

# Experts in the News

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## African Renaissance

**Africa is ready to make the transition to the world stage. What are the enablers for this process to take place?**



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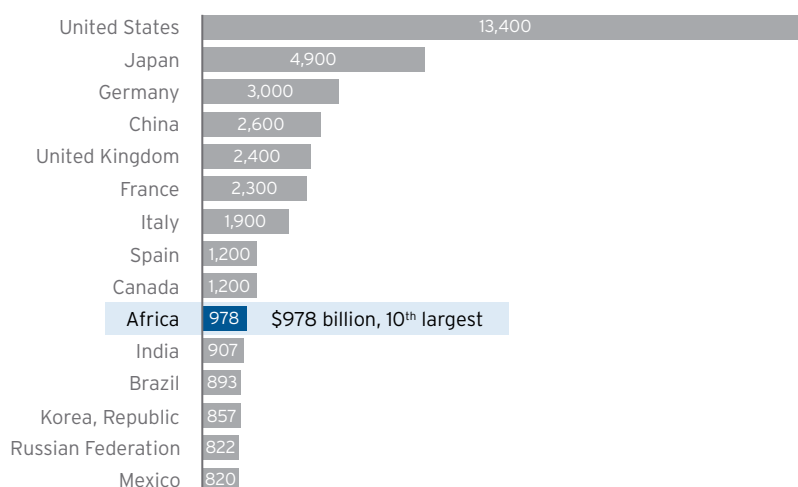
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Individual nations in Africa continue to receive the world's attention for varied reasons however, with over 900 million consumers the African continent is slowly emerging as a leading world economy. According to World Bank data, if Africa were treated as a single country it would have \$978 billion in gross national income, ranking tenth ahead of other emerging markets such as Brazil, Russia and India. Africa continues to build its economy and as it does, the world continues to experience a paradigm shift as Africa is seen not just as a continent in need of aid and charity, but as a continent with a strong sense of optimism, a spirit of entrepreneurship and an economy with immense business opportunity. This paradigm shift is acknowledged

by Haiko Alfeld Director, Africa, World Economic Forum, who noted that the African continent has "emphatically and irreversibly turned the corner".

Part of the reason that Africa is underestimated is because of the size of the informal economy. In his book Africa Rising, Vijay Mahajan asserts that the informal economy accounts for the lion's share of employment in Africa. Research by Friedrich Schnieder concludes that the informal sector, accounted for 42 percent of GDP in 1999-2000. A separate report by Schnieder indicates that 80 percent of the population in Lagos works for the informal sector which accounts for more than two-thirds of Nigeria's GDP. An wide range of companies rely on the informal sector

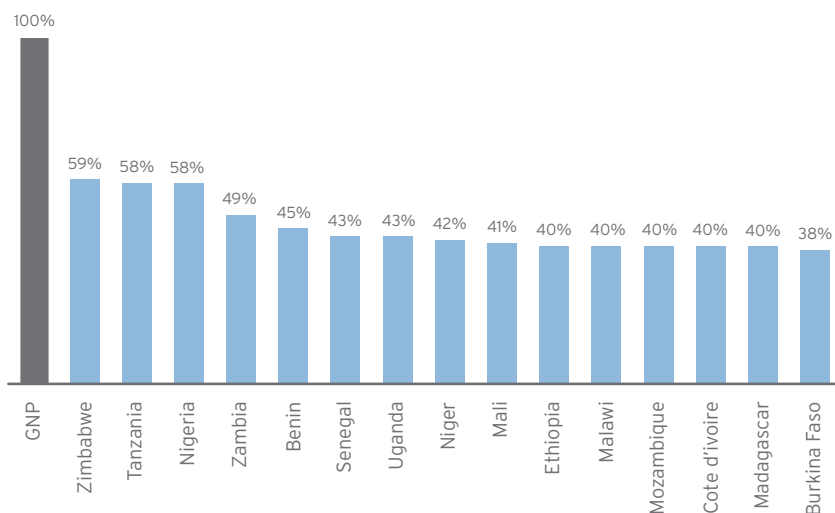
**Figure 1**  
**Gross National Income (USD\$ billion)**



Source: <http://siteresources.worldbank.org>



**Figure 2**  
**Africa: Shadow Economy in % of GNP 1999/2000**



Source: Friedrich Schneider, "Size and Measurement of the Informal Economy in 110 countries around the world"

for services e.g. distribution services for fast moving consumer goods. This underscores the importance and weight of the informal sector in Africa.

