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The 1.2 billion opportunity



1.2 billion opportunities

The commodity boom may be over, and barriers to doing business are everywhere. But Africa's market of 1.2 billion people still holds huge promise, says Daniel Knowles

FOR A LOOK at the African boom at its peak, do as a multitude of foreign investors have done and fly into Abidjan, the capital of Ivory Coast. Visitors arrive in an air-conditioned hall where a French-style café sells beers, snacks and magazines. There is advertising everywhere, for mobile-phone companies, first-class airline tickets and a new Burger King. The taxi into the city smoothly crosses over a six-lane toll bridge. On the way to the Plateau, the city's commercial core, cranes, new buildings and billboards jostle for space on the skyline. In the lagoon, red earth piles up where yet another new bridge is under construction.

Just five years ago, Ivory Coast seemed like a lost cause. Having been defeated in an election at the end of 2010, the then president, Laurent Gbagbo, refused to leave office. The victorious opposition leader and now president, Alassane Ouattara, mounted a military offensive to force Mr Gbagbo out. French troops seized the airport to evacuate their citizens (the country used to be a French colony). Protesters were gunned down by troops, foreign businesses were looted and human-rights activists gave warning about mass graves being dug.

Ivory Coast still has problems, as shown by a terrorist attack in March that killed 22 people. But its economy is the second-fastest-growing in Africa (after Ethiopia, which is much poorer), expanding by almost 9% per year. Foreign investment is pouring in. As well as the Burger King, Abidjan now has a Carrefour supermarket, a new Heineken brewery, a Paul bakery and plenty of new infrastructure. Sharp-suited, French-educated ministers explain in perfect English what they are doing to "open up", "improve the ease of doing business" and "sustainably grow the middle class". Expensive hotels, such as the reopened \$300-a-night Ivoire, are booked up; their bars are full of affluent people striking deals. The country's three port terminals, the biggest of which is being expand-

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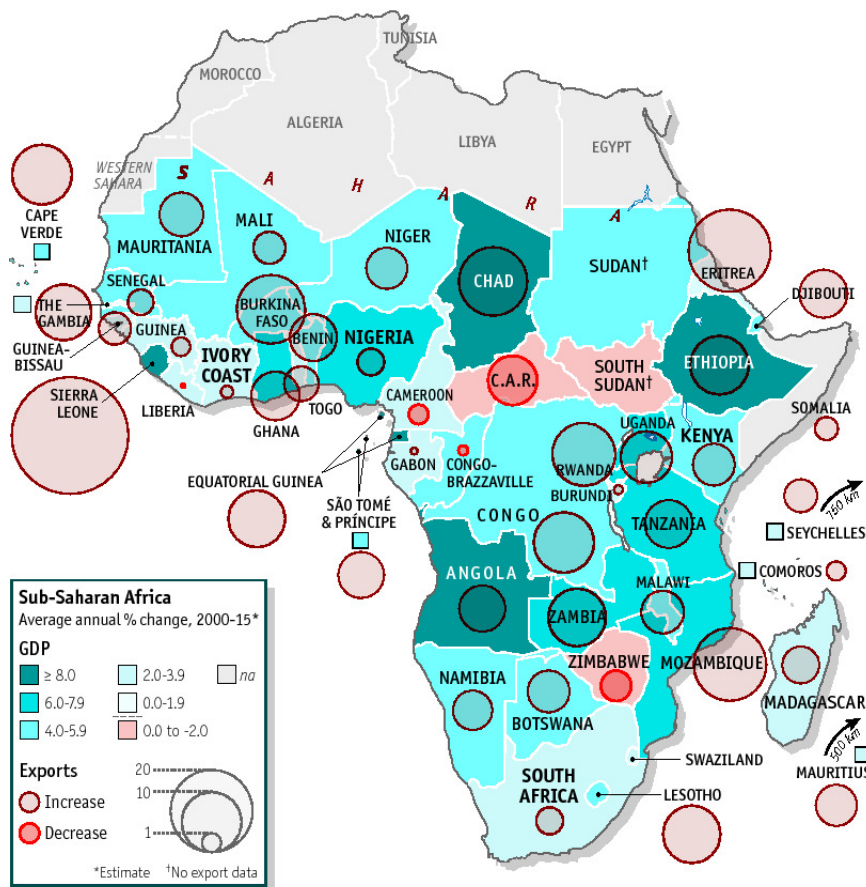
▶ ed by Bolloré, a French industrial firm, are working at full capacity, importing cars and electronics and exporting cocoa, coffee and cashew nuts.

This is the Africa of business magazines and bank ads: a continent that is rising at a prodigious pace and creating profitable new markets for multinational firms. But Abidjan also has plenty of reminders that it has been here before. For all of the new buildings springing up, its impressive skyline is still dominated by crumbling 1960s and 1970s concrete modernism. The roads may be new, but the orange taxis that ply them are still ancient fume-spewing Toyota Corollas, remnants of an earlier boom. For the two decades after independence from France in 1960, Ivory Coast enjoyed an economic miracle. Then, quite suddenly, the price of cocoa and coffee plunged and the boom faded as quickly as it had begun.

Reasons to worry

The deepest fear of today's investors in Africa is that it may be happening again. In Ivory Coast's neighbour, Ghana, thousands of government workers have been marching in the streets in the past few months to protest against their rising cost of living. Ghana relies on oil and gold, both of which have fallen in price, as well as cocoa. That, plus prodigious government borrowing, has caused a crisis. One us dollar now buys 4 cedi, the local currency; in 2012, it bought not quite two. Growth has halved since 2014, and Ghana is running a budget deficit of 9% of GDP and a current-account deficit of 13%.

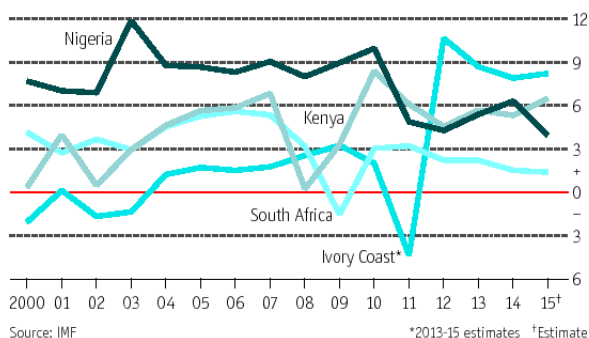
According to the World Bank, in the year to April last year the terms of trade deteriorated in 36 out of 48 sub-Saharan African countries as the price of their commodity exports fell relative to the cost of their imports, mostly manufactured goods. Those 36 countries account for 80% of the continent's population and 70% of its GDP. Eight countries, including two giants, Angola and Nigeria, derive more than 90% of their export revenues from oil, which has recently plummeted far below the price needed to draw in new investors. Growth across sub-Saharan Africa dropped to 3.7% in 2015, far below East Asia's 6.4% and nowhere



Source: International Monetary Fund, World Economic Outlook Database, October 2015

Unspectacular

GDP, % change on a year earlier



near enough to create enough jobs for the continent with the world's youngest and fastest-growing population. The World Bank expects it to tick up again, but only to 4.8% in 2017.

Countries that happily borrowed from international investors over the past few years have now found themselves shut out of the markets. The stock of outstanding sovereign bonds in the region had risen from less than \$1 billion in 2009 to over \$18 billion in 2014. If growth continues at a decent clip, that should be manageable. But if it stops, interest rates of 10% or more on dollar-denominated bonds will make refinancing difficult.

The continent's two biggest economies, Nigeria and South Africa, are already in deep distress. The reasons are different, but both have suffered from commodity-price falls as well as from atrocious economic management. The IMF, although loathed in much of Africa, is back, providing a \$1 billion loan to Ghana and preparing another for Zambia. Some fear a return to 2000, when this newspaper described Africa as the "hopeless continent".

Yet despite that, Nairobi's thriving malls and Abidjan's humming ports show that there are plenty of reasons to stay optimistic. The economic conditions have got worse, but this is a very different continent from two decades ago, when troops from eight African countries were fighting in Congo alone. Wars still rage in South Sudan, Somalia, Mali and northern Nigeria, and violence bubbles in places like eastern Congo, the Central African Republic and Burundi. But broadly speaking, most of sub-Saharan Africa is now peaceful. Elections seem increasingly less likely to result in strife, even if they still generally return incumbents, and more and more often for unconstitutional third terms. The governments that come to power are still often corrupt and inefficient, but far less brazenly so than those of cold war despots such as Mobutu Sese Seko of Congo or Jean-Bedel Bokassa of the Central African Republic.

