Doing business in Africa

Trends and opportunities

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Foreword

Taking the international stage: doing business abroad.

Economic and geopolitical instability mark our times. Predicting the impact of the many changes businesses now face – be they climate-related, socio-cultural, regulatory, political or other – is harder than ever. To make the right investment and expansion decisions, businesses have to understand all the forces at play, anticipate new challenges and capture the opportunities.

Operating in different countries around the world can be tough. That's why our 'Doing business in...' series sheds light on crucial matters that business leaders should consider when operating abroad. From making long-term decisions amidst massive upheaval, to understanding cultural nuances and entering new markets, the series provides business insight based on Mazars' extensive international experience and in-depth local expertise.

For this series we have partnered with the French Institute of International Relations (Ifri). Together, we highlight the geopolitical trends shaping markets, countries and regions, and those that could affect the development of our clients' businesses in the near-term future. In doing so, we aim to help our clients make smart, strategic business decisions and take the international stage – wherever they see their next global opportunity.

Faced with a changing world, the need for intelligence has never been greater. By combining their expertise in this series of publications, longstanding partners Ifri and Mazars bring together geopolitical risk and business opportunity to offer fresh regional perspectives.

Ifri researchers and Mazars partners both attach the utmost importance to having a deep knowledge and understanding of local markets and environments. Through different lenses and approaches, they present complementary insights that contribute, each in their own way, to better decision making when navigating new markets.

Opportunities inevitably come hand-in-hand with risks. That is why Ifri has developed a methodology for leaders to improve their decision-making. This methodology feeds directly into an organisation's strategy by mapping the diverse forces at play and considering the political and social contexts in which an organisation operates. As the boundaries between strategy, politics, business and technology shift and blur, achieving such a comprehensive understanding is more important than ever.

Hervé Hélias
CEO and Chairman

Thomas Gomart
Director, Ifri

Africa: a continent brimming with talent and resources

Africa's strength lies in its people: 2.5 billion inhabitants, and the world's fastest-growing labour force. In 2020, consumer spending is expected to reach $1.4 trillion and GDP is set to exceed $2.6 trillion. By 2050, a quarter of the world's population will call Africa home. Despite lingering geopolitical concerns and diverse country situations, Africa's economic fundamentals keep improving. The region offers huge potential for entrepreneurs and investors in many sectors, from banking and creative industries to agriculture and infrastructure.

We expect growth to continue as countries focus on increasing regional trade and can rely on a resourceful, tech-savvy young workforce brimming with ideas and talent.

Taïbou M'baye
Managing Partner,
Senegal, Mazars

Geopolitical trends

Efficient peace and security architecture still needed

Africa's annual economic growth has exceeded 4% on average since 2000, but the path to a brighter future is not straightforward. The continent's growth rate has been achieved without taking steps towards industrialisation, as most countries remain in the role of raw material supplier, with little to no processing domestically.

Over the past 20 years, territorial and social inequalities have increased. Public investment still goes primarily to capital cities, large commercial towns and extractive economy areas, many of which were already relatively prosperous.

Effective social safety nets still need to be built in roughly three quarters of the continent's countries. Rising income inequalities also threaten to increase societal violence and religion remains a source of widespread tension. Over the next decade, it is likely that more crises will have a religious dimension, leading to terrorism, inter-community conflicts and an increasing intrusion of religion into national politics. If the African Union and other regional organisations do not develop an efficient peace and security architecture to mitigate the weakness of States and transnational threats, the situation is expected to deteriorate sharply by 2030.

Geopolitically, Africa has attracted new and growing interest from many emerging countries since 2000. In the next ten years, the continent will remain an area of intense competition, or even of indirect confrontation between multiple global powers, including China, the European Union, the Gulf States, India, Japan, Russia, Turkey and the US. In less than two decades, China has established itself as the continent's main trading partner. Beijing has, for the past ten years, contributed to re-indebting some countries through agreements allowing China to acquire arable land, mining and energy resources and forest concessions at low cost.

What to expect

Africa is an attractive destination for companies able (and actively preparing) to operate amidst a complex and fluctuating political, security and legal environment. The 54 countries on the continent have increasingly divergent economic trajectories. While Ghana, Senegal and Ethiopia benefit from strong growth rates, countries such as the Central African Republic, Somalia and South Sudan are considered to be failed states.

Between these extreme positions, there are economies that have diversified but failed to achieve substantial growth, such as South Africa, while oil exporters – Nigeria, Chad, Angola – have struggled economically since the fall in oil prices.

Overall, many sectors, from insurance to retail, construction to mining, will experience very strong growth given the momentum in demographic and urbanisation. The importance of extractive industries will persist, and agriculture will likely intensify.

The business environment

An increasingly pro-business environment

Economic conditions vary considerably across Africa's regions. According to the African Development Bank's 2020 African Economic Outlook, East Africa led GDP growth with an estimated 5.0% in 2019, followed by North Africa (4.1%), West Africa (3.7%), Central Africa (3.2%) and Southern Africa (0.7%). Growth remained stable in 2019 at 3.4 percent and is on course to pick up to 3.9 percent in 2020 and 4.1 percent in 2021.

