AFRICA

OPEN FOR BUSINESS

Discover the ABCs of doing business in Africa and why now is the time to invest in this continent of opportunity

DR. DEANNE DE VRIES

Africa: Open for Business

Discover the ABCs of doing business in Africa – Appetite, Bandwidth, and Capital – and why now is the time to bring your investments to this Continent of Opportunity

Dr. Deanne De Vries

Advanced Reader Copy
Please note, this is an exclusive advanced copy
of Chapter One. Editing is still in progress.
Africa: Open for Business will officially
be available later this year.

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Introduction

For me, personally, Africa is "AfriCAN"—a can-do continent—a continent 1.3 billion people call home, a continent of fifty-five countries, over 2,100 languages and 3,000 ethnic groups, a continent of opportunity and diversity. This continental profile makes doing business in Africa not only desirable but also essential to companies looking for growth opportunities.

Complicated? Sure. Africa, with all its diversity and largesse, can be difficult to understand, to grasp. Just like most new business ventures. However, in this book you'll find the wisdom, successes, experiences, mistakes, stories, and friends I've acquired during thirty-plus years' working and living all over the Continent, through starting my own company and working for and advising local and global nonprofits, small startups, and companies traded on the world's largest stock exchanges.

A successful business in Africa is as simple as ABC: Appetite, Bandwidth, and Capital. The first section of this book looks at growing an Appetite to get on the ground in Africa, appreciating the different contexts, distinguishing between real and perceived risks, understanding why people do what they do, and identifying accurate market intelligence. The right appetite eschews the junk food of outdated notions and craves doing business in Africa, feeding on facts that build a well-rounded

understanding of the reality on the ground today and of who your customers are, an understanding gained by seeing it with your own eyes.

The second section explores the Bandwidth that successful companies give their Africa-focused teams to build relationships and to learn how culture and history influence business in order for them to identify the best type of market entry and business setup. Bandwidth shows the readiness, willingness, and long-term commitment of a company to put in place the people, the time, the money, and the travel to operate a successful, sustainable business in Africa.

With the right appetite and bandwidth, companies make better decisions regarding Capital, the third part of this book. Capital, without the foresight of appetite and bandwidth, is often misdirected because capital is about more than just the money to run the business. Successful companies invest in social capital, cultural capital, and economic capital.

Each of us will have a different journey starting, operating, and growing our companies across Africa. My purpose with this book is to both fill you with the belief that Africa has what you are looking for and give you the keys to open the doors to successfully set up, operate, and grow your business in Africa. So, let's take a closer look at this continent and why the time is right to take your business into Africa.

Figure 1: The continent of Africa

CHAPTER 1

AfriCAN: WELCOME TO THE CONTINENT OF OPPORTUNITY

Not everyone who chased the zebra caught it, but he who caught it chased it.

SOUTH AFRICAN PROVERB

The first time I flew into Mozambique, I landed in the northern town of Mocimboa da Praia. I arrived knowing that Portuguese was the official language of Mozambique, so when my colleague and I were getting our visas, I tried to use my Portuguese to explain what we were doing in the country. After a few sentences, the immigration officer said to his colleague in Swahili, "This lady's Portuguese is lousy." To be fair, it had been about thirty years since I had last spoken Portuguese, so it was definitely rusty! Unbeknown to him, however, I'm fluent in Swahili, so I responded to his assessment of my linguistic prowess in his language, saying, "Let's talk Swahili instead, then." He and his colleague fell about laughing, and after some chit-chatting and more laughing—to the confusion of my colleague—we got our visas quickly. I learned that, yes, Portuguese is the national language in Mozambique, but northern Mozambique borders on

Tanzania, where Swahili is the national language. For me, this anecdote illustrates how you are always learning something new about Africa and its diversity.

Sometimes business owners see such diversity as a barrier to foreign expansion. But I want to show you that diversity is actually an *opportunity* because it means there are multiple markets to engage in and a wider spectrum of sustainable growth possibilities. I have spent much of the past 30 years working or advising companies on Africa in industries as diverse as manufacturing, transportation, pharmaceutical, consumer products, telecoms, supply chain, and oil and gas and mining as well as governments.

So, let's take a closer look at this incredibly diverse continent comprising fifty-five countries, which has tended to be misunderstood and underestimated, and why the time is right to take your business into Africa or, if you're already in Africa, why you should expand into more of the Continent's countries and markets.

