



Understanding Africa's growth acceleration and business opportunities

McKinsey Global Institute

Discussion Document

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Some facts that surprised us

Consumption grew more in Africa than in India or Brazil over the last decade

Africa has as many cities with 1 million people or more as Europe

Africa today is more urbanised than India, and just below China

African returns to FDI were the highest in the world by 2007

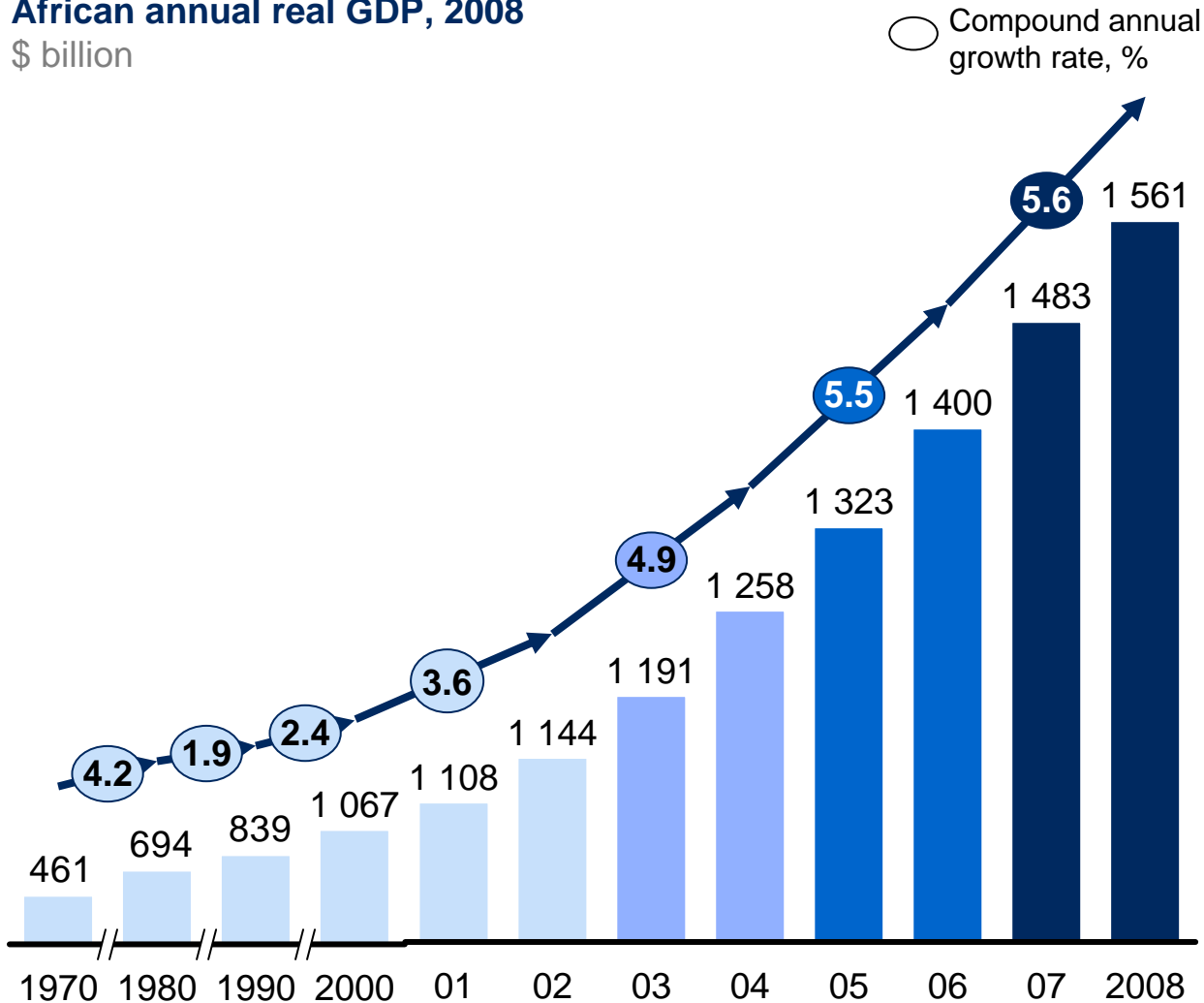
Productivity growth was widespread and jumped to 2.7% p.a. across the continent

Africa's growth prospects

Africa's economic growth accelerated after 2000, making it the world's third-fastest growing region

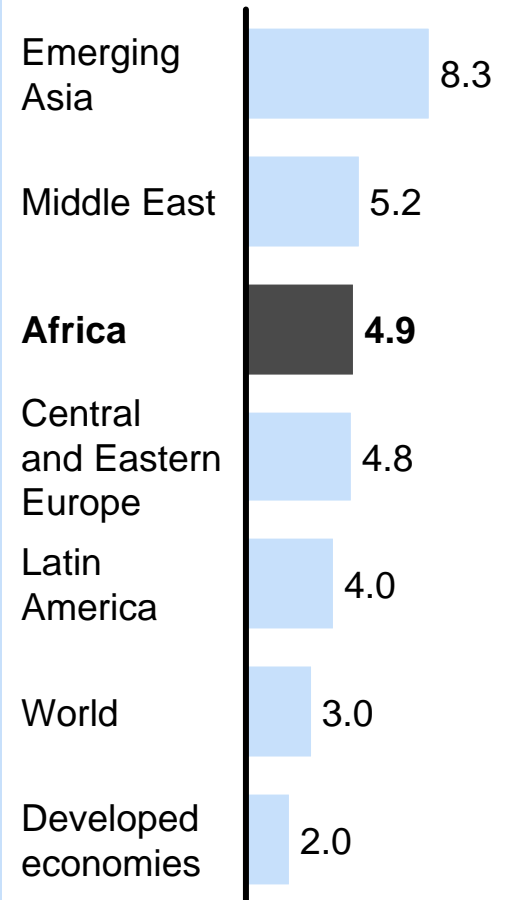
African annual real GDP, 2008

\$ billion



Compound annual real GDP growth, 2000–08

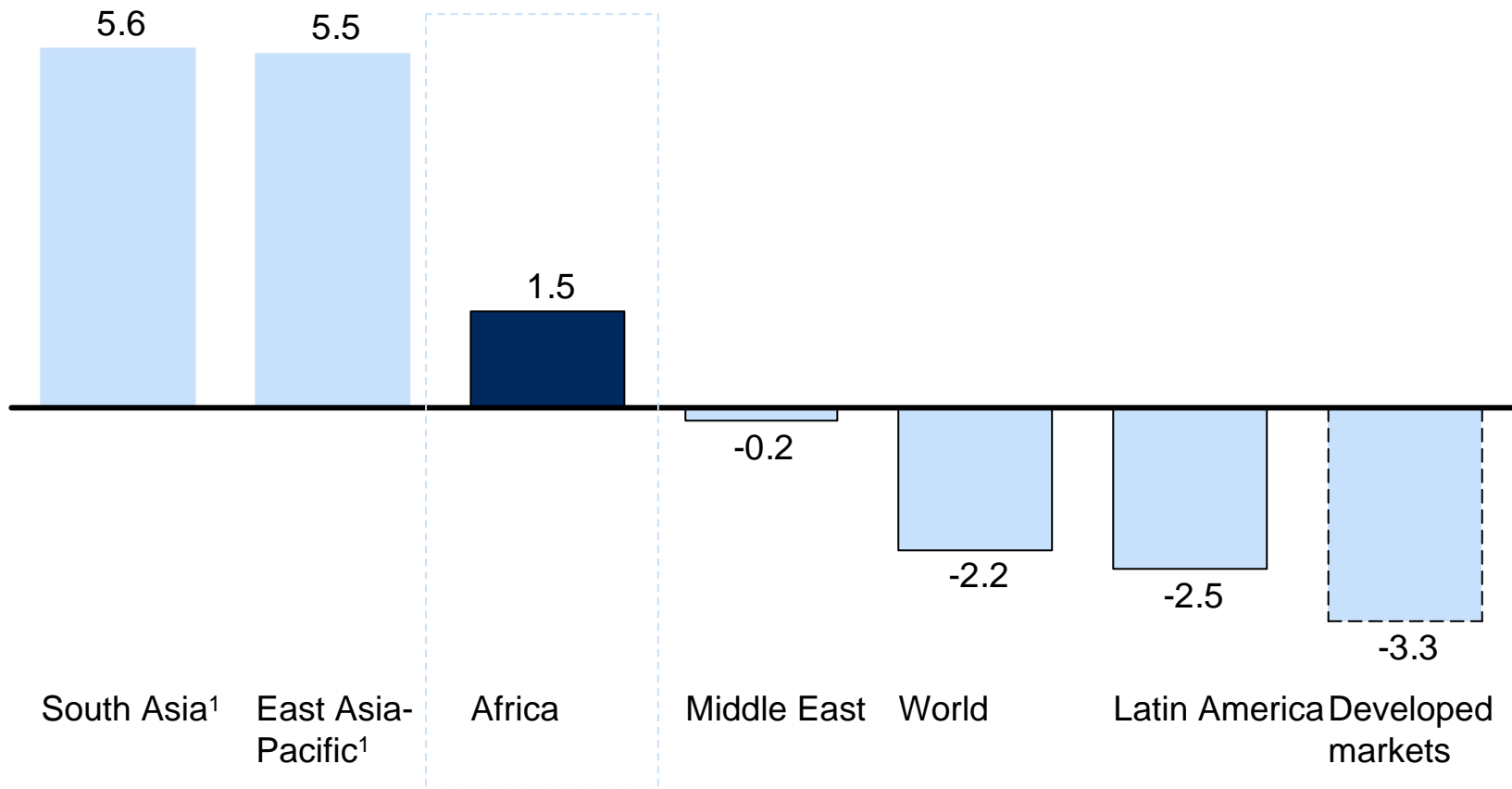
%, constant exchange rates



Despite a steep fall in real GDP growth, Africa was one of only three regions to grow in 2009

2009 real GDP growth

%, constant exchange rates



¹ Only developing and emerging countries

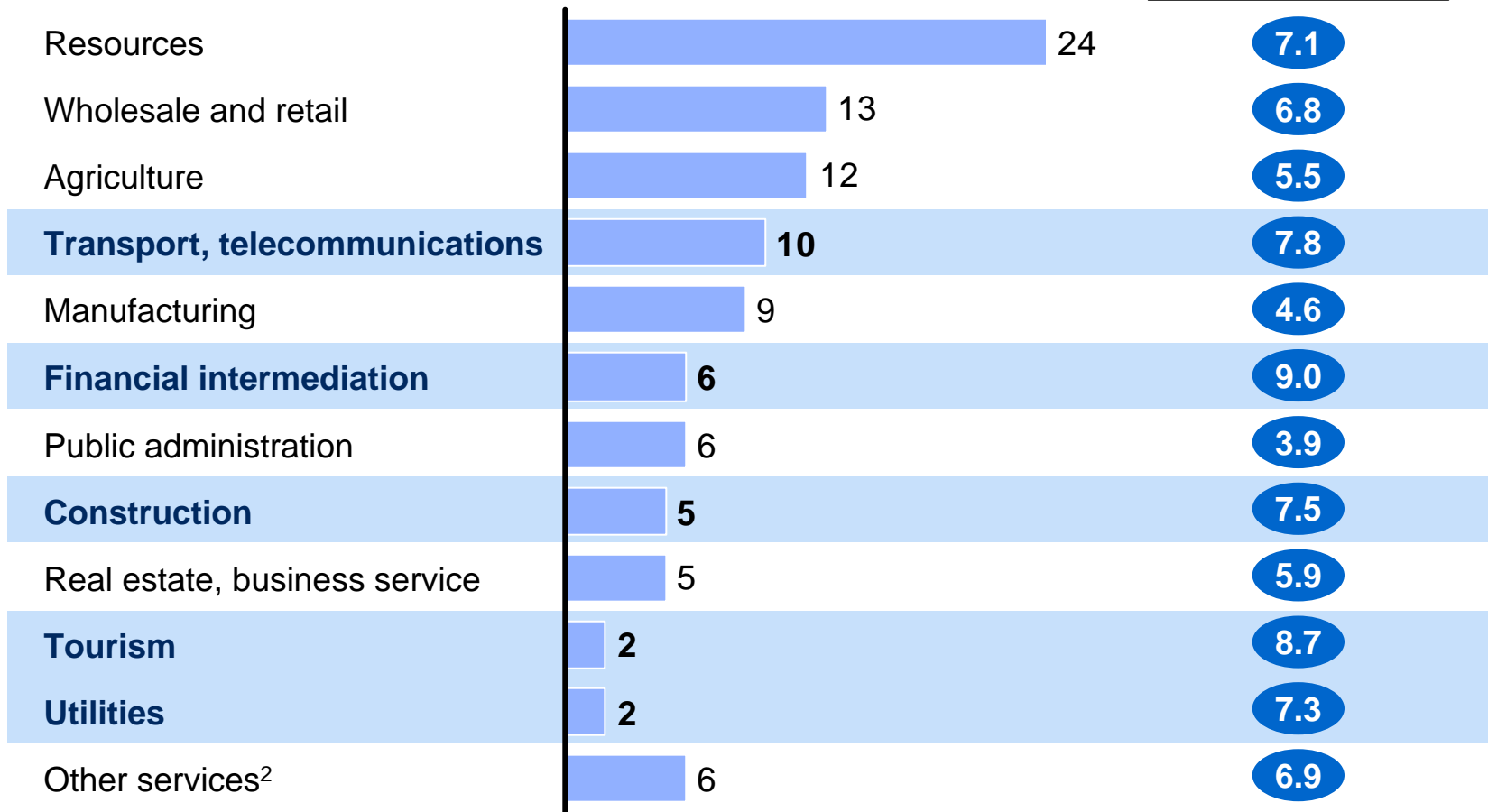
Africa's growth was widespread across sectors ...

Sector share of change in real GDP, 2002–07

Percent, 100% = \$235 billion¹

■ Sectors with higher growth than resources

Compound annual growth rate, %



¹ In 2005 dollars. Includes 15 countries that account for 80 percent of Africa's GDP: Algeria, Angola, Cameroon, Egypt, Ethiopia, Kenya, Libya, Morocco, Nigeria, Senegal, South Africa, Sudan, Tanzania, Tunisia, Zimbabwe

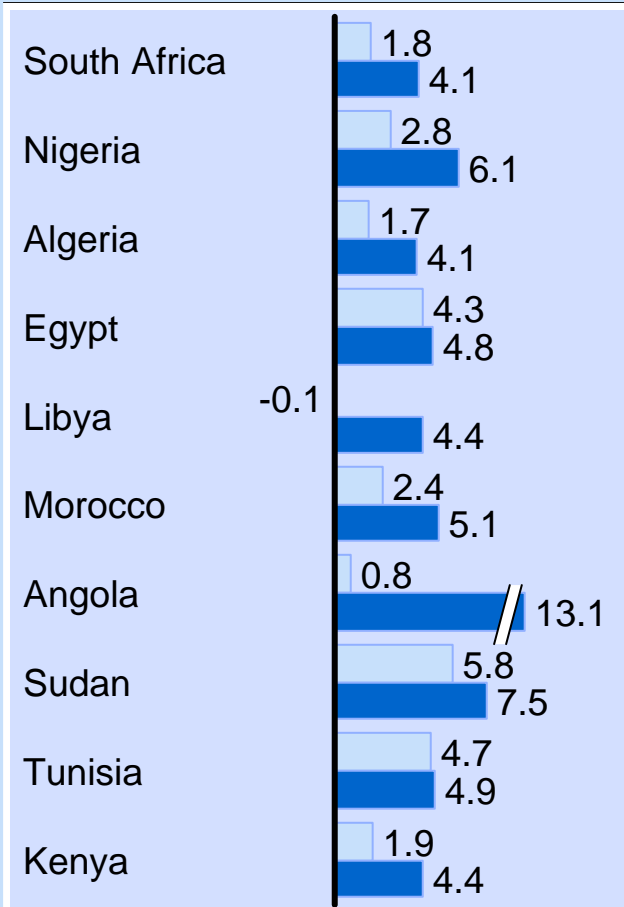
² Education, Health, Social Services, Household Services

