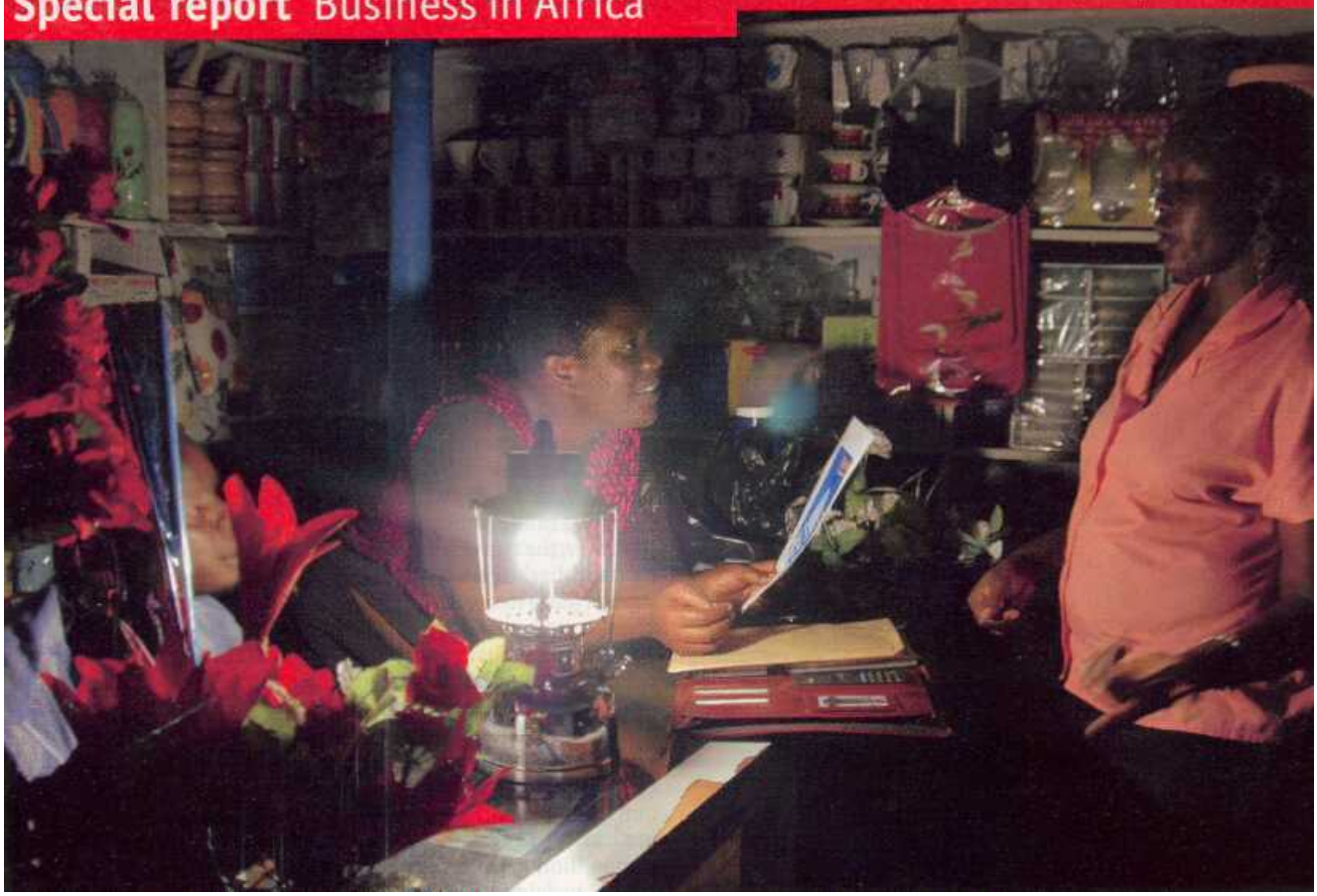


The flicker of a brighter future

JOHANNESBURG, LUANDA AND LUSAKA

Once again, Africa is listed as the most difficult place in the world to do business. So why are some businessmen happy to be there?

THE prospect of investing in sub-Saharan Africa can cause businessmen to break out in a cold sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets, where war, famine, AIDS and disaster are always lurking. This week an annual World Bank study once again named Africa as the most difficult region in which to do business. But not everyone sees it like that. Graham Mackay, who runs SABMiller, the world's second-largest brewer, has said that "if there was any more of Africa, we'd be investing in it."

