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Can Africa continue to grow?

A panel of regional business leaders discusses its prospects.



Gross corruption, constant wars, and irrational economics long made Africa a poor, troubled continent where natural-resource companies were almost the only multinationals that dared or cared to do business. But in the 1990s, the picture improved. The wars started subsiding. Many governments balanced their budgets and created a better, safer environment for companies, both foreign and domestic. And the African consumer began to stir. Now 80 million households earn at least the equivalent of \$5,000 annually, the point where discretionary spending commences—an increase of 80 percent in eight years. Meanwhile, the continent’s GDP has been rising steadily, at around 5 percent a year, for the past decade, reaching \$1.6 trillion in 2008. Last year, Africa was one of just two regions (the other was Asia) where GDP rose.

Is all this good news sustainable? At the 2010 Fortune Global Forum, in Cape Town, South Africa, McKinsey Publishing’s Rik Kirkland spoke with Absa’s Maria Ramos, Coca-Cola’s Bill Egbe, and McKinsey’s Norbert Dörr to find the answer.

Rik Kirkland: *Now, we’re going to kick things off today by having a discussion about a critical issue, which is the sustainability of the recent growth that Africa has experienced. The good news is, after many decades of spinning its wheels, the last eight years or so have been terrific in terms of growth. And the question that we want to look at today is, “What are the factors that can make that kind of performance sustainable?” Norbert, I’m going to turn to you. McKinsey’s been doing a lot of work recently looking at the sustainability of African growth, and I wonder if you could just tell us why we think there may be some legs to this terrific story.*

Norbert Dörr: Okay. We have done, as he said, quite a bit of research. And there are underlying factors which I think often are ignored. It’s amazing, when you talk to people out there, that they don’t actually know what’s going on in Africa.

One underlying factor is clearly the rise of the African consumer. In 2000, we had 50 million households earning more than \$5,000 a year. And \$5,000 is about the threshold where you can start having discretionary spending. We have now have 80 million households, that’s 60 percent more in eight years. And we’re going to reach 125 million households. So the urban African consumer is rising.

We have urbanization in Africa—which not many people talk about—which has been a key driver of growth and productivity in Asia. And now 40 percent of Africans are living in cities, and, in 2030, it will be 50 percent, so that’s a big driver. Also, Africa has huge potential on arable land that has no agriculture yet, but also on productivity. So we know there are lots of problems. But we think there might be also something coming.

In short, our conclusion is that if you're a multinational, if you're CEO of a South African company, for example, Africa becomes strategically important. You can't afford to not think about it. And if you want to move, we think you need to move now because the cultures with longer-term thinking, especially Asia, are moving now. And so, I think, the western companies need to move now.

Rik Kirkland: *Great, we'll follow up on some of those issues. But let me turn to Maria. How are you looking at your role in expanding the capital markets here in Africa? And do you see the story that Norbert just described?*

Maria Ramos: We still need to get our heads around the fact that financial markets need depth. They need liquidity. All of that allows for the ongoing ability to finance a growing and developing economic model. And I think that getting to that level of sophistication is the next piece of this puzzle when it comes to economic sustainability.

There are 20 companies in Africa with revenues of over \$3 billion. For the size of our continent, we need many more companies with revenues of \$3 billion or more. Additionally, there are millions more small- and medium-sized entrepreneurs. They, too, need access to finance. Now, if we are able to do that and to open up those markets, you unlock economic value and entrepreneurship. And Africa is a place of entrepreneurship.

Rik Kirkland: *Bill, how are you looking at the opportunity? Where are you now and where do you see this going?*

Bill Egbe: I believe the reason growth in Africa is going to be sustainable comes from a couple of key factors. One is that I think most companies are starting to realize, most businesses are starting to realize, that you can generate good returns in Africa. People get blinded sometimes by the challenges and I always say that those challenges are part of our reality. We don't mourn them. We don't complain about them. We take those into account as we design our business models.

