The World Economic Forum on Africa was held in Addis Ababa, Ethiopia from 9 to 11 May 2012 and addressed various important issues relating to the current state and future development of Africa. The Forum was attended by senior Government, business and other leaders. The need to dispel the many afropessimist myths and negative perceptions about Africa was recognised. Although certain countries like Somalia remain unstable, the general trend in Africa is towards improving governance and promoting economic development as reflected by consistently high growth rates (particularly when compared to more developed countries like the USA and Europe).

A future African economy without minerals

About 70% of sub-Saharan export revenues is still based on oil, metals, minerals and other natural resources. As these resources will eventually run out, a key challenge for African countries is to diversify their economies and maximise the benefits of these natural resources to African countries and communities. Private sector companies involved in natural resources are increasingly (either voluntarily or as a result of Government requirements) investing in the countries and communities where they operate, for example by training locals and building schools and hospitals. Leveraging the infrastructure built by mining companies as part of establishing development corridors for agricultural and other purposes to link regions and even countries has generally been positive. Long term investments in infrastructure, agriculture, education, services (including banking, financial, IT and telecommunications) and manufacturing are however preconditions for economic diversification. How Governments spend and invest the revenues they receive from natural resources is also crucial.

The challenge of African market integration and promoting intra-African trade

Africa is often spoken about as if it is one country or unified bloc, even though it actually comprises 54 separate sovereign states. Any regional or pan African integration is premised on and can only succeed if states voluntarily give up certain sovereign powers and Governments and regulators fully cooperate to optimise the cross border movement of goods, services and people. A related consideration is whether African states are natural collaborators or actual or potential competitors for foreign investment. The general consensus is that integration and cooperation is vital for African development, as most African countries have relatively small internal markets and can develop greater economies of scale through regional integration to become more competitive and attractive to investors and promote intra African trade. Many African borders are artificial colonial creations which cut through and separated pre-existing economic regions. Intra African trade still only makes
up approximately 10% of Africa’s total trade (compared to approximately 60% in Europe, 40% in North America and 30% in Asia) although informal trade levels are not covered in official statistics and may increase the overall figure. A framework for regional integration already exists in the form of established regional bodies like the Southern African Development Community (SADC), the Southern African Customs Union (SACU), the Economic Community of West African States (ECOWAS), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). The planned Cape to Cairo free trade area (including SADC, COMESA and EAC) would integrate twenty-six countries and 590 million people and there is talk of a single currency. Key challenges remain the political will to integrate and focussing on the detail and implementation. This include the removal of tariff and non tariff barriers and restrictions on the availability of trade finance; fast tracking cross-border infrastructure; single border posts; limiting red tape, reducing costs and formalities for cross-border transport (including improving flight connections between African countries and removing visa requirements) and supporting and integrating the informal sector into the formal economy. The East African Community (Kenya, Uganda, Tanzania, Rwanda and Burundi) is a useful model for other regional integration projects and includes an East African Court of Justice and an East African Legislative Assembly. A customs union was established in 2005 and a common market in 2010. The next phase of integration is to enter into a monetary union (negotiations have commenced) and ultimately a political federation of East African states is envisaged.

Agricultural stagnation spells opportunity

Almost 70% of Africa’s people live in rural areas and approximately 60% of the world’s available new farming land is in Africa. However, 40 of 48 Sub-Saharan African countries are net importers of food and it is estimated that about 30% of Africa’s agricultural production is lost either from rotting on the ground or being eaten by pests. Although urbanisation is rapidly increasing, it is clear that, given its massive rural population, African economic growth and development will depend fundamentally on increased agricultural and rural productivity. It is clear that there is huge potential for transforming African agriculture (particularly the small scale farming sector) into the world’s bread basket to meet growing world (and African) concerns about food security. The key focus must be to assist farmers to get their products to market, introduce new technology and farming methods, provide funding and support to farmers and recognise property rights in order to revolutionise Africa’s agricultural sector and realise its potential.