... and countries

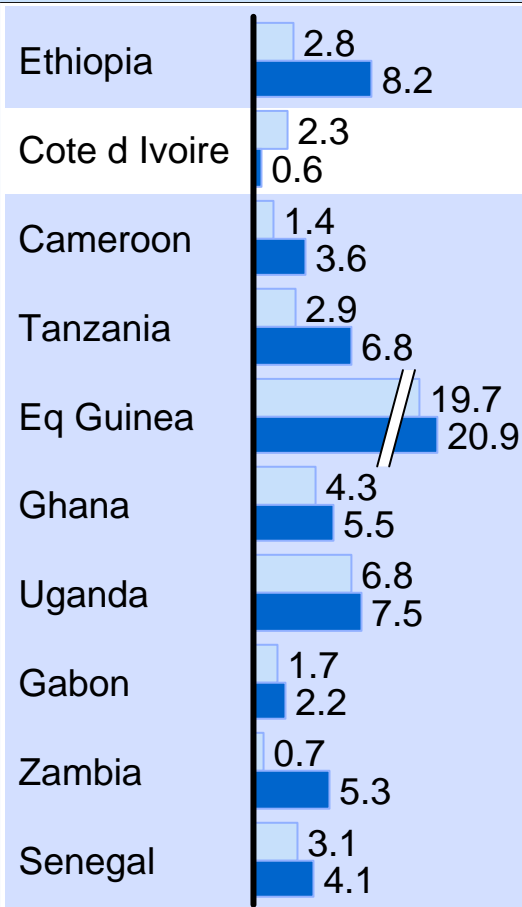
Average annual real GDP growth, %

1990s 2000-08
Accelerators

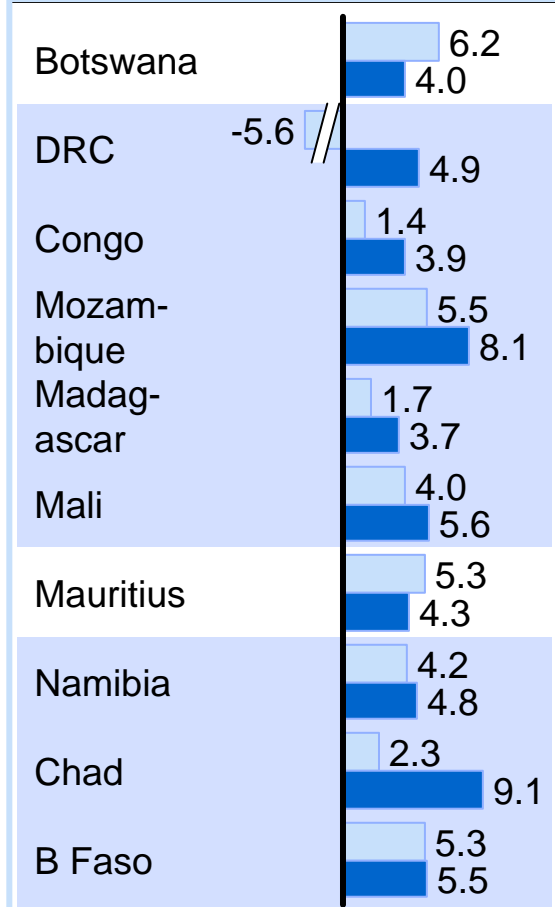
Africa top 10 – 79% of GDP



Africa 11-20 – 12% of GDP



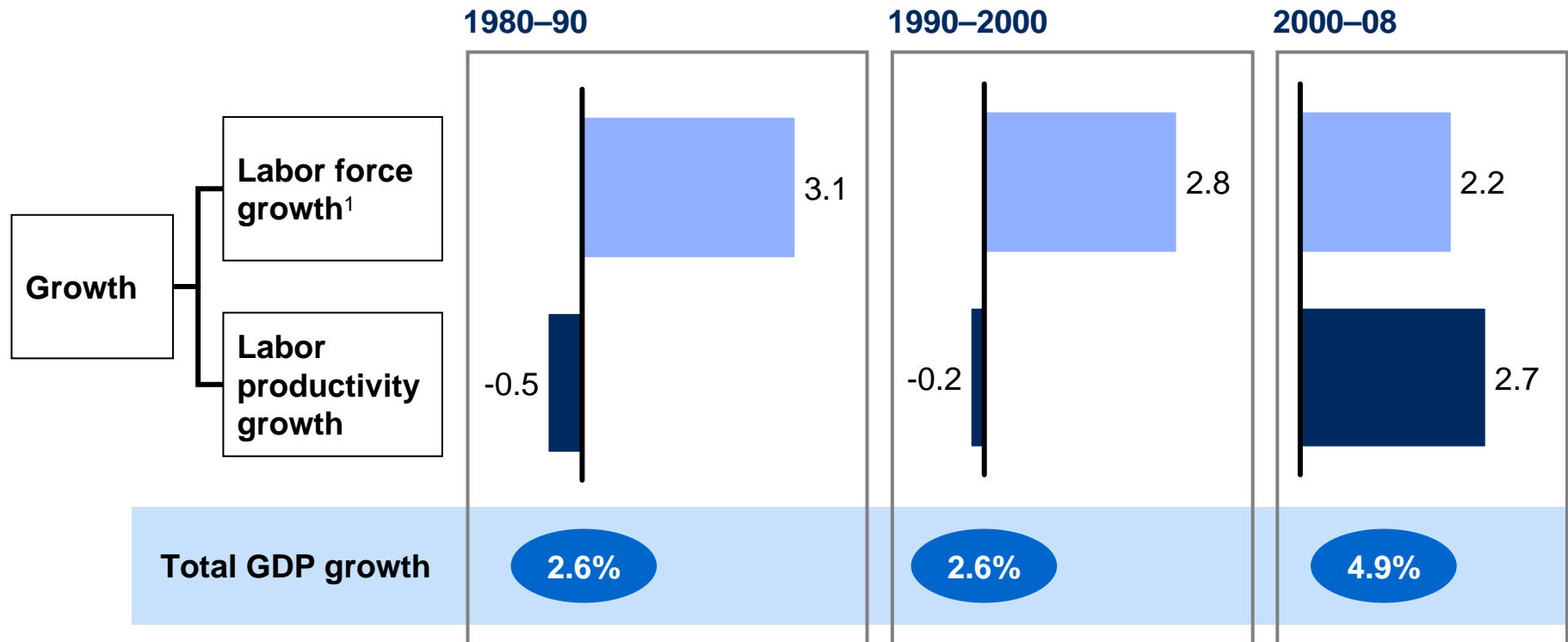
Africa 21-30 – 6% of GDP



1 These economies represent 97% of Africa's GDP

Africa's labor productivity grew for the first time in decades

Real GDP growth, Africa
%



¹ Used working-age population (15-64) as a proxy for labor force.

SOURCE: Conference Board World Economy database; McKinsey Global Institute

Africa's growth acceleration has been driven by the commodity boom, greater stability, economic reforms, and healthy urbanisation

1

The commodity boom

- **Resources account for 32%** of Africa's growth since 2000, 24% through the direct effect on resources GDP, and 8% through multipliers on government spending

2

Macro and political stability

- Governments reduced **inflation** from 22% (1990s) to 8% (2000s) and **foreign debt** from 82% to 59%.
- **Serious conflicts**¹ fell from 4.8 to 2.6 per annum

3

Economic reforms

- **Widespread business-friendly reforms**, including in Nigeria (telecomm, banking); South Africa (tax); and Egypt (liberalisation)
- 11 'Reforming' countries accelerated growth by 3% vs. 1% for 'non-reformers'

4

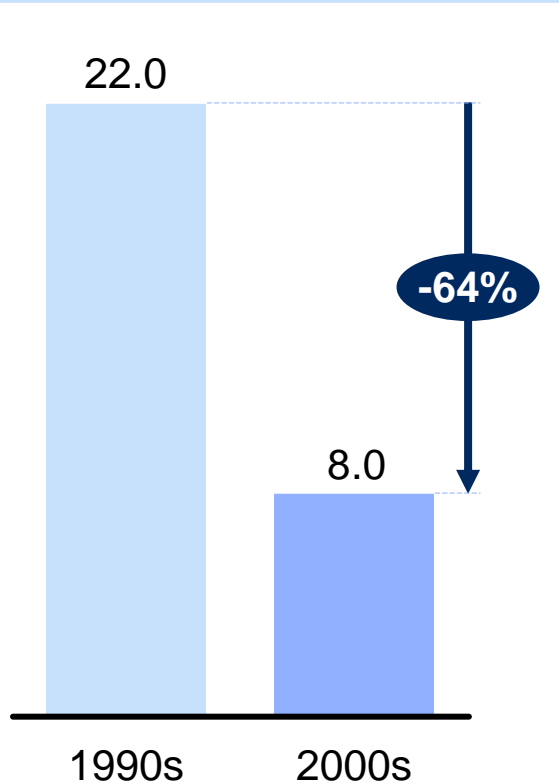
'Healthy' Urbanisation

- African cities' population **grew by 90m since 2000**
- **'Healthy' urbanisation** is associated with productivity growth across Africa, and accounts for 30-50% of the productivity growth in Tanzania, Kenya and Morocco

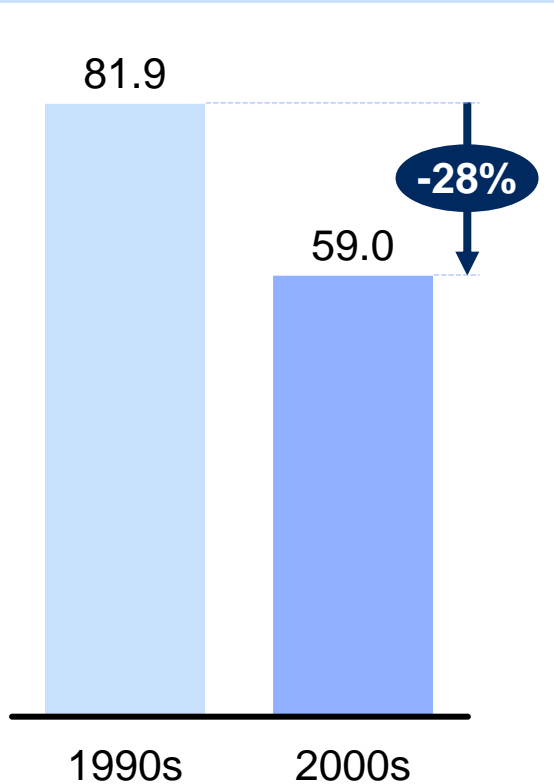
¹ Conflicts with more than 1,000 deaths per annum

African governments have significantly improved macroeconomic stability

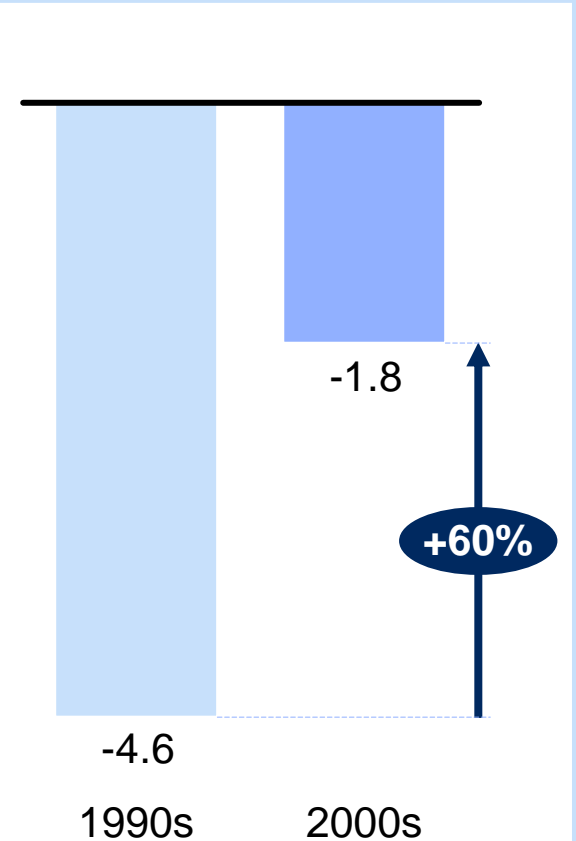
Inflation % per annum



Government debt % of GDP



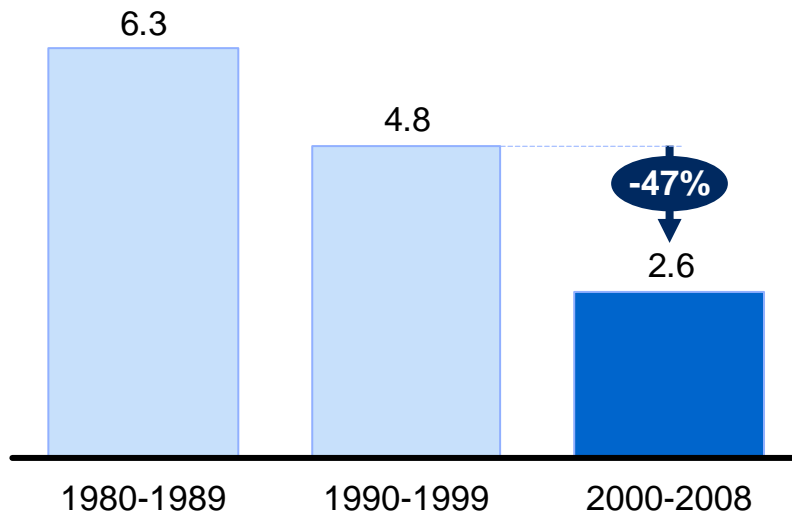
Budget balance % of GDP



Armed conflict prevalence has almost halved since the 1990s increasing aggregate GDP growth in the region

Armed conflict prevalence

Average number of armed conflicts¹ per year

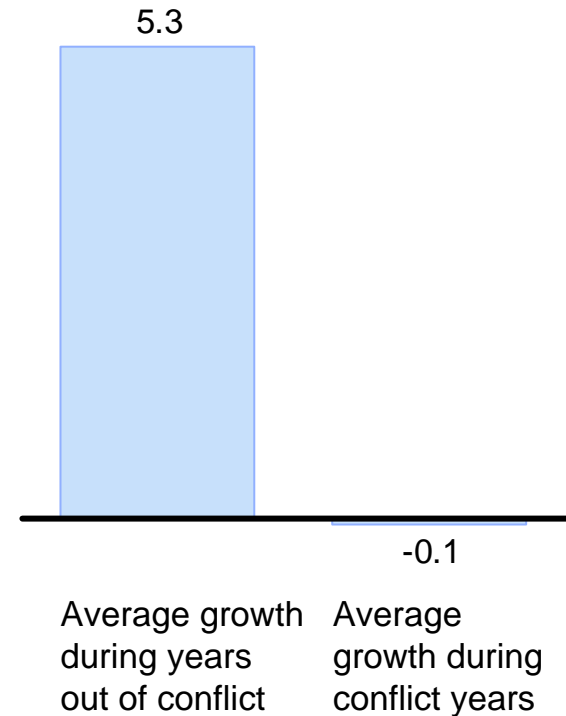


Major conflicts²:

▪ Ethiopia	▪ Algeria	▪ Algeria
▪ Chad	▪ Congo	▪ Congo
▪ South Africa	▪ DRC	▪ DRC
▪ Sudan	▪ Rwanda	▪ Rwanda
▪ Uganda	▪ Sierra Leone	▪ Sierra Leone
▪ Angola	▪ Sudan	▪ Sudan
▪ Mozambique	▪ Uganda	▪ Chad
▪ Somalia	▪ Angola	▪ Angola

Real GDP growth of conflict countries

Percent, 1990-2008

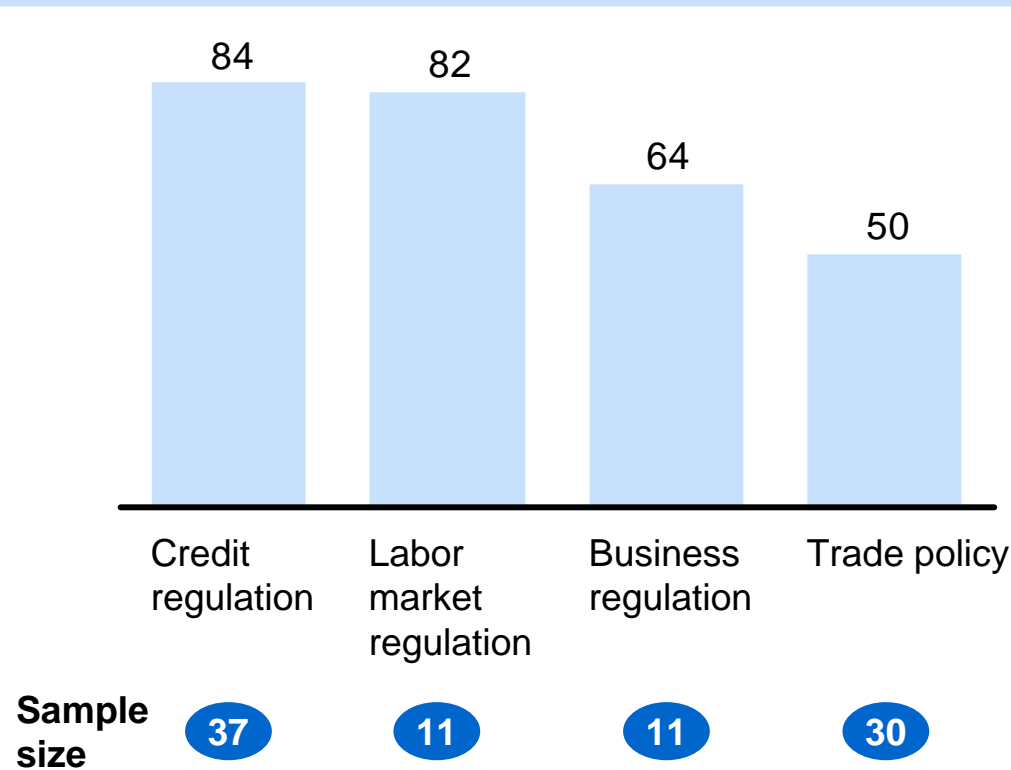


¹ Classified as conflicts where deaths exceeded 1000 people annually ² Not exhaustive

Many countries enacted microeconomic reforms, and this was correlated with more rapid growth

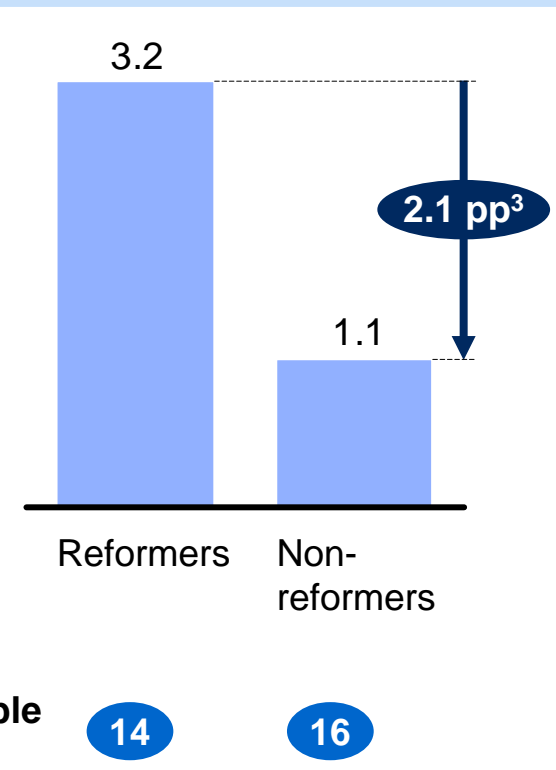
Share of African countries improving business policy metrics¹

%



Acceleration in real GDP², 2000-08 vs. 1990-2000

Unweighted country average, %



1 Each business policy metric is measured along a variety of dimensions that are aggregated into an index for each metric. Improvements in each metric are measured as an increase in the index level

2 Reformers are defined as countries that improved along credit, labor and business regulations, and trade policy. The non-reformers have improved along only a subset of dimensions (14 countries) or none at all

3 Percentage points

At the same time, African governments have improved their negotiation power position

African governments better understand their negotiation position ...



