

# AFRICA

## The Ultimate Frontier Market

A guide to the business and investment opportunities in emerging Africa

DAVID MATAEN

# Africa – The Ultimate Frontier Market

A Guide to the Business and Investment Opportunities in Emerging Africa



by David Mataen

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In the course of writing this book, my son Lepatei was born. I would like to thank him for not crying too much at a time when I hardly had four hours to sleep and every minute of sleep counted for much. I also would like to thank him for inspiring me to write on and to delve deeper into the soul and character of emerging Africa as he lay on the couch, a symbol of the young, fragile but inexorably growing and flourishing future of Africa.

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Finally, I thank God Almighty for His grace and favour, freely given.

## About the Author

During David Mataen's 13 years in financial services spanning commercial banking, stock brokerage, management consultancy and investment banking he has had the singular opportunity of becoming a scholar of African investing. His travels and tours of duty across the continent, though not to each and every corner, have allowed him to put his hand on the pulse and feel the heartbeat of African economies.

Being born, bred and educated, and having worked in Africa grants David the luxury of being first witness to the comings and goings in the continent, especially its commerce and economics. In his two and a half years as a contributing columnist to *Business Daily*, a publication of the Nation Media Group, he wandered far and wide<sup>4</sup> intellectually and picked up invaluable insights, broad perspectives and sound reflexes that have become a foundation for his analysis of business on the continent.

Add to this his habits of extensive reading in finance and economics, and intense fascination with systems and their mechanics, which has favoured him the unique privilege of discovering just a little more of Africa's economic soul. David's travels outside of Africa gave him glimpses of a future Africa, when it grows up, and of what it has to do to reach that point. Above all, he is a hopeless romantic about the future and the intuitive signs of the future that appear in the course of ordinary life and business in the present.

David is currently the head of Corporate Finance at Faida Investment Bank in Nairobi, Kenya.

# Foreword

There is no doubt that Africa has become the new growth story. Not so long ago, the debate on Africa was dominated by international aid and Aids. More recently the debate has shifted. At the World Economic Forum and other conferences, the debate is now focused on the significant opportunity that Africa presents. Whether it is the success of the World Cup in South Africa, or the addition of South Africa as the “S” in BRICS, there is no denying that this is Africa’s decade.

But Africa has had a long journey to its decade, and more importantly the journey continues. There are countries still waiting for their version of the Arab Spring. There are countries still at war. There are countries where governance remains just a word. And there are countries still being founded. In a few countries, the question of nationalisation and indigenisation remains. In most others, the issue of marginalisation continues to dominate political debate.

However, one cannot deny that Africa has made enormous steps towards this decade. Political reforms have been crisp. Between 1991 and 2009, the number of African countries with a democratically elected government increased from eight to thirty-two. Furthermore, the number of countries at full civil war decreased to just two. The Mo Ibrahim Index, which assesses governance quality, shows that between 2000 and 2011, governance across Africa as a region has improved. Economic reforms have been fast, with a number of the continent’s countries ranking high on the reforms index. Regulatory, legal and judicial reforms have stayed at pace. Financial reforms have seen several countries develop credit bureau agencies enabling the development of and access to credit. And, most importantly, common markets regimes have strengthened.

Investors have taken note of these reforms. Between 2010 and 2011, Africa foreign direct investment grew by 27%, the largest growth recorded by any region over this period. Furthermore, in South Africa, for example, M&A activity has increased from R588bn in 2010 to R602bn in 2011. Multinational corporations have been focused on growing their presence in Africa. The Asian trade corridor has experienced fast-paced growth. Chinese manufacturing firms are setting up shop in Africa. Chinese government institutions have set up bases in several African countries.

Africa’s abundant natural resources continue to attract the world’s attention. Recent oil discoveries in Ghana, Uganda and Namibia show that Africa will

continue to play an important role in international trade. Discoveries in Mozambique and Tanzania have revealed one of the largest natural gas finds in the world. The mineral wealth of the Democratic Republic of Congo (DR Congo) remains largely untapped.

Whereas commodities and natural resources dominate the story, we are seeing diversified multinationals taking interest in Africa. The recent acquisition of South Africa based Massmart by the US retailing giant Walmart is a testimony to the growing importance of Africa's middle class. Africa boasts over 50 cities with populations above one million.