The Continent of Diversity

What comes to mind when you hear "Africa"? For most, the perception of Africa is too often negative: famine, disease, drought, civil war, dictators. While the Continent has its issues and occasional crises (as every continent does), this is a gross oversimplification of an incredible collection of countries. As someone who has worked and lived across Africa these past thirty years, let me introduce you to the continent I know and love.

In a nutshell, Africa is a vast and exciting continent offering unique human and natural resources that translate into opportunities for business. For example, most Africans are polyglots. Like the immigration officials I met in northern Mozambique, many people speak at least two or three languages, often four or five. I have found that their ability to learn multiple languages means many Africans learn coding languages easily, which means they can learn engineering and any software they may need to do

a job within your business. A related business advantage of working with employees in African nations is that with over 2,100 languages and 3,000 ethnic groups across the Continent, Africans are well versed in multiculturalism and working with colleagues from different backgrounds.

Excitingly for businesses, too, the median age of the population across the Continent is just 19.7 years old. This means there is a large, eager, energetic labor pool to pull from, employees who might grow with your company and provide incredible long-term continuity. This sets Africa apart from the U.S. and Europe, which have aging populations.

The Continent is full of opportunities for you and your business right now. Currently a continent of 1.3 billion people, the population is set to double by 2050. According to some projections, two-thirds of that growth will be in urban areas. By 2035, some predict there will be more Nigerians in the world than Americans! Consumer and business spending was at $4 trillion in 2015 but is set to reach $6.7 trillion by 2030, just a few years away. As Africans enjoy more disposable income, this opens up new and larger market opportunities, such as in retail, entertainment, restaurants, financial services, health care, and education.

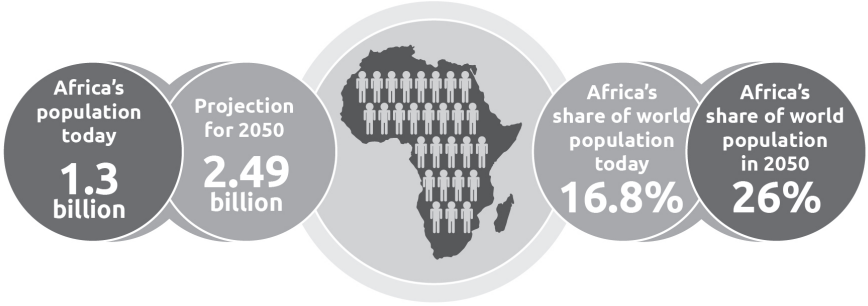

Figure 2: Population projections, according to United Nations estimates

All the factors outlined above make trading in Africa not only desirable but essential to companies looking for sustainable growth opportunities. The Continent's vibrancy, diversity, and demographics mean there

are plenty of business opportunities, and I want to highlight just three of these here: technology, agriculture, and manufacturing. Even if your business is not trading specifically in these sectors, I'm willing to bet that your business indirectly depends on one or all of them.

The Continent of Growth: Three Sectors to Watch

Let's start with a question. How many companies in Africa generate annual revenues of $1 billion or more? Is it A) Fewer than 200, B) Between 200 and 400, or C) More than 400? I'll give you the answer shortly. In the meantime, it is worth noting that there are three sectors that currently have enormous potential for growth.

Technology

Africa's mobile market is growing faster than that of any other region in the world; in fact, the growth rate is 50 percent higher than the global average. When I lived in South Africa thirty years ago, mobile technology was just launching. Because South Africa's traditional telecommunications infrastructure was underdeveloped at that time, they simply leapfrogged over installing landlines and went straight to mobile technology. As a result, in South Africa today, the number of mobile connections is around 176 percent of the population.

In terms of the whole continent, more than 50 percent of the world's mobile money accounts are in Africa. And by 2022, mobile data traffic across Africa will have increased sevenfold in just five years.

Mobile telephony dominates the tech scene in Africa, and thousands of apps have sprung up that serve the particular needs and interests of the population. To name but a few, there are apps that allow users to check the global cocoa price, apps that help farmers predict water patterns, apps that allow people to confirm their medicine is not counterfeit, apps that track and trace disease, and, of course, apps to access social media, news, movies, and sports.

Today, the bestselling mobile phones in Africa are manufactured by a start-up Chinese company, Transsion, which manufactures these phones in Ethiopia. It owes its success not just to the affordable price points but also to its camera. Everyone loves a good selfie! However, the handsets developed in the U.S., Asia, and Europe were not designed to capture darker skin tones. I encountered this problem firsthand on a trip to Victoria Falls in Zimbabwe with two Black friends. It was hard to get a picture in which you could see all three of our faces equally, plus Victoria Falls in the background. Ridiculously, my white face shone like a full moon! Transsion, having set up research hubs in both Lagos and Nairobi to study how consumers use their phones, realized this and simply adapted the camera for dark skin tones so that the details in the skin are as visible as the freckles on my white face. Such a simple way to appeal to an entire market!