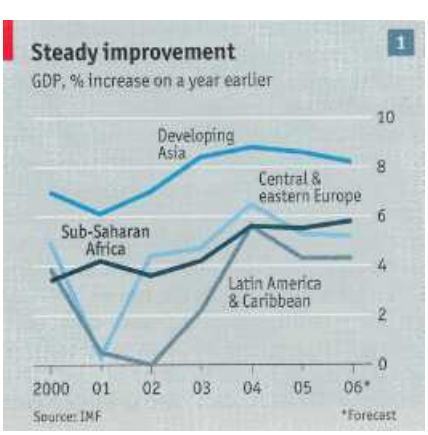
Mr Mackay, whose firm has its origins in South Africa, is one of plenty of business leaders to see opportunities in the continent. Companies are being started and successfully built in many African countries, especially in banking, retailing and mobile telephones. The region's economy is growing steadily (see chart 1) and could expand by 5.8% this year. In part this is because of a commodities boom and debt forgiveness. But more peace, political stability and better economic management have done their bit, too.

Nevertheless, there is a long way to go and still plenty to frighten away investors. Chad, for instance, recently demanded that Chevron and Petronas pay $soom in taxes or face expulsion, even though both companies thought they had met their obligations. The government also decided it wants a share in the oil consortium. Some companies come up with a litany of complaints. One construction firm built a road in a West African country only to have half the work it completed during the day destroyed at night by people digging out steel reinforcements. After similar misfortunes elsewhere, it eventually quit the region.

Doing business in Africa is hard work. The World Bank study measures things like red tape and taxes. South Africa, Mauritius, Namibia and Botswana rank among the best 50 countries in the world. But of the 35 least business-friendly, 27 are in sub-Saharan Africa. Some are impossibly hard: if firms paid all taxes due in Sierra Leone, they would spend almost three times their total profits; in the Democratic Republic of Congo, registering a business takes 155 days and costs almost five times the average Congolese's annual income of $120; enforcing a contract in Angola involves 47 procedures and takes over 1,000 days.

For many African entrepreneurs, operating legally brings too many headaches and too few benefits. As a result, 42% of the region's economy is informal, the highest proportion in the world (see chart 2 on next page). This hinders firms from growing and stifles much-needed employment outside the civil service. In Malawi only 50,000 people out of a population of 12m have formal jobs in the private sector.

Moving goods across borders takes a lot>>



of patience. At the Chirundu border-post between Zimbabwe and Zambia, an endless line of trucks languishes, waiting sometimes days to clear customs. This keeps African markets small and fragmented. Ayisi Makatiani, a Kenyan entrepreneur who now helps African businesses, says red tape is one of the main problems for business. "The government is a broken-down bureaucracy in many places. If they were in business, they would be bankrupt," he sighs.

Bad roads, or a lack of them, add to the difficulties. Reliable electricity is rare. Currency fluctuations are hard to stomach. Purchasing power is in short supply. Almost half of the ysom sub-Saharan Africans live on less than $1 a day. The pool of qualified staff is small. AIDS claims the lives of employees and customers alike. And, according to surveys from Transparency International, a Berlin-based corruption watchdog, graft is still seen as a huge problem. Countries like Cote d'lvoire and Zimbabwe, once regional powerhouses, have descended into political and economic ruin.

With such a formidable list of hazards, no wonder many investors stay away. The costs and risks-not to mention the hassle-hardly seem worth it. Africa captures less than 3% of global foreign direct investment. And most of this is from mining and oil companies, which have little choice but to go where the minerals are.

Yet some of the entrepreneurs who manage to succeed in Africa find that the rewards are great. When Celtel, a mobile-phone operator, set up in Zambia eight years ago, it concentrated on the densely populated corridor between Victoria Falls (on the border with Zimbabwe), Lusaka and the industrial copper belt. This was thought to be the only area in which to do business. Yet in 2003, the company decided to invest in rural services, too, and was astonished at the result.

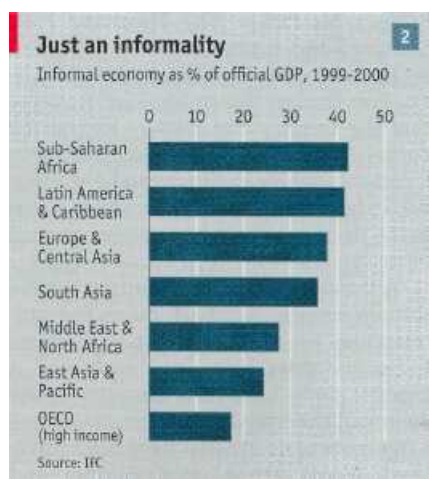
Although most rural customers had never used a telephone, they were keen to have one. This encouraged more people in the cities to obtain mobile phones to talk to relatives in the countryside. The introduction of Me2U, a service that allows callers to use text-messaging to send airtime credit to other mobiles, provided a further boost. Most people do not have bank accounts and the service has become a convenient and cheap way to transfer money. In villages it has also emerged as a substitute for cash, with people using airtime to pay for their shopping. Shopkeepers cash in their accumulated phone credits with people who make money by offering callers use of their mobile phones as a sort of public phone. Within the past two years, CeltePs Zambian customers have grown from 70,000 to over 1m.

