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Unpacking the African consumer: spending patterns and investment opportunities

Unpacking the African consumer:
spending patterns and investment opportunities

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The **Council of Investors in Africa**, established by Jan Kulczyk in 2014, serves as a platform for exchanging ideas and know-how for even better Europe-Africa cooperation. The task of the Council is to support Polish and European companies wishing to expand on the African continent. The Council of Investors in Africa has gathered the leading Polish enterprises operating on the continent.

The **CEED Institute**, founded by Jan Kulczyk in 2010, is a think-tank whose aim is to promote the achievements and economic potential the CEE countries. Our ambition is to support business initiatives, as well as debates on indispensable reforms in the region, including measures to boost sustainable growth and innovative capacities. The objective of the CEED Institute is the dissemination of ideas and projects on how best to improve efficiency and competitiveness of the CEE region.

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Acronyms and abbreviations

AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AIDS	acquired immune deficiency syndrome
BMI	Business Monitor International
CAR	Central African Republic
CEE	Central and Eastern Europe
Cl	centiliter
DRC	Democratic Republic of Congo
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investments
FMCG	fast moving consumer goods
GDP	gross domestic product
GW	gigawatt
HIV	human immunodeficiency virus
ICT	information and communication technologies
IMF	International Monetary Fund
kWh	kilowatt hour
MW	megawatt
NGO	non-governmental organisation
ODA	official development assistance
OECD	Organization for Economic Co-operation and Development
RSA	Republic of South Africa
SAPs	structural adjustment programmes
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
WHO	World Health Organization

Jan Kulczyk
Founder of the CEED Institute,
Member of the Council of Investors in Africa,
International entrepreneur,
Founder of Kulczyk Investments.

Ladies and Gentlemen,

It is with great pleasure that I present to you the third CEED Institute report on Africa, conceived this time in cooperation with the Council of Investors in Africa, founded in 2014 by the leading Polish companies investing on this continent.

In the report, the authors have focused on the African consumer, underlying features of the African market, and its future potential. So far, the discourse upon African economic potential has been largely dominated by the continent's riches hidden underground. Various E&P companies have long been focusing on this part of the globe, setting up mines, drilling wells, and shipping out its wealth to the international commodity markets. This is changing now. Africa, with its demographic potential, rising middle class and development prospects, has started to be perceived to be the world's last "mass consumption frontier".

The report features an analysis of selected, significant sectors of the African consumer market in an attempt to provide a comprehensive picture of the investment potential especially for an investor from the CEE region. I am absolutely convinced that this report can serve as an excellent roadmap and a guide for anyone wishing to set foot on the continent.

An African proverb says that "Tomorrow belongs to people who prepare for it today". I strongly believe that this report will give potential investors a lot of insight and food for thought.

Adam Góral

CEO of Asseco Poland,
Member of the Council of Investors in Africa.

Although Africa is one of the fastest growing regions in the world, in Poland we still know little about the economy of this continent and we have just started to learn more about it.

It is important to replace any stereotypes with in-depth knowledge and direct experience. African countries have been a natural business opportunity for Polish companies for many years, an opportunity that we somehow have not dared to take advantage of for a long time.

Polish business has created a lot of valuable solutions for various industries, and this includes not only our information technology. I am convinced that many of our products can be used to support the development of African countries. In Western Europe, a long list of client references often plays a key role in tendering procedures, and the price of course, whereas, in emerging markets, such as Africa, much attention is paid to other factors as well. A good example is the energy sector, where African countries have huge needs but relatively little skill in project management. Therefore, it is essential that any companies executing contracts in Africa would not leave their customers alone, but served as partners, providing education and support in solving their problems. This is not always the case when doing business with companies in highly developed countries. At Asseco, we treat our customers with respect and show much flexibility as we understand their needs and the challenges they have to face. We try to avoid looking at their problems "from above" because, as Poles, we still remember very well what it is like to build everything from scratch. This is our advantage over Western competitors, who have not experienced what the governments and residents of most African countries are going through.

When investing in Africa, it is necessary to understand the specifics of individual countries and think long term. There are many companies and institutions which will need to undergo major changes. Our products, for example for banks, insurers, energy and telecommunications companies, have a built-in knowledge of operating processes. Hence, in such projects, we also act as consultants. This is our chance and we intend to build on it. We do not want African countries to become dependent on our company, but to teach their own professionals. I would advise my fellow entrepreneurs to adopt this kind of business model, because it is very fair and should be effective in gaining a market in this very promising region.

Karol Zarajczyk

President of the Management Board of URSUS S.A.,
Member of the Council of Investors in Africa.

I strongly believe that the report prepared by the CEED Institute and the Council of Investors in Africa will be an extremely valuable contribution on the ongoing debate on Africa. Encompassing the complexity of the African consumer, the report shows a deeper glimpse into the African market.

URSUS S.A. is the largest manufacturer of tractors and agricultural machinery in Poland and the brand name has more than 120 years of tradition in mechanisation of Polish agriculture. The company offers a broad range of vehicles, machinery, and equipment, produced for use in agriculture in Poland and around the world. URSUS products meet the expectations of all generations of farmers, combining the tradition of Polish mechanisation with modern and global quality. URSUS is Poland's oldest national brand name with an established reputation and potential for further growth. URSUS S.A. is listed on the WSE.

The company has three production plants, in Dobre Miasto, just outside of Olsztyn, Opalenice, just outside of Poznan, and the largest in Lublin, which collectively employ more than 700 people. URSUS S.A. produces more than two thousand tractors per year and agricultural fittings and machinery sold in Poland and around the world.

The firm is one of the key investors in the Lublin region, where it is expanding its production support and research and development facilities, and the URSUS S.A. R&D structures work with engineers at the Lublin University of Technology in developing innovative mechanical solutions. This enables the Company's Management Board to apply the 120-year tradition of URSUS and the potential of Polish engineers and constructors to create a modern automotive centre in Lublin.

URSUS S.A. products reach thousands of customers in Poland and elsewhere. Out of the 1.5 million tractors currently in use in Poland almost half, i.e. approximately 700 thousand, are URSUS tractors. URSUS tractors reach 30 countries around the world, including the Czech Republic, Belgium, Holland, and the Baltic countries. In recent years URSUS S.A. has also been among the top Polish exporters to Africa. In 2012 the company sold several hundred tractors to Nigeria and in 2013 – as part of an agreement between the Polish government and the government of Ethiopia – the Company entered into an agreement with the Ethiopian firm METEC for delivery of three thousand tractors, fittings for maintenance centres, supply of spare parts for tractors, and training. Last year URSUS S.A. performed in full a shipment of tractors, fittings for maintenance centres and delivery of spare parts, as elements of the agreement. At the moment the Company is in the process of implemen-ting the next V tranche of the first phase of the agreement and is already planning further export projects.

Filip Suś
President of “ProAfrica”,
Member of the Council of Investors in Africa.

Africa will continue to develop – whether Poland contributes to its growth or not. The economic world leaders such as China have already established their position on that continent. While Polish entrepreneurs are still debating whether or not it is worth dealing with the challenges of entering unknown markets, many Asian companies are achieving countless successes in various sectors of the African market, such as construction and manufacturing.

The fact that 11 countries from the African continent are present in the ranking of the world’s 20 fastest growing economies should definitely appeal to potential investors. Due to high rates of economic growth the income from investments on that continent is often higher than in more developed countries. The demographic changes that result in constantly growing markets are the next important factor attracting entrepreneurs. The most important fact, however, is that there are still many undiscovered opportunities in Africa.

If Polish companies do not wake up in time to develop strategies to build our position in Africa, a few years from now we might discover that we have wasted a unique opportunity. I hope that this report will encourage Polish investors to harness existing opportunities.

Executive summary

The African economic path has been largely associated with the continent's vast natural resources. Mining and oil companies have long been flocking to the region, setting up mines, drilling wells and shipping out its wealth to the international commodity markets. This is changing now. Whereas Zambian copper, Angolan oil and Ghanaian gold have not lost their shine and keep attracting foreign investors, the international business community has begun looking at the region from a slightly different perspective. Domestic consumption and internal markets, which in the past rarely stirred investors' imaginations, are now becoming business hotspots, and Sub-Saharan Africa has been declared the final frontier for retailers.

In the last decade, Sub-Saharan Africa has seen 4% growth in consumer spending, and according to available forecasts, this trend is not a temporary anomaly. Never before have Africans been called "consumers" on the pages of so many influential reports and official documents. The continent has seen global brands and retailers, along with small businesses and start-ups, including a growing number of firms from Central Europe, knocking on its doors on an unprecedented scale. They are all trying to tap into a potential which, for a change, is not trapped under the ground but very much above – in African consumers' pockets. Make no mistake, the major reason for this is profit. It has been estimated that African consumer markets will inflate to nearly $1 trillion by 2020. With the African buoyant demographics and an emerging – slowly but surely – middle class, the region is poised to become many investors' darling in the years to come.

Truth be told, the "Africa rising" gospel preached by so many recently went through particularly rough waters in 2014. In fact, some commentators have already put the Africa rising narrative to sleep, calling it undeserved hype and a sheer statistical stunt. Escalation of Boko Haram's murderous activity in Nigeria, Somalian Al-Shabaab's recurrent attacks, the dramatic war that West Africa has been waging against Ebola, continuing instability in Central Africa – it has all captured the imagination of prospective investors and regrettably provided a blow to the notion that Africa is ripe for business and welcomes foreign investors with open arms. However, those who follow Africa more closely, including the authors of this report, are aware that such events hardly paint the continent's business landscape in true colours. Even so, a series of sombre news events has not helped. As a result, in Central Europe many investors' appetites for African markets have surely waned.

This report attempts to look at African consumer markets through the lenses of a potential investor from the Central and Eastern Europe (CEE) region. But instead of providing an overall picture, which, we believe, is redundant and not very useful when it comes to real investment decisions, it breaks down domestic consumer markets, whose size is roughly captured by the size of consumer spending, into individual sectors. This is done according to available data, courtesy of the African Development Bank, which helps understand where (into which sectors) an African consumer's spending is channelled. This methodology is not without problems. As it is based on nominal spending and its sectoral allocation, it ends up lumping all consumers together. This implies that the strategic problem of African consumer segments may not be sufficiently addressed. The report seeks to partly redress this imbalance by devoting a chapter on the middle class in Africa, whose emergence and size should inform investors' calculations more than other income groups.

The report is structured as follows. The first part of the report discusses underlying features of the African consumer market and its future potential, such as demographics and the middle class, in order to analyse and provide a quantitative justification to the selected sectors. In the second and essential part, all the sectors that the authors identify as significant based on the available data are described. This includes, in order of appearance, the following sectors: (1) food and non-alcoholic beverages, (2) housing, electricity, gas and other fuels, (3) transport, (4) clothing and footwear, and (5) other potential sectors. Additionally, the report includes business case studies of Polish companies that have successfully entered African markets and/or appreciate their growing potential. The case studies also discuss a range of issues which Polish entrants regard as challenges and business barriers.

It should be stressed that the findings of any report are only as good as the data. Here, the report employs a complete dataset prepared by the African Development Bank. Having in mind the problem of data quality in Africa, one should approach these numbers with caution. Nevertheless, since the report uses the data only to establish spending patterns and sectoral allocation, it should not jeopardise the conclusions in any significant way even if the size of respective sectors are not entirely accurate. Another reason for caution, which this and other CEED Institute reports highlight repeatedly, is the simple truth that Africa is not a country, and the business opportunities should be explored individually (on a country level) instead of "regional lumping". Additionally, as pointed out by Nielsen, a leading global information and measurement company, following market macro-trends and promising statistics (e.g. growing GDP and consumer base) is not enough. To be successful, companies should also put together three key pieces: "who shops, where they shop and what they shop for".[1]

Moreover, looking at total consumption figures, African consumer markets are in fact dominated by a handful of countries, among which South Africa and Nigeria – two of the continent's heavy weights – account for 51% of SSA's total expenditure. Last but not least, the authors of this report do not wish to become simply more names on the long list of uncritical business cheerleaders, ignoring the myriad of challenges the region and individual countries in Africa are still facing. Whereas the harsh realities of many African countries and its inhabitants are fully acknowledged, the focus in this report is to track and follow African consumer spending and establish how the spending patterns may translate into business opportunities for CEE companies.

As argued in various parts of this report, companies from Central and Eastern Europe that are looking to establish (or strengthen) their international footprint should turn their eyes towards the African continent. On the one hand, Africa is considered to be the world's last "mass consumption frontier" (it is predicted that by 2050 one out of four people will live in Africa), with consumers' money fuelling various sectors across the continent (from food and beverages, through housing, transportation, clothing and footwear to domestic appliances, ICT and financial services – all discussed in this report). On the other hand, companies from the CEE region have experience in operating within a dynamically changing business environment – which is the state that Africa is currently in. This "wind of change", along with the unique experience of CEE companies and evolving African consumers' spending habits, have created an unprecedented window of opportunity for both Africa and Central and Eastern Europe.

[1] Africa: How to Navigate the Retail Distribution Labyrinth, Nielsen, February 2015, http://www.nielsen.com/content/dam/nielsenglobal/ssa/docs/reports/2015/africa-report-navigating-the-retail-dist-labyrinth-feb-2015.pdf

PART I

MEET THE AFRICAN CONSUMER

1.
DEMOGRAPHIC DIVIDEND VS. MALTHUSIAN TRAP: AFRICAN DEMOGRAPHY AND CONSUMER MARKET

Africa is the last region of the world to enter the demographic transition, whereby societies move from a high birth/high death equilibrium to a low birth/low death equilibrium via a high birth/low death transition phase.[1]

Demographic growth is a double-edged sword. In the long-term perspective, population shrinkage (often coupled with aging) is usually associated with economic decline. Fewer people of working age in developed states, and an increasing life span, leads to a collapse in social insurance system, reductions in the tax base and a general shrinking of the economy. Moreover, it is extremely difficult to stimulate growth in the number of births in countries which are already experiencing a demographic collapse. The fastest solution – opening the labour market for migrants – may increase social anxiety, create cultural tensions and is always a politically difficult decision which involves planning and implementation of multilevel integration projects. On the other hand, rapid growth of the population might be associated with Malthusian catastrophe, defined in the late 18th century by one of the world's first professors of political economy – Thomas Malthus. Malthus claimed that population growth is exponential, while the agricultural production grows arithmetically, which in the long term might lead to the risk of famine.[2] The current version of the Malthusian catastrophe is associated not only with food and water security but also with access to various other natural resources, means of production, state benefits, absorption of the labour market and negative impacts on the natural environment,[3] which, in turn, can lead to conflicts.[4]

Nevertheless, the rapid population growth in Sub-Saharan Africa is among the major factors that create hopes that this region will benefit from demographic dividend[5] and will follow the way paved by the Asian Tigers. Africa stands out with the highest birth rates in the world and, consequently (despite the high death rate), it has the world's youngest population.[6] In 1970, Africans made up one-tenth of the world's population, and currently one out of seven inhabitants of our planet lives in Africa. If the "high variants" of demographic forecast come true, in 2050 one out of four people in the world will be from Africa.[7] Southern Africa is an area of relatively low fertility, but population growth in countries such as Zimbabwe, South Sudan, Malawi, Niger, Burundi, Uganda, Burkina Faso and Mali is above 3% per annum,[8] which means that these countries will double in size in less than 20 years. To put it bluntly – over the next 30 years the world's population might increase by over 2 billion people, and over 1 billion of them will be born in Sub-Saharan Africa.[9]

The changing proportion of the population growth rates is the most evident in relation with Europe. In the immediate postcolonial period there were two Europeans for every African, and it is projected that within the next 15 years this ratio will be reversed to two Africans for every European.[10] This situation might be perceived as an opportunity for the (literally) Old Continent, since Africa could provide Europe with manpower, and what is more, due to its demography it presents investment opportunities for European entrepreneurs apart from the mining sector.

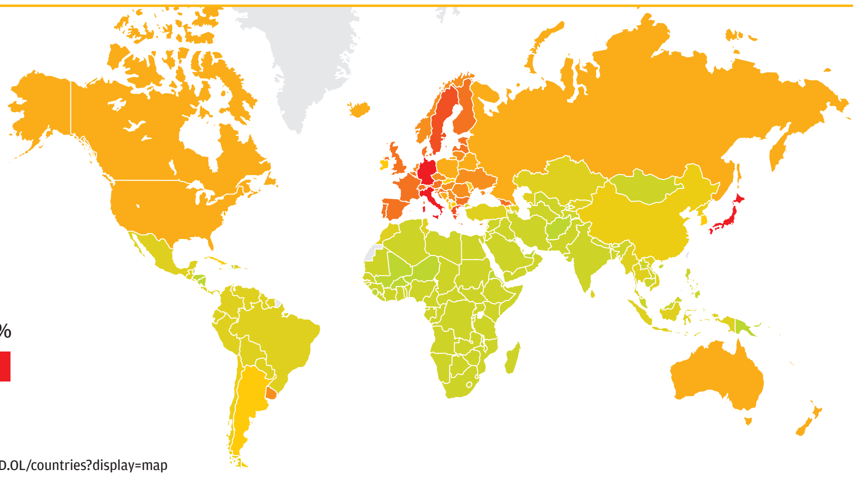
[1] E. Green, The Political Demography of Conflicts in Modern Africa, Civil Wars, Vol. 14, No. 4, December 2012, p. 482.
[2] K. Smith, The Malthusian Controversy, Routledge, Oxon 2006.
[3] D.D. Zhang et.al., Global climate change, war, and population decline in recent human history, PNAS, Vol. 104, No. 49, 2007, http://www.pnas.org/content/104/49/19214.short
[4] E. Green, The Political..., op. cit., pp. 477-498.
[5] D. Hattingh, B. Russo, A. Sun-Basorun, A. Van Wamelen, The rise of the African consumer. A report from McKinsey's Africa Consumer Insight Center, McKinsey&Company, October 2012, p. 2, http://www.mckinsey.com/global_locations/africa/south_africa/en/rise_of_the_african_consumer; The Deloitte Consumer Review. Africa: A 21st century view, Deloitte 2014, p. 13, http://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/the-deloitte-consumer-review-africa-a-21st-century-view.pdf
[6] J. Enders, Young and restless, African in Fact. The Journal of Good Governance in Africa, Iss. 24, July 2014, p. 1, http://gga.org/publications/africa-in-fact-july-2014-the-youngest-continent
[7] African demography. The dividend is delayed, The Economist, 8 March 2014, http://www.economist.com/news/middle-east-and-africa/21598646-hopes-africas-dramatic-population-bulge-may-create-prosperity-seem-have
[8] CIA Factbook, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2002rank.html
[9] C. Mutanga, E. Zulu, R.-M. de Suoza, Population Dynamics, Climate Change and Sustainable Development in Africa, Population Action International, September 2012, p. 6, http://populationaction.org/wp-content/uploads/2012/09/Sustainable-Development-in-Africa.pdf
[10] According to the UN forecasts in 2100 Africa could be more than 4 times as populous as Europe, United Nations, Population Facts, No. 2, July 2011, Department of Economic and Social Affairs, Population Division, p. 2, http://www.un.org/en/development/desa/population/publications/pdf/popfacts/PopFacts_2011-2.pdf

On the other hand, China, which has consumed a demographic dividend during the last two decades, is now being heavily affected by the one-child policy and its population is ageing at an unprecedented rate.[1] At the end of the first decade of the 21st century, China officially stated that it is interested in developing its manufacturing base in Africa,[2] and in the medium and long term Sub-Saharan Africa is to become one of the main recipients of Chinese products and Chinese retailers are already present in all major Sub-Saharan cities from Addis Ababa to Cape Town.

The message to investors and retailers is simple – more people means more consumers, and the world's poorest continent might become a dream market for retailers. According to Simplice A. Asongu, the population growth in Africa might have an influence on investment in four ways: "(1) through its effect on the propensity to consume; (2) through its effect on the competition of aggregate consumer demand; (3) by means of supply of labour; and (4) as an essential part of a certain broader phenomenon which in turn vitally affects investment".[3] Moreover, the significant increase in the number of consumers is associated with the constantly increasing spending power of Africans and formation of the African middle class (see: Chapter 2). As noted by Grant Hatch, Pieter Becker and Michelle van Zyl: "Since 2000, consumer spending in Sub-Saharan Africa has grown at a steady 4% per year, reaching nearly $600 billion in 2010. The market is expected to be worth $1 trillion by 2020".[4]

Additional demographic factor that make Sub-Saharan Africa a potentially prospective consumer market is the population's age structure, since currently over 60% of the people living in Sub-Saharan Africa are below the age of 30 and the median age in 2012 for this region was 19.7 years.[5] In contrast, the world's median is 30.4 years, and this indicator for the European Union equals 41.9,[6] which means that Sub-Saharan Africa is currently half as old as Europe. According to the United Nations, with a median age of 25, Africa will still be the world's youngest continent in 2050, whilst the median age for Europe (46 years), Asia (40.5), Latin America (41 years) and North America (41 years) will exceed 40 years.[7] Furthermore, the age dependency ratio (the ratio of dependent children and elderly people to working people) in Sub-Saharan Africa is by far the lowest in the world, equalling 84.27.[8] In a literal sense, it means that globally the population of seniors will grow faster than the working-age population (which is the backbone of the consumer base), but in terms of the manpower potential and the most active consumer age group, Sub-Saharan Africa will remain the world's most prosperous market. The theoretical consequence of this situation could be a large number of people with direct income who independently decide on their consumer choices.[9]

Figure 1
The age dependency ratio across the world, 2010-2014 (% of working age population)



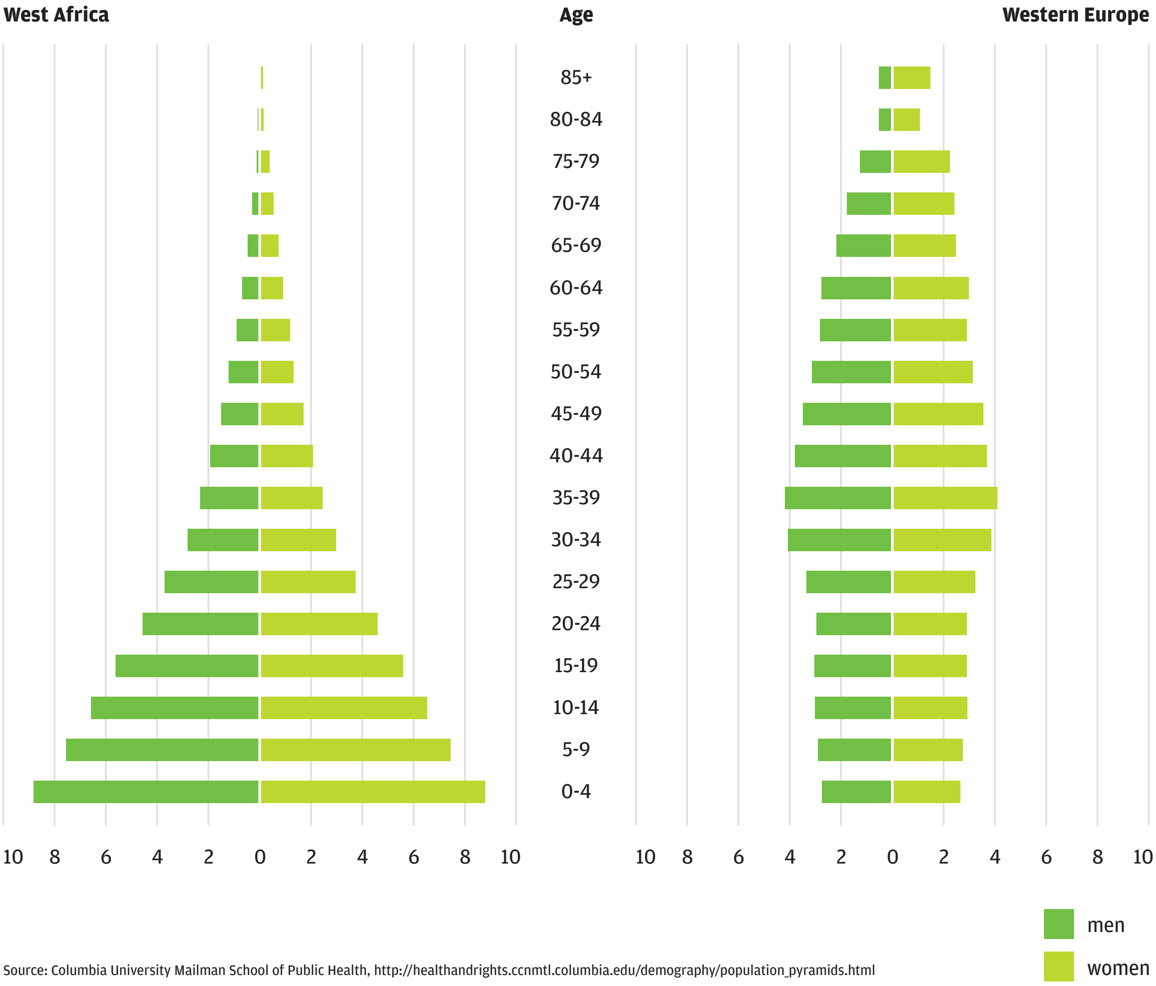
0% 41%

Source: World Bank,
http://data.worldbank.org/indicator/SP.POP.DPND.OL/countries?display=map

[1] Demography. A tale of three islands, The Economist, 22 October 2011, http://www.economist.com/node/21533364
[2] T. Branigan, China 'wants to set up factories in Africa', The Guardian, 4 December 2009, http://www.theguardian.com/world/2009/dec/04/china-manufacturing-factories-africa; Manufacturing in Africa. An awakening giant, The Economist, 8 February 2014, http://www.economist.com/news/middle-east-and-africa/21595949-if-africas-economies-are-take-africans-will-have-start-making-lot
[3] S.A. Asongu, How Would Population Growth Affect Investment in the Future? Asymmetric Panel Causality Evidence for Africa, African Development Review, Vol. 25, No. 1, 2013, p. 16.
[4] G. Hatch, P. Becker, M. van Zyl, The Dynamic African Consumer Market: Exploring Growth Opportunities in Sub-Saharan Africa, Accenture 2011, p. 7, http://www.accenture.com/SiteCollectionDocuments/Local_South_Africa/PDF/Accenture-The-Dynamic-African-Consumer-Market-Exploring-Growth-Opportunities-in-Sub-Saharan-Africa.pdf
[5] A. Janneh, Statement delivered at "Forty-fifth Session of the Commission on Population and Development", United Nations, Economic Commission for Africa, New York, 22-27 April 2012, http://www.un.org/esa/population/cpd/cpd2012/Agenda%20item%204/UN%20system%20statements/ECA_Item4.pdf
[6] European Commission, EUROSTAT, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Population_structure_and_ageing
[7] World Population Prospects: 2012 Revision, Highlights and Advance Tables, United Nations, Department of Economic and Social Affairs, New York 2013, http://esa.un.org/wpp/Documentation/pdf/WPP2012_HIGHLIGHTS.pdf
[8] Trading Economics, http://www.tradingeconomics.com/sub-saharan-africa/age-dependency-ratio-percent-of-working-age-population-wb-data.html
[9] Novare, http://www.novare.com/uploads/files/the-sub-saharan-africa-demographic-story.pdf

Figure 2

Population pyramid West Africa vs. Western Europe (% of population)



Source: Columbia University Mailman School of Public Health, http://healthandrights.ccnmtl.columbia.edu/demography/population_pyramids.html

Another process which is closely correlated with demographic explosion is rapid urbanisation. Currently, the share of the African urban population is around 40%[1] and is expected to reach 50% within the next 15 years. The rate of urbanisation in Africa is the second-highest in the world, equalling 1.1% per annum (second only to Asia – 1.5%), and what is more, the continent is expected to be the world's fastest-urbanising region after 2020.[2] The fact that more and more Africans are moving to cities makes targeting certain consumer groups easier for companies. As noted by KPMG, retail companies must "distinguish between opportunities at the national and at the city level. Data at the national level can often be misleading, as a city's GDP per capita can vastly exceed the national average due to the greater concentration of wealth in urban areas".[3]

[1] Urbanization in Africa, African Development Bank Group, http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/urbanization-in-africa-10143/
[2] World Urbanization Prospects. The 2014 Revision. Highlights, United Nations, Department of Economic and Social Affairs, New York 2014, pp. 8-10, http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf
[3] Africa's Consumer Story, KPMG 2013, https://www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/General-Industries-Publications/Documents/Africa's%20Consumer%20Story.pdf

There are four major factors that make African urban areas (especially African megacities and cities which will soon be included in this category) attractive places for retailers:

- The purchasing power of consumers in urban areas is usually higher than in rural areas.
- Urban areas have retail-related infrastructure.
- The high concentration of consumers makes the targeting of specific consumer groups easier for retail companies.
- The urbanisation rate across the continent is projected to grow.

Currently Sub-Saharan Africa has just two megacities (cities with a population over 10 million people) – Kinshasa and Lagos – but Dar es Salaam, Johannesburg and Luanda are expected to become megacities before 2030.

