

Afri-can or Afri-can't? 10 Myths to debunk on Africa

What are the strengths and weaknesses of the African continent? In order to grow, is Africa compelled to follow the same track of the West? "Africa is lagging behind the rest of the world, but this is paradoxically an advantage for the region: it approaches development differently and has already taken concrete steps to address the backlog," says Ludovic Subran, chief economist at Euler Hermes.



Ludovic Subran

Euler Hermes, a global player in trade-credit insurance, analyses the current African economic situation in a report entitled 'Afri-can or Afri-can't? 10 Myths to debunk on Africa'. It decrypts reasons why Africa is a special continent of many resources, which will find its way of growing and becoming a key player in the global economy.

Myth #1: All African countries are the same

Most African countries have a complicated business environment - even Nigeria. However the continent's driver is ranked 169th in the World Bank's *Doing Business 2016*.

Nonetheless, there are differences among African economies in the pace of growth and level of diversification. "There are three groups of countries in Africa. First, the strong links such as South Africa and Morocco with an attractive business environment, but their growth (+0.5% and +2% respectively in 2016) remains moderate, although stable.

Then the change champions, including Ivory Coast and Ethiopia. These economies record strong growth rates (7.5% and 7% respectively in 2016), pushed by their will to diversify and improve their business environment. Finally, lagging behind are countries such as Nigeria or Cameroon where change needs to be fostered," says Subran.

Myth #2: Africa only relies on raw materials

Africa has tremendous raw-material sources and is often viewed as an indispensable pool of labour for the near future. But the African economy is also a hotbed of innovation. "Compared with Singapore and its 2% GDP spent on R&D, Africa ranks lower. But this gap is going to narrow very rapidly thanks, for example, to

hubs and the will to overcome the infrastructure deficit,” explains Stéphane Colliac, senior economist at Euler Hermes.

Each region has its own champion: Kenya (0.9% of GDP) in the west, South Africa (0.75%) in the south, and Morocco (0.8%) in the north.

This innovation effort is also reflected in the creation of technologic hubs, whose number is steadily increasing in the African continent. At present there are 24 hubs in South Africa, 11 in Kenya and 7 in Uganda. “In Kenya, the technologic incubator iHub has contributed to the development of 150 companies since 2008, an evidence of its role in the growth of African economy,” underlines Colliac.

Myth #3: African infrastructures are non-existent

The infrastructure gap (water, electricity, internet, transport) in Africa remains important. The example of Nigeria is striking: to fill its infrastructural gap, the country must spend USD 1900bn by 2030 - that is nearly USD 130bn a year (25% of current GDP). This gap penalises African economies and costs 2% of growth the region every year, according to the African Development Bank.

But the development of African infrastructures is also an economic opportunity. “African countries cannot finance these infrastructural investments themselves. In the long term, this should trigger significant investments in the region, that will contribute to finance the regional economy,” adds Colliac.

Myth #4: Africa is isolated from the world

African foreign trade continues to grow - well, almost. In 2016, Africa is expected to lose USD 12bn export by value (totalling USD 560 billion) because of the commodity shock. In 2017, demand to Africa should increase by USD 30bn. “This is not only in the short term. Actually, by 2025 African countries should continue to open up and the continent’s heavyweights, i.e. Nigeria (+USD 210bn of additional exports in ten years / + USD 150bn of imports), South Africa (+ USD 140/180bn) and Egypt (+ USD 83/79bn), will see their trade with the rest of the world soar,” continues Subran.

The favourite destination of African exporters remains China (27% of African exports in 2016). However, the raw material part in African exports to China has decreased from 97% in 2010 to 83% in 2015, in contrast with low-value-added manufactures (3% in 2010 vs. 7% in 2015).

Myth #5: African institutions are non-existent

Next to countries where institutions do not (or have stopped to) evolve, there are countries launching important reforms. Rwanda for example has strengthened its fight against corruption, by setting up a national anticorruption council and an entity supervising the award of public contracts. The purpose of this is to reduce the differential quality between institutions in Rwanda and those in more developed countries such as Brazil or Italy.

