

Doing Business in Emerging Markets

Session 5 “Business environment and community engagement in economic activities in Africa”

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09.11.2023



Aalto University
School of Business

Agenda for today

09:00 – 10:00

- News from emerging markets
- Business Environment in Sub-Saharan Africa – **Daria Kautto**, Aalto BIZ

10:00 – 10:15 *Break*

10:15 – 11:45

- Community engagement in economic activities in Africa
- The case of Tata Chemicals Magadi – **Patrick Schulist**, Aalto BIZ



Any news from Emerging Markets?

Business Environment in Sub-Saharan Africa



Business Environment in Sub-Saharan Africa

1. **Economic overview of Sub-Saharan Africa**
2. **Operational risks in Africa**
3. **Future prospects and opportunities**

Economic Overview of Sub-Saharan Africa

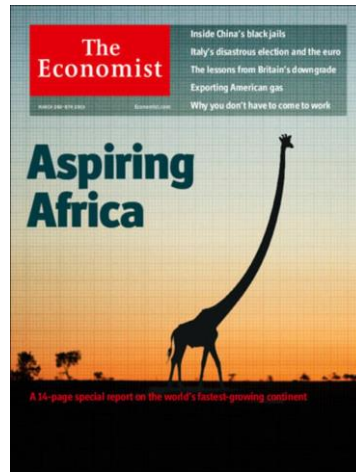
Changing perceptions of the continent



2000



2011



2013



2022

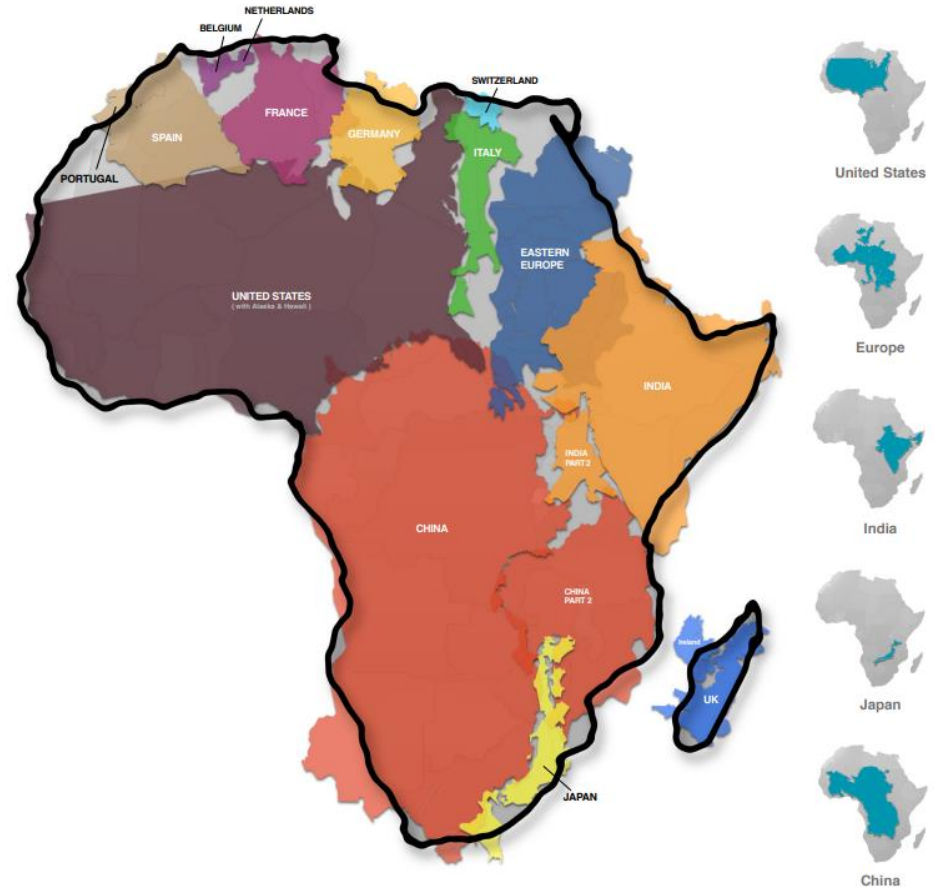


2023

Economic Overview of Sub-Saharan Africa

How large is Africa?

- 54 countries - UN, 55 countries - African Union (Western Sahara is not recognized by the UN);
- 46 countries are part of Sub-Saharan Africa, while others are grouped into MENA region;
- 1000 languages (most spoken: Swahili, Amharic, Xhosa)
- Size by area occupied is 30 mln.sq.km (e.g. USA is 9.6 mln.sq.km; China 9.5 mln sq.km; France 0.6 mln.sq.km)
- If Africa was a single country in 2023 (IMF), it would be 4th in the share of world PPP-adjusted GDP (5%) after China (18,8%), US (15,4%), India (7,5%)



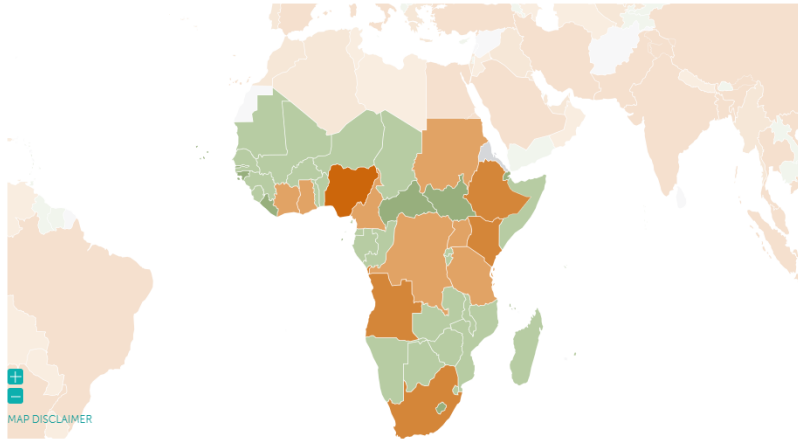
Economic Overview of Sub-Saharan Africa

Economic activity indicators, SSA (IMF, 2023)

