The politics & power of Africa's middle class

For almost a decade, governments and businesses from around the world have been quietly investing in **countries across Africa,** tapping into its potential to become an economic powerhouse. **Has the continent's time arrived at last?**

"In 20 years' time, we think the African middle class will be double the size it is now — something like 500 million people," says Professor Mthuli Ncube, chief economist and vice-president of the influential African Development Bank (AfDB). Africa's growing middle class reflects a major shift in the continent's economic fortunes. Between 2000 and 2008, GDP rose at an average of 4.9 per cent per year — five times the eurozone growth rate. Africa's collective GDP was estimated at $1.6trn in 2008; by 2020, it's forecast to reach $2.6trn.

Africa's middle class is on the rise, while the middle class in Europe and the US has seldom been so embattled. So when the AfDB published a report earlier this year — "The Middle of the Pyramid: Dynamics of the Middle Class in Africa" — it was closely scrutinised by Western media.

The definition of middle class used in the AfDB survey is not one that immediately resonates with the idea of a comfortable bourgeois life: people at the bottom of the middle class — the "floating" subclass — scrape by on just $2 to $4 a day.

"The bit we would consider to be the stable middle class are those spending between $4 and $20 a day," points out Professor Ncube. "They are sending their children to private schools and they are buying cars and houses. They are consuming banking and financial services."

The distribution of wealth varies dramatically among regions and countries. Despite the turbulence of the Arab Spring, north African nations remain among the most prosperous in the continent; in Tunisia, for example, almost 90 per cent of the population falls within the AfDB's definition of middle class.

Contrast that with states such as Liberia, Burundi and Rwanda. In these countries, more than 90 per cent of the population survives on less than $2 a day. Fostering the growth of the middle class should be a priority for policy makers because it helps to reduce poverty, the AfDB believes.

"You have to grow the middle class because it's the source of entrepreneurship and consumption," says Professor Ncube. "And it's politically important — the middle class tends to be educated. They will vote and will be the agents provocateurs to make sure that politics begins to serve people's demands."

Africa is already more urbanised than India, with 40 per cent of people now living in cities, and has as many cities with a population of one million as does Europe. Half of the African population is expected to dwell in urban areas by 2030. In the next 25 years, Africa's workforce will become the world's biggest, overtaking both China's and India's.

With growth in developed economies flatlining, it's unsurprising that many investors are turning their attention to Africa. Since 2007, the hunt for so-called African "lions" — economies with strong growth potential — has intensified.

Large infrastructure and entrepreneurial projects are driving a rise in foreign direct investment (FDI) into Africa — Ernst & Young anticipates FDI to reach $150bn by 2015, up from $84bn in 2010.

Research by the McKinsey Global Institute (MGI) identifies growth potential across sectors including agriculture, infrastructure and natural resources. Africa holds significant reserves of oil, minerals and precious metals; China has already done much to stake a commercial claim to the continent's ample resources.

MGI's research also highlights opportunities in telecoms, retail and banking. With the middle class growing steadily, Africa's prospects as a consumer market are becoming an even greater draw than its abundance of raw materials.

Meeting the needs of Africa's fast-growing middle class means recognising its strong aspirational ethos, says Thebe Ikalafeng, founder of the Brand Leadership Group in South Africa and an authority on African brands.

"The middle class is driven by the entrepreneurs. Brands help them to express their current status and their future ambitions. And, now that they have much more disposable income, it is also a way for them to spend their resources," says Ikalafeng

As a result, premium international brands — and increasingly, African brands as well — are now popular with well-heeled African consumers: "If you look at what's happening now in leading African countries like South Africa, Nigeria, Kenya, Ghana and Angola, you're beginning to see global brands making a much stronger presence, whether it's Burberry, Louis Vuitton or Maserati. Those brands have always represented a sense of accomplishment. In the past, Africans had to go to London or Paris to get those brands, but this is no longer the case. Global brands are recognising that Africans are increasingly confident of their home turfs. These brands now have to come to Africa."

The hunger for brands is not restricted to high-end goods. "You're also going to see brands that fulfil basic needs, in food and telecoms for example," says Ikalafeng. "Brands in Africa always do something, whether putting food on the table, providing entertainment or helping people to talk to each other. For many Africans with limited resources in the past, brands always represented 'an investment' that can be trusted to last."