Celtel found that it succeeded if it adapted products and services to local tastes, needs and small budgets. A similar adjustment is to be found in Uganda, where SABMiller at first depended on imported malt to make its beer. It developed Eagle, a beer made from cheaper, locally grown sorghum and negotiated a reduction in excise tax. The reduction in costs was used to lower the sale price. The cheaper beer, resembling lager, sold well and has now been introduced to other countries in the region. Most drinks are also sold in returnable glass bottles, which are cheaper than cans.

Although many Africans are poor, they are willing to pay for what they need. The plentiful creativity and entrepreneurship in the informal economy can be harnessed to cater to them. Prepaid telephone cards and soft drinks, often distributed via informal networks, can be found in tiny stalls in the most remote corners of Africa, despite all the difficulties with transport.

In Ghana Barclays, a British bank, started working with "Susu collectors", who gather savings daily from informal traders without access to banking, to keep their money safe. There are an estimated 5,000 Susu collectors in the country, each working with an average of 400 clients. This is a $140m market that exists below the traditional banking radar. Barclays now offers special bank accounts, training and lending to the Susu collectors, who can provide credit to their clients. The bank was taken aback by the amount of money, sophistication and willingness to save in the informal economy.

Such results take patience and imagination. In Nigeria South Africa's MTN, the largest mobile-phone company in the region, had to build its own microwave transmission backbone and power supplies. It now enjoys a 45% market share, with over 9.6m subscribers. In Uganda it erected the first solar payphone, used by local fishermen, on Lake Victoria. Many of the rural branches of South Africa's Standard Bank rely on satellite transmission, diesel generators and solar power. Its isolated branch on a Lake Victoria island receives money from the sky: with no landing strip, planes drop bags of cash to be collected by staff and security guards. Having bought a local bank, improved service and invested in more branches, Standard Bank now serves almost half the Ugandan market.



For such companies, the reward for coping with the risk and the hassle come in large returns and a lack of competition. Successful businesses can expect to enjoy comfortable margins, rewarding them for their time and investment. SABMiller's best operating margins are in Africa; MTN'S are over 42%.

Successful investors say that Africa can be no harder than other emerging markets, but that doing business requires good local knowledge. South African companies tend to be well placed to operate in the region-though Peter Wharton-Hood of Standard Bank cautions that: "You can't have South Africa dumped into Kampala." SABMiller believes that its African roots help it better to understand the cultural sensitivities in the continent. Dimension Data (Didata), a South African IT company that now operates globally, finds emerging markets easier going than the intensively competitive and unfamiliar European or North American ones.

Finding a local partner helps. Locals may not bring much capital or technical expertise, but their knowledge and networks are invaluable. "You can't arrive in Nigeria and hope to understand what's going on without a local partner," says James McCormack, who is in charge of Africa at Didata. It is also a way of assuaging distrust in foreign companies, which are often perceived as mammoths barging in to make a quick buck or to wreck local businesses. South African supermarkets, for example, have been accused of undermining local traders and snubbing local suppliers. SABMiller's African operations are joint ventures with locals, some of them governments. Andre Parker, in charge of Africa at SABMiller, admits that this is not always smooth sailing. "It is an educational process for both sides." Managing by consensus can be slow, but having local shareholders and the government on board pays off in the long run.

Employing and retaining clever and resilient people is also tricky. "The depth of talent in Africa is huge," says Standard Bank's Mr Wharton-Hood. Experience is, however, often thin. Most foreign firms have to spend heavily on training; and persuading well trained staff to stay is not easy. Besides generous salaries and perks such as housing or medical cover, promises of exciting career prospects-at home and abroad—may be needed to keep people happy.

Size and nationality make a difference, too. Neuma Grobbelaar, who heads research projects on business in Africa at the >>

South African Institute for International Affairs, a think-tank, says large foreign companies are in a much better position than small or local ones are to weather Africa's frustrations. They have easier access to money; they can negotiate exemptions, incentives and tax breaks from governments that local companies can only dream of; they can invest time and money in understanding and navigating Byzantine regulations; and they have enough power to say no to corruption without getting harassed. Celtel refused to pay its way into the Democratic Republic of Congo. This delayed negotiations by two years, but the company eventually made it.

