Doing business in AFRICA

Are businesses blinded to the immense opportunities in Africa by the media's relentless focus on problems and disasters? At a recent debate led by London First at Cass Business School, Niall FitzGerald, CEO of Reuters and John Varley, Group CEO of Barclays, gave a truer picture and explained why and how to do business in Africa. Here are their views.

Niall FitzGerald: The geographer George Kimble famously said: "The darkest thing about Africa has always been our ignorance of it." Africa is much more than the war-scarred continent the newscasts present.

The media's focus on natural disasters, conflict and hunger and the language of intergovernmental debate – debt, aid, poverty and conflict – continues to dominate how we discuss and perceive Africa, as a place of problem and danger rather than reward and immense opportunity for business.

No wonder conventional wisdom is that it is too risky to do business in Africa.

Part of the problem is that 'Africa' is shorthand for 54 countries, each with different investment opportunities, infrastructure and levels of political and economic stability. Bad news in one of 54 countries is generalised in our minds to cover the entire continent.

It was once very risky doing business in China or India. It still is, but business is willing to take that risk in search of an attractive return. Why should Africa be different?

Growth prospects

Africa does have huge structural issues and other challenges. It is not easy to do business there. But it is getting easier. Africa has booming stock markets, bustling city centres, huge reserves of natural resources, accelerating economic growth and exceptional entrepreneurial talent. Its largely untapped base of a billion consumers also offers a fast-growing market for goods and services.

According to the IMF, Africa's economic growth has outpaced world growth since October 2001, when commodity prices began to soar.

Annual economic growth in Africa has averaged five per cent since 2001, against overall world growth of just over four per cent. Estimates for GDP growth rate in 2007 are approaching six per cent and rising.

Compare Zambia and Canada, both copper-producing countries. Zambia's GDP has averaged five per cent growth in the last five years. Canada 's GDP growth rate was around half that. It's no surprise that the first nine months of 2007 saw US$1 billion in foreign direct investment targeted on the Zambian economy.

Zambia is part of a much bigger story. Foreign direct investment into Africa as a whole doubled between 2004 and 2005 to US$32 billion.

Most of the increased investment went into the natural resource sectors, especially oil. Oil reserves in Africa make up seven per cent of the world total. Over the next two decades, world oil production is expected to double from six million barrels a day. Africa is likely to be the most important source of new oil supplies - oil from Africa already accounts for a greater share of US oil imports than the Middle East.

Africa's financial services sector is growing too. Last year, Malawi's stock market generated returns of 130 per cent, while Morocco's grew by 86 per cent.

With stock markets there liquid and growing, private equity is eyeing Africa keenly. In the UK, New Star recently led the way in launching a fund which will invest solely in the countries of sub-Saharan Africa outside South Africa.

Brand power

Received wisdom about underdeveloped markets is that businesses cannot make money from low-income consumers, and that these consumers are not brand-conscious.

These assumptions cloud the truth about how attractive these markets are – certainly to a company like Unilever that does billions worth of business in sub-Saharan Africa. In the last few years Unilever has invested heavily in Africa, for exactly the same reason it is investing in Europe, Asia, Latin America and North America: to do business, grow and make money.

Invest for success

Being successful in Africa requires an entrepreneurial attitude and a willingness to help create the market and infrastructure around it, not just enter it. Operating in Africa may entail investment in the wider environment, such as in the supply chain, distribution channels and in the workforce, through training and health care.

Institutional initiatives to promote investment are already paying off in improving business conditions. For example, the Investment Climate Facility for Africa (ICF) is working to improve governance, legal systems and infrastructure to create the conditions for businesses to grow.

Central to the ICF's focus, and how it picks pilot projects for funding, are Africa's small and medium enterprises.

In high-income countries, it is estimated that the SME sector contributes more than 50 per cent to gross GDP. In low-income countries, SMEs' contribution to GDP is about 16 per cent. In most African countries, the SME contribution is less than 10 per cent. It is this underexploited potential that makes SMEs vital to economic transformation.

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Reasons to do business

It is easy to remain sceptical, even cynical, about Africa. But there are three wholly selfish and self-centred reasons why doing business in Africa is key to protecting markets back home.

Firstly, Africa, not the Middle East, is the epicentre of a clash of religious ideologies - Islam and Christianity. After centuries of peaceful co-existence, the two communities are in danger of slipping into mutual hatred and killing. Think of Darfur and other parts of eastern Africa. Engagement and investment by business is a force for healing.

Secondly, migration threatens to unbalance societies and undermine security. Migration is most effectively dealt with at source by helping provide opportunity and hope, bread and jobs, not hunger and guns. In Africa more than 400 million people live on US$1 a day or less. They are right to eye our prosperity with envy and resentment.

Thirdly, oil is the commodity on which our lives and lifestyle most depend and oil resources are concentrated in areas of greatest unrest and volatility. Africa is the key source of new oil. If we want to protect our own prosperity we had better be part of the attack on poverty in Africa – poverty of resource, hope and opportunity. We have a deeply vested interest in helping spread prosperity and stability throughout this oil-rich region.

China watch

Finally, look at what China is doing in Africa. China, with foreign reserves of £500bn+, is making an increasing number of deals with resource-strong African nations. Chinese foreign direct investment in Africa more than quadrupled between 2001 and 2005, according to a Stanford University report. Deutsche Bank has estimated that there are now around 900 state-owned Chinese enterprises and 82,000 Chinese workers in Africa. China plans to build its trade with Africa to US$100 billion by 2010, almost ten times year 2000 levels.

