Foreign investors eye African consumers

A shopping mall in Kampala, Uganda: More foreign investors are seeking to tap into Africa's growing layer of "solvent consumers." Panos / Mikkel Ostergaard

Beyond minerals, sales and services are drawing more interest

By André-Michel Essoungou

It was an unlikely move greeted with a good measure of disbelief. When the world's biggest retail company, the US-based Walmart, announced in September 2010 a plan to buy South Africa's Massmart — also a retail company — for a staggering $4.2 bn, eyebrows were raised. Foreign investors in Africa usually put their money in the riches that lie beneath its soil, where the profits are higher. In fact, the steady growth of foreign direct investment (FDI) flows to the continent during most of the past decade has mostly been concentrated in extractive sectors, especially oil (see *Africa Renewal*, January 2005).

Yet, much like Walmart, a growing number of major investors are now betting on the continent's ultimate wealth, Africans themselves, a report by the UN Conference on Trade and Development (UNCTAD) reveals.*

And for all the shock that Walmart's foray into Africa initially prompted, when it finally acquired only 51 per cent of Massmart's shares for $2.5 bn in December, the transaction was still second to the continent's biggest business deal unrelated to natural resources. Late in March 2010, a

*UNCTAD, *World Investment Report 2010*, July 2010. Available on the Web at http://bit.ly/h6KmvJ

Mine worker in Burkina Faso pours a gold ingot: Foreign investments in Africa's least developed countries still focus primarily on the mining and oil industries.

Reuters / Katrina Manson

record $10.7 bn transaction took place as Kuwait's telecommunication company Zain sold its African assets to Bharti, an Indian competitor (see page 3).

Overall, the UNCTAD report notes, amidst a recent slump in FDI flows to Africa (see graph, page 15), "The services sector, led by the telecommunications industry, became the dominant FDI recipient." Across the continent, new deals involving major foreign corporations are becoming a common occurrence in sectors previously considered unattractive to investment heavyweights. Nestlé, a Swiss food company, announced plans to spend $1 bn by 2013 for acquisitions in various African countries, including the Democratic Republic of the Congo, Nigeria and Angola. Less than two years ago Nestlé's main competitor, France's Danone, took full ownership of Clover, South Africa's leader in fresh cultured dairy products.

Such developments call "for reassessment of FDI in Africa, as a different picture emerges," the report argues. Potentially, development experts note, an increase in FDI flows to infrastructure, services and retail sales could have a far more positive impact on African economies. Unlike investments in the extractive industries, investments in consumer-oriented sectors often lead to the creation of many more jobs and stimulate consumer spending.

Benefits of growth

Africa's booming middle class, with its recently acquired purchasing power, is the main reason behind the new FDI trend in the continent. Various researches suggest that the number of Africans who can afford to buy more than the necessities of daily life is rising rapidly. A much-talked-about report by McKinsey, a US-headquartered multinational consulting firm, estimates that the continent is home to around 50 million middle-class households (defined as those with incomes of at least $20,000), as many as in India.** One in every 10 Africans, says a different study by a French aid agency, is already a "solvent consumer" — one who can afford the latest smartphones, the newest computers and dinners at trendy restaurants.

The rise of this middle class is linked to the strong economic performances recorded in many African countries since the end of the 1990s. Average economic growth has been around 5 per cent a year, while the average inflation rate fell to 8 per cent from an earlier high of 22 per cent. From 2000 to 2010, six of the world's 10 fastest-growing economies were in sub-Saharan Africa, reports *The Economist*, an authoritative London weekly. In fact, the publication argues that Africa is the site of "the surprising success story of the past decade," high praise from a magazine that is generally not very enthusiastic about the continent.

Strong and sustained growth rates — and not only in the oil-rich countries that benefited from booming demand from emerging economies — provided a platform from which numerous households moved upwards in income. And while growth in oil-producing countries usually did not result in massive job creation, growth in other countries did create some employment, in turn boosting domestic consumption. In South Africa, Tunisia, Egypt and Morocco, Africa's four most advanced and diversified economies, domestic consumption became the largest contributor to growth in recent years, says the McKinsey report.

Policies, peace and governance

Africa's improved economic performances are also a result of good economic policies and improved political contexts, maintained the World Bank in its report *Africa Development Indicators 2007*. In Ghana, Uganda and Tanzania, for example, business-friendly policies opened new markets to investors. Angola and Rwanda became fast-growing economies after long civil wars.