Guinea



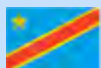
On going threat of government renegotiating concession for world-class iron ore asset (Simandou)



Liberia



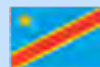
Loss of iron ore concession due to alleged expiry of option, and failure to comply fully with concession terms



DRC



Government renegotiating 61 mining licences granted during civil war and transition government period



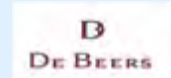
DRC



Chinese partners combine to provide economic development and access 12m tons of copper and 2m tons of cobalt



Botswana



Successful renewal of lease for world's most valuable diamond mine based on providing broader economic development for host country



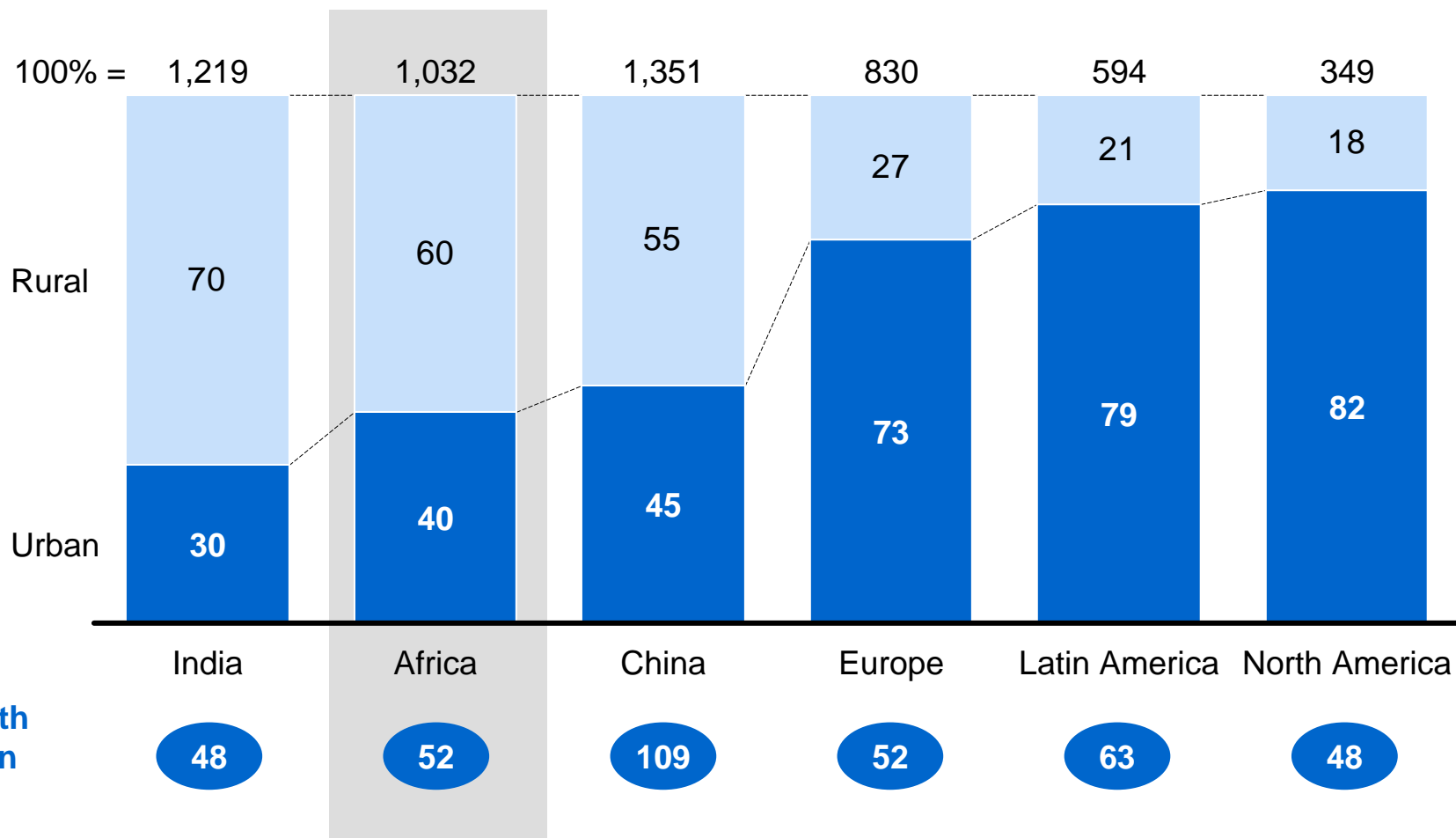
Senegal



Accessed major iron ore deposit by offering greater annual production and quicker development of infrastructure

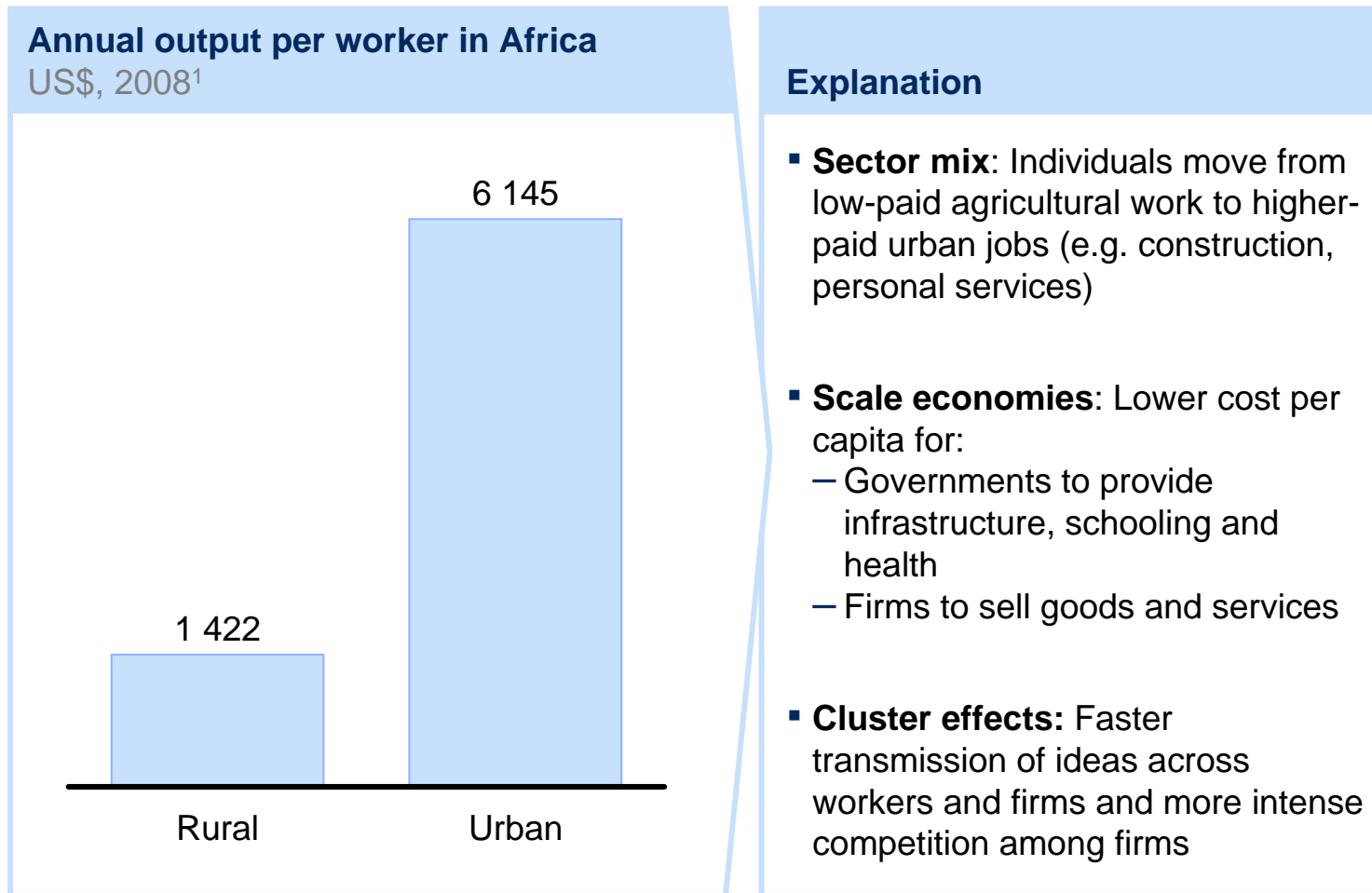
Africa is almost as urbanized as China and has as many cities of 1 million people as Europe

Share of rural vs. urban population by region, 2010, %, million



Cities with
>1 million
people

‘Healthy urbanisation’ facilitates productivity growth in several ways, which results in higher output per worker in urban areas



¹ Uses data for SA, Nigeria, Egypt, Morocco, Tanzania, Kenya, Senegal

4 main structural trends support Africa's long-term growth potential

Established trends

The global race for commodities

- Projected increases in world commodity demand, e.g., 2.3% p.a., for oil
- Africa is a cost-competitive location globally for sourcing many minerals

Access to international capital

- Capital inflows into Africa are US\$65 bn p.a., and now exceed remittances and aid
- Africa has the highest return to FDI of any region in the world

Seismic demographic shifts

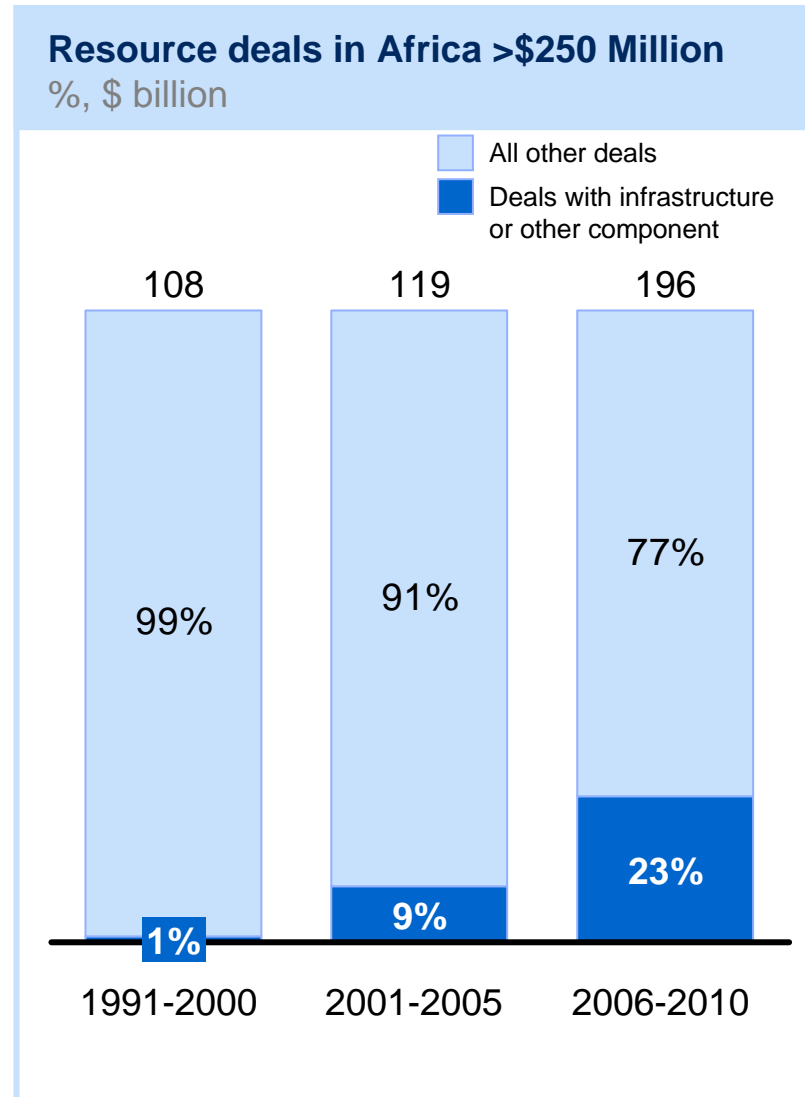
- By 2020, half of African households will have discretionary spending power – an additional 45 million such households
- At 1.2 bn, Africa will have the world's largest workforce by 2040, an expansion of over 500 million compared to today

Possible trends

African green Revolution

- Africa has 60% of world's available arable land
- Many African countries below global benchmarks for yields

Africa's resource deals increasingly include an infrastructure or industrialization component

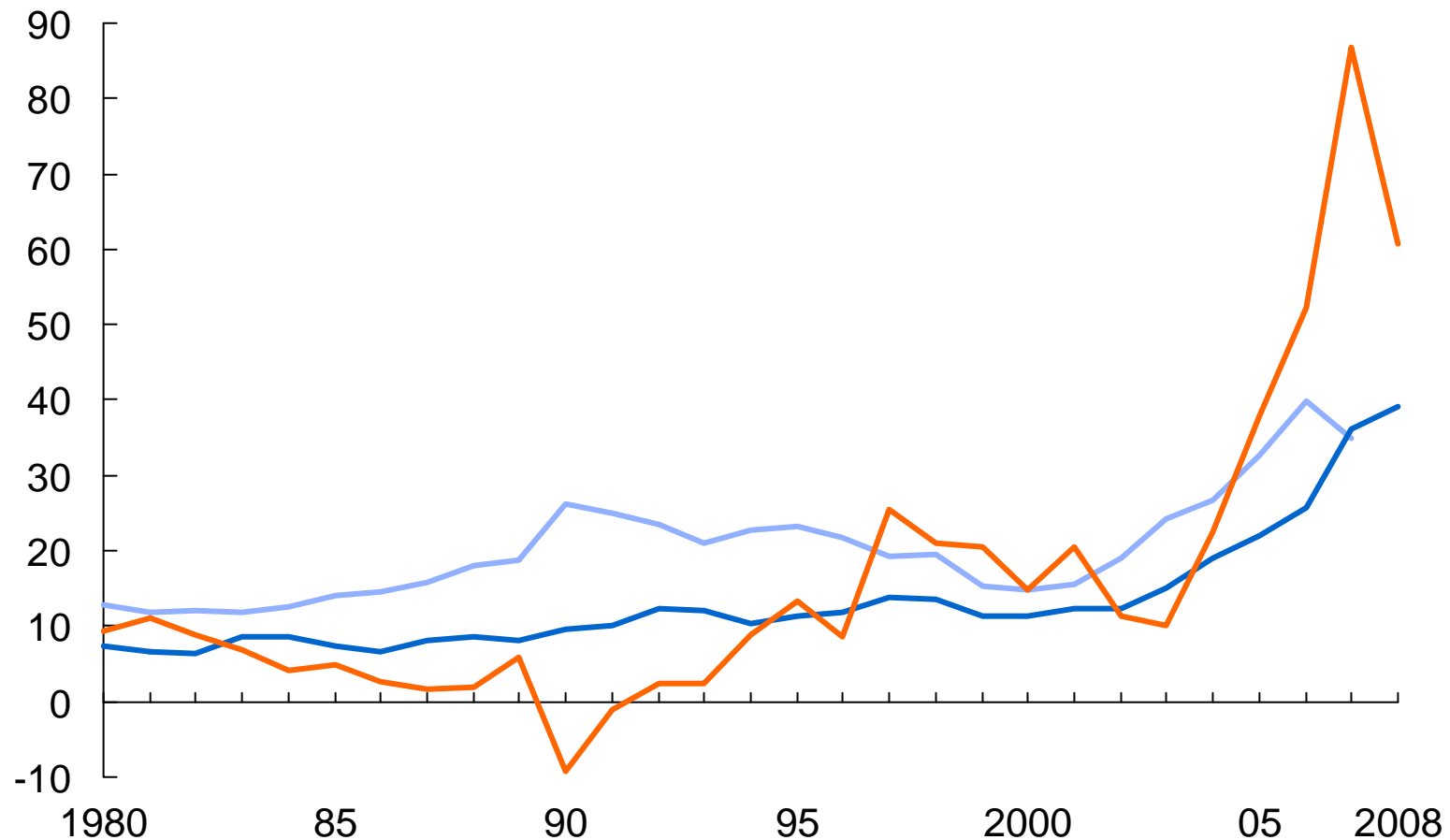


Private capital flows to Africa have risen sharply since 2003

Gross aid inflows
Remittances
Capital inflows¹

African financial inflows

\$ billion

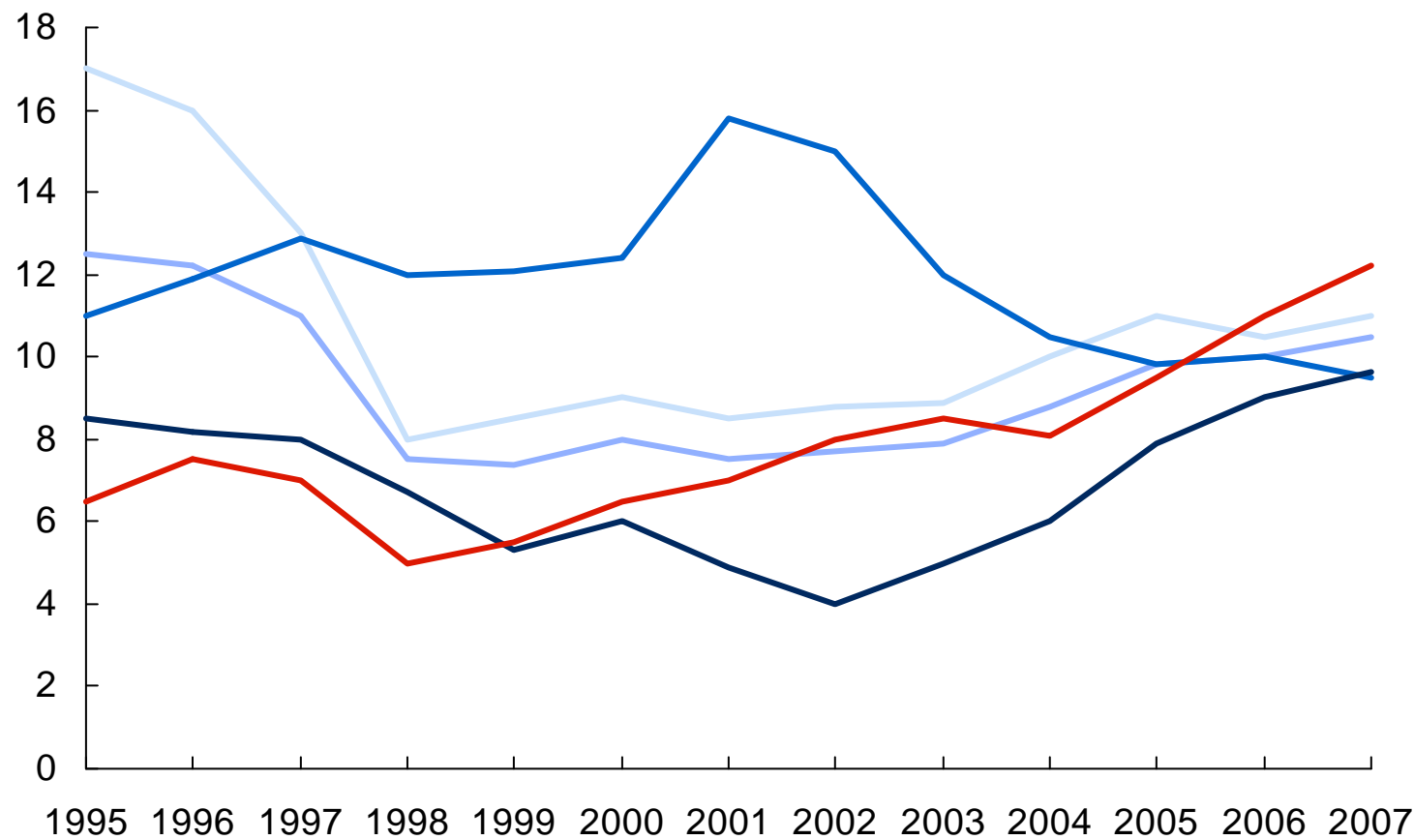


¹ Capital inflows are defined as net foreign direct investment (FDI), equity, debt, and other flows into Africa from foreign investors.