Experts list growth in finance and communication as foundations for successful markets. The high speed expansion of cell phones across Africa has set the stage for further growth. The BBC published a report, which states that over 85 per cent of black-owned small businesses rely solely on mobile phones for communication. Further to this, the study also concludes that a developing country with an average of 10 incremental mobile phones per 100 inhabitants between 1996 and 2003 also experienced 0.59% higher GDP growth than an otherwise identical country.

A 2007 study by the Africa Media Development Initiative (AMDI) found that cell phones were achieving a compounded annual growth rate (CAGR) of 85 percent or more in 10 of the 17 African countries surveyed. The AMDI further asserts that Africa recorded staggering growth of 5000% between 1998 and 2003 and it is expected to have another 184 million subscribers by the end of 2011.

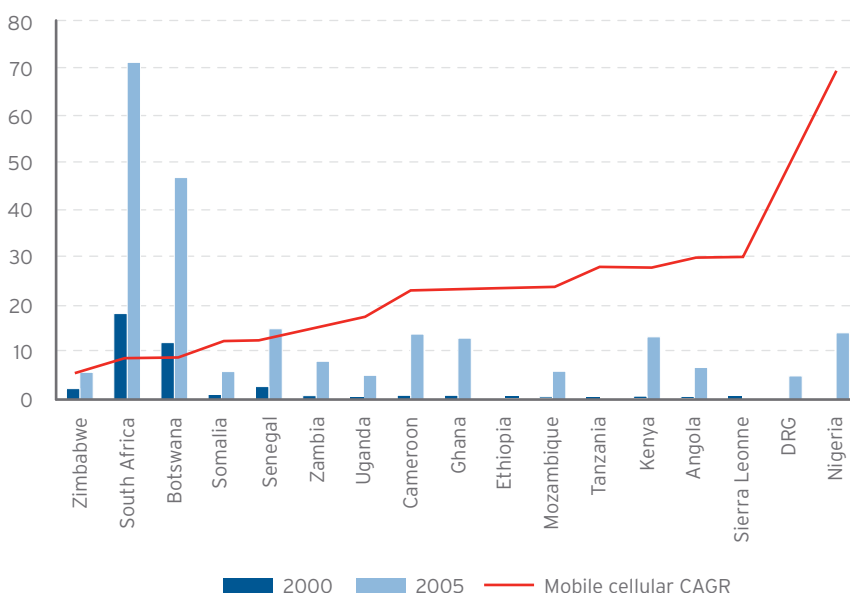
This growth is demonstrated by the success of individual companies operating within Africa such as MTN, Zain (formerly Celtel), Vodacom and Orascom who have each recorded between 20 and 25 million subscribers.

Another indication of Africa's economic growth is the growing number of high net worth individuals. A recent study by Capgemini and Merrill Lynch shows that the growth of high net worth individuals

in Africa is 12.5 percent. This is higher than anywhere else in the world. Such growth is evidenced by the fact that there are 9 Africans on the Forbes 2008 list of billionaires. These billionaires hail from South Africa, Egypt and Nigeria. It is possible and even likely that there are still other African billionaires that are yet to be discovered.

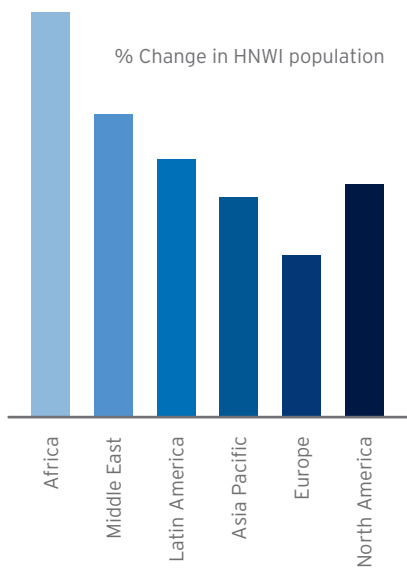
The growing wealth of African populations extends to the estimated 100 million Africans in the Diaspora. The African Diaspora is investing billions around the continent. Experts estimate that total remittances to Sub-Saharan Africa reached more than \$20 billion in 2006 noting that these numbers could be higher because they only include official transfers. Other experts surveyed estimate that remittances into Africa could be close to \$44 billion. Key contributors to these remittances include Nigeria \$2.3 billion, Sudan \$1.4 billion and Kenya \$500 million. This is further fuelled by growth in private equity investment. A 2008 study by Axiona Partners shows that allocations from fund-of-funds tagged for "emerging markets" are increasing. Further to this, 100% of government agencies interviewed

**Figure 3**  
**Estimated mobile telephone subscriber rates (users per 100 inhabitants)**



Source: World Telecommunication/ICT Development Report 2006: Measuring ICT for social and economic development" 8th edition, ITU 2006

**Figure 4**  
**% Growth of High Net Worth Individuals 2007 – 2008**



Source: Merrill Lynch, Caggemini

indicated that they would invest in Africa as part of their immediate investment strategy.