GDP, current prices ⁱ

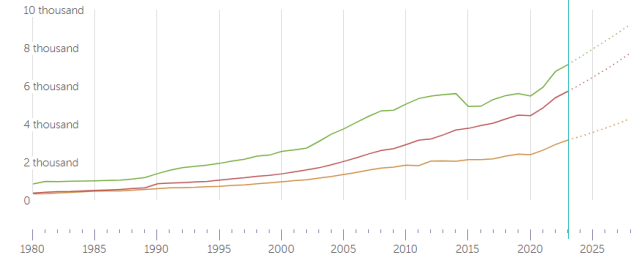
Purchasing power parity; billions of international dollars

● 1000 or more ● 250 - 1000 ● 100 - 250 ● 10 - 100 ● under 10 ● no data



TREND (1980-2028)

Purchasing power parity; billions of international dollars



SELECTION (2023)

● North Africa +≡ 3.15 thousand
● Sub-Saharan Africa (Region) +≡ 5.71 thousand
● Middle East (Region) +≡ 7.11 thousand

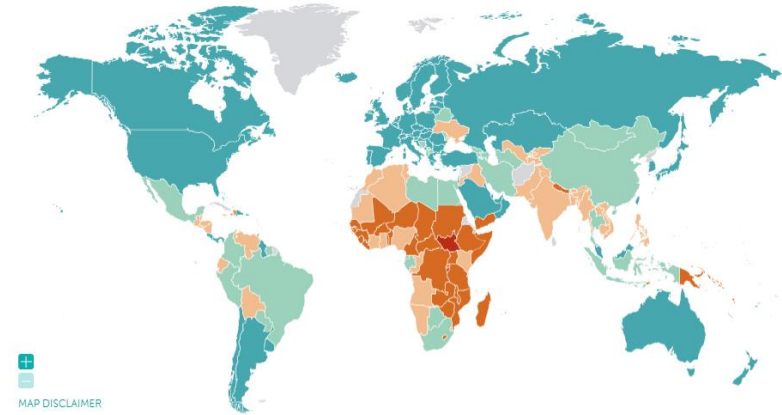
ADD AN ITEM TO THE CHART

RESET

GDP per capita, current prices

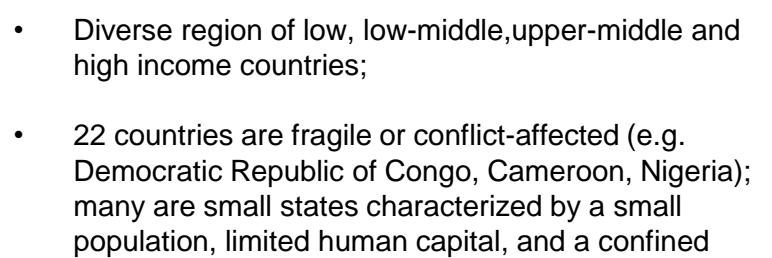
Purchasing power parity; international dollars per capita

● 25,000 or more ● 15,000 - 25,000 ● 5,000 - 15,000 ● 1,000 - 5,000 ● under 1,000 ● no data



TREND (1980-2028)

