Africa: Growth is on the horizon but where should you look?

CEOs around the world are increasingly recognising the untapped potential of sub-Saharan Africa. This is drive by Africa's unparalleled demographic edge or demographic dividend. By 2040, Africa is expected to have the biggest labour force in the world and experiencing faster economic growth than any other region, according to a report issued by PwC.

The projections are contained in the latest PwC 'Global Economy Watch', which puts the spotlight on the largest cities in s Saharan Africa.

Most major corporations are already active in at least one of the four largest cities in sub-Saharan Africa - Lagos, Kinsha Nairobi and Johannesburg.

But PwC economists believe it's the 'Next 10' biggest cities in sub-Saharan Africa that should also be exciting foreign investors. The population of these cities is projected to almost double by 2030, growing by around 32 million people. In fac latest UN projections show that by 2030 two of the 'Next 10' - Dar es Salaam and Luanda - could have bigger populations than London has now.

Typical entry points

Cities are the typical entry points for businesses trying to expand into new overseas markets, because they enable closer interaction with customers in a relatively small geographic space, which in turn helps contain distribution costs.

Stanley Subramoney, Strategy leader of PwC's South Market Region, says: "The report projects that economic activity in 'Next 10' cities could grow around $140bn by 2030. This is roughly equivalent to the current annual output of Hungary."

This is a conservative estimate as no premise has been made for real exchange rate appreciation despite relatively strong projected growth in these economies.

Other economic phenomena in the region

"In addition to the trends with regard to high rates of GDP growth, rapid urbanisation and the so-called demographic edge that sub-Saharan Africa possesses, a number of other economic phenomena in the region are starting to appeal to the global investment community," says Dr Roelof Botha, economic advisor to PwC.

These include the following:

- Significant new discoveries of mining and energy resources, in particular gold and gas;
- Substantial investment in infrastructure and capital formation by the private sector, which has witnessed an increase the ratio of total fixed investment to GDP from 17.7% in 2000 to an estimated 23% in 2013;
- Sustained growth in per capital incomes, which has led to demand shifts that are benefiting household consumption

expenditure on durables, semi-durables and services;
- The ability of a growing number of countries to raise financing for infrastructure projects on the international capital market, in particular Kenya and Rwanda. Both of these countries have recently managed to sell government bonds globally at single-digit yields, which obviate the need for excessive debt servicing costs.

As a result, a return was made last year to sound growth in foreign direct investment inflows (FDI)) into a number of key African economies, says Dr Botha.

However, there are three problems that could slow the pace at which the 'Next 10' biggest cities in sub-Saharan Africa gro according to the report. These are issues that sub-Saharan countries have been trying to tackle for many decades with limited success:

- Low quality of 'hard' infrastructure like roads and railways
- Inadequate 'soft' infrastructure like schools and universities, and
- Growing pains arising from political, legal and regulatory institutions struggling to deal with a bigger and more complicated economy.

"The challenges that policy makers face is to convert Africa's demographic dividend into economic reality by overcoming these hurdles. History suggests this will not be a quick or easy process. Infrastructure development is a key driver for progress across Africa and a critical enabler for sustainable and socially inclusive growth. However, investors should form their own plans to mitigate these problems by supporting infrastructure skills and development programmes," concludes Subramoney.