SWITZERLAND GLOBAL ENTERPRISE

Africa
On the Rise

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12 key facts about Africa

1. 85% of Africans today feel they will be better off in 2 years – *in effect there is optimism about the future by Africans in Africa.*
2. African labor force will be the largest in the world by 2035 – *There is a huge need to invest in human capital development.*
3. Africa has as many cities with 1 million people as Europe – *Urbanization rate is a big factor in African demographic considerations.*
4. Intra-African trade accounts for less than 15% of all recorded trade amongst African countries. – *There is a critical need to develop the legal, operational and logistics infrastructure to continue to improve intra-African trade.*
5. The share of Sub-Saharan African trade with Western Europe has reduced by half since 1990 – *Europeans need to improve the way they trade with Africa, China, India and the Middle East seem to be taking African trade market share from Western European countries.*
6. Africa remains the fastest growing region in the world, after Asia. With many bright spots – *Time to focus on Africa, as the last true frontier of growth in the world.*
7. Consumer facing industries will be the fastest growing in Africa by 2020.
8. Mobile Internet Access is booming with 37% annual growth over the last decade, Making it the "*Single greatest investment opportunity in the world today"*
9. Urban Internet penetration in line with "BRIC" countries.
10. Rural Mobile penetration 10x lower than urban penetration in some African countries – means development is taking place mainly in the urban areas.

11. Africa will provide nearly 40% of all population growth over the next 40 years – important to pay attention to youth demand

12. There is not one, but four different Africas' with contrasted economic growth and human capital development dynamics.

The African growth story will be more and more driven by consumption and the need to develop infrastructure to facilitate demographic and economic growth – broadly speaking these are the two areas that will attract the most investment into Africa.

African growth will be more and more driven by consumption, as discretionary spending power increases across the continent. Urbanization will be a key also, as more and more young people migrate to the urban areas, increasing the demand for consumption. This contrast is highlighted, and will continue to be highlighted in the digital usage. The African mobile revolution in virtually all areas, including education, entertainment, mobile money and mobile banking will offer room for dramatic transformations.

One of the key challenges for African governments will be how to ensure growth is based on human capital development – This is a key area where European and Swiss intervention and partnerships can be truly helpful. – Africa's labor force will be the largest in the world by 2035, however most jobs will be vulnerable. Human capital development is therefore a critical area for private entrepreneurs to focus on the both create, preserve and develop local African capacity to handle those jobs.

The African Consumer and Consumption Potential

The African growth story, will be more and more consumer focused, driven by significant demographic growth and changes, increased discretionary spending power and improvements in productivity driven by greater internet access, and improvements in human capital capacity and development, and finally by improvements in infrastructure. Since 2000 alone, African consumption has grown by $512 Billion. This is less than the China, but in line with the BRICS countries.

Projections show that by 2020, more than half of African households will have discretionary spending power. The Internet will contribute as much as 10% of aggregate African GDP – and will contribute significantly in enhancing productivity gains across multiple sectors in Africa. These productivity gains, coupled with growth in consumer populations and increased earning power will drive growth in discretionary income – leading to even higher consumer demand.

Currently, most people use the Internet for social networking, emails, music/video, with on-line banking, shopping and travel bookings taking the rear for demand for the Internet. However, it is precisely in these areas that there is huge potential for investment by Swiss and European countries.

In the areas of Financial Services, Mobile banking and Money transfers – where the low rates of bank account adoption continues to power the successful take off of mobile money services and the top three countries in the world to use mobile payments are African (Kenya, Egypt and South Africa), e-government, e-healthcare, on-line education, e-retail, hotel bookings etc.

However, private investment in Internet-related infrastructure and digitization remains significantly low, and gives rise to a substantial opportunity for investment by European and Swiss companies. To set up significant Internet related infrastructure and reap the benefits through advertising revenues, and other business models that work. For example in other Emerging countries excluding Africa, private investment in Internet related infrastructure is approximately $43 per capita, while in Africa it remains at $2.5 per capita.

The African Infrastructure Gap

Due to political instability, unrest, poor accountability and governance and other well-documented reasons, African infrastructure has, and continues to lag behind that of BRICS countries.

African countries have the lowest kilowatt-hours per person, the lowest road densities per thousand square kilometers and similarly the lowest rail density per thousand square kilometers. As a result, logistics costs in Sub-Saharan Africa are 4 to 6 times as expensive as those of other emerging and developed countries. Improving logistics and distribution, is the largest single opportunity in the infrastructure development sector. The use of drone technology and drone distribution centers for example can become the fastest way to leapfrog some of the infrastructure challenges related to distribution of low payload merchandise such as pharmaceuticals etc.

Even at that, the current levels of projected infrastructure development lag behind the aspirational levels of other emerging economies, and the internal needs of the African economies. Accordingly, there is a strong case for Swiss companies to invest in African Infrastructure despite the significant operational changes. The rate of return on Foreign Direct Investment into African infrastructure remains the highest in the world. Private cities, and private housing estates remain a great example of where private intervention can be a truly successful investment opportunity for Swiss construction and development companies.

There is a strong business case for Swiss companies to invest in African Infrastructure. Infrastructure investments of approximately $1.5 Trillion are planned across Africa between 2012 and 2020. A full 25% of this projected spend will occur in Nigeria alone. An important fact to note is that due to operational challenges, less than half of these funding commitments to African infrastructure will be disbursed. So Project development expertise is required to make it work. Again, this is a great opportunity for Swiss companies to lend expertise in project conceptualization and project development.