Furthermore, McKinsey and Co, a leading management consulting firm, estimates that by 2020 there will be 128 million households across Africa making \$5,000 or more per year. Financial institutions have also noticed this opportunity. American banks such as JP Morgan, Citi and Bank of America have continued to invest in their corporate banking business in Africa. Barclays, the majority shareholder of the South Africa based Absa Group, has made clear its intentions to invest and grow its African business where it operates across multiple markets. South African banks have made growth into the rest of Africa a priority. Standard Bank has recently refocused its strategy towards growth in this region, selling its Brazilian and Russian entities.

To reap success in Africa however, investors must adopt a long-term view. Things move slower in Africa than in most other continents. There are many cultural nuances that can determine success or failure. There are political undertones that one must not ignore. Land rights, a cocktail of both modern and tribal land laws. Social requirements vary from country to country. It is thus important to understand these underpinnings even as one navigates the massive opportunities that Africa offers.

Fortunately, in *Africa – The Ultimate Frontier Market*, David Mataen has provided a go-to place for investors looking to understand Africa with a view towards tapping its long-term potential. Through well researched work, Mataen walks through Africa in generations. Understanding where Africa has come from allows for a better projection of where it is going. In this decade for Africa, Mataen's book is a must-read.

John Mburu Gachora  
Managing Director, Barclays Africa Corporate and Investment Banking



# Preface

*"Four billion dollars doesn't count as an 'every day low price', but Walmart, the world's biggest retailer, hopes it has found a bargain. That is how much the Arkansas-based 'beast of Bentonville' has offered to acquire Massmart, a retailer with 288 stores in 14 countries in Sub-Saharan Africa.*

*"This is the clearest sign yet that Africa is now near the top of the agenda for the world's leading businesses. The continent still has problems, but it is no longer 'hopeless', especially for anyone wanting to be part of a fast-growing consumer market. Last year, while the global economy struggled with the aftermath of the financial crisis, Africa as a whole continued to advance and is expected to grow at least 4.3% this year (2010). Some economies such as Nigeria and Ghana are racing ahead. As the middle class and urban working class expand rapidly, food consumption is expected to grow strongly, along with sales of other consumer products.*

*"The bid for Massmart is an attempt to gain a first-mover advantage by one of the world's most sophisticated companies, and it is likely to be seen as the moment when the beasts of the corporate world recognised that Africa is the next big growth market."*

***"The beast goes on safari: Can Walmart make it in Africa?" –  
The Economist, 2 October 2010***

*"Much has been written about the rise of the BRICs (Brazil, Russia, India and China) and the shift in economic power eastward as Asia outruns the rest of the world. But the surprising success story of the past decade lies elsewhere. An analysis by The Economist finds that over the ten years to 2010, no fewer than six of the world's ten fastest-growing economies were in Sub-Saharan Africa.*

*"On IMF forecasts Africa will grab seven of the top ten places over the next five years. In other words, the average African economy will outpace its Asian counterpart. Looking even further ahead, Standard Chartered forecasts that Africa's economies will grow at an average annual rate of 7% over the next 20 years, slightly faster than China."*

***"The Lion Kings? Africa is now one of the world's fastest growing regions" –  
The Economist, 8 January 2011***

The data in Tables 1 and 2 shows the world's ten fastest growing economies between 2001 and 2010 and the forecast for the fastest growing economies for 2011 to 2015.

**Table 1 – the world's ten fastest growing economies for 2001 to 2010 (annual average GDP growth, %)**

2001-2010	
<b>Angola</b>	11.1
China	10.5
Myanmar	10.3
<b>Nigeria</b>	8.9
<b>Ethiopia</b>	8.4
Kazakhstan	8.2
<b>Chad</b>	7.9
<b>Mozambique</b>	7.9
Cambodia	7.7
<b>Rwanda</b>	7.6

Source: *The Economist*, IMF

**Table 2 – the forecast ten fastest growing economies for 2011 to 2015 (annual average GDP growth, %)**

2011-2015 (IMF forecast)	
China	9.5
India	8.2
<b>Ethiopia</b>	8.1
<b>Mozambique</b>	7.7
<b>Tanzania</b>	7.2
Vietnam	7.2
<b>DR Congo</b>	7
<b>Ghana</b>	7
<b>Zambia</b>	6.9
<b>Nigeria</b>	6.8

Source: *The Economist*, IMF

## Frontier economics and a quest for information

Quite a bit has been said and written in the recent past decade about Africa's, or Sub-Saharan Africa's (SSA's), economic potential – there has been a groundswell of interest in Africa and its economies. (For the purpose of this book, the term *Sub-Saharan Africa* has been used interchangeably with *Africa* and *emerging Africa*. I have done this because the countries of SSA – the territory south of the Sahara – have similar economic circumstances including stage of development, nature of economic and social challenges and, more specifically, rate of economic potential and opportunities.) However, most people in the developed West, the Far East and emerging Asian countries are only just waking up to the idea of an Africa draped in full commercial glory. This is because for many years Africa was ignored, if not actively sneered at, being thought only capable of tribal wars, biting poverty and hopeless disease.