Africa's 1.2 billion people also hold plenty of promise. They are young: south of the Sahara, their median age is below 25 everywhere except in South Africa. They are better educated than ever before: literacy rates among the young now exceed 70% everywhere other than in a band of desert countries across the Sahara. They are richer: in sub-Saharan Africa, the proportion of people living on less than \$1.90 a day fell from 56% in 1990 to 35% in 2015, according to the World Bank. And diseases that have ravaged life expectancy and productivity are being defeated—gradually for HIV and AIDS, but spectacularly for malaria. Some of the gains may seem modest, but given that living standards across Africa declined during the 30 years after independence they are sufficiently established to prove lasting.

And for all that oil and metals have come to dominate economies such as Nigeria's and Congo's, the boom broadened beyond natural resources. Mobile telephones have transformed commerce across Africa, and now smartphones and feature phones (which are halfway between dumb and smart) are taking hold. In 2014, the latest year for which figures are available, 27% of Nigerians owned a smartphone. In many African countries 4G mobile-phone infrastructure is the only thing that works well, but it works at least as well as in much richer countries, and a lot can be built on it. What began with mobile-money systems such as Kenya's M-Pesa is now branching into bank accounts, savings accounts, loans and insurance. That in turn is helping people rise out of poverty and invest in their future.

This special report will argue that despite some deep and entrenched problems, African businesses offer hope too. It is clearly risky to make sweeping judgments about an entire continent with 54 countries and 2,000 languages. This report draws on visits to various countries in sub-Saharan Africa, but four in particular: South Africa, Nigeria, Kenya and Ivory Coast, all coastal, urbanised and relatively rich. They certainly do not represent the whole of Africa, but your correspondent picked them because they each illustrate a different aspect of business across Africa as a whole. The businesses covered have not yet transformed the continent, but they show that African firms are capable of extraordinary innovation—if only they can be set free. ■

The middle class

A matter of definition

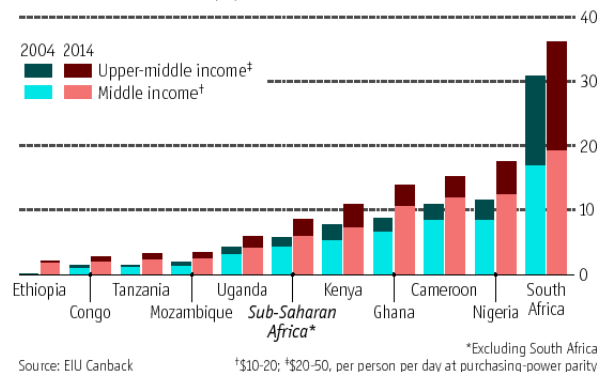
Who are Africa's affluent consumers?

NAIROBI IS MANY cities in one. In tourist brochures, it is a pleasant, laid-back colonial city where you can see giraffes and lions in the national park before relaxing with a gin and tonic on a verandah. In the literature produced by NGOs and charities, it suffers from overcrowded slums and brutal crime. But in investors' pamphlets it is a city of malls and highways. The latest temple to consumerism, Garden City, just off a new eight-lane motorway, opened in May last year. Inside, well-dressed Kenyans enjoy fast food and buy jewellery. The view from the roof-top car park, where SUVs wait under solar-panelled shades, is of terracotta-tiled new suburban houses in all directions.

The mall is the signature investment of Actis, one of Africa's biggest private-equity firms. At one end a branch of Game, a South African chain now part-owned by Walmart, sells refrigerators, televisions and everything else needed to furnish those

Give it time

Africa's middle class, % of population



new semi-detached houses. At the other, an enormous supermarket, Nakumatt, sells food to put in the freezers. Duplex apartments built alongside it sell for as much as \$600,000. It is a powerful symbol of investors' confidence in the emergence of a large middle class in Africa.

And yet across the continent that confidence has taken a knock over the past year or so. Following the collapse in commodity prices, some are beginning to wonder whether much of the apparent growth of a consuming class was simply a product of oil and metals money flowing into the economy. In a part of the world where statistics are scarce, and those that exist are often suspect, investors are now trying to decide whether a new, affluent class of consumers really is emerging.

The fried-chicken test

The idea of such an African middle class, as distinct from the super-rich, has captured businesspeople's imagination for at least a decade. In 2011 the African Development Bank (AfDB) published a report claiming that the middle class at that time numbered 350m people, or 34% of Africa's population. In the intervening five years, businesspeople across the continent have used that figure to talk up their prospects.

However, the definition used by the AfDB is very broad. To reach its figure of 350m, it defined the middle class to include a "floating class" of people earning between \$2 and \$4 a day. Its definition of the middle class proper was of people earning \$4 to \$20 a day. The sort of people who make the Garden City mall profitable—the sort who can afford to spend \$10 on a fried-chicken lunch, or \$200,000 on a new apartment—would come from the top end of what the AfDB called its "rich" category. They made up less than 5% of the total African population.

Other studies that have appeared since the AfDB report have been more sceptical. In 2014 South Africa's Standard Bank surveyed 110m households in 11 African countries and concluded that "Africa's middle class is rising swiftly," but came up with far more modest numbers. Using a South African measure of living standards that defines middle-class households as those with annual incomes of \$5,500 or more, it found that only 14% fell into that category. It also found that by far the fastest growth had been in oil-rich Nigeria and Angola, where it may well tail off now. Another survey published last year by Pew, an American polling firm, found that although poverty in Africa had fallen dramatically, "few countries had much of an increase in the share of middle-income earners" in the decade to 2011.

Such figures help explain why some of the most exuberant boosterism about Africa has deflated. Indeed, some now won-

► der whether African consumers will ever become a profitable market. “We thought this would be the next Asia, but we have realised the middle class here in the region is extremely small and it is not really growing,” said Cornel Krummenacher, a Nestlé executive, in an interview with the *Financial Times* last year. In 2014 Cadbury closed its chocolate factory in Nairobi, importing its products from Egypt and South Africa instead. Last September Diageo, a big drinks firm, announced it was investing in selling more Guinness beer in Nigeria, quietly giving up on a plan to push its expensive vodka and whisky. And even those sales of Guinness are falling short of its hopes.

Yet many investors plough on. Koome Gikunda, a director of Actis, the private-equity firm that built Garden City (pictured), says that there most definitely is a middle class affluent enough to shop at the mall. In the absence of good census data, the company conducted its own rough market research to gauge its size. “We hired a firm who flew over the area in a plane and literally counted tv satellite dishes,” he explains. They concluded that perhaps as much as a third of their catchment area of 1m people could afford to shop at the mall. So far, the firm’s hopes seem to have been vindicated. The 220 flats they built alongside the mall sold out in four months. And even on a weekday afternoon the shops are far from deserted.

The Mara Group, a conglomerate founded by Ashish Thakkar, a British-born Asian-African businessman (see article on diasporas later in this report), is also investing in African malls. CFAO, a French firm, plans to construct dozens of malls in eight African countries over the next decade; it has just opened the first in Abidjan. And in many African capitals new housing estates are going up to cater for families with two children and one car. Though in most African countries it is mainly ancient second-hand Toyotas and Peugeots that ply the roads, car dealerships are full of newer models, and radio stations advertise loans to buy



Enough customers to go round

Africa’s population is so large, and its middle class was so miniscule to begin with, that even modest growth is providing enormous investment opportunities

them with. Are all these firms holding their hopes too high?

One plausible explanation for their enthusiasm is that Africa’s population is so large, and its middle class was so miniscule to begin with, that even modest growth is providing enormous investment opportunities. In Ethiopia, where according to Standard Bank 99% of the population are still poor, the middle class has nonetheless grown tenfold over the past decade or so. That means a lot more people who buy beer, so in 2014 Heineken opened a new brewery there, its third in the country. Another possibility is that there has always been money around but it was going abroad. Sir Paul Collier, an academic at Oxford university, estimates that in 1990 about 40% of Africa’s wealth was held

outside the continent. Thanks to the relative political stability of the past two decades, much of that wealth is now returning, and being invested in property and African businesses.