Box 1 **African cities: the future of the continent's mass consumption**

Today, major cities of the continent contribute to around 36% of the African GDP.[1] The biggest city-economies in SSA are Johannesburg and Cape Town.[2] However, fast economic and population growths are fostering development of other metropolitan areas across the continent. The major cities of South Africa with GDP per capita above $15,000[3] are the most developed urban areas in the continent. Oxford Economics classifies them as advanced service cities with stable structure of the economy where relatively wealthy consumers have access to and can afford a wide variety of services.[4] At the same time, Lagos, Nairobi and Dar Es Salam (with $2,900, $2,800 and $1,800 of GDP per capita respectively[5]) are so-called low-income consumer cities where a large share of household expenditures cover basic needs such as food and shelter.[6]

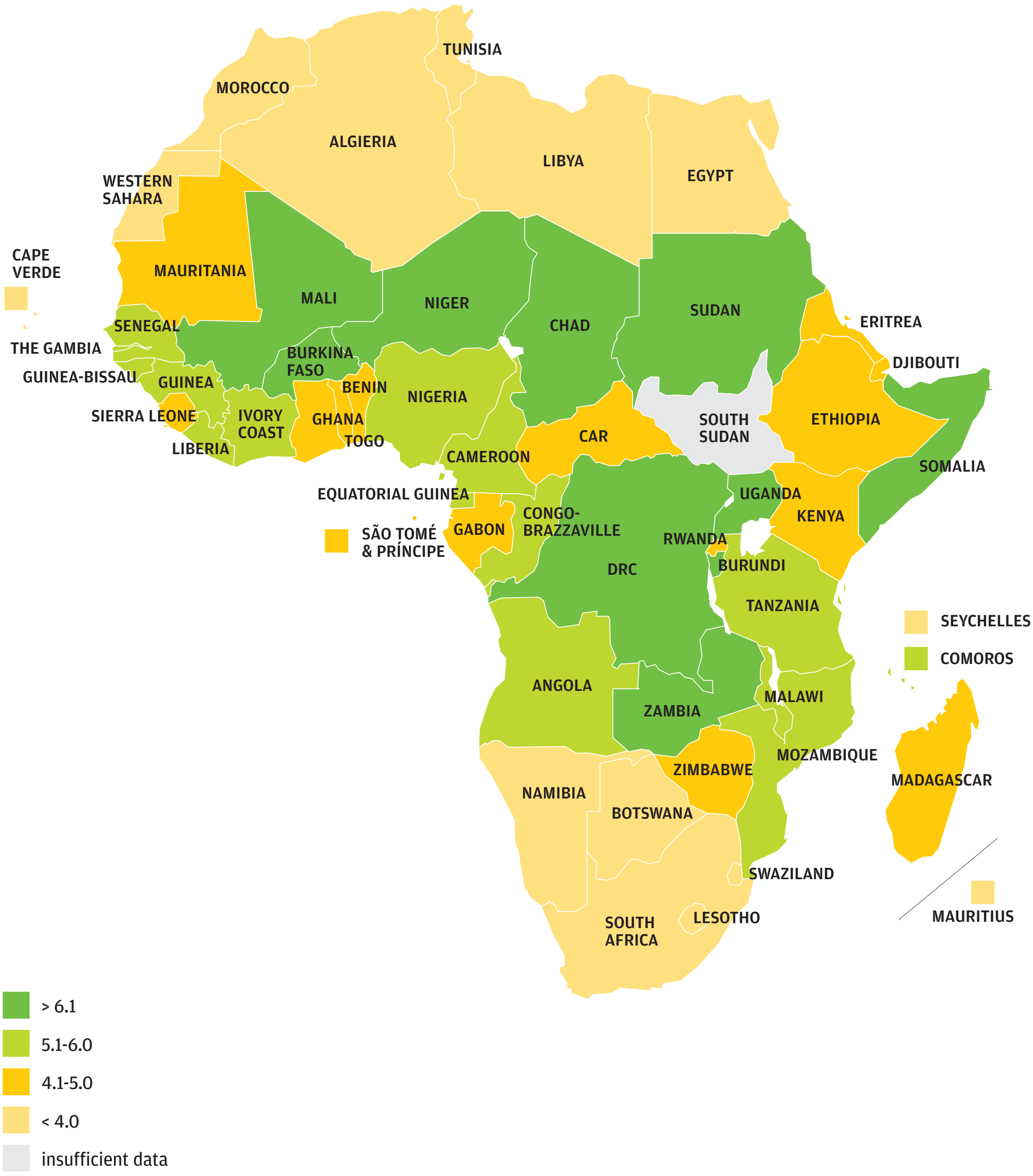
The average size of an urban household in Africa is expected to decrease from 5 to slightly above 4 people by 2025.[7] Due to high levels of population growth, the future of mass consumption in African countries will focus on the needs of young people: a large portion of the population in the cities will be below the age of 14. This will create opportunities for retailers of basic goods (e.g. baby food[8]) but also for products targeted at young people.

The rapid urbanisation rate causes a number of challenges such as overpopulation, infrastructure shortages, crime and pollution. Moreover, African cities are considered to be the most unequal in terms of income in the world.[9] Consequently, African cities tend to score low marks in the quality of living rankings. The "Best Cities Ranking" by the Economist Intelligence Unit takes into account, amongst other things, access to healthcare and education, cultural goods and quality infrastructure. In the latest edition, the bottom 10 positions were occupied by 6 African cities: Nairobi, Lusaka, Dakar, Abidjan, Lagos and Harare.[10] The current growth path of African cities still remains unclear. Yet it is clear that strong economic and population growth and major differences in the level of development will create both opportunities and challenges for local authorities, businesses and consumers themselves.

[1] Bright Continent, The future of Africa's opportunity cities. Executive Summary, Oxford Economics 2012, p. 2, http://www.subsahara-afrika-ihk.de/wp-content/uploads/2013/12/OE_African_Cities_exec_summ.pdf
[2] E. Istrate, C.A. Nadeau, Global Metro Monitor, Brookings Institute 2012, http://www.brookings.edu/research/interactives/global-metro-monitor-3
[3] E. Istrate, C.A. Nadeau, Global Metro..., op. cit.
[4] Bright Continent, The future of Africa's..., op. cit., p. 5.
[5] Y. Mhango, Nigeria unveiled. 36 shades of Nigeria, Renaissance Capital 2013, Insight Thematic research, p. 5; Own estimate based on: Global city GDP rankings 2008-2025, PricewaterhouseCoopers UK, p. 34, http://pwc.blogs.com/files/global-city-gdp-rankings-2008-2025.pdf
[6] Bright Continent, The future of Africa's..., op. cit., p. 5.
[7] Urban world: Cities and the rise of the consuming class, McKinsey Global Institute, p. 66, http://www.mckinsey.com/insights/urbanization/urban_world_cities_and_the_rise_of_the_consuming_class
[8] Ibidem, p. 47.
[9] E. Moir, T. Moonen, G. Clark, The future of cities: what is the global agenda?, UK Government's Foresight Future of Cities Project, September 2014, p. 20, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377470/future-cities-global-agenda.pdf
[10] Best cities ranking and report. A special report from the Economist Intelligence Unit, Economist Intelligence Unit, 2012, p. 4, http://pages.eiu.com/rs/eiu2/images/EIU_BestCities.pdf

Figure 3

Fertility rates in Africa, 2011 (births per woman)



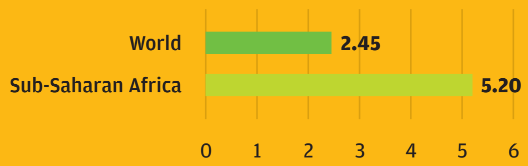
Source: African demography. The dividend is delayed, The Economist, 8 March 2014,
http://www.economist.com/news/middle-east-and-africa/21598646-hopes-africas-dramatic-population-bulge-may-create-prosperity-seem-have

Box 2 Challenges related to population growth

High population growth brings multiple challenges. Among others, the most important is youth unemployment. Sub-Saharan Africa will benefit from the demographic dividend only if the reforms that support job creation will be introduced. The high numbers of young unemployed people is the major factor that might cause social disorder and eventually turn into violence.[1] The Norwegian demographer Henrik Urdal estimated that the risk of conflicts in developing states rises 4% for every 1% increase in the youth population.[2] In other words, the market for services and labour intensive sectors of Sub-Saharan economies must boom in the forthcoming years if they are to absorb the surplus of the labour force. Additionally, Sub-Saharan Africa must reduce fertility rates through investment in family planning programmes and sex education. Investment in girls' and women's education is crucial, especially in terms of attending secondary schools which in turn is essential not only for a decrease in fertility, but also for an economic upswing. Regrettably, public policies dedicated to fertility reduction are unpopular in many African states, due to controversies connected with whether the state should be involved in one of the most private issues – giving birth.

Figure 4

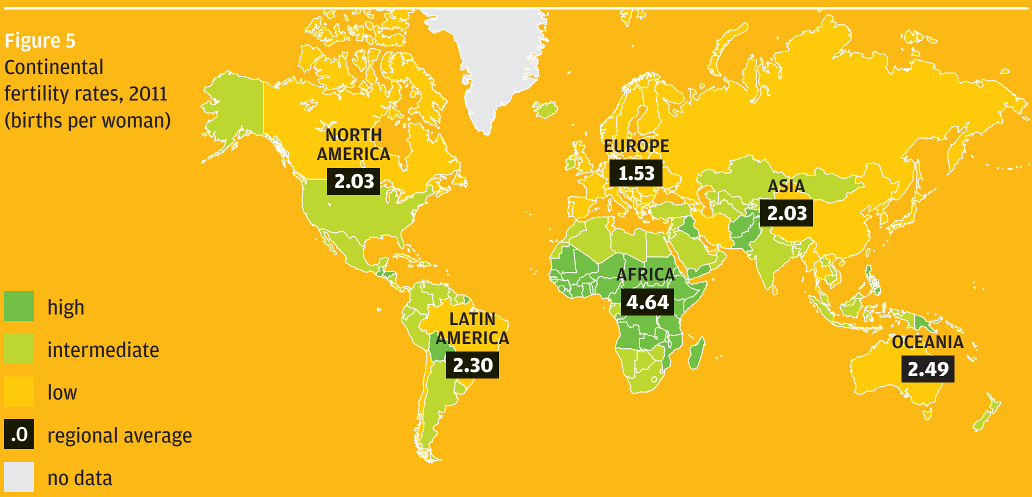
Fertility rate comparison: the world vs. Sub-Saharan Africa, 2011 (births per woman)



Source: African demography. Fertility treatment, The Economist, 8 March 2014, http://www.economist.com/news/leaders/21598648-birth-rates-are-not-falling-africa-fast-they-did-asia-more-contraception-would

Figure 5

Continental fertility rates, 2011 (births per woman)



Source: Demography. A Tale of Three Islands, The Economist, 22 October 2011, http://www.economist.com/node/21533364

[1] P. Collier, The Bottom Billion. Why the Poorest Countries Are Failing and What Can Be Done About It, Oxford University Press, Oxford 2009.

[2] Africa's Population. The Baby bonanza, The Economist, 27August 2009, http://www.economist.com/node/14302837; H. Urdal, A Clash of Generations? Youth Bulges and Political Violence, UN Expert Group Meeting on Adolescents, Youth and Development, Population Division Department of Economic and Social Affairs, United Nations Secretariat, New York, 21-22 July 2011, http://www.un.org/esa/population/meetings/egm-adolescents/p10_urdal.pdf

Population growth also brings multiple health challenges, and the vast majority of them are directly linked with high fertility rates. Improvements in children's nutrition are necessary, as are programmes that provide immunisations and reduce sexually transmitted diseases. Additionally, substantial lowering of the infant mortality rate will also contribute to lower fertility.

Without exaggeration it might be argued that without intensive investment in the agriculture sector, a pure version of the Malthusian catastrophe is possible in Sub-Saharan Africa. Food spending is the most important and by far dominant in terms of the continent's consumption patterns. Even though some analysts are claiming that a higher number of consumers means opening of new business opportunities, the demographic explosion has led to a situation in which "Africa today produces less food per head than at any time since independence".[1] Simultaneously, structural reforms of the land cultivation are extremely difficult due to the high number of people working in the agriculture sector, land rights, costs of fertilisers[2] and underdeveloped rural infrastructure (especially irrigation systems – only 4% of African farmland is irrigated[3]). Currently one-fourth of people living in Sub-Saharan Africa are undernourished, and if the region is to avoid the Malthusian catastrophe, the food supply must be increased by 260%.[4] In the long term, this situation could deteriorate due to climate change. Today, droughts and floods undermine harvests in East Africa and in the Horn region, and Central African farmers must deal with progressive desertification processes.

[1] Africa's population. The baby bonanza..., op. cit.
[2] Interview with Augustine Mwendya, Chief Executive Secretary, Uganda National Farmers Federation, Kampala 01.07.2014.
[3] B. Kasango, Africa's population explosion: The Lessons from Rwanda, The Independent, 15 November 2011, http://www.independent.co.ug/rwanda-ed/rwanda/4886-africas-population-explosion-the-lessons-from-rwanda
[4] J. Kinyangi, Climate Change: Re-adopting Agriculture, The Africa Report, 8 December 2014, http://www.theafricareport.com/North-Africa/climate-change-re-adapting-agriculture.html

Conclusions

The demographic dividend that facilitated the economic transformation of Europe and the United States in the 1950s and 1960s, and the rise of the Asian Tigers in the 1970s and 1980s, can also be a pivotal part in terms of socio-economic transformation in Sub-Saharan Africa.

Sub-Saharan Africa is the world's youngest region.

Right now, instead of the demographic dividend, it is more appropriate to speak about the "African demographic bonus" which has a potential to be transformed into a dividend if managed properly. The combination of the preferable age dependency ratio and high number of young employable people is a perfect base for economic growth, and in the short and medium term the age structure of African societies will be a factor that will positively affect the growth of consumption. However, in the medium and long term very "high birth rates and development are mutually exclusive".[1]

It is everything but clear whether Sub-Saharan states will be able to effectively limit the population growth in the future and invest in social capital, and these two factors are absolutely fundamental for the stability of the economic growth.

[1] L. Sippel et. al., Africa's Demographic Challenges. How a young population can make development possible, Berlin Institute for Population and Development, Berlin 2011, http://www.berlin-institut.org/fileadmin/user_upload/Afrika/Africas_demographic_challenges.pdf

2.
NEITHER POOR NOR RICH? THE RISE OF THE AFRICAN MIDDLE CLASS

Aristotle already claimed that the middle class is the backbone of a prosperous state.[1] It keeps at bay both the ambitions of the poor and the rich, as a result providing the much-needed stability in every society. With the benefit of hindsight we can now take as a fact that an emerging middle class has been at the very core of economic development in the Western world and capitalism itself.[2] Similarly, today developing countries, particularly African states, without a vigorous middle class cannot hope to achieve a sustainable, balanced growth. The lack of a middle class makes them, among other things, prone to recurrent political instability and weak economic performance. Last but not least, going beyond the national economy, the emerging middle class in developing countries will be one of the main drivers of the global economy and arguably holds the key to its future.[3]

The issue of the African middle class has recently become a heated topic. Many experts claim that we are currently in the midst of the emergence of a new breed of African consumers, whose quickly rising purchasing power is something to look at very closely. In fact, it should spur a new wave of enthusiasm among those who believe in the "Africa rising" gospel spread in business circles in recent years, as a burgeoning middle class could be easily turned by companies into profit. Problematically, though, the more the emerging African middle class is scrutinised by economists, the more definitional controversies it brings to light.

Opinions on the issue often stand on opposing ends of a continuum. For some, the African middle class constitutes a sweeping 30% of the continent's population (see, for example, the AfDB report[4]). As a result, the African middle class is estimated at an astounding 313 million people – a number that prompted Newsweek magazine in 2010 to label Africa a new China and India due to the domestic market being roughly the same size.[5] To tone down this rather bewildering number, roughly half of this, according to Mthuli Ncube, the Chief Economist and Vice-President of the African Development Bank, can be called a floating middle class – people who can revert to poverty very easily as a result of an exogenous shock (for example, a job loss or the breadwinner's death).[6] For others, however, the very idea of an African middle class is "completely wrong"[7] as the growing consumption on the continent is rather driven by the low-income earners and the relatively stable wealthy elite. A kind of middle ground perspective is that, no doubt, an African middle class is emerging, but cannot be equated with the idea of the middle class held by the Western world nor reflect "the image of middle class bliss as projected by the media and the corporate cheerleaders".[8] Because of the widespread poverty in Africa and high number of low-income earners, it is no wonder that statements such as "Africa now has the fastest growing middle class in the world" can be made relatively easily.

[1] Aristotle, Politics, University of Chicago Press, Chicago 2013.
[2] See for example: M. Weber, The Protestant Ethic and the Spirit of Capitalism, Routledge, London 2001.
[3] H. Kharas, The Emerging Middle Class in Developing Countries, OECD Development Centre, Working Paper No. 285, 2010.
[4] The Middle of the Pyramid: Dynamics of the Middle Class in Africa, African Development Bank, Market Brief, 20 April 2011, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/The%20Middle%20of%20the%20Pyramid_The%20Middle%20of%20the%20Pyramid.pdf
[5] Africa Is Becoming the New China and India, Newsweek, 19 February 2010, http://www.newsweek.com/africa-becoming-new-china-and-india-75109
[6] IMF Survey, Africa's Middle Class Spearheads Economic Growth, an interview with Mthuli Ncube, the Chief Economist and Vice-President of the African Development Bank, International Monetary Fund, 26 December 2013, http://www.imf.org/external/pubs/ft/survey/so/2013/int122613a.htm
[7] M. Isa, Economist challenges existence of middle class in Africa, Business Day Live, 8 May 2013, http://www.bdlive.co.za/africa/africanbusiness/2013/05/08/economist-challenges-existence-of-middle-class-in-africa
[8] J. Melik, Africa's middle class: Fact or fiction?, BBC, 17 June 2012, http://www.bbc.com/news/business-18094180

A commonly held view is that many (if not most) of those elevated to the middle class status by multiple reports published recently should be rather seen as "neither-poor-nor-rich". The representatives of the African so-called "middle" are aptly described by Jacques Enaudeau in his Guardian piece[1]:

They have cell phones and email addresses but many can't afford health insurance. They own a car but sometimes need to save for weeks to have it fixed. They speak multiple languages but fear they won't be able to pay for their children's education. They want a better life but don't know that it will come to pass. Whatever bracket they fall into, these are the people who represent the bulk of African middle classes. They are not preoccupied with a trip to the mall on Sundays, their gaze is fixed on the horizon: the next year and beyond.

Whatever the true size of the middle class, it is beyond doubt that its emergence is a key to the prosperity of the continent. Moreover, the middle class taking shape proves that Africa's economic revival is not a short-lived or cyclical phenomenon, but has structural features. And it is badly needed in the continent. The middle class is not only a vital source of innovation and entrepreneurship in every society but it is also a driving macroeconomic force – a source of higher national savings and investment, more stable and less reliant on the outside world budget revenues, and above all else – higher consumption.[2]

On the political ground, the larger the middle class, the more widespread participation of citizens in the political life – more aware political choices, less vulnerability to political manipulation, and last but not least – political stability, which in the context of Africa is a particularly sought-after good. According to Nic Cheeseman, the famous one-liner "no bourgeoisie, no democracy" coined by Barrington Moore rings true in at least some parts of Africa.[3] Academics do acknowledge that as much as the middle class is associated with higher income, large ethnic divisions may be seen as a force that could lessen its positive impact on growth.[4]

There are a number of factors that may explain why the African middle class has been on the rise, and this will remain so in the upcoming years. First, the urbanisation which attracts people to urban areas across Africa, and whose pace has been accelerating. As a result, soon more than 50% of Africans will be city dwellers. The other issue is a strong African diaspora which transfers back to the continent increasingly more money. It is for instance estimated that in 2010 and 2011, remittances outstripped FDI and official development assistance (ODA by almost 90%), which now makes them the fastest-growing source of foreign exchange for Africa (40% of remittances went to Sub-Saharan Africa, mostly Nigeria).[5]

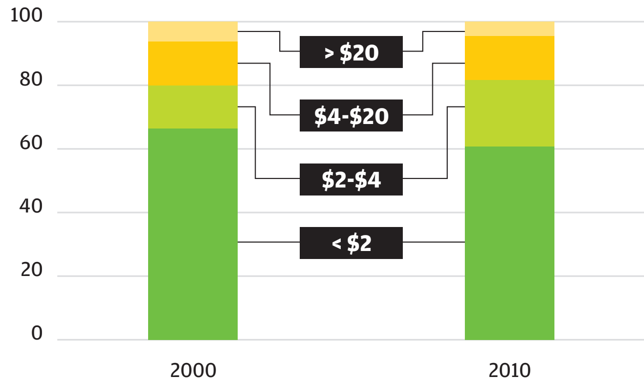
The whole "African middle class" debate began to build up in 2010 with the publication of Lions on the Move by the McKinsey Global Institute.[6] Its authors depicted the emerging middle class in Africa and the urbanisation process as two inner forces behind the past years' economic growth on the continent (in contrast to the resource boom which is almost purely an external phenomenon). The report estimated that in 2008 some 85 million African households had an annual income of $5,000 or more. At this level, people start spending more than half of their disposable budget on goods other than basic food. This number, according to the authors, will jump to 128 million within the next 10 years.

[1] J. Enaudeau, In search of the African middle class, The Guardian, 3 May 2013, http://www.theguardian.com/world/2013/may/03/africa-middle-class-search
[2] See for example: A. Banerjee and E. Duflo, What is Middle Class about the Middle Classes Around the World?, MIT Department of Economics Working Paper 07-29, 2007.
[3] N. Cheeseman, Does the African middle class defend democracy? Evidence from Kenya, WIDER Working Paper 2014/096, July 2014.
[4] W. Easterly, The Middle Class Consensus and Economic Development, Journal of Economic Growth, Vol. 6, No. 4, 2001, pp. 317-335.
[5] M. Ncube, Z. Brixiova, Remittances and their Macroeconomic Impact: Evidence from Africa, African Development Bank Working Paper No. 188, November 2013.
[6] Lions on the move. The progress and potential of African economies, McKinsey Global Institute, June 2010, http://www.mckinsey.com/insights/africa/lions_on_the_move

Moreover, by 2030, 18 of the largest African cities combined will have purchasing power of $1.3 billion. These striking figures clearly show that Africa is poised to become a continent of consumers, not only producers and exporters of natural resources and primary commodities.

These broadly optimistic estimates were confirmed and even taken a step further in another popular report published in 2011 by the African Development Bank. The publication The Middle of the Pyramid: Dynamics of the Middle Class in Africa suggested that as many as one out of three Africans might be considered middle class, and this takes between $2 and $20 spent a day.[1] AfDB sees this range as appropriate given the relatively low cost of living on the world's poorest continent.

Figure 6
Africa's population distribution by spending per day, 2000 and 2010 (%)



Source: Africa's growing middle class. Pleased to be bourgeois, The Economist, 12 May 2011, http://www.economist.com/node/18682622

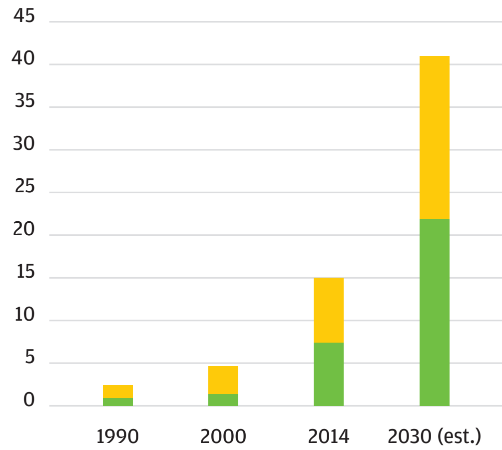
As later commented on by The Economist magazine, optimists should pay attention to the "small print" which further specifies that 2 out of 3 people belonging to the so-called middle class live on a $2-$4 daily budget.[2] These people are unlikely to starve or go undernourished, but equally are not in a position to afford many consumption goods, children's education, health services and medicines or occasional family holidays. This rather surprising assumption might suggest that the emergence of the middle class is perhaps overrated and investors and businesses should wait and see, instead of rushing to African markets to sell their products, because they will not attract sufficient demand. The idea that "one in three" Africans merit the label "middle class" causes suspicion among many academics. Thandika Mkandawire, a professor of African Development at the London School of Economics, calls it "a stretch concept". As he points out, "you don't expect the income of the middle class in Africa to be the same as the United States, but it shouldn't be so overstretched that it may lose its meaning".[3]

On this more sceptical note, recently a new report has been in the limelight. Understanding Africa's Middle Class, published by Standard Bank[4] and authored by Simone Freemantle, presents a far more rigorous definition of the middle class in Africa. It analyses 11 African countries which, combined, constitute more than half of the continent's GDP. These are Angola, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Sudan, Sudan, Tanzania, Uganda and Zambia. The report also argues that the middle class category, however defined, should not be taken at face value, and the demarcation line between being poor and being a part of the middle class is relatively blurred. It estimates the number of African households currently at 15 million (in the 11 countries examined), which is in sharp contrast to 4.6 million in 2000. According to the methodology employed in the report, to be qualified as middle class one has to have an annual budget of at least $5,475 (consumption expenditure between $15 and $115 a day). At the same time, the authors establish that most of the region's households, i.e. 86%, fall into the low-income category (less than $5,500).

[1] The Middle of the Pyramid..., op. cit.
[2] Africa's growing middle class..., op. cit.
[3] T. Kermeliotis, Are one in three Africans really middle class?, CNN, 20 May 2011, http://edition.cnn.com/2011/BUSINESS/05/20/middle.class.africa/
[4] Rise of the middle class in sub-Saharan Africa, Standard Bank, 20 August 2014, http://www.blog.standardbank.com/node/61428

Figure 7

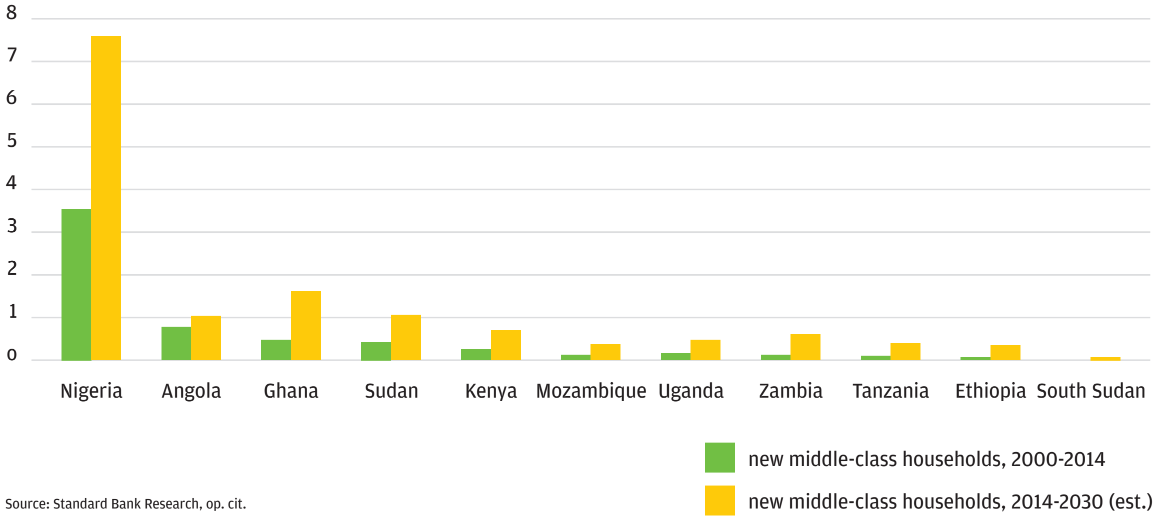
Total number of middle-class households in Africa (millions)



Source: Standard Bank Research cited in J. Kynge,
Africa set to turbo-charge growth of middle class, Financial Times, 19 August 2014,
http://blogs.ft.com/beyond-brics/2014/08/19/africa-set-to-turbo-charge-growth-of-middle-class/

Figure 8

Number of middle-class households (millions)

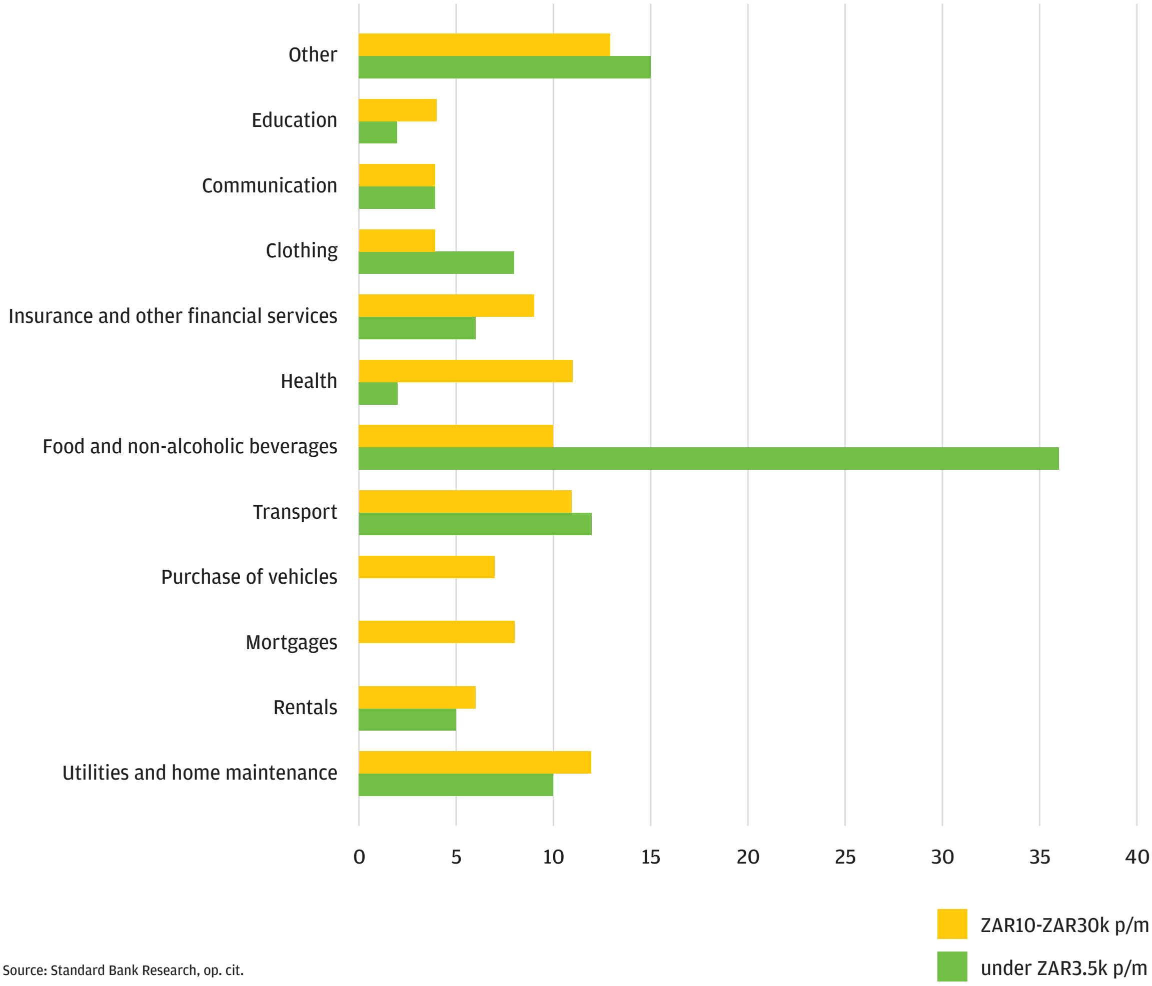


Source: Standard Bank Research, op. cit.