The long climb ahead

Operating in Africa presents risks, among them widespread corruption and political instability. Transparency International, an NGO that monitors malpractice, highlights the extent of the problem: in Nigeria alone, companies were fined more than $3.2bn in 2010-11 for bribery offences.

And UK-based businesses need to be aware that involvement in corrupt activities overseas exposes them to the risk of prosecution in Britain under the Bribery Act 2010.

The lack of basic infrastructure — from electricity grids to fixed line communications and transport networks — also presents huge challenges. In Kenya, for example, more than one million homes depend on car batteries for electricity. But scarcity stimulates innovation. Where some see risk, others see opportunity and Africa's entrepreneurs are always quick to capitalise on gaps in the market.

Mobile telecoms is one sector that has expanded enormously over the past ten years, spurred in large part by the inadequacy — and often the absence — of fixed line communications. Figures from the African Mobile Observatory study, published by the GSMA, the trade association for the global mobile industry, reveal that Africa had more than 620 million mobile connections in September 2011.

In fact, Africa is now the world's second-largest mobile market after Asia. Over the past decade, the number of mobile connections has grown at an average of 30 per cent every year. By the end of 2012, the number of connections is expected to reach 735 million.

Between 2000 and 2008, Africa's GDP rose at an average of 4.9 per cent per year – five times the eurozone growth rate. Africa's collective GDP **was estimated at $1.6trn in 2008**; by 2020, it's forecast to reach $2.6trn.

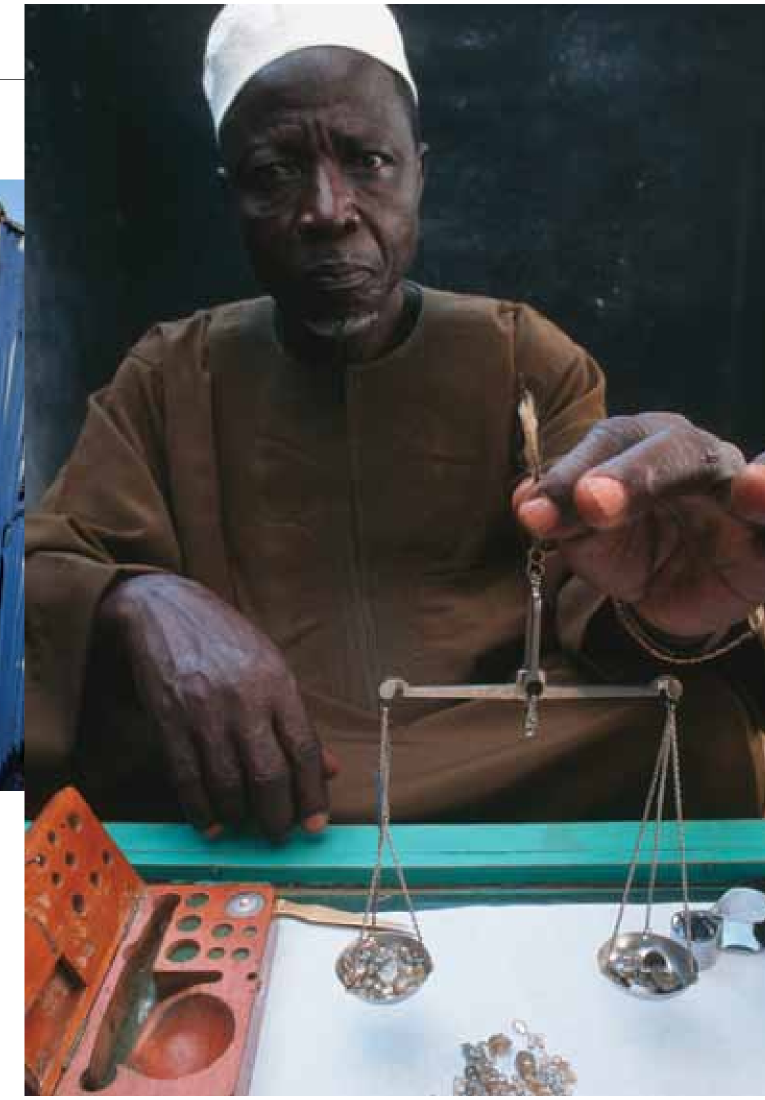
"The mobile industry in Africa is booming and a catalyst for immense growth, but there is scope for greater development," says Peter Lyons, director of Spectrum Policy, Africa and Middle East, GSMA.