But the most probable cause of the optimism is that although Africa’s middle class may be small as a proportion of the total population, it really is growing fast in the big cities, which is where the foreign investors are putting their money. The World Bank reckons that by 2050 well over half of the continent’s population will live in urban areas. Nairobi’s population, which was about 3m at the most recent census in 2009, is growing at 5% per year, half as fast again as that of Kenya as a whole. The city’s middle-class population needs to grow only slightly faster than the average to need a big new mall every year. And even the poor spend money. They may not shop at malls but they do buy things like washing powder, processed food and mobile-phone credit.

In a report published last year Price-waterhouseCoopers, a big consultancy, argued that the best opportunities in Africa are in cities, because that is where the infrastructure spending goes. In big cities, the report said, there is a “constant rise in discretionary spending of a kind that did not exist even a decade or two ago...we can safely say it is the result of Africa’s rapidly expanding urban middle classes.” Such cities concentrate consumers; they also attract returning diaspora Africans.

What would make them expand even faster is industrialisation. This could replace some imports, as well as provide the foreign exchange needed to pay for the rest. Unlike mining, making basic things needs lots of people, so the wealth generated would be spread widely. But manufacturing in Africa has never been easy, and in some places it is getting harder. ■

Manufacturing

Not making it

A successful manufacturing sector requires many things that Africa lacks

BASHIR DANYARO STANDS in dismay in his shoe factory in Kano, northern Nigeria's biggest city. In its heyday, around 15 years ago, up to 200 women operated rows of sewing machines producing footwear for soldiers and schoolchildren. Now the place is silent and covered in a layer of dust. It has been almost two years since the last decent contract came in, Mr Danyaro says. Dozens of his local competitors have closed up shop; his flailing business is flanked by a deserted leather tannery and a shuttered ceramics plant.

Nigeria's deindustrialisation is perhaps more visible in this part of the country than anywhere else. The Sahelian north has fine leather and agricultural supplies, but its factories are falling into disrepair. A once-thriving textile industry is all but extinct. "It's not profitable. But what else will I do?" asks Mr Danyaro. "This is the only business I know."

Three thousand miles to the south, in a suburb of Pretoria, South Africa's capital, things seem better. At the Nissan factory near Rosslyn, workers in grey overalls and white face masks assemble pickup trucks. This factory is probably more sophisticated than anything else on the continent, yet it, too, is struggling. It currently produces around 185 pickup trucks a day, mostly for the stagnant South African domestic market. With another shift it could more than double its output, but managers at the factory grumble that their bosses in Japan do not want to make full use of their investment.

Manufacturing in Africa is only for the brave. In Nigeria it makes up about 10% of GDP, according to official statistics, which may not be reliable. In South Africa, a far more developed economy, it accounts for 13% of GDP, down from a fifth in 1990. In Thai-

land the equivalent figure is 28%. Between 1970 and 2013, says the Brookings Institution, an American think-tank, Africa's share of global manufacturing output fell from 3% to 2%; as a share of sub-Saharan Africa's GDP, manufacturing has shrunk from almost 20% to about half that. Almost the entire output is for domestic consumption, not export.

Even though labour is generally cheap, making stuff can be more expensive than in parts of Europe because of poor infrastructure, powerful trade unions (in South Africa) and pervasive corruption. There is almost nothing like China's electronics factories or Bangladesh's textile sweatshops. Everything from cornflakes to kettles is imported from Europe or Asia.

Africa boosters say that the fall in commodity prices is a dose of nasty but necessary medicine. The way they see it, falling currencies will drive up the cost of imports, and governments will have to open up to investment and reduce regulation and corruption in order to increase tax revenue. Yet this scenario is far too rosy. South Africa and Nigeria are not entirely representative of the rest of Africa, but together they make up roughly half of sub-Saharan Africa's GDP and give some idea of the challenges the region faces.

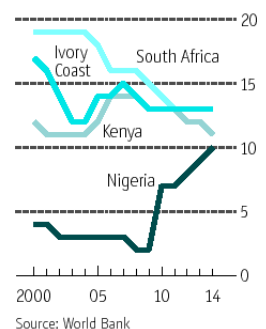
Powerless

The biggest immediate problem is power. Nigeria, which alone accounts for a third of sub-Saharan Africa's GDP, has just 3,000MW of on-grid power-generating capacity, less than North Korea. Mr Danyaro says he gets four hours of power a day at most. Most factories have to rely on diesel generators to keep going. A new tomato-processing facility belonging to the Dangote Group, a huge Nigerian conglomerate owned by Africa's richest man, has had to import two enormous generators which together produce about 2MW of electricity. "Every hour they use 400 litres of diesel," says Alhaji Keita, who manages the plant. "It's by far our biggest overhead." Even the diesel is mostly imported: despite its oil wealth, Nigeria has very little refining capacity.

World Bank figures show that the amount of power consumed per person in Africa has fallen in recent decades because generating capacity has not kept up with population growth. With 1.2 billion people, the continent has a sixth of the world's population but only 3% of its generating capacity, which is heavily concentrated in just a few countries. In places like Zambia and Malawi, most of the existing capacity comes from hydroelectric plants built in colonial times or shortly after independence, which often do not run in the dry season. South Africa has many crumbling power stations from the 1960s that have not been upgraded or replaced, so people in its big cities suffer blackouts and factories often come to a halt.

No road to riches

Manufacturing, as % of GDP



Thin on the ground

► Poor roads are another problem. Suleiman Umar owns a factory in Kano that makes relief blankets on ancient-looking looms. But only ten of the 68 machines are currently working, and that is not bad for a textile business in Nigeria, he says. It costs him more to transport a container from coastal Lagos than it does to ship one all the way from China. Even in South Africa, where rail and road connections are generally good, the vast distances make it expensive to move anything across the country.

But fixing these fundamental problems is hard, so many African countries have tried to foster manufacturing through protectionism. In Nigeria the new government of Muhammadu Bu-

hari has tried to stimulate local production by banning the use of foreign exchange for a list of items including toothpicks and glass. That comes on top of total import bans on products such as cloth from China and punitive tariffs on imports of new cars. In South Africa, the car industry is sheltered by a 20% tariff on imports of new cars and an outright ban on importing used cars.

In some ways, this has spurred production. Without the tariffs, South Africa's car industry would have had a harder time. Nigeria became self-sufficient in cement after the government ruled that only manufacturers could ship it in. At the Dangote group's biggest cement plant, an enormous site looming over the ►►

Coming up roses

Kenya's flower-export business is a rare success

AROUND THE EDGES of Lake Naivasha, under the shadow of a dormant volcano, Mt Longonot, one of Kenya's most successful export businesses of recent years has become established. All around the lake, and off dirt roads that lead from it, are acres and acres of plastic tenting in which flowers of all sorts, but especially roses, are grown for export. At the biggest operators, thousands of workers go in each day to water, feed, pick and prepare the crop. On average, 360 tonnes of flowers are flown out of Nairobi airport every day, mostly to Europe but also to Asia and the Middle East. Kenya is the world's third-largest producer of cut flowers; the crop is its second-largest export, after tea. Since 1988 the industry has grown more than tenfold.

Africa's global share of agricultural exports, as of manufactured exports, has declined in the decades since independence, from over 8% in the 1970s to just 2% in 2009. Nigeria used to be the world's biggest producer of palm oil; Ghana of cocoa; and Kenya and Ethiopia of coffee. All have now been overtaken by other regions. Yet the plastic-roofed greenhouses of Kenya's flower farms are the closest thing the country has to an Asian-style high-tech manufacturing cluster.

Growing flowers and vegetables is a competitive business, says Mark Low, the boss of Groove Flowers, one of the smaller outfits around Lake Naivasha. "The margins are getting smaller and smaller." Colombia, Ecuador and Ethiopia are all chasing the same customers. But many of Kenya's growers are hoping to do better by running a highly sophisticated operation. Mr Low, an earthy white Kenyan, mostly grows roses, bouvardia and delphiniums. He does not sell to supermarket suppliers because the prices they pay do not give him a decent margin. Instead, he goes to a lot of trade fairs to find out what Russian oligarchs will order for their daughters' weddings.

Fashions keep changing, so Mr Low



Heading for a Russian wedding

experiments a great deal. Walking through a greenhouse full of spray roses, with several flowers growing on one stem, he explains that these are much harder to grow than the single-flower variety but can fetch higher prices from florists. Sadly, so far they have not done as well as he had hoped because the drop in the rouble is making for less lavish wedding budgets. A lot of other factors also have to be taken into account. For example, if a flower is particularly heavy, it may not be worth growing even if it fetches good prices, because air freight is very expensive. Fragile flowers are no good either, because they will get shaken up on his rutted dirt roads.