Although, as the report documents, the size of the middle class is a bit more modest, compared to what was argued in the previous publications (definitely not 300 million as estimated by AfDB), the number of people who can afford higher consumption in Africa is burgeoning. It is estimated that between 2014 and 2030 the number of African households meeting the criteria of the middle class will triple. In other words, there will be approximately 40 million middle-class households in Africa by 2030. This growth will be, however, distributed unevenly. Whereas in Nigeria, the most populous country in the continent, there will be 21 million middle-class households (currently slightly more than 8 million), in East Africa the situation gives less ground for optimism.

Figure 9

Spending by different income bands, 2013 (millions)



Source: Standard Bank Research, op. cit.

Whereas the Standard Bank report's calculations seem indeed quite conservative compared to the previous, arguably overoptimistic publications, a great deal of even more sobering data on the Africa middle class is also available. A case in point is the OECD paper The Emerging Middle Class in Developing Countries written by Homi Kharas,[1] where the Sub-Saharan African middle class is estimated at merely 32 million people, which amounts to just 2% of – what the author labels – the global middle class. Using this methodology, the entire SSA middle class looks roughly the same as in Canada.

[1] H. Kharas, The Emerging..., op. cit., p. 14-16.

Table 1
The Global Middle Class, 2009

Country	Number of people (millions)	Number of people (global share)	Consumption (billions PPP USD)	Consumption (global share)
North America	338	18%	5,602	26%
Europe	664	36%	8,138	38%
Central and South America	181	10%	1,534	7%
Asia Pacific	525	28%	4,952	23%
Sub-Saharan Africa	32	2%	256	1%
Middle East and North Africa	105	6%	796	4%
World	1,845	100%	21,278	100%

Source: H. Kharas, The emerging middle class in developing countries, OECD Development Center Working Paper No. 285, OECD, Paris 2010, p. 16.

Conclusions

The middle class is a vital source of innovation and entrepreneurship in every society; it is also a driving macroeconomic force – a source of higher national savings and investment, more stable and less reliant on the outside world budget revenues, and above all else – higher consumption.

On the political ground, the larger the middle class, the more widespread participation of citizens in political life – more aware political choices, less vulnerability to political manipulation, and, last but not least, political stability, which in the context of Africa is a particularly sought-after good.

There is a great deal of confusion about "what" is really emerging in Africa and why it lacks the traits and characteristics of the middle class that surfaced in the West or in parts of Asia.

For some, the African middle class constitutes a sweeping 30% of the continent's population (as a result, the African middle class is estimated at an astounding 313 million people). For others, the very idea of an African middle class is "completely wrong", as the growing consumption on the continent is rather driven by the low-income earners and the relatively stable wealthy elite.

According to the middle-ground perspective, an African middle class is indeed emerging, but cannot be equated with the idea of a middle class held by the Western world nor reflect "the image of middle class bliss as projected by the media and the corporate cheerleaders".[1]

As much as this ongoing race to come up with the right size of the middle class in Africa makes any sense for investors, they should be primarily wary of a huge and exceptional heterogeneity within this vital part of African societies.

[1] J. Melik, Africa's middle class..., op. cit.

There is a puzzling divergence between education and income, which is reflected in “an expanding educated underclass and an “uneducated” rising economic class” (i.e. many people who are now better off are rarely well-educated, whereas many young, educated Africans do not share income characteristics of the middle class in the Western sense).[1]

As rightly put by Bright B. Simons, investors should focus their energy on “understanding more about the unique contextual situation of the middle classes in [their] chosen country of engagement in Africa than to turn [themselves] into [...] amateur census-taker[s]”.[2]

Whatever the true size of the middle class, it is beyond any doubt that its emergence is a key to the prosperity of the continent.

[1] B.B. Simons, Beware Africa's "Middle Class", 18 June 2013, Harvard Business Review Blog, https://hbr.org/2013/06/beware-africas-middle-class/
[2] Ibidem.

3.

FOLLOW THE MONEY: CONSUMER SPENDING PATTERNS ACROSS SUB-SAHARAN AFRICA

The role of consumption in GDP

Since at least the Keynesian General Theory, household consumption has been an important element of macroeconomics and, more broadly, social science theories and empirical studies. Although many researchers suggest that investment is the key to achieving sustainable growth in the long term,[1] there are also a fair number of arguments declaring consumption as the major (and still growing) driver of the world economy and starting point of all human economic activities. Between the end of the Cold War and 2010, global consumption increased by $10 trillion.[2]

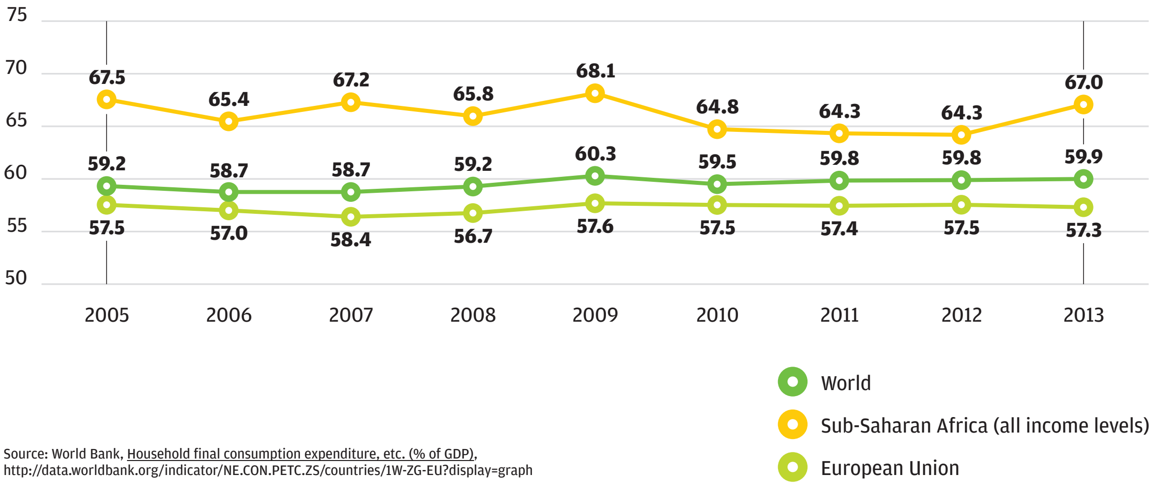
As per the World Bank's definition, private consumption (or household final consumption expenditure) is "the market value of all goods and services, including durable products (such as cars, washing machines, and home computers), purchased by households". It excludes purchases of residences, but includes owner-occupied dwellings imputed rent.[3]

Private consumption is now the largest component of most countries' gross domestic product (GDP). For example, in the United States it accounts for nearly 70% of the country's GDP. Similarly, in the United Kingdom, Brazil, Poland and Japan, household final consumption expenditures account for roughly 2/3 of their respective GDPs. In 2013, with household final outlays accounting for more than 118% of GDP, Tajikistan was the global leader in this ratio ranking, whilst Equatorial Guinea (with the private consumption to GDP ratio at 15%) stood at the opposite end of the table.

In general, households' expenditures in the developing world account for a slightly higher percentage of GDP than in developed countries. The average ratio for the SSA region in 2013 was 67%, slightly higher than for the whole world (60%), which in turn was higher than for the European Union (57%).

Figure 10

Consumption as a share of total GDP in selected regions, 2005-2013 (%)



Source: World Bank, Household final consumption expenditure, etc. (% of GDP), http://data.worldbank.org/indicator/NE.CON.PETC.ZS/countries/1W-ZG-EU?display=graph

[1] See for example: J.B. De Long, L. Summers, Equipment Investment and Economic Growth, The Quarterly Journal of Economics, Vol. 106, No. 2, 1991, pp. 445-502; N. Mankiw, D. Romer, D. Weil, A Contribution to the Empirics of Economic Growth, The Quarterly Journal of Economics, Vol. 107, No. 2, 1992, pp. 407-437.
[2] Inequality around the world. Dumb-bell or emerging middle?, The Economist, 24 September 2013, http://www.economist.com/blogs/feastandfamine/2013/09/inequality-round-world
[3] World Bank Data on household final consumption expenditures, http://data.worldbank.org/indicator/NE.CON.PRVT.PC.KD.ZG

Household final expenditures and spending patterns in Sub-Saharan Africa

In the SSA region as a whole, private consumption has been oscillating within a range of 64-67% over the last decade. However, as is often the case with Africa, intra-region statistics are far from homogenous. The country with the highest household private consumption to GDP ratio in SSA in 2013 was Guinea (107%) followed by Zimbabwe (94%) and South Sudan (90%). At the opposite end was Equatorial Guinea (15%) followed by the Congo-Brazzaville (36%) and Angola (42%).[1] Private consumption in 18 out of the 48 countries of the SSA region for which data is available accounted for 60-74% of their respective GDPs, whilst in only 7 countries private consumption made up less than 59% of GDP.

Table 2

Selected SSA countries by household final consumption expenditure, 2012 (% of GDP)

Household final consumption expenditure as % of GDP – country groups

< 45	45-59	60-74	75-89	> 90
Angola	Botswana	Burkina Faso	Benin	The Gambia
Congo-Brazzaville	Ghana	Cape Verde	Burundi	Guinea
Equatorial Guinea	Nigeria	Cameroon	CAR	Lesotho
	Zambia	Mauritius	Chad	Liberia
		Namibia	Eritrea	South Sudan
		Niger	Ethiopia	
		Senegal	Kenya	
		South Africa	Malawi	
		Tanzania	Mali	
			Mauritania	
			Mozambique	
			Rwanda	
			Sierra Leone	
			Sudan	
			Swaziland	
			Togo	
			Uganda	
			Zimbabwe	

Source: World Bank, Household final consumption expenditure, etc. (% of GDP), http://data.worldbank.org/indicator/NE.CON.PETC.ZS
No data available for 2012 for: Comoros, Ivory Coast, DRC, Djibouti, Gabon, Guinea-Bissau, Madagascar, Somalia
Average for SSA in 2012: 64%
World average in 2012: 60%

One has to remember, though, that relative values (i.e. a share of GDP) do not necessarily translate into equally large absolute amounts of money which consumers spend on goods. For example, even though Guinea's consumption to GDP ratio was the highest among African states (107%), in absolute terms, Guineans spent roughly $2.3 billion on consumer products and services, which was merely 0.6% of what Nigerians spent ($376.4 billion in absolute terms). In total, in 2013 households from all SSA countries spent around $1.1 trillion on private consumption.[2]

[1] It is worth noting that data for several countries (e.g. Somalia, DRC) is not available.
[2] World Bank, Household final consumption expenditures, http://data.worldbank.org/indicator/NE.CON.PRVT.PC.KD.ZG

Factors influencing consumer spending in SSA

When analysing spending patterns of an average African family, one has to remember that, as we discussed in one of our previous reports, Africa – and thus African families and their expenditures – are not homogenous.[1] Due to cultural, religious, historical, demographic and, most notably, income differences, consumption habits of Nigerians differ from those of Sudanese or Tanzanians.

For example, in countries with a dominating Muslim population (e.g. Somalia) hardly any consumption of alcoholic beverages is recorded. In Angola, South Africa and Nigeria – quite the contrary – alcohol consumption is high and growing. However, due to different consumer tastes, beer is the most popular beverage in Angola, whilst in Equatorial Guinea it is wine.

Another factor determining consumption habits across the continent is the difference in price levels. For instance, in countries such as Comoros, Gabon and Congo-Brazzaville, prices are – on average – 75% higher than in The Gambia, Ethiopia or Tanzania.[2] These differences are even more visible when analysing specific products. Food in Gabon is more than twice as expensive as in Tanzania, whilst Zambians have to pay almost three times more than Ethiopians for transport services.[3] Although these price differences do not necessarily indicate per se that Zambians spend more on transportation than Ethiopians or Tanzanians in absolute values (Tanzania's population is 3.4 times higher than Zambia's) it does show how each of the African countries differs from the others.

Additionally, even within the borders of one country the consumer basket in the countryside is much different than the urban one. In general, due to lower GDP per capita and weaker purchasing power, people in the countryside usually tend to spend less than residents of cities or large agglomeration areas.[4] Today, Africa's major cities account for roughly $700 billion of the continent's GDP and their total spending power (i.e. consumers living in the cities) is estimated at $420 billion, making it "the world's last mass market consumer frontier".[5]

Furthermore, consumer profiles in the continent's large urban areas vary to a great extent and influence the level of demand for different types of goods and services. For instance, cities such as Lagos (currently the second most populous city in SSA) or Kinshasa represent "volume opportunities", since consumer demand is concentrated mostly on low-cost items and essentials, whilst in cities such as Luanda or Malabo there is more room for companies offering non-essential products as, due to higher per capita incomes, consumer demand for such goods and services is much stronger there.[6] Additionally, as a recent study from AfDB on consumption patterns across Africa showed, the richer Africans become the less they spend on basic food products such as bread and cereals and more on higher-status products such as TVs, microwaves and cars.[7]

[1] D. Kopiński, A. Polus. W. Tycholiz, Africa-Europe on the Global Chessboard: The New Opening, Central and Eastern Europe Development Institute, Warsaw 2013.
[2] A Comparison of Real Household Consumption Expenditures and Price Levels in Africa, African Development Bank, Tunis 2012, p. VI.
[3] Ibidem, p. 21.
[4] Africa's Consumer Story..., op. cit.
[5] Bright continent: the future of Africa's..., op. cit.
[6] Ibidem.
[7] A Comparison..., op. cit., p. 18.

Box 3 **Lagos: Africa's consumption mecca**

The coastal city of Lagos in Nigeria is the biggest and fastest growing city in the continent, and one of the most vibrant consumer economies in West Africa. According to various estimates, Lagos has recently surpassed Cairo, and with 21 million inhabitants[1] it is the biggest urban population in Africa. At the same time, it is the heart of both the Nigerian and regional economy: its $31 billion GDP is comparable in size to the GDP of Tanzania.[2]

The Lagos economy is largely based on manufacturing and services. The city is renowned as a centre of banking and insurance services[3] and it gives employment to over 25% of Nigeria's financial sector workforce.[4] Building and construction, telecommunications and transport services, including the Lagos port, the biggest cargo terminal in West Africa,[5] contribute to over 50% of the city's economy.[6] The manufacturing sector generates an additional 30% of the GDP share.[7]

Although Lagos is the most vibrant city-economy in the continent and its structure resembles that of many Western cities, it bears the consequences of a rapid growth rate: overpopulation, inequality and infrastructural shortages. All of these factors contribute to a very specific consumption landscape.

A typical household in Lagos is relatively small and consists of 5 people.[8] With more than 35% of the population being under 15 years old,[9] Lagos is a city of young consumers who usually hold a primary school diploma and have fair access to a secondary education. GDP per capita in the city is $2,900.[10] Nonetheless, Lagos has one of the most unequal income distributions in the region.[11] High inequality combined with the highest unemployment level causes a deep income divide, which results in the super-rich coexisting with the extremely poor in the same city.

Oxford Economics classifies Lagos as a low-income consumer city where the lion's share of household expenditures goes towards food, shelter and clothing.[12] Although absolute figures are massive, this is mainly due to the scale effect, as the majority of households live slightly above the poverty line. Oxford Economics predicts that the structure of consumer expenditures should not change dramatically in the next 15 years.[13] Food expenditures in Lagos are expected to double by 2030, and the consumer services share in the local economy is expected to increase from 52 to 57%.[14]

This general rule, which is a simplified exemplification of the concept of income elasticity of demand, holds true as long as the number of consumers is not growing, which – as presented in a previous chapter – is not the case of Africa. Therefore, even though basic food products' share in African consumption will likely decline, the absolute amount of money spent on bread and cereals will definitely increase in the upcoming years.

[1] Population, Lagos State Government 2014, http://www.lagosstate.gov.ng/pagelinks.php?p=6;
The State of African Cities, Re-imagining sustainable urban transitions, United Nations Human Settlements Programme (UN-Habitat) 2014, p. 99.
[2] Y. Mhango, Nigeria unveiled..., op. cit., p. 4.
[3] West African Trends Newsletter. Special Issue: Reflections on 2011. A newsletter for the Rockefeller Foundation prepared by the African Centre for Economic Transformation (ACET), ACET 2012, Iss. 1, p. 18.
[4] Y. Mhango, Nigeria unveiled..., op. cit., p. 35.
[5] Ibidem, p. 28.
[6] Lagos State Gross Domestic Product (GDP) Survey: 2010, Lagos Bureau of Statistics, Ministry of Economic Planning and Budget, p. 35, http://www.lagosstate.gov.ng/images/pageimages/downloadfiles/docs/LAGOS_STATE_GDP2010.pdf, p. 35
[7] Ibidem.
[8] Y. Mhango, Nigeria unveiled..., op. cit., p. 10.
[9] The State of African Cities, op. cit., p. 133.
[10] Y. Mhango, Nigeria unveiled ..., op. cit., p. 5.
[11] The State of African Cities, op. cit., p.117.
[12] Bright Continent, The future of Africa's..., op. cit., p. 5.
[13] Ibidem.
[14] Ibidem.

Most attractive consumer-oriented sectors in Africa

Contrary to folk wisdom, Africa rising story is hardly limited to extractive industries. Every year hundreds of thousands of young Africans join the continent's consumer group and increase the demand for consumer goods and services. In 2009, the consumer market in Africa was valued at more than $871 billion.[1] In order to provide guidance concerning Africa's consumer demand for those interested in building a business strategy to serve it – based on a comparison of household final expenditures in Sub-Saharan Africa – this report identifies the most attractive consumer-oriented sectors across the continent. An initial review of consumer average spending patterns, sector by sector, is followed by a more detailed analysis of each of the identified sectors.

In order to adequately understand results of the analysis provided by this report, it is important to remember that if anything is true about Africa, it is that the continent is changing rapidly. The young generation of Africans, which constitutes the majority of the continent's population, is prone to shifting tastes, habits and consumption patterns. Therefore, before making any final business decision, adequate diligence is strongly advised.

According to a comparison of household consumption expenditures and price levels in Africa compiled by the African Development Bank, food and non-alcoholic beverages accounted for more than 2/5 of total private consumption in Africa in 2009. Foreign food producers and retailers interested in seizing market opportunities in the sector should pay special attention to Nigeria and South Africa, as those two markets are by far the largest in value on the continent. On the horizon, there is also ample room for companies focused on processed and convenience products, as this type of food will continue to grow dynamically.

In recent years more than 14% of households' income (or $125.8 billion) has been spent on housing rental, water supply, electricity and gas. Fixed living costs such as monthly rent and bills account for a quite similar share of expenditures across the world. But as the number of households in Africa is set to rise at a high pace (see: Chapter 1), so is the absolute amount of money spent on living costs in the years to come.

After covering expenditures stemming from food, housing rental, water and electricity, another 6% of household income (over $81.1 billion annually) is spent on transport-related goods and services, including cars, motorcycles, fuel for personal transportation as well as passenger transport by road, air and sea. Dwellers living in urban conglomerates have to commute daily for work, shopping or leisure activities, mostly – due to lack of public transport – by means offered by small-scale operators from the informal sector, such as minibuses, shared taxis or motorcycles. A growing number of African households can also afford to buy a used or even a new car or motorcycle (though this consumer group is still modest).

Furnishings and household equipment account for an equally large chunk of African households' expenditures (5.9% or $51.2 billion in 2009). Strong fundamentals for this sector, such as an increasing number of apartments and the growing availability of financing opportunities (e.g. credit cards), serve as a good prognosis for the future demand for appliances, utensils and non-durable household goods in African countries.

Next in line, accounting for 5.0% of households' total expenditures (or almost $50 billion in absolute terms) are outlays for clothing and footwear. After Franca Sozzani, an editor-in-chief of Vogue Italia, dedicated an entire issue of L'Uomo Vogue magazine to Africa, the continent was declared "fashion's next frontier" by many insiders.[2] The list of countries with visibly outstanding demand for clothing materials, garments, shoes and other footwear includes South Africa, Nigeria, Ghana, and Kenya.

[1] Ibidem, p. 30.
[2] J. Jätyri, Could Africa be the Next Frontier for Fashion Retail?, The Business of Fashion, 31 May 2012, http://www.businessoffashion.com/2012/05/global-briefing-could-africa-be-the-next-frontier-for-fashion-retail.html

Table 3

Annual household consumption pattern in Africa, 2009 (% share in total private consumption)

Product group	Share in total private consumption
Food and non-alcoholic beverages (food, bread and cereals, meat, fish, milk, cheese and eggs, oils and fats, fruit, vegetables, potatoes, yam & other tubers, coffee, tea and cocoa, soft drinks)	**42.4%**
Housing, water, electricity, gas and other fuels (housing rental, water supply, electricity, gas, fuels, miscellaneous)	**14.0%**
Transport (motorcars, motorcycles, bicycles, vehicle spare parts, fuels and lubricants for personal transportation, maintenance and repair, passenger transport by road, air and sea)	**6.4%**
Furnishings, household equipment (including furniture and furnishings, carpets, household textiles, appliances, glassware, tableware and utensils, non-durable household goods, domestic services and household services)	**5.9%**
Clothing and footwear (clothing materials, garments, shoes and other footwear, cleaning and repair and hire of clothing/footwear)	**5.0%**
Recreation and culture (audio-visual, photographic, musical instruments, games of chance)	**4.6%**
Communication (postal services, telephone and telefax)	**3.4%**
Education (books and stationary)	**3.0%**
Restaurants and hotels (catering services, accommodation services)	**2.8%**
Health (pharmaceutical products, medical services, dental services, paramedical services, hospital services)	**2.6%**
Alcoholic beverages, tobacco and kola (spirits, wine, tobacco, narcotics)	**2.4%**
Miscellaneous goods and services (hairdressing salons, appliances, articles and products for personal care, jewellery, clocks and watches, insurance, other services)	**9.4%**

Source: A Comparison of Real Household Consumption, op. cit.

As much as the data from the African Development Bank can help systemise and rank market segment accounting for the largest portion of private consumption in Sub-Saharan Africa, the list is not complete and does not include all sectors (or sub-sectors) with bright perspectives and large investment potential.

For example, even though according to the AfDB report, alcoholic beverages (together with tobacco) account for only 3.11% (or $27.15 billion) of private consumption, the popularity of certain types of booze – especially among representatives of the middle class – is growing at an unprecedented pace. As stated by Pernod Ricard, the marketing manager for Jameson, “the emerging middle class has opened a brand-new market for premium brands and alcohol is one of the ways people choose to show they’ve made it, or are doing well”.[1]

[1] C. Goko, Premium alcohol brands on the rise in South Africa, survey shows, Business Day, 1 October 2013, http://www.bdlive.co.za/business/retail/2013/10/01/premium-alcohol-brands-on-the-rise-in-south-africa-survey-shows

Another example is the ICT sector, which is not only growing rapidly but also serves as the backbone of other sectors. Banking, retail, e-commerce, medicine, agriculture, media, oil and gas, among other things, all rest on the shoulders of the ICT sector. To provide some insight into the dramatic change which the ICT sector has experienced in Africa, a good example is Nigeria, where the number of active subscribers rocketed from 450,000 in 2001 to 135 million in 2014. Funds invested in the telecom infrastructure in Nigeria look equally astounding: from roughly $50 million in 2001 to over $32 billion in 2014.[1]

The next part of this report summarises recent dynamics in selected consumer-oriented market segment in the SSA region.

[1] N. Isaac, Revolution In Telecoms Sector That Changed Nigeria, Leadership, 20 January 2015, http://leadership.ng/business/405354/revolution-telecoms-sector-changed-nigeria

Conclusions

Households' private expenditures in SSA in 2013 accounted for 67% of the continent's GDP, which was slightly higher than for the whole world (60%), which in turn was higher than for the European Union (57%).

The country with the highest household private consumption to GDP ratio in SSA in 2013 was Guinea (107%) followed by Zimbabwe (94%) and South Sudan (90%). At the opposite end was Equatorial Guinea (15%) followed by Congo-Brazzaville (36%) and Angola (42%).

Even though Guinea's consumption to GDP ratio was the highest among African states (107%), in absolute terms, Guineans spent roughly $2.3 billion on consumer products and services, which was merely 0.6% of what Nigerians spent ($376.4 billion).

One has to remember that African families and their expenditures are not homogenous. Due to cultural, religious, historical, demographic and, most notably, income differences, consumption habits of Nigerians differ from those of Sudanese or Tanzanians.

Consumer basket in the countryside is much different than the urban one. In general, due to lower GDP per capita and weaker purchasing power, people in the countryside usually tend to spend less than residents of cities or large agglomeration areas.

Consumer profiles in the continent's large urban areas vary to a great extent and influence the level of demand for different types of goods and services. Cities such as Lagos (currently the second most populous city in SSA) or Kinshasa represent "volume opportunities", since consumer demand is concentrated mostly on low-cost items and essentials, whilst in cities such as Luanda or Malabo there is more room for companies offering non-essential products.

According to a comparison of household consumption expenditures and price levels in Africa compiled by the African Development Bank, in 2009 food and non-alcoholic beverages accounted for 42.4% of total household private consumption, housing, water, electricity, gas and other fuels for 14.0%, transport related expenditures for 6.4%, furnishing and household equipment for 5.9%, whilst clothing and footwear for 5.0%.

Other sectors (or sub-sectors) with bright perspectives and large investment potential identified in this report include pharmaceuticals, ICT, financial services for individuals, and alcoholic beverages.

PART II

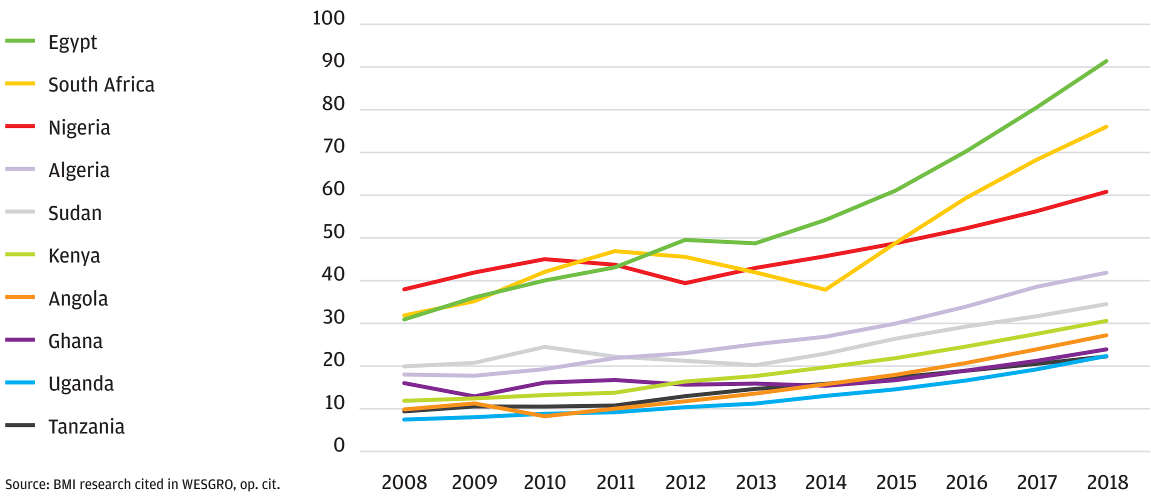
SECTORAL ANALYSIS

4.
FOOD AND BEVERAGES

According to WESGRO research, total food and beverage markets in Sub-Saharan Africa currently can be valued at $313 billion.[1] Food items and beverages dominate an African household budget, which is a strong pattern in most low-income countries. In Africa, on average 40-50% of the budget is spent on food, while in high-income countries it is merely 10-15% (e.g. 9.73% in the US).[2] Whereas compared to other regions the average kilocalories consumption per capita in SSA remains low (currently around 2,300 kcal), and food security is still a serious issue across the continent, several countries have achieved real "quantum jumps in their food consumption" in the past.[3] This also holds for food items which are considered income elastic (their relative consumption climbs hand-in-hand with wealth). For example, in 1992 the average South African ate a total of 15.8 kg of white meat a year; in 2004 it was already 23.3 kg of white meat a year (an increase of 48%) and by 2012, the consumption had increased by another 54% to 35.8 kg a person per year.[4] Generally, the food consumption growth is mostly associated with cities, where it is estimated to be roughly 25% higher than in rural areas.

Food consumption in Africa is poised to further accelerate in the upcoming years, particularly in places such as South Africa, Nigeria and Ghana, but also in other countries with a significant growth of GDP, such as Angola, which is sometimes dubbed an African "dark horse" in terms of consumption growth. Factors that also matter and are routinely associated with food consumption surge is urbanisation, an emerging middle class with a higher disposable income, and a fast population growth. Particularly the latter is identified as an important driver of the total food consumption on the continent (not per capita, however). In fact, it has been a main factor influencing the food import growth in the past,[5] others being, according to The Financial Times, the rising middle class, policy volatility and sheer bad luck (e.g. weather-related damage and animal diseases).[6]

Figure 11
Food consumption of selected African countries, 2008-2018 ($ billion)



Source: BMI research cited in WESGRO, op. cit.