The World Bank Group's 2020 "Ease of doing business" study indicates that Sub-Saharan Africa countries continue to improve, with two of them ranking in the global top 50: Mauritius (#13) and Rwanda (#38). Between June 2018 and May 2019, 73 reforms were enacted that make it easier to start a business, deal with construction permits and get credit, for example. Thanks to these probusiness changes, advances are being made in the region, with Nigeria and Togo both earning a place (#3 and #10 respectively) among the top global improvers, according to the World Bank Group. Other countries passing reforms are Kenya, Cabo Verde and Eswatini (Swaziland), while reform efforts have also improved Niger's and Senegal's scores significantly.

However, inadequate transportation and power infrastructure still stalls the industrial development of many countries and overall regional integration. While natural resources are abundant, countries must shift from extraction to processing if they want to boost their GDP and foreign direct investment opportunities. Regional cooperation is helping set a positive forecast for business: namely thanks to recent reforms led by the Organization for the Harmonization of Business Law in Africa and the Central African Economic and Monetary Community. There are significant potential gains to be had from the increased intra-Africa trade, for instance. In March 2018, member countries of the African Union signed the African Continental Free Trade Area (AfCFTA) agreement in view of liberalising goods and services among themselves, and eventually all African countries. As intra-regional import tariffs in the continent are already low, the bulk of gains will come from a substantial reduction in non-tariff barriers.

> "Intra-Africa trade is about to boom"
>
> **According to the World Economic Forum**

The next 10 years

Economic growth will be driven by urbanisation, technology and education

In the next decade at least, the extractive sector will remain a pillar of growth, especially if countries succeed in achieving some of the ore processing within their borders. Sub-Saharan Africa is the region with the least known and least mapped mineral and energy resources – new discoveries of mineral resources cannot be ruled out and the export of these products will remain economically central to most African economies.

Demography is a second pillar of growth and will make a significant contribution to transforming Africa. By 2030, the continent's population will have reached 1.679 billion people, compared to 1.340 billion people today. These people will increasingly live in towns: between 2015 and 2030, Africa will gain 224 million urban dwellers.

The combined demographic and urbanisation surge will accelerate the economic growth that gained a foothold in the early 2000s, at least in the cities. However, public investment in services and infrastructure still needs to become more efficient to cope with the high density. The mobile phone boom has been a major contributor to growth, and cities are also better connected to international trade through the improvement and construction of port and airport infrastructure. Africa took advantage of its partial debt reduction in the 2000s and early 2010s to improve its economic development by investing in transportation and communication infrastructure and to attract foreign direct investment (FDI) in this sector. However, many African countries have re-indebted in recent years and increased their reliance on lenders such as China.

The education level of the workforce, one of the weaknesses of the continent, is progressing rapidly. Urban areas generate a number of economic opportunities; a new middle class is emerging, with significant savings, buying power and appetite for social innovation. To maintain their momentum, capitals and large cities will need to quickly address issues of mobility, land management and urban governance. Looking ahead, the African countries stand to benefit if they encourage the development of secondary cities.

Sector opportunities

Untapped potential in virtually all industry and service sectors

A great part of Africa's potential is still untapped. Virtually all industry and service sectors present opportunities on the continent, from natural resources that need to be taken beyond extraction, to food and agriculture, which can feed a soaring population and drive exports.

Instead of sharing insights on a long list of market segments, we focus here on three high-potential areas: banking, creative industries and green innovations, notably in energy and agriculture.

The fast-growing African banking sector is showing positive signs of profitability and digitalisation. While some overseas groups are reducing their African exposure, others are increasing their presence, for example in the case of Moroccan financial institutions. There are also some emerging pan-African banks and the level of competition is consequently increasing. With a mobile phone penetration rate above 100%, Africa is fertile ground for technological innovation. Fintech and companies with innovative approaches to serving the unbanked (a majority of the continent's population) and meeting the needs of the middle class are positioning themselves in a dynamic market. However, location matters. For example, the iconic success story of Kenya's money transfer system M-PESA relies on regulatory frameworks that are not as flexible in all African countries.

As demonstrated by generations of famous and anonymous writers, artists, craftsmen and designers, Africa is a creative powerhouse. In the words of economist Kako Nubukp, "the best Africa has to offer the rest of the world is its culture, however this is not reflected in the growth figures" – yet. With strong appetite for digital content and creativity, the tech-savvy younger generation is taking their artistic streak to a whole new level: from Nigeria's film industry, Nollywood, to video game development in several countries.

Africa is the continent that contributes the least to the global greenhouse gas emissions (as little as 2%, according to the International Energy Agency), yet it is one of the first victims of global warming. Climate crises could displace millions of people and lead to a double-digit drop in agricultural yields. Initiatives such as the Adaptation of African Agriculture (AAA) alliance seek ways to produce enough to feed the continent while preserving the environment. Opportunities reside, for example, in innovative agroforestry development, land irrigation and agricultural insurance. Clean energy – grid, off-grid or anywhere in between – is another sector open to entrepreneurial ventures. African countries already possess significant know-how; many of them are actively adopting renewables to tackle energy production and distribution challenges.