Flower farming, then, is a bit like fast-fashion manufacturing. To thrive, it needs an educated workforce; effective, but not onerous, regulation; good access; a decent airport nearby; and plenty of electricity. Indeed, after air freight and labour, power is the main cost: flowers need plenty of

light and carefully controlled air and water supplies. The industry has settled around Naivasha because the area's volcanic terrain is home to several geothermal power stations, the lake provides water and the airport is not far away. Other parts of Kenya are not so well provided for.

Africa's agricultural productivity has improved immensely over the past decade. Between 2000 and 2013, output of cereals grew by 3.3% a year, faster than in any other region. But turning farming into a thriving export business and a big employer providing well-paid jobs is harder. In Kenya, flowers may have bloomed, but production of coffee, a more traditional export, has collapsed, falling from almost 100,000 tonnes a year in 2000 to below 40,000 in 2013. Many coffee farms have succumbed to foreign competition or been swallowed up by housing development. The success of Kenya's flower farms will not easily be replicated by other crops.

► scrubland of the central Kogi state, managers admit that they would never have been able to compete under less sheltered conditions. And the profits have allowed Mr Dangote to invest in other businesses, such as his new tomato-canning factory.

But the main industry that thrives thanks to Nigeria's trade barriers is corruption. In a Kano hotel, a gap-toothed smuggler explains that his syndicate has spent a decade manoeuvring fabric, rice, pasta and vegetable oil to huge warehouses in Kano via Benin and Niger. "The official process is tedious and expensive. You have to deal with customs, immigration, security, and it takes so long," he says in the local Hausa language. "We organise the illegal route so the products come successfully." Up to 50 containers might cross the Jibia border post at once, he says, each yielding a profit of up to 5 million naira (\$15,000). In Lagos's markets, "west African" fabric is invariably imported from China. The cars on its roads often arrive after being "lost" in transit to Niger, without payment of Nigeria's hefty duties on imported cars.

And although trade barriers are helpful for those who are protected, they hurt other businesses. Mr Dangote has more than 60% of Nigeria's cement market, a near-monopoly. "He has cornered the market. He has access to the limestone deposits. He is a friend of every government, he gets cheaper loans and he gets tax holidays. Which other business gets that?" says Oluseun Onigbinde, founder of Budget, a Lagos-based fiscal-analysis group. Last year Dangote, which makes one of the world's most basic products, had a profit margin of 53%.

In South Africa smuggling is less of a problem, but policy is little better. The Nissan car factory is one of seven in the country. Broadly defined, the car industry makes up 30% of manufacturing output. Demand for cars of all sorts is soaring across the continent, yet South Africa's huge potential is being wasted by a toxic combination of power cuts and poor labour relations. At the Nissan factory, stickers plastered all over the machinery encourage workers to vote for "strong shop stewards to confront the bosses". Last year a strike shut the plant down for two months. For historical reasons, managers in the car factories tend to be white and workers black. Disputes are politicised, confrontational and frequent. Relative to their productivity, South African industrial workers are some of the most expensive in the world. A cheap rand should help, by lowering the cost of labour (although it may also raise inflation, which could induce more strikes). But it would take a fundamental change in South Africa's rigid labour laws to create jobs for the one in four South African adults who are unemployed.

A local flavour

In the meantime, the best hope comes from locals, who know how the system works, and from products sold locally rather than across borders. At Wilson's Juice, a new factory at the edge of Lagos, lemonade is being bottled on an assembly line manned by 16 people. On the other side of the room workers chop up pineapples. The business was started by Seun and Seyi Abolaji, two brothers who were raised and educated in America and returned to Nigeria, to the bemusement of their families. The margins are good and the firm is expanding quickly. The only materials that have to be imported from outside Africa are for the bottles and the labels, so the shortage of foreign exchange has not hurt too much. "A lot of people are apprehensive, but we are super-excited. For people who source their own materials locally, now is a great time to grow," says Seyi.

Growth could be speeded up if foreign investors were building factories, too. If this were done on a large scale, as in Asia, it could create millions of export-related jobs. Huge obstacles need to be overcome before that can happen. But efforts to improve Africa's dire trade links should help. ■

Trade

Obstacle course

Africa's trade suffers from dismal infrastructure, lack of investment and corruption

IT WAS MIDDAY when the lorry on which your correspondent had hitched a ride pulled out of the factory yard in Yopougon, an industrial suburb of Abidjan, Ivory Coast's commercial capital. By 7pm, when it reached Bouaké, the second-biggest city, the driver had been stopped by police nine times and paid seven bribes. And that was the easy part of the six-day journey taking a cargo of carpets across bumpy, bandit-infested roads to Ouagadougou, capital of next-door Burkina Faso.

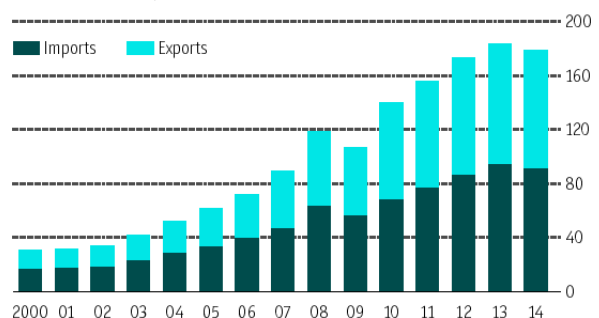
Ivorian ministers give the impression that trade in west Africa should be going swimmingly. "We want Ivory Coast to be a hub for the region, we want our goods to go through the country to Burkina Faso, to Mali, to all of our neighbours," says Abdourahmane Cissé, the country's budget minister and a former Goldman Sachs banker. On the face of it, the region seems well integrated. Ivory Coast shares its currency, the CFA franc, with its northern neighbours. It belongs to a customs union, UEMOA, that is older than the European Union. Yet according to IMF figures, in 2014 trade between Ivory Coast and Burkina Faso was worth just €376m, or a mere 2% of Ivory Coast's total trade.

What is true of Ivory Coast is true of much of the continent. Last year 26 African countries signed an agreement to create a "Tripartite Free Trade Area", combining the existing eastern and southern African trade blocs into one. That ought to be a huge boon for a continent divided by arbitrary colonial borders. Yet the trade figures suggest that African cities are mostly not hubs; rather, they are islands with ports. According to the United Nations, merchandise trade within the continent made up just 11% of Africa's total trade between 2007 and 2011. In Asia, intra-continental trade was 50%; in Europe, 70%.

This lack of internal trade helps explain why Africa remains poor, and why it has failed to create big firms that straddle national boundaries. Even though the sub-Saharan part of the continent contains over a billion potential customers, in reality it is made up of lots of small markets, each of which has to be conquered individually. That is what prompted *The Economist* to hitch a ride with a lorry driver and his brother to get a sense of the true barriers to trade, going north from Abidjan via Ferkessé- ►►

Much further to go

Intra-African trade, \$bn



Source: UNCTAD



The potholes did for it

► dougou, a rough Ivorian border town, towards Ouagadougou.

After a couple of hours of waiting for paperwork, with Michael Jackson blaring through the speakers, the lorry pulled out onto a new, wide, fast-moving road. At the end of 2013 a new toll road opened that goes all the way from Abidjan to Yamoussoukro, the grandiose official capital that Ivory Coast's post-independence president, Félix Houphouët-Boigny, built around his home town in the 1980s. The road was, as an expat businessman had predicted, "like driving in Europe". As the driver, Soukalo Ouattara, revved the engine, he explained that only a few years ago the 220km journey to Yamoussoukro could take six or seven hours. Now, on the six-lane highway, even a heavily laden lorry can do it in three.

The good road comes at a cost, though. The official tolls are fairly modest: 5,000 CFA francs, or about \$10, for a lorry to travel all the way. But that is only the start. "You have to pay everyone, even the national-park rangers, you have to pay," says Soukalo. "Everyone who has a gun, you have to pay." His lorry was travelling on a Saturday afternoon, a particularly bad time. "At weekends, all of the senior police officers are not working, so that is when the junior ones make their money." At 1.22pm a police officer gestured the lorry over with his gun. The lorry stopped while Fousseni, Soukalo's brother, got out and handed him 1,000 francs (about \$2). At 1.29pm, another road block and another bribe. Then again at 2.21pm, 2.31pm and 3.32pm. Overall, the bribes add up to more than the tolls.

