotiations by two years, but the company eventually made it.

In for the long haul

The time, investment and risk involved in making Africa work mean that investing there is not for everyone—which is why profit margins are large. “When we went into Mozambique, people thought we were mad,” recalls Vincent Mapahi, who heads a billion-biggin South Africa. In the mid-1990s Mozambique was coming out of a civil war and the area where the com-
pany was building its Memot aluminium smelter was infested with malaria. But the mineral resources were valuable and the company believed in the country’s poten-
tial. This encouraged other investors, who followed in ass Billiton’s footsteps into Mozambique, where the economy has grown by an average of 8% a year over the past decade.

Local exporters, especially large ones, are expected to contribute more than taxes and salaries. They must also take care of employees and local people and help the private sector. Weak and poor govern-
ments are often unable to provide services such as health care and education, and people want something from foreign in-
vestment, which often benefits only a small elite. “Don’t even dream of doing business in Africa if you’re not prepared to live a visible legacy,” says Mr Mapahi. “Investing in communities is taken for granted. You do not get rewarded for doing it. You just get punished for not doing it.” The MicAAF has supported an entrepreneur programme and a school. Many foreign companies help employees and some-
times customize remuneration with HIV/AIDS

Such efforts can sometimes help the business. For example, consider the time and money spent helping local suppliers as a worthwhile investment. Monal-estimates that the company’s annual spend on goods and services amounts from over 200 local suppliers. B. Miller, which relies on local support for its operation, has a series of soft drinks to the remotest corners of Af-
rica, helps to support a private credit, and training. Its Tanzanian operation has 1,000 employees, of whom only four

Cash call

are expatriates. Last year, large firms with an interest in the region set up a Business Action for Africa to help foster the private sector. The real-
isation that much of Africa’s development depends on helping local businesses flourish
has resulted in a flurry of initiatives. “I don’t believe for a moment that there is a stronger entrepreneurial spirit in Asia than in Af-
rica,” says Mr Grobbelaar. But small informal businesses need to be consoli-
dated, nurtured and brought into the for-
mally economy. Reformers need to make life easier not just for large foreign companies, but also for small ones. Better links with the local private sector would also help spread the benefits of foreign investment.

Ultimately, doing business in Africa is a gamble on the future. This is the cost and will make something of the commodity boom that has helped grow faster in the past three years than at any time in the past few decades and, possibly, ever. If the economy takes off, investors intend al-
ready to be there, firmly rooted. “Africa’s promise is about tomorrow,” says B.
Miller’s Mr Parker. The Thousands Hills Venture Fund, a small private-equity firm set up to invest in Africa, is also optimis-
tic. Bob Fogle, the co-founder, believes that the country has already turned the corner. He warns against investing in small companies in Africa can be success-
ful. So far, it is the only Africa fund based in the United States to be entirely financed by private money.

Although African counties have thrown away past opportunities, the opti-
mists may yet be proved right. Visually all those countries that once embraced a Marxist credo have now forsaken it; few even call themselves socialist any more. Large parts of economies have been priva-

ted. Places like Nigeria, Zambia and

Rwanda have launched anti-corruption sweeps. Africa may remain at the bottom of the World Bank survey, but it is the third most reforming region—although it has never been 
before. Tanzania and Ghana were amongst the most ambitious reformers in the world this year. Nigeria has em-
barked on a reform of the courts. In Kenya, 
taxpayers can now pay customs duties online, reducing time and frustration. The Bank is seeing their ranking improve, some governments have been hailed into action and are now talking to the private sector to identify the most-
needed reforms.

Will it last? Michael Klein, in charge of private-sector development at the World Bank, thinks it could. If governments re-
main on their current track, he believes growth in sub-Saharan Africa could reach 9% in a decade or so. That is a huge prediction in a region prone to bouts of 
booms, because of its reliance on minerals, oil and rain. Previous commodity booms have been squandered and in some cases, often because of complacency, left coun-
tries in an even worse mess. This could happen again. But with better funda-
amentals, Africa may now be more resilient than it was. For one thing, African oil im-
porters are coping with high prices much better than they did in the 1970s. Foreign investors are governed by trust, 
and China and India also rank relatively poorly in the World Bank survey, but are 
remarkably investment magnets. Mr 
Klein argues this is because investors are con-
vinced that these countries are going in the right direction and they want to tap into their large markets easily. Africa will have to prove itself through years of good performance and sustained reform before it can gain such confidence. But if it does, those who are already betting on the contin-
ent will be miles ahead.