So businesses have to have a mind-set that says, "We'll build a business model that takes into account these challenges and builds a system that enables them to be able to overcome and still generate a profit." That's quite important. The other reason why I think the growth in Africa is sustainable is because, whether we like it or not, the aspirations of Africans go beyond just being able to buy and trade: simple commerce.

The point that Maria made about the importance of entrepreneurship is critical. For us to be able to reduce poverty in Africa, it's not going to come from big companies creating jobs. There's no other economy where the bulk of the job creation comes from big companies.

It comes from small and medium enterprise. The question is, “How do we, in the private sector, partner with the governments to ensure that we can accelerate the pace at which we create viable entrepreneurs on the continent, not just traders?” And how do you get people who start with trading to evolve to the point where they can start supplying major companies, and then evolve to the point where they can start manufacturing what they supply to major companies?

The last point is that companies have to also understand that, in order for them to have a license to operate in Africa, they have to earn that license, not from the governments but from the consumers. And that license means that you’re doing things that support socioeconomic development in Africa. You have a role in doing things to support the improvement of the standard of living of Africans. It means that you have to invest in the communities in which you do business, be it in building plants, creating jobs, providing skills, providing business opportunities.

Rik Kirkland: *I’ll go to Maria, wearing your policy hat. Are there regulatory barriers and structures that need to be addressed that are keeping business formation back? There must be.*

Maria Ramos: I think it’s important to just be realistic and to say that, yes, I think there are often regulatory challenges. I mean, there are barriers to entry. There are sometimes too many bits of compliance and costs of compliance. All of these measures—you know, the cost of and how long it takes to get through a border post, how much paperwork there is, how long it takes to register a company—all of those things are worth looking at.

How innovation progresses in a country is fundamentally important. We have the most unbelievable resource on this continent, and that’s our people. We should be investing in people. We should be encouraging people to think, to do great things. And in order to do that, you need to be able to register innovation. Innovation is what we should be investing in.

Norbert Dörr: The real issue is getting the business climate and environment to reform. And the larger companies, they can afford another 50 lawyers to deal with it. But if you’re a small guy, you can’t afford 50 lawyers to deal with regulation. So it’s more the execution and taking the red tape out. It’s not about the frameworks. I think Africa, in many places, has very good policies. But the execution, often, is the problem.

Bill Egbe: It’s not that the government tries to make it difficult for you to get licenses. But if the process isn’t clear, and when you go to the offices that are supposed to help with this

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process and they themselves are not clear on what should be done, that not only creates inefficiencies but also creates huge opportunities for corruption. Because when the rules are not clear, it’s very easy to impede the process and ask for inducements to be able to accelerate the process.

We had a project recently in one of our bottling companies—Coca-Cola Shanduka Beverages—around trying to help set up women to be vendors. The process of getting licenses and permits took the better part of three months. Now, the government in South Africa set up an office to attract investment and promote investment in South Africa in the DTI. But our problem was that we were not aware that this office existed. You can call them and get your licenses and permits and be done in a heartbeat. They have done it for big companies. They do it for small companies. But because we were not aware, we spent three months chasing local municipal officers.

We always say that we don’t need new policies. We just need to implement those that we have, and make sure that we do that effectively.

Rik Kirkland: *What does the private sector need in order to get more involved?*

Maria Ramos: I think sometimes we forget that in order to attract investment, we have to be investing ourselves. So we need to show the confidence ourselves in our own capability, in our own country, in our own continent. I think it’s important to say that, because sometimes we think that FDI alone is going to generate the growth that we need. It isn’t. It’s going to add to that growth. It’s going to enhance it. It’s going to assist. But as Africans, we need to be confident that we have a great story. And we do. So we need to get investing. And there’s a lot of investment opportunity here. So that’s the first point.

I think the other thing is that it’s been interesting for me to observe over the last five—eight years, actually—that, as we have seen more and more interest out of China and India and Asia into Africa, that it has made the Europeans and the US pay more attention to us. The truth of the matter is that when you look at risk-adjusted returns on this continent, they are significantly better than in most parts of the world over the last decade. The differences are huge. So why aren’t we, as Africans, telling those stories? And if people don’t want to listen to them, well, you know what? You just carry on telling them. ○