And Yamoussoukro is not much of a destination, even though it offers one of the world's most egregiously expensive churches and one five-star hotel with "presidential" suites for \$420 a night. After stopping briefly to admire the church, your correspondent squeezed back into the cab for the 100km stretch to

Bouaké, which has a customs checkpoint. From there, the distance to Ferkessédougou, the second night's stop, is about 200km, yet it took the Ouattaras' lorry the best part of ten hours to get there. Just a few miles out of Bouaké the tarmac starts to develop potholes several metres long. At each, the vehicle has to slow down almost to a standstill to cross it, and then gradually regain speed. Some go faster, but they take a big risk. At one point the lorry passed a group of about 30 people and their luggage, waiting by their crashed bus. A smear of rubber led from a particularly large pothole off the road and into a tree.

As the roads deteriorate, so does the security. Though there are police checkpoints every 10km or so—generally a couple of men and a piece of a string or a log blocking the road—they mostly go home at sunset. Vehicles travelling after that are often held up by robbers wielding AK-47s. Even in the day, there is a risk. Luckily the Ouattaras' lorry was not robbed, but Bright Gowonu, a Ghanaian analyst for Borderless Alliance, an NGO which tries to promote more trade, was less fortunate. Travelling from Ouagadougou to Abidjan on the same route, the lorry he was on came across an armed robbery of a bus, and was stopped at gunpoint. When Mr Gowonu and his driver reached a police checkpoint, somewhat lighter on cash, they were told that there was nothing that could be done. But they were still asked for money for tea and mobile-phone credit.

In the middle of nowhere

According to a study by Saana Consulting, a development-economics firm, carried out on behalf of the Danish government, the cost of moving a container from a port in west Africa inland is roughly 2.5 times what it would be in America. Bribery generally makes up about 10% of that (although for perishable goods such ►►

► as fruit it can be much more). But the biggest cost is the sheer amount of time swallowed up by poor roads. Just one-third of Africans in rural areas live within 2km of an all-season road, compared with two-thirds of those in other developing regions of the world. Some of the statistics are astonishing. The Democratic Republic of Congo, a country four times the size of France, has fewer miles of paved road than Luxembourg.

The costs of this mount up quickly. A study in 2010 by Africa Country Infrastructure Diagnostic, a research project led by the World Bank, found that farmers four hours by road from a city of 100,000 people produced only 45% of what their land ought to yield. Those six hours away produced just 20%, and those eight hours away produced a mere 5%. Not only do they find it hard to sell their produce, they cannot easily buy fertilisers and equipment or get credit, because doing any of this requires access to a reasonably sized city. And what is true for farmers is true for everyone: being unable to move around means that children do not get educated, job opportunities are missed and businesses are not started.

Things are improving, but not nearly fast enough. In 2009 the World Bank estimated that Africa needed an extra \$93 billion a year in infrastructure spending. Last year the Brookings Institution argued in a report that a large chunk of this has now materialised. New ports, roads, railways and power stations are springing up across the continent. Some rely on private finance, others on soft Chinese loans. Next year Kenya will open a new railway line going from Mombasa, its main port, to Nairobi, its capital. Ethiopia has recently opened a new line from Djibouti to Addis Ababa. Both are Chinese-funded.

But progress would be much faster if governments were willing to let private investors build. Too many African politicians favour projects that create opportunities for kickbacks, or which mostly help favoured groups. Governments' unwillingness to pay the bills for power generated by private companies puts investors off. The projects that do get built are either so profitable that they can accommodate these risks, or else they are funded by the World Bank or China. Sovereign-wealth funds are desperate to invest in long-term projects, but cannot find nearly enough opportunities for reasonably safe investments to soak up the available capital.

Meanwhile smaller fixes could help boost trade. One would be better customs arrangements and more containerisation. At the moment, coastal countries such as Ivory Coast repeatedly check lorries travelling inland to try to stop tax evasion. Duties provide much of the government's revenues. As Nigeria's smugglers know, a common ruse to avoid them is for goods "in transit" to a landlocked country to go missing en route. But those checks also slow things down and provide opportunities for

bribery. If Burkina Faso were able to collect its import duties at Ivorian ports, lorries could move inland more quickly.

At the final customs checkpoint at Ouangolodougou the crew had to negotiate the lorry's passage into Burkina Faso with an officious man in a khaki uniform who was adamant that their paperwork was not in order. It seemed ominous, but within a few hours the official was back and the truck was moving again. Within half an hour the lorry was at the border itself—a thin river, with the final barrier a simple gate guarded by a couple of sleepy soldiers, where your correspondent descended.

A decade ago, this was rebel-held territory and there was no trade at all, so those carpets crossing the border represent an improvement. Yet barriers to trade in goods are only part of the story. If Africa is going to become more prosperous, cross-border investment, too, will have to become a lot easier—and that still seems a long way off. ■

Doing business

Is it worth it?

For outsiders in particular, investing in Africa is strewn with hurdles

LAST OCTOBER MTN, a big South African mobile-telecoms company, hit a brick wall in Nigeria. The cash-strapped government there announced that the firm, which makes 35% of its revenue in the country, had broken rules about registering SIM cards and would be fined about \$1,000 for every incorrectly registered account. The total came to \$5.2 billion, nearly three times MTN's annual profits in Nigeria. In November the fine was reduced to \$3.9 billion on appeal. Last month the firm announced that its profits for the year had halved, largely because of its poor performance in Nigeria. As this special report went to press, the dispute between MTN and the Nigerian government had still not been resolved.

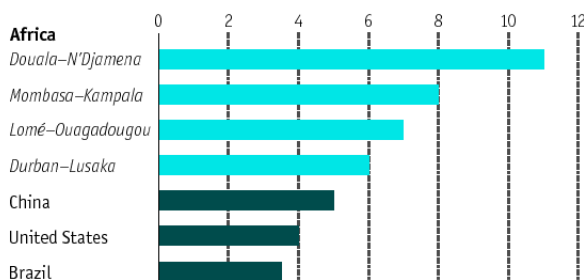
MTN's story illustrates the problems that big companies are likely to encounter when they invest in new countries in Africa. Wherever they come from, they need to proceed with great care. Taking businesses across borders can be extremely lucrative—but also extremely risky. That is particularly true of investment in Nigeria, where MTN initially did very well. With its youthful and rapidly urbanising population of perhaps 180m, the country is a compelling prospect, but doing business there is fiendishly difficult. Last year the World Economic Forum (WEF) put it 124th out of 140 countries on the quality of its institutions; 133rd for its infrastructure; and last out of 140 on its primary education. Over the past five years the country's position has worsened on almost every one of the WEF's measures.

South Africa seems well placed to invest elsewhere on the continent. Its firms have access to capital, infrastructure and skilled labour that those in other African countries can only dream of, but a substantial chunk of its people are as poor as any Africans. Many observers therefore expected South African businesses to be pioneers of direct investment in the rest of the continent, especially in consumer markets. Yet over the past decade most of them have struggled. It is an ominous warning to companies from the rich world trying to follow in their path.

A few South African firms have done well. Standard Bank operates in 20 countries in Africa and is expanding quickly. "We want to go from being a South African bank with an African pres- ►►

Build more roads

Average transport prices, 2007, US cents per tonne-kilometre



Source: World Bank

► ence to being a genuinely pan-African bank,” says Peter Schlebusch, one of the firm’s top executives. SABMiller, a big beer company, has breweries all over Africa, some in difficult places. Last year it was bought for \$108 billion by Anheuser-Busch InBev, the world’s largest brewer. Shoprite, a South African supermarket chain, has a quarter of its flagship outlets outside South Africa, including one in Kinshasa, the capital of the Democratic Republic of Congo, and has done well in Nigeria.

Yet hopes that South African companies would dominate the continent have been disappointed. “A lot of South African

You can come up with an amazing product, but that doesn’t help you sell it in Nigeria if you haven’t got the contacts to get it out of the port

companies have gone into Nigeria and got burnt,” says Alan Healy of Arisaig Partners, a company that invests in many African consumer-goods firms. Last December the Nigerian business of Tiger Brands, South Africa’s biggest food manufacturer, was sold to Dangote for \$1 after writing down the business by 1.9 billion rand (roughly \$125m at current exchange rates). In 2013 Woolworths, a South African middle-class retailer, got out of Nigeria less than two years after opening its first store in Lagos. In 2010 Telkom, a South African telecoms firm, announced it was leaving Nigeria after losing 10 billion rand. MTN’s recent travails are just the latest wave in a sea of troubles.