The rate of return on foreign direct investment in Africa is higher than in other developing countries

Rates of return¹ on inward foreign direct investment

Percent



¹ The rate of return is calculated as direct investment income for the current year divided by the average of FDI stock of the previous year and the current year. The figures for 2007 rates of return are based on 39 countries in Africa, 33 in Latin America and the Caribbean, 11 in West Asia and 18 in Asia

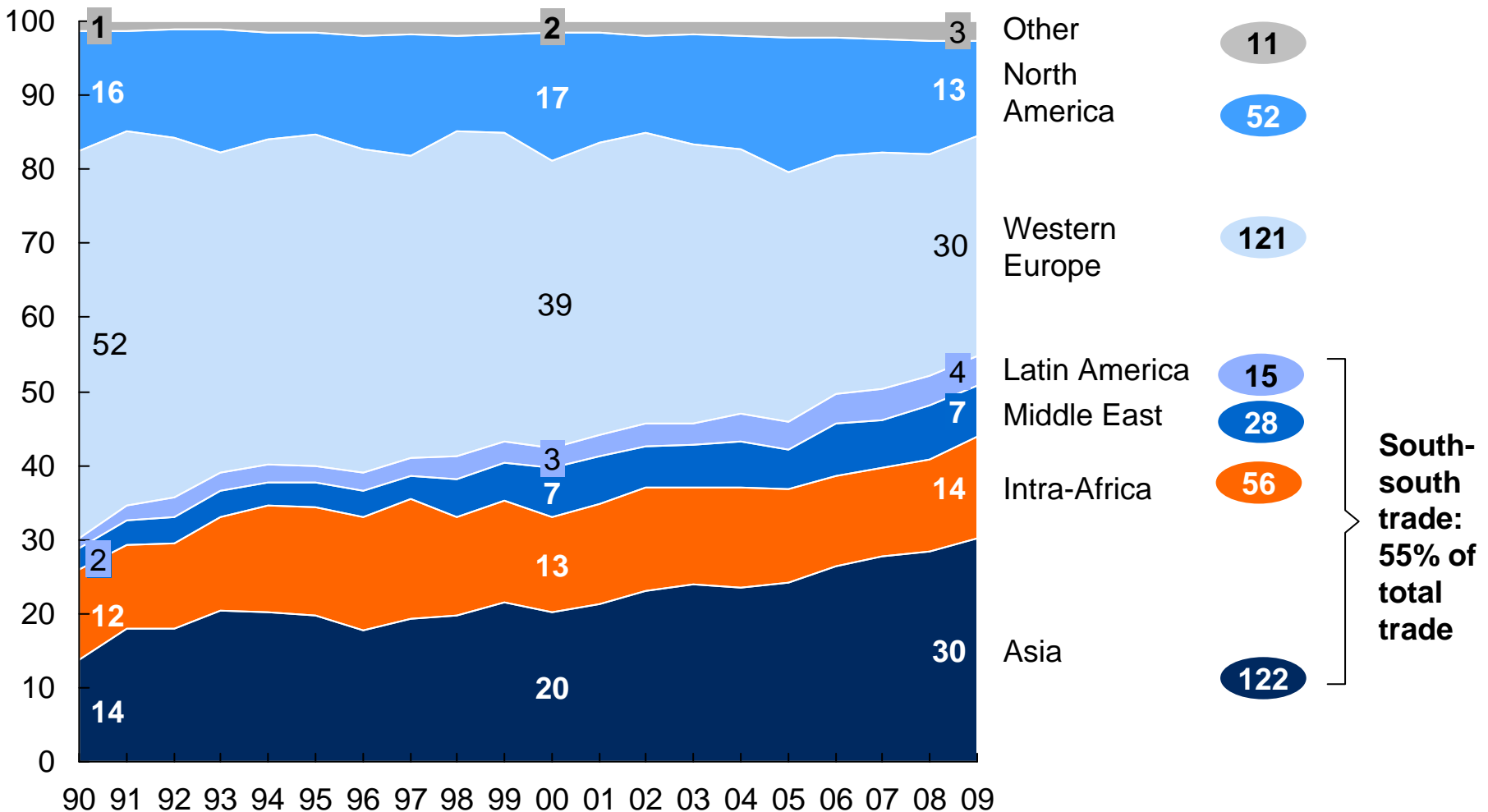
Trade with other developing countries accounts for half of trade with sub-Saharan Africa

Composition of sub-Saharan African¹ trade by trading partner, 1990-2009

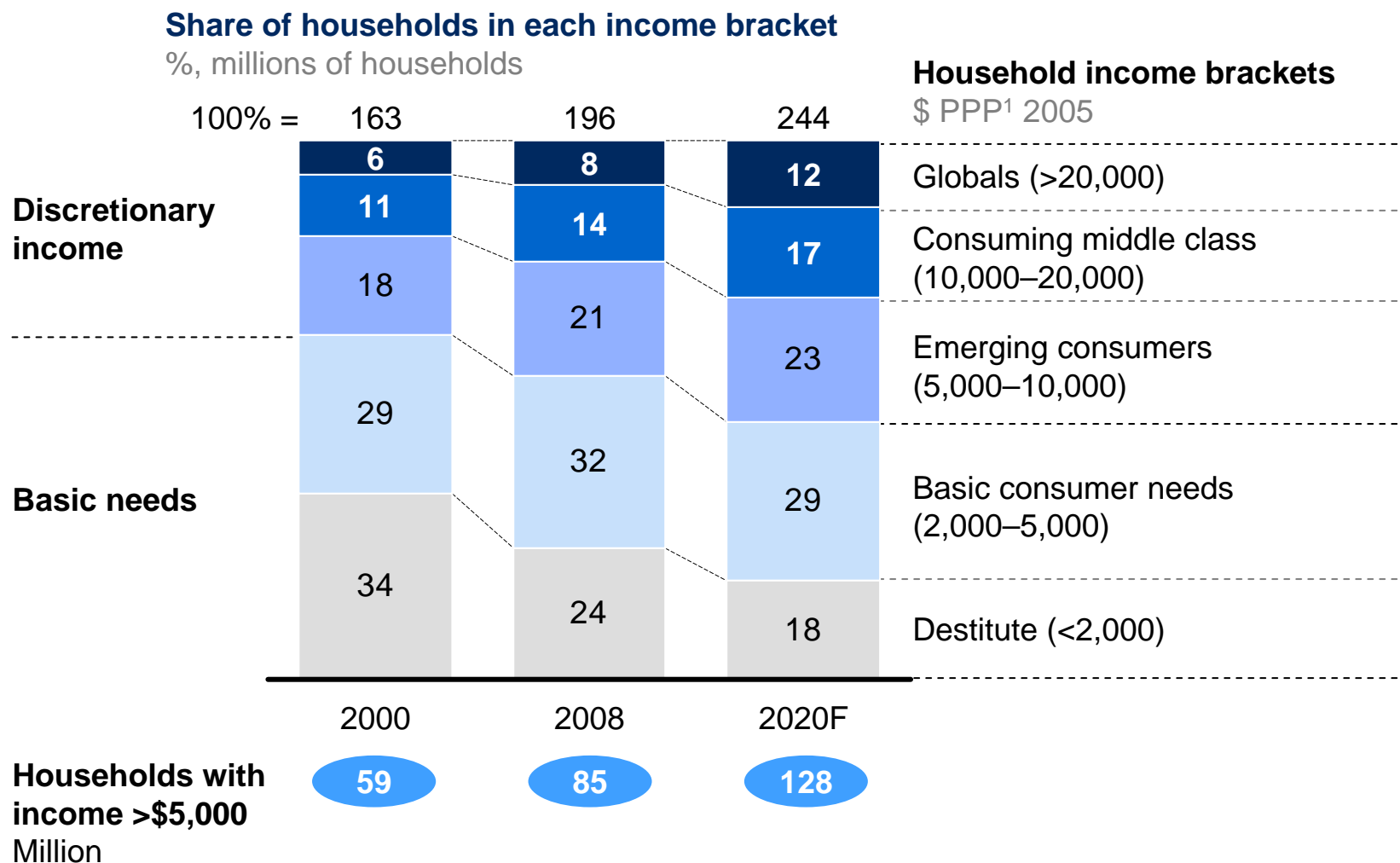
Percent

Absolute, 2009

\$ Billion



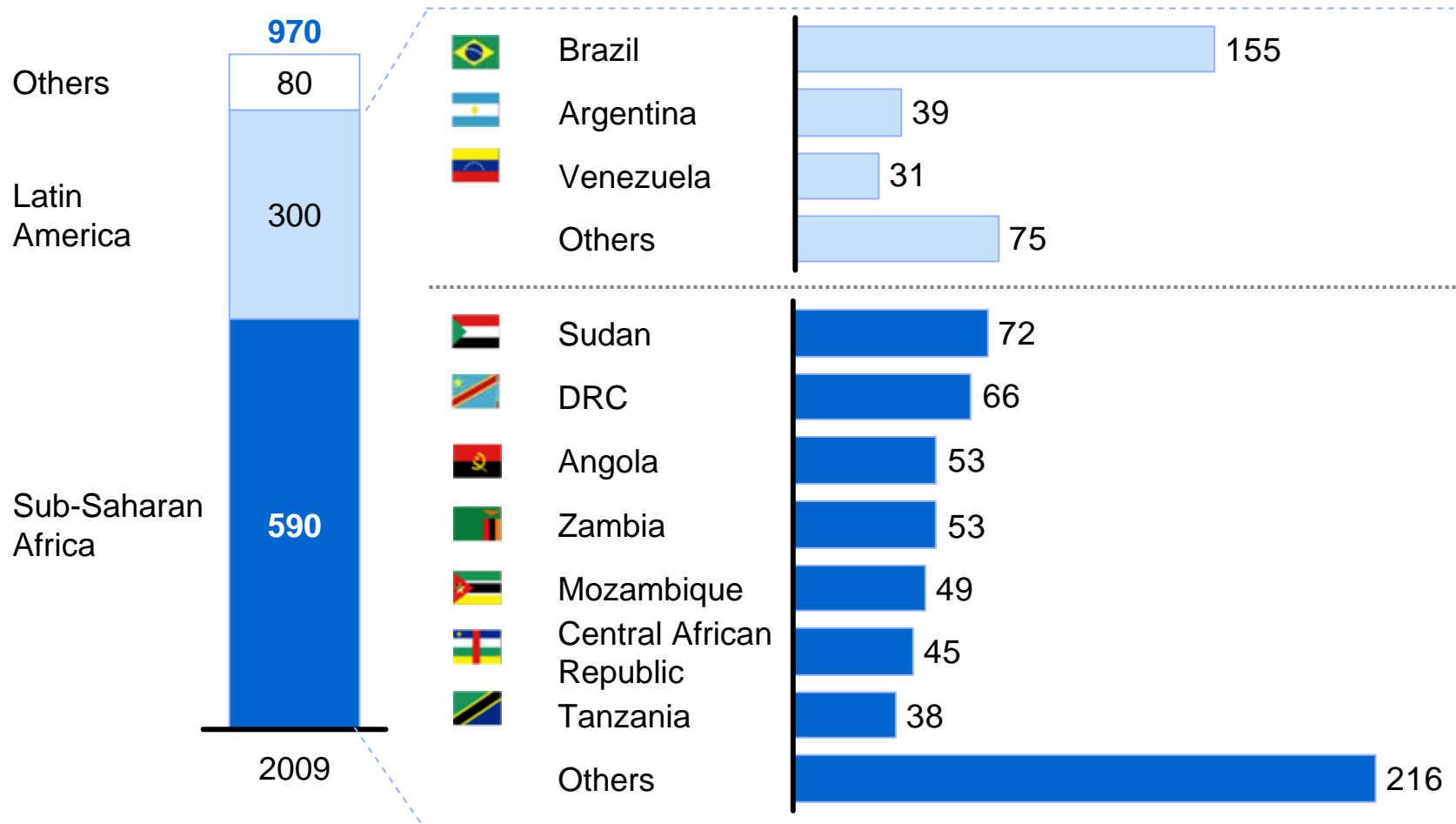
By 2020, more than half of African households will have discretionary spending power



¹ Purchasing power parity adjusts for price differences in identical goods across countries to reflect differences in purchasing power in each country.

Africa represents about 60 percent of the potentially available cropland in the world

Additional available cropland, 2009¹, Million hectares



¹ Cropland defined as land producing output greater than 40% of maximum yield under rain-fed conditions, excluding forest areas.

Opportunities and challenges across countries

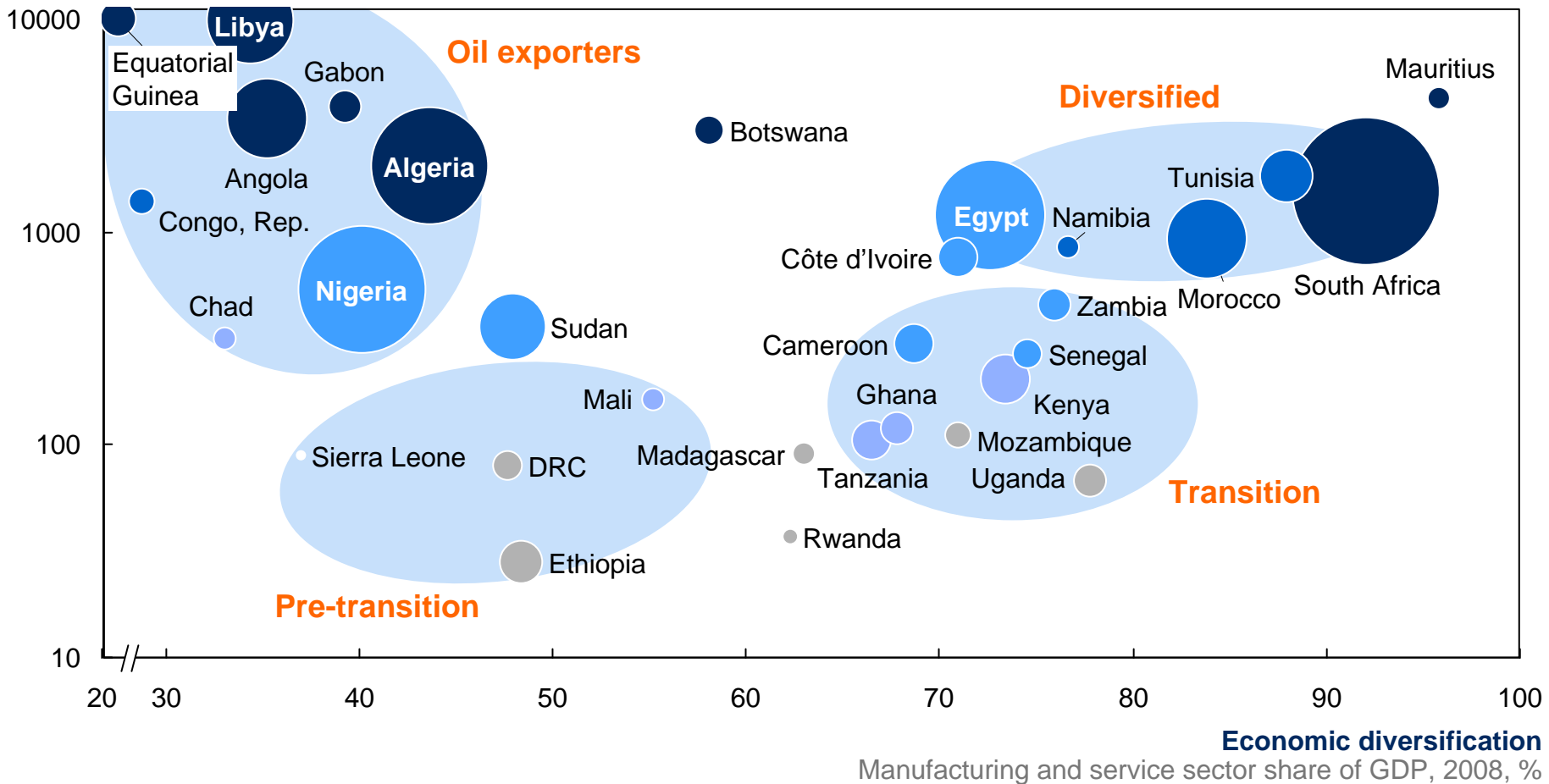
Africa's future growth prospects differ across four groups of countries

○ Size of bubble proportional to GDP

GDP per capita



Exports per capita, 2008, \$



NOTE: We include countries whose 2008 GDP is approximately \$10 billion or greater, or whose real GDP growth rate exceeds 7% over 2000–08. We exclude 22 countries that account for 3% of African GDP in 2008

Each segment offers implications for investors in Africa

Implications of the segmentation

Rationale

Diversified

37

- Typically one of the first bases for non-resource MNCs in Africa
- Large M&A deals often target these countries, as they also typically have Africa's largest companies

- Among Africa's largest, most stable, and most diversified economies, together comprising ~40% of Africa's GDP

Transition

11

- A good second set of countries for investment
- Often makes sense to make a play in a collection of these countries to create scale and to diversify risk

- Sizable markets – US\$ 10-30bn GDP each, and East African market population of 110mn
- Penetration of key services (e.g., telecom, retail, banking) remains an opportunity
- Manufacturing cost can be as low as India and China, in instances where regulatory and infrastructure challenges are overcome

Oil exporters

40

- Infrastructure can be a good business
- Resource sector clearly an opportunity
- In some, there is a significant consumer opportunity

- These countries amassed US\$ 300bn of reserves since 2000, which can be used for infrastructure
- Highest per capita income in Africa, even if unevenly distributed

Pre-transition

3

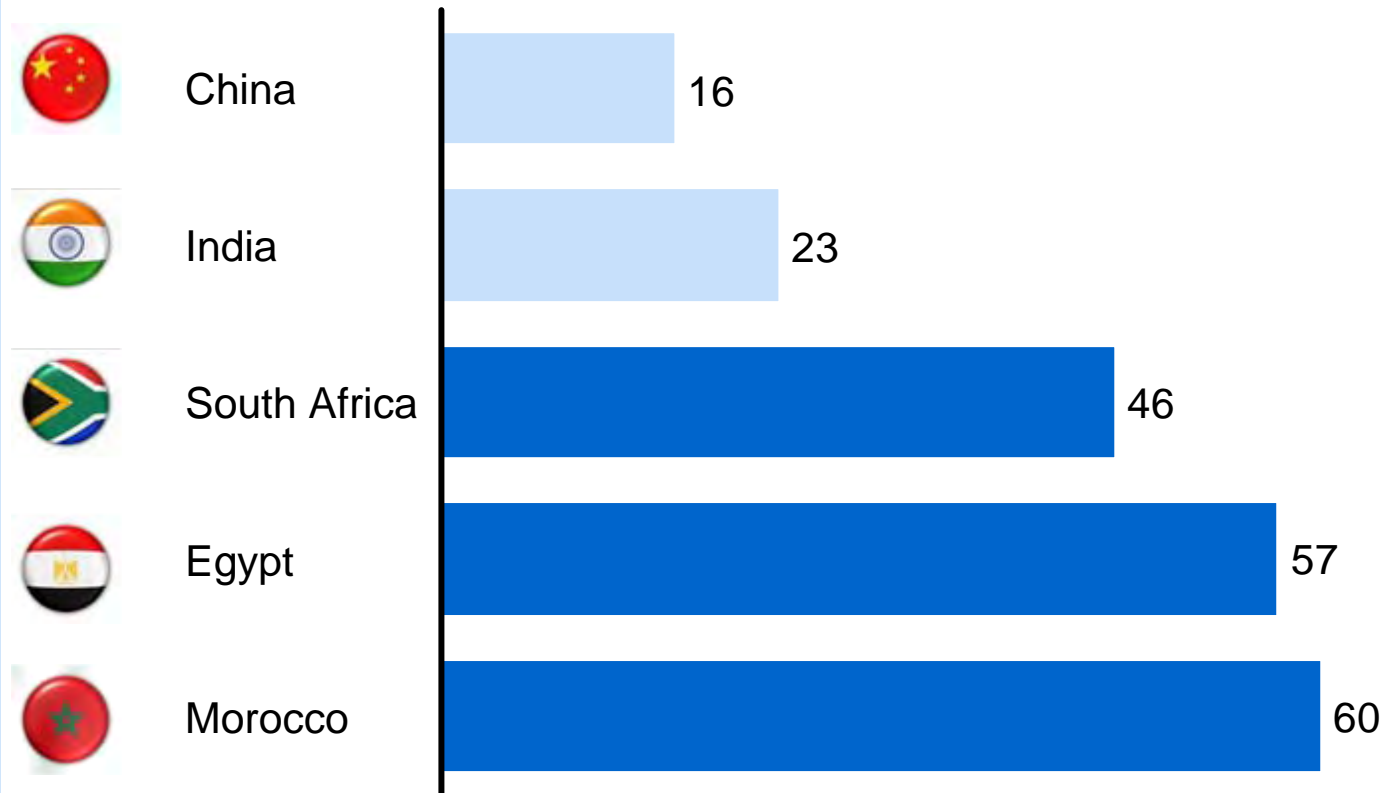
- Investment must be combined with a wider portfolio of countries