All these prospects have something in common: people. As workers, consumers, innovators, people across Africa are making it possible for businesses to launch and develop in diverse areas. In a continent rich with young people and a population that is doubling every 25 years – the sky is the limit.

Insights for business growth

Consider local talent when entering new markets

Choosing the right location is critical when doing business in Africa. It depends in part on the main destination of your business – domestic markets or exports – and in part on your industry sector. For example, South Africa positions itself as a gateway to the north; Morocco might be chosen due to strong infrastructure and connectivity. Free economic zones (FEZs) and other specialised hubs should also be considered as they offer immediate access to active ecosystems.

The official investment promotion agencies are good entry points to Africa. They are often the best sources of information on how to set up a company as well as on matters such as customs duty incentives, and tax credit and exemption periods. These schemes can facilitate the launch phase and allow a much faster return on investment for incoming businesses. Senegal's investment code, for example, includes tax provisions benefiting export companies, mining and petroleum firms, tourism operators and agricultural activities.

When building your teams, consider recruiting locally. In some countries, you don't necessarily need to ring in expatriates because of the availability of large pools of talent: local hires already know the market, the culture, the language, the ways of doing business and specific red tape complexities.

Top tips for doing business in Africa

1. Do your due diligence

Anyone considering doing business in Africa needs to conduct a thorough preliminary due diligence on their target markets – countries, industry sectors – and local stakeholders. Find partners you can trust to help navigate country specificities as well as anticipate commercial, legal, financial, fiscal and accounting implications. Situations vary widely across the continent – sometimes business practices have grey areas, elsewhere a myriad of regulations are in place.

2. Get a local advisor

In all cases, local advisors are needed to provide guidance and avoid mistakes, from company incorporation to making the most of growth opportunities. They will also help you deal with regional administrative intricacies, in particular when you don't speak the language.

3. Make sure you're compliant

Wherever you operate in Africa, you must be compliant with the local laws and regulations. Follow due process and never let yourself be tempted by shortcuts – it may feel a bit slow and frustrating at times, but in the long run it is legally and commercially much safer. The cost of compliance is far cheaper than the penalties associated with non-compliance.

4. Take the opportunities

Lastly, don't be discouraged. On this continent, realistic optimism is the name of the game: Africa is renowned for its can-do spirit, which can even turn some of the greatest challenges into fantastic opportunities.

Milestones on the horizon

Grid development

Electricity production will strongly influence the continent's economic trajectory, and more specifically its industrialisation. Sub-Saharan Africa will struggle to keep up with global competition if it only manages to produce as much electricity as South Korea – which was the case in 2015. Without significant developments, such as broader access to and lower cost of electricity, the ability to process the minerals extracted from the continent will remain limited.

Climate resilience

Global warming and other environmental concerns in Africa range from the multiplication of forest fires to the spectacular expansion of arid areas, as well as rising sea levels that threaten coastal cities such as Lagos (Nigeria) or Nouakchott (Mauritania). All this could increase social tensions between local populations and displaced newcomers, or even generate conflicts, for example around the allocation of natural resources.

Economic integration

Over the next ten years, a key challenge for Africa will be the economic integration of the continent. The AfCFTA and the Regional Economic Communities (RECs) can actively foster this integration provided that two steps are taken: lowering the share of import/export taxation in the financing of African states and reducing customs duties in spite of budgetary constraints.

Countries on the radar

The African economy continues to grow at a rate above the rest of the world, spearheaded by Nigeria, the world's 7th largest economy and major producer of goods and services for West Africa, and South Africa, the continent's most industrialised nation. Always presenting good opportunities for investors, the region still has plenty of room for reform which could help those economies realise their potential. Depending on their business objectives, companies need to look at different sets of indicators. Here are some of the most relevant when making investment decisions in Africa.

Top African countries by 2020 GDP growth forecast

- Rwanda
- Côte d'Ivoire
- Ethiopia
- Senegal
- Benin

Source: IMF, 2019

Top African countries by GDP per capital

- Seychelles
- Mauritius
- Gabon
- Botswana
- Namibia

Source: IMF, 2019

African countries with the most developed tertiary education

- Algeria
- Mauritius
- Morocco
- Egypt
- Tunisia

Source: World Bank, 2019

Top African countries by foreign direct investment (FDI)

- Egypt
- South Africa
- Morocco
- Ethiopia
- Ghana

Source: WorldBank, 2019

Most competitive African countries

- Mauritius
- South Africa
- Morocco
- Seychelles
- Tunisia

Source: Bloomberg, World Economic Forum, 2019

Easiest African countries to do business in

- Mauritius
- Rwanda
- Morocco
- Kenya
- Tunisia

Source: Bloomberg, World Economic Forum, 2019

Most digitalised African countries

- South Africa
- Mauritius
- Seychelles
- Tunisia
- Morocco

Source: World Bank, 2019

Top African countries by R&D spending to GDP

- South Africa
- Kenya
- Senegal
- Morocco
- Burkina Faso

Source: World Bank, 2019

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