News

The world's fastest-growing middle class

Investor and philanthropist George Soros has described it as 'one of the few bright spots on the gloomy global economic horizon'.

China's latest GDP forecast? Growth from one of the Asian tiger economies, maybe?

No. Soros is talking about Africa. It's a continent wracked by poverty, where electricity is intermittent, where corruption soaks up development funding, where political instability and tyrannical governments undermine confidence, and where kidnapping of Westerners is rife. Or, at least that's been the stereotypical image of African countries till now among Western investors. The Chinese have invested in Africa's natural resource extraction for more than a decade, but it is only more recently that other international investors are waking up to the potential from Africa's imminent boom in consumer spending, which is set to rise from USD 860 billion in 2008 to USD 1.4 trillion in 2020, according to the McKinsey Global Institute.

Growth in business technology across the continent is leading the way.

The International Civil Aviation Organization expects Africans to fly 8.3% more miles in 2012, making the continent one of the fastest-growing markets for air travel behind Asia and the Middle East.

New five-star hotels are being constructed: currently 10 in Lagos, Nigeria, alone. Prices for apartments in fashionable districts of Lagos match those of Western cities.

Growth in extraction of natural resources is shown by British Gas' development along the coast of Tanzania, which is expected to be as large as its extraction along the coast of Qatar.

Analysts say the rate of return on foreign investment in Africa is higher than in any other developing region. Over the last decade, six of the world's 10 fastest-growing countries were African. In eight of the last 10 years, Africa's lion states have grown faster than the Asian tigers. The fastest-growing economy in the world in 2011 (at 13%) was Ghana.

As a result, Africa now has the fastest-growing middle class in the world. Some 313 million people, 34% of Africa's population, spend USD 2.20 a day, a 100% rise in less than 20 years, according to the African Development Bank.

The bank's definition of middle class in Africa is people who spend the equivalent of USD 2 to USD 20 a day — an assessment based on the cost of living for Africa's near one billion people. It is acknowledged that many living on USD 2 to USD 4 a day could easily slip back into poverty. But even when you take these people out of the equation, the bank puts the stable middle class at 123 million, 13% of the population. By 2060, says the bank, the number of middle-class Africans will grow to 1.1 billion (42% of the predicted population).

It is, as Soros points out, the world's fastest-growing middle class.

By 2060, Africans living below the poverty line will be in the minority (33%). The bank describes the trajectory as 'unstoppable'. As an indicator of recent trends, The Economist magazine, which in 2000 ran a cover story headlined 'The hopeless continent' recently U-turned with an article headed 'The hopeful continent'.

Investors cannot ignore revolutions in North Africa, and famines in east and west Africa, but the underlying mantra of 'growth, growth, growth' is taking hold. The International Monetary Fund (IMF) expects Africa to grow by 6% in 2012, following another 6% growth in 2011, roughly the same as in Asia and in stark contrast to the Eurozone.

Foreign direct investment projects grew by 27% in 2011, pushing Africa's share of the world's investment to almost a quarter.

Significantly, the Africa Attractiveness Survey by one of the Big Four accountancy networks points to a 'stark contrast' between those investors who have already invested in Africa and those who have not. The latter are concerned about corruption and political instability; they view it as 'by far the least attractive investment destination in the world'. But for those already investing in the continent, their experience is 'a story of progress, growth, a story of political and economic vibrancy'.

For example, Zambia enjoyed a 93% rise in investments in 2011 — 'a result of a well-managed economy and a peaceful handover of power'.

News

Exports drive China's superpower status

Gone are the days when foreign companies operating from China predominated in its export market. Now, home-bred Chinese firms are taking the upper hand.

A matter of trust

UHY member firms are known worldwide for their core accountancy services. But member firms are expanding their service provisions into allied services specifically to meet the varying needs of their clients. As a result, clients have developed a longstanding trust of UHY and retained those services over many years, often over successive generations of family businesses.

Power to the mid-market

It would have passed you by – a small survey in the energy sector conducted in one of the more remote parts of the UK.