- Typically the riskiest countries in Africa – high GDP volatility, and high political risk scores

Diversified economies' must increase their global competitiveness, since unit labour costs are much higher than China or India

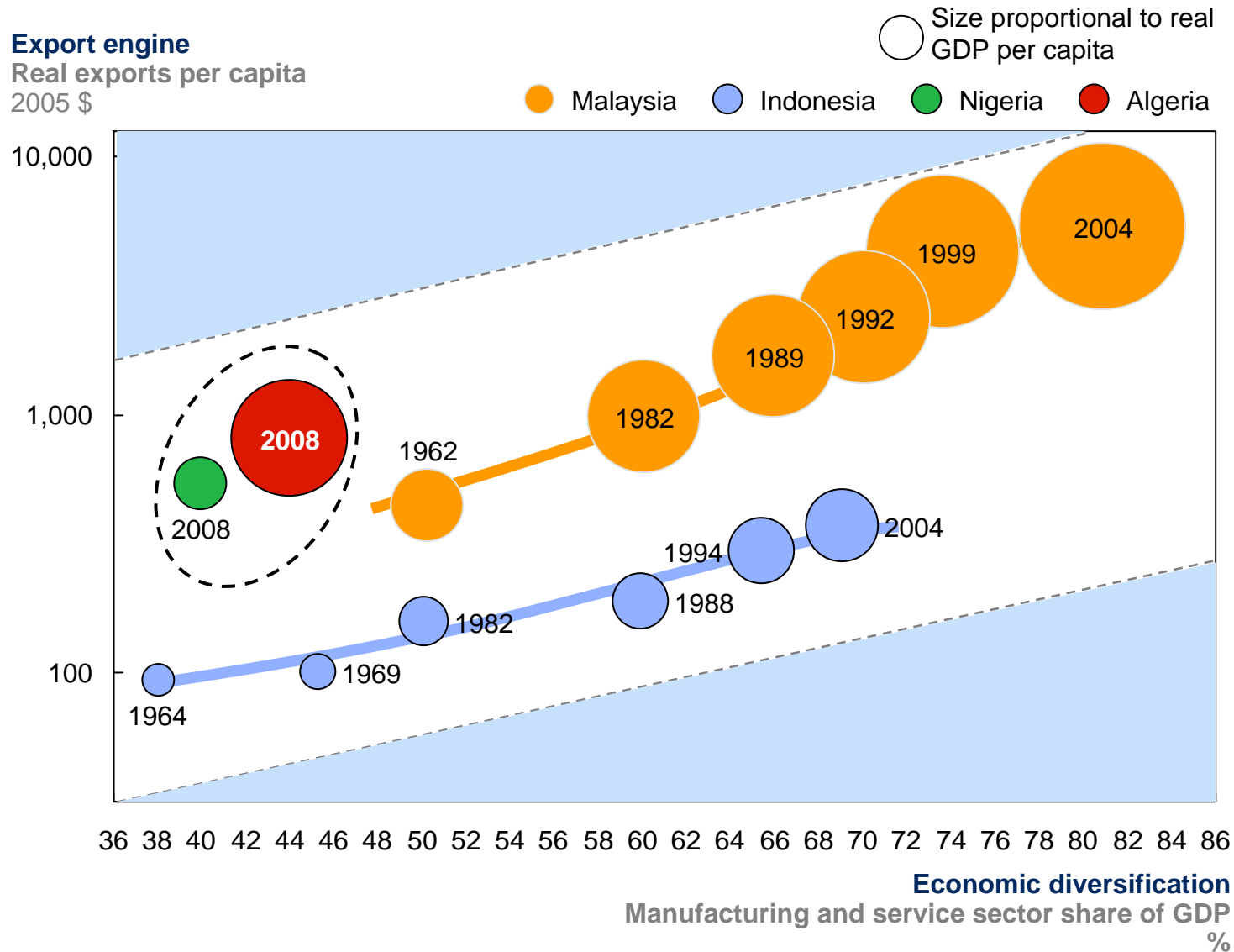
Unit labour costs¹

Wages/value added per worker



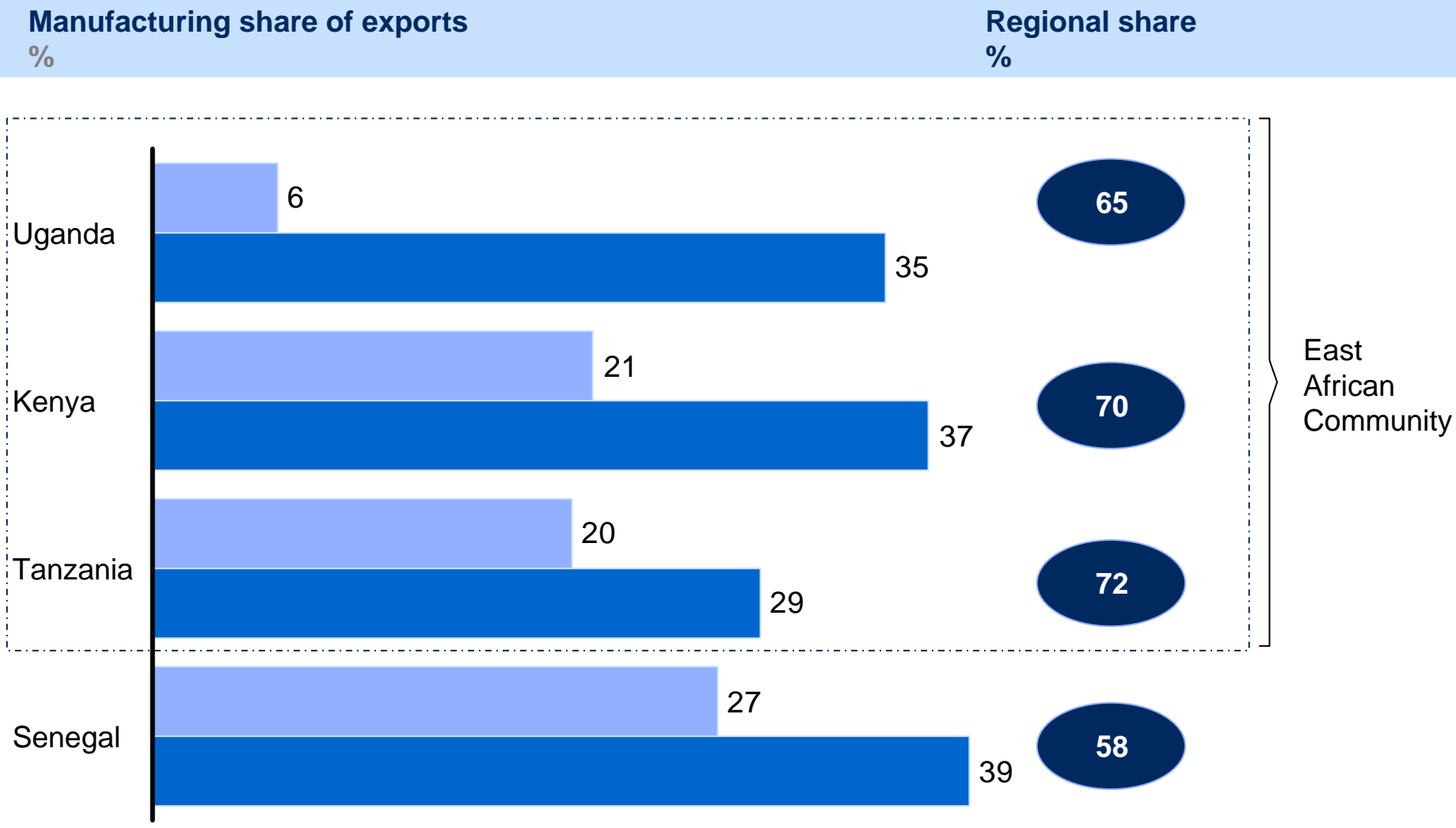
¹ Unit labour costs are defined as the wages divided by the output per worker and are computed by taking the average of a large sample of firms in a particular country

Africa's oil exporters have diversified less than their international peers



Regional trade has helped several transition economies diversify exports into manufacturing

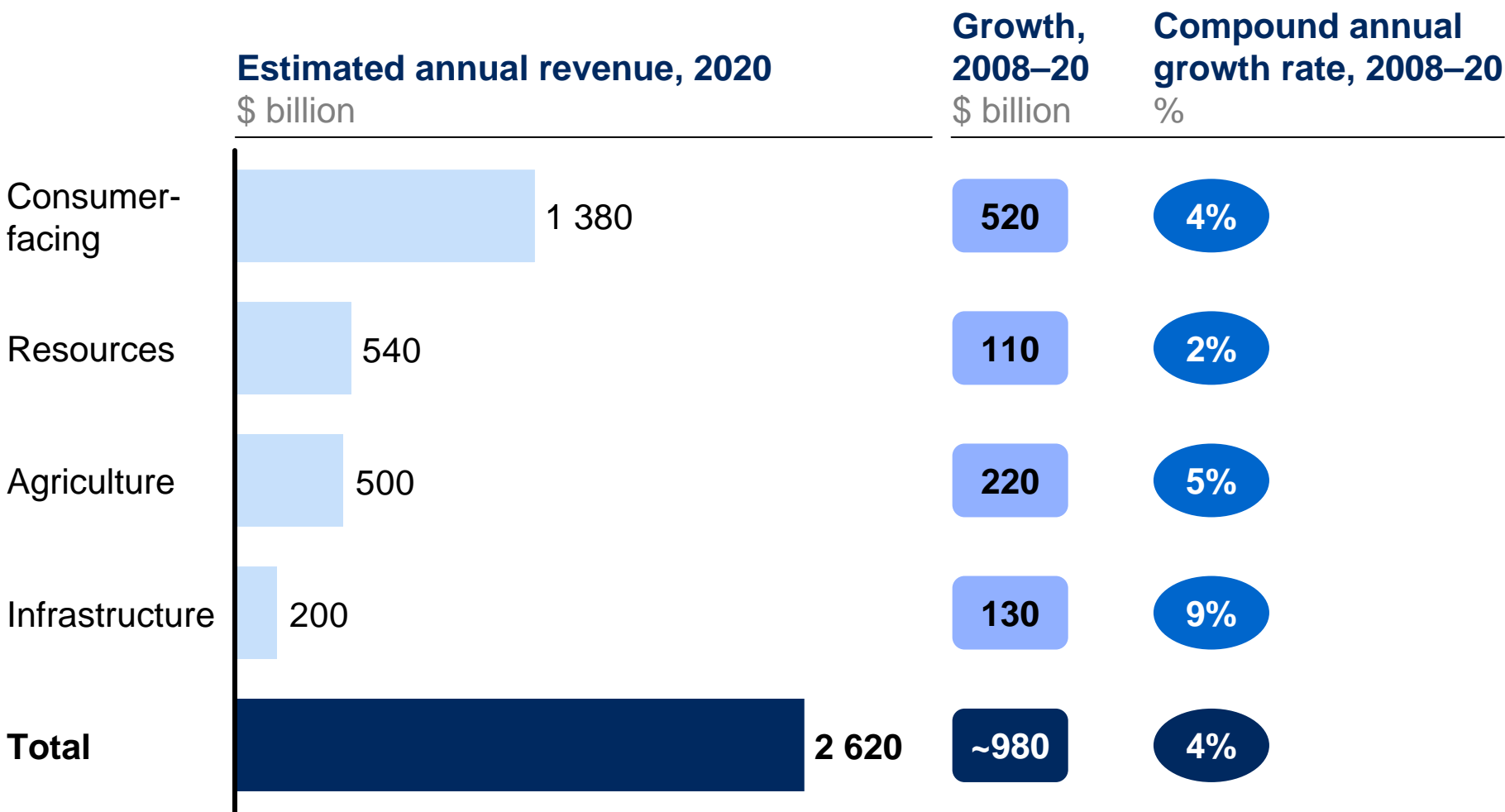
2000
2008



1 Tanzania figures for 2007

Africa's \$2.6 trillion business opportunity

Four groups of industries could have combined revenue of \$2.6 trillion by 2020

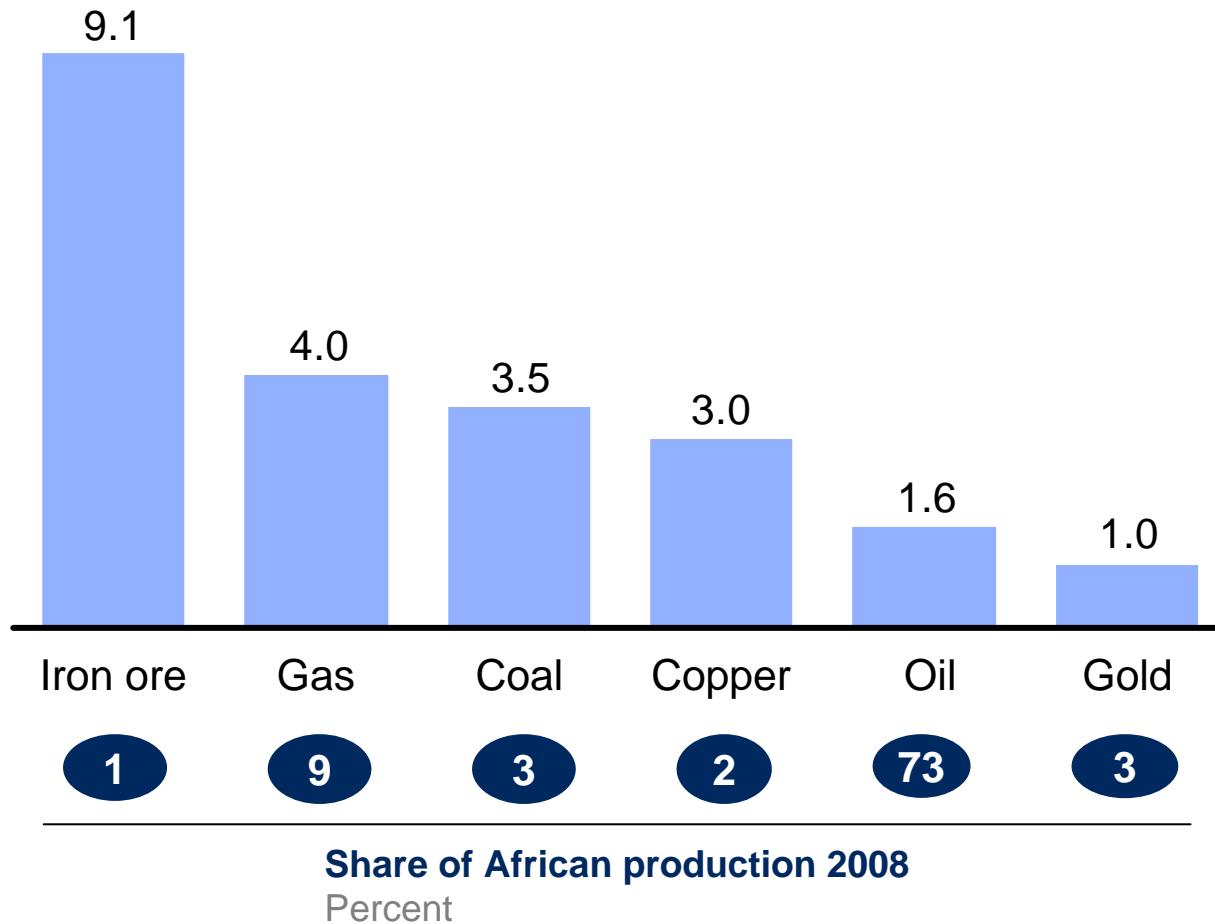


1 Took 2030 value of \$880 billion and calculated straight line equivalent for 2020.

2 Represents investment. Assumes need remains as same share of GDP through 2020.

Africa's resource production volumes are expected to grow by 2 to 4% for most key commodities

Annual production growth of major African resources, 2008-20, percent



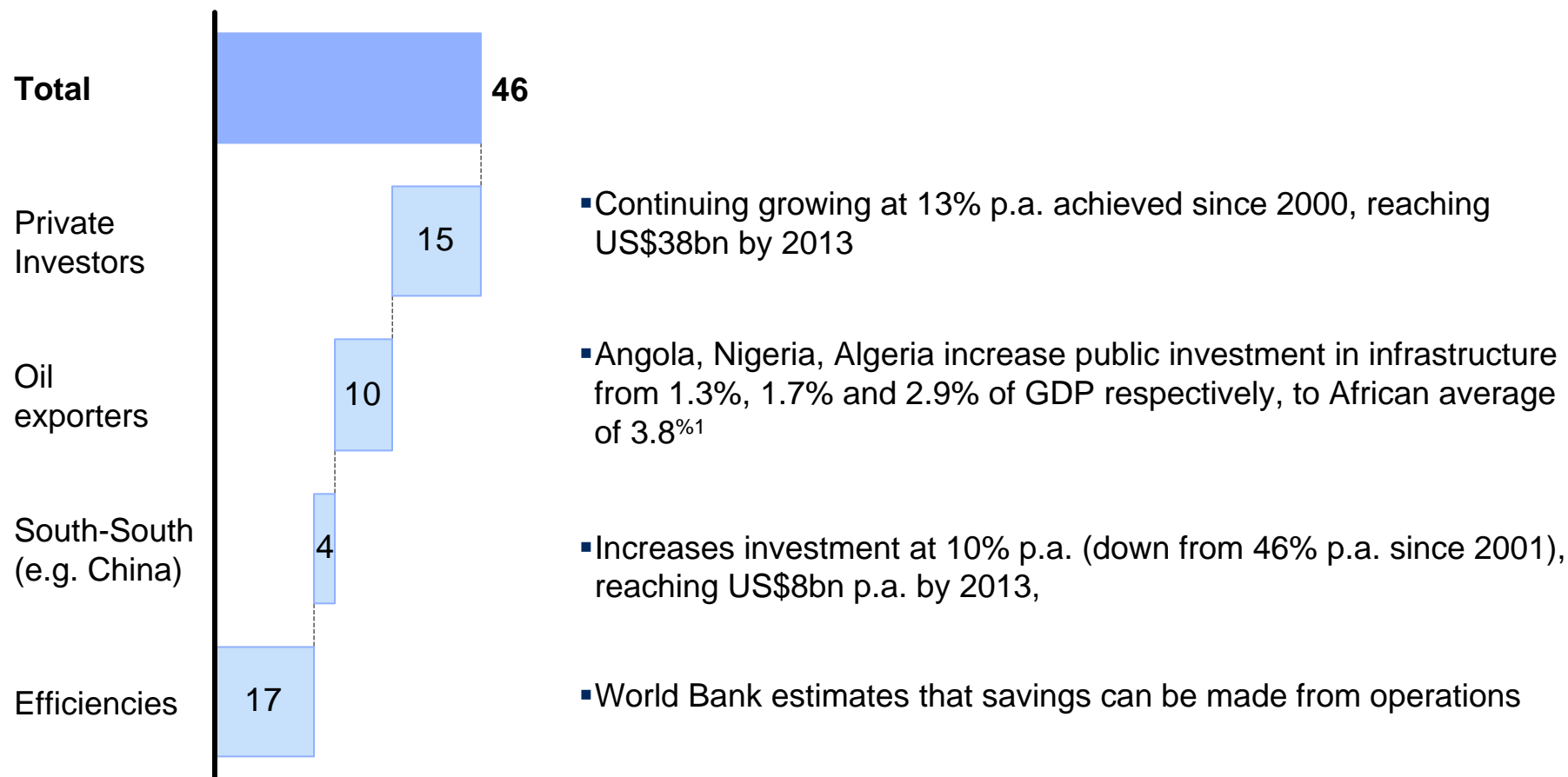
23% of foreign resource deals in Africa now include an infrastructure or industrialization component, up from just 1% of deals in the 1990s