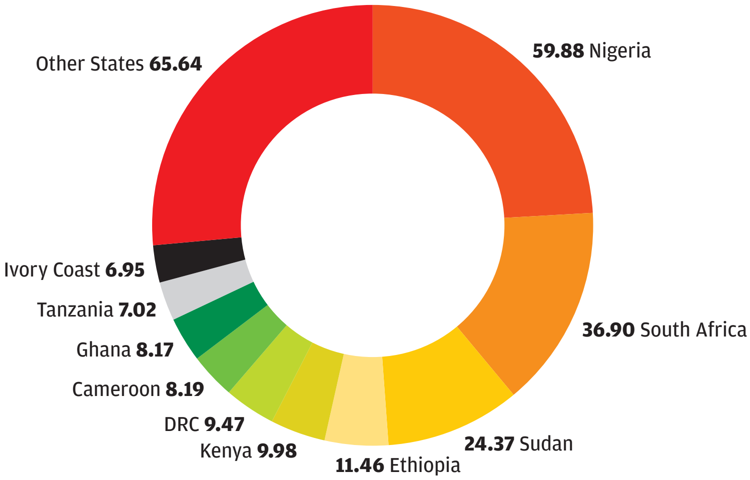
[1] Africa: Food & Beverages. Country Sector, WESGRO Cape Town & Western Cape Research, 2013.
[2] M.A. Rakotoarisoa, M. Iafrate, M. Paschali, Why has Africa become a net food importer? Explaining Africa agricultural and food trade deficits, FAO, Rome 2011, p. 24.
[3] J. Bruinsma (ed.), World agriculture: towards 2015/2030. An FAO Perspective, Earthscan Publications Ltd, London 2003, p. 18.
[4] T. Holmes, Growing wealth helps SA make both ends "meat", Mail & Guardian, 13 September 2013, http://mg.co.za/article/2013-09-13-00-growing-wealth-lets-sa-make-both-ends-meat
[5] M.A. Rakotoarisoa, M. Iafrate, M. Paschali, Why has Africa..., op. cit., p. 20.
[6] A. Green, Africa's rising food imports, Financial Times, 16 May 2013, http://blogs.ft.com/beyond-brics/2013/05/16/africas-rising-food-imports/

Nevertheless, most Africans – both city and rural dwellers – still tend to rely on cheap staple foods with the sole objective of meeting their energy needs. This said, if one takes the average consumption and nominal expenditure on a country level as a yardstick, business opportunities for international companies in the food and beverages sector may seem fairly limited, at least at this very stage. Even as people become richer, the marginal income is rarely spent on quality food items. They prefer to eat more, rather than better food. Only later, as income transition is more significant and people have met their basic nutritious needs, this will gradually change in many ways which may be more conducive to business. For example, there will be a more significant shift toward meat consumption at the expense of other food items, but also toward processed food and higher-quality brands. This is why, according to KPMG, as Africans move up the food curve, fast-moving consumption goods (FMCG) companies should establish footprints in the continent at an early stage "so that they can benefit from both quantity and quality shifts in consumers' spending behaviour".[1] There is a reason to think long-term. By 2030, the food and beverages market is estimated to grow to $1 trillion.[2] It should be noted that such an aggregated view excludes market opportunities that have now emerged in particular market segments, especially the middle class, whose consumption patterns change very fast, making it a worthwhile target for international food retailers and producers.

The African picture of the beverages market is slightly different than food. First of all, beverages are not perceived as luxury products or high-quality goods in Africa. They are fairly cheap and widely consumed. This includes bottled water (or water sold in plastic bags, very popular mostly among low-income earners) whose rising consumption in Africa is driven mostly by the terrible quality of tapped water and a general scarcity of clean water (see: Chapter 5). This is in contrast to, for example, Europe and America, where the trend is informed by a demand for a value-added refreshment beverage and convenience. Rising consumption also concerns fresh fruit juices which have recently captured African consumers' attention in some parts of the continent.[3] The popularity of bottled water is particularly on the rise in urban areas, where city dwellers purchase it for office and home consumption. As incomes in Africa increase further and health awareness improves, more Africans might opt for bottled water and juices instead of soft drinks or sweetened carbonated beverages.[4] Therefore, although there still exists a huge gap between consumption of soft drinks, including bottled water, in Africa and the rest of the world, this gap can well be interpreted as a potentially huge and untapped market. This should not ignore a great deal of market particularities which exist in Africa and other emerging markets, such as packaging and distribution networks.[5]

Figure 12

Nominal expenditures on food and beverages, 2009 ($ billion)

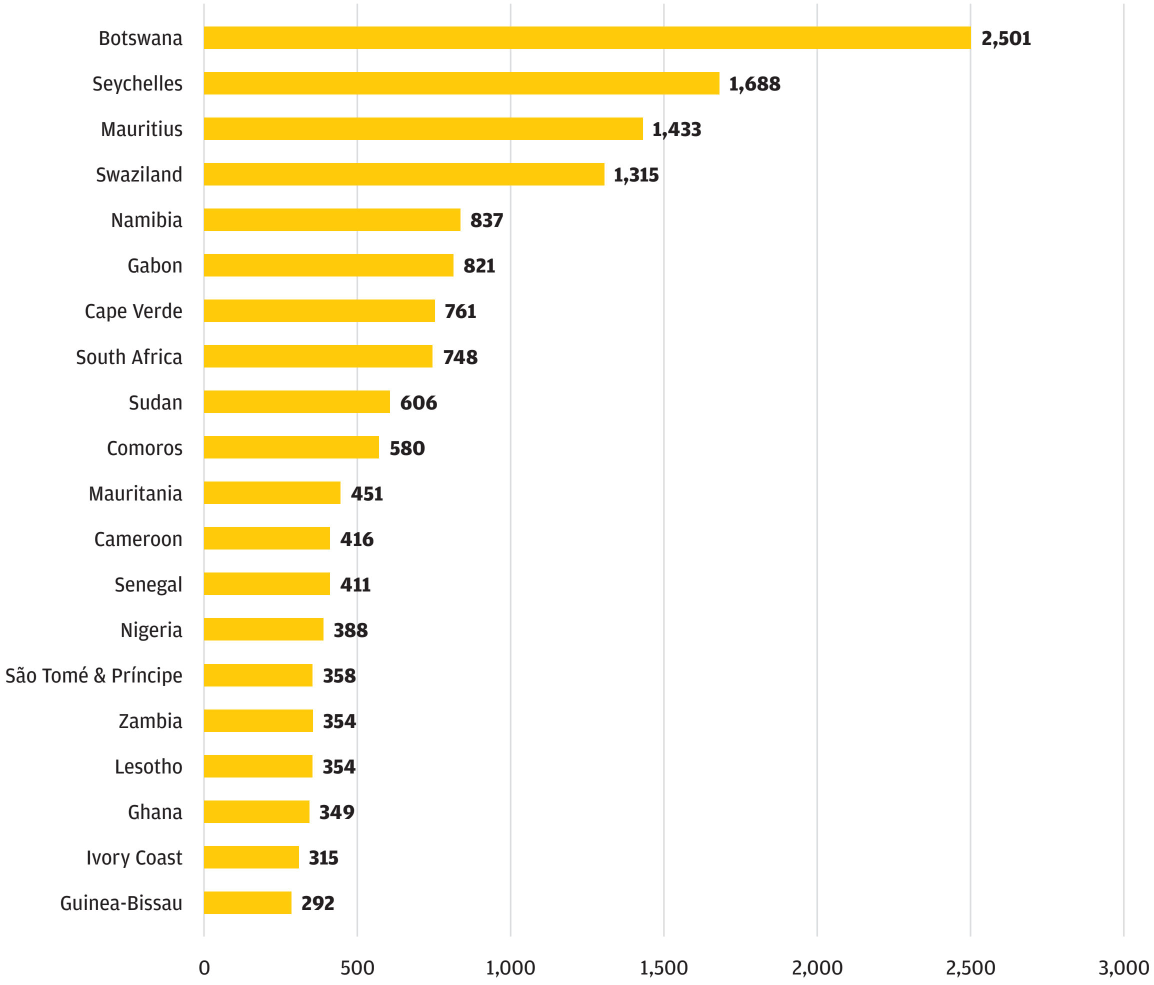


Source: Calculations based on AfDB, A Comparison of Real Household Consumption, op. cit.

[1] Fast-Moving Consumer Goods in Africa..., op. cit., p. 6.
[2] Africa: Food & Beverages..., op. cit.
[3] I. Mwangi, Thirsty Kenyans Fuel Rapid Growth Of Fresh Fruit Juices Market, AFK Insider, 6 January 2014, http://afkinsider.com/36508/thirsty-kenyans-fuel-rapid-growth-fresh-fruit-juices-market/#sthash.UF5IPaCe.dpuf
[4] Fast-Moving Consumer Goods in Africa..., op. cit., p. 6.
[5] J. Feliciano, Preview of the Year - 2014 - Part I: Bottled Water, Euromonitor International, 17 January 2014, http://www.just-drinks.com/management-briefing/bottled-water_id112536.aspx

Figure 13

Per capita nominal expenditures on food and beverages, 2009 ($)



Source: Calculations based on AfDB, A Comparison of Real Household Consumption, op. cit.

Although per capita and total consumption figures may help to gauge business opportunities and facilitate market selection, it is highly instructive to take a look at the structure of food consumption in Africa. So what do Africans eat and how much? Bearing in mind the vast divergences between different African regions in terms of food preparation and eating habits,[1] the majority of Africans consume roots and tubers (199 kg per capita), such as cassava, yams and potatoes, which are followed by cereals (131 kg per capita). In terms of the daily amount of kilocalories, the average cereal consumption in Sub-Saharan Africa (such as maize, sorghum, millet and rice) is about 1,075 kcal per capita per day. Cereal consumption is highest in South Africa, where it is estimated at 1,545 kcal per capita per day, and the lowest in Democratic Republic of Congo at 327 kcal per capita per day. Overall, it has been growing throughout the continent at an average rate of 2%.[2] Milk and dairy products, excluding butter, amount to 31 kg per capita. Sugar and vegetable consumption each make up 11 kg. Interestingly, vegetables are not very popular in the region.

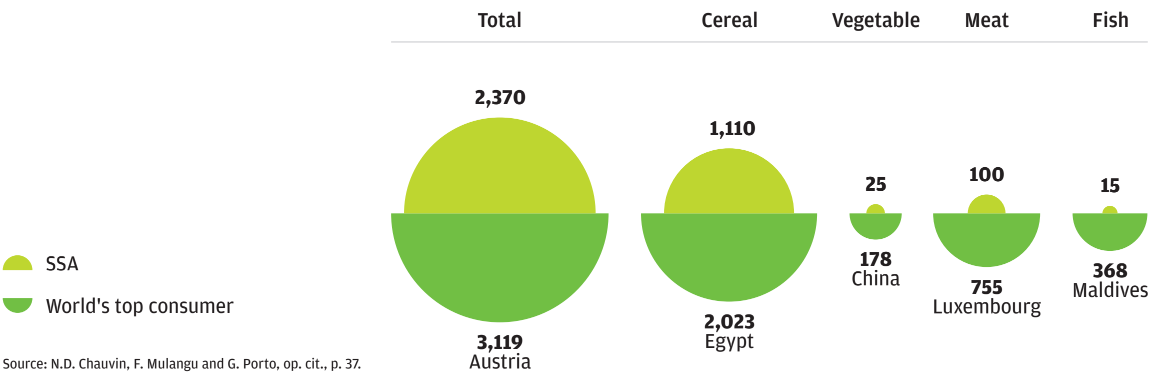
[1] R.K. Oniang'o, J.M. Mutuku, S.J. Malaba, Contemporary African food habits and their nutritional and health implications, Asia Pacific Journal of Clinical Nutrition, Vol. 12, No. 3, 2003, pp. 331-336.

[2] N.D. Chauvin, F. Mulangu, G. Porto, Food Production and Consumption Trends in Sub-Saharan Africa: Prospects for the Transformation of the Agricultural Sector, UNDP, February 2012, http://www.africa.undp.org/content/rba/en/home/library/working-papers/food-production-consumption-trends/

They only account for 1.18% of total caloric supply. Consumption of vegetables has been decreasing over the past 40 years, which may be associated with the preference toward heavy starch, such as cassavas and yams, which quickly satisfy hunger and supply the necessary energy.[1] On the other hand, vegetables are sometimes considered a poor man's diet, and their consumption, according to African scholars, is not highly regarded among the richer sections of the population.[2] This attitude, however, has also been in reverse in places where health consciousness has become a factor and income is on the rise. For instance, in South Africa between 2005 and 2010, the percentage of the food budget that was spent on unprocessed food (fresh fruit and vegetables) increased from 9.4% to 15%.[3] The meat consumption in the region is still fairly moderate (11 kg per capita) but has been growing by an average rate of more than 1% per decade and is likely to accelerate further in the future. This is mostly associated with a higher income that allows consumers to spend more on meat, which is a classic income elastic commodity.

Despite many countries' proximity to ocean or fresh water, fish in general constitutes the lowest source of calories in Sub-Saharan Africa, and compared to other countries its consumption is the world's lowest.[4] It contributes to less than one percent of total calories consumed in the region,[5] and the annual consumption of fish per person stands at only 8 kg. At the same time, fish are the most important source of animal protein in many SSA countries. In fact, in 21 African countries fish supply over 25% of animal protein (in Ghana, for instance, it is as much as 62%).[6] This contradiction can be explained by the very low consumption of animal protein in those countries. The top eight fish-consuming countries are: Nigeria, Ghana, Senegal, Democratic Republic of Congo, Uganda, Tanzania, Cameroon and Ivory Coast. In general, one should not expect any spectacular growth in this subsector; it will most likely remain outside of investors' radars in the near future. According to experts, "the average per capita fish consumption would be unlikely to increase in Africa, although aggregate consumption (driven by population growth) will increase".[7]

Figure 14
Kilocalories consumption in SSA vs. the world's top consumers, 2007 (kcal per capita per day)



Source: N.D. Chauvin, F. Mulangu and G. Porto, op. cit., p. 37.

Having said that, meat and dairy products, whose consumption still lags behind more developed countries and is positively associated with income levels, warrant particular attention and should be followed closely by investors. This particularly concerns chicken products, which have become immensely popular in Africa, mostly due to affordable prices (red meat is more expensive and thus more related to income growth). As noted by one expert, "in Africa, chicken is king and likely to remain so".[8] Although the total size of the meat market might not look impressive by developed countries' standards any time soon, what really matters for business is the total increase in consumption and its growth rate.

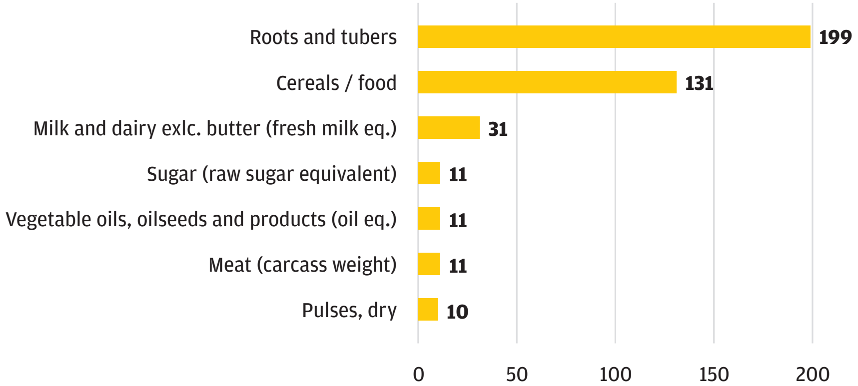
[1] Ibidem.
[2] R.K. Oniang'o, J.M. Mutuku and S.J. Malaba, Contemporary..., op. cit., p. 334.
[3] T. Holmes, Growing wealth..., op. cit.
[4] Fish Supply and Food Security for Africa, WorldFish, July 2009.
[5] N.D. Chauvin, F. Mulangu, G. Porto, Food..., op. cit.
[6] A. Gordon, C.C. Finegold, C.C. Crissman, A. Pulis, Fish Production, Consumption, and Trade in Sub-Saharan Africa: A Review Analysis, WorldFish 2013, p. 17.
[7] Ibidem, p. 2.
[8] T. Holmes, Growing wealth..., op. cit.

This is confirmed by FAO, which argues that:

- By 2050, the meat market is projected at 34.8 million tonnes while that of milk at about 82.6 million tonnes, an increase of 145% and 155% respectively over 2005/07 levels.
- Africa's increase in volume of meat consumed will be on par with that of the developed world and that of Latin America, with only South Asia and Southeast Asia anticipated to register higher growth.
- Production will not keep pace with consumption; as a result, Africa is anticipated to increasingly become a net importer of animal-sourced foods.

Fruits and vegetables, with relatively low consumption, also seem to hold some potential, but this requires shifts in consumption attitudes. Urbanisation and higher income means that vegetables and fruits are more likely to find their way onto the table, as city dwellers consume twice the volume of vegetables consumed in rural areas. Despite this, however, vegetable consumption trends in Africa are heading downwards, making it an unlikely target for business.[1] Overall, the food sector offers ample opportunities for business in certain segments of African societies; nevertheless, its penetration requires a very good understanding of the local consumer, as food among all sectors examined in this report is arguably the most influenced by socio-cultural beliefs and traditional eating habits.

Figure 15
Sub-Saharan Africa selected food consumption patterns, 2015 (kg per capita)



Source: FAO data cited in WESGRO, op. cit.

In order to tap into existing market opportunities in Africa, companies need to focus on niches and particular segments of African consumers and spending patterns in different consumer groups. KPMG has identified six income brackets with associated spending patterns regarding food and beverage items.[2] The first is the low income group (below $1,000 annually), where people focus mostly on survival and meeting absolutely basic needs; their consumption decisions are only made with a short-term outlook and they live a subsistence existence. Nearly all of their income is spent on food, which is consumed in addition to the food which is produced on a small plot of land. The second is the lower income group (above $1,000), where people start moving from a subsistence life and produce more than they consume, which in turn allows them to raise some funds and spend on more than just basics. With regards to food purchases, there is an expansion of food needed to boost the daily caloric intake to healthy levels; they slowly switch to better quality and more convenient food, moreover more meat products are introduced to the daily diet; people start to consume beer and soft drinks. In the emerging middle class group, both quality and quantity of food are expanded; consumers move away from unbranded beers and soft drinks to branded ones; not only do they develop a taste for economy brands but move to premium brands; this also includes buying more sophisticated alcohol such as brandy, whisky and wine; other changes include shifting from chicken to red meat. Further brackets include the middle income group, upper middle income group and high income group, where more changes in spending patterns emerge (for instance the uptake of processed food of various kinds increases), and these, quite naturally, next to the emerging middle class group, are causing a great deal of excitement in the business circles eyeing the continent.

[1] E.J.Z. Robinson, Vegetables and their markets in Africa, University of Reading, http://www2.warwick.ac.uk/research/priorities/foodsecurity/newsandevents/pastevents/vegetablemeeting/elizabeth_robinson.pdf
[2] Incomes and spending patterns in the new Africa, KPMG Africa, 21 August 2014, http://www.blog.kpmgafrica.com/incomes-spending-patterns-new-africa/

Box 4 **Angola: a robust consumer goods market**
by David Valente, CEO of Expandglobe

Sometimes missed in Africa's spotlight, Angola is among the main growth success stories of Africa in the last decade. With the end of its civil war in 2002, Angola has had the fastest GDP per capita growth of Africa in the 2002-2011 period and ranks 5th in the world, having jumped from $600 to more than $6,000 of GDP per capita. With a population of 24.5 million, it has reached the position of third-largest economy in Sub-Saharan Africa with a GDP of $130 billion, and it is Africa's largest oil producer after Nigeria. Around half of its population is under 18 years old, and it is expected to double in the next 20 years.

BMI (Business Monitor International) reported that food consumption has been growing since 2010 with an average growth of about 14.5% each year, and this value is expected to increase even further with the passing years, achieving a growth rate of 18.8% in 2017, reaching a $32.8 billion market. This growing trade trend, together with Angola's government's ambition to become Southern Africa's major hub, may give Luanda the title of largest Port of Africa by 2020.

Despite its tremendous growth, the situation in Angola's future consumer goods market needs to be understood, as two main forces will define it. On the one hand, the very strong segment growth that results from the country's wealth and population boom, and on the other hand the increasing government push towards local production in the "Angolanisation" process. The increase in import duties for sub-segments in which Angola starts having sufficient local production has been especially visible since 2014. This means that entry strategies that can think beyond simple trading will be increasingly important. However, there are still few areas where it is widely believed that the opportunity for trade will remain highly attractive, as local production infrastructures need time to catch up with the huge consumption growth.

Narrowing this market to match the CEE potential, the biggest areas to explore are clearly in the food segment, rather than beverages. The food segment presents potential opportunities in sectors such as dairy, meat production, canned meat and fish, fruits, confectionary and in other differentiated value offers. These are sub-segments still mostly dependent on imported goods, and where the competitive price-quality offerings from CEE companies may find an opportunity. The current increase in formal/modern trade distribution channels will also increase the sophistication of goods traded in Angola.

The beverages segment, including drinks, juices and beer, does not currently hold the same potential for export contracts. The push towards local production has turned into an increase in import duties to 60% in 2014 for drinks, juices, beer and water. Refriango, the major local player, has been a success case that Angola wants to see replicated with other foreign investments in the field. Non-established beverage brands from the CEE region may face a challenge if foreign direct investment or sizeable marketing budgets aren't in their plans. The beer market is even more difficult, as over 80% is domestically produced and local brand recognition is a must.

CEE companies can find a very strong opportunity in specific consumer goods segments in Angola. However, they should not underestimate the maturity level of its consumer goods sector. Most international FMCG players have entered this market in the past decade(s) and new consumer goods' players need to either find opportunities to supply established local brands or be ready to co-invest in building new brands.

Currently, a highly welcomed idea is the availability and willingness of CEE companies to discuss potential investments in localisation of some production in a mid-term prospective. More and more local importers are taking a selective approach to suppliers that are willing to become not only their suppliers but also their know-how partners in finding out how the future will unfold. Localisation is a trend that will remain, and CEE firms can find in Angola a very interesting business case in which they can apply their know-how in building successful consumer goods businesses in transition economies.

Conclusions

Food and beverages consumption per capita in Sub-Saharan Africa has been steadily growing, and this trend is set to continue in the future, further improving growth opportunities for international food producers and retailers.

Health consciousness is gradually rising in Sub-Saharan Africa, particularly in middle income countries such as Ghana and South Africa, and this presents new opportunities for higher-quality food products and processed food producers.

Many Africans, especially members of the emerging middle class, have become more brand conscious and their consumer behaviour is partly driven by brand.

One of the most attractive and at the same time vastly unexploited food retail markets is Angola.

South Africa and Nigeria will remain countries with the largest growth opportunities and market potential, probably attracting the lion's share of investment in trade in food and beverages.

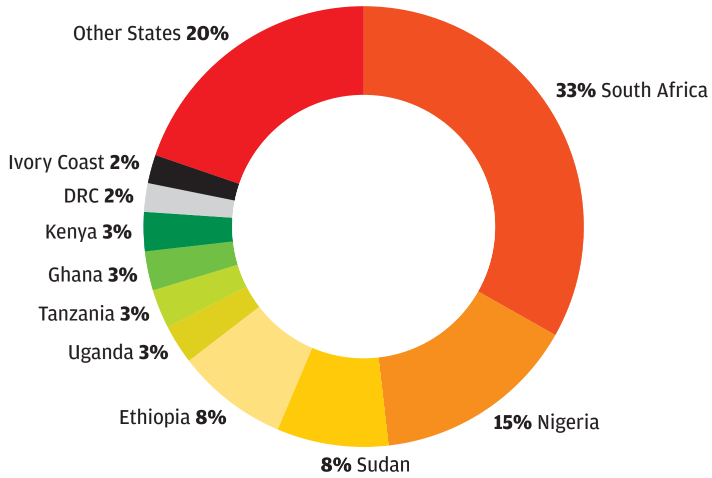
Demand for processed and convenience food is growing dynamically, particularly in the middle income bracket and above. This is partly fuelled by the growth of supermarket chains such as Shoprite, Carrefour and Pick n' Pay, changing consumer incomes and tastes, and the emergence of consolidated firms such as food conglomerates.[1]

[1] P. Shah, Investing in Food Processing – New Consumption, Trends, Changing Tastes, Cambridge Africa Business Network, 20 April 2014, http://www.africanetwork.jbs.cam.ac.uk/2014/04/1441/

5.
HOUSING RENTAL, WATER SUPPLY, ELECTRICITY, FUELS

Expenditure on rent, electricity, water supply, gas and fuels account for the second-largest share in the budgets of African consumers. The average household in SSA spends over 14% of its income on the above-mentioned payments, and Southern Africa is the most expensive region in this regard. As mentioned before, it is projected that the urban population in SSA will double within the next 20 years. It is already bringing multiple challenges and opportunities for retailers. On the one hand, a high concentration of people in the cities makes them easier target for retailers, and according to McKinsey, "urban spending is increasing twice as fast as rural spending",[1] while about 70% of the urban population in Sub-Saharan Africa live in slums,[2] just below or under the poverty line. House rental in slums is usually done on an informal basis. All Sub-Saharan metropolises are suffering from housing shortages,[3] which together with demographic pressure is pushing up rental prices. For example, in Nigeria, housing shortages are estimated at 17 million,[4] and in Ghana at 2 million.[5] In Kenya, more than 234,000 housing units are needed every year, but just 10% of needs are being fulfilled. The situation looks even worse in Zambia, where housing needs per capita are the highest in the region,[6] same as the average prices for a low-standard house (the average cost of a low-standard house in Sub-Saharan Africa in 2013 was $25,000,[7] while in Zambia new low-standard estates are pegged from $50,000 upwards, like in Nigeria[8]).

Figure 16
Expenditures on housing rental, water supply, electricity and fuels, 2009 (% of GDP)



Source: Calculations based on AfDB, A Comparison of Real Household Consumption, op. cit.

[1] D. Hattingh, B. Russo, A. Sun-Basorun, A. Van Wamelen, The rise..., op. cit. p. 4.
[2] UN Habitat, http://unhabitat.org/wp-content/uploads/2014/07/WHD-2014-Background-Paper.pdf; B. Ramin, Slums, climate change and human health in sub-Saharan Africa, Bulletin of the World Health Organization, No. 87, 2009, http://www.who.int/bulletin/volumes/87/12/09-073445/en/
[3] The State of African Cities 2014, UN Habitat, http://unhabitat.org/the-state-of-african-cities-2014/
[4] Ch. Kay, Y. Ibukun, Nigeria Housing Shortage Rising With Slum Demolition: Mortgages, Bloomberg, 10 February 2014, http://www.bloomberg.com/news/2014-02-09/nigeria-housing-shortage-rising-with-slum-demolition-mortgages.html
[5] Think Africa Press, http://thinkafricapress.com/ghana/accra-housing-crisis-spawns-shacks-penthouses-and-little-between
[6] Housing Challenges and Opportunities in Sub-Saharan Africa, International Housing Coalition, http://www.intlhc.org/docs/giddings-mcc.pdf
[7] International Monetary Fund, http://www.imf.org/external/np/seminars/eng/2014/housing/pdf/Venables.pdf; A. Kundu, So, how big is the property market?, http://www.housingfinanceafrica.org/blog/so-how-big-is-the-property-market/
[8] Global Property Guide, http://www.globalpropertyguide.com/Africa/Nigeria/Price-History

Case study 1 OPEN architekci: designing buildings in Africa

1. About us

OPEN architekci is an architectural practice that focuses on architecture, urbanism and interior design. The practice provides a comprehensive architectural product. During the last ten years, we have gained experience in large and complex projects, building a team of architects performing in a creative and effective way. Our portfolio covers a wide range of typologies: residential and retail buildings, hotels, hospitals and healthcare facilities, offices, cultural and civic centres, refurbishment projects, and many more. From an initial concept to on-site supervision, our approach to the design process is distinguished by a high degree of professional attention. Over the last 10 years we have done projects in Poland, Ghana, Nigeria and the Democratic Republic of Congo.

2. About our business in Africa

We have been present in Africa since the year 2011. We have carried out projects for investors in Ghana, Nigeria and the Democratic Republic of Congo. In Ghana we have designed a multifunctional residential area in Accra and in Takoradi. In the Democratic Republic of Congo we have carried out a project for documentation of social housing ("affordable houses") in Kinshasa and a large multifunctional residential area in Lubumbashi. In 2014 we opened our second office in Accra, Ghana. It allows us to provide complete attendance and supervision of our African projects. We cooperate with local architects and contractors.

3. Motives for going to Africa

We connect business with passion for the African continent. We are aware of the transformation that is now taking place there, and we find many similarities between the African and Polish economic situation in the 1990s, namely very fast development, a growing middle class and a huge flow of foreign capital. We want to use the experience that we gained in the last 10 years and realise our professional aspirations. In 2014 we opened an office in Accra, Ghana. This is the base for project management in Western Africa. We are considering also starting offices in Nigeria and the Democratic Republic of Congo. Africa is the only aim of our office expansion.

4. Surprises

We were particularly surprised by the openness of Africans to cooperation with foreign businesses. They are very positive about our professional achievements. As most of our investors live in Europe or the United States, they want to implement Western standards in their countries and expect high quality in the project design.

5. Challenges and how to deal with them

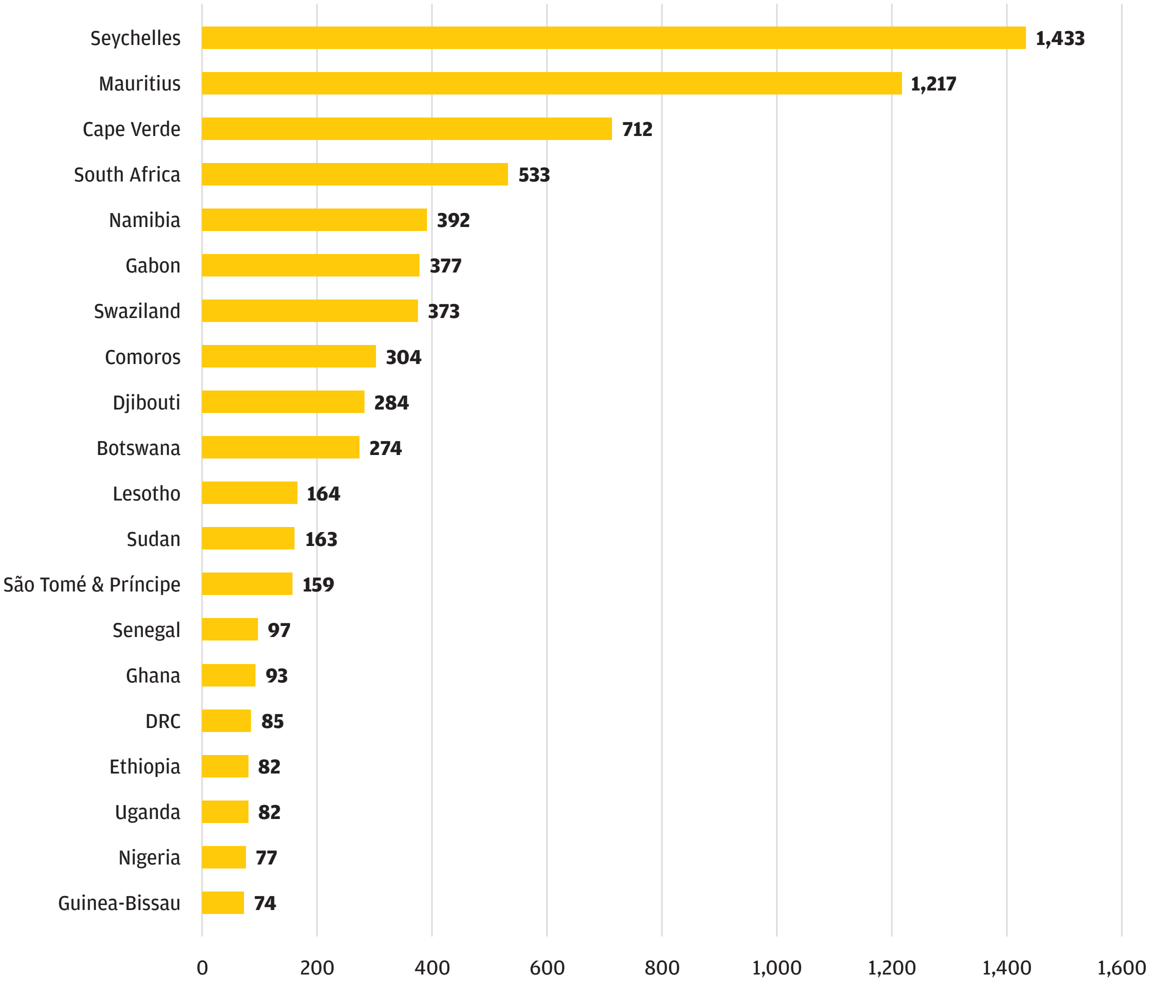
We travelled to Africa privately many times before starting our office in Ghana. We were ready to face all the difficulties that we found there. The most challenging for us was weak Internet connection, traffic, energy problems and corruption. The local way of working is also not very efficient. This is why we base our work on our Polish team and limit cooperation with the locals to the necessary minimum.