Purchasing power parity; international dollars per capita



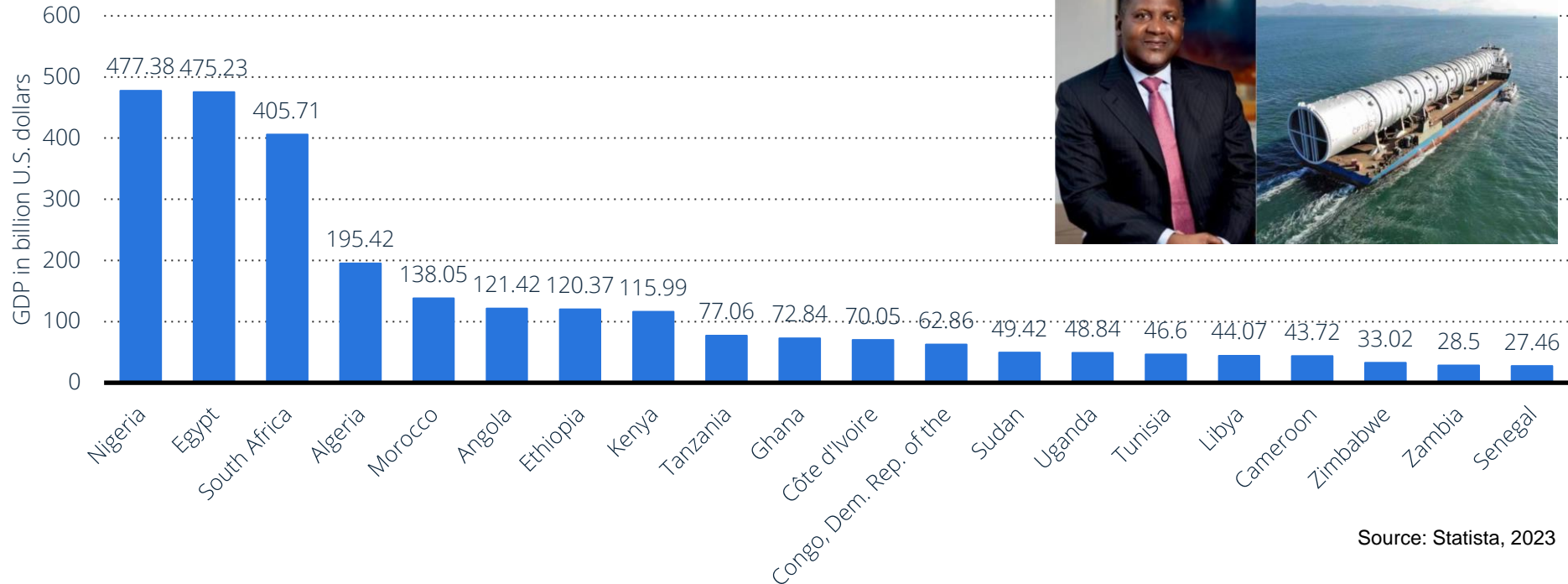
ADD AN ITEM TO THE CHART

RESET

- Diverse region of low, low-middle, upper-middle and high income countries;
- 22 countries are fragile or conflict-affected (e.g. Democratic Republic of Congo, Cameroon, Nigeria); many are small states characterized by a small population, limited human capital, and a confined land area (e.g. Djibouti)

Economic Overview of Sub-Saharan Africa

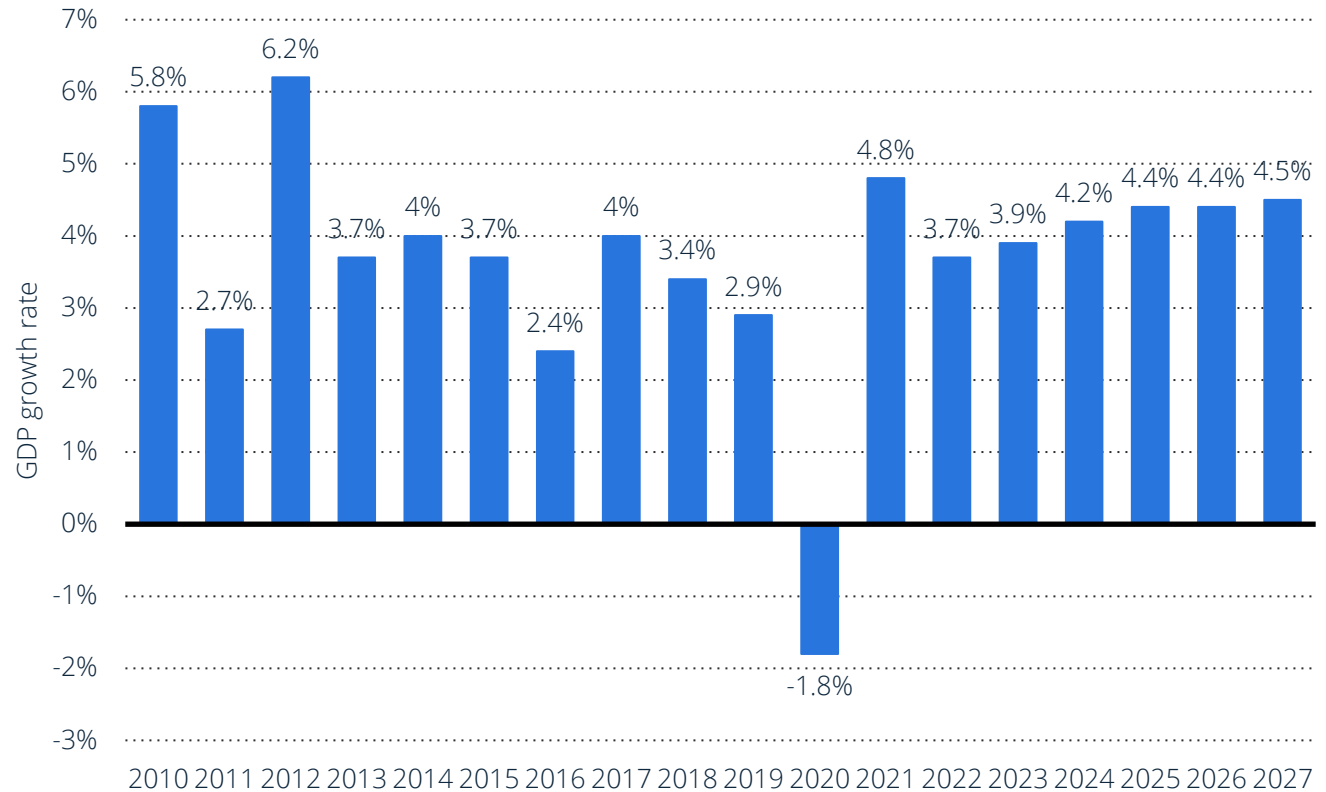
GDP of African countries in 2022 (in billion US dollars)



- African economies are among the countries with the highest GDP growth rate worldwide.
- For some African countries, the oil industry represents an enormous source of income (Nigeria - 7.5% of the country's GDP, Libya - over 40%, one of the economies most dependent on oil worldwide). Oil represents for some of Africa's largest economies a substantial source of export value.
- Most of Africa's largest economies do not appear in the leading ten African countries for GDP per capita.