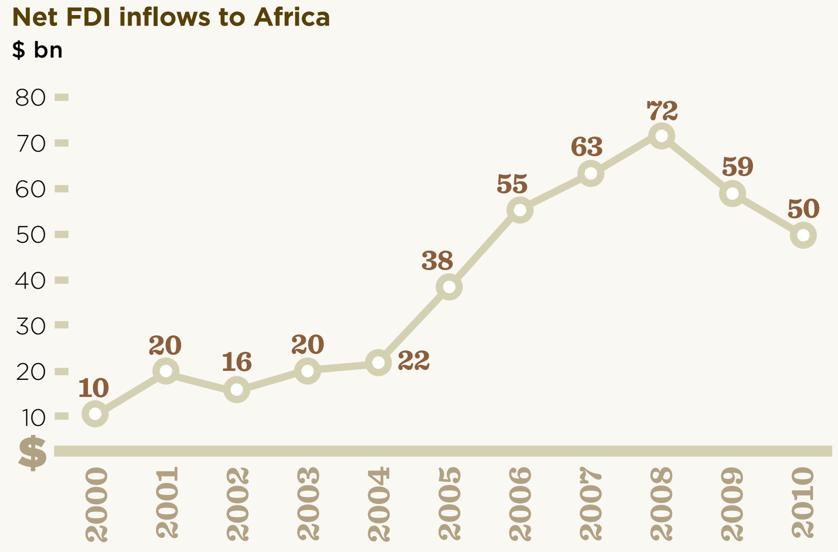
Some also argue that a continental development plan has helped as well. The New Partnership for Africa's Development (NEPAD), adopted by African leaders in 2001, "did help shape a new, more positive perception of Africa," argues Patrick Osakwe, an economist with the UN Economic Commission for Africa and co-author of a study on FDI to Africa. By emphasizing the importance of

*******McKinsey and Company*, Lions on the Move: The Progress and Potential of African Economies, *June 2010. Available on the Web at http://bit.ly/b26FGQ* good governance, Mr. Osakwe told *Africa Renewal,* the plan illustrated a momentous shift in the way Africans seek to interact with the rest of the world.

Expanding prosperity

For a continent so long regarded by outside observers as "hopeless," the coming years will bring more good news, various analysts say. Africa weathered the global recession better than most regions of the world, and its recent economic performance is second only to that of Asia, according to several international institutions (see *Africa Renewal,* April 2010). Over the next five years, *The Economist* recently projected, "The average African economy will outpace its Asian counterpart."

Such promising prospects are central to Walmart's expansion plans in Africa. Other major Western investors are likely to follow the US giant, analysts say. One reason is that the continent's combined consumer spending is forecast to reach $1,400 bn by 2020, up from $860 bn in 2008. Companies from emerging economies such as China, India and Brazil are already strengthening their positions in the region.



Source: UN Africa Renewal from UNCTAD data.

As foreign investors rush to benefit from the rise of the new categories of African consumers, prosperity still remains elusive for too many other Africans. According to the UN Food and Agriculture Organization, 250 million people in Africa are undernourished. "To expand prosperity, African leaders need to invest in infrastructure and education, to diversify their economies, so that many more people can benefit from growth," argues Mr. Osakwe.

Others note that improving the standard of living of the poor not only makes business sense, but is also a political necessity, as suggested by the recent waves of protests across North Africa. Not addressing people's economic rights, UN High Commissioner for Human Rights Navi Pillay pointedly remarked this January, causes grievances "to fester and eventually erupt on a large scale."

External investments more central in least developed countries

In times of crisis, those most in need are usually hit the hardest. In the current global economic recession, that seems to be the case for those classified by the UN as least developed countries (LDCs). Of the 48 countries around the world that are LDCs, 33 are in Africa. The LDCs' share of worldwide foreign direct investment (FDI) is just 1.8 per cent. Yet this FDI represents a major portion of those countries' gross capital formation (total spending on investments). In 2008, only months before the crisis, FDI represented 41.6 per cent of capital formation in the 33 African LDCs.

From 2000 to 2008, flows of FDI to the LDCs grew more rapidly than aid or other types of external financial resources, rising from $4.1 bn to $32.4, according to a report by the UN Office of the High Representative for Least Developed Countries, Landlocked Countries and Small Island Developing States (UN-OHRLLS).

But in 2009 foreign investment flows to the LDCs dropped by 14 per cent, to $28 bn. Such a trend "is of particular concern, given the role of FDI in these countries' economies," notes the latest *World Investment Report* of the UN Conference on Trade and Development (UNCTAD). A modest recovery is now under way, analysts say.

FDI flows to African least developed countries are mostly directed towards oil- and mineral-rich countries. Twelve such LDCs attract 76 per cent of total inward flows of FDI to all African LDCs. In the future, the UN advises, LDCs should "refocus their efforts on FDI promotion and … develop over the long run a comparative advantage in niche industries," such as knowledge-based manufacturing activities.