The new face of Africa

The FIFA World Cup was to be the definitive event that would show the new face of Africa – that of a promising, competent continent. Was it enough? asks MANDY ROSSOUW.

THE FIFA WORLD Cup was a massive success for which South Africa and the continent received widespread praise, but does this mean smooth sailing for potential business investors?

"The event opened the eyes of sceptics and opened a window for Africa to be seen differently," says Professor Eltie Links, holder of the University of Stellenbosch Business School's chair: Doing Business in Africa.

But investors are aware that South Africa is an island when it comes to doing business. "Businessmen know that the favourable picture of South Africa might not be applicable in the rest of Africa."

"The World Cup went well, but we have to distinguish between a sports fan and a business person. They want different things," says business developer and USB MBA graduate Steyn Heckroodt, whose company Nyansa Africa is based in Ghana and helps businesses to set up shop in African countries.

"When a business decides to invest in a country, it is taking a risk. So it needs to know how big that risk is, what the return on investment may be, how safe its property will be and how easy it will be to take money out of the country."

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According to Heckroodt the challenges that Africa faces in attracting investments are fourfold – land, labour, capital and skills.

It is relatively difficult to find land to set up a business in African countries owing to the sensitivities around tribal issues.

In Kenya recently a group of South African farmers had to face protests from local communities because the agricultural land that was given to the South Africans by the Kenyan government was disputed property. The communities believed it belonged to them.

The lack of properly skilled people to establish and run businesses also impedes investment, Heckroodt says.

"Multinational companies that come in usually bring in their own people to ensure that they stay true to their culture, brand and identity. Finding local skilled labour is a challenge, but skills transfer usually does take place. A further challenge is then the retaining of these skills as the local employees become much more marketable and sought-after. So companies need a formalised succession plan. South African companies appear to be doing well in both these instances."

Links says, though this is changing, Africa still does not have the human capital to compete with other emerging economies like India.

To find investment capital is a headache because of the over-reliance in Africa on donor funding, which does not encourage entrepreneurship.

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"Donor funding does not foster the urgency you need to be a hardcore businessperson. Yes, you have to account and all that, but at the end of the day you're spending someone else's money."

Regional integration will help the continent unlock its potential, because it would open up markets for itself. Currently visa restrictions and high tariffs limit the extent to which African countries can do business with each other.

Frik Landman, CEO of USB Executive Development, says that economic integration will bring many benefits for trade, but warns that the business sector must be included in and committed to such a process.

"What is happening in East Africa, where Kenya, Burundi, Uganda, Tanzania and Rwanda are well on their way to economic integration, is a positive step."

Olatunde Akande, a Nigerian master's student in Development Finance at the USB, says that corruption in Africa is still rife and remains a challenge to doing business in Africa and that potential investors need another company to help them set up in African countries.

"In most cases foreign investors need help to find their way. Also the courts are not reliable, so in most cases foreign investors use international arbitration to solve cases."

Another development finance student, Ufuoma Aghri, warns that African businesses are missing many opportunities where foreign companies can outsource to them, but they are not ready.

"African businesses should up their game to make themselves attractive to foreign businesses intending to come and invest."

Heckroodt believes that Africa's image as breeding ground for corruption is exacerbated by price collusion in some industries that create monopolies.

"You do get the idea when you do business that it is not conducted in a completely free and fair manner, as you would expect in the capitalist system."

Links says although things change slowly, there is a gradual, perceptible upward trend that shows Africa is becoming more attractive to investors.

"All the economic indicators, like growth rate and inflation show that there have been improvements that bode well for Africa. Interested parties will find enough to be positive about. Africa is open for business," he says. a

THUMBS UP FOR AFRICA

There are many encouraging signs that opportunities will overtake challenges in Africa. Prof Wiseman Nkuhlu, Africa expert (*Leaders' Lab* 2010, **4**(2)) gives some positive indicators:

- Increased demand for resources by developed countries like the USA and emerging economies – mainly China – has enhanced Africa's strategic importance.
- From 2003 to 2008, foreign direct investments rose from US$20,9 billion to US$87,6 billion.
- Africa's total external debt, as a percentage of GDP, decreased from 62,6% in 2001 to 22,4% in 2008. It rose slightly to 25,4% in 2009, but is still way below turn-of-the-century levels.
- According to the Economic Report on Africa (ECA 2010), the inflow of Official Development Assistance (ODA) increased from US$15,6 billion in 2000 to US$44 billion in 2008. A drop was expected in 2009 owing to the global economic crisis.
- Africa's share of global trade, both exports and imports, increased from 2,8% in 2007 to 3,2% in 2008. The fact that Africa's exports remain highly undiversified – agricultural produce, minerals and fuels constitute 80% of exports – is a concern.
- Africa achieved impressive GDP growth in the period 2001 to 2008, on average 5% higher than that of developed countries.
- Primary school enrolment increased from 71% in 2006 to 74% in 2007 in sub-Saharan Africa. On current trends, many countries will achieve a rate of 100% by 2015. While access is improving, quality of education demands serious attention.