Economic Overview of Sub-Saharan Africa

African real GDP growth rate, 2010-2027 (Statista, 2023)



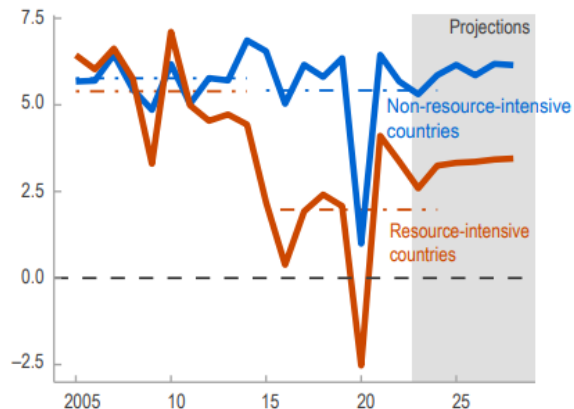
- During 2010-2019, 16 African countries experienced average annual real GDP growth over 5% led by:
- Ethiopia (9.6%), Rwanda (7.2%), Tanzania (6.7%), and Ghana (6.7%);
- 2022 GDP growth in SSA was 3,6% (World Bank).

Economic Overview of Sub-Saharan Africa

Faster growth in the region's more diversified economies

Figure 3. Sub-Saharan Africa: GDP Growth 2005-28

(Percent, dashed line = weighted average)

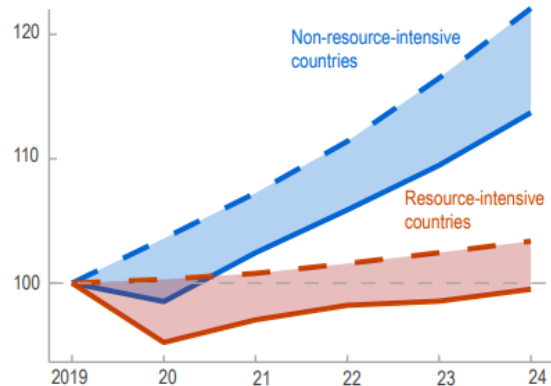


Source: IMF, World Economic Outlook database.

Note: See country groupings on page vi.

Figure 4. Sub-Saharan Africa: Real Per Capita GDP, 2019-24

(Index 2019 = 100, dashed line = pre-crisis projections)



Source: IMF, World Economic Outlook database.

Note: See country groupings on page vi.

Oil Exporters

Angola
Cameroon
Chad
Congo, Republic of
Equatorial Guinea
Gabon
Nigeria
South Sudan

Other Resource-Intensive Countries

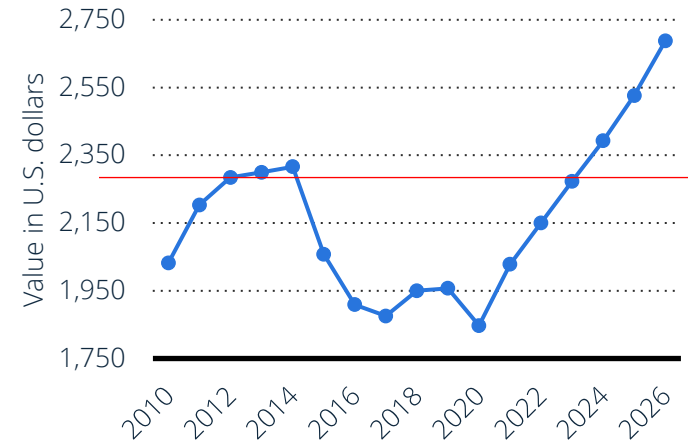
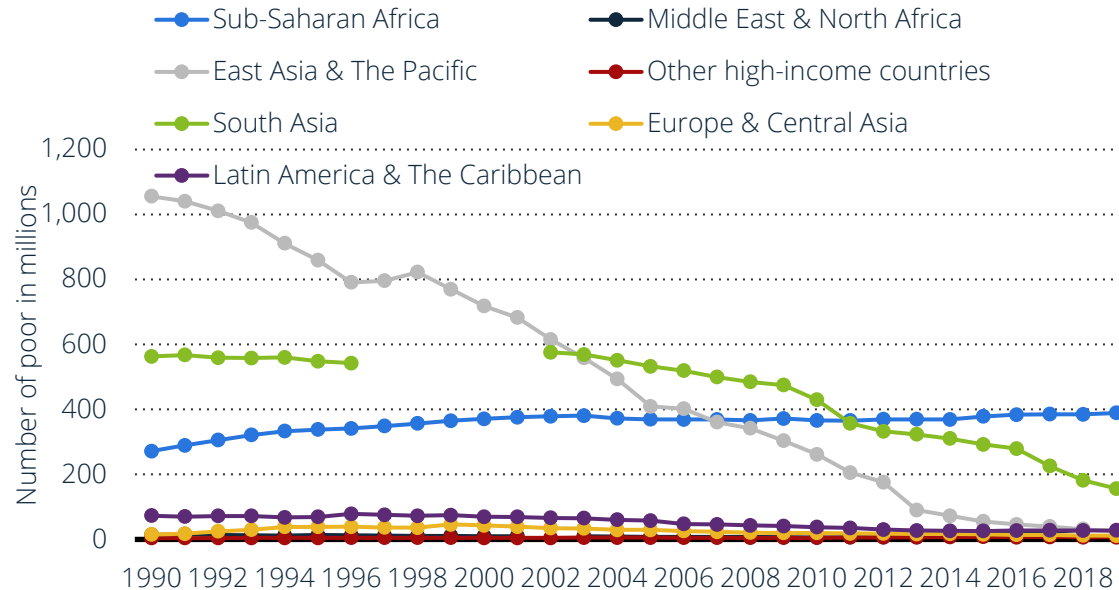
Botswana
Burkina Faso
Central African Republic
Congo, Democratic Republic of the
Eritrea
Ghana
Guinea
Liberia
Mali
Namibia
Niger
Sierra Leone
South Africa
Tanzania
Zambia
Zimbabwe

