Africa's New

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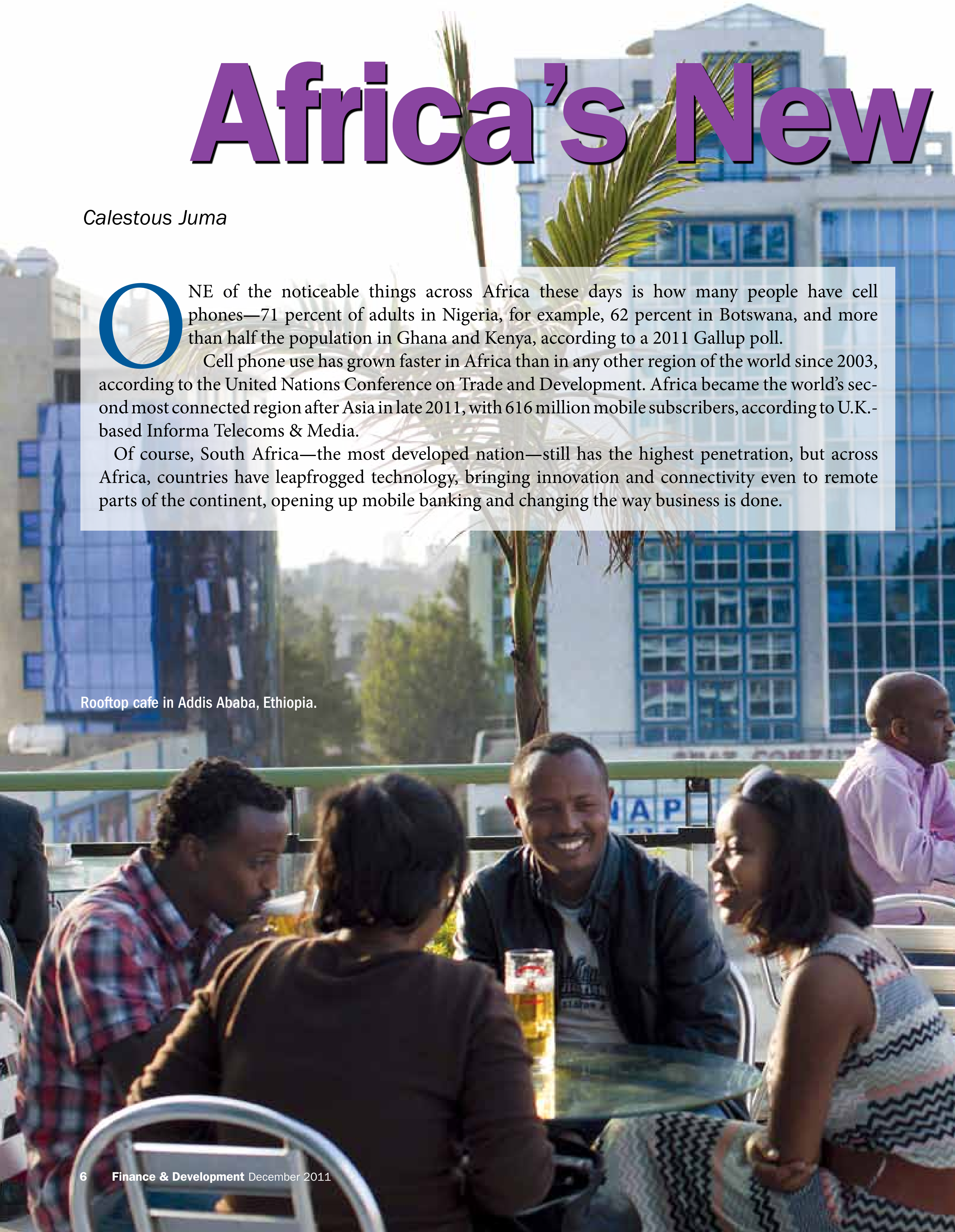
ONE of the noticeable things across Africa these days is how many people have cell phones—71 percent of adults in Nigeria, for example, 62 percent in Botswana, and more than half the population in Ghana and Kenya, according to a 2011 Gallup poll.