Those who bothered to try economic activity in Africa were seen as rugged pioneers and courageous individualists, given the sheer optimism of their outlook against a dark and forlorn backdrop of wretchedness and botched experiments. And so it was that for decades on end Africa was bypassed by agents of commerce seeking new fortunes in other emerging economies.

Yet, business still carried on in Africa out of view; subtle, unremarkable and sometimes inscrutable. Occasionally this caught the view of researchers, journalists, outliers, and most certainly management consultants. For the main part though, Africa remained unexplored, unattended and neglected. That has been changing, and the new attention Africa is now receiving – though it remains fairly cautious – still amounts to a shift in outlook. Suffice it to say, the worm has started to turn!

In the 2000s alone Sub-Saharan Africa became one of the most talked about regions of the world in terms of emerging investment opportunities, sources of new growth and newly qualifying investment destinations – a quintessential *frontier market*. The term frontier market is commonly used to describe capital markets located in developing countries that are less advanced; they are countries where investable stock markets are not as established as those located in emerging markets. Frontier markets are considered risky but in some instances the pay off can be high.

The *Financial Times* Lexicon described a frontier market as a type of emerging market. It said: "A frontier market is considered to have lower market capitalisation and less liquidity than many emerging markets." Frontier

markets are generally deemed to appeal to investors because they offer potential high returns with low correlation to other markets. They are ultimately expected to become more liquid and take on characteristics of the majority of emerging markets.

No doubt, there seems to be an increasing consensus that Africa is now developing into something the rest of the world would be happy to look at more keenly and with economic interest. The world is warming up to Africa as the final investable frontier: enquiries have been increasing, reconnaissance trips are more frequent, and coverage in world press is more positive.

There is a swelling appetite for information on Africa – positive information about Africa – on a broad cross-section of issues such as economic growth, social progress, political stability, implementation of modern governance systems, entrepreneurship, market expansion, commercial and trade opportunities, and financial investments. Unfortunately, there is a massive gap between this appetite and the availability of credible information.

As an avid consumer of financial and economic information, I have personally trodden this arid road in search of quality knowledge numerous times and each time I have felt the profound lack of information, especially about the rising economic appeal of SSA and its economies. Yet, something is going on here, and the more it goes on the more people want to know.

This thirst for knowledge has inspired the establishment of certain magazines, journals and websites dedicated solely to informing about Africa and its rising appeal. Some examples are *Africa Investor*, *Africa Business News*, *The African Report*, *Africa Business Journal* and *TradeInvestAfrica*. Indeed CNBC in 2007 started a channel for Sub-Saharan Africa – CNBC-Africa.

This lack of good information about African economic development has also motivated the writing of this book. *Africa – The Ultimate Frontier Market* does not pretend to fill the void of information on Africa on its own, neither does it claim exclusivity on its coverage, perspectives explored or depth of analysis. It brings to you Africa and its economic appeal from a consumer markets perspective through the eyes of an African capital markets practitioner; it aims to present the market opportunities in emerging Africa.

## How this book is structured

This book is split into three parts. Part I examines how the Africa of today came to be. It builds up historical, demographic, cultural, social, government policy and economic perspectives with a view to providing an understanding of the driving forces behind Africa's rise. It provides a richly developed background to the dynamics that are currently in play in Africa's emerging consumer markets. The time period that Part I covers falls between the independence period and the implementation of structural adjustment programmes which came with restructuring, reforms and privatisation – therefore between the 1960s and 2000s.

Part II addresses efforts that have been made to lay down enablers for business and trade across the continent. These could be by individual country or regional, isolated or concerted, short term or long term, but are all collectively viewed as deliberate attempts at creating an enabling environment for the promotion and successful operation of business in single country economies or in regional economies. In terms of period, this section falls between 2000 and 2010.

Finally, Part III uses the backdrops set out in Part I and the possibilities brought about by the positive changes addressed in Part II as the foundation for identifying the broad themes and organizing principles for the range of expected economic, business and commercial outcomes in African economies going forward. It then proceeds to outline the opportunities in the specific consumer sectors expected to have the greatest growth trajectories and the broadest impact on African consumer markets – building the investment cases and rationale for value and wealth creation. Part III looks at the period from present day to 2030, meaning it is futurist in approach. The maturities of the implied opportunities cannot be placed on a definite timeline, of course, and so some may peter out earlier than projected while some may hold out for a longer term, even beyond 2030.