Non-Resource-Intensive Countries

Benin
Burundi
Cabo Verde
Comoros
Côte d'Ivoire
Eswatini
Ethiopia
Gambia, The
Guinea-Bissau
Kenya
Lesotho
Madagascar
Malawi
Mauritius
Mozambique
Rwanda
São Tomé and Príncipe
Senegal
Seychelles
Togo
Uganda

Economic Overview of Sub-Saharan Africa

Most Africans live on less than 2 dollars a day



Economic Overview of Sub-Saharan Africa

Exports by product categories

Africa's Regional Exports Show Ongoing Colonial Legacy

Main export goods of African countries in 2020

Minerals & diamonds

- Gold
- Copper, iron or other ores*
- Diamonds

Energy

- Oil
- Gas

Agriculture, forestry & fishing

- Agricultural products**
- Wood
- Fish

Industry

- Cars
- Boats
- Electrical cables
- Turbines

* other minerals: aluminum, titanium, salt

** cocoa, coffee, tea, nuts, spices, cotton, tobacco, essential oils

Source: The Observatory of Economic Complexity (OEC)



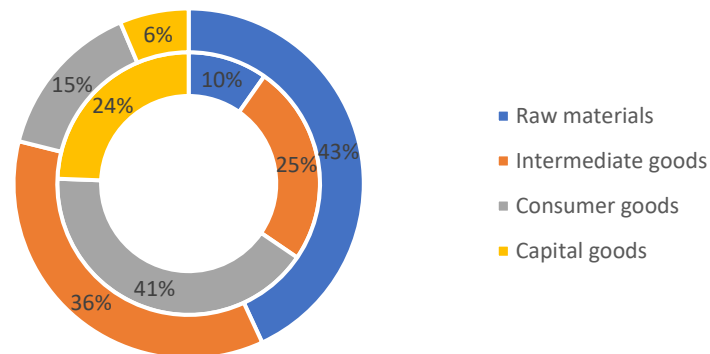
statista



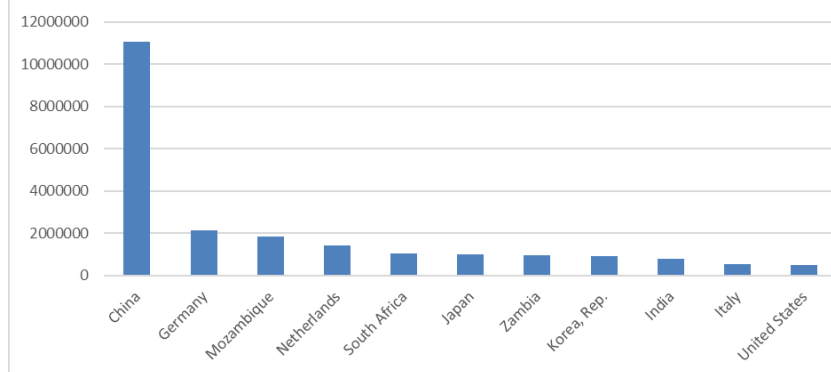
Top 5 raw material exports:

- Petroleum oils and oils from bituminous
- Copper
- Gold
- Rhodium
- Unrefined copper

Sub-Saharan Africa Exports and Imports of Product Groups, Product share, % (World Bank, 2021)



Export of minerals (thousand US\$) by partner, World Bank, 2023



Source: [Sub-Saharan Africa Trade | WITS Data \(worldbank.org\)](#)

Economic Overview of Sub-Saharan Africa

Africa's FDI relative to GDP compares favorably to other regions

FDI as a share of GDP in 2020* (%)













Source: FDI Markets (Financial Times), Oxford Economics, EY analysis.
GDP is measured in nominal terms, FDI is the total capital invested in 'US\$b'.