One of the most striking examples of growth is in Nigeria, hit by terrorist attacks but where GDP grew five-fold between 2000 and 2011, according to the International Monetary Fund (IMF). A survey by global Initial Public Offering specialists Renaissance Capital reports that nearly half of Nigeria's middle class (defined as people with an average monthly income of USD 500–600) are planning to buy fridges, freezers and other white goods, 'suggesting a consumer boom is under way'.

Africa's fast-growing urban populations are benefitting from a commodities boom and a 10-fold rise in foreign investment in the past decade, notably from China. Over the same period, Africa's productivity has grown by nearly 3% a year, compared with 2.3% in the US. Governance is improving (the number of democracies in sub-Saharan Africa leapt from three in 1989 to 23 in 2008); dictatorships and wars are declining (major conflicts have declined from 12 in the mid-1990s to just four today); and mobile phone technology is fast becoming as much an African symbol as the baobab tree.

A 2011 poll found that mobile phones are owned by 71% of adults in Nigeria; 62% in Botswana and more than half the populations of Ghana and Kenya. The continent is the world's fastest-growing mobile phone market, according to the industry group Groupe Speciale Mobile Association. Africa's 600 million users make the continent the second biggest user of mobile phones globally by continent, behind Asia. Subscriber levels have grown by almost 20% for each of the past five years; subscribers are expected to total 735 million by 2013.

Around one-tenth of Africa's land mass is covered by mobile-internet services — a higher proportion pro rata area than in India. Mobile development has enabled Africans to 'leapfrog' poor landline infrastructure, which has been a brake on progress. Many Africans get their first internet experience on a mobile rather than a desktop computer, using services that revolutionise commerce, farming and healthcare. Almost 18 million Kenyans use their mobiles as a bank account to deposit or transfer money and pay their accounts.

In places such as Rwanda's capital Kigali — with lasting memories of its 1994 genocide — technology start-up companies are flourishing. Similar start-ups flourish in Kenya, Nigeria and South Africa. By comparison with mobile phones, internet communications are relatively low at 120 million users, but growth between 2000 and 2011 was 2,527%, compared with a world average of 480%. Twenty-seven per cent of Africa internet users have Facebook profiles, compared with 18% of users in Asia.

Shopping malls, with wireless-equipped coffee shops, show the rise of the African consumer: the Accra Mall in Accra, Ghana; The Palms in Lagos, Nigeria; Westgate in Nairobi, Kenya. Trade in cars and motorcycles are prolific (car ownership in Ghana, for example, has risen by 81% in the past five years).

Along with the rise of the middle classes are coming 'middle class values' more recognised outside the continent: families are smaller; they are owning their own homes; and heads of households have salaried jobs or run their own small businesses.

Thanks to debt relief in Africa, and a borrowing boom in Europe, many European countries are more indebted than African nations. Oil-rich Angola is lending cash to its former colonial master Portugal. New African multi-millionaires are being minted at such a rate that Forbes, the Bible of global business elite, has published its inaugural '40 richest Africans' list. At the top is Aliko Dangote, a sugar, flour and cement magnate based in Lagos, worth USD 13.8 billion.

As economies and middle classes grow, so does investment and so do businesses — some so much that they are buying up global rivals. South African Breweries has bought the US' Miller to become SAB Miller, the world's second-largest brewer. The US' retail giant Walmart, the world's biggest retailer, has invested USD 2.4 billion acquiring a majority stake in South African grocery retailer Massmart so it can springboard across Africa, starting in Nigeria. From the UK, London-based Lonrho is investing USD 300 million in the continent, setting up a new regional airline and opening 50 mass market hotels. Live Aid co-founder Bob Geldof, who in the 1980s urged the world to donate to save Africa, has established his own fund to make investments in agri-businesses, financial services and telecommunications.

One way investors are taking a 'safety net' leap into Africa is through the Indian Ocean island of Mauritius. Multinational corporations, investment funds and other international investors — attracted by above average returns and high growth rates — are increasingly favouring the Mauritius Global Business Sector as a platform of choice to structure their investments into African countries.