Cash call

In for the long haul

The time, investment and risk involved in making Africa work mean that investing there is not for everyone-which is why profit margins are large. "When we went into Mozambique, people thought we were mad," recalls Vincent Maphai, who heads BHP Billiton in South Africa. In the mid-1990s Mozambique was coming out of a civil war and the area where the company was building its Mozal aluminium smelter was infested with malaria. But the mineral resources were valuable and the company believed in the country's potential. This encouraged pther investors, who followed in BHP Billiton's footsteps into Mozambique, where the economy has grown by an average of 8% a year over the past decade.

Foreign investors, especially large ones, are expected to contribute more than taxes and salaries. They must also take' care of employees and local people and help the private sector. Weak and poor governments are often unable to provide services such as health care and education, and people want something from foreign investment, which often benefits only a small elite. "Don't even dream of doing business in Africa if you're not prepared to leave a visible legacy," says Mr Maphai. "Investing in communities is taken for granted. You do not get rewarded for doing it. You get punished for not doing it." The Mozal plant supported an anti-malaria programme and a school. Many foreign companies help employees and sometimes customers to deal with HIV/AIDS.

Such efforts can sometimes help the business. BHP Billiton considers the time and money spent helping local suppliers as a worthwhile investment. Mozal—estimated to account for over 3% of the country's GDP and a third of its economic growth-now purchases $11m-worth of goods and services a month from over 200 local suppliers. SABMiller, which relies on local transport to distribute its beers and soft drinks to the remotest corners of Africa, helps entrepreneurs obtain credit, trucks and training. Its Zambian operation has 1,100 employees, of whom only four are expatriates.

Last year, large firms with an interest in the region set up Business Action for Africa to help foster the private sector. The realisation that much of Africa's development depends on helping local businesses flourish has resulted in a flurry of initiatives. "I don't believe for a moment that there is a stronger entrepreneurial spirit in Asia than in Africa," says Ms Grobbelaar. But small informal businesses need to be consolidated, nurtured and brought into the formal economy. Reforms need to make life easier not just for large foreign companies, but also for small ones. Better links with the local private sector would also help spread the benefits of foreign investment.

Ultimately, doing business in Africa is a gamble on the future-that the continent will make something of the commodity boom that has helped it grow faster in the past three years than at any time in the past few decades and, possibly, ever. If the economy takes off, investors intend already to be there, firmly rooted. "Africa's promise is about tomorrow," says SABMiller's Mr Parker. The Thousand Hills Venture Fund, a small private-equity firm set up to invest in Rwanda, is also optimistic. Rob Fogler, the co-founder, believes that the country has already turned the comer. He wants to prove that investing in small companies in Africa can be successful. So far, his is the only Africa fund based in the United States to be entirely financed by private money.

Although African countries have thrown away past opportunities, the optimists may yet be proved right. Virtually all those countries that once embraced a Marxist credo have now forsaken it; few even call themselves socialist any more. Large parts of economies have been privatised. Places like Nigeria, Zambia and Rwanda have launched anti-corruption sweeps. Africa may remain at the bottom of the World Bank survey, but it is the third most-reforming region-which it has never been before. Tanzania and Ghana were amongst the most enthusiastic reformers in the world this year. Nigeria has embarked on a reform of the courts. In Kenya traders can now pay custom duties online, reducing time and hassle. Keen to see their ranking improve, some governments have beenjolted into action and are now talking to the private sector to identify the most-needed reforms.

Will it last? Michael Klein, in charge of private-sector development at the World Bank, thinks it could. If governments remain on their current track, he believes GDP growth in sub-Saharan Africa could reach 9% in a decade or so. That is a brave prediction in a region prone to booms and busts, because of its reliance on minerals, oil and rain. Previous commodity booms have been squandered and in some cases, often because of complacency, left countries in an even worse mess. This could happen again. But with better fundamentals, Africa may now be more resilient than it was. For one thing, African oil importers are coping with high prices much better than they did in the 1970s.

Foreign investors are governed by trust. India and China also rank relatively poorly in the World Bank survey, but are nonetheless investment magnets. Mr Klein argues this is because investors are confident that these countries are going in the right direction and they want to tap into their large markets early. Africa will have to prove itself through years of good performance and sustained reform before it can gain such confidence. But if it does, those who are already betting on the continent will be miles ahead. •

Fonte: The Economist, v.380, n.8494, p.60-62, 9 sept. 2006.