

Chapter 6

Doing Business in Africa and African Business Opportunities

ABSTRACT

This is a key chapter in this book. It is central to the book's message and explains fully the concept "doing business in Africa." The chapter further classifies African business opportunities into enabling and specific opportunities. Specific opportunities are precise areas of Foreign Direct investments. The enabling opportunities are resources and institutions that make investing and doing business in Africa possible and easier. These resources and institutions include USA, European, Chinese, Brazilian, and Indian strategies to promote investment and "doing business in Africa." These strategies further include linkages and several USA, European, Indian, Brazilian, and Chinese institutions focusing on promoting African trade and business. Moreover, the various perspectives of Foreign Direct Investment in Africa are elucidated and African countries are classified according to their economic development and performance levels.

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1. DOING BUSINESS IN AFRICA

Africa is the world's second-largest continent by landmass and contains more than 15 percent of the world's population. Sub-Saharan Africa is unique in that it has the largest number of countries per square area of any developing region. A large portion of Sub-Saharan Africa's population lives in landlocked countries compared to other regions; for example, Sub-Saharan Africa is 40% landlocked versus 23% for Eastern Europe (AER, 2010). The region is also unique for its low population density, which accentuates internal transport and communication costs. Sub-Saharan Africa remains one of the world's poorest regions but is growing fast at an average of 5.5 percent per annum in the last decade (ERA, 2010).

In a region where the basic needs of much of the population remain unmet, investment opportunities in the consumer sectors are limited for now. The consumption potential in the longer term, however, could be substantial as the region has favorable demographic trends – 70 percent of the population is under 30 years old and 40 percent is younger than 15 years old with increasingly improved educational standards. Economic growth and incomes per capita are accelerating. African Development Bank expects African GDP growth of 7.5 percent in the coming decade. A middle class is also developing fast (Benoni, 2010; AER, 2010).

As mentioned in chapter four, one of the more interesting opportunities in Africa currently resides in what the International Finance Corporation (IFC) and several academics have termed the 'Base of the Pyramid' (BOP). This represents those at the bottom of the consumer pyramids in many countries, who are poor by any western poverty line, but by their sheer numbers still constitute a significant purchasing power (Prahalad, 2005).

In Sub-Saharan Africa, the IFC currently estimates the BOP market at \$429 billion, representing the region's dominant consumer market segment, with 71% of aggregate purchasing power. Even in South Africa, the region's largest and most modern economy, the BOP constitutes 75% of the economy. Other countries in the region offering even larger BOP market opportunities are Ethiopia \$84 billion and Nigeria \$74 billion (Moyo, 2009; AER, 2010; Prahalad, 2010; Juma, 2011).

Moreover, to many outsiders, Africa has long been a volatile and an unstable business environment with economies overly dependent on low value natural resources (Saltmarsh, 2010). As a consequence, doing business in Africa has always been perceived as a difficult and a complex initiative and undertaking. Other reasons being the numerous difficulties and processes, both real and perceived, associated with conducting business in Africa. The numerous limitations and processes, combined with a fragile investment climate, include poor property rights, economic poverty, corruption, social and political instability, inadequate infrastructure, difficulties in identifying and choosing business partners, and, in a majority of cases, small and

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