

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

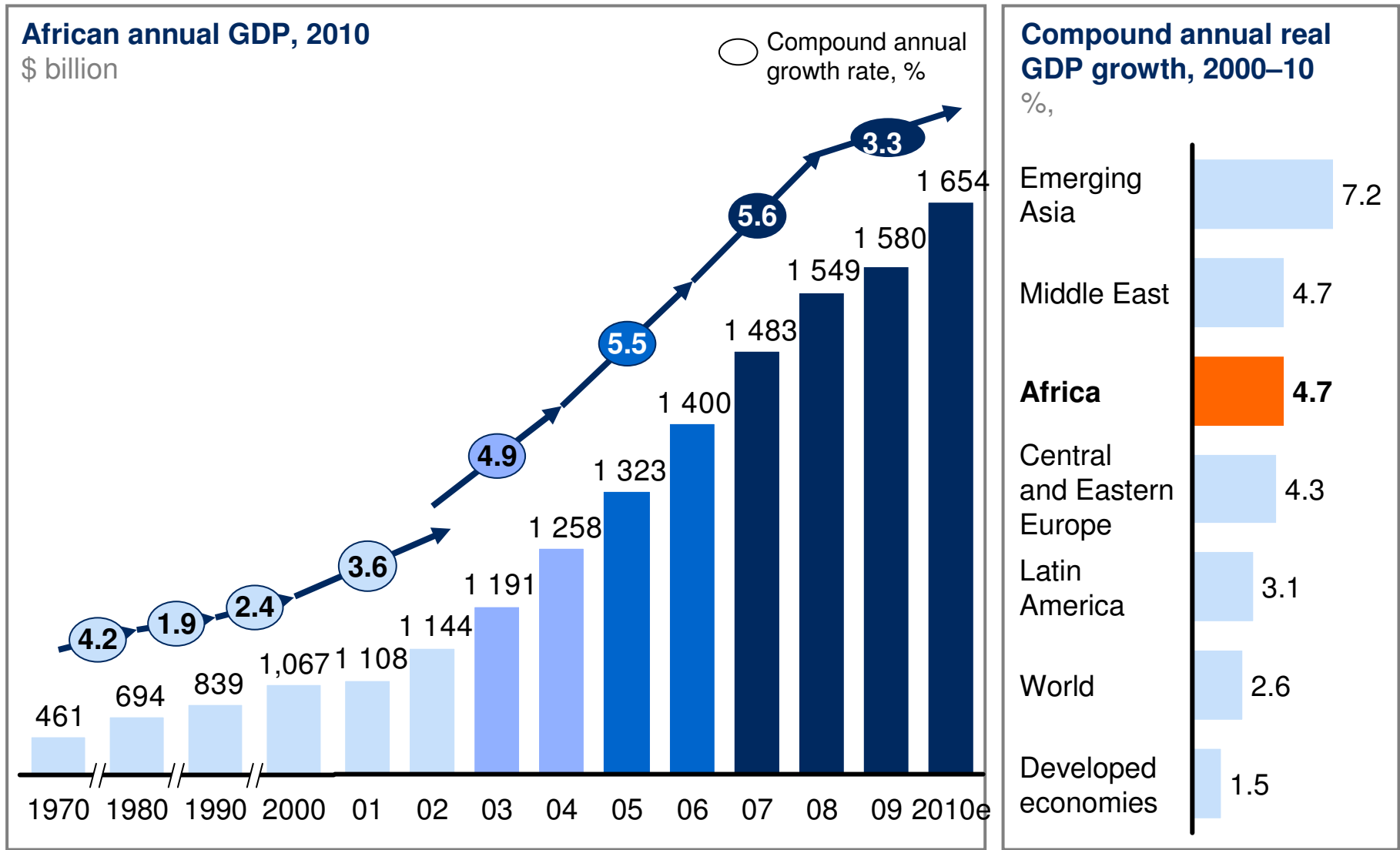
Africa today is more urbanised than India, and just below China