The rise of the African middle class and the threat of unemployment

The rise of Africa’s middle class is possibly the most visible symbol of (and inextricably linked to) Africa’s new economic growth status. In 2008, Africa’s combined consumer spending was US$860 billion. It is estimated by McKinsey & Company that there will be 128 million African households with discretionary income in 2020 and that about 50% of Africans will be living in cities by 2030. There is, however, a lack of data and no accepted definition of the African “middle class”. Middle class income levels are placed at anything from US$4 a day to US$20 a day (a much lower income level than the middle class in the USA). A useful indicator may be the number of new mobile phone subscribers in Africa – 316 million between 2000 and 2010. The African middle class is accordingly not a homogenous group and includes both persons recently emerged from poverty who are buying consumer goods for the first time and persons with more disposable income who are able to purchase expensive goods like cars and technological products. However the “middle class” is defined, it is clear that the societies of African countries will be fundamentally transformed in the next decades particularly as the middle class is a new political factor and its growth is linked to political stability, economic development and higher levels of education and material aspirations (especially among the youth). There are, however, risks that the Africa consumer spending boom could result in over spending, increased indebtedness, low saving levels and a rampanty materialist / consumerist culture. In South Africa the Consumer Protection Act and National Credit Act have been enacted to address these risks.

Unemployment remains one of the greatest challenges facing Africa and will materially limit the growth of the middle class. It is also a potential source of political instability. It is estimated that over 70% of the working age population is unemployed or has no job security and that the unemployment rate is about 40 to 50% in most sub-Saharan African countries. Seventy percent of Africa’s population is under the age of 30 and Africa’s population is predicted to double from one billion to two billion by 2050 and so the unemployment problem is likely to worsen in future unless effective steps are taken to address this. There is unfortunately no “one size fits all” solution for job creation and much depends on local conditions and policies. Education and training (especially of youth) are absolutely essential as is the support and promotion of entrepreneurship and small and medium sized enterprises and identifying and supporting key sectors with job creation potential (for example agriculture, hospitality and tourism, telecommunications, IT and services).

Improvements in political stability and democratic governance

Compared to the 1970’s age of Bokassa and Idi Amin, it is clear that Africa has made massive improvements in enhancing democratic forms of government and political stability. Senegal and Zambia are only two recent examples in 2012 of a peaceful transfer of power following a democratic election. African Governments generally accept the need to combat corruption and strengthen governance. Steps are being taken in this regard with some countries being better than others. In part, political transition in Africa is due to the emergence of an educated middle class and more active civil society (including a free press).

The African ICT boom

Africa has the advantage of being able to leap frog directly to use the latest technology. It is estimated that more Africans have access to mobile phones than to clean water and electricity. Although costs remain high, Africa’s Internet infrastructure capacity has increased ten fold since 2006 and the entire continent now has access to undersea fibre optic cables. There are currently about 120 million Internet users in Africa, a 2527% growth between 2000 and 2011. By the end of 2010 there were over 500 million mobile telephone subscribers in Africa and Nigeria is estimated to be the world’s tenth largest mobile market. Africa has also pioneered innovative ICT solutions to deal with challenging market conditions, for example mobile money transfers with an estimated 350 million African mobile money subscribers by 2015. Kenyan mobile operator, Safaricom, has been the forerunner in this regard with approximately 70% of Kenya’s adult population now having access to mobile financial services. Africans are also embracing social media and Africa is one of Facebook’s fastest growing markets with about 32 million users.

Mobile phones have also been used in various poverty alleviation and empowerment projects, for example a partnership between MTN Uganda and Google provides real time
health and agricultural information and virtual market places for trading goods and services. Economic gains from increased ICT access are increasingly recognised. The World Bank has found that for every ten percentage points in broadband penetration, economic growth is likely to increase by as much as 1.38 percentage points in low and middle income countries. It is estimated that Kenya's gross domestic product growth since 2000 would have been 0.9 percentage points lower on average without its telecommunications sector.

The challenge of energy security

With Africa's booming population growth (estimated at two billion people by 2050), energy security and environmentally sustainable development are of key importance. Currently 600 million Africans do not have access to electricity and this is estimated to increase to 700 million people by 2030. Energy shortages negatively affect economic growth because business (especially manufacturing) is dependent on secure energy supplies. There are also negative effects on health and education. Providing energy to African rural households (who mainly use kerosene as their primary energy source) remains a challenge due to the scattered nature of rural African settlements and the costs of electrification infrastructure.