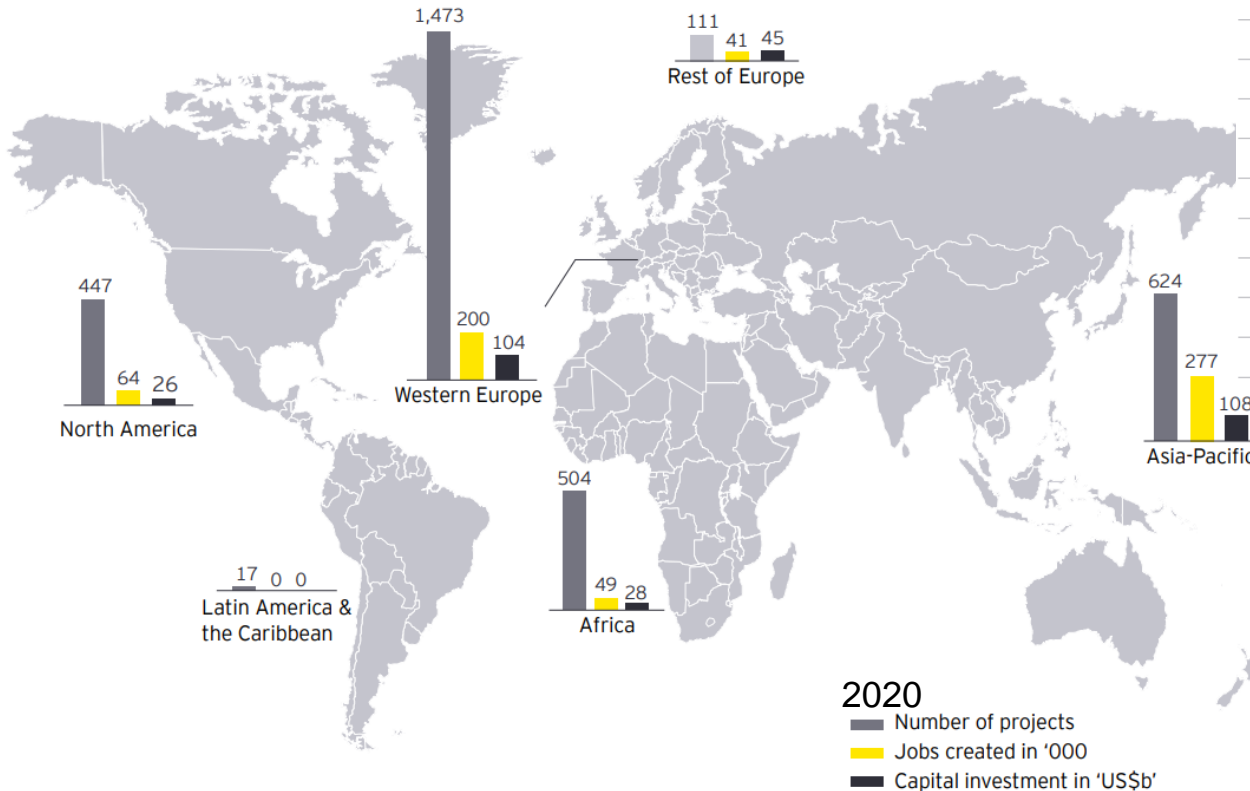
- The share of FDI in extractives is declining with rising diversification and urbanization;
- FDI in 2020:
 - services 72%;
 - industry 24%;
 - extractives 4%;
- African Continental Free Trade Act (AfCFTA) since 2021.

Economic Overview of Sub-Saharan Africa

African largest investors

FDI by source country, 2016-2020

Country	Projects	Jobs created ('000)	Capital investment (US\$b)
 US	401	54.0	23.7
 France	346	46.2	19.5
 China	287	170.1	70.6
 UK	275	35.2	16.3
 Germany	203	36.5	9.7
 UAE	189	36.3	23.8
 Switzerland	180	14.7	7.3
 South Africa	133	12.1	8.2
 Japan	115	38.5	8.9
 Spain	101	10.1	4.8



EY (2021) Reset for growth: fast forward.

https://assets.ey.com/content/dam/ey-sites/ey-com/en_za/topics/attractiveness/reports/ey-aar-reset-for-growth-final.pdf

Operational risks in Africa

Highly challenging operational environment



Droughts, floods, extreme weather conditions, El Nino phenomenon (East Africa)



Water shortages (West & South Africa, extractive industries)



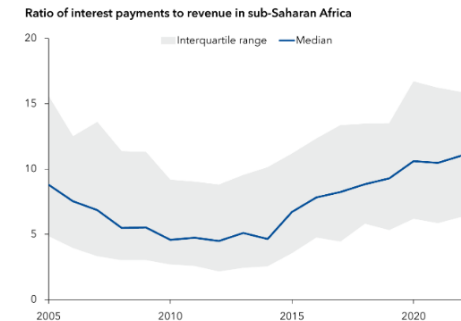
Electricity access



Social unrest



Intra-regional infrastructure

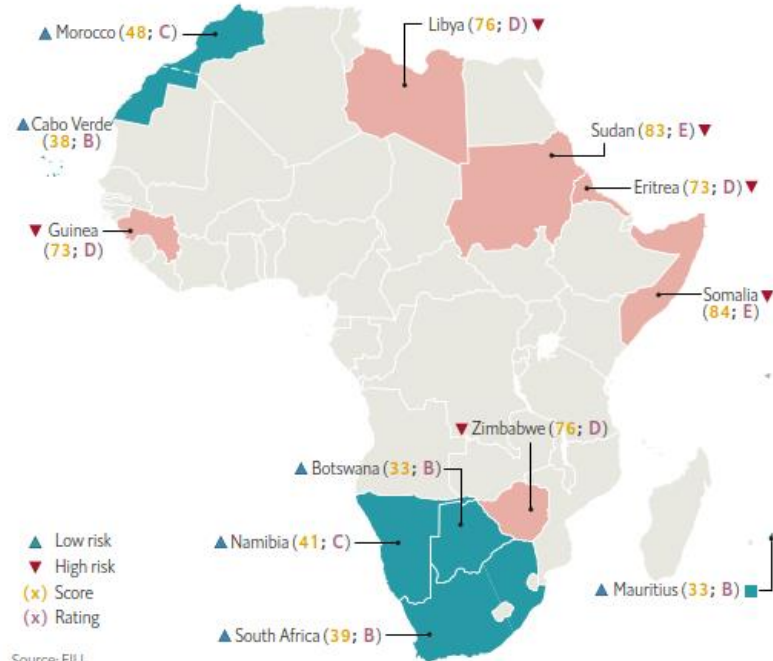


Public debt distress

Operational risks in Africa

Highly challenging operational environment

Operational risk: best and worst performers in Africa



Operational risk in Africa by category

(score out of 100; 100=highest risk)



- Rising domestic consumer prices provide negative impact on businesses' profit margins and wider implications for exchange-rate and monetary policy;
- Macroeconomic risks are mitigated by fast economic growth that comes with expanding population;
- Non-trade barriers;
- Political instability (coups, civil wars, prolonged conflicts) + excessive state authority;
- Corruption (in public services, bureaucratic red tape, lack of accountability among civil servants);
- Lack of skilled labor.