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

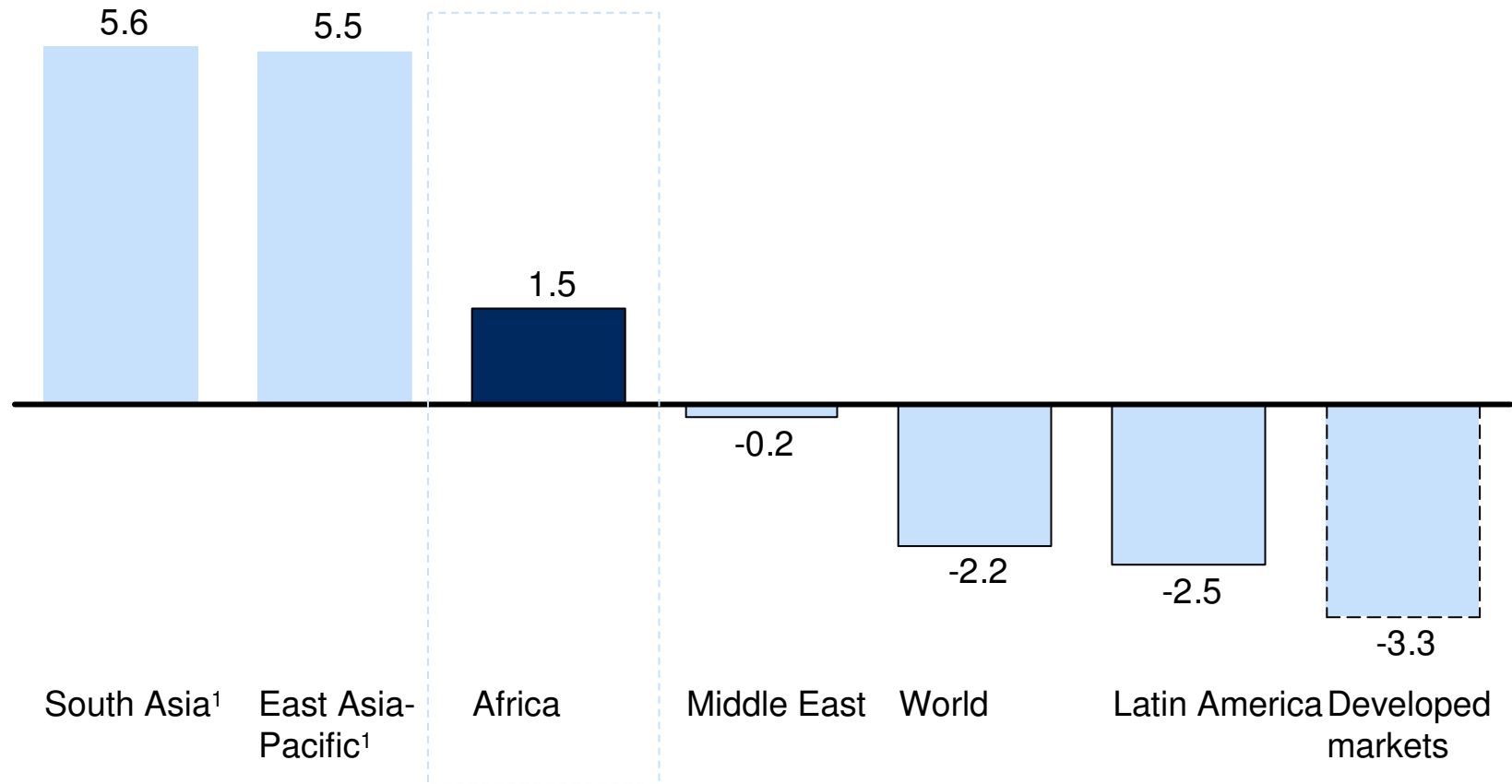
Africa's growth prospects

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



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

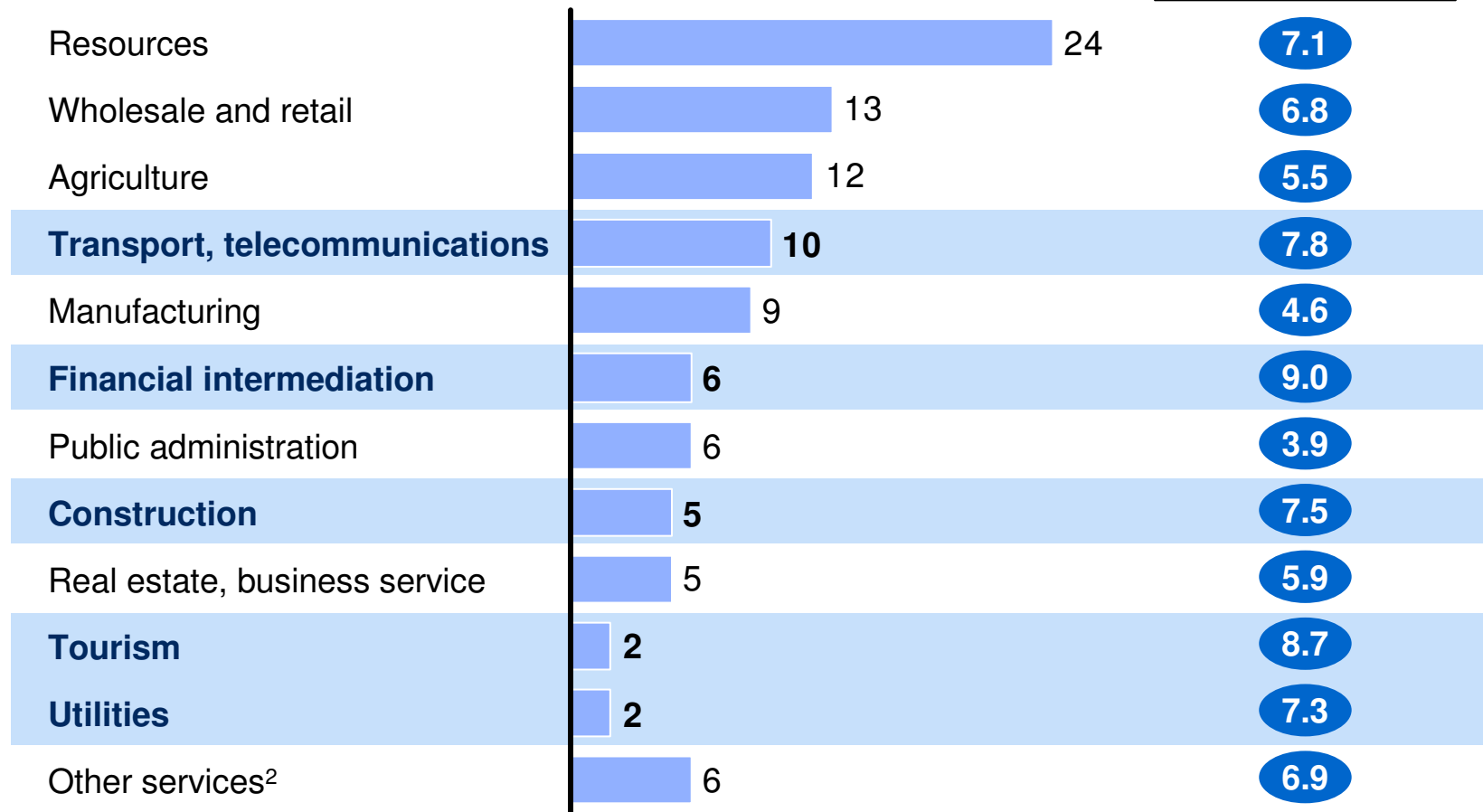
Africa's growth was widespread across sectors ...