Investment in renewable energy projects in Africa increased by 384% in 2010. The largest wind farm project in Africa is in Kenya. It is believed that there are vast untapped natural gas reserves in Africa as well as significant hydroelectric power potential. However, numerous challenges for investors in funding energy projects in Africa remain including inefficient or incomplete regulatory frameworks, the size and complexity of projects and risk aversion. The need for certainty as to government tariffs is also essential for private sector investment in energy projects.

The vital role of African financial services

Africa's economic growth and development require a vibrant and developed financial services infrastructure. In 2008 the total assets of Africa's top 200 banks amounted to approximately US$935 billion. South African banks account for approximately 30% of Africa’s banking assets, 80% of all life insurance premiums and 50% all non-life insurance premiums. Mobile payment systems have been very successful in countries like Kenya and Tanzania and have expanded to include other financial services. Technological innovations can unlock new opportunities, reduce transaction costs and render geographical distances irrelevant. Regulation must, however, keep up with (but not stifle) innovation while avoiding systemic risks and protecting consumers.

The majority of Africans remain, however, outside the formal financial system and rely on cash. For example, 120 million of Nigeria's total population of about 150 million people either access finance informally in cash or not at all. Future growth projections for Africa's financial services (especially retail banking) are however very positive due to rising income levels and urbanisation.

African manufacturing challenges and opportunities from rising labour costs in China

Only 1% of global manufacturing occurs in Africa. Key challenges remain global competition, commercial viability, inadequate infrastructure, skills shortages, high transportation costs (whether by road, railway, air or sea), cross-border transport delays, unreliable energy supplies and lack of Government support for small and medium sized enterprises. The domestic market in individual African countries is often too small to attract investors (especially multi-nationals) and delayed regional integration and the removal of trade barriers accordingly directly affects the viability of many local manufacturing projects.

Increasing labour costs in China may, however, create opportunities for African manufacturers. It has been estimated that moving five million of China's 85 million manufacturing jobs to Africa could boost African employment by 50%. This would however, require reforms in African countries to attract the low cost jobs that China is shedding (especially due to strong competition from countries like Vietnam and Bangladesh for these jobs).

The need to accelerate African infrastructural development

It is accepted that infrastructure development is critical to Africa's transformation and economic development and although financing is available, the high risks involved need to be managed. This necessitates close and constructive cooperation between the public and local and foreign private sector firms as well as clarity on the role of Government (whether as co funder, regulator and / or owner). Many African countries still have large powerful state owned enterprises (although several countries have privatisation programmes). Generally speaking the relationship between the private sector and Government is better now than in the past when more marxist, socialist or statist models of economic development prevailed. It is increasingly recognised by Government that the private sector can give practical and informed advice to assist them on policy decisions. A good example of the positive effects of promoting private sector investment was the boom in mobile telephone communications throughout Africa which was and still is driven by the private sector. Key issues for business remain the creation of an enabling environment for investment, the rule of law and stability and certainty as to the legal, regulatory, business and political environment.

Conclusion

Unfortunately Africa is still often perceived by the world as a single country or bloc and instability in Somalia or corruption in the Congo is accordingly often seen as being "African", resulting in negative perceptions of Africa as a whole, and reinforcing afropessimist myths. However, perceptions are important and both the African private and public sectors have a vested interest in actively promoting a positive investor perception of Africa. There remain risks and challenges as well as opportunities in Africa and relying on reputable and competent local partners and advisers will significantly minimise (or ideally eliminate) these risks or at least permit informed decisions based on a sound assessment of the risks. To this end, Werksmans formed Lex Africa in 1993. Lex Africa is the oldest and largest African legal network and currently has members in 27 African countries. For almost 20 years Werksmans has (in conjunction with its Lex Africa colleagues) advised and assisted its clients in their African ventures. Werksmans is proud of its African track record and membership of Lex Africa and remains positive about Africa in the new age of African Lions.
Established in the early 1900s, Werksmans Attorneys is a leading South African corporate and commercial law firm serving multinationals, listed companies, financial institutions, entrepreneurs and government.

Werksmans operates in Gauteng and the Western Cape, and is connected to an extensive African network through Lex Africa*. With a formidable track record in mergers and acquisitions, banking and finance, and commercial litigation and dispute resolution, the firm is distinguished by the people, clients and work that it attracts and retains.

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*In 1993, Werksmans co-founded the Lex Africa legal network, which now has member firms in 27 African countries.

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