This book looks at Sub-Saharan Africa as a whole, as an asset class, or alternative investment opportunity, without isolating national economies, though it draws on examples from national economies as evidence of premises promoted or arguments set out. This is because while Sub-Saharan Africa is not one distinct unitary geographical expression, almost all the dynamics, trends and opportunities are similar and transcendental – cutting across from one economy to another and increasingly reinforced by regional economic and trading blocs and common markets. If national economies are

not exactly similar in terms of their size, stage of economic development, population size, and levels of social and economic development, when comparing the collection of countries against other world regions, the internal differences between African nations are insignificant. It is very feasible for African nations to catch up with each other and converge; this confirms that Africa is not an event, but a process.

I acknowledge that the trends and dynamics developed or alluded to in this book may not necessarily be affecting all SSA countries simultaneously and the overlying opportunities identified may not all mature contemporaneously. But to return to a central feature of the book, I believe the close similarity and proximity of economies should be recognised. There is ongoing economic integration within the framework of common markets and monetary unions, and other attributes of economic contagion will accelerate the realisation of trends and opportunities already being experienced in satellite economies within the neighbourhood. As such, events in Kenya would immensely influence its neighbourhood, as much as those in Ghana, Nigeria, Côte d'Ivoire and Sierra Leone.

In researching references, attributions, examples, illustrations and citations, statistics for some Sub-Saharan Africa countries are less readily available than others. In this regard the reader will find disproportionate emphasis on a few countries. This does not constrain meaning nor transfer application from Sub-Saharan Africa to individual countries or regions; it only serves as a sample of the whole.

## **Who this book is for**

This book is targeted at all classes of investors in African economies, be they within or outside the continent: active investors, prospective investors, aspiring investors and students of investments. These investors may fall within two broad category types: *professional investors*, financial and equity participants, or stock market investors; and *trade investors* – roll-up-the-sleeves entrepreneurs and strategic investors. It is also targeted at investment intermediaries in financial markets: executives and employees of commercial and investment banks, stock exchanges, brokerage houses, investment research houses, management consultancies, asset and fund managers, financial advisors and all those charged with proffering investment advice and recommendations.

It has, however, been written in a style and approach to also fit general readership. An average grasp of economic and financial terms, acronyms and abbreviations in general usage has been assumed, for example GDP (gross domestic product); PPP (Public-Private Partnership); inflation to depict the general rise in consumer and asset prices; and GDP growth rate to represent the rate of economic growth in an economy.

## **Exclusions made by this book**

This book deliberately excludes South Africa because its advanced economy, and its physical and social infrastructure, are years ahead of the rest of Africa. It has dissimilar internal dynamics and a more complete interconnectedness with the rest of the world. Basically, South Africa is an emerging economy whereas the rest of SSA economies are frontier economies.

Apart from South Africa, another exclusion from the book's coverage is the mining sector. There are various reasons for this, chief among them being that it is largely operated under systems of state capitalism in partnership with giant multinationals, to the exclusion of local private sectors. The mining sector also does not have much impact on job creation, being extensively mechanised, and its products are sold in export markets abroad as raw materials without any impact to the local consumer markets. Besides these points, and most importantly, the mining sector is not present in all African countries, not even the majority of them. Where it has been present long term (except in very few glowing exceptions such as Botswana) it has tended to result in less progressive governance systems that have seen the propagation of corruption. It has also provided less and less incentive for economic liberalisation and therefore the private sector has generally remained stifled and less empowered by mining.

Finally, I have deliberately excluded the challenges, constraints, problems and threats to business in general in Africa and to the realisation of the specific opportunities identified in particular – there is far too much literature on this already. This does not mean that Africa is suddenly without problems and challenges to business, commerce and investments. Africa still faces the greatest challenges of any area in the world. These do not, however, detract from the opportunities that abound now and in the future in the African consumer markets.

Challenges are not necessarily negative, either; the challenges and constraints faced by African economies form the underlying basis for developing unique business models with which to access and appropriate the opportunities identified in this book. After creating home-grown solutions to mitigate constraints, African entrepreneurs will have built the bridges that enable them to step over the challenges to the opportunities, thereby cultivating long-term competitive advantage for themselves.

I hereby invite you to explore Africa as it proceeds toward greater economic and commercial relevance!

David Mataen,  
Nairobi, Kenya, June 2012



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