Sector share of change in real GDP, 2002–07

Percent, 100% = \$235 billion¹

■ Sectors with higher growth than resources

Compound annual growth rate, %

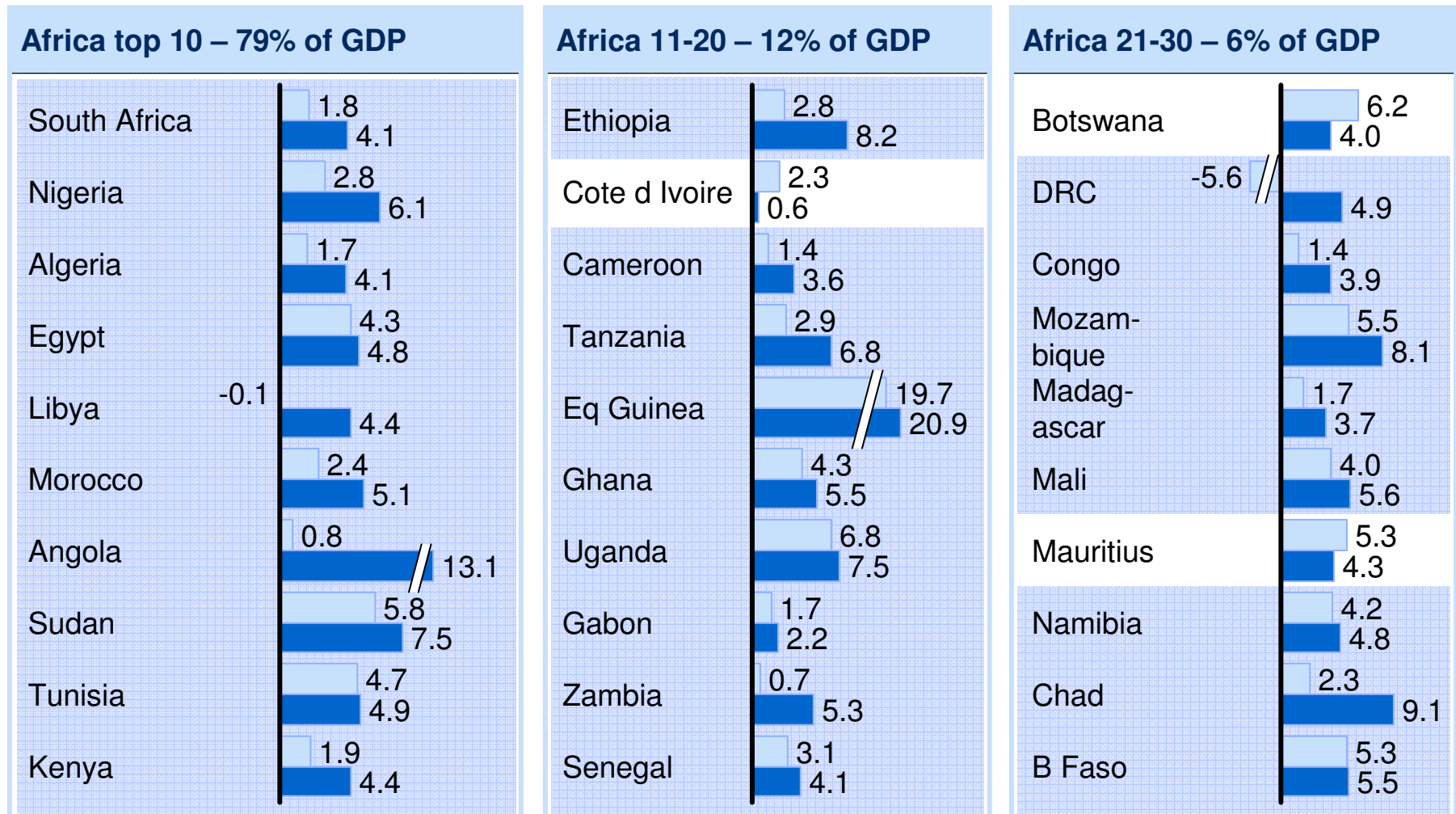


¹ In 2005 dollars. Includes 15 countries that account for 80 percent of Africa's GDP: Algeria, Angola, Cameroon, Egypt, Ethiopia, Kenya, Libya, Morocco, Nigeria, Senegal, South Africa, Sudan, Tanzania, Tunisia, Zimbabwe

