

Engaging with Africa



After years of stagnation, Africa is finally experiencing economic growth. Are there opportunities in Africa which are not being recognised by the business community outside of Africa?

Africa's GDP is \$710bn which is highly concentrated in South Africa (36 per cent) and Nigeria (16 per cent). Last October, the IMF suggested in a report that Sub-Saharan Africa would grow 6.8 per cent in 2008 compared with growth globally of 4.1 per cent. "Something is happening in Africa," says moderator **Geoff Cutmore**, Europe Anchor, CNBC. "Are you participating in that energy?"

"The macroeconomics environment is very encouraging," says **Imoni Akpofure**, regional country manager of the International Finance Corporation (IFC) and INSEAD alumna ('94D). "The cost of doing business is coming down, the political landscape has improved very much. Governance is still a problem but it is improving."

Oil, gas and minerals are doing well, and so are the property and stock markets.

What are some of the investments that could be made in Africa? **Simon Harford**, the West Africa head of Actis and INSEAD alumnus ('94D), says that business leaders should think ahead and see where Africa is going, make things happen and have an opinion about Africa.

“How can you not have an opinion about an economy that is approaching a billion people, has a large reservoir of resources and a lot of economic developments in its infrastructure?” he argues. “Don’t look in the rear mirror - the Africa of today and the future is so different from the Africa of the past.”

What has been happening in Africa is being driven by the private sector. And that which remains to be done, needs to be done by the private sector, he says. Multinationals are playing an important role in helping business by helping the government understand its position.



“The more businesses develop, the less the government is able to get involved - we have evidence of this,” he says. “That drives down corruption and interference, it gets them back rolling out of the economy focusing on basic needs.”

Africa remains, in many respects, undiversified. Because of that, many investors prefer to adopt a wait-and-see approach.

Joseph Eichenberger, vice president of the African Development Bank, feels the diversification of the African economy presents opportunities and those who are willing to move in now will find the gains quite substantial.

“Never in economic history has a country achieved self-sustaining growth on the basis of foreign policy,” he says. “This is the fundamental reason you should be there.”

Eichenberger says that 250 years ago, economist Adam Smith got it right when he said that ‘progress requires little else but peace, easy taxes and a tolerable administration of justice.’ Today Africa is making very good progress because governments get it in a way they didn’t get it before.

During the plenary session, panellists were asked if the Western World had missed the boat with Africa, given that the Chinese now have a big footing there.

Harford says that’s not the case. The Chinese are rapidly growing their activity in Africa for one predominant reason - access to resources. However, they are operating within a relatively narrow sphere. “There’s a lot more of the story to play out, around whether the initial deal that they’ve done - perhaps a case of ‘we’ll have your resources and we’ll give you a railway or whatever’ - is going to materialise.”

Akpofo agrees with Harford and adds that many African countries are recognising that businesses need to diversify. However, one of their big concerns is that they shouldn’t suddenly be colonised by China.

During the session, panellists also spoke of how China is especially active in environments where the governance is not as good as it could be. For example, Sudan prefers to do business with China which may ask fewer questions than with a multinational company.

Akpofo adds that some countries have pinned their hopes on China, but there are also many countries which say they will use China where it makes

sense, and make sure that they retain a geographic spread in terms of who should come in to invest.

Find article at

<https://knowledge.insead.edu/strategy/engaging-africa>

Download the free Knowledge App