On the other side, the needs of public-service users are changing and the same occurs with demands for social security. Moreover, institutions have to respond differently: “The digital revolution can help African institutions to skip several stages of development. South Africa, Rwanda and Ghana have already developed online public services of relatively good quality, and this is how institutions in these countries are catching up with international standards,” says Subran.

Myth #6: No-one is going to finance African growth

Once the oil aftershock has worn off, Africa will resume growing at an average +3% a year. Some countries still post record growth rates higher than +5%, despite the hard shock. In addition, the financing and rebalancing of growth, including investments to be made, will be the key to a sustainable takeoff.

“The mix of funding will be crucial. In addition to external resources, particularly from foreign direct investment (FDI), some countries are already able to finance at least part of their growth with budgetary resources. This is the case in South Africa, Egypt and Senegal where they account for 25% and 30% of GDP in 2016. Household confidence and investor confidence will be indispensable to collect savings,” said Subran.

Nevertheless, the way ahead will be thorny: (i) budgetary revenues make up only 14.5% on average of the African GDP, compared with 30% in developed countries; (ii) FDI is only 2% of GDP, compared with 2.4% in developed countries.

Myth #7: African consumers are not bankable

Consumption growth in Africa is well under way. In 2016, Africa reports the highest consumption growth rates, led by Côte d'Ivoire (+6%), Uganda (+7%) and Nigeria (+5%), compared with +1.4% in OECD countries or +2% in Pacific Asia. “Consumption development in Africa is driven by the continent’s explosive urbanisation: by 2045, African towns will be flooded with 24 million people, compared with only nine million in China and 11 million in India,” reports Colliac.

But African consumption development should follow a different path from that of developed countries. “The wealth effect and internet access add to the volume growth of African consumption. Consumers in Africa are going to skip some steps and force business sectors to reconsider their approach. This is especially striking in distribution, financial services or transports: for example, 70% of Moroccans have internet access (55% in China), and 14% of Kenyans use contactless payment cards (60% of French are still and always using bar checks),” says Subran.

Euler Hermes has worked out a proprietary consumption potential indicator combining these three determinants. The verdict is final: Nigeria, Kenya, Morocco, Egypt and South Africa are the leading pack, followed by Ghana, Ivory Coast, Tanzania, Sudan and Congo, DR.

Myth #8: It's hard to work with African companies

Given the payment terms granted by foreign suppliers to African companies, it is undisputable that stronger confidence would free considerable resources for growth. “Out of EUR 800bn of goods imported every year by Africa, approx. 60% are paid cash. If transactions were settled at 30 days, this would free EUR 40bn of working capital requirements, equal to the GDP of Tanzania, or to 1.6% of the GDP of Africa,” says Subran. This situation engenders a sort of vicious cycle for African companies. Their cash flow suffers from the multiplication of cash payments, and this makes them more exposed to possible economic risks. As for domestic trade, this calculation in a country like Nigeria generates EUR 10bn of additional cash flows: a foundation on the ladder for growth-seeking SMEs.

Myth #9: Agriculture, something of the past

Agriculture is the driver of economic growth in Africa: it remains the first contributor to employment and lifts millions of people out of poverty every year. Nevertheless, what is needed is a true green revolution to accelerate the catalyst role of the farming sector, by focusing productivity, market access and technological contents.

“In terms of growth by value of agricultural exports from 2005 to 2015, Ethiopia and Ivory Coast (+30%), Kenya and Rwanda (+20%) have specialized in high-value cash crops. Other countries, such as Zambia, Senegal and Morocco, have managed to use mechanization and technology to increase agricultural productivity,” highlights Subran.

Myth #10: It's hard to find entrepreneurs and talents in Africa

Education levels are increasing in Africa. In particular, access to university education in Cameroon has grown from 4.6% in 2000 to 13% in 2013. However, even in South Africa, the most proficient student, the percentage of youth entering university is only 20% by age group. Furthermore, official statistics on entrepreneurship are disappointing: in South Africa, just to make an example, only two companies are set every 1 000 inhabitants.

“These low figures mask the rampant informal entrepreneurship that is set to remain the basis for human capital development in the short term. Therefore, attention should be focused just on this entrepreneurial environment, apart from access to education. In Nigeria and Uganda for example, the towns of Lagos and Kampala have only recently reformed their registry system, a big problem for all those wishing to start business,” concludes Subran.

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