² Education, Health, Social Services, Household Services

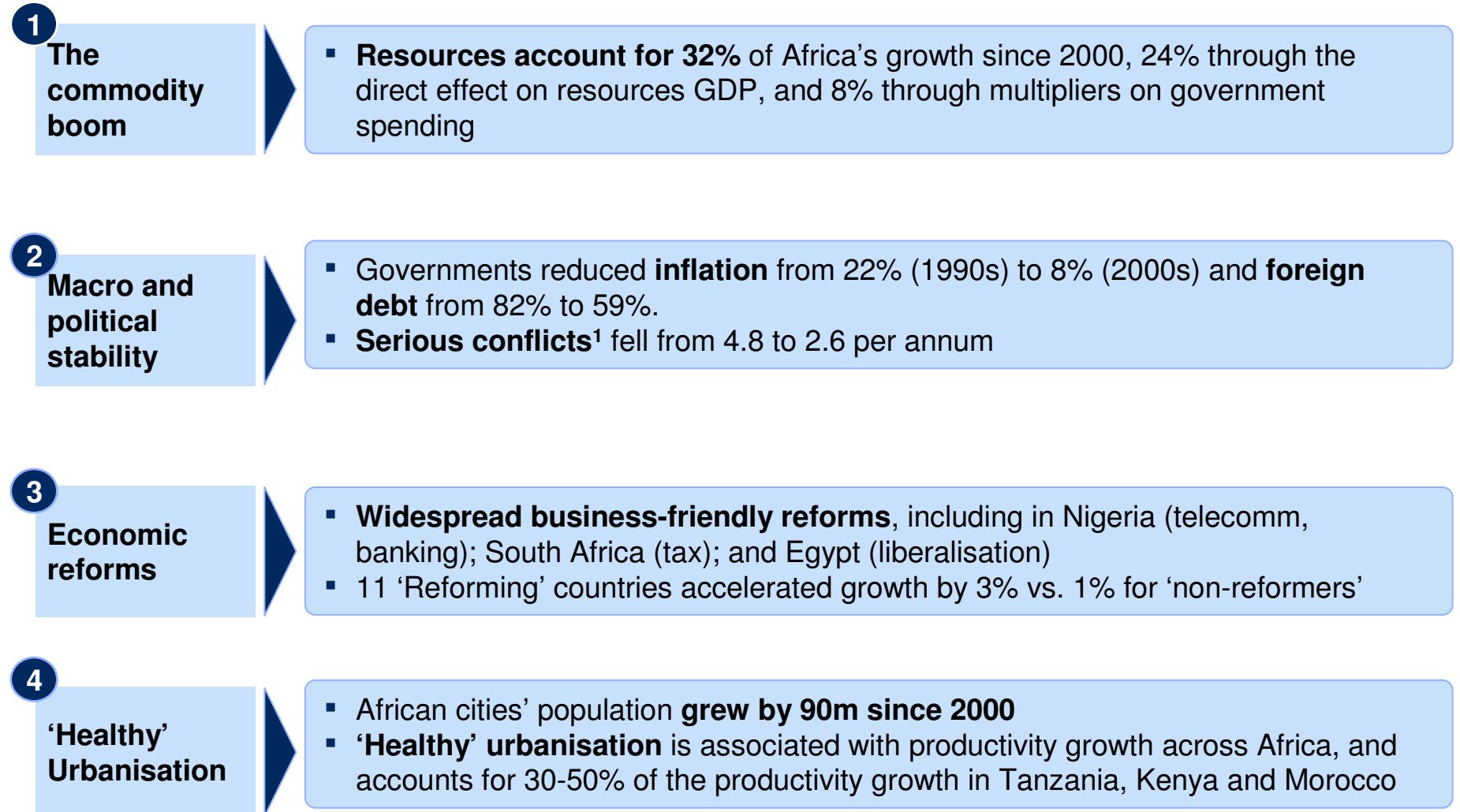
... and countries

Average annual real GDP growth, %



1 These economies represent 97% of Africa's GDP

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

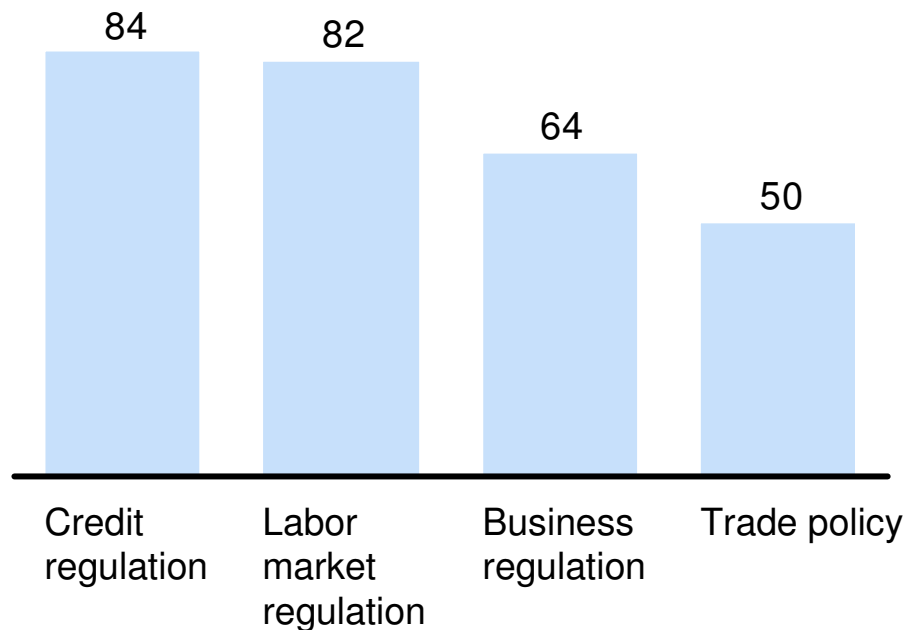


¹ Conflicts with more than 1,000 deaths per annum
SOURCE: Team analysis

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

Share of African countries improving business policy metrics¹

%



Sample size

37

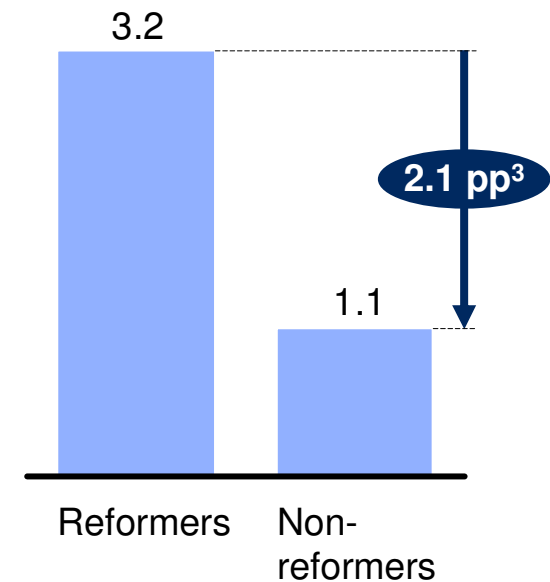
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11

30

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

Unweighted country average, %



Sample size

14

16

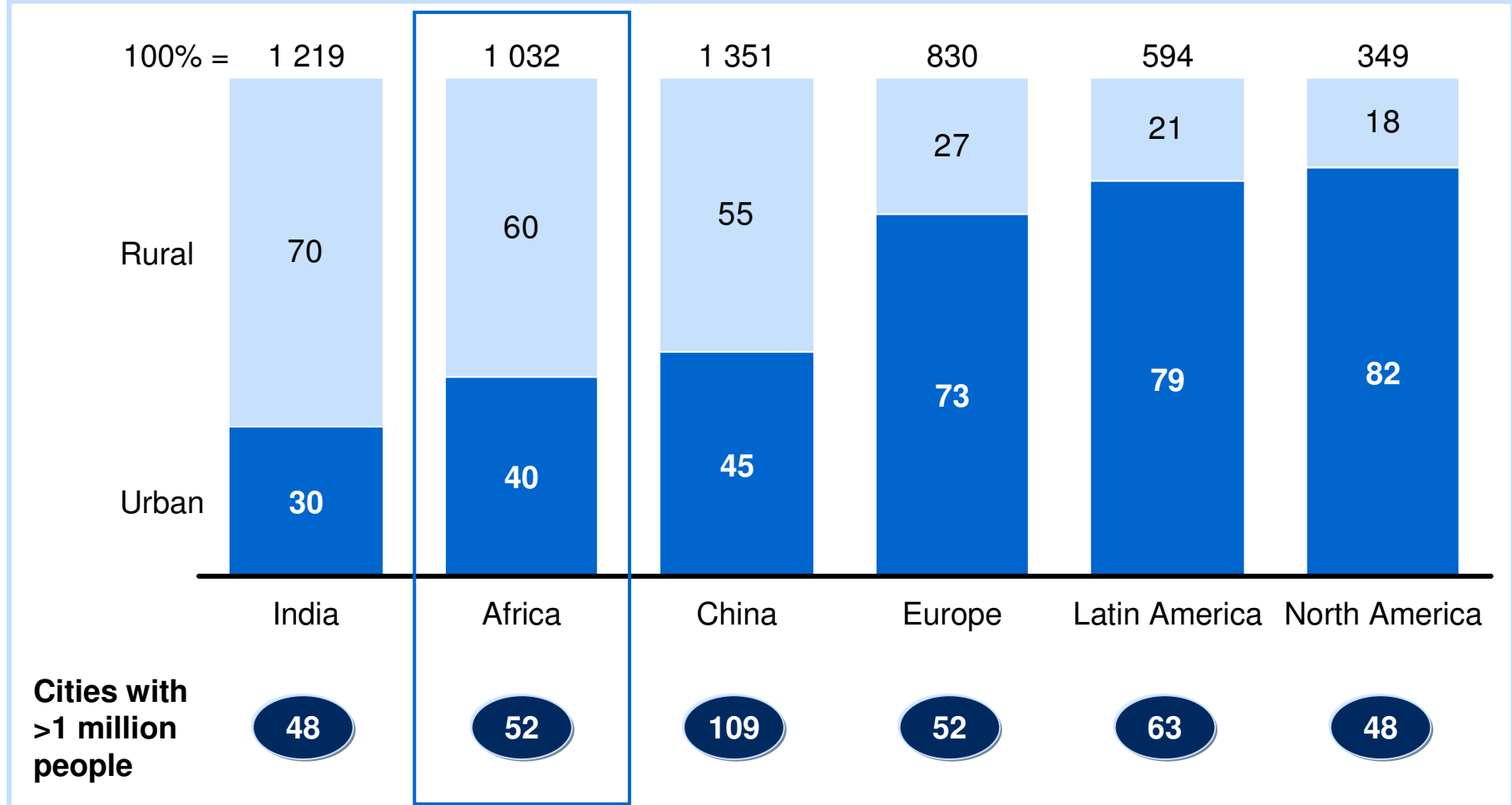
1 Each business policy metric is measured along a variety of dimensions that are aggregated into an index for each metric. Improvements in each metric are measured as an increase in the index level

