Doing business in Africa

By Robyn de Villiers

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Finding the balance between the opportunities and the risks is the right way to do business in Africa. These are the key trends driving investment in Africa.

Africa is a continent of contrasts. It is little wonder the first European settlers in South Africa described Cape Town as both the "Cape of Good Hope" and "the Cape of Storms". There are extremes everywhere - affluence and poverty; opportunity and misery; great natural beauty and environmental degradation.

Not that many years ago, Africa was often seen as the 'hopeless' continent. Now it is a continent on the rise - the opportunity continent, the continent of hope. Both the reality and the narrative have been optimistic for a number of years now.

There are six main reasons for companies to invest in/work in Africa. All of these include both opportunities and risks that need to be carefully balanced.

1. Better regulatory environment and better governance

African countries are building local environments that are more conducive to doing business. But there are 55 different countries on the continent and therefore 55 different sets of regulations, political regimes, governments and processes. Therefore, for a company that wants to do business on the continent, it is crucial to have local partners on the ground to advise on, and to overcome, any potential pitfalls in these areas.

2. Greater political stability

In 1991 there were eight democracies in Africa; today there are over 30! Growing and sustaining democracy is being driven by the emerging middle class and a vibrant private sector. When working in Africa, businesses need to understand the political environment. Local partners/advisors are important in doing this.

3. Demand for resources

Africa is the richest continent when it comes to natural resources. This has given African governments more bargaining power and has led to new forms of relationships. For example, China is a customer/trade partner, banker and development partner. China is attracted to Africa's raw materials to feed its industries and at the same time needs a market for its increasing numbers of manufactured goods.

Handled badly, this can lead to a fear of economic colonialism where companies are perceived to take advantage of the "unsophisticated locals and local leaders", to be plundering riches and leaving little behind in terms of benefits to locals, communities and countries. When doing business in Africa, companies need to demonstrate commitment to the local community and doing business in partnership with local people, and where necessary, with governments.

4. Expanding labour force

Africa has the youngest and fastest-growing population in the world and by 2040, will have the largest labour force with 1.1 billion Africans of working age. This represents a labour force larger than those of both China and India and there must be an opportunity in that. However, in Africa, unemployment is still the biggest social and political risk. Poor education and skills levels mean that many young people are only suitable for lower level jobs/unskilled jobs. This can lead to social anger, frustration and potential unrest. It is clear that a concerted effort is required to improve education and training and companies that operate in Africa are required to play their part in this.

5. Urbanisation

Urbanisation in Africa is currently at 40%, which is comparable to China and higher than India. By 2050, 60% of Africa's population is expected to be urbanised. Increasing urbanisation leads to an increase in consumer spending power and therein lies a huge opportunity for consumer goods companies and, in turn, all those involved in their supply chains - transport, shipping, etc. But, rapid urbanisation can also bring some risks. Higher levels of unemployment in the cities can create social problems - overcrowding, insufficient housing, social and health problems and increases in crime rates. All of these can impact on work attendance, productivity and service delivery.

6. An emerging middle class

The emerging middle class is driving Africa forward, but it is not all positive. Adopting a 'one size fits all' approach to the middle class across the continent is incorrect, because it will lead to a misunderstanding of local markets and local consumers. Companies need to adjust their strategies and expectations for their different markets in different countries to be able to service appropriately for each market.

In conclusion, despite the risks, the opportunities across Africa are significant and span every sector. But investors would be well advised to keep in mind the enormous importance of finding the right local partners to advise and to overcome potential challenges. Appropriate and market-relevant communications are key to success in Africa.

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