This example illustrates the way in which Western businesses have been blinkered. Silicon Valley tech culture (which stretches beyond the geographic confines of Northern California) has been slow to recognize the opportunities in Africa, but this is beginning to change. Within the past three years, the CEOs of Alibaba, Alphabet (Google's parent company), Cisco, Facebook, Google, IBM, Intel, Microsoft, SAP, and Twitter have all visited and established offices, as well as local tech initiatives, on the ground across the Continent.

I worked in an advisory capacity with a company called Appload, which designed an app for matching small trucking companies (that may have only one to five trucks) with manufacturers or global companies needing local transport solutions for products or raw materials. Such an app is great for getting products to consumers in rural areas. Take Mozambique, for example. The country is 3,000 kilometers (1,865 miles) long, and although the majority of the population lives in the northern rural areas, 60 percent of the businesses operate in the southern part, around the capital of Maputo. This app allows international companies to find routes to market via local trucking companies. In addition, the app

allows the companies to rate the truckers, which is a feedback mechanism that not only helps future users of this app know which companies are reliable but also immediately helps local entrepreneurs understand what they can do to improve their businesses.

Agriculture

Sixty percent of the population across Africa is involved in farming. However, much of it is subsistence farming, and the opportunity to convert these farmers into commercial farmers is huge, especially given that Africa has 60 percent of the world's available arable land.

Africa's land is vital to the Continent's food security, as well as to global food security. Across Africa, the demand for food is rising in line with the growing population, the rate of urbanization, and a rise in disposable income. This creates many new business opportunities within the agricultural sector. Some of the companies already in the market include Del Monte, which grows and processes produce and exports it from Africa. McCormick sources spices from across the Continent. Others, like KFC, source as many of their products (including potatoes, wheat, dairy, and chickens) as possible locally for their restaurants. Downstream, one finds fertilizer companies, seed companies, and those providing agricultural equipment and machinery.

The reason that so much land has not yet been converted to agricultural use is the huge need for investment that would enable viable conversion. Areas with rich arable land often have poor or nonexistent infrastructure, including roads, electricity, and water access. There is also a need for processing and storage facilities for the farming industry.

Indeed, one of the biggest challenges that African farmers have is their route to market. If they want to export something, they need proper warehouse storage near airports or near sea and river ports. Such storage is severely lacking in Africa. For six years, I headed up a warehouse-building project across the Continent. We built world-class, international-standard warehouse parks where any product could be stored in the right

conditions. This gave international companies the quality standards they required in warehousing. It offered farmers a base from which to safely export their goods, and it also allowed local businesses to import goods because they had a safe place to store their imports and distribute them from. Nevertheless, the need for warehousing is still great.

Manufacturing

While Africa generates many products, its weak manufacturing infrastructure means that today, for example, cashews grown in Mozambique have to be exported for cleaning and processing, often before returning to Mozambique for sale—likewise, coffee grown in Ethiopia, Uganda, and Kenya.

While some businesses may see this lack of local manufacturing as a negative, others see it as an opportunity—companies like the Sunshine Nut Company, which in 2011 set up a plant in Mozambique to process and package cashews locally, employing people from the surrounding communities. In addition, Sunshine puts 90 percent of its profits back into the community and into building more sustainable enterprises.

This is just one example of many business models, which shows there is a rising level of confidence in local manufacturing fed by the growing demand for goods in the local markets and the growing urbanization across the Continent. This opportunity has been taken by manufacturers like Volkswagen in Rwanda and Peugeot in Kenya. Companies such as Heineken and Danone are now each producing a range of their products in Africa, using locally sourced raw materials. And also, importantly, vaccines and medicines are being produced in Ethiopia, Nigeria, Senegal, and South Africa—at a time when health is top of mind for everyone, this development is hugely significant.