Africa could close it's infrastructure funding gap by 2013 - 2/3 from new funding sources, and 1/3 from capturing efficiencies

Closing Africa's Infra Funding Gap

US\$ bn

Assumptions



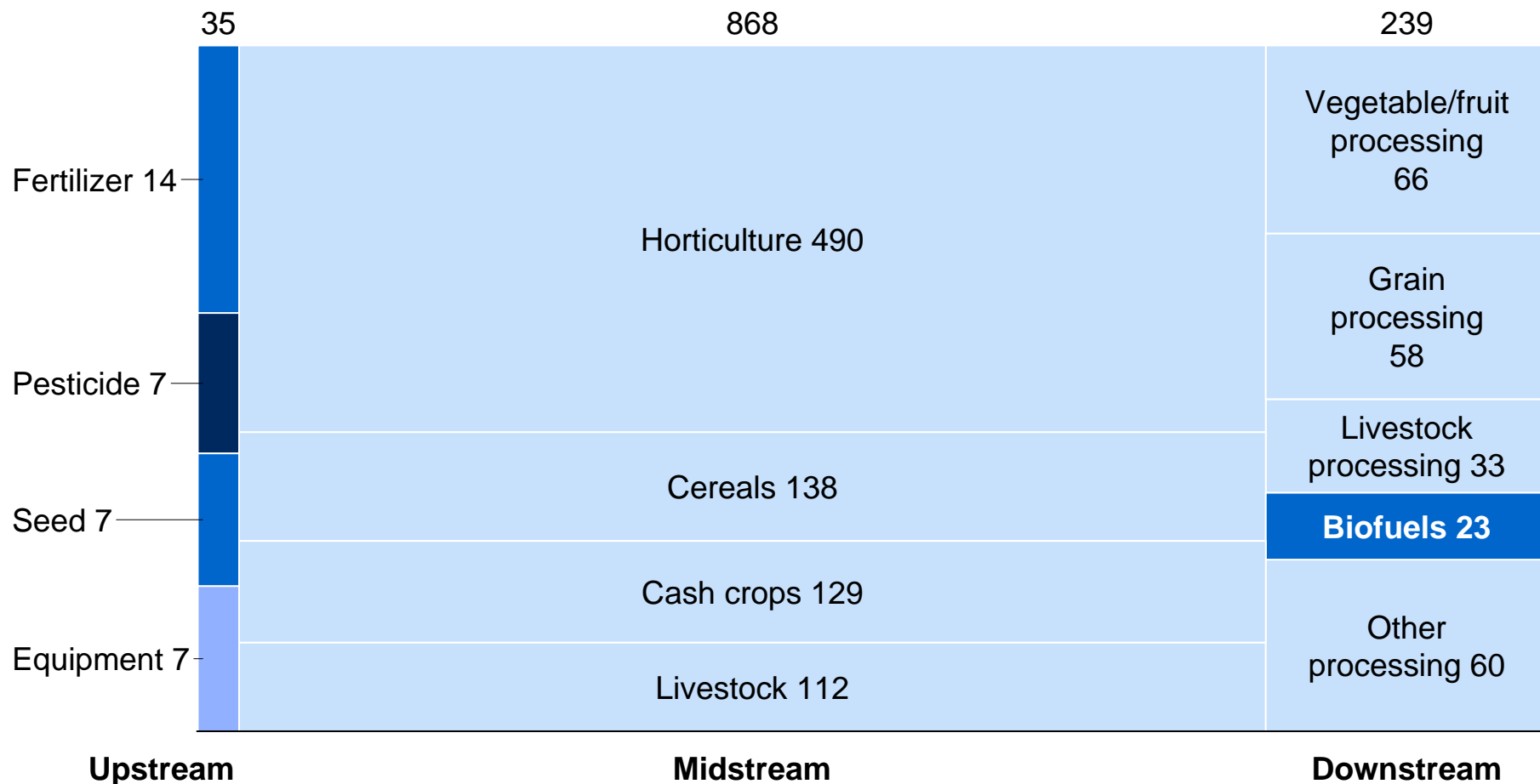
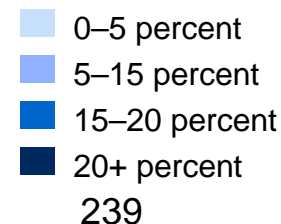
¹ This is divided as Nigeria US\$5.6bn; Angola US\$2.6bn; Algeria US\$1.7bn. These countries have US\$53bn, US\$18bn, and US\$143bn of reserves respectively by end-2008

Downstream agricultural processing offers a large business opportunity

Africa agriculture revenue potential, 2030

USD billion

ESTIMATED OPERATING MARGIN



Business opportunities in consumer facing sectors

Nine trends that will shape the African consumer market



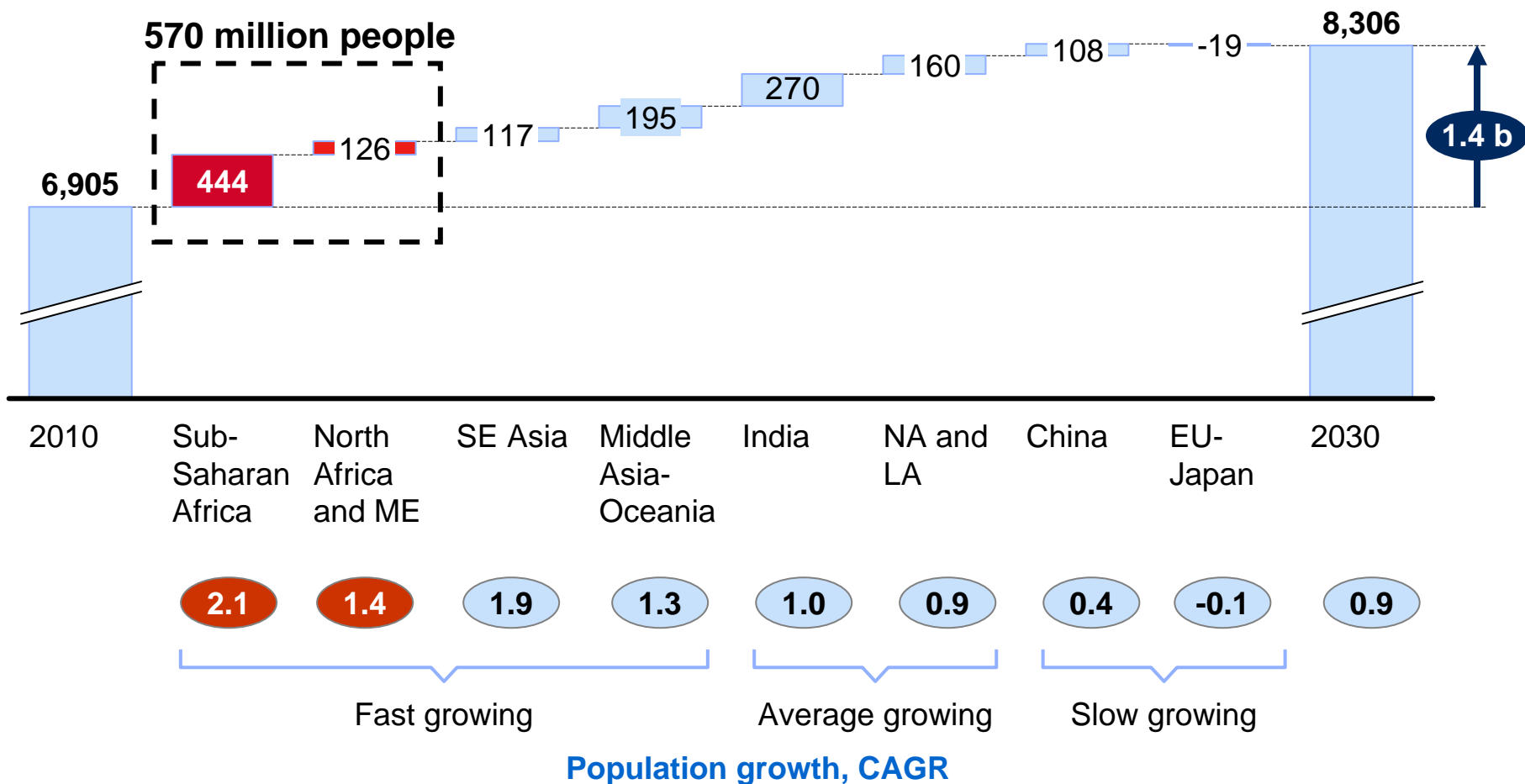
- 1 **World's fastest growing population...** ...500 million more people by 2030
- 2 **World's youngest population...** ...40% under 14
...World's largest working population
- 3 **Emerging middle class...** ...50% of hh w/ discretionary income
...50% of spend on food and CPG
- 4 **"Healthy urbanization"...** ...71 cities over 1 million
...more urbanized than India
- 5 **Digital consumer...** ...70% mobile penetration
...600 million mobile phones
- 6 **Value orientation...** ...saving money is primary concern
...private label growing
- 7 **War for Talent...** ...400 companies with revenue over \$200 million
- 8 **Resource and infrastructure constraints...** ...60% of available cropland and infrastructure lagging
- 9 **Fragmented but rapidly changing trade structure...** ...90% informal but rapid growth of modern trade

World's fastest growing population

1 Africa will have the world's fastest growing population, adding ~500 million people over the next 20 years

2009-2030 population growth by geography

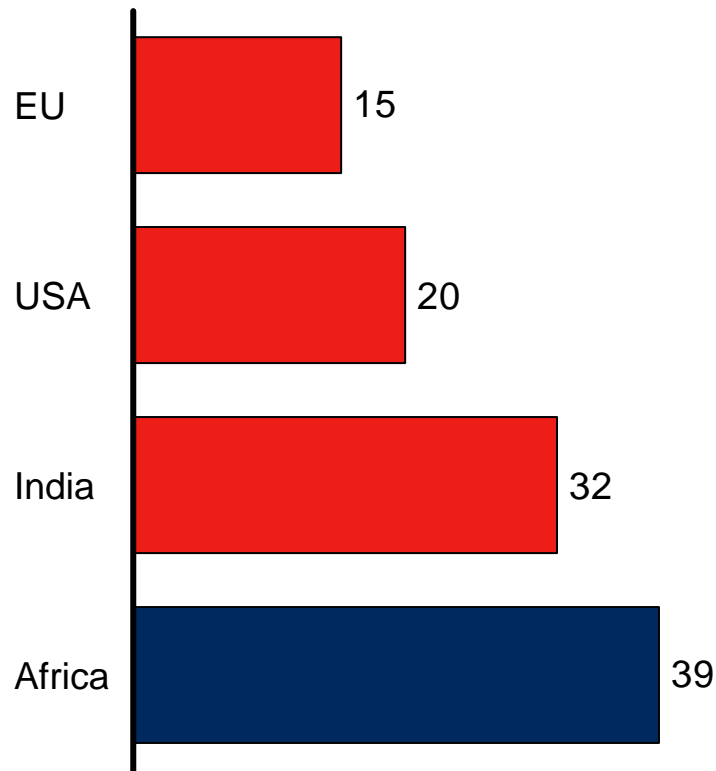
Millions of people



2 Africa will have the world's youngest population and its working age population will exceed China and India by 2035

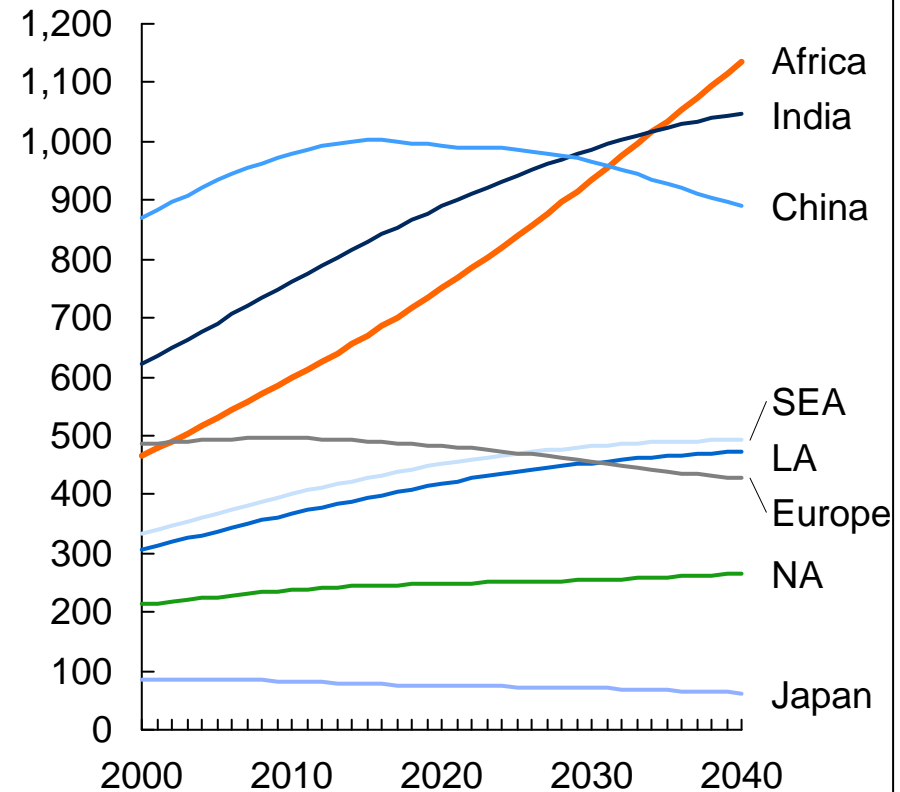
Africa has the youngest population in the world...

Percent of Population, 0-14 years of age



...as a result, Africa's working age population will exceed China and India

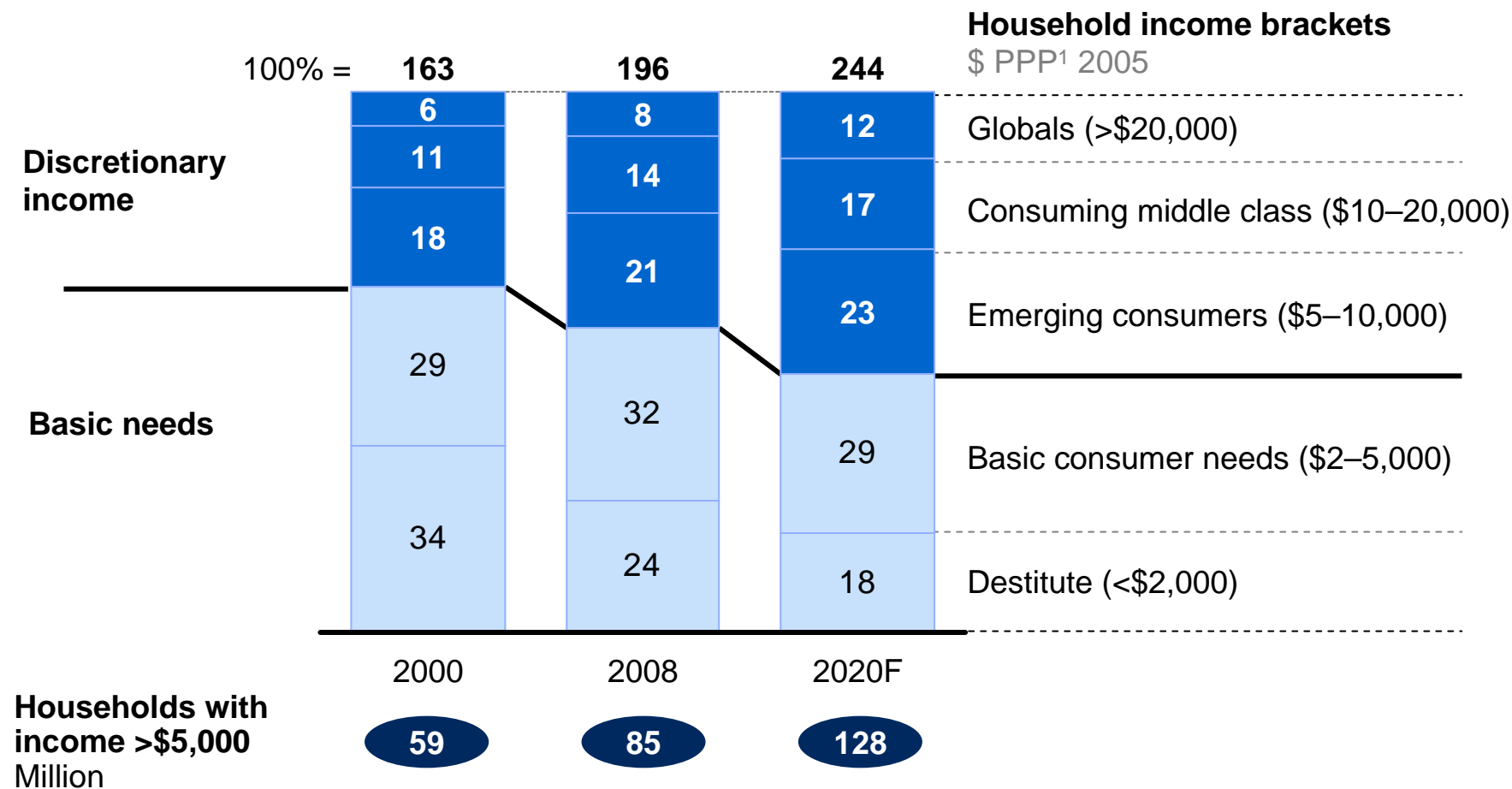
Size of the working-age¹ population
Million



3 By 2020, over 50% of African households will have discretionary spending power

Share of households in each income bracket

%, millions of households



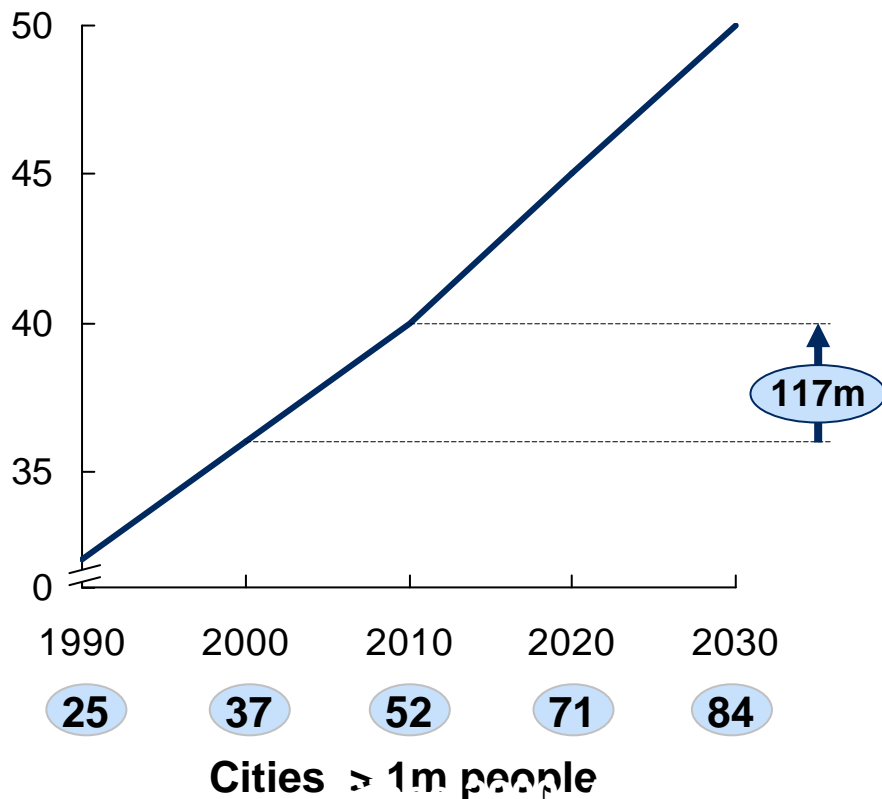
¹ PPP adjusts for price differences in identical goods across countries to reflect differences in purchasing power