Cell phone use has grown faster in Africa than in any other region of the world since 2003, according to the United Nations Conference on Trade and Development. Africa became the world's second most connected region after Asia in late 2011, with 616 million mobile subscribers, according to U.K.-based Informa Telecoms & Media.

Of course, South Africa—the most developed nation—still has the highest penetration, but across Africa, countries have leapfrogged technology, bringing innovation and connectivity even to remote parts of the continent, opening up mobile banking and changing the way business is done.



Rooftop cafe in Addis Ababa, Ethiopia.

Engine

Africa looks to its middle-class consumers to drive prosperity

Seeing the cell phone success, banking and retail firms are eyeing expansion in Africa to target a growing middle class of consumers. According to the African Development Bank (AfDB), one of the results of strong economic growth in recent years has been a significant increase in the size of the African middle class.

The middle class will continue to grow, from 355 million (34 percent of sub-Saharan Africa's population) in 2010 to 1.1 billion (42 percent) in 2060, the bank says (AfDB, 2011a). And this middle class is the key to Africa's future prosperity.

Good combination

Following African countries' independence, the continent has struggled with a seemingly endless array of development challenges, from civil war and political instability to chronic food insecurity, droughts, disease, and pervasive poverty and corruption.

But in recent years, Africa has started to see an economic resurgence. Better economic policies, governance, and use of natural resources, coupled with more business-friendly policies and stronger demand for Africa's commodities from emerging economies such as Brazil, China, India, and South Africa, have led to consistently high growth levels in Africa, despite the global downturn.

"Over the past decade, despite the successive global food and financial crises, Africa has been growing at an unprecedented rate. Though it will take decades of growth to make major inroads into Africa's poverty, there is now a growing

Morning street scene in Nairobi, Kenya.

optimism about Africa's potential," says the AfDB report *Africa in 50 Years' Time*.

Poverty will be a fact of life for a long time: one-third of all Africans will still be extremely poor in 2060, living on less than $1.25 a day, according to the AfDB.

To the outside world, the symbolism of helping people living on a mere $1 a day had irresistible appeal. But the emphasis on aid did not encourage Africa to aspire to higher economic performance. A change in focus from poverty to gradually growing prosperity represents a deep shift in the perceptions of Africa's economic future, with profound policy and practical implications.

The traditional emphasis on eradicating poverty in Africa distracted both the African authorities and international donors from serious consideration of ways to promote prosperity: infrastructure development, technical education, entrepreneurship, and trade.

What do we mean by middle class?

It is not an easy task to define what middle class means or how many people fall in that category across the 47 countries of sub-Saharan Africa. But the group we are referring to falls somewhere between Africa's large poor population (defined as those living on less than $2 a day) and the small, rich elite.

These people are not middle class in developed country terms, or even by the standards of emerging markets, but in African terms they have disposable income and are demanding an increasing amount of goods and services that contribute to the overall well-being of society. Their average income is between $1,460 and $7,300 a year.

According to the AfDB, Africa's middle class has been steadily rising since the 1980s. In 1980 the middle class accounted for 26 percent of the population, standing at 111 million. A decade later it had risen to 27 percent, or 196 million, and by 2010 more than a third of the population was middle class (AfDB, 2011b).

Middle-class Africans are young and in the acquisitive phase of life, according to a recent survey of the Nigerian cities of Lagos, Abuja, and Port Harcourt by emerging market investment bank Renaissance Capital. Nearly 70 percent of them are under the age of 40. About half at any given time are in the market for refrigerators, freezers, and other durable consumer goods. And that consumer demand extends to other sectors—such as housing, home improvement, transportation, and leisure.

Consumer spending in Africa is projected by the McKinsey Global Institute to reach $1.4 trillion in 2020, from about $860 billion in 2008. Decisions by major consumer retail chains such as Walmart to establish a presence in Africa reflect global confidence in the economic impetus we can expect from the African middle class.

By 2030, African countries with large populations—such as Ethiopia, Nigeria, and South Africa—will be the main sources of the new middle class, who can be expected to spend $2.2 trillion a year, or about 3 percent of worldwide consumption.

Across Africa, change is in the air. Many of the old problems remain—deep poverty, poor infrastructure, and famine in areas of a continent abundant in natural resources. But equally remarkable is the rise of a new generation of young entrepreneurs creating new opportunities for ancient lands.