Some say that South African businesses are at fault, being unwilling to take risks and commit themselves to difficult parts of the world. “The typical South African business leader is ignorant and Afro-pessimistic,” says Alan Mukoki, CEO of the South African Chamber of Commerce and Industry. “There’s a huge perception of corruption and a lot of South African businesses think, if they’re in Kenya or Congo, if there is a dispute, can I take him to court?”

In reality, though, South African firms have proved more optimistic than most about the potential of the African market.

Where they have failed, it has often been because they were too sanguine about infrastructure and working of the law. In particular, they put too much faith in the power of innovative product design. “You can come up with an amazing product here, but that doesn’t help you sell it in Nigeria if you haven’t got the contacts to get

it out of the port,” says Saifradu Yeboah-Amankwah, the South Africa director of McKinsey, a management consultancy.

One reason why Woolworths left was that the goods it was importing to sell in its shops were often stuck in the ports for months. But there were plenty of other vexations that contributed to the company’s decision to quit, including the cost of running generators, finding retail space and paying executives enough to maintain the sort of lifestyle that they had been used to in South Africa.

The firm did not mention corruption, but that is a pervasive problem. In Kenya, managers claim that demands for bribes are ►►

Settled strangers

Why some diasporas are so successful

LIFE HAS NOT always been easy for Ashish Thakkar, founder of the Mara Group, a conglomerate that invests across Africa. He was born in 1981 in Leicester, about a decade after his family settled in Britain after being kicked out of Uganda (where his forebears had moved from India in the 1880s) by Idi Amin. The family worked hard and saved, and in 1993 they moved back to Africa.

Ashish was sent to school in Nairobi; the family started a new business in Kigali, Rwanda’s capital. The day after he returned home for the Easter holidays in 1994, the Rwandan genocide started. “Cutting a long story short, we came out alive but we lost everything again,” he recalls.

Undeterred, the Thakkar family went back to Kampala, Uganda’s capital, and started all over yet again. In 1995 the teenage Mr Thakkar left school, raised a \$5,000 loan and set up an IT hardware business. After that he moved to Dubai. Now the Mara Group operates in 25 African countries. Many African-Gujarati businessmen in east Africa have similar tales to tell. Doing business in Africa may be difficult, but some groups—Gujaratis in east Africa, Lebanese in west Africa—seem

to be particularly good at it.

East Africa’s biggest supermarket chain, Nakumatt, is mostly owned by the Shah family, who also have their origins in Gujarat. In Uganda, the leading sugar manufacturer, Kakira Sugar, is owned by the Madhvani family, who bought their business back after it went bankrupt when they were expelled from the country. In Ivory Coast the biggest retail firm is Prosuma, which is Lebanese-owned. Lebanese Ivorians claim that Lebanese families control around 40% of the Ivory Coast’s economy.

What is it about these diasporas that allows them to succeed in business? Large numbers of Indians came to Kenya and Uganda in Victorian times, drawn by the new British-built Mombasa-Kampala railway. With the Lebanese, the story goes that they got lost in Ivory Coast on their way to Brazil and decided to stay. Both groups have become “settled strangers”, a label used by Gijbert Oonk, a Dutch historian who has studied Asian diasporas in east Africa. That quality may explain their business success. “It’s a marriage of global ability with local knowledge,” says Aly Khan Satchu, a Kenyan

financier whose family arrived in east Africa in 1884. “These families use their international relations like a multinational corporation would do,” notes Mr Oonk.

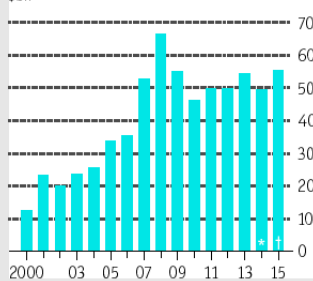
Chadi Srour, a Lebanese property developer in Abidjan, moved to Ivory Coast from Washington, DC, on a recommendation from his brother. Lebanese people, he says, “are not afraid of dangerous places as long as they are making money”. Ivory Coast’s two wars this century were profitable opportunities, he jokes, since many long-established French expats sold up “and the Lebanese took over.”

Asian businesses are no longer as dominant in Kenya as they were at independence. Avaricious governments after independence hurt some; poor succession planning others. In Ivory Coast, Lebanese businesspeople complain that they are being squeezed by corrupt politicians. Yet the declining importance of Africa’s business diasporas may be a sign of success. Asians did well because they had strong families and easy access to education and international capital. These days, such privileges are also enjoyed by plenty of Africans.

Unenthusiastic

FDI into Africa

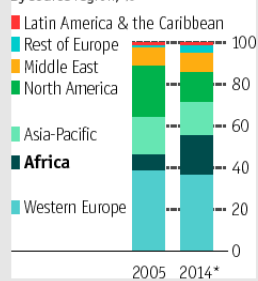
\$bn



Sources: African Development Bank; OECD; UNDP; FDI Markets

FDI projects in Africa

By source region, %



*Estimate †Forecast

► soaring ahead of a general election due next year. “Electioneering is in full swing, which makes life difficult for business,” says one Kenyan CEO. “The guys are already trying to raise funds, and the most effective way to do that is through corruption. Every bloody MP wants to come and bleed us.” In a survey in 2014 by Transparency International, an NGO based in Berlin, 42% of Kenyans who have had an encounter with the courts said they or a member of their family had paid a bribe, as did 37% of Kenyan users of other public services.

An insider's game

In countries where the law is less than strictly enforced, getting permits is rarely just a matter of filling in the right paperwork. Even if no bribes are being paid, it can mean hassling politicians over long periods. And outside firms can find themselves at a big disadvantage over incumbents, which have the connections to break rules with impunity whereas newcomers can be shaken down. For Western firms corruption is a particular problem, not just because it slows business down and costs money but because it exposes them to the risk of prosecution and hefty fines in their home countries.

Rupert Wetherings, a Zimbabwean entrepreneur who set up an insurance brokerage in Angola, gives a flavour of the expenses of operating in some of the most difficult markets. To start out in Luanda he had to buy his licence from another broker, at a cost of \$250,000, because getting a new one would have taken at least four years. When Angola's economy began slowing as oil prices fell, he moved to Congo, but found it hard to get to see the people in the prime minister's office charged with drawing up a new insurance code. “It's not simple to have a meeting with these guys. They're just not interested.”

Firms investing in Africa for the first time are generally advised to take their time to prepare carefully, or else to find a good local partner. Indeed, an entire industry has sprung up to smooth outsiders' paths along the corridors of power. Kroll, one of the biggest and most expensive, has contacts across the continent, including former journalists, spies and government advisers. In the past 18 months the firm has scooped up plenty of new business, says Alexander Booth, its head of investigations, though much of this has been to help firms recover money from corrupt counterparties rather than make new investments.

All in all, investing in Africa is extraordinarily expensive, given that the markets most countries offer are still relatively small. This means that even investors who are keen to put their money into Africa are looking for juicy margins to cover possible losses. But then for some entrepreneurs it is precisely the challenge—and the reward—that make Africa appealing. ■