“Healthy” urbanization

4 In the last 10 years, Africa has added 15 cities with a population of over 1 million people...this will increase by 19 by 2020 for a total of 71 cities

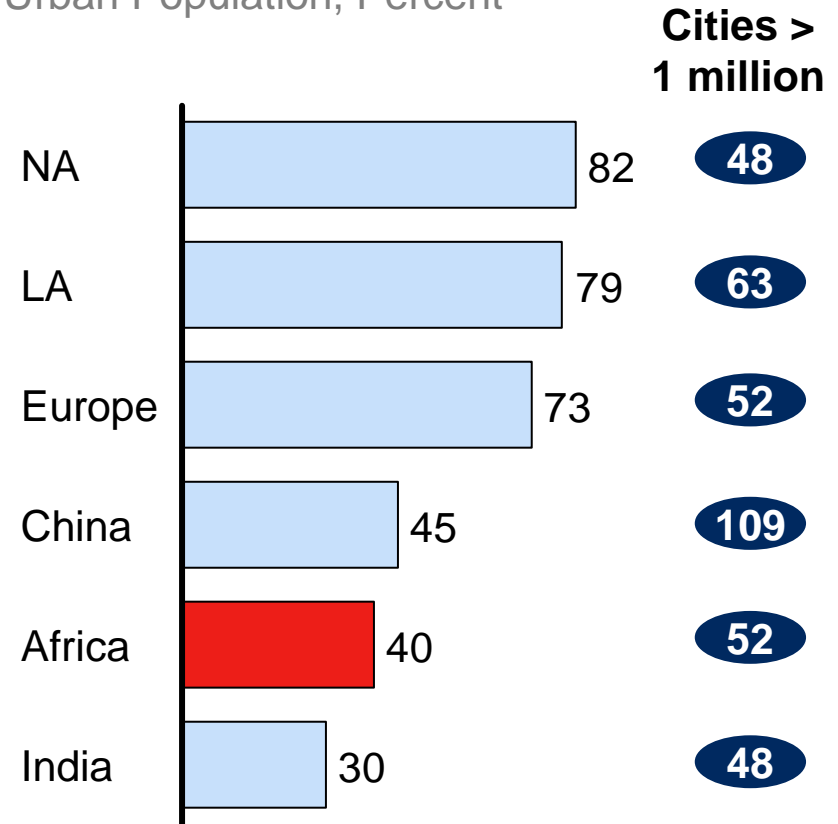
117 million Africans migrated to Cities in the last decade and Africa now has 52 cities in excess of 1 million

Urban Population, Percent



With urbanization levels above India and Close to China

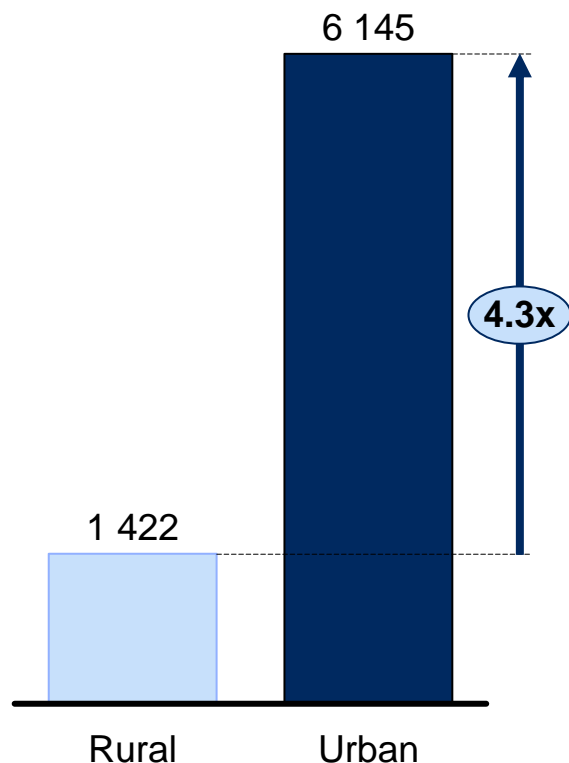
Urban Population, Percent



4 Urban consumers are more productive and have significantly higher incomes

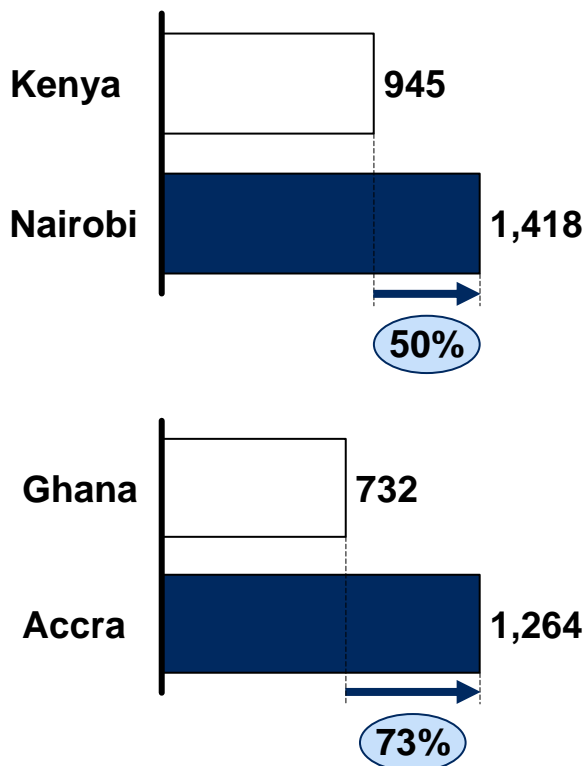
Urban workers are 4.3 times more Productive than rural workers...

Annual output per worker
US\$, 2008¹

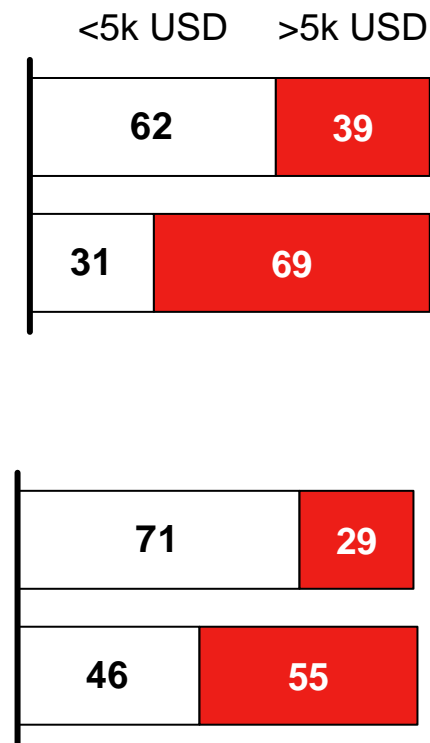


... As a result, urban consumers have significantly Higher incomes

GDP / Capita
USD per year, 2008



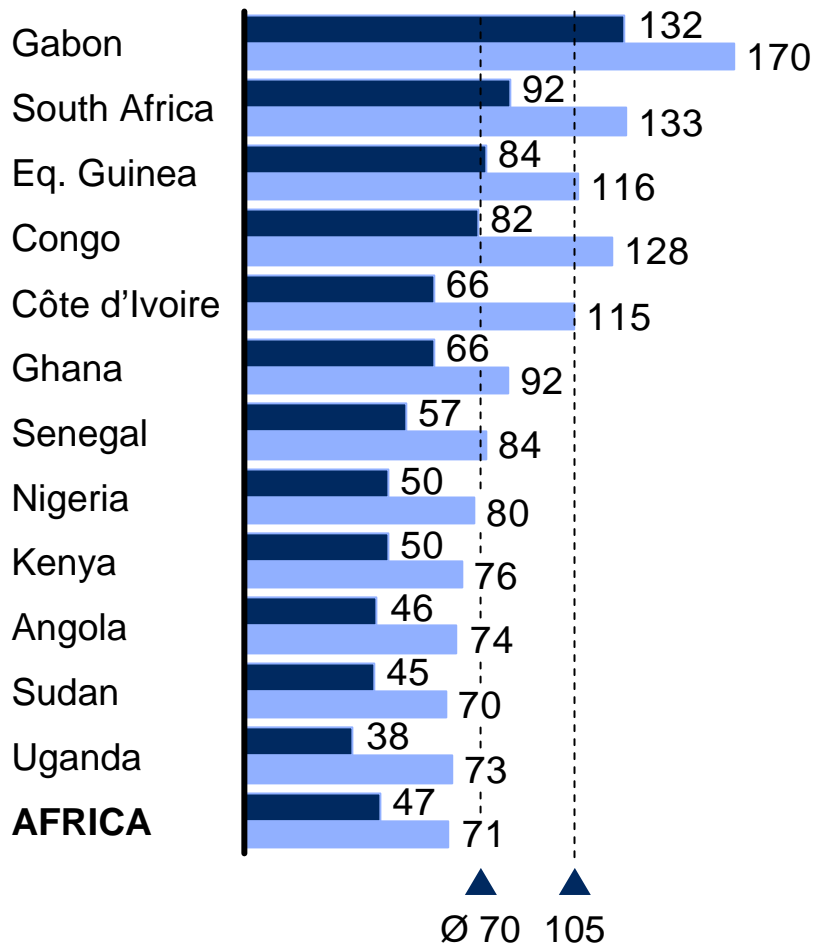
HH Income Distribution
USD per year, 2008



5 With limited reach of fixed line, mobile is the primary means of data connectivity in Africa

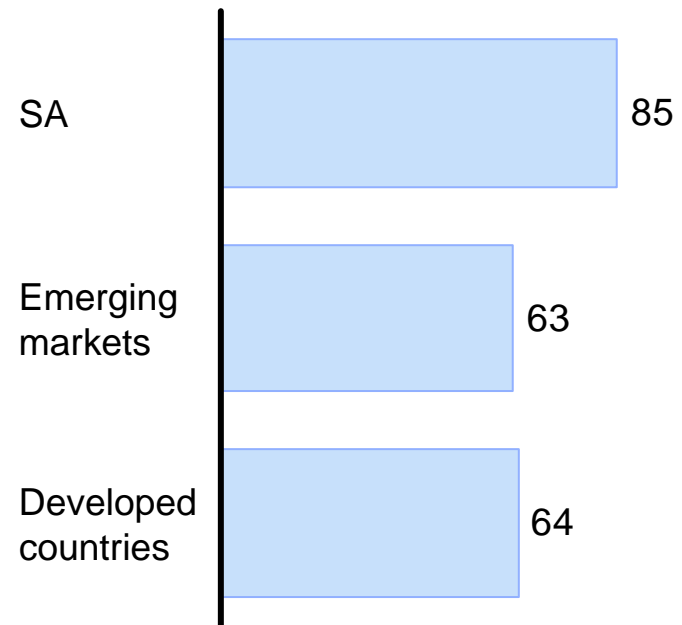
2010
2015

Mobile penetration will surpass 100%
In next 5 years ...



... there is an opportunity to connect with
consumers through mobile devices

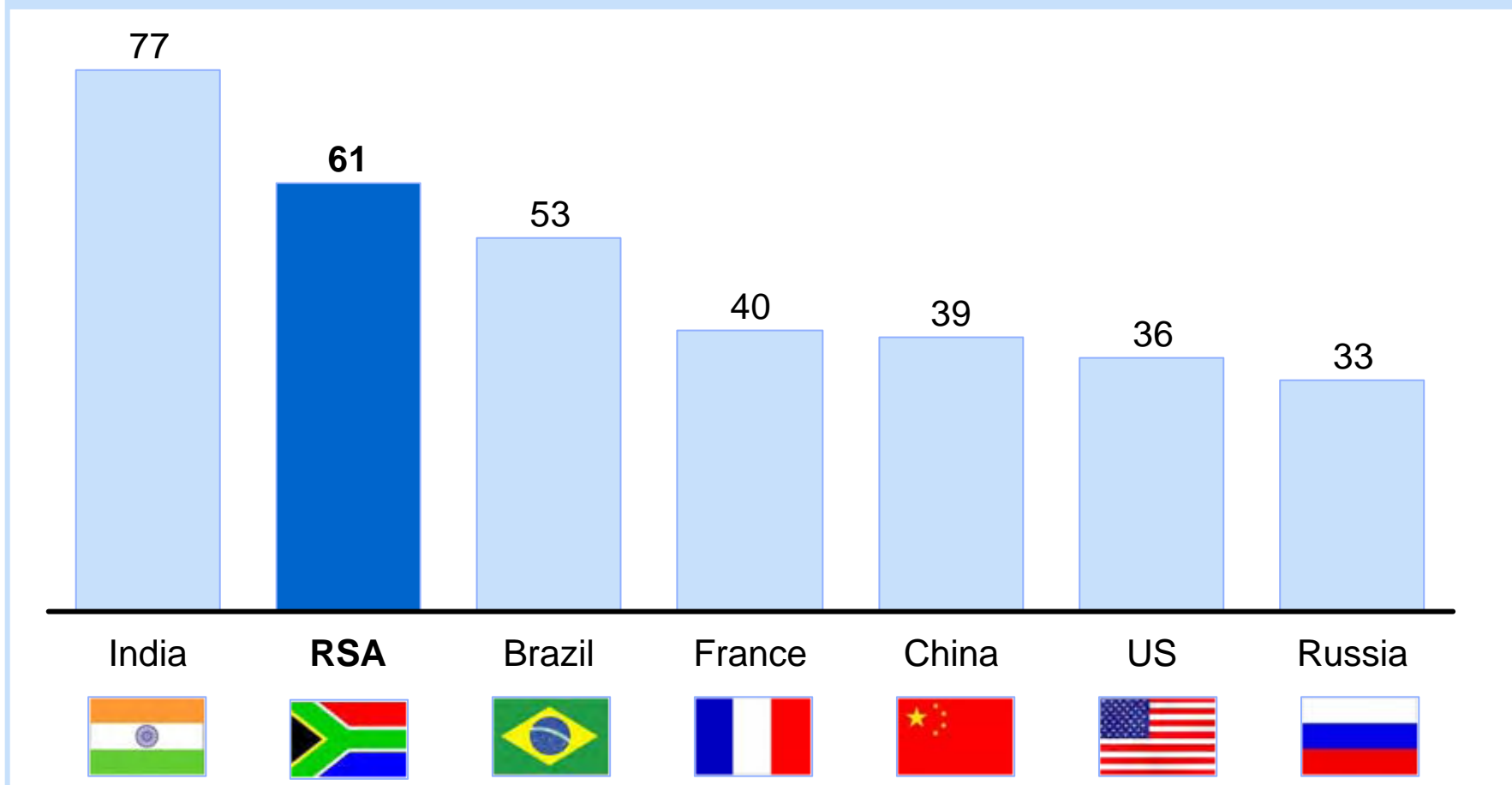
Are not annoyed by
advertising on mobile, %



6 South African shoppers are amongst the most price sensitive in the world

'My main concern when I shop for food is to save as much money as possible'

Percent agree/strongly agree



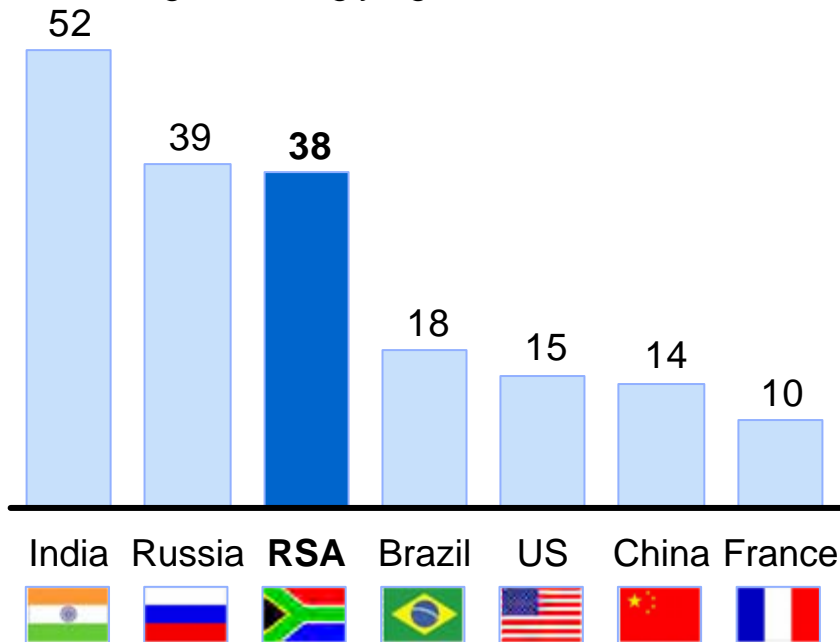
1 SA 'belly' shoppers

6 South African shoppers are amongst the most brand conscious in the world but are increasingly open to private label

South African shoppers love brands...

'For most food items, there is only one brand that I would consider buying'

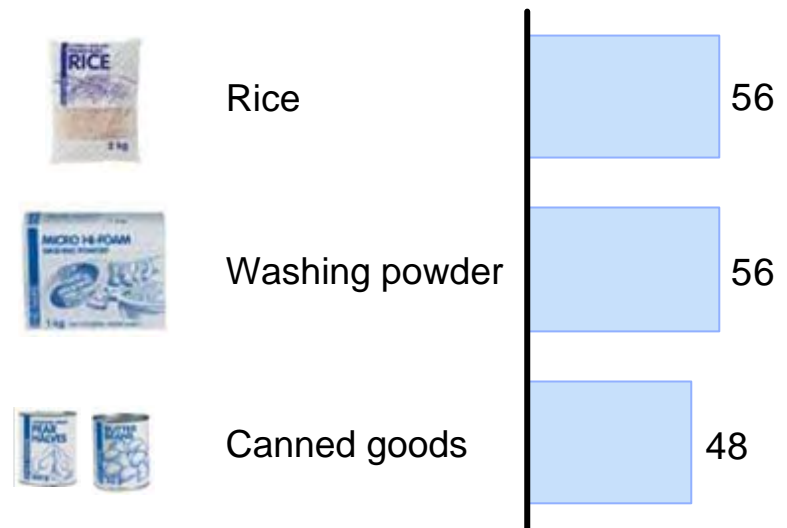
Percent agree/strongly agree



...but are increasingly open to trying private label from trusted retailers

'I am willing to try less-known private label brands if it was produced by retailer I trusted'

% agree/strongly agree



Private label penetration still relatively low

1 SA 'belly' shoppers

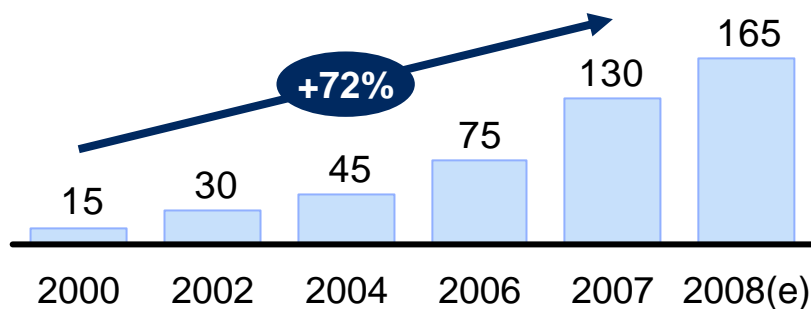
7 The 'war for talent' is a critical issue for consumer companies in Africa

Rising interest in Africa pressuring talent pool ...