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

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



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

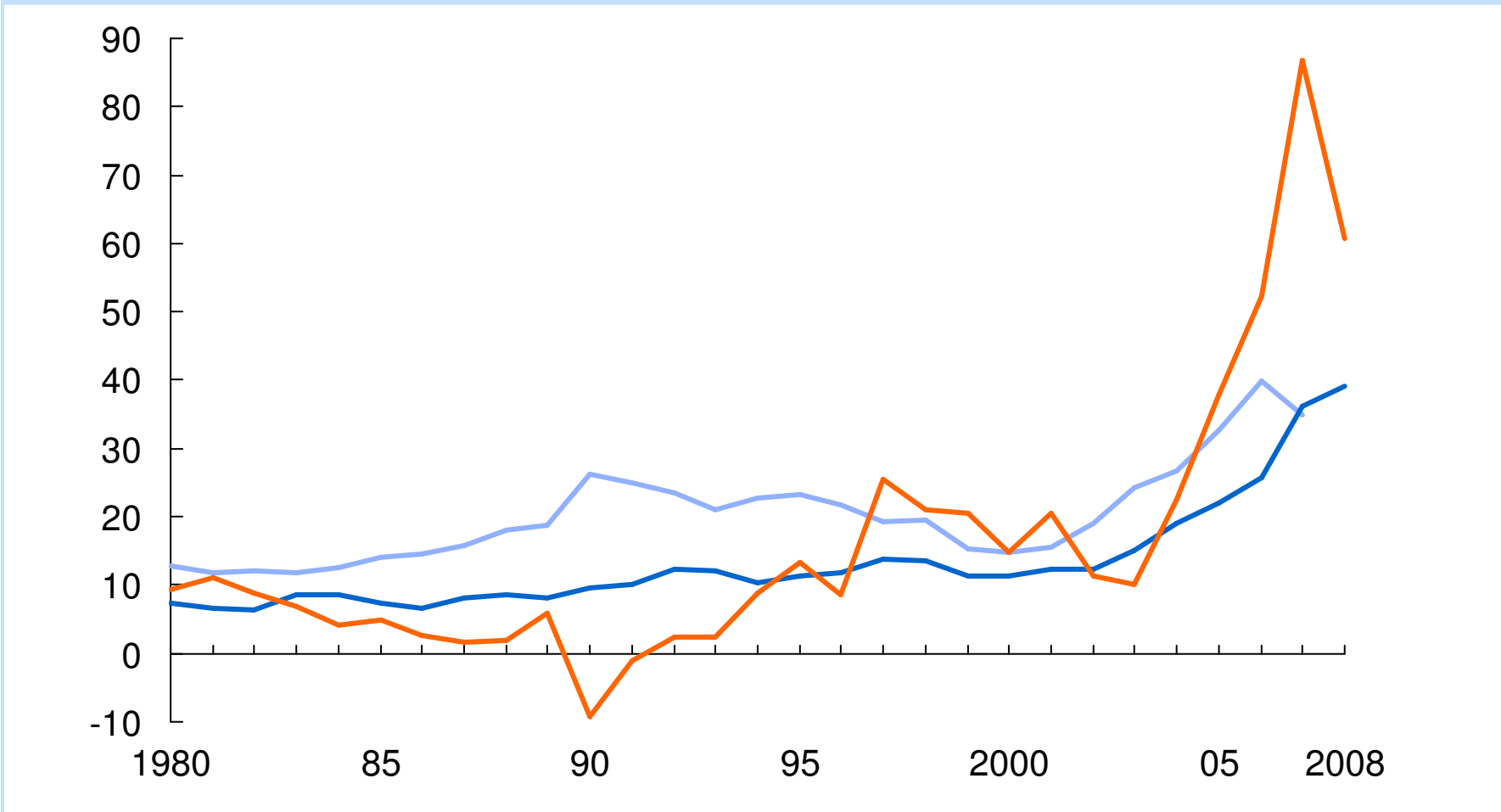
- Africa has 60% of world's available arable land
- Many African countries below global benchmarks for yields