Mauritius has signed Double Tax Treaties with 11 African countries (South Africa, Botswana, Lesotho, Mozambique, Namibia, Rwanda, Senegal, Swaziland, Uganda, Zimbabwe, Tunisia) and treaties with four other countries (Malawi, Ghana, Kenya, Nigeria) are awaiting ratification.

"By choosing the Mauritius route into Africa, investors can avail of the treaty benefits and achieve significant tax savings, mainly in the form of reduced withholding tax on dividend distributions and exemption from capital gains," says Nirmal Heeralall, of UHY's member firm on Mauritius, UHY Heeralall.

Mauritius has also signed Investment Promotion and Protection Agreements with 15 African countries which, typically, offer certain guarantees to investors, such as free repatriation of investment capital and returns, guarantee against expropriation and dispute settlement arrangements.

"Its proximity to Africa and membership of the African Union; Southern African Development Community; Common Market for Eastern and Southern Africa; and Indian Ocean Rim – Association Regional Cooperation are among the other reasons why investors choose Mauritius as their preferred investment route into Africa," says Heeralall.

But UHY also has member firms in northern Africa and sub-Saharan Africa in stable jurisdictions favoured by investors for direct investment. Especially in the north, business practices and investment incentives are more readily conducive to Western investors.

In Tunisia, for example, the government has adopted market mechanisms aimed at encouraging free trade. Prices have been liberalised, taxes have been reduced, the national currency (the dinar) has been made convertible, and the state has disengaged from competitive activities to the benefit of the private sector.

The government plans to continue with its programme of structural reform, including fiscal consolidation and a reduction in public debt as a proportion of GDP.

"As a result, fiscal incentives to increase private-sector investment are being implemented and a liberalised investment code, the Investment Incentives Code, has been drawn up to encourage foreign investment," says Raoudha Ben Abdelkrim, of UHY's firm in Tunisia, UHY CNBA.

The code is the law and governs both national and foreign investment – except in mining, energy, local trade and finance, which are governed by specific regulations. Some businesses become eligible for incentives offered under the code by self-declaration; others require prior authorisation.

Incentives include:

- Tax relief on reinvested profits and income up to 35% of the income or profits subject to taxCustoms duties exemption for capital goods that have no locally-made counterparts
- VAT limited to 10% on capital goods imports
- Possibility to choose a reducing balance method of depreciation for production material and equipment where its useful life exceeds seven years.

The government aims to cut unemployment and lift living standards to Organisation for Economic Co-operation and Development (OECD) levels by increasing foreign and local investment, production and exports, while keeping inflation and the fiscal current-account deficits under control.

Priorities include addressing financial sector weaknesses, which act as a drag on growth; fiscal consolidation; paying down external debt; upgrading industrial infrastructure; and enhancing labour market flexibility.

"Oil exploration plans are also expected to stimulate foreign direct investment," says Ben Abdelkrim. "Tunisia and Malta are discussing the commercial exploitation of the continental shelf between their countries. Moreover, recently Tunisia has attracted unprecedented interest from the monarchies of the Gulf. Their investments in services, tourism and banking to date have more than doubled in recent years. Arab capital accounts for more than 20% of all foreign investment."

Foreign investment could also be encouraged by the government eliminating the need for prior authorisation for the acquisition of small and medium-sized companies, and for the purchase and rent of land and premises in industrial and tourist areas.

The government — with its official target of 6% economic growth per annum — is expected by economists to favour boosting investment in manufacturing; promoting high-value knowledge-based industries; modernising agriculture and infrastructure; strengthening the financial sector; and restructuring education.

Africa may still be the poorest continent in the world, but Africans have had enough of being the world's victims. Their time has come and their timing is sound — as debt-laden economies of the West face their worst crises since the 1930s. It's small wonder that the rate of return on foreign investment in Africa is higher than in any other developing region, according to McKinsey. No wonder, as Soros says, investors with foresight see Africa as 'one of the few bright spots' on the economic horizon.

Contact: Nirmal Heeralall
Email: nirmal.heeralall@uhyheeralall.com

Contact: Raoudha Ben Abdelkrim
Email: cnba@tunet.tn