6. Recommendations

Africa is currently experiencing a very fast development and emergence of a middle class. We can compare it to the situation in Poland in the 1990s. The standards in doing business are different than in Europe, but having Polish experience makes it easier to understand and take advantage of it. We would strongly encourage Polish companies to enter African markets. The potential is huge and we believe that now is the right moment to be there.

Figure 17

Per capita nominal expenditures on housing rental, water, electricity and fuels, 2009 ($)

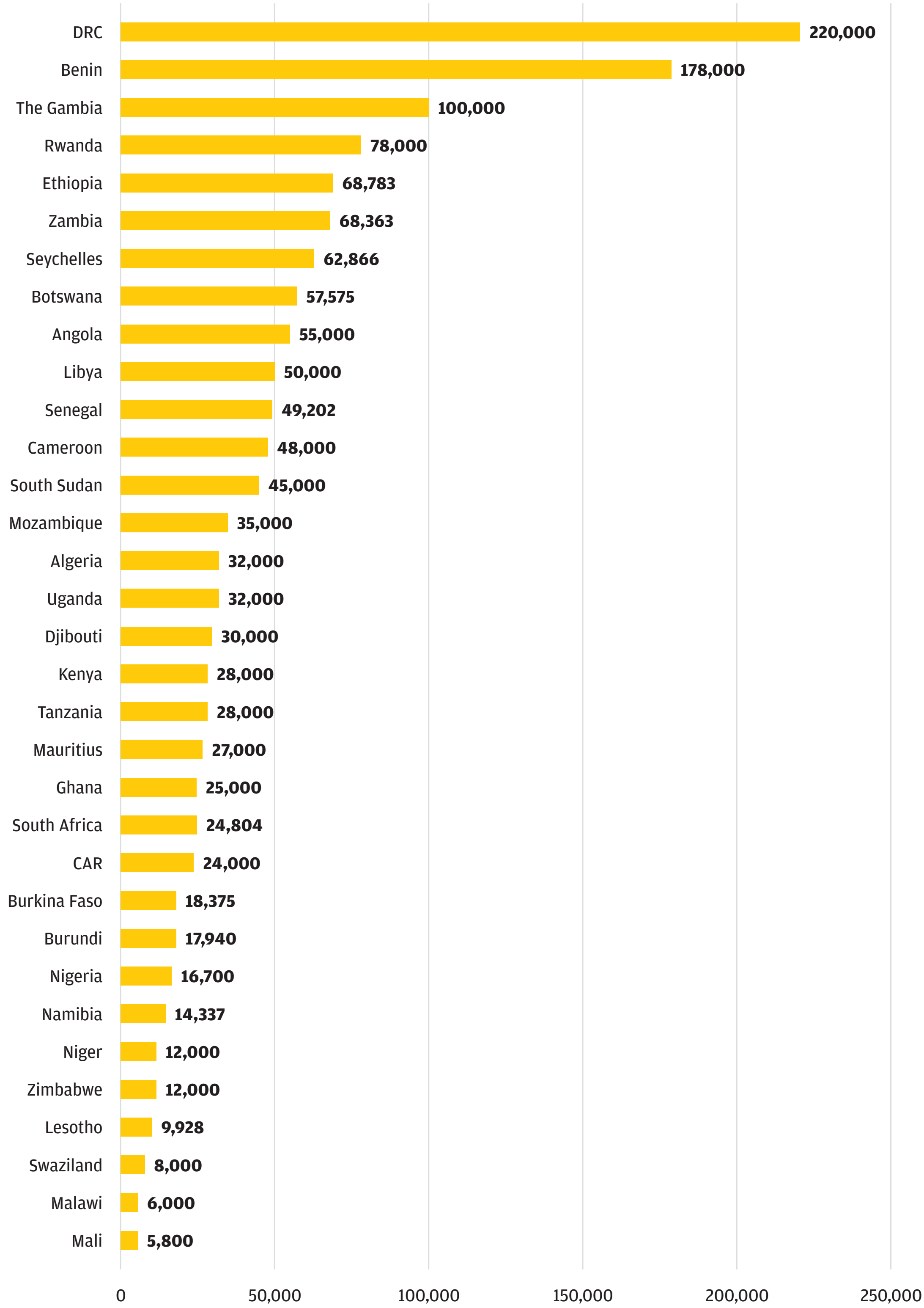


Source: Calculations based on AfDB, A Comparison of Real Household Consumption, op. cit.

At the same time, the Nigerian real estate market was valued in 2014 at $41.2 billion, and was the second (after South Africa) largest market in SSA. However, without exaggeration it might be said that the Nigerian real estate market is Lagos – which accounts for over 40% of all properties for sale and rent. The situation is similar in Ghana, Angola, Uganda and Zambia, where capital cities by far dominate property markets. Due to the short supply of affordable flats in the fast-growing Sub-Saharan cities, the middle class often faces the dilemma of living in expensive rental areas or in slums. It means that there is a large niche of emerging African middle class who are willing to buy or rent houses in non-slum areas if the prices are slightly more affordable.[1] There is also a need for increasing access to housing finance by deepening the mortgage markets (currently the most developed mortgage markets in SSA are in South Africa and Namibia).

[1] A. Mazzolini, Housing the New Urban Middle Class in Sub-Saharan Africa, Academia.edu, http://www.academia.edu/7211825/HOUSING_THE_NEW_URBAN_MIDDLE_CLASS_IN_SUB-SAHARAN_AFRICA

Figure 18
Price of the cheapest newly-built house by a formal developer, 2012 ($)



Source: Centre for Affordable Housing Finance in Africa, http://www.housingfinanceafrica.org/countries/

Box 5 **Kibera slum: the largest slum in Sub-Saharan Africa**

Rapid urban growth and rural-urban migration are indicated as the main factors contributing to the formation and proliferation of slums. In the Sub-Saharan region of Africa, 32.8% of the urban population resides in such settlements. The highest proportion of urban population living in slums is in the Central African Republic. One of the most distinguishable African slums is Kibera, in Nairobi, Kenya. It is difficult to estimate the population of Kibera because of discrepancies in data. Both the UNDP and NGO sectors (Jambo Volunteers, Global Angels, Kibera Foundation) claim it is between 1.5 million and 2 million people, while the Kenyan government found only 170,000 residents. The difficulties are mainly related to the fact that it is hard to collect statistical data in the informal settlements. The proportion of the population living in slums in all of Kenya was estimated at 54.7% in 2009.

The Kibera slum is divided into nine official villages. The average dwelling size is nine square metres, a space for five inhabitants, usually, which they use for cooking, sleeping and living. Almost 92% of residents rent their houses, and only 7% own the property they live in. Rent prices per one square metre per month are about $1.50-2.00 (approximately 120 Kenyan Shillings). Houses in the slums of Nairobi are rented by “slumlords”, who can often rely on the support of the local administration. It causes a deadlock in improving the housing infrastructure, because the landlords may collude with local chiefs to discourage changes that would lead to more entrenched tenancy rights.

People who live in slums are considered as excluded from participating in the economic, social, political and cultural spheres of Nairobi. In the Kibera slum, the public goods are in a deplorable condition. Lack of electricity and water are a fact of daily life. None of the residents have access to a private latrine, 92% of inhabitants have no access to a private water source and 73% of the slum population have no access to garbage collection.

Urban services such as water, electricity and sanitation are among the greatest problems in the slum. There is usually “no water” in Kibera, which means that the inhabitants can use only one tap that is meant to provide water to a thousand people. Kibera also suffers from a poor rain water drainage system. Lack of water results in problems with the preparation of meals, as well as poor hygiene (toilets cannot be washed and there is not enough water to shower).

Sanitary facilities in Kibera are in squalid condition. There is one pit latrine for every fifty to five hundred people and it is extremely dirty. This situation somehow forces the residents to search for alternative solutions. In Kibera, very few people have toilets less than 15 metres from the house. The condition of sanitary facilities is harmful to residents and causes a significant health risk.

Kenya participates in multiple programmes (UN HABITAT and World Bank programmes, Cities Without Slums; Slum Upgrading Facility; UN HABITAT Global Campaign for Secure Tenure) aimed mostly at improving the sanitary conditions, water reticulation, garbage collection, storm drainage, street lighting and paved footpaths and roads, which will potentially create both infrastructural and social changes in such settlements.

Electricity

Two-thirds of the Sub-Saharan African population (over 620 million people) has no access to electricity. SSA produces only 84 GW of power (the same as Spain) and is the least electrified part of the globe; almost half of the world's population without access to electricity lives in Sub-Saharan Africa. Biomass remains primarily cooking fuel for the vast majority of the people living in the region.[1] Kerosene and candles are the most important sources of light. However, according to the International Energy Agency forecast, the electricity generation capacity of Sub-Saharan Africa will increase to 385 GW within the next 25 years and "total power sector investment averages about $46 billion per year, with just over half of it in transmission and distribution".[2]

There is an enormous potential for the development of grid-based power generation in Sub-Saharan Africa, and these developments are necessary for the region's overall economic growth. The Chief Economist of the International Energy Agency, Fatih Birol, estimated that each additional dollar invested in the power sector will boost the overall economy by 15 dollars.[3] It is a truism that the energy resources (both renewable and non-renewable) of Sub-Saharan Africa are sufficient to satisfy the region's needs, but investments in the energy sector are highly capital-intensive. The World Bank concludes that the major obstacle in widening access to electricity in Sub-Saharan Africa is the high connection charges.[4] The costs can be reduced, and most probably will be reduced by "using a variety of low-cost technologies and materials in distribution networks and household connections; making bulk purchases of materials; and adjusting technical standards to reflect the lower loads of households that use a minimum amount of electricity".[5] Almost all African governments prioritise various electrification projects,[6] which makes the world's least electrified region a prosperous market for the various electrification solutions and equipment needed for the expansion and maintenance of the transmission networks. West Africa (countries along the Western African Gas Pipeline[7]), Sudan and Angola, due to large natural gas reserves, are potential places for investments in natural gas-fuelled power plants.[8] There is also a market for independent power generators,[9] since the implementation of many business projects require an uninterrupted supply of electricity, which is problematic in many parts of the region. Spending on fuel for back-up power in Africa was estimated by PwC at $1 billion in 2013[10] (however, most of these costs were incurred rather by business than individual consumers). Potential investors should particularly focus on South Africa and Nigeria, where the demand for electricity is the highest in the region and the governments are planning to connect 1.5 million citizens annually to an electricity grid,[11] since these two countries are responsible for more than 40% of Sub-Saharan Africa's energy demand, and the growth of the middle class, which demands definite connection to electricity, is also the most visible there. Sub-Saharan Africa, due to favourable natural conditions, also has an unexplored potential to become the world's "new clean energy frontier",[12] which, together with many off-grid consumers, makes this market lucrative especially for solar and wind energy solutions, as well as for biomass-based power generation and hydropower.[13] According to the International Energy Agency, the growth of electricity connections in Sub-Saharan Africa will be steady, but due to demographic growth the percentage of off-grid people will remain the same in short and medium-term perspectives. However, the nominal growth of families with electricity in their houses will translate directly into increased demand for household appliances (refrigerators and freezers are the most popular appliances in Africa[14]), TVs,[15] and multimedia equipment.

[1] World Energy Outlook 2014 Factsheet. Energy in sub-Saharan Africa today, International Energy Agency, http://www.worldenergyoutlook.org/media/weowebsite/africa/Fact_sheet_I_Africa_energy_today.pdf
[2] International Energy Agency, World Energy Outlook 2014 Factsheet. Sub-Saharan Africa - key projections to 2040, http://www.iea.org/media/news/2014/press/141013_WEO_Africa_Energy_OutlookFactsheet2.pdf
[3] International Energy Agency, Energy sector is key to powering prosperity in sub-Saharan Africa, http://www.iea.org/newsroomandevents/pressreleases/2014/october/energy-sector-is-key-to-powering-prosperity-in-sub-saharan-africa.html
[4] R. Golumbeanu, D. Barnes, Connection Charges and Electricity Access in Sub-Saharan Africa, The World Bank, Policy Research Working Paper 6511, June 2013.
[5] Ibidem.
[6] World Bank, http://www.worldbank.org/en/topic/energy
[7] D. Kopiński, A. Polus, W. Tycholiz, New oil frontiers: Investors guide to the oil sector in Sub-Saharan Africa, Central and Eastern Europe Development Institute, Warsaw 2014.
[8] Global Infrastructure – Africa. Sub-Saharan Africa Power Outlook, KPMG 2011, p. 10, https://www.kpmg.com/ZA/en/IssuesAndInsights/ArticlesPublications/General-Industries-Publications/Documents/Sub-Saharan%20Electricity%20Outlook%20Brochure.pdf
[9] A. Eberhard, K.N. Gratwick, Independent Power Projects in Sub-Saharan Africa: Determinants of Success, http://siteresources.worldbank.org/AFRICAEXT/Resources/258643-1271798012256/YAC_chpt_21.pdf
[10] Engineering News, http://www.engineeringnews.co.za/article/sub-saharan-infrastructure-spend-to-reach-180bn-by-2025-pwc-2014-12-02
[11] Sector Report. Construction in Africa, KPMG 2014, p. 9; http://www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/General-Industries-Publications/Documents/Construction%20in%20Africa.pdf
[12] Worldwatch Institite, http://www.worldwatch.org/node/5884
[13] Electricity in Africa. Lighting a dark continent, The Economist, 27 September 2014, http://www.economist.com/news/middle-east-and-africa/21620245-power-shortages-have-been-holding-africa-back-are-last-easing-lighting
[14] Sector Report. White Goods in Africa, KPMG 2014, http://www.kpmg.com/Africa/en/IssuesAndInsights/Articles-Publications/General-Industries-Publications/Documents/White%20Goods%20in%20Africa.pdf
[15] Business Day TV, http://www.businessdaytv.co.za/incoming/2014/11/18/tuning-into-africa---the-growth-of-the-tv-sector

Table 4
Sub-Saharan Africa's electricity sector, 2010

Country	Population (millions)	Installed capacity (MW)	Electricity consumption per capita (kWh)	Electrification access rate (% of population)
Angola	19.1	1,155	203	26
Benin	8.9	93	92	25
Burkina Faso	16.5	252	43	15
Cameroon	19.6	1,105	266	49
Cape Verde	0.5	75	422	70
CAR	4.4	46	37	5
Chad	11.3	158	9	4
DRC	66.0	2,476	104	11
Ethiopia	83.0	929	45	17
Gabon	1.5	415	924	37
The Gambia	1.7	75	136	5
Ghana	24.4	2,111	265	61
Guinea	10.0	331	102	20
Guinea-Bissau	1.6	15	10	12
Ivory Coast	19.8	1,218	187	49
Kenya	1.5	1,286	146	16
Lesotho	1.7	76	253	16
Madagascar	20.3	246	46	19
Malawi	14.9	315	85	9
Mauritania	3.5	253	145	50
Mauritius	1.3	739	1,870	99
Mozambique	23.4	2,428	453	12
Namibia	2.3	264	1,628	34
Niger	15.6	230	40	9
Nigeria	158.4	5,900	120	51
Rwanda	10.6	67	22	5
Senegal	12.5	548	189	42
Seychelles	85.2	95	2,660	96
Sierra Leone	5.8	52	11	10
South Africa	50.0	44,100	4,532	75
Sudan	43.1	2,300	115	30
Swaziland	1.2	70	943	35
Tanzania	44.9	1,006	84	14
Togo	6.1	85	99	20
Uganda	34.0	515	40	9
Zambia	12.9	1,680	625	19
Zimbabwe	12.6	2,099	1,022	42

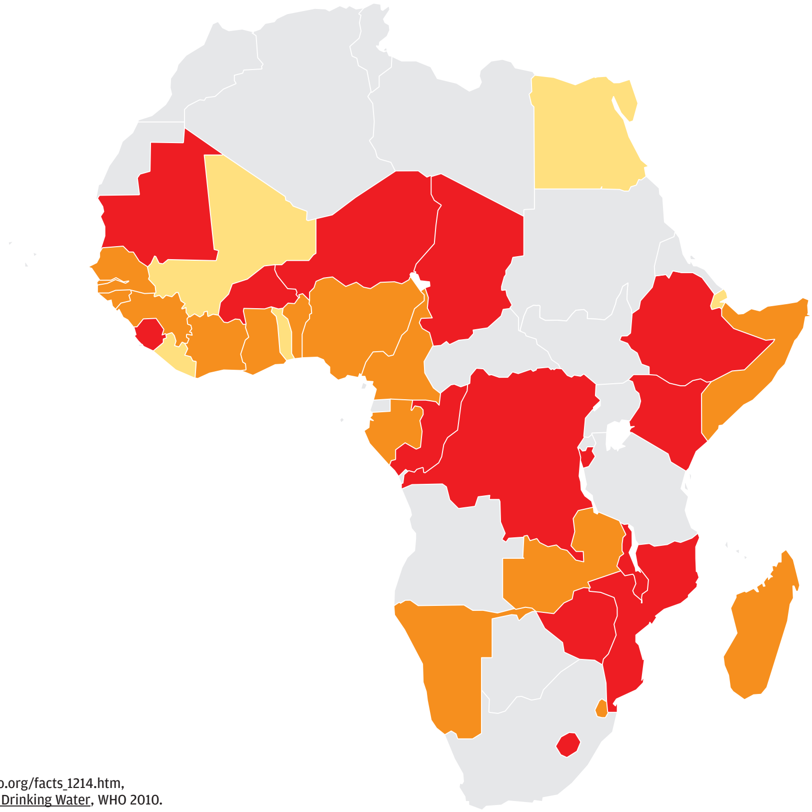
Source: United Nations Environment Programme, Regional Report on Efficient Lighting in Sub-Saharan African Countries, United Nations Environment Programme 2011, pp. 8-9, based on country questionnaire, IRENA, World Bank, IEA, 2011, http://www.enlighten-initiative.org/portals/0/documents/country-support/en.lighten_Sub-Saharan%20Report.pdf

Water

During the last two decades, access to drinking water in SSA has slightly improved, but as mentioned before, 40% of people living in the region have no direct access to drinking water.[1] There are also vast disparities among Sub-Saharan countries and between rural and urban areas. Acquiring drinking water in many parts of SSA is also extremely time-consuming, since over 25% of people living in the region spend more than 30 minutes on a single water-collection trip.

Figure 19

Water-collection round trip lasting longer than 30 minutes, 2010 (% of population)



- < 10%
- 10%-25%
- > 25%
- no or insufficient data

Source: UNICEF Data, http://www.childinfo.org/facts_1214.htm,
citation after: Progress on Sanitation and Drinking Water, WHO 2010.

In general it might be said that direct access to water and sanitation is associated with living in urban areas and wealth.[2] Paradoxically, the poorest urban dwellers who are not connected to water networks are forced to seek alternative access to water, and as a consequence either use undrinkable water or pay much more than the official price for the water that is resold to them by the people connected to the waterworks. According to the results of research conducted by Stanford in SSA, "one in five people purchase water from neighbours connected to public or private utility lines. This practice, known as resale, is either illegal or informal in many places".[3]

[1] United Nations, http://www.un.org/waterforlifedecade/africa.shtml

[2] African Minister's Council on Water, A Snapshot of Drinking Water and Sanitation in Africa – 2012 Update, Prepared for AMCOW as a contribution to Fourth Africa Water Week Cairo, Egypt, 14 – 15 May 2012, p. 13, http://www.wssinfo.org/fileadmin/user_upload/resources/Africa-AMCOW-Snapshot-2012-English-Final.pdf

[3] Stanford University, http://news.stanford.edu/news/2013/december/africa-water-practice-120613.html

The average official tariff for a cubic meter of water in SSA is $0.60 which is high, taking into account global prices, the purchasing power of African consumers and the average consumption of 10 cubic meters per person.[1]

Commercial investments in the water sector usually focus on large urban infrastructural projects with sufficient scale to guarantee profits. Water sources in rural areas are often financed by international donors and/or central and local governments. Nevertheless, similarly to the electricity market, the infrastructure related to obtaining and transferring water is currently being developed in SSA, which creates multiple opportunities for firms exporting water obtaining and transport solutions. It is also worth noticing that, according to the recent forecast, the population growth correlated with rapid urbanisation and poor quality of portable water will significantly increase the sale of bottled water. According to Janet M. Wojcicki and Melvin B. Heyman, sales of bottled water in Nigeria increased by 90% between 2003 and 2010, and is expected to grow further; in Kenya the sale is expected to grow over 40% within the next 3 years[2] (see: Chapter 4). Simultaneously, water treatment and vending businesses are developing (especially in East Africa) as an alternative to bottled water.

Fuels

The oil and gas prices in Sub-Saharan Africa influence not only prices an individual must pay for petroleum-related products, but have an impact on all other goods due to relatively high transport costs.[3] Petrol and diesel prices also influence costs of private and public transport (see: Chapter 6).

The average pump price for diesel and petrol in Sub-Saharan Africa in 2012 stood at $1.2 per litre.[4] A very important fuel for Africans, due to the low electrification rate, is kerosene – used for cooking and lighting. A study conducted by J. Tracy and A. Jacobson in 2012 in Senegal, Mali, Ghana, Tanzania and Kenya showed that "the median price per litre of kerosene sold in small quantities in the rural villages was 35% higher than the median price recorded in the urban centres, $1.30 versus $0.96, respectively".[5] The situation in the kerosene market is analogous to the situation in the electricity and water markets, where the poorest people, without access to infrastructure, and those who buy kerosene in small quantities, must pay much more than the official prices. On the other hand, due to health and fire concerns, many people in the region turn to battery-powered lamps. The market is currently dominated by Chinese lighting products, since 70% of them are imported directly from China. The Sub-Saharan lighting products market was valued in 2011 at $200 million.[6]

Downstream industry in Sub-Saharan Africa is dominated by the parastatal oil and gas corporations and the major players of the global oil industry. In many countries, fuel prices are regulated. There is a strong conviction that due to an increase in petroleum product consumption, there is a place for mid-size players in Sub-Saharan downstream industry.[7]

[1] S. Banerjee et. al., Africa Infrastructure Country Diagnostic. Urban Water Supply in Sub-Saharan Africa, http://www.eu-africa-infrastructure-tf.net/attachments/library/aicd-background-paper-12-water-summary-en.pdf
[2] J. M. Wojcicki, M. B. Heyman, Malnutrition and the Role of the Soft Drink Industry in Improving Child Health in Sub-Saharan Africa, Pediatrics, Vol. 126, No. 6, 1 December 2010.
[3] Petroleum product markets in Sub-Saharan Africa: comparative efficiency analysis of twelve countries, World Bank, Washington, DC, World Bank 2011, http://documents.worldbank.org/curated/en/2011/01/14060040/petroleum-product-markets-sub-saharan-africa-comparative-efficiency-analysis-twelve-countries
[4] Tradingeconomics, http://www.tradingeconomics.com/sub-saharan-africa/road-sector-diesel-fuel-consumption-per-capita-kt-of-oil-equivalent-wb-data.html
[5] J. Tracy, A. Jacobson, The True Cost of Kerosene in Rural Africa, Lighting Africa 2012, http://global-off-grid-lighting-association.org/wp-content/uploads/2013/09/kerosene_pricing_Lighting_Africa_Report.pdf
[6] Regional Report on Efficient Lighting in Sub-Saharan African Countries, United Nations Environment Programme 2011, p. 76; http://www.enlighten-initiative.org/portals/0/documents/country-support/en.lighten_Sub-Saharan%20Report.pdf
[7] D. Kopiński, A. Polus, W. Tycholiz, New oil frontiers..., op. cit., p. 36.

Conclusions

There is a large emerging African middle class who is willing to buy or rent houses in non-slum areas if only the prices were slightly better.

Rapid urbanisation is placing multiple constraints on the infrastructural developments in Sub-Saharan Africa. Many electricity, water and sanitation projects have already been introduced. In nominal numbers the situation is improving but due to the population growth, the percentage of people excluded from basic facilities remains unchanged in the short and medium perspective. There is also a great need for African city growth planning, and city infrastructure projects should be implemented faster and "require both public and private sector participation".[1]

The poorest people in the region, without access to electricity and water-related infrastructure, must pay many times more than the formal price for access to these very goods.

Urbanisation correlated with water and electricity infrastructure development will create multiple opportunities for retailers. On the one hand, people with access to housing, water and electricity will spend more time and money on improving other living standards, which in consequence will change their consumption patterns. On the other hand, large water, gas, and electricity-related infrastructural projects will need specialist knowledge, external support and materials if they are to be implemented.

[1] G. Hatch, P. Becker, M. van Zyl, The Dynamic..., op. cit., p. 11.

6.
TRANSPORT

Even though none of the African cities are even close to having the “9 million bicycles” allegedly riding down the streets of Beijing, as Kate Melua’s lead single goes, in total there are around 15 million two-wheelers used in Southern Africa alone.[1] On top of that, every day Africa’s bumpy, mostly unpaved roads are used by at least 22 million cars[2] and 13 million motorcycles.[3]

Like with other consumer goods, consumer demand for motor vehicles in Sub-Saharan Africa is affected by local characteristics. According to WHO data, the country in Sub-Saharan Africa with the highest number of registered vehicles in 2010 was Nigeria (12.5 million registered vehicles), followed by South Africa (9.5 million), Kenya (1.4 million) and Ghana (1.1 million). As the number of vehicles in use is strongly dependent on the number of people living in a respective country (there are more than 160 million people living in Nigeria, whilst in Cape Verde only 0.5 million), it is probably more appropriate to estimate the number of vehicles registered in a country by the number of its population. With such an interpretation, Mauritius ranks at the top with 296 vehicles per 1,000 people, and is followed by Liberia (258 vehicles per 1,000 people), Botswana (197) and South Africa (191). In thirteen countries from the SSA region (namely Benin, Burundi, Central African Republic, Congo-Brazzaville, Democratic Republic of Congo, Ethiopia, Guinea, Madagascar, Niger, Rwanda, São Tomé & Príncipe, Sierra Leone, Togo), in 2010 the number of vehicles per 1,000 was fewer than ten.

Table 5
Number of registered vehicles and motors per 1,000 people in selected African countries, 2010

Country	Number of registered vehicles	Country	Motor vehicles (per 1,000 people)
Nigeria	12,545,177	Mauritius	296
South Africa	9,587,781	Liberia	258
Kenya	1,389,864	Botswana	197
Ghana	1,122,700	South Africa	191
Liberia	1,030,951	Seychelles	177
Tanzania	977,468	Cape Verde	130
Burkina Faso	884,750	Gabon	130
Zimbabwe	862,756	Swaziland	129
Uganda	635,656	Mauritania	112
Ivory Coast	474,873	Namibia	101

Source: Global Health Observation, World Health Organization, http://apps.who.int/gho/data/node.main.A995

[1] L. de Waal, The bicycle in Southern Africa, Pedal Power Foundation of South Africa, http://www.ibike.org/pabin/dewaal.PDF
[2] Automechanika Academy underlines tremendous potential of emerging markets in Africa for UAE's re-export trade, Zawya News, 4 June 2014, https://www.zawya.com/story/African_auto_parts_market_for_passenger_vehicles_valued_at_US_768_billion_in_2013_expected_to_double_in_size_by_2020_expert-ZAWYA20140604111903/
[3] Authors’ estimates based on total number vehicles registered in Sub-Saharan Africa.

As the old saying goes, "where the road passes, development follows". Indeed, many examples of African cities validate this saying on different levels. Moving goods and people both within and across African borders is of crucial importance for economic growth and – especially in the case of large cities – a major source of income for vast numbers of its citizens. For example, in Lagos, the most populous city in Nigeria, there are over 100,000 minibuses and 200,000 motorcycles in daily use, providing direct employment for 500,000 people and constituting a major source of income for around 15% of the population.[1]

It is important to remember, though, that most of the household expenditures on transport are by-products of consumers' out-of-home activities and needs, rather than carefully planned outlays. Nevertheless, the rising demand for transport fuelled by the growing African middle class is mirrored in the household final expenditures on motorcars, motorcycles, bicycles, fuels and lubricants and vehicle spare parts. The latest available data from the African Development Bank shows that in nominal terms in 2009 African households spent over $81 billion in total on transport. In absolute terms, across the continent it is South Africans who spent the most money on transport-related goods and services ($23.1 billion), followed by Nigerians ($5 billion), Sudanese ($3.86 billion) and Kenyans ($3.24 billion). In relative terms, the largest portion of household income was spent on transport in São Tomé & Príncipe (17.1%), Kenya (14.6%), South Africa (13.5%) and Mauritius (13.0%).