Private capital flows to Africa have risen sharply since 2003

- Gross aid inflows
- Remittances
- Capital inflows¹

African financial inflows

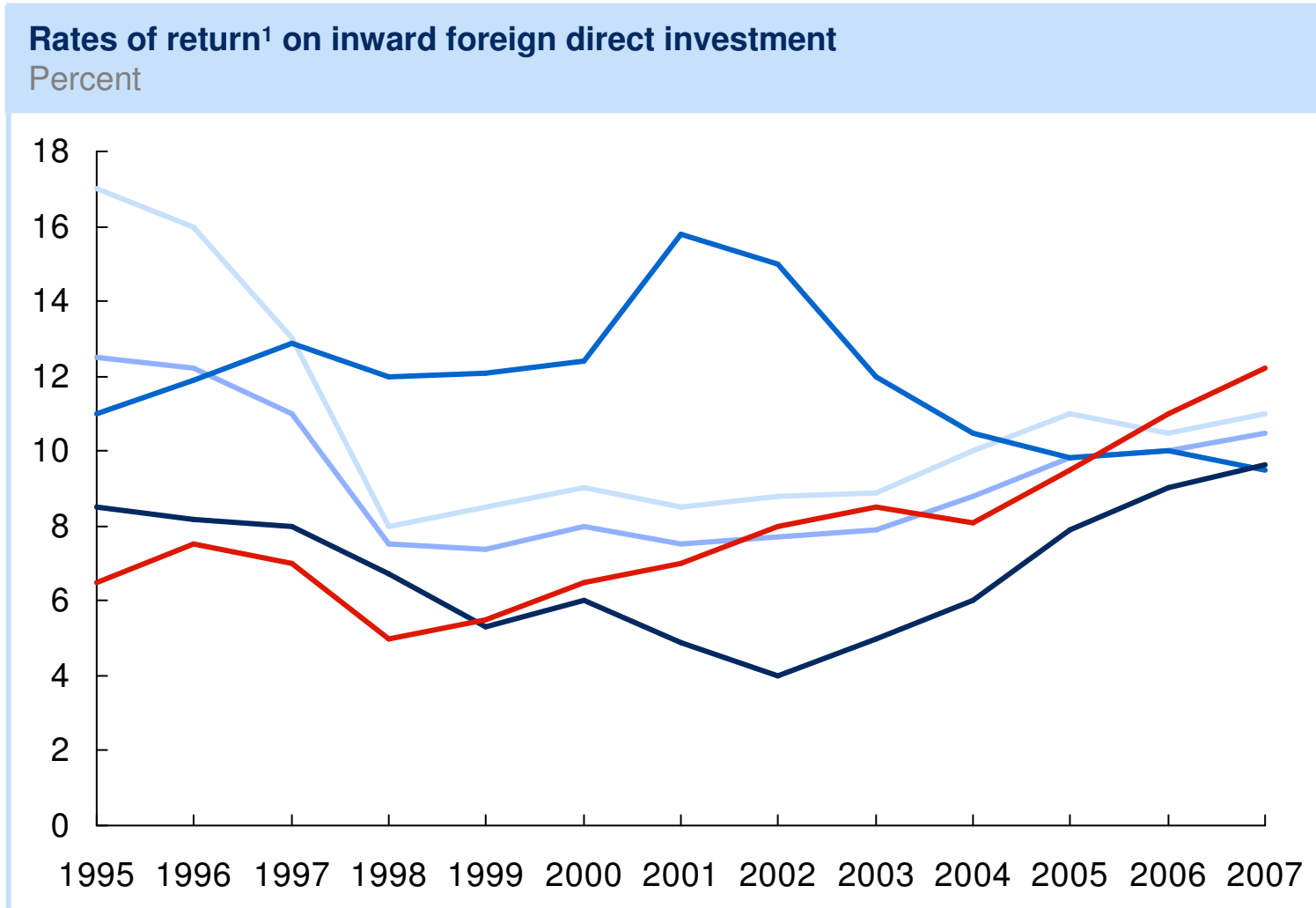
\$ billion



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

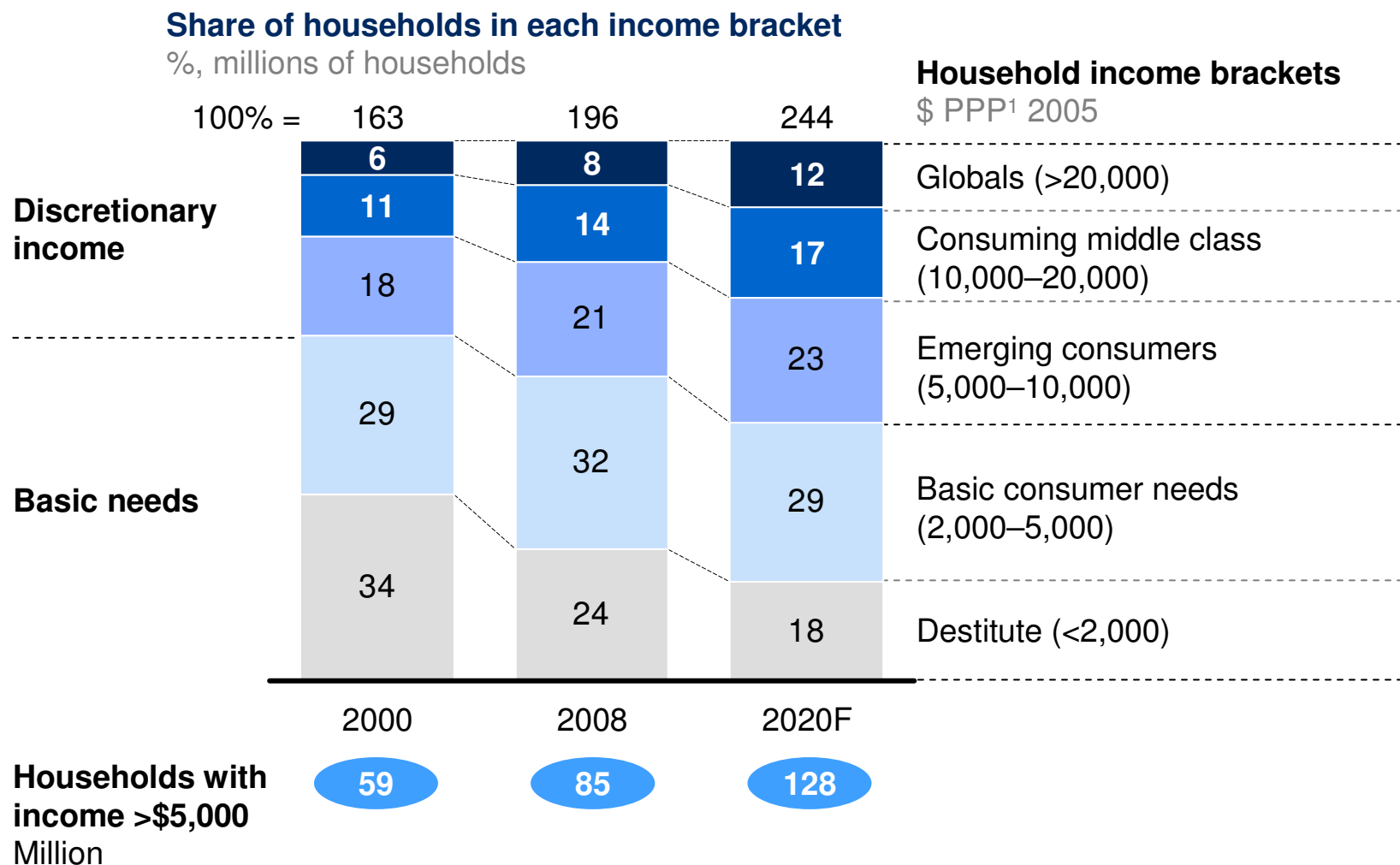
The rate of return on foreign direct investment in Africa is higher than in other developing countries