Key future trends

- Heterogeneous economic growth paths (oil exporting countries, other resource-dependent economies, tourism-dependent economies, non-resource intensive economies);
- “Chronically” young population;
- Increase in population;
- Rapid urbanization;
- Fragile foundation for democracies (mid-term);
- Slow but progressing regional integration.

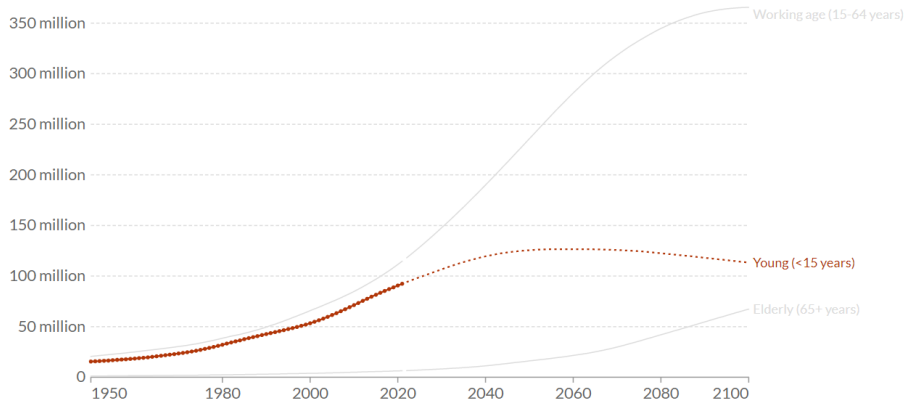
Future prospects and opportunities

Key future trends: The youngest continent

Size of young, working-age and elderly populations, Nigeria, 1950 to 2100
Historic estimates from 1950 to 2021, and projected to 2100 based on the UN medium scenario.

Our World
in Data

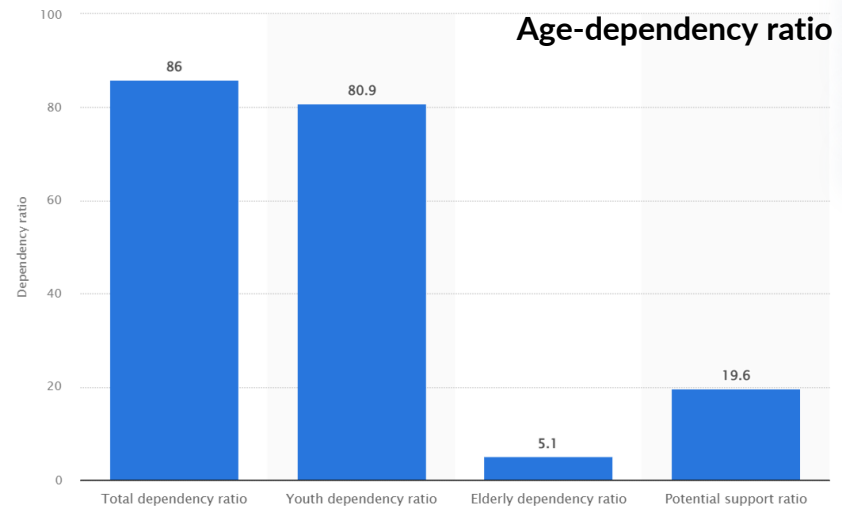
[Change country](#) Relative change



Source: United Nations - Population Division (2022)

OurWorldInData.org/age-structure • CC BY

- In 2018 the number of people over 65 surpassed the number of children under 5 the first time in history.
- USA – 1967, Spain – 1970, South Korea – 2000, India – 2026, South Africa – 2035, Nigeria – 2080
- Dependency ratio is expected to decline in Africa and provide a window of opportunity for more rapid economic growth (“demographic dividend”)