"To take full advantage of its potential, African countries need to both allocate more spectrum for the provision of mobile broadband services, as well as introduce tax cuts for the industry. By doing so, they will increase consumption of mobile services, thereby boosting their economic and social development."

In Kenya, the abolition of sales tax on mobile handsets two years ago saw phone purchases soar by more than 200 per cent. As a consequence of this, mobile operators contributed a third more in taxes in 2011 compared with two years earlier. Africa has produced a number of highly successful mobile telephony business, including Celtel, founded by Sudanese entrepreneur Dr Mohammed Ibrahim, Glo in Nigeria — which serves Africa's biggest mobile market — and South Africa's MTN, which operates in 21 countries throughout Africa and beyond.

Success starts with providing an affordable payment model. That means pay-as-you-go, rather than contracts.

"The success of the likes of MTN, who pioneered the 'pay as you go' payment method and Unilever who pioneered 'travel size' packaging, is based on the obvious insight that for a long time, Africans did not have access to credit facilities. Indeed, many were working with small weekly or even daily incomes rather than lump monthly incomes," says Ikalafeng. "As a result, operators needed to find a way to advance the service without credit or lump sum limitations. Thus, for people who got paid weekly or didn't have credit, a per-second or per-minute billing option — to break up the service into smaller packages — made business sense. This applies whether you are selling soap or mobile telephony. And technology has been a key driving force in breaking down barriers to access of information and services."



Mobile innovations are helping to put basic banking services within reach of anyone with a mobile phone — without the need for a bank account. M-Pesa, a joint venture between Vodafone and Kenya's Safaricom, is a mobile money transfer system that allows users to send and receive money by text. M-Pesa has been taken up by more than half the adult population in Kenya and it is now being used in Tanzania and South Africa. Financial access in Kenya jumped from less than five per cent in 2006 to over 70 per cent in 2010, on the back of M-Pesa.

The solution is successful because it responds to real needs — needs that are not always immediately apparent. Only a small proportion of Africa's population has bank accounts, the middle class included. Poverty is one cause, but so is convenience: for rural populations, the nearest bank branch might be 30 miles away. Mobile money transfers are not only fast, they're also secure, so the risk of loss or theft, ever present with cash, is eliminated.

Technology is not only making life easier for millions in Africa: it is also spurring economic development in its own right. Kenya is a case in point. Sometimes described as "Silicon Savannah", after California's Silicon Valley, it's already a high-tech hub.

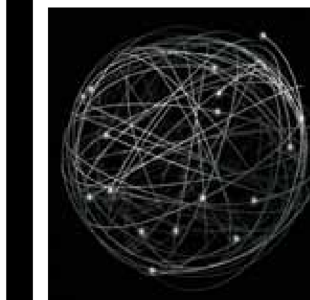
The Kenyan government is seeking to capitalise on the promise of the high-tech sector by backing the creation of Konza City, a new tech-focused urban centre being planned and built from the ground up near Nairobi. It is intended to attract multinational tech companies to set up shop, from biotechnology to robotics — all part of "Kenya Vision 2030", the government's blueprint to create a "middle-income country providing a high quality life to all its citizens by the year 2030".

With broadband penetration set to increase seven-fold by 2020 and mobile uptake set to double, analysts see a bright future for African high-tech.

"This spurt in connectivity will generate $200bn in opportunities for networked sectors by 2020," says Vitalis Ozianyi, ICT industry analyst with consultants Frost & Sullivan. "ICT will also become a major employer of skilled manpower."

Kenya points the way to what could be Africa's future. But, if Africa's true potential is to be realised, greater investment in higher education and vocational training will be essential.

"It is happening, but not fast," says Professor Ncube of the AfDB. "There needs to be more thought in positioning countries for the future, to service the demands of both the rising middle class and the economy in general."



Perspectives on Africa

"The success stories we're seeing in various African countries represent remarkable growth opportunities for UK businesses, but there are definite risk factors to keep in mind. Not least is the fact that any business entering the marker will be jostling for space not only with other companies, but with other countries," says Graham Watson, partner with Freshfields.

"For example, China has been investing heavily in Africa for 20 years, and it has been doing so through direct investment.

"China is building up a presence that goes beyond mere corporate growth strategy. This includes investing in infrastructure, signing long term deals and extracting resources. Businesses need to know where they stand in this kind of environment before they move in. As a firm, we've investigated growth opportunities and risk factors in many African countries and it requires a delicate touch if any business wants to make it a success."