Factors that make this change possible range from a business environment that fosters locally based growth to increased regional integration and new forces for globalization that spur increased opportunities for growth.

Business environment and entrepreneurship

Together with government economic policies that foster growth, the emergence of an African middle class has been driven by a robust private sector led by local entrepreneurs, whose rapid adoption of emerging technologies will boost middle-class potential. Advances in information and communications technologies, for example, offer new business opportunities for young people.

This is not to deny that the majority of Africa's labor force will still be in the informal sector, working in low-productivity, low-earning jobs. Even if formal sector wage employment grows at 10 percent a year, the share in the informal sector will still dominate at 60 to 70 percent in 2020.

Rwanda, still remembered for its 1994 ethnic bloodshed, offers a glimpse of what the future of the African middle class could look like. Inspired by the prospect of integrating with the global economy, young Rwandans are tapping into the latest technologies to start new businesses.

Clarisse Iribagiza and other engineering students at Rwanda's Kigali Institute of Science and Technology started HeHe Limited, a mobile applications development firm, in 2010. The company grew out of training the students received from a Massachusetts Institute of Technology program, Accelerating Information Technology Innovation, designed to foster entrepreneurship and software-related business development. HeHe is one of many Rwandan start-up firms seeking to take advantage of the expansion of telecommunications infrastructure—especially broadband.

Similar start-ups are appearing in other African countries. In Kenya, for example, new companies are bringing the latest information technology to fields as diverse as entertainment, communications, education, agriculture, and services.

These start-ups demonstrate the long-term economic impact of investment in infrastructure. In 2009, the Mauritius-based Seacom Company launched a $600 million undersea fiber-optic cable connecting South Africa to Europe via the east African coast. According to Seacom's former CEO, Brian Herlihy, this infrastructure venture catalyzed an additional $6 billion investment in terrestrial fiber built for "national backbone" networks, municipal networks, and mobile towers in eastern and southern Africa.

Seventy-six percent of Seacom's shares are held by African investors, a sign that foreign capital and technology can leverage local investment in megaprojects that boost business development and growth of the middle class. The next phase for Seacom will help Africa leapfrog into broadband-based services such as cloud computing.

The improved business climate will lead to greater emphasis in coming decades on locally based economic growth, especially in cities, which are often centers of creativity. The new middle class will rise in industrial and agricultural clusters that provide opportunities for innovation and entrepreneurship. Current investments in critical infrastructure such as broadband will lead to greater connectivity, mobility, and clustering of economic activity.

The new African middle class will flourish in knowledge centers that are connected to the global economy. The seeds of such growth can be found in places like Ikeja, the nascent computer-based industrial district of Lagos, and emerging knowledge-based industries such as Nigeria's movie production network ("Nollywood") will produce a new crop of entrepreneurs ready to shape the character of the next generation of middle-class Africans.

Regional markets

In addition to promoting local sources of economic growth, Africa is moving rapidly to foster regional integration aimed at creating larger continental markets. The most inspiring of such efforts is the June 2011 launch of negotiations for a Grand Free Trade Area (GFTA) stretching from Libya and Egypt to South Africa.

The proposed GFTA would merge three existing blocs, including the Southern African Development Community, the East African Community (EAC), and the Common Market for Eastern and Southern Africa (see "Data Spotlight: Trade in East Africa," in this issue of *F&D*).

Proponents envision that GFTA will include 26 countries with a combined GDP of over $1 trillion and an estimated consumer base of 700 million people. This significant market will appeal to foreign as well as domestic investors. Local industrial and agricultural development will take center stage, but many inputs will come from abroad, and talks on developing this tripartite free trade area are already under way.

Larger trading blocs facilitate the economic growth that in turn enhances the expansion of the middle class. It is estimated that the free trade area initiatives of the three existing regional blocs in Africa led exports among the 26 member states to increase from $7 billion in 2000 to over $32 billion in 2011.

These efforts build on ongoing integration efforts in the EAC, including a customs union, common market, common currency, and political federation. The five member countries (Burundi, Kenya, Rwanda, Tanzania, Uganda) count 135 million people with a total GDP (at current market prices) of about $80 billion, representing a powerful consumer base.