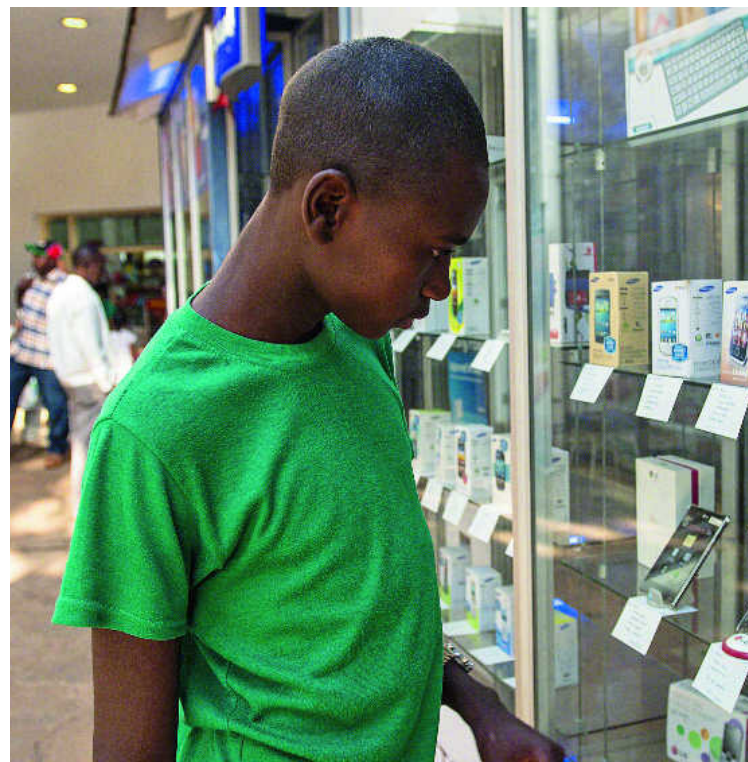
Financial technology

On the move

Much hangs on mobile money

FROM HIS SHACK in Kangemi, a slum at the western edge of Nairobi, Gilbert Onduko sells bare essentials to his neighbours. A blackboard above the hatch lists prices for *ugali* (maize cooked into a sort of porridge), *farina* (similar to semolina) and cooking oil. On the roof of the shack is a small solar panel, about the size of a tea tray, which powers two lights inside and a mobile phone. Since he got it, about a month before your correspondent visited, Mr Onduko has been able to keep his shop open until midnight rather than just in the daytime. He has also cut down his kerosene bill by 100 shillings (about \$1) a day—a hefty saving in a Nairobi slum. “And now my phone is always charged,” he grins.

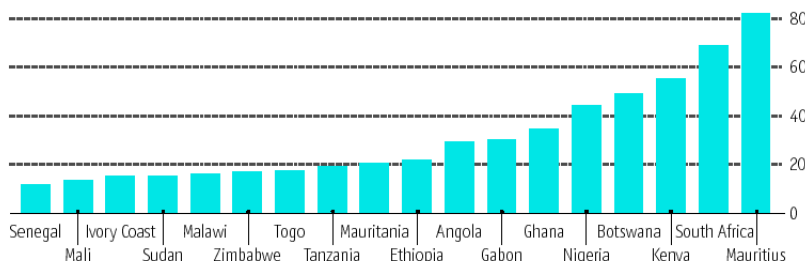
Mr Onduko's story shows how electricity can improve Africans' lives. But it also shows what access to credit can do. It was not technology that was stopping shopkeepers in Nairobi's slums from having electricity. Indeed, power lines run within sight of Mr Onduko's shop. The problem has been that connecting to the grid, and paying the bills, is beyond the means of most slum-dwellers. To get his solar panel, all Mr Onduko needed was a mobile phone and a deposit of about 3,500 shillings. The rest he can pay for on tick. Each day he sends 50 shillings via his mobile to M-Kopa, the firm that provides the solar panels. That keeps the machinery going, and within about a year he will own ►►



Mobiles are a must

Mostly unbanked

Population aged 15 and over with an account at a formal financial institution, 2014, % of total



Source: World Bank

- it. M-Kopa, which means “to borrow” in Swahili, has made its name selling solar panels, but it is rapidly becoming one of east Africa’s most innovative financial companies.

Mobile and internet technology is transforming industries across the world, but Africa has more potential than most because the existing infrastructure falls so far short of people’s needs. Executives talk exuberantly about how the continent is “leapfrogging” the West through technology. A lot of this is wishful thinking. Drones, for instance, seem unlikely to become a substitute for roads. But the revolution in finance is real. According to the World Bank, between 2011 and 2014 the proportion of adults in sub-Saharan Africa who have a mobile-money account increased from 24% to 34%.

East Africa is one of the most developed markets. Some 58% of Kenyans use mobile-money services, overwhelmingly M-Pesa. And as M-Kopa shows, such mobile services offer more than just a means to transfer money. Mobile phones can provide an address book, a credit rating and a distribution network all in one. Together, those things can allow even very poor people to acquire assets with their earnings, setting them on the path to becoming middle-class.

M-Kopa’s offices in Nairobi show all the signs of a tech startup. Table-football and table-tennis sets glow in the equatorial sun. The adjacent call centre is alive with the sound of employees touting for new business. When customers are reaching the end of their loan terms, M-Kopa agents call them to see if there is anything else the company can sell them. If customers wish, they can extend their loans and upgrade their solar set to a bigger one that can support a television.

M-Kopa also sells fuel-efficient cooking pots and smartphones, and would like to supply a small refrigerator, too. It has sold around 325,000 solar panels so far, and 50,000 of their buyers have already paid off their loan and then bought a cooking pot, a television or a smartphone. The customers’ repayments records offer an effective way of judging their creditworthiness. Pay off your solar

panel quickly and you are probably worth lending more to, explains Jesse Moore, the firm’s American founder.

M-Kopa is far and away the most successful of the African firms innovating on top of mobile technology, but it is not the only one. Insurance is one promising area. Milvik, a multinational microfinance firm, now sells life insurance in four African countries, Tanzania, Uganda, Ghana and Senegal, partnering with insurance businesses and telecoms providers. Agents sign up customers, and the premiums—typically about 2 US cents per day—are taken automatically from mobile-phone top-ups. Over 95% of customers earn less than \$10 a day. The policies promise a \$1,000 payout in the event of an unexpected death.

The mobile-telecoms operators are not doing much to promote innovation. Though most Africans now own mobile phones, these are generally cheap and dumb, and since most Africans are poor, they do not spend much on accessing the internet. Unlike in the West, therefore, it is hard to reach a mass market with a good app. Instead, mobile operators load apps directly onto SIM cards and keep the data they generate in-house. ►►

Virtual headaches

E-commerce firms like Jumia have to beat multiple handicaps

IN A DIRTY warehouse in an industrial district of Abidjan, a few entrepreneurs are trying to create a version of Amazon for Africans. At one end, dozens of workers sit at desks making phone calls and confirming orders. At the other end sit boxes and boxes of deliveries, waiting to go out. Televisions, washing machines, laptops and clothes pile up. The idea is that getting something delivered to your home should be as cheap and easy in Ivory Coast as it is in America. But in a country with no proper address database, a barely functional postal service and hardly any credit cards, that is an ambitious goal.

Investors chasing the African middle class like to build malls, as Actis has done in Nairobi, but a growing number are getting interested in e-commerce too. The warehouse in Abidjan is run by a firm called Jumia, which started in Lagos but now has operations in ten other African countries, including Kenya, Ghana, Cameroon and Tanzania. Much of its funding comes from Rocket Internet, a German firm that tries to replicate successful Western internet businesses in countries that do not have them yet. Rocket Internet also owns Hello-food, a food delivery app similar to Seamless, and Easy Taxi, rather like Uber.

Jumia is having to learn to adapt to

local conditions. Importing its own goods and supplying them directly, as Amazon does in the West, would mean dealing with customs officials and facing delays and demands for bribes. So instead Jumia sets prices, takes payment and arranges delivery, but gets local firms to provide the products as they are ordered and send them to Jumia’s warehouse. This means they take a few days to arrive.

Jumia started out using private delivery firms in Ivory Coast, but they were not reliable enough, so now it has its own contractors. Processing payments is another headache. The firm would like to take mobile money, but many customers prefer to pay cash on delivery. All new online orders are confirmed from a call centre, but even so perhaps a fifth of deliveries end up back at the warehouse, estimates Francis Dufay, the firm’s director in Ivory Coast.

It is perhaps unsurprising that so far Jumia is not profitable. It has high fixed costs and has to sell things more cheaply than shops to compete. But there are reasons to be optimistic: on a continent where proper shopping centres are still rare and traffic jams are ubiquitous, ordering things online ought to hold wide appeal. And Amazon itself, after all, still only barely turns a profit.

By far the most successful is Safaricom. It has a loans service called M-Shwari, and has worked with Kenyan banks to try to integrate its service. But even the firm's executives admit there is far more it could do. Safaricom has declined to turn itself into a bank, but says it is opening up M-Pesa to other developers. It wants to become a "platform" rather than just a mobile-telecoms provider, but it has a long way to go, and its monopoly does not provide the best incentive.

Keep innovating

In the meantime the best hope is any innovation that gets around M-Pesa's monopoly power. The rise of smartphones and feature phones (which can be preloaded with apps) will help. By 2020 over half of Africans will have access to smartphones with mobile broadband, reckons the GSMA, which represents mobile-phone operators worldwide. But given the right technology, even dumb phones can be useful. Counterintuitively, a promising source of innovation could be the banking sector, which has a strong interest in not letting mobile-telecoms operators steal its actual or potential customers.