- Asia
- Developing economies
- Middle East
- Latin America
- Africa



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

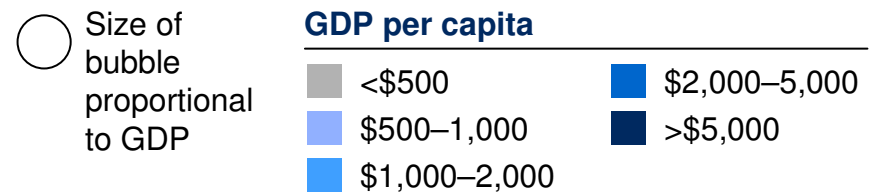
By 2020, more than half of African households will have discretionary spending power



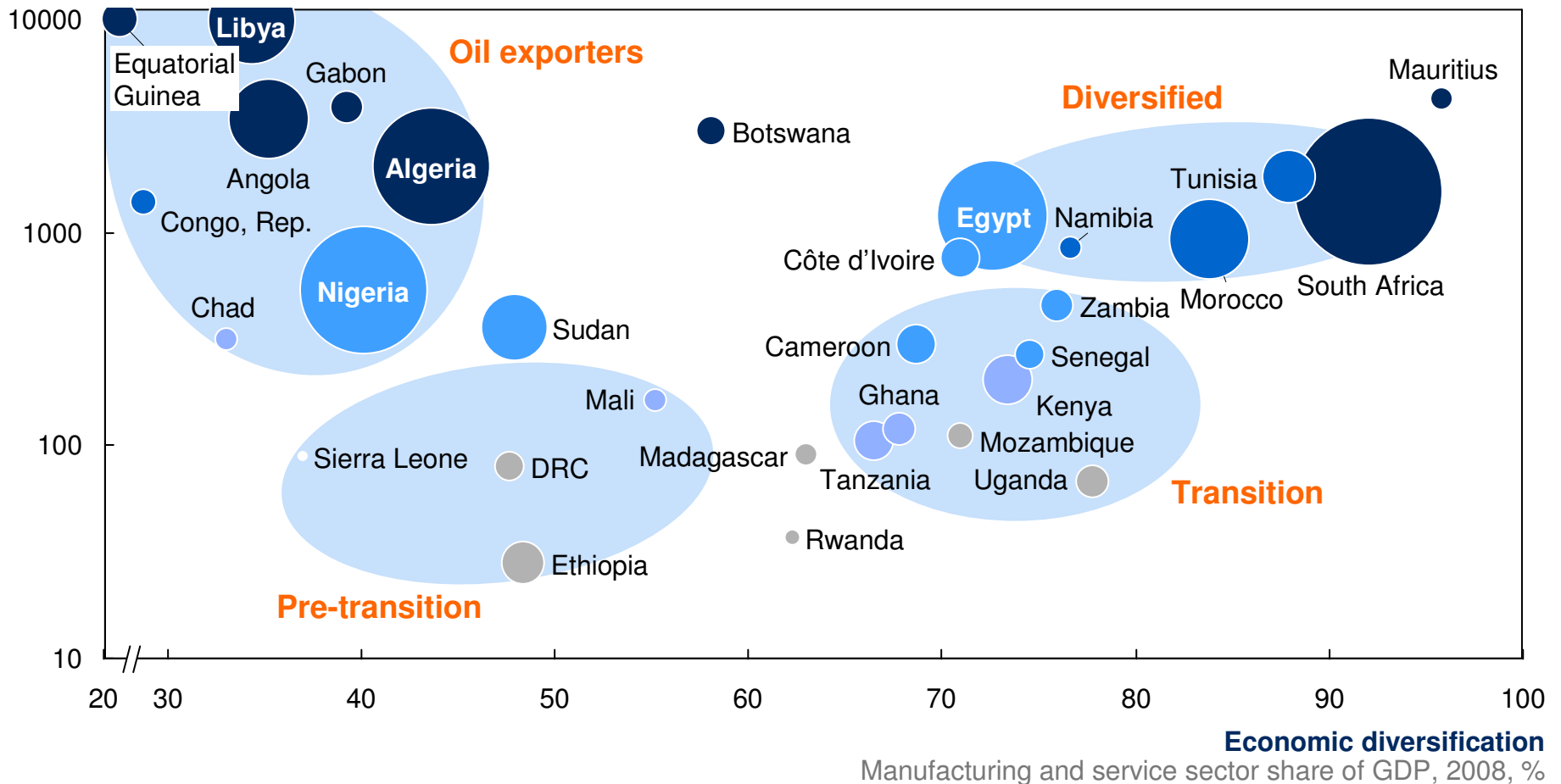
1 Purchasing power parity adjusts for price differences in identical goods across countries to reflect differences in purchasing power in each country.

