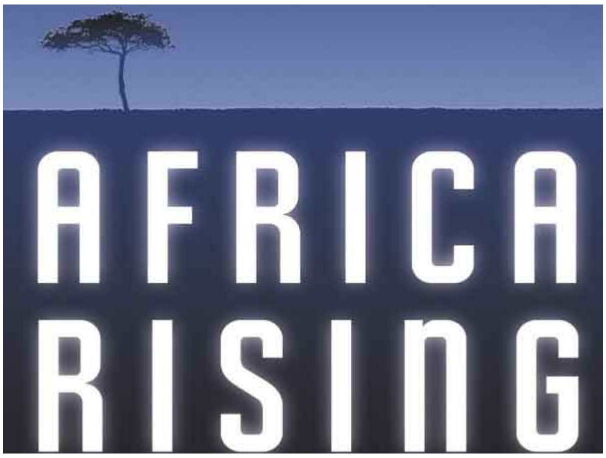
Consumers drive African growth

Africa is on a fast track out of poverty. Its astonishing growth is making it an increasingly enticing destination for global companies as northern hemisphere economies contract and stutter.



Tina Weavind – Business Times

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The scourges of poverty, disease and war are fast retreating and in their place is emerging a middle class with a buying power unprecedented on the continent. "Hopeless Africa" was the title of the Economist magazine's May 11 2000 edition, which came out just after British paratroopers had been sent to evacuate British citizens and peacekeepers from Freetown, the capital of Sierra Leone, as rebel forces closed in.

The latest edition is titled "Africa Rising". Africa is the fastest-growing region in the world, and the statistics are compelling reading.

The International Monetary Fund says the continent's GDP grew on average 5.5% a year between 2000 and 2010, compared to a global average of 4.4%. The IMF predicts the economies of sub-Saharan Africa will grow by an average of 5.75% next year - after revising them downward due to the contraction in Europe and the US.

Several countries, including Botswana, Nigeria and the Republic of Congo, are likely to hit growth rates of 8% and 9%. More than 10 sub-Saharan African economies have expanded by more than 6% a year for six or more years. Ethiopia, once famine-riddled, is expected to have grown 7.5% in 2011.

The figures cited in the latest edition of the Economist are astonishing. Labour productivity is growing by about 2.7% a year, trade with the rest of the world has increased 200% in a decade, inflation has dropped from 22%

in the 1990s to 8% in the past decade. Foreign debt has declined by a quarter in 10 years and budget deficits by about two-thirds.

It is no wonder expansion plans for South African companies invariably involve a drive northwards.

Western multinationals like IBM, General Electric and Proctor & Gamble are either starting to move in or have done so already and are ramping up operations. Successful local early-Africa adopters include Shoprite, Massmart, MTN and Standard Bank.

Much of Africa's growth is being driven by the resource-hungry economies of China, India and, to a rapidly-decreasing degree, Europe.

Emerging markets, according Investec analyst Michael Power, will represent 85% of global GDP growth in the coming decade, largely as a result of the economic explosions in India and China, and because of the slowing down of Europe and (to a lesser extent) the US. But resources are not the whole story.

Relative political stability has played a big part in the continent's turnaround, and although there are flashpoints and corruption is pervasive and problematic, wars are far less of a standard feature than they were a generation ago.

Another growth driver has been the spread of technology, especially cellphone technology and, increasingly, mobile internet, which is providing global inclusivity to even the most rural Africans.

An estimated 600million Africans - more than half - will have a cellphone by next year and about 10% of these will have access to the mobile internet. As well as communication, cellphones are integral to the uptake of banking products and they make it easy for companies to communicate with consumers and to advertise.

Medical technology, mosquito nets and condoms have driven down the growth-sapping incidence of malaria and Aids.

However, the single biggest driver of growth in sub-Saharan Africa is its burgeoning middle class - which developed initially as a result of resource exploitation, oil and aid, but has become increasingly self-sustaining and growing.

According to Accenture, the number of consumers in sub-Saharan Africa will increase from 856million in 2010 to 1.3billion by 2030. Poverty, at levels of about 40% in 1980, dropped below 30% by 2008 and is expected to fall to about 20% by 2020.

Grant Hatch, who heads up strategy and products at Accenture South Africa, said the growth in consumer spending, as well as government infrastructure spending, has pushed up employment rates - both informally and formally. This has resulted in economies with their own impetus and for which natural resources are becoming less and less important.

Hatch said companies that have done best have been those that have been sensitive to the way business is done and have adapted their product, model and marketing to the specific needs of the consumers.