Despite the evidence of economic growth, African multinationals are yet to make a large impact on the global scene. If African economies are to reduce their dependence on exports of commodities and imports of

manufactured goods and develop their economies, they should begin to focus their efforts beyond the region and join the ranks of other multinationals.

African companies can adopt the experiences learned from western case studies. Western companies, when faced with declining sales growth were forced to expand into the developing world, including Africa. Guinness is one such company, which has recorded sales in Africa growing by 4-5% while global sales declined by 4% (2006). Unilever is another example, and Unilever brands although birthed in the west have now become household names all across Africa.

Emerging market multinational corporations have also built up their profile enormously in the past decade or so. No longer do multinationals hail only from Europe, North America, Japan or other developed countries. They now come from China (41%), India (20%), Brazil (13%), Russia and many other developing countries.

There are plenty of success stories to learn lessons from. Multinationals from the world's developing countries use various strategies to attain global

status, the key ones being innovation, mergers and acquisitions, low costs and taking local brands global. Tata, for example, has expanded across the globe through a series of acquisitions. It reported revenues of \$28 billion in 2007. ZTE, from China, chose the low cost strategy by making cheap reliable telephones for telecommunications companies in mature markets to sell under their own brand.

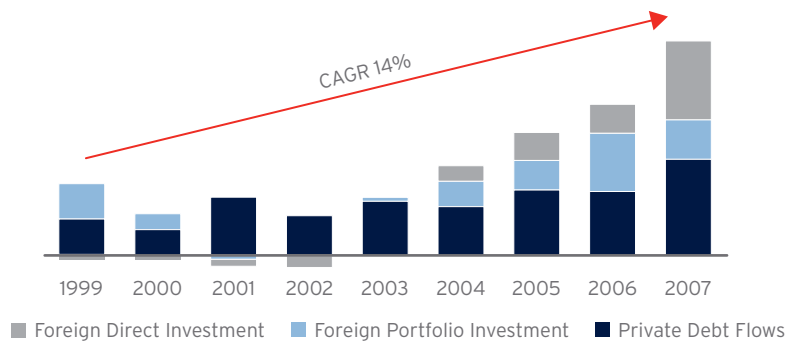
The 100 biggest emerging market companies increased their revenues to a combined total of \$32.4 billion in 2006, up 25% on the previous year, according to Boston Consulting Group's Top 100 Emerging Global Players report. These revenues are forecast to increase to \$11.8 trillion by 2015.

Africa already has a number of large companies, but the locally owned companies are confined to the region while the others are subsidiaries of traditional multinationals.

The top 100 companies in Sub-Saharan Africa (excluding South Africa) are widely spread, though 21 are in Nigeria and 14 in Kenya. Some of them are well known, such as Nestle, Unilever, Kenya Airways, Guinness, Nigerian Breweries

Remittances from African Diaspora are estimated at USD\$40 billion per annum. Private flows to SSA have doubled in the last four years and tripled over the last eight years.

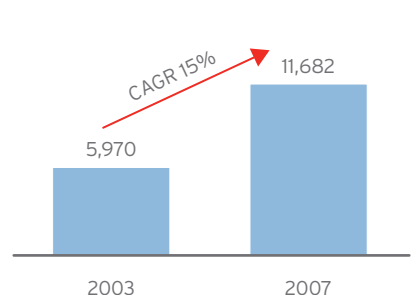
**Figure 5**  
**Private Flows to Sub-Saharan Africa (USD\$ billion)**



- ✗ Growth in private equity driven by favorable government policy
- ✗ Net FDI grew from USD\$9.7 billion (1999) to USD\$25.3 billion (2007)
- ✗ Net private debt flows USD\$21 billion
- ✗ Ghana and Gabon successfully issued external bonds in 2007

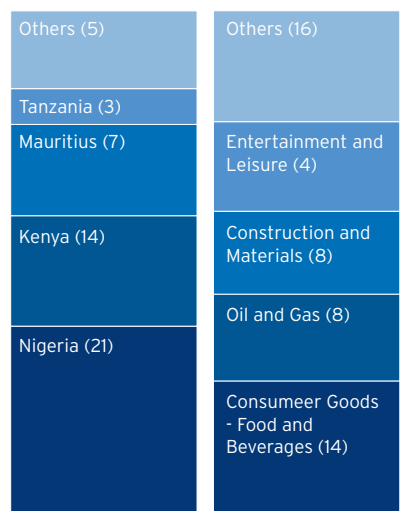
Source: World Bank, Global Development Finance, 2008