Summarizing

In summarizing, I would like to invite the Swiss business community to think about how it can work with African business partners to develop and help anchor the African growth story in areas such as bridging the Internet and technology divide. How to use these advances in technology to improve trade, money transfers and banking in Africa.

Swiss companies should seek partnerships with African entrepreneurs to find solutions to the energy crisis currently being suffered on the continent.

One area where the Swiss business community is particularly strong is in finding and exporting solutions for improving healthcare delivery, by using technology to change the relationship between the individual and the healthcare delivery facilities – in such areas as diagnostics, health insurance verifications etc.

Finally, the biggest economic sector where the Swiss business community is particularly strong, and can make great inroads into Africa is in the area of Human Capital Development, in such areas as Education, Hospitality training, healthcare training – in fact, training and skill acquisition in general, and in using contemporary communication technologies to transform cultural and civic expressions.

Which regions are most promising within Africa?

Traditionally, most people interested in Sub-Saharan Africa have divided it into regions – namely, North, South, East, West and Central (mainly land-locked Africa), and have evaluated the continent along those lines.

While these distinctions remain valid and useful in evaluating investment opportunities and characteristics. Over the more recent times, there have been other models for grouping countries and investment destinations based on where they are, or might be in the development and economic trajectory.

Hitherto, along the more regional classifications – East Africa would throw up Kenya as the economic engine, and West Africa would offer up Nigeria (with its teaming population), and possibly Ghana as the best investment destinations. There is a valid basis for this classification. For decades, East Africa, governed by mostly benign dictatorships has been far more stable than the West Coast of Africa, where until recently has been a region of multiple and simultaneous strife in countries such as Liberia, Sierra Leone, Cote d'Ivoire, Angola – and frequent military coups like in Nigeria, Ghana.

The effect of this distinction has been that Foreign Direct Investment has flowed more easily, and into a far more diversified economic base in East Africa, than in West Africa. East Africa has for years remained a big tourism destination.

West Africa on the other hand has remained resource export driven, with little diversification away from this, as the political environmental uncertainty in these countries have limited investments to primarily resource extraction.

Clearly, using these distinctions the most attractive countries are the ones that drive, and hold together the regional groupings. So for West Africa (the Economic Community of West African States "ECOWAS" – the most important country would be Nigeria, followed by Ghana and Cote d'Ivoire.

For the East African Community "EAC" – which is more diversified it would be Kenya, followed by Tanzania, Rwanda and Uganda.

Today, those distinctions have fallen away, and replaced my more contemporary groupings. In the most recent groupings there are essentially four different faces of Africa.

The Four Different Faces of Africa

The Diversified Economies of Africa
Including South Africa, Morocco, Egypt, Tunisia, Namibia and Botswana – with GDP growth of 3.1% and Human Capital Development Index of 0.66

Given the level of development and attraction that these countries have, including in some cases proximity to Europe, these countries are not considered the most attractive countries from an investment destination.

The Natural Resource Export Driven Economies of Africa
Including Nigeria, Gabon, Angola, Algeria and others – with average GDP growth of 1.4% and Human Capital Index of 0.56.

The most attractive investment destination amongst this group of countries is Nigeria. It is generally more investor friendly, and actively seeking to diversify its economy. Additionally, with 170 Million people, it is easily the largest single market in Africa, and therefore has its own latent demand. All sectors related to efficiency improvements (logistics, internet), human capital development (health and education) and entertainment will remain very attractive sectors in this investment destination. Of course there are the traditional areas of oil and oil related services.

The Transition Economies of Africa
Including Kenya, Mozambique, Rwanda, Tanzania, Senegal and Cameroun, with an average GDP growth of 5.8% and Human Capital Index of 0.50.

All the countries in this sector will remain attractive for the foreseeable future. They tend to be relatively more diversified economies with investment opportunities in tourism, healthcare, education, Internet and mobile telephony and other areas. Many of these countries like Mozambique, Kenya, Tanzania have discovered significant oil and gas deposits – giving rise to an opportunity in these sectors as well.

The Pre-Transition Economies of Africa
Including primarily Sierra Leone, Ethiopia, Uganda, DRC
Average GDP Growth of 9.1% and a Human Development Index of 0.46.

Primarily the areas of focus and interest in these sectors will be in the human capital development sectors of healthcare and education, as well as internet related efficiency improvements.

Factors that contribute to the success of Swiss Companies seeking to enter Africa

Doing business in any African country can be challenging, even with the depth of opportunities that exist. However, there are many factors which contribute to success.

The challenges facing Swiss companies seeking to do business in Africa include:

1. Finding the right business partner – Finding the right business partner is crucial to doing business in Africa. Typically this should be done with care to ensure that the business partner understands the western business culture, and is prepared to invest capital into the business

2. Understanding the business culture and climate prior to making major market entries. Sometimes, the market approach in certain African countries can be different from how a market or even marketing and sales is approached in Europe. Spending power is also critical, so getting the pricing structure right is very crucial in setting out the market strategy for the new venture.

3. It is also important to start slowly, and generally small. Design a structure that minimizes risk to both parties.