The region is currently negotiating the establishment of a monetary union to advance and maintain sound monetary and fiscal policy and financial stability. The negotiations are attempting to take into account the limitations of the euro area by including provisions for fiscal integration and financial stabilization. If adopted as envisaged, the monetary union would yield Africa's first genuine regional economy, which would attract foreign direct investment and bolster consumer spending and growth of the middle class.

Meeting the investment challenge

Intra-Africa trade is limited by the continent's poor infrastructure (mainly in energy, transportation, irrigation, and telecommunications). The Democratic Republic of the Congo (DRC), for example, has a total paved road network of about 3,100 kilometers and is four times the size of France, which has nearly 1 million kilometers. The DRC's ability to effectively participate in the free trade area will depend on how fast it invests in infrastructure construction and maintenance.

Couple takes photo with a cell phone in Soweto, South Africa.

Africa as a whole will need nearly $500 billion over the next decade to meet its infrastructure needs (see "Building an African Infrastructure" in this issue of *F&D*). A number of countries have started implementing ambitious plans to fill this infrastructure gap. Senegal, for instance, is upgrading its energy, road, and airport infrastructure with a view to making the country a regional business hub.

Economic growth in Africa and the associated rise of the middle class depend in part on larger international investment triggered by increased trade, particularly with growing emerging markets. China's trade with Africa was valued at $10 billion in 2000 and is projected to exceed $110 billion in 2011; India's, at $3 billion in 2000, is projected to rise to $70 billion by 2015. These ties do introduce risks: Africa's overall growth is so highly correlated with its exportation of raw materials to China that it is vulnerable to manufacturing fluctuations in that country.

Beyond the pressing requirements for social investment in education and health, it will take massive injections of capital to bridge the huge infrastructure gap confronting the continent.

Diaspora support

The African middle class is rising as the continent is integrating with the global economy. Likely to foster global connectivity is the large number of Africans in diaspora (see "Harnessing Diasporas," *F&D*, September 2011)—estimated at 30 million or more, and a possible source of investment.

The main influence of this diverse community has so far been through the money its members send home, which is estimated at $38 billion annually. Unrecorded transfers could make that remittance total closer to $60 billion. These flows, of which a large proportion supports emigrants' families back home, significantly dwarf the $25 billion in official development assistance Africa receives yearly.

But the African diaspora is increasingly an important source of the investment capital that supports the growth of the middle class.

Africans in diaspora are helping build a new generation of universities that not only increase competence but foster the growth of the middle class. One example is Ashesi University College in Ghana, started by Patrick Awuah, a former Microsoft employee and graduate of the Haas School of Business at the University of California, Berkeley. The college aims to train "a new generation of ethical, entrepreneurial business leaders in Africa and to nurture excellence in scholarship, leadership and citizenship."

There are similar developments in even poorer parts of Africa. For example, Northern Somaliland, which declared independence after the fall of Somali military dictator Siad Barre in 1991, has relied significantly on its diaspora to build institutions of higher learning. It started by building the University of Hargeisa, followed by the establishment of Burao University, Amoud University, Somaliland University of Technology, and Gollis University.

The growing contribution of African diasporas to the rise of the middle class is reinforced by greater connectivity and mobility. Direct flights between the United States and west Africa, for example, ease investment flows into the region. Ghanaians working in the pharmaceutical industry in the New Jersey area are starting to invest in health care in their home country. Similar investment flows and trade linkages will help foster the growth of the middle class in West Africa.

Building entrepreneurial competence

Universities and other institutions of higher learning play a key role in providing the local knowledge needed by entrepreneurs. For historical reasons, African universities tend to focus more on traditional education functions than on technical and entrepreneurial skills. First-generation African universities were designed to train postcolonial civil servants; departing colonial administrators had little interest in training Africans to be agents of economic change. This traditional approach became the model for new universities, even though economic demands called for greater emphasis on technology and business.

But as Africa invests in new and updated infrastructure, the associated projects offer an opportunity to build up the region's capabilities in project design, execution, and maintenance. And regional energy, transportation, irrigation, and telecommunications projects in turn will provide the basis for technical training.