**Figure 6**  
**SSA Inflows (USD \$ million)**



- ✗ An important source of development finance in Africa
- ✗ Formal remittances currently stand at USD\$11 billion
- ✗ Informal remittances estimated at USD\$40 billion

**Figure 7**  
**Countries and Sectors of Top 100 Emerging Global Players in Africa**

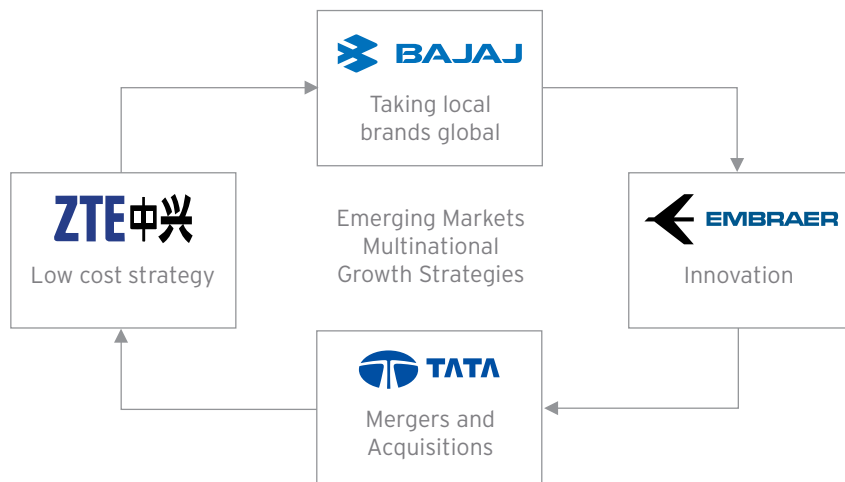


Source: IC Publications, Dec 2008 edition. Top African Companies 2007

and Sonatel, and in industries ranging from consumer goods, food, beverages, entertainment and leisure, to construction, oil and gas. These companies experiencing growth in their respective countries would soon be forced to expand into the continent and thereby begin to unleash the economic potential of the continent.

There is some correlation between growth in foreign investment and overall economic growth. South Africa for example accounts for 49% of inward FDI for the Southern African Development Community (SADC) and although this represents only 7 percent of South Africa's outward FDI, the 7 of 11 SADC countries rank South Africa as the leading FDI investor. Further to this, intra-regional trade within SADC stands at a leading 10.8

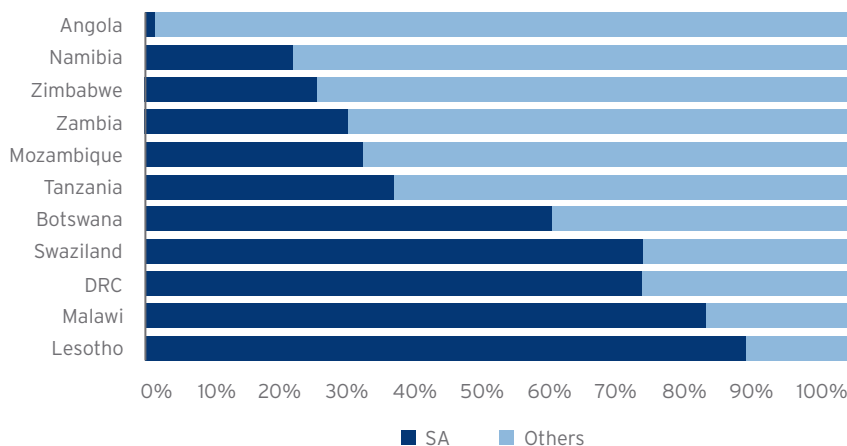
**Figure 8**  
**Emerging markets growth strategies**



per cent with other African economic communities having intra-regional trade volumes of ranging from 0.6 to 9.2 per cent of total trade volumes. This shows that increased levels of investment and trade would cause Africa to be its own largest market.

If this happened, we would begin to see growth in intra-Africa and international investment and trade. Such growth would have to be underpinned by overall political goodwill and enabling regulation. With this in place, the stage would indeed be set for a true African Renaissance.

**Figure 9**  
**South African Investment in SADC countries**



Source: The Businessmap foundation, reported in the Humphries 2004

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