I was an advisor to a Fortune 500 company operating in Africa that was facing a challenge around repairing its equipment. Any time a piece of equipment went down, the business owner lost money and the reputation of the manufacturer was damaged. They wanted to set up a hub in

West Africa, somewhere accessible to store all their spare parts and from where they could ship an item to other countries in West Africa for repair. My task was to understand how long it took to get items in and out via plane and ship to different countries, what duties and taxes would add to repair costs, and what their storage needs were. I also investigated how the various trade agreements of the countries they were most present in would impact the business operations. In doing this exercise, I came up with two different countries where it made sense to build a spare-parts hub for West Africa that allowed for cost-effective storage and the quickest and cheapest import and export of temporary import products (TIPs). This was a large project that would have been far easier to accomplish if the African Continental Free Trade Area had already been in place. More on that shortly.

In answer to the question I posed earlier, the number of companies in Africa that earn annual revenues of more than a billion dollars exceeds 400. Interestingly, around half of those businesses are local (not foreign). In addition, another 700 companies across Africa have more than $500 million in annual revenues, which shows that the transformation of Africa into an industrial powerhouse is underway. However, the Continent is nowhere near reaching its full potential.

So, what is holding the Continent back? Some of this underdeveloped potential is from companies not understanding the best way to invest and operate in Africa, and not having the right mindset, attitude, expectations, or people. Another key reason for slow growth in Africa has been the fragmented and often very small markets across the Continent that make it a challenge to start and scale operations, as well as move goods to and across the Continent. Happily, this latter reason has recently changed.

Africa United: The New Continental Free Trade Area

On January 1, 2021, the African Continental Free Trade Area (AfCFTA) was launched—the largest free trade area in the world, measured by the

number of countries participating. Founded in 2018, it brings together fifty-five African countries into one common market that facilitates easier, more economical, and wider-reaching inter-African trade. AfCFTA also represents a major opportunity for countries in Africa and companies operating in Africa to boost growth, reduce poverty, and broaden economic inclusion.

AfCFTA aims to ease your ability to open and expand your business across the Continent. Foreign investment will be more and more viable and exciting, as companies can now access 1.3 billion consumers (16.8 percent of the world's population) and a block of countries with the combined GDP of $3.4 trillion. By 2050, it will offer access to a quarter of the world's population because of Africa's rapidly growing population.

AfCFTA plans to improve trade facilitation through reducing red tape and simplifying customs procedures, thereby easing the movement of goods in, out, and between countries. Here are just three innovative aspects to AfCFTA:

1. **AfCFTA Number**: a single company identification number that is valid in all the participating countries, rather than one number for each country. Companies no longer need to reregister their companies if they are in country A and want to go into countries B and C, saving companies a huge amount of time and money.
2. **AfCFTA Link**: a trading portal (at time of writing, this is still in development and not yet fully launched) for businesses and service providers that promotes opportunities across the Continent in one place. Prior to AfCFTA, certain countries did a great job of advertising opportunities (tender and procurement opportunities) for local and foreign companies. Other countries did not do anything, relying on word of mouth or the local newspapers. This portal allows all companies to post or respond to opportunities. Perhaps you need a subcontractor to do X or provide Y? You can post that on the trading portal and wait for responses.

The portal will also keep track of local companies and how much work is going to them. In certain sectors, such as the extractive industries (oil, gas, minerals, and so on), governments rightfully insist that a certain percentage of all contracts be given to local companies, and the portal can track compliance and ensure multinationals are not applying for contracts they can't be awarded.

3. **AfCFTA digital token system**: a payments app that accepts multicurrency, cross-border transactions. This is one area in which Africa is leading the way globally. This is not a single currency, like the euro. Rather, this is a payment system that allows companies to pay in whatever the local currency is without the need to gain approval from a central bank in each country. As you can imagine, the fiscal red tape involved in transacting in different currencies made it difficult to work with suppliers and customers across borders, so the token system will improve the ease of trading immeasurably.

All these initiatives are brand new. For up-to-date information about the AfCFTA project, visit https://afcfta.au.int/en.

Figure 3: How AfCFTA will support long-term economic development goals across Africa

AfCFTA is starting to reshape markets and economies across the region and boosting output in the services, manufacturing, and natural resources sector. It offers companies a far easier way to enter Africa and expand into new markets. Entrepreneurs and business leaders who see the opportunity and diversity and are excited to get ahead are looking to Africa for these very reasons.

With the establishment of AfCFTA, Africa has said, "We're coming together for the benefit of the whole continent." In doing so, the playing field will be more level across the Continent, as smaller countries, such as Rwanda or Sierra Leone, can compete with larger countries like Egypt and South Africa.

Now that it is clear why Africa is a continent of opportunity, let us move on to what you need to consider when determining if you are ready to be part of the business landscape in Africa and to look at your appetite, your bandwidth, and your capital.