Table 6

Nominal household expenditures on transport-related goods and services and percentage share of transport expenditures in total household expenditures in selected SSA countries, 2009 ($ billion, % share of GDP)

Nominal household expenditures on transport

	Country	Expenditures ($ billion)
1	South Africa	23.11
2	Nigeria	4.98
3	Sudan	3.86
4	Kenya	3.24
5	Ivory Coast	1.79
6	Ghana	1.44
7	Cameroon	1.42
8	Ethiopia	1.02
9	Mauritius	0.85
10	Mali	0.81

Share of transport expenditures in total household expenditures

	Country	Share (%)
1	São Tomé & Príncipe	17.15%
2	Kenya	14.61%
3	Mali	14.36%
4	South Africa	13.52%
5	Mauritius	13.05%
6	Namibia	12.62%
7	Ivory Coast	11.60%
8	Chad	10.31%
9	Lesotho	9.52%
10	Gabon	9.14%

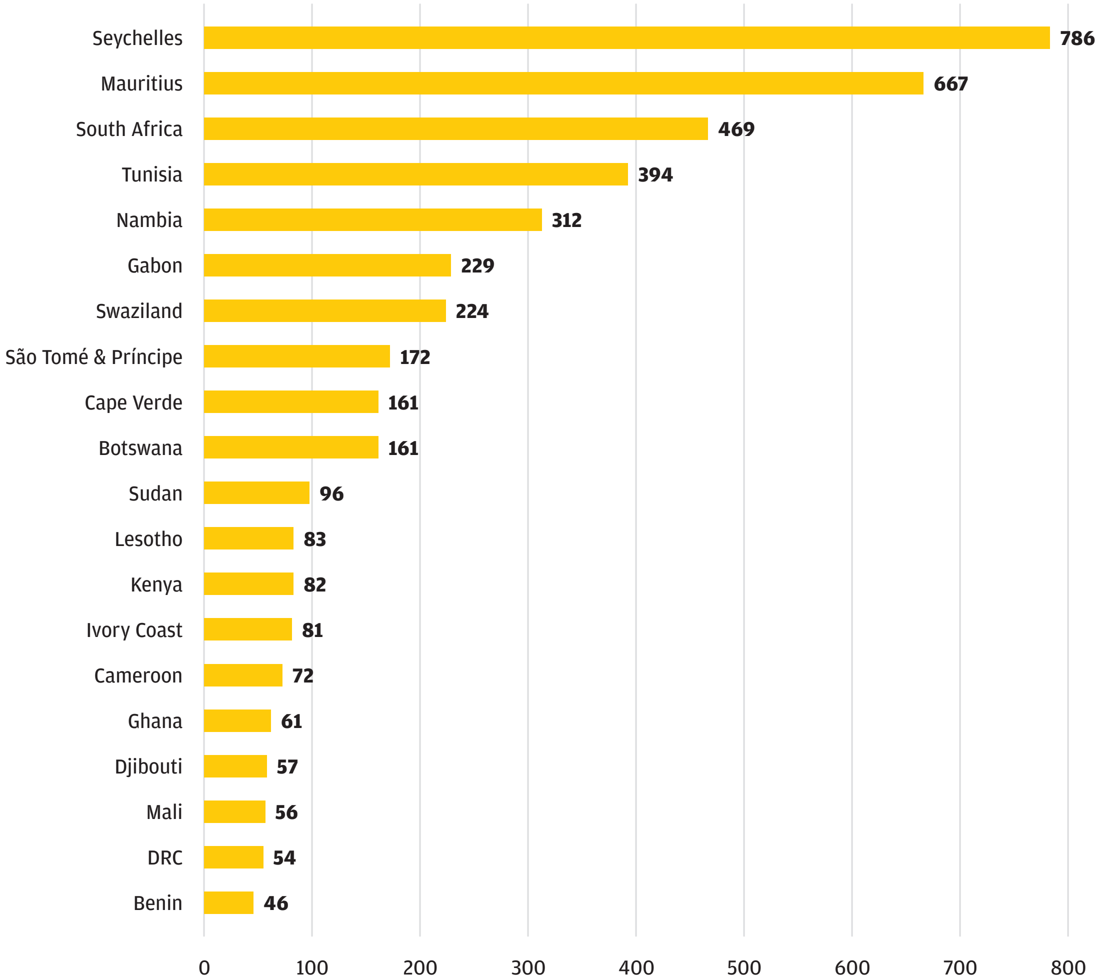
Source: Calculations based on AfDB, A Comparison of Real Household Consumption Expenditures and Price Levels in Africa..., op. cit.

Transport goods and services were most expensive in Comoros (almost 250% more expensive than the continent's average), Zambia (180%), Central African Republic (164%) and Ivory Coast (156%). On the opposite end are Tanzania, Guinea, Ethiopia and Mozambique, where prices of transport were, on average, 1/3 cheaper than the average for the continent.

[1] A. Kumar, Understanding the emerging role of motorcycles in Africa, World Bank, Washington DC 2011, p. 3, http://siteresources.worldbank.org/EXTAFRSUBSAHTRA/Resources/1513929-1262811948762/DP13-Role-Motorcycles.pdf

Figure 20

Per capita nominal expenditures on transport, 2009 ($)



Source: Calculations based on AfDB, A Comparison of Real Household Consumption Expenditures and Price Levels in Africa, op. cit.

Cars on African roads

"Sales of cars up 200%, profits up 50%", stated the punch line of The Economist article in 2001 about ACLN, an automotive company specialising in selling used cars in Africa.[1] Even though 15 years later such numbers are far less achievable, since the car market is more efficient and competitive, the business of selling both used and new cars in Africa still looks promising.

Though still in its early stages, the market for new vehicles in Africa is expanding rapidly due to improvement in infrastructure and growing per capita income. Current sales figures of new cars sold in Africa equal roughly 1.8 million and, according to Jean-Christophe Kugler, Renault's senior vice-president for the region, sales numbers will shortly approach 6 million.[2]

In fact, Africa, alongside China, is the fastest-growing market for cars globally. For example, even though global export of French car manufacturers dropped by 22% in 2011, in Africa it increased by 11%.[3] But not only traditional car exporters such as Germany, Japan, the US and Korea are benefiting from Africa's growing consumer demand for new cars. In 2009, when Africans bought more than 100,000 new Chinese cars, the continent became the largest destination for new Chinese cars worldwide (surpassing even Asia). In 2012, Indian export of vehicles to Africa exceeded $3 billion and accounted for 11% of India's total export to Africa.[4]

However strong and fast-growing the demand for new cars in Africa might seem, it looks modest at best when compared to second-hand car figures. For example, out of the 400,000 total cars sold in Nigeria in 2013, used cars accounted for 75%.[5] Similarly, in Kenya for every person who bought a new car, there were another four who bought used ones.

Surprisingly, at least at first glance, Benin annual import of used cars exceeded 300,000 in 2013. Less surprising is the fact that 90% of those cars were subsequently resold to Nigerians, who wanted to avoid paying high duties imposed on cars imported from Europe and North America directly to the country.[6]

The major reason behind the popularity of used cars in SSA is the simple fact that buying a new car is still out of reach for most of the population, even those belonging to the African middle class. Therefore, second-hand cars are the only viable option to confirm the wealthier status of a household.

The demand for vehicles in Africa is fuelled not only by the emerging middle class but also by the decline of public transport services in the region. It is quite paradoxical that in the developing cities across the continent, where vehicle ownership is one of the lowest globally and dependence on public transport is high, organised transport services provided by the government are either non-existent or far from reliable.[7] This situation has resulted in the rapid growth of alternative non-conventional transport services in the form of minibuses, shared taxis and commercial motorcycles.

[1] Selling second-hand cars in Africa, The Economist, 2 August 2001, http://www.economist.com/node/719514
[2] B. Reeves, Global Car Companies Hunt Big Game In Africa's Growing Automotive Market, International Business Times, 25 August 2012, http://www.ibtimes.com/global-car-companies-hunt-big-game-africas-growing-automotive-market-758807
[3] S. Freemantle, J. Stevens, Insight and Strategy - India leads in unlocking new vehicle demand in Africa, Standard Bank Insight & Strategy, 1 August 2013, https://m.research.standardbank.com/Research?view=1671-45007bd394a04b1c9cb587a153a879ed-1
[4] Ibidem.
[5] New auto industry policy seeks to revive local production, The Economist Intelligence Unit, 28 Januar 2014, http://www.eiu.com/industry/article/1771476561/new-auto-industry-policy-seeks-to-revive-local-production/2014-01-28
[6] S. Ribstein, J. Boswell, Benin's second-hand car trade, BBC Africa Business Report, 4 September 2014, http://www.bbc.com/news/business-29061377
[7] A. Kumar, Understanding..., op. cit., p. 2.

Case study 2 Addressing special needs with special vehicles in Africa

1. **About us**

We are a leader in the production of specialist vehicles in Central and Eastern Europe, having commenced operation in 1992 in Poland. Since the beginning, we have focused on the automotive industry and, more precisely, special production for uniformed services such as fire brigades, armies and police. The concept of the offered product uses a patented system of modular superstructure that allows the customer to create any configuration of vehicles in the initial phase of the project, taking into account existing solutions and the full cost optimisation. Currently, about 20% of our vehicles are exported and fire vehicles run not only in the countries of the European Union but also beyond its borders.

2. **About our business in Africa**

Our vehicles are manufactured from the highest quality materials and components supplied by leading providers, which in combination with the company's progressive philosophy, guarantee high added value to the final product. There are currently operations in the Democratic Republic of the Congo, Kenya and Sierra Leone, where products are offered to individual customers, armed forces and the civilian government.

3. **Motives for going to Africa**

We recognise the dynamism of the African market and demand for products.

4. **Surprises**

Cultural differences, non-transparent regulations, high costs of phone calls.

5. **Challenges and how to deal with them**

Taking into account cultural barriers and political obstacles, different local conditions and technical regulations, experienced professional staff and flexibility of the company are important in order to provide a well-organised service.

6. **Recommendations**

Africa is a quickly developing region with colossal opportunities and a great need for products. With strong desire to an aim - the success is within reach.

Motorcycles

In the hot climate of Sub-Saharan Africa, motorcycles are often used as a more affordable and faster alternative for getting around. The high popularity of motorcycles is especially visible in countries such as Cameroon, Liberia, Nigeria, Sierra Leone, Uganda and Kenya, where besides being used for personal purposes, they also serve the thriving "bodaboda", "phenphen" and "okada" transport services. Individual motorcyclists provide means of transport for hundreds of thousands of people daily in major urban African conglomerates. For example, in Monrovia, with a population of 1.1 million people, "phen-phen" transport services account for 60% of all motorised transport, providing income for 50% of households in the city.[1] The number of "boda-boda" in Kampala is not exactly known due to poor registration records, but it is estimated as being from 65,000[2] to over 300,000.[3] That is at least five times more boda-bodas than yellow taxi cabs in New York. In Benin and Togo, motorcycles as a means of transportation account respectively for more than 70% and 80% of transportation needs.[4]

[1] Challenges of informal motorcycle transport in Liberia, Sustainable Urban Transport Project, 2012, p. 2.
[2] A. Fallon, In Kampala, an App for Motorcycle-Sharing, Citylab, 19 December 2014, http://www.citylab.com/tech/2014/12/in-kampala-an-app-for-motorcycle-sharing/383928/
[3] S. Ssenkaaba, Boda bodas: A deathtrap at your beckon, New Vision, 6 June 2013, http://www.newvision.co.ug/news/643639-boda-bodas-a-deathtrap-at-your-beckon.html
[4] M. Abuhamoud, R. Atiq, A. Ismail, Transportation and its Concerns in Africa: A Review, The Social Sciences, Vol. 6, Iss. 1, 2001, p. 3.

Besides giving employment, motorbikes contribute to connection of rural areas with cities, as they enable access to remote locations with non-existent road infrastructure resulting in improvement of health care availability and transport of farm products to markets.[1] The growing use of motorbikes for a wide variety of purposes (but first and foremost for commercial transport) and the associated increase in demand for motorbikes have been spurred by three major factors: the shortage of urban transport supply, the availability of means of production (i.e. motorcycles, fuel and drivers) and loose regulatory framework.[2]

As the number of sold cars and motorbikes is growing, so is the demand for automotive batteries, tires, spare parts, lubricants, water pumps and a range of electronic goods for automotive use. For example, in Kenya, trading spare parts for motorcycles is now considered one of the most lucrative businesses. Local shops with tires, brakes and frames are mushrooming, as their owners can earn on average as much as $300 per day. On many streets of Nairobi there are as many spare parts shops as mobile transfer services points. According to Frost & Sullivan, in 2013 the auto parts market in Africa was worth almost $8 billion. And by the year 2020 this figure will have doubled.[3]

Bicycles

Bicycles are the basic means of transportation and are commonly used across the continent to transport everything from crates of chickens, grain and ferry boxes to children. The sight of a single roadster carrying a transporter of food, water or a passenger in Rwanda, Tanzania or Zambia is very common.

It is estimated that only in Southern African countries there are 15 million bikes in daily use and the annual sales equal around 300,000.[4] In 2012, Kenya, alone, imported more than 500,000 bikes. Yet, despite demand, there are no mass market bike manufacturers in Africa, and most of the sold bikes are flimsy, cheap and generally unreliable imports from China and India.[5] As Mr. Frederick Day, Head of World Bicycle Relief, an American charity, puts it: "It's almost a crime against humanity – the junk that's been dumped [from China and India] into Africa in terms of quality bicycles".[6] Even though bicycles are generally considered as a viable alternative to walking and – to some extent – even motorcycles, some researchers point out that, due to negative social representation associating bicycle use with poverty, their popularity is limited.[7]

SRAM, the largest bicycle component maker in America, has already started its business journey with Africa by establishing the above-mentioned World Bicycle Relief, WBR. Annually, the company – operating in Zambia, Kenya, Zimbabwe and South Africa – sells around 25,000 bikes. But there is definitely room for other companies, including those from the CEE region, to enter and seize the market opportunity which is clearly there.

Tractors and agriculture machinery

The other increasingly important segment of the African transport market is tractors (and farming machinery). These products are commonly put under the agriculture machinery category rather than transport since by Western standards they are strictly for farm use, not for highways or public roads. For example, even riding on an open pick-up, let alone a trailer, is considered a road violation in many Western countries, whereas in Africa, tractors are sometimes also used as a means of transport. Nonetheless, demand for tractors, however classified, is also booming. This should not come as a surprise considering two fundamental factors. First, the agricultural potential of the continent is simply enormous. According to the World Bank's recent report, "Africa's agriculture and agribusiness markets are set to top US$ one trillion in 2030".[8] The other factor is the extremely low mechanisation of agricultural production in the continent. There are only 13 tractors per 100 square km, compared to the world average of 200; in the UK there are 883 tractors per 1,000 farmworkers, whereas in SSA only 2 (interestingly there has been a 50% decline since the 1980s).

[1] K. Dolan, The Surprising Link Between Motorcycles And Better African Health Care, Forbes, 25 September 2012, http://www.forbes.com/sites/kerryadolan/2012/09/25/the-surprising-link-between-motorcycles-and-better-african-health-care/
[2] L. Olvera, D. Plat, P. Pochet, S. Maïdadi, Motorbike taxis in the "transport crisis" of West and Central African cities, EchoGéo, 20 (2012), p. 5.
[3] African Auto Parts Market for Passenger Vehicles Valued at Us$ 7.68 Billion in 2013, Expected to Double in Size by 2020, Bizkom Press Release, 8 September 2014, http://www.pressreleasepoint.com/african-auto-parts-market-passenger-vehicles-valued-us-768-billion-2013-expected-double-size-2020
[4] L. de Waal, The bicycle..., op. cit.
[5] A. England, K. Manson, Steering a path to making bicycles in Africa, Financial Times, 4 January 2012, http://www.ft.com/cms/s/0/3520c62e-e9bc-11e0-bb3e-00144feab49a.html#axzz3OoJv4WGE
[6] R. Hamilton, Can the Buffalo change Africa's bicycle culture?, BBC, 14 March 2012, http://www.bbc.com/news/world-africa-17115923
[7] D. Olvera et. al., Household transport expenditure in Sub-Saharan Africa cities: measurement and analysis, Journal of Transport Geography, Vol. 16, No. 1, 2008, pp 1-13.
[8] D. Byerlee, A.F. Garcia, A. Giertz, V. Palmade, Growing Africa - Unlocking the potential of agribusiness, World Bank, Washington DC 2013.

According to FAO, land preparation in SSA relies completely on human muscle power on about 80% of the cultivated land, with draught animals and tractors being used on only 15% and 5%, respectively.[1] Having said that, many companies realised that it is high time they tapped into this market now (see below).

Case study 3 URSUS: selling tractors and agriculture machinery in Africa

1. About us

URSUS is one of the oldest tractor brands in Europe, with over 120 years of experience and tradition in agriculture. Our business profile is in the production and sales of tractors and agricultural machinery. The company manages three manufacturing plants located throughout Poland. URSUS S.A. is present in agriculture markets in Europe, South-East Asia, Africa and South America. In December 2007, the company made its debut on the trading floor of the Warsaw Stock Exchange and became the only company in Poland representing the agricultural industry.

2. About our business in Africa

URSUS S.A. is present in various African countries. We supply our African customers with tractors and machinery which fulfil climate and local requirements. Ursus products were presented for the first time in Africa in the 1960s. Currently we are realising the supply of 3,000 units to Ethiopia.

3. Motives for going to Africa

URSUS began its international activity a few decades ago, including the African continent. After a privatisation process in 2011, URSUS continued to rebuild relations with local institutions, companies and entrepreneurs. Doing business in Africa is also easier due to special international development funds. Since many African countries are developing economies, especially in terms of agriculture, there is substantial and unlimited demand for agricultural equipment. To realise a strategy, all activities should be supported with available modern financing instruments.

4. Surprises

In Africa we observe that a critical issue in the progress of negotiations is to build personal relations based on confidence and trust with people in charge. Many people do not make plans for the future, living in the present moment.

5. Challenges and how to deal with them

Diversity in the cultural behaviour in Africa demands a different approach in different regions. For us, the challenge is to suit our products to customers' requirements with reasonable prices, especially due to the growing presence of Asian companies in Africa.

6. Recommendations

Africa is a region of the world which has needs in almost every branch of its activity, such as trade, industry and services. Choosing a partner for cooperation is very important, but the possibilities for development on this continent are almost unlimited.

[1] G.C. Mrema, D. Baker, D. Kahan, Agricultural mechanization in sub-Saharan Africa: time for a new look, FAO, Rome 2008.

Conclusions

The number of cars, motorcycles and bikes used nowadays in Africa equals 22, 13 and 30 million respectively.

In 2010, Nigeria had the largest number of registered vehicles (12.5 million) and was followed by South Africa (9.5 million), Kenya (1.4 million) and Ghana (1.1 million), whilst the largest numbers of vehicles per 1,000 people were recorded in Mauritius (296), Liberia (258), Botswana (197) and South Africa (191).

Across the continent, South Africans spent the most money on transport-related goods and services ($23.1 billion), and were followed by Nigerians ($5 billion), Sudanese ($3.86 billion) and Kenyans ($3.24 billions). In relative terms, the largest portion of household income spent on transport was recorded in São Tomé & Príncipe (17.1%), Kenya (14.6%), South Africa (13.5%) and Mauritius (13.0); it is important to remember that most of the household expenditures on transport are by-products of consumers' out-of-home activities and needs rather than carefully planned outlays.

Annual sales of new cars in Africa exceeded 1.8 million and is projected to grow to 6 million in the few upcoming years; but even though demand for new cars is growing rapidly, due to greater affordability, second-hand cars are much more popular in Africa.

Due to an ongoing decline of public transport services, Africa is experiencing a rapid growth of alternative, non-conventional transport services in the form of minibuses, shared taxis and commercial motorcycles.

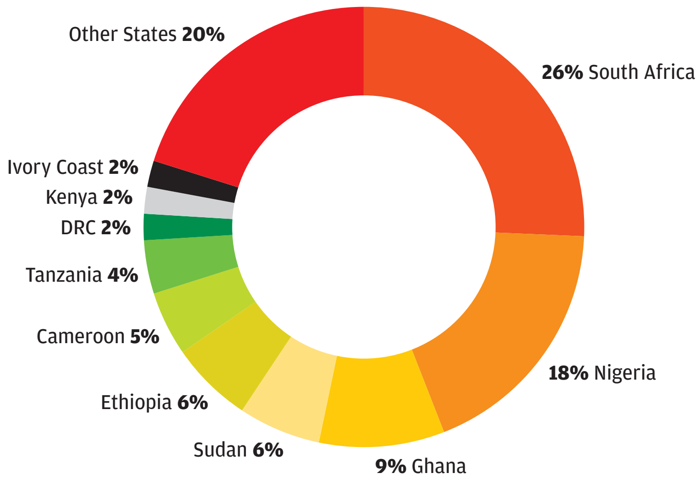
In many African urban areas, motorcycles as a means of transportation account for more than 60% of transportation needs and constitute a major source of income for many of its citizens.

As the number of sold cars and motorbikes is growing, so is the demand for automotive batteries, tires, spare parts, lubricants, water pumps and a range of electronic goods for automotive use.

7.
CLOTHING AND FOOTWEAR

The rise of African consumers' purchasing power can also be observed in the clothing and footwear market. This sector is growing, albeit at a different rate, in all strata of societies of Sub-Saharan Africa. Clothing is a universal product, required by both rich and poor – those that live on just above a few dollars per day and those whose financial status has grown exponentially over recent years. Similarly to other categories of spending, the largest potential gains for investors may be found in what this report labels as the most promising and coincidently two largest African markets, namely South Africa and Nigeria. According to the Income and Expenditure Survey (IES) 2010/2011, a South African household spends 4.5% of their total household consumption budget on clothing and footwear.[1] A very similar figure, i.e. 4.79%, has been reported by the Nigerian Statistical Office.[2] These numbers are essentially in line with a percentage of income people spend on clothes and shoes around the world.[3] It may imply that, at least in this respect, Africans are not very different from other global consumers, despite proportionally lower income per capita. For South Africa, this figure, on average, translates into $175.51 per capita and puts the total size of the market (expressed as total nominal expenditure) at $8.66 billion.[4] Nigerian total spending on clothing and footwear stood at $6.18 billion with an average consumption at $40.07.[5] According to AfDB data, other countries that may be placed under the category of relatively big spenders in absolute terms are Ghana, Sudan, Ethiopia, Cameroon and Tanzania. Obviously, the above figures are only simple averages and should, therefore, considering the huge income discrepancies, be gauged accordingly and seen merely as an introduction to a more in-depth analysis and market segmentation.

Figure 21
Share of individual countries
in nominal expenditures
on clothing and footwear in SSA, 2009 (%)

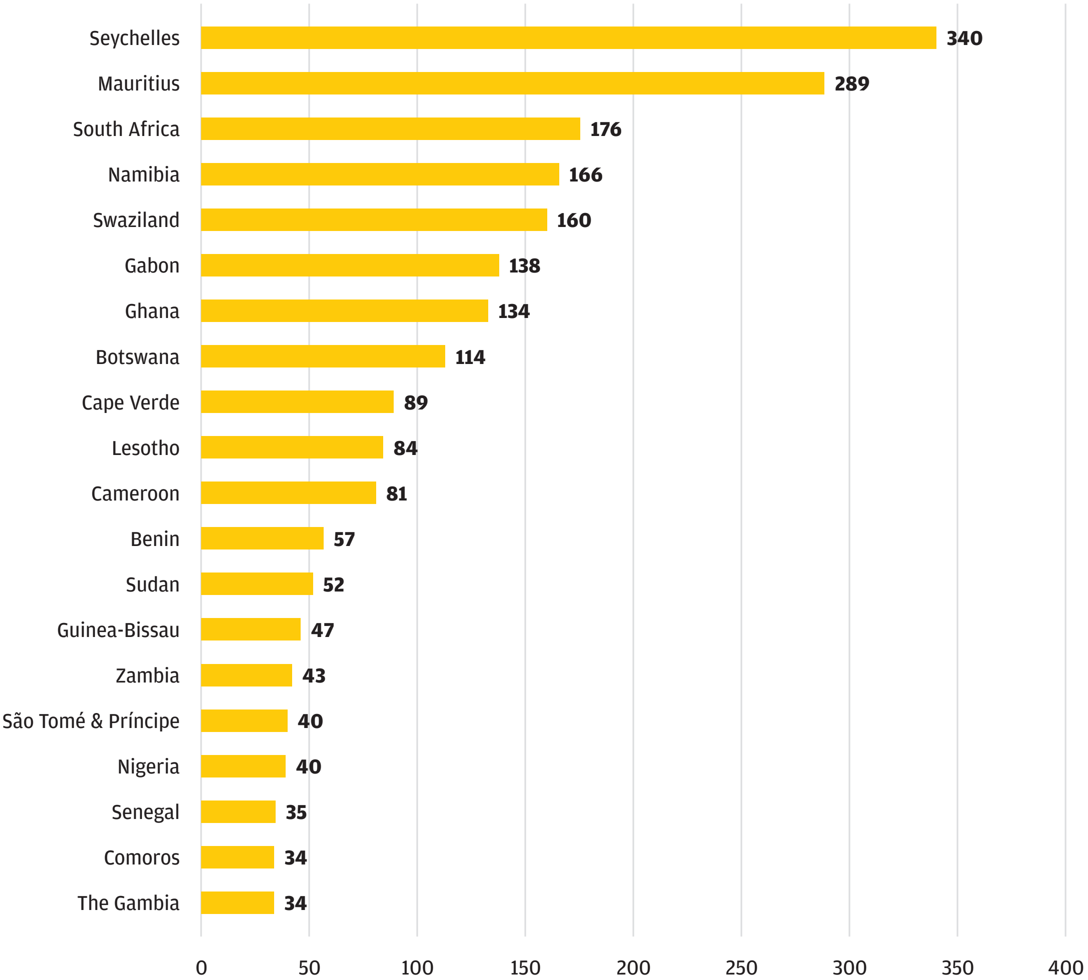


Source: Calculations based on AfDB, A Comparison of Real Household Consumption..., op. cit.

[1] Income and Expenditure of Households 2010/2011, Statistical release P0100, Statistics South Africa, Pretoria 2012.
[2] Consumption Pattern in Nigeria 2009/10, Preliminary Report, National Bureau of Statistics, Abuja March 2012.
[3] How The World Spends Its Money, Forbes, 12 June 2010, http://www.forbes.com/2010/12/06/how-the-world-spends-money-entrepreneurs-finance-ask-an-expert-10_slide_4.html
[4] A Comparison of Real Household Consumption..., op. cit.
[5] Ibidem.

Figure 22

Per capita nominal expenditures on clothing and footwear, 2009 ($)



Source: Calculations based on AfDB, A Comparison of Real Household Consumption..., op. cit.

Having said that, it becomes clear that not all parts of Sub-Saharan Africa should be seen as equally attractive for retailers; in fact many of them, either as a result of a miniscule market or low per capita clothing-related expenditures (or both), are not likely to garner meaningful attention from international business for many years to come. Nevertheless, those mentioned above, particularly South Africa, Nigeria, Ghana, and to some extent Kenya, are very noteworthy not only because they represent sheer market potential (sales volume) but are increasingly more brand-conscious, with consumer behaviour gradually mimicking global patterns. South Africa has particularly seen investors' zeal for reaping profits in emerging markets. Global retailers such as Zara, Gap, Timberland and Topshop have all expanded on the South African markets to tap into a consumer culture that is quickly materialising in the country.[1] According to American company Gap, not only more demand for international brands but also high rates of tourism have compelled it to open two shops in South Africa.[2]

[1] Z. Moorad, Global clothing retailers eye Africa's fashionistas, BDLive, 7 January 2013, http://www.bdlive.co.za/business/retail/2013/01/07/global-clothing-retailers-eye-africas-fashionistas

[2] J. Jätyri, Could Africa..., op. cit.

Nigeria has seen Levi's, Mango and Nike setting up operations in the country recently, and the same is true for Ghana, where international retailers are mushrooming in shopping malls across its capital, Accra. Particularly in Nigeria new possibilities opened up to clothing retailers in 2010 when the country decided to scrap the ban on importing textiles.[1]

It should be noted that as much as clothing and footwear markets in Africa hold vast potential, they are, at the same time, said to be one of the most prone to economic reversals and exogenous shocks, at least compared to other consumption goods. And this is mainly due to the discretionary character of this spending category. Nevertheless, the persistent consumption growth observed in many African countries recently shows that the problem is not universal. South Africa stands out once again as a trendsetter here, as it demonstrated following the 2009 financial turmoil. "The standout feature is the SA consumer's love of clothing and shoes. The household sector's spending on clothing and shoes has achieved a remarkable average annual growth rate of 8.8% over the past 20 years from 1994 to 2013, after adjusting for inflation", says Stanlib chief economist Kevin Lings.[2] According to Financial Mail, although consumption is supported with credit purchases, which has led to sudden inflation of bad debt, South African shoppers seem to abide by that line from Sex and the City in which the lead character says, "I like my money right where I can see it – hanging in my closet".[3]

An additional trigger for fashion retailers eyeing African markets is the youth population, which not only currently dominates the African demographic landscape but will remain an essential driver of consumption in many years to come (see Chapter 1). Africa is the youngest continent worldwide, and its young age cohorts are gradually waking up global brands to the market opportunities they represent. What vastly facilitates this process is the Westernisation of fashion in Africa and rising brand awareness, especially among the more affluent consumers. International media and TV, combined with wider access to the Internet, are very much instrumental in this trend. As pointed out by Joanna Maiden, managing director of SOKO Kenya, "The middle class is moving away from more traditional clothing and going for more contemporary styles".[4] According to McKinsey, urban African consumers have modern, sophisticated tastes and in many ways are no different from urban consumers in other regions. Most of them want the latest fashion, and nearly half of them feel it is important to follow new trends.[5]

Box 6 Used clothing: the impact on African consumers, local producers and... foreign investors

The expansion of second-hand clothing in Africa is not a new phenomenon. It goes back to the 1980s and was precipitated by the so-called structural adjustment programmes forced upon African governments by the International Monetary Fund and World Bank. Their goal was to restore macroeconomic stability and kickstart economic growth by means of structural reforms essentially geared towards liberalisation, deregulation and privatisation. While many African economies, albeit not enthusiastically, embraced the liberalisation agenda, the neoliberal reforms also became a challenge for African producers in regional markets and led to competitive pressure for local entrepreneurs.[6] In this context, some commentators venture to analyse the effects of used clothing import, arguing that it became the nail in the coffin of the African textile industry. According to available evidence (or rather the lack thereof), this is a blatant generalisation. In fact, the reasons behind the demise of the sector and its dismal state today are numerous (see: Box 7).