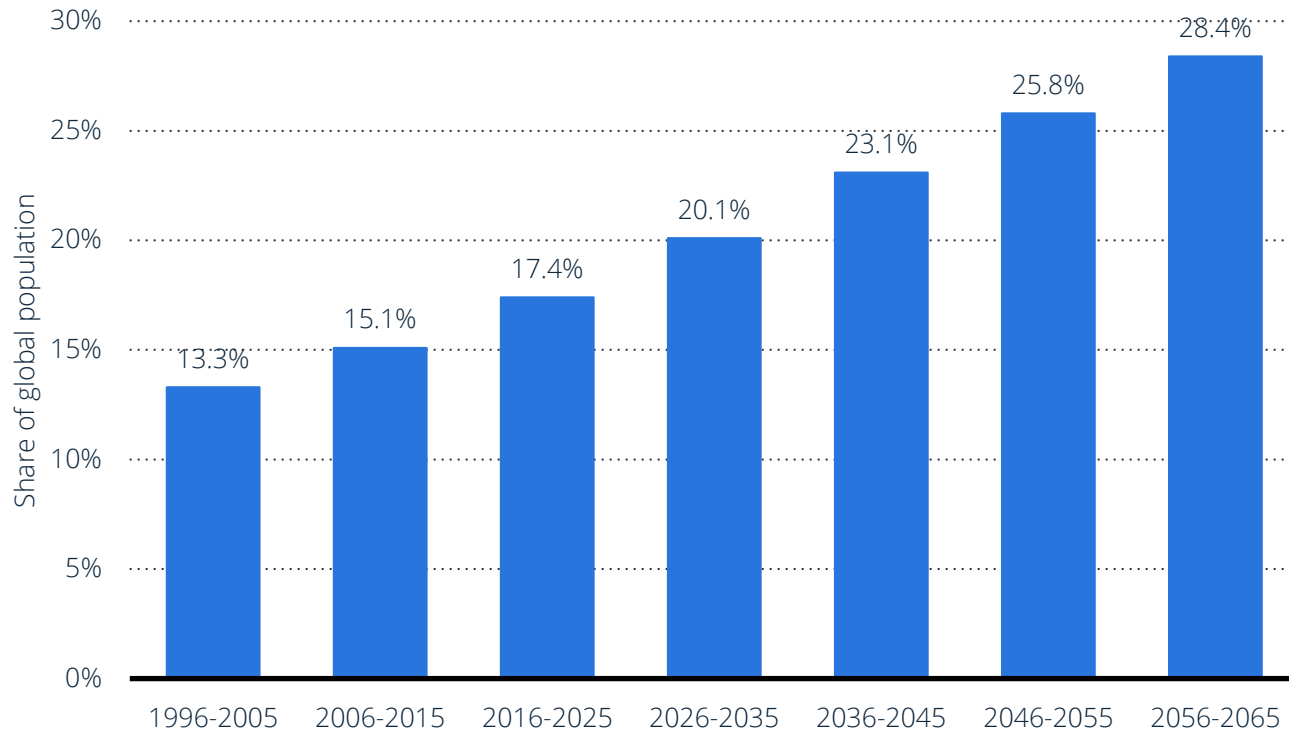


Source: Statista, 2022

Future prospects and opportunities

Key future trends: The second most populous continent

Population of Africa as a percentage of global population, 1996-2065



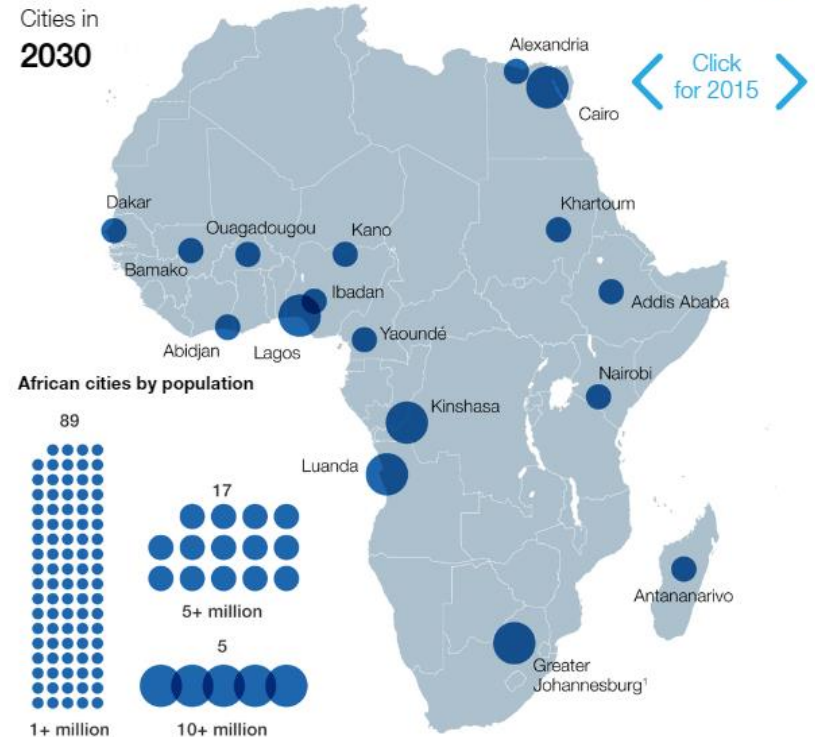
- By 2050, Nigeria, Ethiopia, and the Democratic Republic of the Congo would be the most populous countries on the continent.
- Specifically, the Nigerian population (211 million in 2021) would roughly double to exceed 400 million inhabitants by 2050.

Future prospects and opportunities

Key future trends: Rapid urbanization

- Most of the fastest-growing cities in the world are located in Sub-Saharan Africa;
- Gwagwalada in Nigeria and Kabinda in the Democratic Republic of the Congo ranked as fastest growing cities worldwide;
- Lagos (Nigeria) is predicted to be the biggest city in the world in 2100 with the population of 88 million followed by Kinshasa (DRC) with 83 million and Dar es Salaam (Tanzania) with 73 million people.

African cities by population in 2030, millions of people



Taking perspectives...

- Looking at Africa from the perspective of country-level institutions (voids, lacks...)

However, there is a substantial variation in conditions (regional and local)

- Looking at Africa from the perspective of what it possesses – young, large population, diaspora communities across the globe, richness of ethnic and religious diversity...

An interplay between formal and informal institutions needs to be considered

Wrapping up...



<https://www.youtube.com/watch?v=kZHfmglb4mc>

- Africa is an extremely large market with the world's fastest growing, youngest and increasingly urbanizing population;
- However, “Africa is not a country” (Dipo Faloyin, 2022);
- Africa's vast diversity along cultural, institutional, and other dimensions undermines the very meaning of country averages and suggests the need for greater nuances;
- Doing business in Africa would require a sound strategy (where, how), an innovative business model, and a good imagination to see the unsolved problems as opportunities;
- For those who “dream big”, Africa presents very high **long-term** returns on investments.