Such specialized universities can combine theoretical training with practical work through experiential learning, which will help diversify approaches to higher education without the need to reform existing universities, some of which might voluntarily adopt the new models.

There are already such universities in Africa and elsewhere—for example, Egypt, Ghana, and Kenya have schools dedicated to the telecommunications sector. Moreover, Africa's varied exports, such as minerals and agricultural commodities, are associated with long value chains that provide a rich basis for curriculum development and pedagogical innovation, in diverse locations.

Coffee, chocolate, tea, flower, copper, and diamond production curriculums are just waiting to be developed. Pittsburgh's Carnegie Mellon University has established a branch in Rwanda for graduate training in technology and entrepreneurship, which will position the country as a technology hub and serve surrounding countries as well.

Urban hubs of growth

The rise of the middle class brings growing urbanization—centers of population that can drive growth and creativity.

Lagos, the former capital of Nigeria, was once left for dead after federal leaders retreated to found a new seat of government in the hinterland. Today it is a bustling symbol of economic renewal, thanks in part to the city's dynamic leadership but largely because of Lagosians' entrepreneurial spirit and the rise of the middle class as an economic force.

Nearly 20 percent of Lagosians are now members of Nigeria's growing middle class. The recent survey by Renaissance Capital predicts that the Nigerian middle class in Lagos will significantly boost local and international demand for manufactured goods.

One way to tap into the urban potential is to reposition cities as innovation hubs. Lagos, for example, recently set up the Innovation Advisory Council, aimed at supporting government efforts to upgrade its technological and entrepreneurial dynamism. The council is chaired by the state minister for science and technology, whose functions are changing from the traditional role of supporting research to a new focus on fostering innovation.

This shift will go a long way toward enhancing the role of the middle class as an economic force in the region.

Room for an agricultural revolution

But new technology sectors and urban-based vision are not the only sources of growth. There is also vast untapped potential for African agriculture, which has actually regressed. World food production has increased by 145 percent since 1960, but sub-Saharan African food production is 10 percent lower today than it was 50 years ago, largely as a result of underinvestment in agriculture.

For example, fertilizer use is strikingly low—only 13 kilograms a hectare in sub-Saharan Africa compared with 71 kilograms in northern Africa. Only 24 percent of cereal production uses improved seeds compared with 85 percent in eastern Asia.

The lack of nutrient input has led to a dramatic depletion of soil quality; 75 percent of farmland in sub-Saharan Africa has been degraded by overuse. Only about 4 percent of Africa's crops are irrigated, compared with about 40 percent in south Asia, which leaves sub-Saharan Africa vulnerable to fluctuations in world food prices.

New knowledge and technologies combined with flexible local techniques, resources, and experience will kick-start the development of new local products and services, harness technological innovation, encourage entrepreneurship, increase agricultural output, create markets, and improve infrastructure. Improved food processing and storage can help stabilize agricultural markets and promote rural innovation.

The rise in food prices has stimulated outside interest in investing in African agriculture. In early 2011, Saudi Star Agricultural Development, a food company owned by billionaire Sheikh Mohammed al-Amoudi, announced plans to invest $2.5 billion in Ethiopia by 2020 to produce rice. Ethiopia-based firms will farm idle arable land in the lowlands of the country as part of Ethiopia's plan to lease 3 million hectares to private investors over the next four years. Ethiopia has more than 74 million hectares of cultivable land, of which only 15 million is being farmed. Bringing the remaining land into cultivation is an initial step toward fostering rural development and expanding the middle class.

Branching out with new opportunities

The forces of globalization—trade interdependence, connectivity, and mobility—offer Africa new opportunities for growth and open up the potential for trade with the rest of the world.

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Political and economic policy changes begun more than a decade ago are stirring optimism. Combined investment in infrastructure and technical training will support technology-based companies with the dynamism needed to propel economic prosperity. The emergence of such firms will in turn stimulate innovation in the financial sector, leading to growth in domestic venture funding activities.

As Africa's middle class grows, policymakers should place a premium on regional economic integration and the associated investment in infrastructure, technical training, and support of entrepreneurs. Investing in consumers will bring prosperity to Africa—and not just for the middle class. ■

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