The issue of second-hand clothing import continuously looms large in the continent and its impact is hard to ignore, both for consumers and producers of textiles, but also for foreign companies making inroads into African clothing markets, especially those (e.g. Asian producers) who specialise in lower quality products. Used t-shirts, dresses and trousers pour into African countries in huge volumes. According to an Oxfam report, used garments account for over 50% of the clothing sector by volume in many Sub-Saharan African countries.[7]

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[1] Nigeria scraps ban on textile, furniture imports, Reuters, 30 November 2010, http://www.reuters.com/article/2010/11/30/nigeria-imports-idUSLDE6AT1RH20101130
[2] Z. Moorad, Clothing Retailers: Bottom line therapy, Financial Mail, 10 July 2014, http://www.financialmail.co.za/coverstory/2014/07/10/clothing-retailers-bottom-line-therapy
[3] Ibidem.
[4] J. Jätyri, Could Africa..., op. cit.
[5] The rise of the African consumer..., op. cit., p. 7.
[6] A. Brooks, D. Simon, Unravelling the Relationships between Used-Clothing Imports and the Decline of African Clothing Industries, Development and Change, Vol. 43, Iss. 6, November 2012, pp. 1265-1290.
[7] R. Curnow, T. Kermeliotis, Is your old t-shirt hurting African economies?, CNN, 12 April 2013, http://edition.cnn.com/2013/04/12/business/second-hand-clothes-africa/

Among major importers are Ghana, Benin, Tanzania, Kenya and Uganda, which absorbed between 2 and 4% of the world exports and, combined, 62% of Sub-Saharan Africa's imports of used clothing between 1999 and 2003. The used clothes are imported mostly from Western countries, but the "supply chain" also includes re-exporters (such as India or Poland) and African trading partners who participate in the second-hand clothing trade.[1]

The aforementioned allegations of killing the African local textile and garment industry by second-hand clothing import are at the top of the list of objections. The others are connected with hygiene and public health issues, and – what is more touchy – with "giving and helping" rhetoric. The process of importing second-hand clothing usually begins with charitable donation groups in the West or organisations simply pretending to be in the aid business. These NGOs resell the majority of used garments and the graders, exporters and importers sell them further to ordinary people in Africa, while people in the West believe that the second-hand clothes are donated (given for free) to the poor in developing countries.[2]

The overall assessment of the second-hand clothing impact is not straightforward. As mentioned before, it is commonly assumed that there is a significant causal relationship between the used-clothing import from the West and the dismal state of the African apparel sector. Whereas most of the available research points to this very direction (second-hand clothing stifling local production) the evidence to fully support this claim, however, is not really there, mostly due to a lack of complete and sufficient data. Additionally, the impact of second-hand clothing goes beyond domestic textile sectors and should be assessed on some other levels. For instance, it is argued that even if importing used clothes dwarfs local businesses, after all this multimillion business contributes to job creation in the business of distributing, handling, cleaning, repairing and restyling of second-hand clothing; interestingly it can be a better paid job than in the informal tailoring sector. It also provides additional government revenues from import tariffs and market fees.[3] More importantly, though, the second-hand clothing import is very much welcome by African low-income consumers. They either cannot afford to purchase local or foreign-produced textiles, or simply can juggle their scarce resources differently. Having said that, probably the best way to cast the problem of second-hand clothing and its impact on African economies is "short-term gain, long-term pain".

International retailers who place Sub-Saharan Africa on their internationalisation agenda should be aware of a number of features underpinning local consumer behaviour and market characteristics. One is the relative popularity of used clothing, especially in the lower income earner category. Africa is a region where a third of all globally donated clothes are sold; according to Oxfam they account for over 50% of the clothing sector by volume in many countries.[4] This creates challenges for both local producers and retailers, whose business is undercut and suffer heavy losses as thousands of tons of used textiles flood the markets,[5] and international retailers who seek to squeeze into the lower segments of the clothing market. Despite bans on importing used garments imposed by many countries, they are still widely popular and make their way to the markets through smuggling and illegal import.[6] This leads us to another factor that puts an additional strain on the sale of clothing and footwear in the continent, and this is the growing market penetration by Chinese manufacturers and the wide availability of Chinese cheap apparel.[7] Other issues include the still relatively poor availability of retail space in many countries (although the number of shopping malls has been burgeoning in recent years[8]) and the notorious high cost of doing business in the region.

[1] Ibidem.
[2] K. Hansen, Helping or hindering? Controversies about the international secondhand clothing trade, Anthropology Today, Vol. 20, No. 4, 2004, pp. 3-5.
[3] Ibidem, pp. 4-6.
[4] R. Curnow, T. Kermeliotis, Is your old..., op. cit.
[5] A. Brooks, D. Simon, Unravelling the Relationships..., op. cit., pp. 1265-1290.
[6] M. Adow, C. Arsenault, Contraband clothes dominate Nigeria's market, Al Jazeera, 25 August 2012, http://www.aljazeera.com/indepth/features/2012/08/2012824143154573858.html
[7] R. Dhliwayo, A continent vs. a country: China putting strain on Africa's clothing and textile industries, Consultancy Africa Intelligence, 3 September 2012, http://www.consultancyafrica.com/index.php?option=com_content&view=article&id=1111:a-continent-vs-a-country-china-putting-strain-on-africas-clothing-and-textile-industries-&catid=82:african-industry-a-business&Itemid=266
[8] A. England, X. Rice, Shopping malls spring up across Africa as middle class grows, The Washington Post, 6 August 2012, http://www.washingtonpost.com/world/africa/shopping-malls-spring-up-across-africa-as-middle-class-grows/2012/08/06/41a73082-dfdd-11e1-a19c-fcfa365396c8_story.html

Box 7 Chinese tsunami: Chinese products and the African clothing industry

Africa's clothing industry has long been in tatters. Many local producers are currently not strong enough to survive in domestic markets or compete globally. Some commentators try to explain the dismal state of the African clothing industry through the way China-Africa trade relations have unfolded. First, the industry suffered a huge blow in 2005 when the Multi-Fibre Arrangement (MFA) was terminated, making African producers more vulnerable to the world's market forces. They were squeezed out of developed countries' markets by Asian producers, including Chinese firms, whose technological superiority, but more importantly low production costs, made them impossible to beat. Among the African textile producers that were hit the hardest by the new trade rules were: Lesotho, South Africa, Swaziland, Nigeria, Ghana, Mauritius, Zambia, Madagascar, Tanzania, Malawi, Namibia and Kenya. The story has roots in the early 2000s when the African Growth and Opportunity Act (AGOA) was signed. AGOA sought to encourage African export by giving preferential access to markets in the US. As a result, clothing export from Africa grew considerably since the programme was put in place. Simultaneously, a big wave of Asian companies moving to Africa to use AGOA merely as a trade corridor to American markets began to materialise.[1] When MFA expired, the African textile sector saw a significant decline in sales and the pull-out of Asian investors. As a result, the textile industry in many countries ended up on their knees.

A much greater headache is currently being caused by Chinese import which has literally flooded the continent, allegedly putting many indigenous companies out of business. In past years, Chinese companies have been also busy setting up factories across Africa which use imported garments while often employing local workforces. Huajian Shoes' factory in Ethiopia is one of many examples brought up by the media.[2] For local producers, a particularly frustrating practice of Chinese businesses is mimicking and copying traditional African textiles, prints and designs. The reason for Chinese success is again low production costs, which are traditionally associated with cheap labour, combined with technological superiority, aggressive marketing and also other factors (e.g. work ethics). It must be stressed, though, that the pool of cheap labour in China is shrinking fast and many textile factories' owners now consider relocating production to Africa. The region is also more often seen as a place to source inputs, for example cotton (see Mali), whose production costs in China have soared considerably in recent years. The other explanation of the Chinese success (and resultant tensions in the region) is the acute poverty widespread in the region. The African low-income consumer is very price-sensitive, and thus given a chance to buy cheap Chinese products does not think twice. In the short term, the consumer seems to win, as he/she is able to meet his/her clothing needs with a smaller budget. In the long-term, however, the local industry suffers, factories are shut down and people are laid off.

The so-called Chinese tsunami may well be overrated. Ian Taylor, for instance, argues that the textile industry has simply been structurally unable to compete with Chinese products and the industry had been in decline for years before trade with China took off.

Blame for the collapse of Africa's local textile industry cannot be laid solely at the door of Chinese manufacturers. It is in fact very difficult to assess whether African textiles could compete with Chinese imports because the playing field is not level, due to the domestic fees that African manufacturers have to disburse, notably on energy and transport. This situation is directly linked to the chronic inefficiency, misadministration, and corruption within much of Africa's service industries. Many African factories are run on generating sets powered by expensive fuels that are sometimes a scarce commodity in spite of the continent being a huge producer of crude oil. As a result, the cost of doing business is dear, and products are expensive. In such a setting, it is virtually impossible for even the most efficient African textile manufacturer to compete with Chinese producers. Indeed, it is very difficult for African manufacturers to compete at all.[3]

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[1] See for instance L. Rotunno, P-L. Vezina, Z. Wang, The rise and fall of (Chinese) African apparel exports, CSAE Working Paper, August 2012.
[2] Ethiopia Becomes China's China in Search for Cheap Labor, Bloomberg Business, 22 July 2014, http://www.bloomberg.com/news/articles/2014-07-22/ethiopia-becomes-china-s-china-in-search-for-cheap-labor
[3] I. Taylor, The Myth of the Chinese Tsunami, international conference "China's Quest for African Resources", University of Wroclaw, Wroclaw, Poland, 14-15 December, 2009.

As much as Chinese clothing items have flooded the region's markets, the good news for prospective investors from CEE is that, according to available research, African consumers are generally concerned about the quality of products and tend to assume that low prices imply lower quality.[1] In the long run, this might put into a disadvantaged position Chinese producers who now enjoy a massive demand for their products, especially among low-income earners. At the same time, investors should be wary of a slightly different understanding of the quality concept in clothing than, for instance, in the West; in many places it is, for example, routinely associated with "easy to wash" features.[2] A potentially worrying feature for companies eyeing the region's markets is that local clothing retailers have a strong footing and position in many African markets, particularly in South Africa, where companies such as Truworths, Mr Price, Pepkor and Woolworths enjoy high and stable consumer demand. These companies owe its strong position to wide store networks, strong private label ranges and a good understanding of changing South African consumer demands.[3] In general, a great number of African consumers do not consider international brands more fashionable than local ones by default. In Nigeria, for instance, only 11% of respondents surveyed by McKinsey say they think that international brands are more fashionable than local brands, whereas in Africa as a whole the figure is 29%.[4]

An interesting, but often underestimated segment of the clothing market in Africa is protective and other special clothing (for example, worn by uniformed services). Protective clothing is basically required for body protection against various industrial hazards (thermal, chemical, mechanical, biological/radiation, visibility). This market is predominantly driven by safety regulatory requirements, which have become a norm in the region, and growing concerns regarding safety of workers. This area still needs a great deal of improvement, although the thinking in this respect is undergoing some change. Most importantly, there is a demand for protective clothing due to increased growth in manufacturing and the construction/infrastructure industry, but also the flourishing petrochemical and petroleum industries across the continent.

Case study 4 **Lubawa: equipping police and military forces**

1. About us

Lubawa S.A. operates globally. In Africa we are present in Nigeria, Ghana and Zambia. Our company provides the following products: individual equipment, shelters/tents, camouflage, ballistics, fall protection, flood protection, firefighting equipment, floating equipment, aviation equipment, vehicle equipment, special clothing, technical textiles, and armament.

2. About our business in Africa

Our business in Africa is developing. During recent years we have established strong trade relations with several countries. We are present in Nigeria, Zambia and Ghana. We are interested in further expansion on African markets. Our main goal is to supply the governmental end-user with goods designed for police and military purposes. We supply customers in cooperation with local companies. We do not have an office in any African countries. Our business is based on B2B relations.

3. Motives for going to Africa

Growing economies on the African continent have created a great opportunity for business development. Reforms implemented by African governments have resulted in the continent having 6 of the 10 fastest-growing economies in the world. Binding trade relations with local entrepreneurs creates a chance to find new customers and expand business. A growing appetite for products in Africa allows the setting of long-term plans for trade activities, including investment.

[1] The rise of the African consumer..., op. cit., p. 5.
[2] Ibidem, p. 7.
[3] Clothing Sector, WESGRO, Cape Town and Western Cape Research, http://wesgro.co.za/publications/publication/2014-clothing-industry-in-south-africa-and-the-western-cape
[4] R. Fiorini, et al., Africa's growing giant: Nigeria's new retail economy, Consumer and Shopper Insights, McKinsey, December 2013.

4. Surprises

Armed security guards assigned to sales representatives is a surprise. The approach to time in Africa seems to be more relaxed. Commenced actions take longer to be completed. Traveling takes longer than in Europe.

5. Challenges and how to deal with them

Local companies do not always run websites, therefore collecting information about potential partners may create some difficulties. There is a lack of basic infrastructure and logistics to support entrepreneurship. The supply of goods is inconvenient and takes longer than it should. Another problem is security. This seems to have been improved lately; however, it is still an issue. The only way to deal with security threats is to hire professional guards and avoid risky situations and places. Also, extra days for executing deliveries should be considered in advance.

6. Recommendations

My advice would be to find a solid partner with experience in how to operate on the local market. I would not advise people not to enter the African market. Africa, like any other continent, has its own character, and the way to handle it depends on our decisions. A well-thought-out plan for market entrance provides access to customers with money and needs.

Jaana Jätyri, the founder of the trend forecasting agency Trendstop.com, offers aspiring investors a few pieces of advice[1]:

- Build your presence first in springboard cities, such as Johannesburg, Cape Town, Lagos or Accra, before going any further. These are places with a strong emerging middle class, strong infrastructure and political and currency stability. Particularly South Africa should serve as a gateway and a place from which you can plan the next steps of your expansion.
- To avoid risk, lessen your fears, gauge consumer response to your brand and gather market data; as a first move, try to approach local distributors with established local stores that will help you sell your products.
- When necessary and appropriate, try to access local markets using a franchise model. This is what Mango did while building presence in nine Sub-Saharan countries: Angola, Benin, Cameroon, Ivory Coast, Ghana, Mauritius, Nigeria, Senegal and South Africa.
- Be wary of diversity in taste and significant differences between African countries. For example, West Africans are likely to be more ostentatious as consumers and their behaviour is more aligned with Americans, whereas East Africans have more inclination for Asian brands.
- Build local partnerships and take advantage of indigenous entrepreneurs who can help you introduce your products more effectively and in line with locally accepted cultural norms.
- When applicable, employ "an African twist" in your products. African consumers are increasingly more responsive to Western brands, but are equally proud of their African heritage.
- Africa has been successfully experimenting with a variety of mobile commerce technologies, including mobile payments and other Internet innovations. Due to a relative backwardness of physical infrastructure, it may sometimes be the only way to reach your potential customers.

[1] J. Jätyri, Could Africa..., op. cit.

Conclusions

Clothing is a universal product, required by both rich and poor – those who live for just above a few dollars per day and those whose financial status has grown exponentially over recent years.

Similarly to other categories of spending, the largest potential gains for investors may be found in what this report sees as the most promising and coincidentally (or not?) two largest African markets, namely South Africa and Nigeria. Other countries that may be placed in the category of relatively big spenders in absolute terms are Ghana, Sudan, Ethiopia, Cameroon and Tanzania.

The youth population, which currently dominates the African demographic landscape, will remain an essential driver of consumption of clothing and footwear products in many years to come.

Africans, especially more affluent ones, are waking up to global brands. What vastly facilitates this process is the Westernisation of fashion in the continent supported by the media and TV, combined with wider access to the Internet.

International retailers who place Sub-Saharan Africa on their internationalisation agenda should be aware of a number of specific features underpinning local consumer behaviour and market characteristics (e.g. the relative popularity of used clothing, the definition of quality).

Although Chinese clothing has flooded the region's markets, the good news for prospective investors from CEE is that, according to research, African consumers are generally concerned about the quality of products and tend to assume that low prices may imply lower quality.

8.
OTHER SECTORS

Small and large domestic appliances

Only 1% of the world's manufactured goods are produced in Africa,[1] and production is concentrated predominantly in North Africa and the Republic of South Africa. Due to the underdeveloped industrial base, Sub-Saharan Africa depends heavily on imported white goods. The most important kitchen equipment are refrigerators and freezers, which, according to KPMG, represented "63% of kitchen appliance imports during 2008-2012".[2] Simultaneously, cooling equipment is perceived by many Africans as the most important household good when they are transforming into the middle class. In 2010-2012, the major Sub-Saharan markets for refrigerators and freezers were: South Africa, Nigeria, Angola, Ghana and Kenya, and the total sale of new, imported cooling equipment in these countries was estimated at $734.5 million.[3] An important structural factor that may influence the sales of refrigerators and freezers in SSA is the electricity network development, especially in urban areas.[4] Some of the major kitchen equipment retailers (for example Samsung) are trying to tailor their products to meet local needs, for example by adding an extra layer of insulation which is needed in case of power shortages.[5] Another example of such an "Africa-tailored" approach is the anti-mosquito ultrasonic wave option installed in air-conditioning equipment.[6] Taking into account the growth in consumer expenditure in SSA, adapting electronic equipment to SSA conditions seems to be a reasonable long-term business strategy aimed at developing brand loyalty. However, to date, the vast majority of people living in the region cannot afford to buy cooling equipment, and consequently cannot store processed food.

Even though, by global standards, the consumer demand for small and large household appliances in Africa might seem small right now (mainly due to the "affordability" aspect), foreign companies willing to pave their way into African homes should consider moving forward and starting their operations on the continent, as millions of young Africans today might become the consumers of tomorrow.

In terms of all kitchen equipment (but especially refrigerators and freezers), there is a developed second-hand market in SSA. Second-hand refrigerators and freezers, as well as, other second-hand electrical and electronic equipment, contribute to the problem of electronic waste utilisation.[7] Additionally, old electronic equipment usually consumes more energy than new equipment, which leads to an increase in power demand in the region. The e-waste problem is most visible in Western Africa. Ghana, Ivory Coast and Nigeria have introduced a ban on the import of second-hand refrigerators and freezers.[8]

The "pharmerging" final frontier

Even though pharmaceuticals markets in Sub-Saharan Africa are currently embryonic compared to other regions (market value of $23.1 billion in 2011, or less than 2% of the global market[9]), the continent's pharmaceutical sector is growing at the fastest pace globally. With an annual compound growth rate of around 10%, the pharmaceutical market size is projected to reach $30 billion by 2016 and $45 billion by 2020.[10]

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[1] The Rise & Rise Of Africa's Consumer Market, African Business Magazine, 20 March 2012, http://africanbusinessmagazine.com/sector-reports/retail/the-rise-rise-of-africas-consumer-market/#sthash.9voPBKU5.dpuf
[2] Sector Report. White Goods in Africa..., op. cit., p. 5.
[3] Ibidem, p. 6.
[4] International Energy Agency, Africa Energy Outlook. A Focus on Energy Prospects in Sub-Saharan Africa. World Energy Outlook Special Report, OECD/IEA, Paris 2014, p. 129, http://www.iea.org/publications/freepublications/publication/WEO2014_AfricaEnergyOutlook.pdf
[5] Ch. Kim, J. Herskovitz, Africa Investment- Courting African consumers gets a reinvention of cool, Reuters, 3 October 2013, http://www.reuters.com/article/2013/10/03/africa-investment-idUSL6N0HR30T20131003; Samsung, Build for Africa Products, http://www.samsung.com/africa_en/africancitizenship/africasub3.html
[6] LG, http://www.lg.com/africa_en
[7] United Nations Environmental Programme, http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=2667&ArticleID=9022&l=en
[8] A. Hirsch, Ghana leaves secondhand fridges out in the cold in bid to save energy, The Guardian, 17 January 2013, http://www.theguardian.com/global-development/2013/jan/17/ghana-secondhand-fridges-save-energy
[9] Revitalizing Africa's pharmaceutical industry, African Development Bank, 4 June 2014, http://www.afdb.org/en/news-and-events/article/revitalizing-africas-pharmaceutical-industry-13289
[10] R. Logendra, D. Rosen, S. Rickwood, Africa: A ripe opportunity. Understanding the pharmaceutical market opportunity and developing sustainable business models in Africa, IMS Health, 2013, http://www.imshealth.com/ims/Global/Content/Insights/Featured%20Topics/Emerging%20Markets/IMS_Africa_Opportunity_Whitepaper.pdf

Pharmaceuticals are "the next big thing in Africa" as an increasing number of people will require drugs to treat diseases and medical conditions.

Africa is home to 15% of the population but accounts for almost a quarter of the global disease burden.[1] Tuberculosis, malaria, HIV/AIDS, pneumonia and other respiratory tract infections have the highest impact on the continents' health. On top of that, as the urban centres in SSA continue to grow, it will experience a growing number of non-communicable diseases (NDC): cancer, diabetes, cardiovascular disorders, among others, which would require pharmaceuticals to treat them effectively.

As bluntly put by Kofi Amegashie, managing executive for the Africa region for Adcock Ingram Healthcare, a South African pharmaceutical company: "there is a [pharmaceutical] boom and it's going to get even stronger as the middle class grows. And I think you've got to be on the ground now to be able to win in this segment".[2] From an investor's perspective, the most promising markets in SSA include South Africa, Nigeria, Ghana, Kenya and Botswana, where demand for drugs has been (and will remain) the strongest.

Case study 5 **Polpharma: setting a joint-venture to manufacture pharmaceuticals**

1. About us

We are a leader on the Polish market in production, marketing and sales of generic pharmaceuticals and active substances for pharmaceutical products. We are expanding our presence by representative offices and production sites on international markets in Central Eastern Europe and Central Asia.

2. About our business in Africa

There is no business in Africa yet. Polpharma is in the process of developing its first JV project with the largest pharmaceutical producer in Algeria, aiming to build a production site in Oran.

3. Motives for going to Africa

Analysing the potential development of African markets and available portfolio, Polpharma selected North Africa to balance its strong presence in Eastern Europe and Central Asia. Polpharma's available pharmaceutical products and pipeline portfolio relate to the needs of North African patients and the environment.

4. Surprises

Long decision processes, bureaucracy, regulations restricting foreign investors in minority shareholding cause difficulties for us.

5. Challenges and how to deal with them

There is no existing business in Africa yet. Nevertheless, we are making day-to-day observations of the changing political climate in Africa. The dangerous environment in neighbouring countries does not seem to be encouraging. There is a language barrier; there is relatively limited number of potential employees willing to leave and work in Africa. French language specialists, in particular, seem to be difficult to find.

6. Recommendations

Any company willing to expand business in Africa should identify employees/consultants with vast experience in Africa. Going to Africa without understanding huge cultural and business differences may lead to disaster. Selecting international personnel with experience in a given country is the key to success.

[1] The Business of Health in Africa, International Finance Corporation, Washington 2013, https://www.unido.org/fileadmin/user_media/Services/PSD/BEP/IFC_HealthinAfrica_Final.pdf, p. 98.
[2] T. Kermeliotis, K. Porter, 'Western diseases' drive pharma boom in Africa, CNN, 15 March 2013, http://edition.cnn.com/2013/03/15/business/africa-pharmaceutical-industry/

But investors should remember that – as has been emphasised in this report on many occasions – due to cultural, demographic and language differences, there is no universal strategy for approaching all consumers in the SSA region. As aptly noted by IMS Health in its report:

Africa presents a complex, multifaceted set of markets, which are highly heterogeneous in terms of pharmaceutical growth, language and trading blocs. Consequently, the opportunities they offer are also quite variable. Understanding the nuances and navigating the challenges are key to establishing successful and sustainable operations.[1]

Therefore, rather than attempting to force a developed business model which worked on other continents, companies should match their business strategies to specific African countries where they want to grow. The best example for how to do that is provided by Cipla, an India-based producer of low-cost antiretroviral drugs, which – utilising its adaptive approach– succeeded in beating established pharma firms such as GlaxoSmithKline and Aspen on many fronts in SSA.[2]

The momentum for developing the pharmaceutical sector in Africa is clearly there. Weak local production (local companies produce around 25% of pharmaceuticals and less than 10% of medical supplies, mostly in South Africa and Maghreb countries) combined with a projected consumer spending growth for pharmaceuticals, creates a large window of opportunity for foreign companies, including those from the CEE region, to tap into the "pharmerging" final frontier potential.

Case study 6 **Distributing pharmaceuticals in Africa**

1. About us

Our company is a medium-sized pharmaceutical business. Our main activities consist of manufacturing and distribution of prescription drugs and pharmaceuticals. The business objective is to become the leading pharmaceutical manufacturer and distributor on the Polish, Eastern European and African markets. Our business expands to Poland as well as certain Eastern European countries. We have recently entered the African market by establishing contacts in Mozambique, Kenya and Ghana.

2. About our business in Africa

Our main goal to be achieved by entering the African market is to develop a long-standing partnership between Europe and Africa within the pharmaceutical sector. We operate on three African markets, soon to expand to more countries. Currently we distribute pharmaceuticals in Mozambique, Kenya and Ghana. We are in the process of building a distribution centre in Kenya, where we also have an office. We plan to develop a manufacturing factory in Ghana within the next five years. In Mozambique and Ghana, we operate on the B2B system in which we have partnerships with distribution companies that distribute our supplies manufactured locally in Poland.

[1] R. Logendra, D. Rosen, S. Rickwood, Africa: A ripe..., op. cit., p. 4.
[2] L. Capron, W. Mitchell, The Company Outsmarting Big Pharma in Africa, Harvard Business Review, 17 August 2012, https://hbr.org/2012/08/into-africa-big-pharmas-growth/

In Kenya, however, we work based on the B2C system, wherein we, ourselves, connect with the local pharmaceutical shops and import our product directly to those stores. The distribution centre based in Kenya will provide for cheaper transport costs, and consumers will not have to wait a long time for the order to arrive.

3. Motives for going to Africa

There is a great demand for pharmaceuticals in Sub-Saharan Africa. With the right contacts from the government and chambers we established successful distribution projects on the continent. We plan to build factories in the territories where we operate at the moment. Before entering the African market, however, we considered the Asian market, but due to many local companies already present there, we decided that the costs of such a project would be too high.

4. Surprises

Our company has experienced some surprises regarding conducting business in Africa. At first we entered the African market with our product with thoughts of distribution. We slowly realised that doing business in Africa is a long-term process where we should think about investment in order to receive a higher payout in the long run. The largest surprise we faced was the fact that businessmen in Africa take a long time before making a final decision regarding a project.

5. Challenges and how to deal with them

We discovered that there are a lot of challenges in doing business in Africa. The main challenge faced is the high level of corruption on the continent. This, however, can be avoided when a company like ours is open and transparent to the public. Governments in Sub-Saharan Africa respect general opinion, so if the company is open and transparent in its actions and operations, the government will be careful and honest in dealings with the company.

6. Recommendations

Doing business in Africa is at times very challenging and requires a certain amount of financial investment, but at the end the output will be far greater than the input. Careful actions and a lot of traveling are required, but it is worth it, especially since African markets are not very competitive yet. The time to enter Africa is now, because at the moment the countries on the continent are stabilising politically, thus opening a window for foreign investments to be safe and secure.

Internet and communication technologies

In the 1990s, there was a statistical saying that Manhattan had more phone lines than the 55 countries in Africa.[1] As much as it is hard to verify this, it vividly shows where the ICT sector in Africa was two decades ago. But since then the situation has changed beyond recognition. With almost 1 billion active SIM cards, Africa is the second-largest mobile telephone region (after Asia). As recently pointed out by Paul Kagame, the President of Rwanda, "What was once an object of luxury and privilege, the mobile phone, has become a basic necessity in Africa".[2]

When in 2010 employees of SONATEL, Senegal's National Telecommunication Company, cut off Internet and telephone connections to the rest of the world for two days to protest against granting Global Voice Group, a US company, exclusive rights to manage all incoming international phone calls, the country started choking. The shock waves which spread throughout the Senegalese economy affected dozens of institutions: from banks, travel agencies, customs offices, through call centres, calling card vendors to aid agencies, police stations, airports, and harbours, among others.[3] It is estimated that 48 hours of communication blackout cost the Senegalese economy more than $100 million.[4]

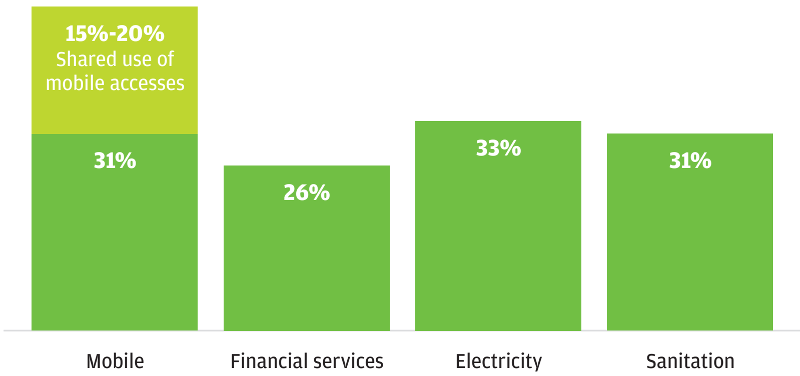
[1] T. Shapshak, Africa not just a mobile-first continent – it's mobile only, CNN, 4 October 2012, http://edition.cnn.com/2012/10/04/tech/mobile/africa-mobile-opinion/
[2] T. Ogunlesi, S. Busari, Seven ways mobile phones have changed lives in Africa, CNN, 14 September 2012, http://edition.cnn.com/2012/09/13/world/africa/mobile-phones-change-africa/
[3] Senegal's Sonatel workers shut phones, Reuters, 5 August 2010, http://af.reuters.com/article/idAFJOE6740KO20100805
[4] Africa's ICT sector booms, Business Report, 20 May 2011, http://www.iol.co.za/business/international/africa-s-ict-sector-booms-1.1071854#.VMEMyEes49k

This example distinctly shows how important the ICT sector has become for the African continent. In fact, it is not only an important sector by its own merits, but also serves as the backbone for many other segments of the economy and society. For example, in 2013, the ICT sector contribution to GDP stood at 10.6% and 12.1% in Nigeria and Kenya respectively.[1] In Rwanda, in the same year, it attracted 45% of total foreign investment inflows to the country.[2]

Mobile phones

The popularisation of mobile telephones in Africa began in the late 1990s when African governments started liberating the industry and privatising state-owned telecommunication behemoths. As a result, new private network operators came to Africa, market competition increased and prices began to fall. Nowadays – when the mobile penetration rate approaches 80%[3] – mobile communication services are no longer available only for those privileged but also for the masses. From an investor's point of view, six countries (Nigeria, South Africa, Ethiopia, Kenya, DRC and Tanzania), which account for more than half of the unique subscribers in Sub-Saharan Africa, should be considered the most attractive region for starting ICT-related businesses.

Figure 23
Access to basic services in Sub-Saharan Africa, 2013 (% of adults)



Source: The mobile economy 2014, GSMA, 2014, p. 23.