In the Democratic Republic of Congo, one of Africa's largest and least functional countries, the number of people with bank accounts has increased from just 50,000 in 2005 to over 3m in a population of about 80m. A government programme to pay state employees by bank transfer instead of in cash has helped. But so too has innovation. Trust Merchant Bank (TMB), the country's biggest, has developed a voice app for its customers that works a little like telephone banking in the West: customers can carry out a mobile transaction by making a phone call or sending a text message, avoiding the need for an app. In Congo, unlike in much of east Africa, mobile-money transfers have not so far taken off, probably because the infrastructure is missing. TMB is hoping that it can beat the telecoms firms to the chase.

Another innovator is Equity Bank, a Kenyan firm with operations across east Africa. In Kenya it has launched its own mobile-phone company, Equitel, which uses the network of Airtel, another mobile operator, but exists mainly to provide banking services. It offers a "thin SIM" which can be overlaid onto an existing SIM card so that a phone can access two networks at once. That allows banking to be carried out through a dumb-phone SIM app without giving up the benefits of making phone calls and sending text messages through the dominant provider.

So far, this innovation looks better on paper than in practice. The reason why Equitel's thin SIM has not been taken up in huge numbers, observers of the bank reckon, is probably that it costs 500 shillings to buy, which for most Kenyans is a hefty sum. But Equitel now has some 1.5m subscribers, all of whom also have a bank account with Equity. TMB has not released numbers for users of its app. But increasing access to banking—not just to mobile money—will be key to opening up other businesses such as M-Kopa.

There are other areas that phone companies could usefully tackle. For example, mobile money has not yet made much progress in international money transfers, where it could lower the cost of remittances. And even money-transfer services within national borders are still very expensive. Few in the West would

use Safaricom's M-Pesa to send money to relatives and friends: the transaction fee can eat up as much as 10% of the value of the transfer. The only place where mobile money is often preferred to cash for small transactions is Somaliland, the autonomous and peaceful northern part of Somalia. The main system there is on a network run by Dahabshiil, a firm that started as a remittances business and bank rather than as a telecoms provider. In contrast to almost everywhere else in Africa, making payments in Somaliland is free.

Mobile money has been one of east Africa's great successes over the past decade. Not only has it created business opportunities, it is a big revenue generator for government: in Kenya, Safaricom pays more taxes than any other firm. But if growth is to continue, telecoms firms will either have to open up voluntarily or have their monopolies broken. Most Africans still do not have access to proper loans, insurance or savings facilities. Even the wealthy keep their money in cash and property; the poor rely on buying physical assets. Firms such as M-Kopa have made a start, but there is plenty more to do. ■

Prospects

Fortune favours the brave

Doing business in Africa is risky, but potentially highly rewarding

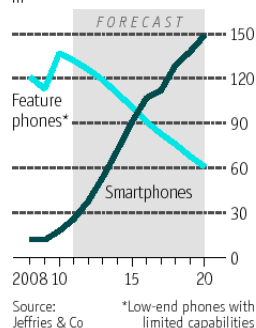
ON THE EDGE of Kinshasa, the capital of the Democratic Republic of Congo, is the Marché de la Liberté, a big wholesale market. Kinshasa is Africa's third-largest city and has a population of at least 8m, and perhaps as large as 12m (that nobody knows for sure tells you much about Congo). And even here, in the capital of one of the poorest countries on the planet, there is clearly money flowing. At the market's centre, deafening noise blares from enormous speakers mounted onto cars, which double up as stalls selling mobile phones. You can buy anything here, from fried fish to Premier League football shirts. People flash cash as they negotiate, and everyone is haggling.

The irony of investing in Africa is that it is both one of the world's most difficult regions in which to do business and also perhaps its most entrepreneurial. In no other part of the world does such a large share of the population rely on their wits and their trading abilities to get by. Even the most modest stallholders are smartly dressed and juggle mobile phones, shouting prices and striking deals. Yet they also tell stories of hardship. "Life is expensive!" exclaims James, who sells plumbing equipment. Cops demand bribes. Transporting his goods to the market costs a fortune. And in the neighbourhood where he lives, there is always the risk of a riot.

What is true for stallholders is also true for the world's biggest multinationals. Africa holds promise like no other region. For the first time ever, hundreds of millions of people are buying beer, washing powder, mobile-phone credit, fast food, insurance and electricity. But it is also a place to lose your shirt. Too much of Africa's growth over the past two decades has been sustained by commodities and little else. It seems perverse that in many African capitals where most people earn a few dollars a day, it is still impossible to find a clean hotel room for anything less than \$200 a night, or a good Western meal for less than \$30. Optimists see this as evidence of a spectacular opportunity to enter the market and make a profit. Pessimists reckon it shows just how difficult it

Getting smarter

Mobile-phone shipments to Africa m



► is to do business here—because if it were easy, somebody would have done it.

The receding commodities boom has made this conundrum clear. Nigeria, the continent's most populous country and many investors' biggest hope over the past decade, now looks somewhat less appealing. Yet not every country is like Nigeria, and not all the money that used to flow so easily has been wasted. A decade of investment has given Africa lots of new roads, power stations and telephone towers. The next decade will still see new railways, ports and motorways being built, often with Chinese money. Even in Kinshasa, a new highway runs through the centre of the city. Many African countries have taken on large amounts of debt, which may prove a problem in the future. But they are also acquiring assets, which are already generating new sources of growth.

Build on what you have

Over the next decade, the businesses that succeed in Africa will be those that can capitalise on this without the help of cheap money and expensive oil—those that can build a genuine middle class of consumers. Over the past decade, the seeds for this have been planted. It is a hopeful sign that African emigrants are returning to invest the money they earned overseas. In Kenya last year they injected \$1.5 billion into an economy that generated only \$63 billion in all. In Somalia remittance money is rebuilding war-torn Mogadishu.

From the mobile-phone masts that have spread all over every big city to the soaring apartment blocks, the desire to change things is evident. The question for the next decade is whether governments can live up to those hopes. In Nigeria, the drop in oil revenues may force the country's leaders to face up to the fact that for decades they have systematically mismanaged their economy. Their attempts to protect the exchange rate and increase manufacturing by diktat are doomed to fail. Ghana and Zambia, which have spent their windfalls on public-sector salaries rather than growth-generating investment, will have to make tough decisions about the best use of their revenues. Not all these countries will do well.

Yet with a number of exceptions, Africa has something that it lacked a generation ago: stability. When commodity prices fell in the 1980s, the result was a series of coups and a generation of

war, much of it paid for by superpowers competing with each other. Between 1966 and 1993 Nigeria was ruled almost entirely by military leaders and suffered six coups. That seems unlikely to happen again. The leader of one of those Nigerian coups, Muhammadu Buhari, is now Nigeria's president again. But this time he won an election in which his incumbent opponent, Goodluck Jonathan, stepped down with far more grace than he ever showed in office. In Burkina Faso, a coup led by the presidential guard was overturned after days of protests in the streets.

Mobile phones do not just create consumers. They also link people up and help them share information. A generation ago politicians could suppress dissent just by controlling the radio stations. Now stories of corruption spread quickly by text message and on WhatsApp. Protest movements can organise far faster and more easily than in the past.

In some places that may be destabilising. In Burundi, opposition to Pierre Nkurunziza's attempt to hold on to power is being led by just the young urban and educated people that Western companies most want to sell to. But elsewhere, politicians may come under increased pressure to shape up or stand down. For decades, the most corrupt African leaders have tried to resist urbanisation lest it threaten their rule. They are failing.

Even so, the next decade will be more testing than the last. With less money to distribute from the proceeds of oil, copper or gold, it will be harder for patronage politicians to convince their populations that the future is bright. Tanzania's new president, John Magufuli, has delighted Western diplomats since his election in October by prosecuting corrupt officials and requiring government employees actually to do their jobs. But he has also stoked up xenophobia, expelled foreign workers and shut out imports.

It is only the pluckiest investors who will brave such choppy waters. Revealingly, the biggest private foreign investments recently have been in malls and mobile-phone masts, which are relatively cheap—not roads and railways, which cost billions. But the potential rewards are extraordinary. Africa's population is expected to more than double by 2050, to nearly 2.5 billion. Many of these people will still be poor, and some will still live in countries torn apart by war. But even if only a small proportion of them thrive, that will still be a market worth going for. ■



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