Many MNCs are committed to building a significant presence in Africa... 400 companies earning > \$200 m in revenue



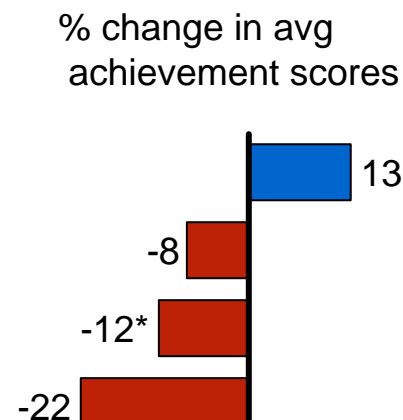
... as a result, companies seeking global talent increasing dramatically



... however, local talent pool is still not producing required needs

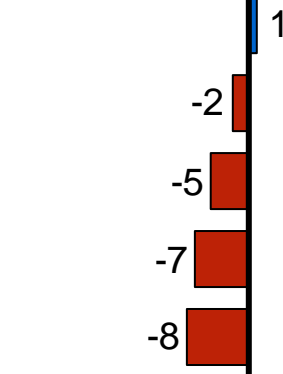
Grade 5 math
PASEC
assessment
1995-2007

Senegal
Cameroon
Madagascar
Burkina
Faso



Grade 6 reading
SACMEQ
assessment
1998-2003

Kenya
Tanzania
Namibia
Malawi
Zambia

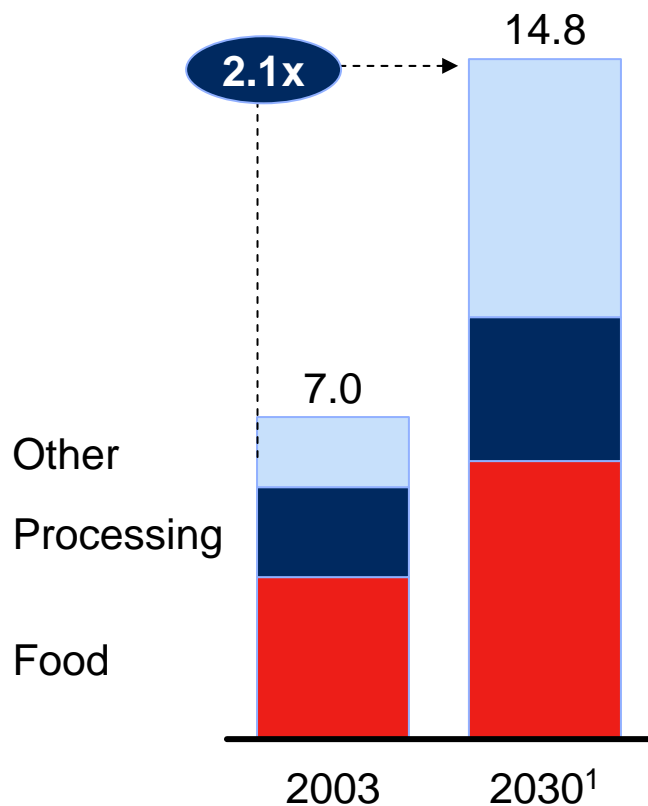


1 Global Career Company is UK-based recruiting agency that is a leading agency for Africa-destined talent. It was an established business before 2000 (started in 1996) and attributes a significant amount of its clients growth to increasing demand from African companies and interest in Africa from professionals

8 Growing demand for agricultural production will pressure resources

Demand for agricultural production could double by 2030...

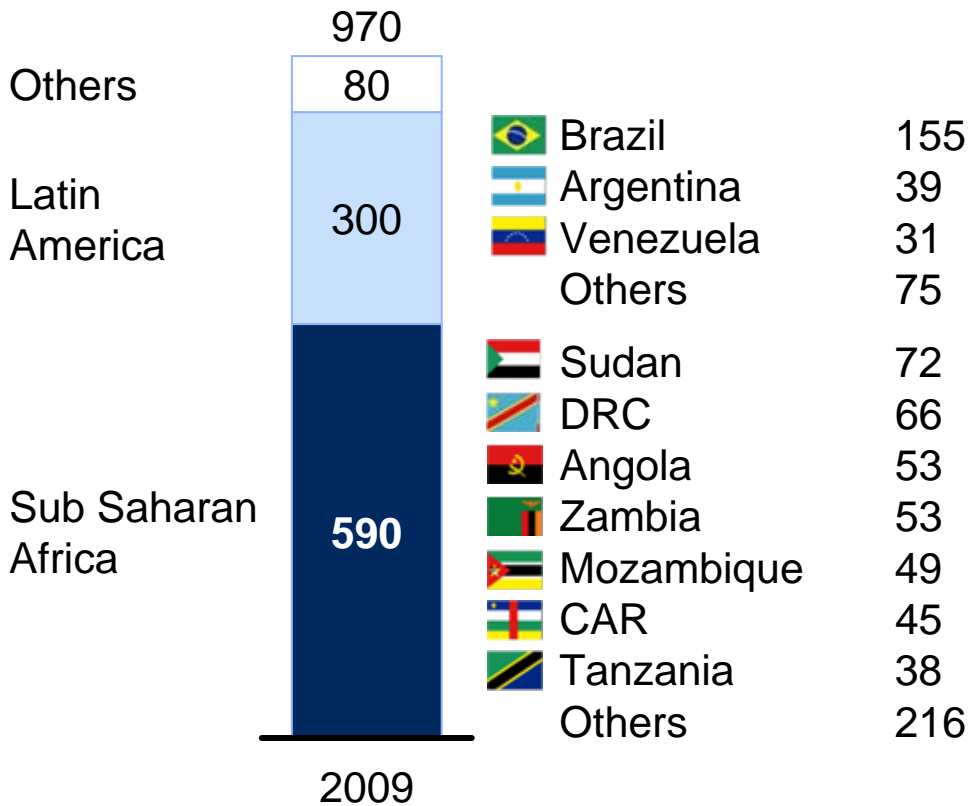
Billion tons



... which could pressure Africa as it has 60% of globally available cropland

Additional available cropland

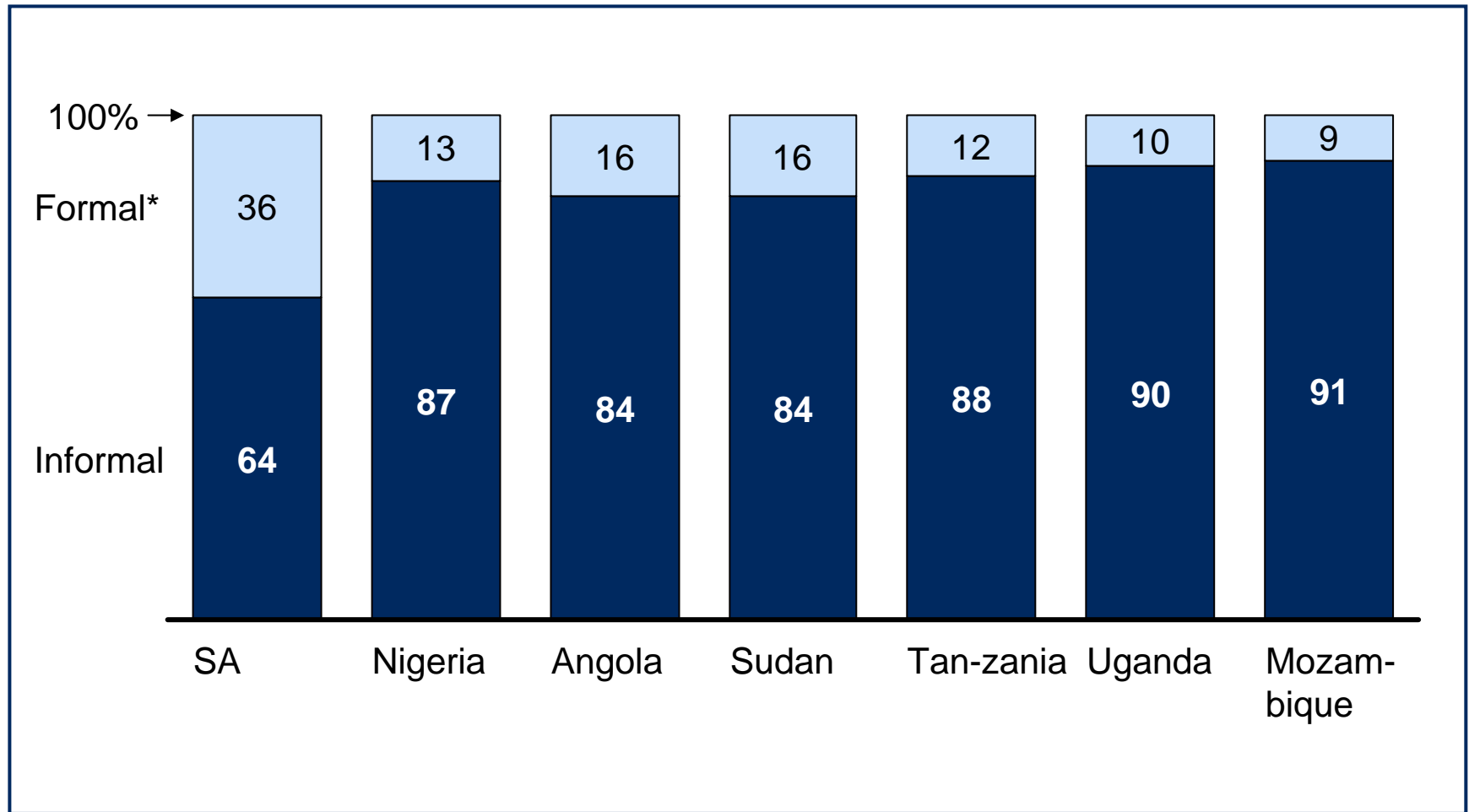
m ha



1 High case from model

9 The informal trade remains dominant in all African markets

2008, IN PERCENT



* Modern Grocery Distribution figures used as a proxy for formal trade

Source: Planet Retail Reports – 2008 Grocery Retailing reports for South Africa, Nigeria, Angola, Sudan, Tanzania, Uganda and Mozambique

9 However, this is changing rapidly



- Present in 15 African countries
- Plans to add 13 new stores in the 2011 financial year
- Nigeria, Ghana, and Mozambique are priorities



- Present in 7 African countries
- Looking to expand into 5 more before the end of 2011
- Plans to have a up to 100 stores outside South Africa in the next 4 years



- Massmart present in 14 African countries
- Walmart may also be more aggressive in the roll-out of Cambridge Food stores and the expansion into Africa



- Operates in 8 countries
- Plans to enter Angola and was looking to
- Plans to expand their existing operations in Mozambique, Zambia, Ghana and Uganda.

Many consumer goods companies and retailers are positioning to capture the opportunity



- Operating in virtually all African countries with on the ground bottling operations
- 3 regional hubs



- Operating in 17 African countries



- Operating in virtually all African countries
- 4 regional hubs in place



- 11 operating companies and breweries in Africa



- Regional structures in place for SSA, West Africa, and NA
- Recent announcements to increase focus and investment



- Announced intention to scale up African investment



- Operating in 31 African countries



- Generating revenues from own operations or agents in 41 African countries



- 18 manufacturing facilities with operations in over 40 African countries



- 19 separate operating companies across Africa



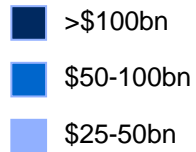
- Operating in 17 African countries



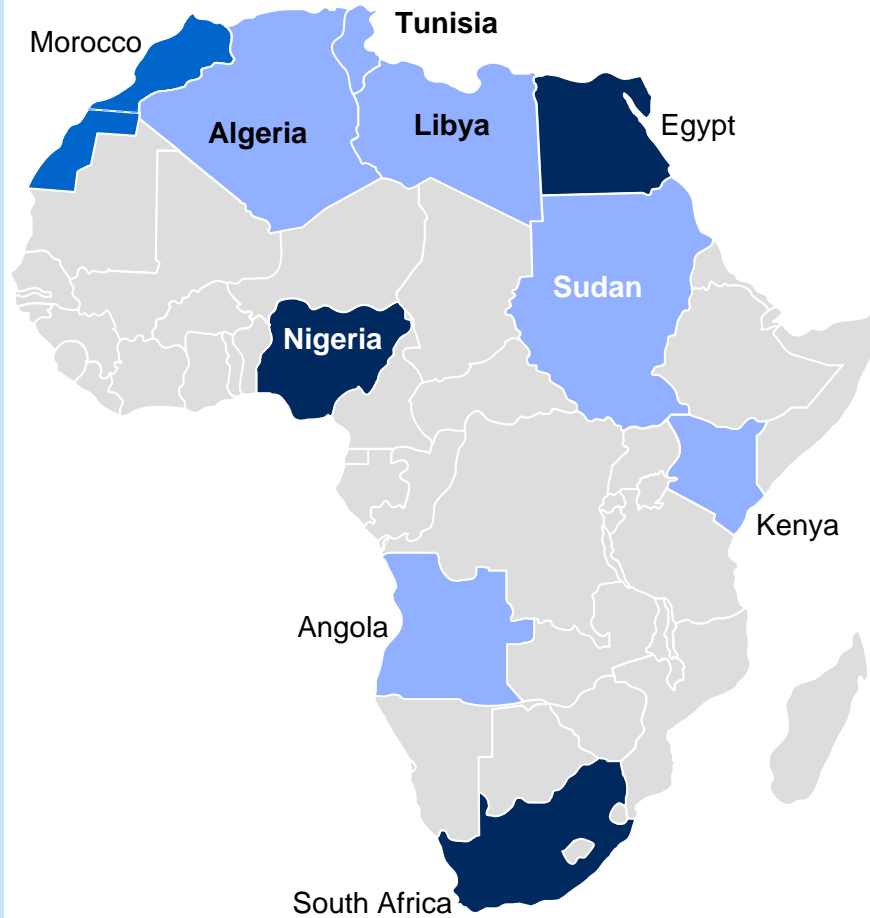
- Opened first Nigerian store

This growth will create new consumer markets previously too small to be compelling to multinationals

Private consumption, 2008 \$bn



2008

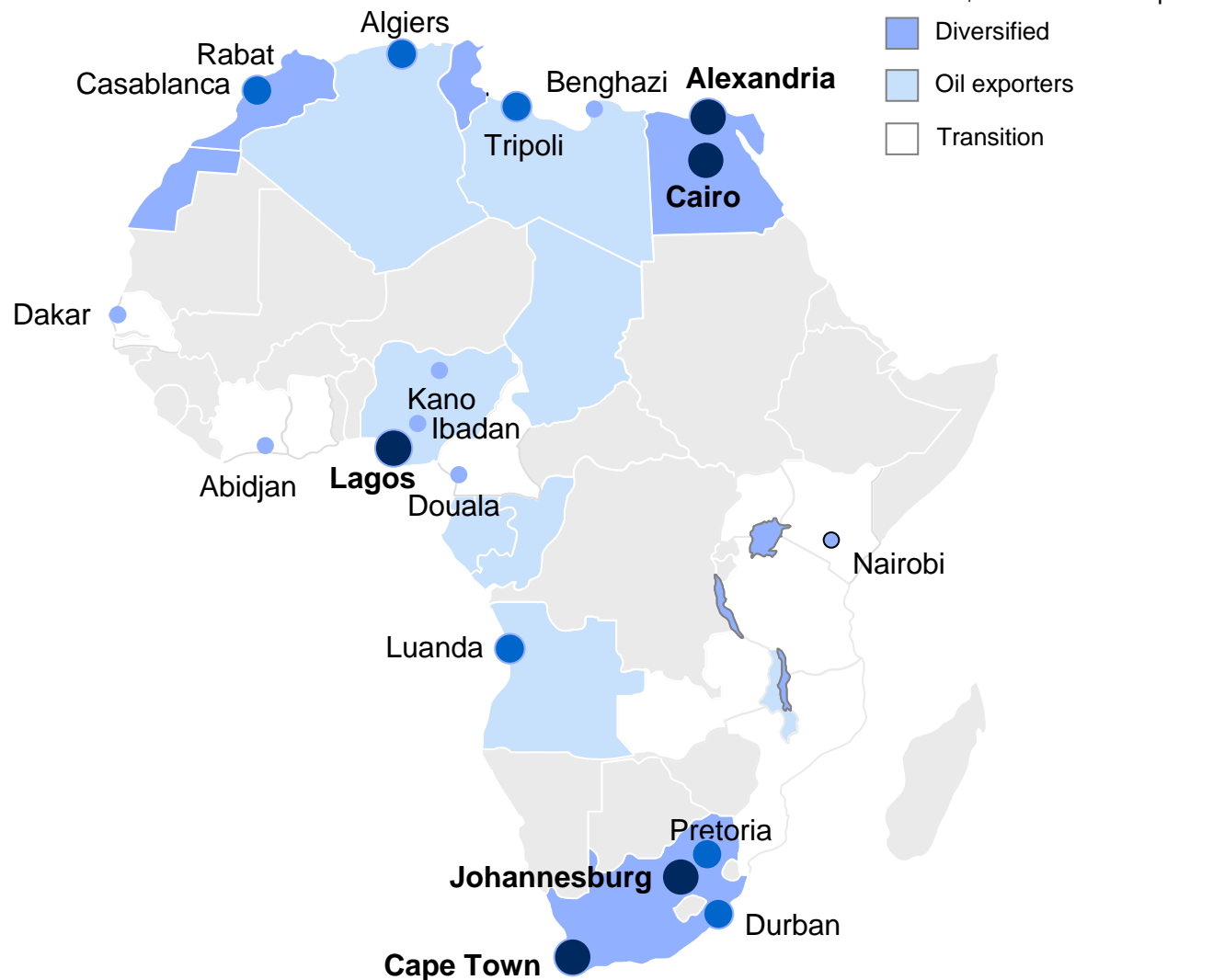


2020



Growing megacities present natural entry points in these markets

Consumption by city, 2020
2008 \$bn



1 City-level GDP is estimated by multiplying city population by city GDP per capita. City GDP per capita is estimated by taking country GDP per capita, and applying an adjustment to take into account city: rural wage differences

Thank you

The full report can be downloaded at:

McKinsey Global Institute
www.mckinsey.com/mgi