African young consumers utilise ICT technology in a myriad of ways. From the most obvious ones as staying in touch and socialising, through online shopping, mobile banking to m-health (e.g. maternal health control),[4] real-time agriculture products information and trading or taxi services.[5]

However, compared to the Western world, African mobile services have several distinguished features. First of all, lack of access to credit cards and standard banking facilities favour the use of prepaid rather than postpaid services. In South Africa, prepaid ratios for operators average around 80%, but in most other SSA countries they exceed 95%, and in some even 99%.[6] Secondly, African consumers use mostly voice communication and text messages based on GSM, as 3G/4G infrastructure is still lagging behind. Finally, due to the fact that more people in Africa have access to a mobile phone than to electricity, Africans prefer feature phones with much longer battery life to smartphones. As a result, companies willing to join the African mobile revolution have had to adjust to African realities. For example, Google offers its search and e-mail services also via SMS rather than web browsers only (let alone apps for smart-phones).[7] Skrill has adjusted its business model to Africa by adding mobile payments to its digital merchandise portal.[8]

[1] ICT contributes 10.56% to Nigeria's GDP in 2013, Daily Independent, 19 November 2014, http://dailyindependentnig.com/2014/11/ict-contributes-10-56-nigerias-gdp-2013-jonathan/; S. Mwenesi, ICT contribution to Kenya's GDP now at 12.1%, Human IPO, 22 July 2014, http://www.humanipo.com/news/46203/ict-contribution-to-kenyas-gdp-now-at-12-1/
[2] J. Longmore, Rwanda Could Be The Next Silicon Valley: But it Needs Youth to Help it Get There, Huffington Post, 7 November 2014, http://www.huffingtonpost.com/janet-longmore/rwanda-could-be-the-next-_b_6122384.html
[3] However, unique subscribers' penetration rate stood at 32.7% in 2013. For more details see: The Mobile Economy 2014 report published by GSMA, available at http://www.gsmamobileeconomy.com/GSMA_ME_Report_2014_R2_WEB.pdf
[4] MAMA – Mobile Alliance for Maternal Action, http://www.askmama.co.za/
[5] M. Atagana, Smart cabs and social games: Africa's mobile tech startups, CNN, 21 October 2013, http://edition.cnn.com/2013/10/21/opinion/smart-cabs-social-games-africa/
[6] Cellular Penetration in Africa Expected to Surpass 80% in 1Q-2013, ABI Research, 28 November 2012, https://www.abiresearch.com/press/cellular-penetration-in-africa-expected-to-surpass
[7] T. Shapshak, Africa not just a mobile..., op. cit.
[8] K. Douglas, Payments company adapts business model to reality of African market, How Do We Made It in Africa, 20 November 2014, http://www.howwemadeitinafrica.com/payments-company-adapts-business-model-to-reality-of-african-market/45049/

Case study 7 Asseco Poland: offering ICT solutions in Africa

1. About us

Asseco Poland is the largest Polish IT company listed on the Warsaw Stock Exchange. We are a unique combination of a software house and a service provider. Asseco is a producer of state-of-the-art software that supports mission-critical business processes of enterprises in all key sectors of the Polish economy. Asseco's software applications are used by more than half of Polish banks, the largest insurance, energy and telecommunications companies, healthcare institutions, local and central public administration bodies, as well as by the uniformed services.

2. About our business in Africa

Usually our business is of the B2B or B2G type. Activities in Ethiopia include providing solutions for the energy sector, government/public administration, healthcare and insurance companies. Asseco plans to join a local IT company to the Asseco Group or create Asseco Ethiopia from scratch. Activities in Nigeria include providing solutions for the energy sector, government/public administration, healthcare, insurance companies and banks. In August 2014, Asseco opened Asseco Software Nigeria LTD, which is a joint venture project managed together with local specialists and IT managers.

3. Motives for going to Africa

The Asseco Group is present in more than 40 countries worldwide, mostly in Europe. The current strategy is to penetrate emerging markets, such as African, Asian and CIS countries. Asseco Poland strongly believes that thanks to our transformation experiences gained during the last 25 years we have a lot to share and to offer to our potential clients in those countries.

4. Surprises

The two most surprising things are: cultural barriers – totally new approaches to business discussion and negotiation. Diversity – different characters of business partners in different countries. Ethiopia – problems connected with a low level of assertiveness; Nigeria – problems with a high level of assertiveness and "aggression" during negotiations.

5. Challenges and how to deal with them

The main challenge is distance: from the financial point of view – because of the cost of traveling – and from the business point of view – because of the limited possibility of interacting with clients and pushing things forward. The second one is the cultural barrier on business and social levels.

6. Recommendations

If it is not too late, it is definitely the right moment to enter Africa. However, this market requires a lot of patience as well as financial and human resources. At the same time, Africa offers interesting projects and margins higher than in the USA or EU.

Internet

Bringing broadband Internet connection to Africa at affordable prices proves to be much more challenging than voice talks and text messaging. This is mainly because broadband Internet requires much more investment in infrastructure and is prone to bottlenecks (particularly access to the international communication network). Broadband and Internet penetration is still less than 20%.[1] But the situation is improving steadily as new infrastructure projects (e.g. WASC in West Africa, EASSy in East Africa) are connecting the continent to the global net. According to Ericsson3, a consultancy, between 2013 and 2020 mobile data traffic in the SSA region will grow 20-fold (from 37.5 to 764 petabytes).

[1] Mobile subscription in Africa set for huge growth, South Africa Info, 7 November 2014, http://www.southafrica.info/news/mobile-subscribers-in-africa-set-for-huge-growth.htm#.VMEhbUes49k

Such fast-paced development provides many opportunities for entrepreneurs from the CEE region to join the African ICT bandwagon. For instance, Marek Zmysłowski, founder and Managing Director of Jovago.com, and Adam Góral, founder of Asseco (see above), have already successfully started their African business ventures.

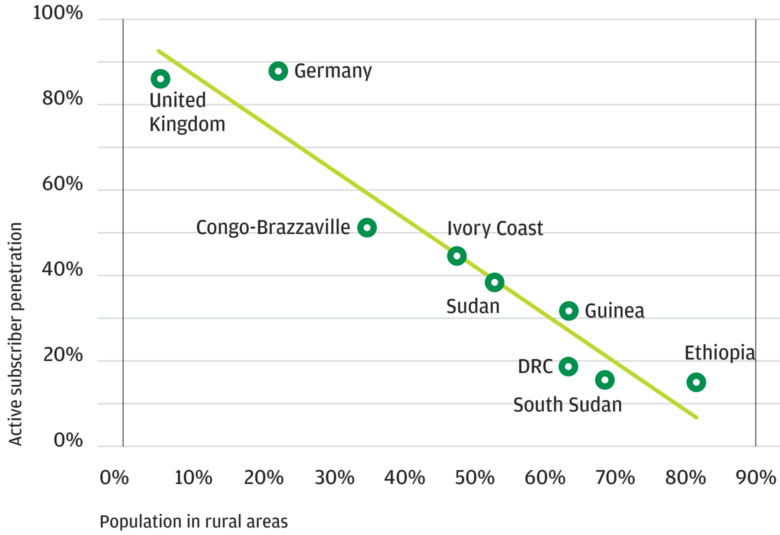
The mobile revolution will continue in the years to come

Over the last five years, Sub-Saharan Africa was the world's fastest-growing region in terms of both unique mobile subscribers and mobile connections. And yet, the continent is primed to maintain its momentum in the upcoming years. As pointed out by Tom Phillips, Chief Regulatory Officer, GSMA:

> Sub-Saharan Africa is the fastest-growing region globally, with 328 million unique mobile subscribers and an annual growth rate of 18 per cent over the last five years. However, with subscriber penetration of just 37 per cent, there is clearly still huge potential for greater growth ahead. [1]

This is especially applicable to rural areas, which, according to GMSA, will bring the highest number of new subscribers.

Figure 24
Mobile adoption versus rural population, 2013 (%)



Source: The mobile economy 2014, op. cit., p. 25.

Many also emphasise that technology, including ICT, will constitute the foundation for future development in the SSA region.[2] Therefore, investors from the CEE region with a proven track record in the ICT sector should consider stepping into the continent sooner rather than later.

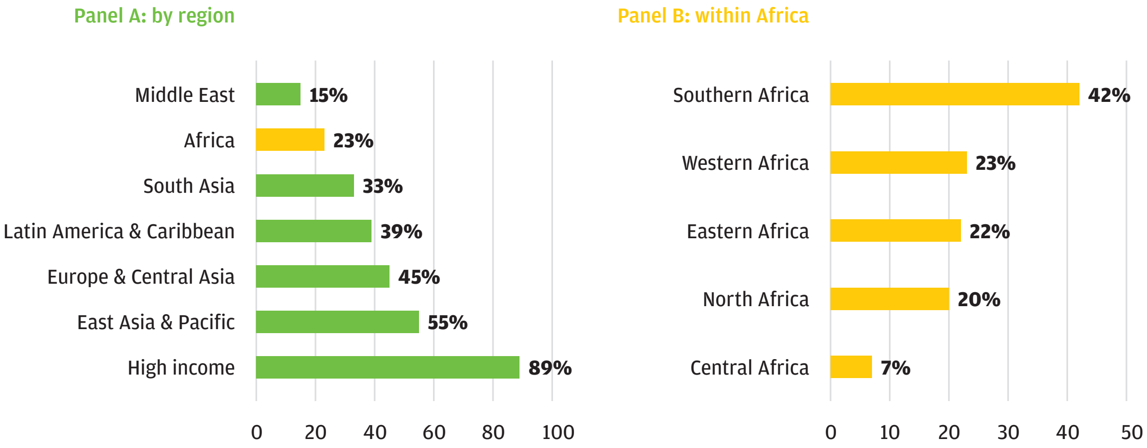
[1] GSMA to review mobile taxation in Sub-Saharan Africa, IT Newa Africa, 2 September 2014, http://www.itnewsafrica.com/2014/09/gsma-to-review-mobile-taxation-in-sub-saharan-africa/
[2] Technology will drive growth in Africa over the next five years, IT News Africa, 22 January 2014, http://www.itnewsafrica.com/2015/01/technology-will-drive-growth-in-africa-over-the-next-five-years/

Financial services

Cash is king in Africa. According to McKinsey, 8 out of 10 transactions in Africa are settled in cash.[1] At the same time, some 80% of Africans are still unbanked, and credit card usage is one of the lowest globally. Almost all of the unbanked are in the informal sector of the economy. Yet, the informal sector carries around 55% of the total African GDP.[2]

As is the case with many other indicators in Africa, the number of adults with access to formal financial services is skewed by the relatively high number of South Africans with a bank account (43% of total adults). Access to banking in other regions is much less favourable. For example, in Western Africa, bank account penetration is around 23%, whilst in strongly underserved Central Africa it is only 7%. On a country level, these differences are even more visible (see below for details).[3]

Figure 25
Banking accounts penetration by region, 2012 (% of adults)



Source: T. Triki, I. Faye (eds.), Financial Inclusion in Africa, African Development Bank, Dakar 2013, p. 44.

As much as the level of the financial development in Africa is different from that in more developed countries, so are the current dynamics within the relatively immature African financial services. Where traditional banking is lagging behind, mobile money payments are thriving and private equity companies consider Africa as one of the most attractive regions globally.

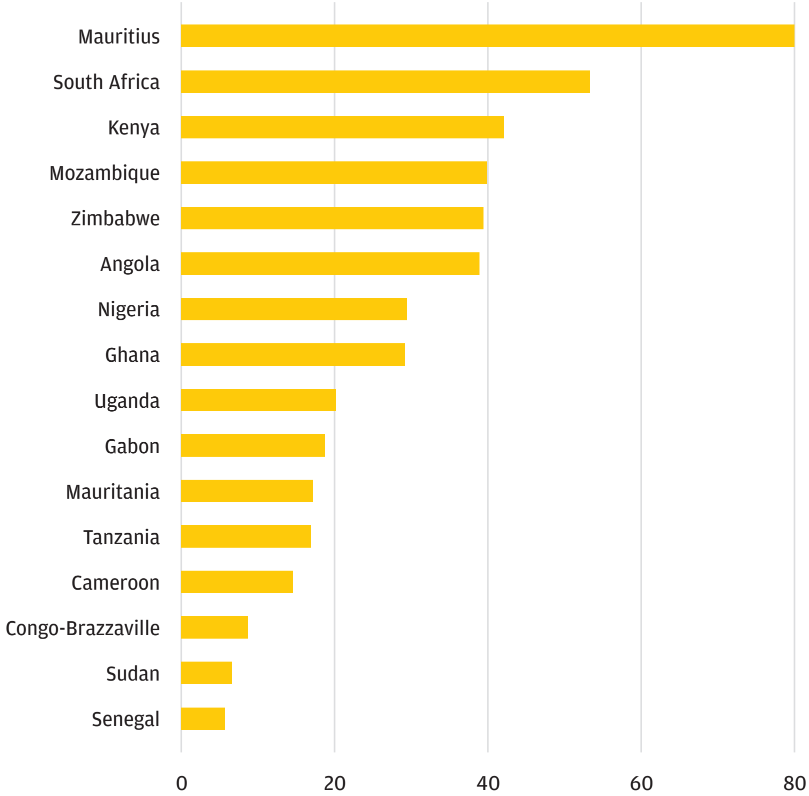
Traditional banking

Having a few bank accounts is nothing extraordinary for an individual in Europe or North America. In Africa, however, fewer than 1 out of 4 adults have access to a formal financial service (e.g. bank account).[4]

[1] J. Kendall, R. Schiff, E. Smadja, Sub-Saharan Africa: A major potential revenue opportunity for digital payments, McKinsey, February 2014, http://www.mckinsey.com/insights/financial_services/sub_saharan_africa_a_major_potential_revenue_opportunity_for_digital_payments
[2] Recognizing Africa's Informal Sector, African Development Bank, 27 March 2013, http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/recognizing-africas-informal-sector-11645/
[3] T. Triki, I. Faye (eds.), op. cit.
[4] Ibidem, p 25.

Figure 26

Adults with an account at a formal financial institution, 2012 (% of adults)



Source: World Bank Financial Inclusion Data

Compared to other regions, traditional banking services in Africa are handicapped mainly due to a lack of banking and financial service infrastructure and the high cost of opening and maintaining an account. For example, in Uganda, banking fees charged for maintaining an account are equivalent to 25% of GDP per capita annually.[1]

But the banks operating on the continent are also, to some extent, responsible for financial exclusion. There is a saying in Africa that banks are only for the "big man". Lack of interest in low-income customers, as well as inappropriate marketing strategies, have largely contributed to the high level of financial exclusion.

However, as pointed out by Bassem Bouzid, senior vice-president (EMEA) for Diebold, a global ATM manufacturer: "If you look at buying and consumer behaviour as economies develop, you start seeing similar patterns between Africa and other parts of the world". Therefore, formal banking in Africa, including ATMs, credit and debit cards, "still have a strong future in the continent".[2]

Microfinance institutions

Unlike traditional banks, Microfinance Institutions (MFIs) are often the only entities willing to reach down-market and provide financial services to excluded Africans in remote rural areas or those without a credit history.

Microfinance in Africa is as diverse as the continent itself. From traditional group-based systems, through entities funded by financial intermediaries to donor-funded institutions. The one thing they have in common is, however, their small size.

[1] T. Triki, I. Faye (eds.), op. cit., p. 46
[2] K. Douglas, Payments..., op. cit.

According to MIX Markets, a data hub for the microfinance sector, MFIs provided around $7.8 billion in loans to 6.1 million customers and aggregated $7.5 billion in deposits from 19.3 million depositors in 2011.[1] To put it in perspective, Bangladesh alone has more than 16.7 million borrowers ($4.2 billion in loans) and 13.3 million depositors ($3.1 billion in deposits).

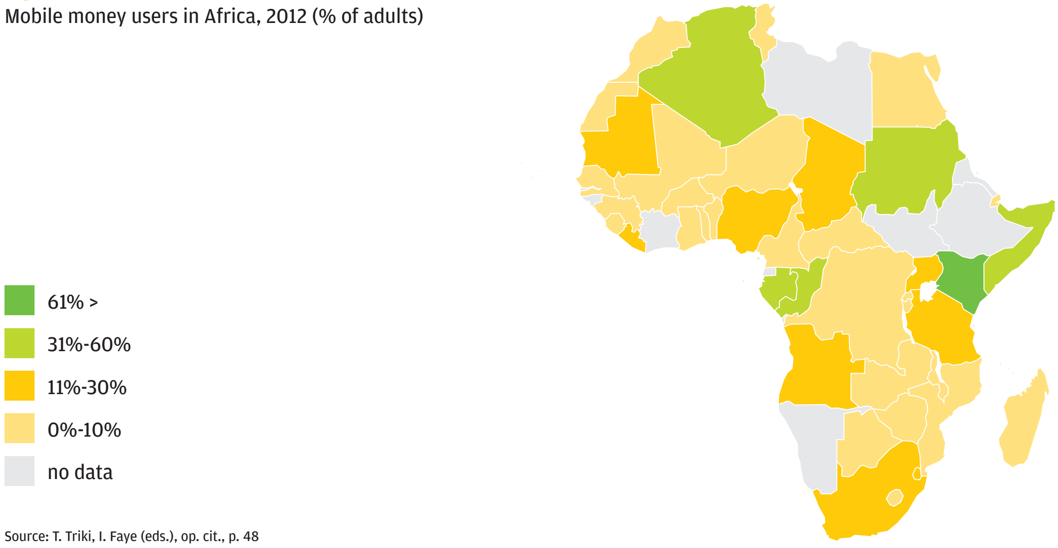
However, even though (or maybe rather because of) microfinance in Africa is yet ahead of its booming years, it provides plenty of opportunities for an innovative approach to tapping into the market. Combining the advantages of traditional banking with an innovative microfinance approach seems to be the right bet. Towards this end, Société Générale de Banques au Sénégal (SGBS) launched a pilot project, Manko, the major objective of which is to utilise the advantage banks have over MFIs (lower caps on loans) and deliver attractive loans over mobile technology to those unbanked. One year after being launched, Manko provided more than $8 million in total loans to more than 4,000 people.[2]

As much as MFIs alone will not solve Africa's financial exclusion problem, they are a good starting point for building an inclusive financial system and learning how it works. Toward this end, there is plenty of room for microfinance businesses to kick off in SSA – providing yet another ground for companies operating in the financial sector in the CEE region to make inroads on the continent.

Mobile financial services

Whilst the number of personal bank accounts and credit/debit card use in Africa lag behind, the popularity of innovative financial services such as mobile payments strongly outperforms other regions. The mobile money revolution which is sweeping across the continent is probably Africa's brightest spot in financial inclusion. According to GSMA, the global mobile money market was worth $61 billion in 2012 – Africa accounted for 52% of this number. Mobile money services are now available in 36 countries in the region.[3] How dynamically the landscape of mobile money has changed in Africa can be shown by the example of Tanzania, where in 2008 a mere 1% of adults had access to mobile money services. By the end of 2013, this number had grown to 90% with 43% of them actively using the service on a daily basis.[4] In Sudan, more than half of the population used mobile money in the last 12 months.[5] Although other countries in Sub-Saharan Africa are (yet) to see such popularity of mobile financial services, 16% of people in the SSA region actively used mobile phones to send or receive money in 2012 (the global average is 6%).

Figure 27
Mobile money users in Africa, 2012 (% of adults)



Source: T. Triki, I. Faye (eds.), op. cit., p. 48

[1] MIX Market database, http://www.mixmarket.org/
[2] C. Riquet, G. Debuchy, Senegal: When Digital Meets Traditional Banking: A New Concept in Senegal, 12 January 2015, http://allafrica.com/stories/201501161574.html
[3] C. Penicuad, A. Katakam, State of the industry in 2013. Mobile financial services for the unbanked, GSMA, 2013, p. 8.
[4] Ibidem, p. 13.
[5] T. Triki, I. Faye (eds.), op. cit., p. 48.

Recent examples of start-ups (e.g. M-Pesa in Kenya, MobileMoney in Uganda) showed that mobile money services may serve as a good substitute for traditional banking and are a good bet for companies willing to operate in this sector. Especially that many of the African countries are still ahead of the mobile payment revolution. According to McKinsey, the revenue of mobile payment operators and providers could easily double to $10 billion annually in the upcoming years.[1] Currently, mobile payments are dominated by private individual-to-individual (P2P) transfers. Payments made by small and medium-sized companies (e.g. from customers, middlemen, governments to wholesalers, employees, landlords and different service providers) are yet to be "digitalised".

The bright prospects lying ahead for financial service providers (e.g. banks, insurers, financial intermediaries, microfinance providers, mobile money operators), stemming also from the fact that the African middle class is poised to grow richer, should encourage companies from Central and Eastern Europe – which have experience in introducing financial products to those not yet included in the financial system – to take a risk and make a footprint on African ground.

Alcoholic beverages

In 2013, an article in The Times suggested that Africans have a drinking problem.[2] The latest WHO global status report on alcohol and health reveals, however, quite the opposite: per capita pure alcohol consumption in Africa decreased slightly from 6.2 litres in 2005 to 6 in 2010, making the continent one of the smallest alcohol consumers globally. Only a few African countries consume more than 10 litres of alcohol per capita annually (e.g. Namibia, Nigeria, South Africa). To put it into perspective, in Europe the average pure alcohol consumption per capita in 2013 equalled 12.5 litres (the world's top 10 countries are all from Europe, with Belarus – where people on average drink 17.5 litres of pure alcohol per year – in the top spot).[3]

Table 7
Alcohol consumption per capita (15 years +) in selected Sub-Saharan African countries in 2008-2010 (in litres of pure alcohol annually)

	Country	Litres per capita
1	South Africa	11.0
2	Gabon	10.9
3	Namibia	10.8
4	Nigeria	10.1
5	Rwanda	9.8
6	Uganda	9.8
7	Burundi	9.3
8	Sierra Leone	8.7
9	Botswana	8.4
10	Cameroon	8.4

Source: Global status report on alcohol and health 2014, World Health Organization, Geneva 2014.

Is Africa, then, a good place for companies looking to market alcoholic beverages? The answer to this question is multifold, as alcohol beverage consumption among African states varies greatly.

[1] J. Kendall, R. Schiff, E. Smadja, Sub-Saharan Africa..., op. cit.
[2] J. Hatcher, Africa's Drinking Problem: Alcoholism on the Rise as Beverage Multinationals Circle, The Time, 9 August 2013, http://world.time.com/2013/08/09/africas-drinking-problem-alcoholism-on-the-rise-as-beverage-multinationals-circle/
[3] Global status report on alcohol and health 2014, World Health Organization, Geneva 2014.

Beer, wine, champagne and ogogoro

In countries with a large Muslim population such as Somalia or Sudan, alcohol sales and consumption are either restricted or completely banned. In Equatorial Guinea, 28% of alcohol consumption comes from beer and 72% from wine, whilst in Angola beer makes up 64%, wine 14%, spirits 17% and other types of alcohol 5% of total consumption. Nigerians, who are one of the largest alcohol consumers on the continent (10.1 litres of pure alcohol per year in 2010), beer accounts for just 8%, wine for less than 1% and spirits for around 1%. More than 91% of Nigeria's alcohol consumption comes from other sources due to the high popularity of home-brewed beverages such as ogogoro (produced from the juice of raffia palm trees). At the same time, even though expensive alcoholic beverages (such as wine and spirits) constitute less than 2% of total alcohol consumption in Nigeria, with 752,879 bottles (75cl) of champagne consumed in 2011 (more than in Russia or Mexico), the country ranked among the top 20 champagne markets in the world and is considered as the second most promising champagne market in the world for the upcoming years.[1]

Premium alcohol

Favourable demographics, above all the steady rise of Africa's middle class, will continue to generate an increasing demand not only for champagne but for all premium wines and spirits. As noted by Alia Hirjee, director of Qway International, "a new wave of young professionals with a growing purchasing power wants to access the same standard of quality and prestige available in more developed economies".[2] Diageo, the world's largest producer of spirits, has been reporting annual sales increases of around 25% of its premium alcohol brands (e.g. Johnny Walker) in Africa, most of which comes from Angola, Cameroon, Ethiopia and Ghana.[3] Christian Porta, chairman and CEO of Chivas Brothers, a Scotch whiskey producer, stated recently that "clearly Africa is an area of growth and (...) much untapped territory".[4]

Even though Africa's potential for premium alcohol distillers will not be comparable with Asia any time soon, the continent's consumption habits, including alcoholic products, are emerging now and will impact the market shape over the next decades. Whether companies from the CEE region will take part in this process is entirely up to them.

[1] A. Hirsh, Nigeria's love of champagne takes sales growth to second highest in world, The Guardian, 8 May 2013, http://www.theguardian.com/world/2013/may/08/nigeria-champagne-sales-growth-second-highest
[2] Premium Alcohol Consumption on Rise in Tanzania, Tanzania Invest, 2 September 2013, http://www.tanzaniainvest.com/economy/news/835-premium-alcohol-consumption-on-rise-in-tanzania
[3] Diageo Africa Conference. Africa Regional Markets, Diageo, 15 October 2015, p. 12.
[4] B. Paskin, The Future of Spirits in Africa, 18 October 2013, http://www.thespiritsbusiness.com/2012/10/the-future-of-spirits-in-africa/

Sub-Saharan Africa imports most of its small and large domestic appliances, including refrigerators and freezers, which represented 63% of all kitchen appliance imports to SSA during 2008-2012.

The pharmaceutical market size in SSA is projected to reach $30 billion by 2016 and $45 billion by 2020 providing a large window of opportunity for investors willing to tap into the "pharmerging" continent (especially that local companies produce only 25% pharmaceuticals and less than 10% of medical supplies, mostly in South Africa and Maghreb countries).

In the 1990s there was a statistical saying that Manhattan had more phone lines than the 55 countries in Africa but nowadays with almost 1 billion active SIM cards Africa is the second-largest mobile telephony region (after Asia).

African consumers prefer prepaid rather than postpaid airtime services – prepaid ratios for the operators are averaging around 80% in South Africa but in most other SSA countries they exceed 95%, and in some even 99%.

Around 80% of Africans are still unbanked and the credit card usage is one of the lowest globally but at the same time in 2012 Africa accounted for 52% of the global mobile money market.

Even though Africa's potential for premium alcohol distillers will not be comparable with Asia any time soon, the continent's consumption habits, including alcoholic products, are emerging now and will impact the market shape over the next decades.

Concluding remarks

This report should be seen as a continuation of the CEED publications from 2013 and 2014. The first report on Africa – Europe-Africa on the Global Chessboard: The New Opening – drew attention to the general potential of trade relations and investments between the old continent and SSA, whereas last year's report – New Oil Frontiers: Investors' Guide to the Oil Sector in Sub-Saharan Africa – focused on crude oil – a commodity that has brought Africa into the spotlight in recent years. This report, in turn, argues that African countries have much more to offer investors than oil, diamonds, copper and other natural resources. Africa presents enormous consumption potential, with more than one billion people living on the continent who are slowly but steadily transforming into a group of consumers spending billions of dollars on consumables. Additionally, Africa should be perceived as a thriving market. It is the youngest continent (with a median age of 19.7 years in 2012) and the favourable demographic trend will last for more than several years.

Truth be told, African consumers hardly resemble their Western middle-class peers, whose consumption patterns go far beyond the basic necessities. But with every year, Africans have been spending more and more on goods and services ranging from basic food products such as bread and cereals, housing, transport, clothing and footwear to mobile phone services, pharmaceuticals and alcoholic beverages.

Some readers might find this report wishful thinking. Its authors recognise that traditional markets dominate the continent's shopping landscape, but as the disposable income of an average African family grows at the current pace, their spending patterns will change, too. Unprocessed basic food products will give way to convenience and processed products. Second-hand "no-name" clothes and footwear will be replaced by first-hand branded equivalents and shared-taxis by personal cars. It has been estimated that by 2020 the African consumer market will reach $1 trillion.

It is worth noting that even today's market size for certain product categories seems already promising for those ready to take advantage of the emerging demand in Africa. For example, annual household private expenditures on food and beverages totalled $313 billion in 2013. Similarly, housing-related expenditures (e.g. rent, electricity, gas) accounted for 14% (or $90 billion) of an average African household budget, whilst expenditures on transport totalled $40 billion. Investors' radars should also not miss alcoholic beverages, clothing and footwear, small and large domestic appliances and pharmaceutical sectors – all poised to grow in the upcoming years.

As much as the African continent offers opportunities for CEE companies, it also poses a set of challenges. It is everything but clear whether demographic growth will be transformed into demographic dividend. Secondly, investors should be aware that modern trade (in shopping malls or grocery stores) is growing, but is not yet the dominant form of trading (except in South Africa), as 80% of consumers shop mainly at table-tops: stands set up at the side of the road to catch commuters.[1] Additionally, Nigeria and South Africa – the continent's two heavyweights – account for more than 20% of the continent's population and over 50% of consumers' spending. Therefore, if you are counting on the African demographic tailwind, these two countries should list among top destinations.

[1] Africa Nielsen, op. cit.

Furthermore, retailers must remember that business in Africa can be limited due to multiple infrastructural shortages. Finally, the complexity of the African retail environment is not something to be ignored, either. Hundreds of thousands of small and scattered retail points pose a real challenge for distributing products and scaling up operations.

For companies from the CEE region looking for growth opportunities in emerging markets (other than the domestic market), the African continent looms as a viable alternative to Asia or Latin America. Africa is not only geographically closer to Europe but it also offers unique characteristics which no company can afford to ignore: a large (and still growing) population, significant poverty reduction accompanied by growth of the middle class, rapid urbanisation and conditions for doing business that are still insufficient but are undergoing improvements.

Even though Africa is probably the least understood continent of all, it is also the last frontier for consumer growth, which is now clearly open for business and presents many opportunities – it is up to investors to learn how to grab these opportunities and turn them into profits.

Disclaimer:
This report is for information purposes only. It should not be construed as business advice and the insights are not to be used as the basis for investment or business decisions of any kind without your own research, due dilligence and validation.

The **CEED Institute**,
founded by Jan Kulczyk in 2010, is a think-tank whose aim is to promote the achievements and economic potential the CEE countries. Our ambition is to support business initiatives, as well as debates on indispensable reforms in the region, including measures to boost sustainable growth and innovative capacities. The objective of the CEED Institute is the dissemination of ideas and projects on how best to improve efficiency and competitiveness of the CEE region.

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The **Council of Investors in Africa**,
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