Critics accuse China of treating Africa like a colonial territory and backing regimes with poor human rights records. However, China has created a focused investment strategy in Africa and a cheap source of funds, providing significant liquidity to those with no access to it before.

Growth through business

Promoting growth is the only sustainable way to help Africa help itself. Sustained growth requires strong private sector development and a sound investment climate to attract business interest.

The ambitions for Africa cannot be achieved without widespread business partnership. We must be an active part of the communities where our consumers live. We must contribute to the wider society on whose goodwill we depend. This goes beyond a 'feel good' argument about Corporate Social Responsibility. The potential dividends for businesses which are bold and forward-thinking are huge.

Why do business in Africa? Business should ask instead: Why not do business in Africa? Because if you're not, someone else is. And they're probably your biggest competitor, or soon will be.

Barclays in

Barclays has done business in Africa for more than a hundred years. Today the bank operates in 13 African countries, ten of them in sub-Saharan Africa, serves over 8 million customers and employs 40,000 people, nearly a third of its total workforce. Its African operations contribute 15 per cent of the Group's income.

As Group CEO, John Varley explains, "In financial services, the needs and buying behaviour of consumers and clients are converging. In Botswana a credit card is pretty similar to the UK or Spain. But we adapt our strategies and techniques to suit markets in Africa, as we do anywhere we operate."

Branching out

One example is distribution. Many of the, more than a thousand, Barclays branches in Africa are 'bricks and mortar'. But more and more are 'portable' and 'express' branches - pre-fabricated buildings that can be re-sited quite quickly if customer footfall changes, or sited permanently in areas of financial deprivation where many people may never have banked before. 'Mobile' branches are literally on wheels – trucks with simple banking facilities on board that travel to remote locations on a given day.

Also crucial to the expansion of Barclays retail banking are 9,000 direct sales agents who service remote areas.

Developing markets – and people

"To get a good return on an investment in a developing market requires us to develop that market itself," says Varley.

That includes providing accessible, affordable and understandable banking products and services. Barclays offers basic 'starter' accounts for people on low incomes new to banking. These can usually be opened with about £2. Margins may be low but many customers go on to take up more products over time and that enhances returns.

"A healthy banking system almost always goes hand in hand with a healthy economy,"

AFRICA

Varley says. “We make a point of supporting the wider development of the countries where we do business. Part of this is developing local employees and management and actively encouraging business start-ups.”

Each of the managing directors of Barclays' sub-Saharan operations is African. Where there are expatriates, there is a succession plan to develop local talent. Barclays also runs a first-class graduate training programme in Africa, as well as its Business Club which offers SMEs advice, networking, training and travel opportunities.

Good citizenship

Varley believes businesses that are strong corporate citizens are usually businesses that make money. Barclays is realistic about the acute challenges for Africa from poverty, hunger and disease. Apart from donations, it is addressing these with projects that exploit its skills and status as a bank – centred on financial education, entrepreneurship, employment and business mentoring.

“Because of the impact these projects have we've just launched our first global community investment strategy. We will be investing US$150 million and 150,000 employee hours to support 1,500 projects around the world,” says Varley. In one blueprint project for Africa Barclays is already working with a Ugandan village to provide the community with better access to microfinance, bank accounts and services.

Varley sees the HIV/Aids pandemic as one of the biggest threats to the development of a flourishing economy. Barclays response is to prevent new infections through education, and to help infected employees and their families by providing anti-retroviral drugs as well as support at work and counselling.

Varley is adamant the rationale for this is as much hard-nosed as moral – it helps Barclays attract and retain the best employees.

And Barclays employees in Africa are themselves generous in helping their communities tackle HIV/Aids as well as issues like child prostitution and illiteracy.

“I'm always struck by the joy in nationhood, optimism and hunger for progress I see in Africa. Colleagues there want to play an active part in their countries' future – we do what we can to support them because if our customers and their communities thrive, so will Barclays,” says Varley. ■

Biographies

Niall FitzGerald

Niall FitzGerald became the Chairman of Reuters in October 2004, having spent over thirty years with Unilever. As well as a member of several advisory bodies, he is also Chairman of the Nelson Mandela Legacy Trust (UK), Chairman of the Board of Trustees of the British Museum, co-Chair of the Investment Climate Facility (ICF) for Africa, Chairman of the International Business Council and a member of the Foundation Board of the World Economic Forum.

John Varley

John Varley was appointed as Group Chief Executive of Barclays on 1 September 2004, prior to which he had been Group Deputy Chief Executive from 1 January 2004. He held the position of Group Finance Director from 2000 until the end of 2003.

London First

London First is an influential business membership with the mission to make London the best city in the world in which to do business. It represents the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, creative industries, hospitality and retail. Their membership also includes all of London's higher education institutions as well as further education colleges and NHS hospital trusts. **www.london-first.co.uk**

Cass Emerging Markets Group

Issues relating to international investments in Emerging Markets is one of the key areas of research covered by the Emerging Markets Group (EMG) at Cass Business School. EMG believes that Africa offers profitable opportunities to international investors and to that effect hopes to establish a forum to contribute to a greater understanding of African Economic and Financial Development. It will achieve its objective through encouraging scholarly research and raising awareness of the potential of Africa as an investment destination. For information on our Emerging Markets Group Research Centre, please email Professor Kate Phylaktis, the Director of the Centre at **k.phylaktis@city.ac.uk** *or visit* **www.cass.city.ac.uk/emg**