Opportunities and challenges across countries

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



Exports per capita, 2008, \$

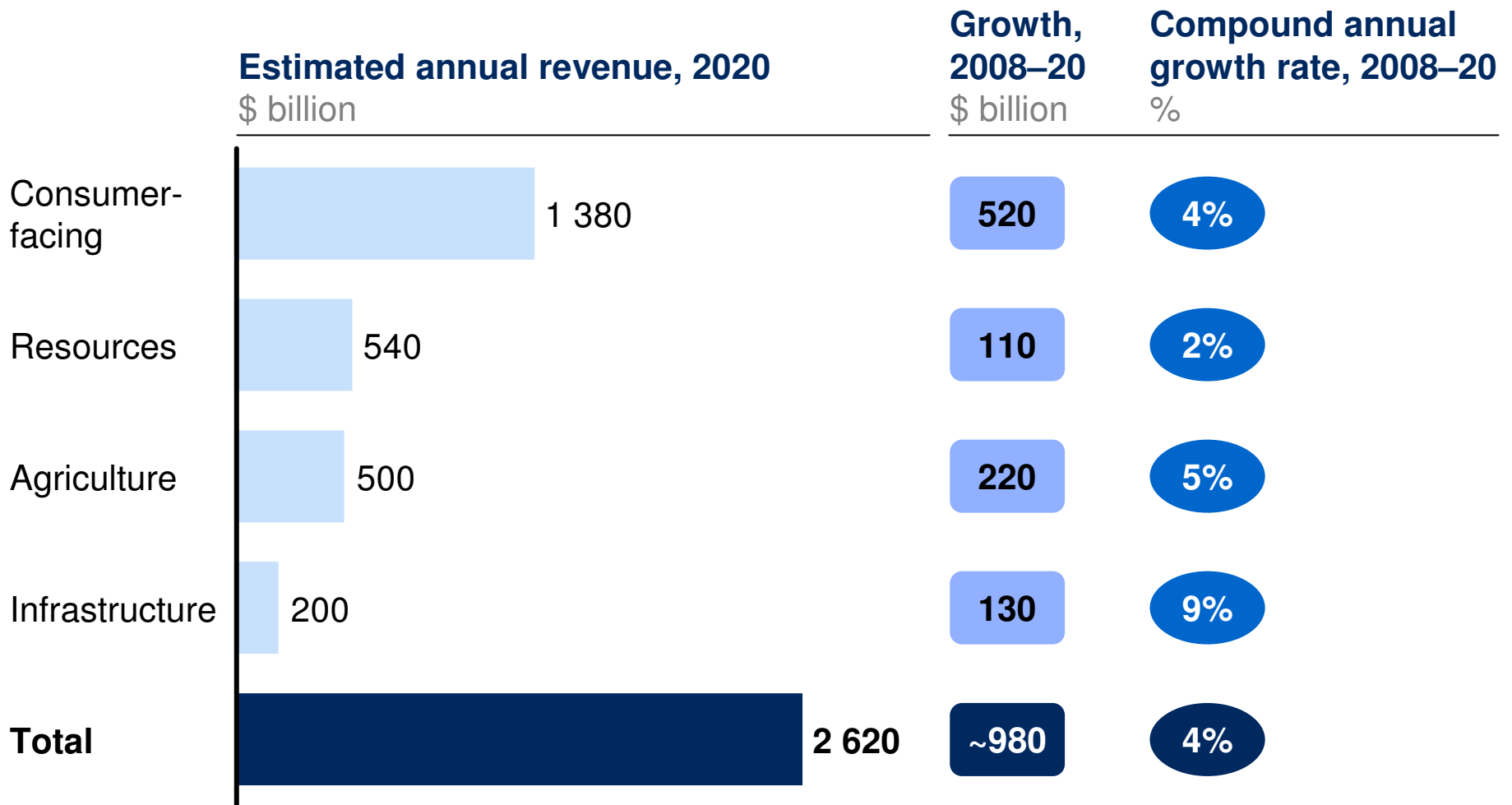


NOTE: We include countries whose 2008 GDP is approximately \$10 billion or greater, or whose real GDP growth rate exceeds 7% over 2000–08. We exclude 22 countries that account for 3% of African GDP in 2008

SOURCE: Organisation for Economic Co-operation and Development; World Bank World Development Indicators; McKinsey Global Institute

Africa's \$2.6 trillion business opportunity

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

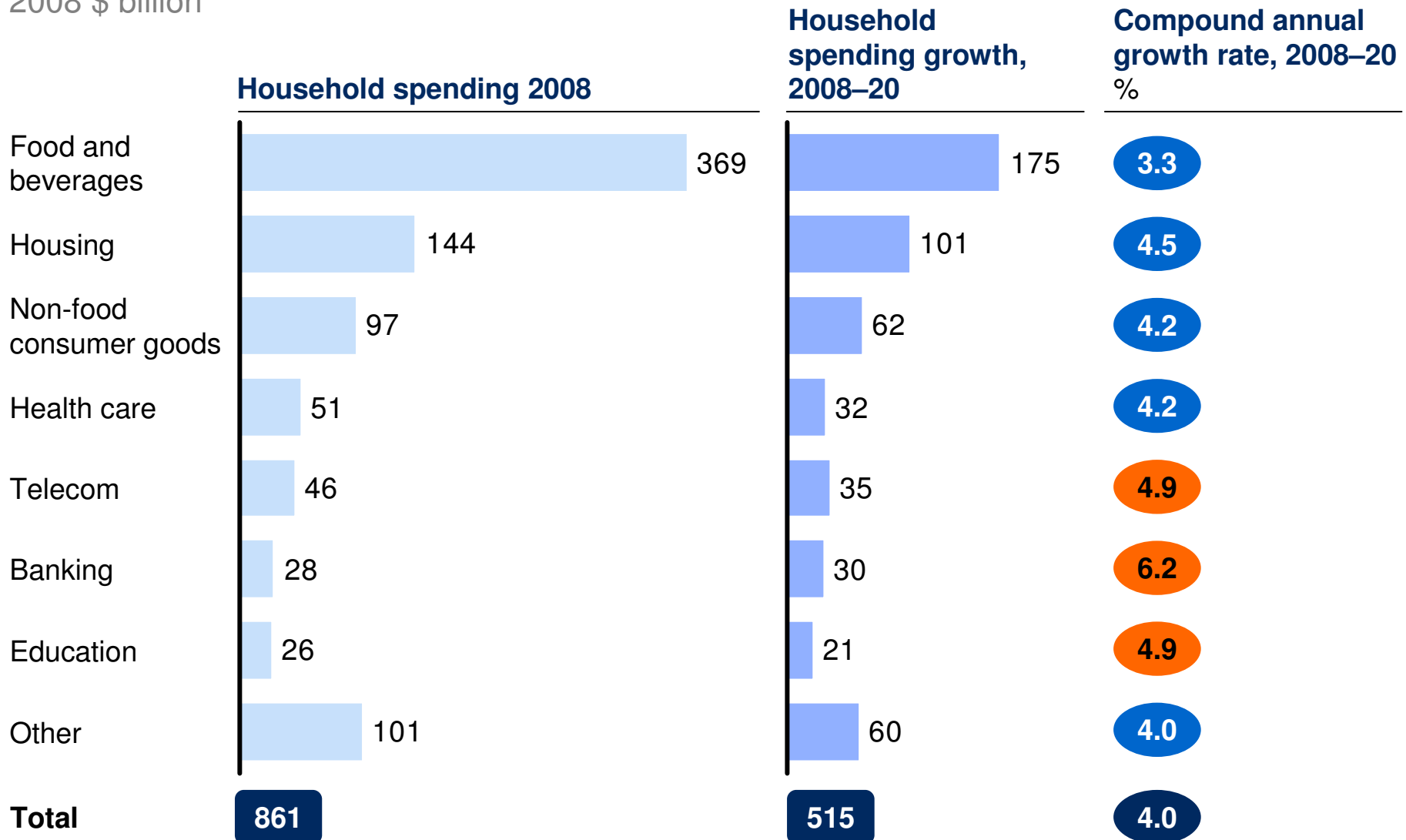


1 Took 2030 value of \$880 billion and calculated straight line equivalent for 2020.

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

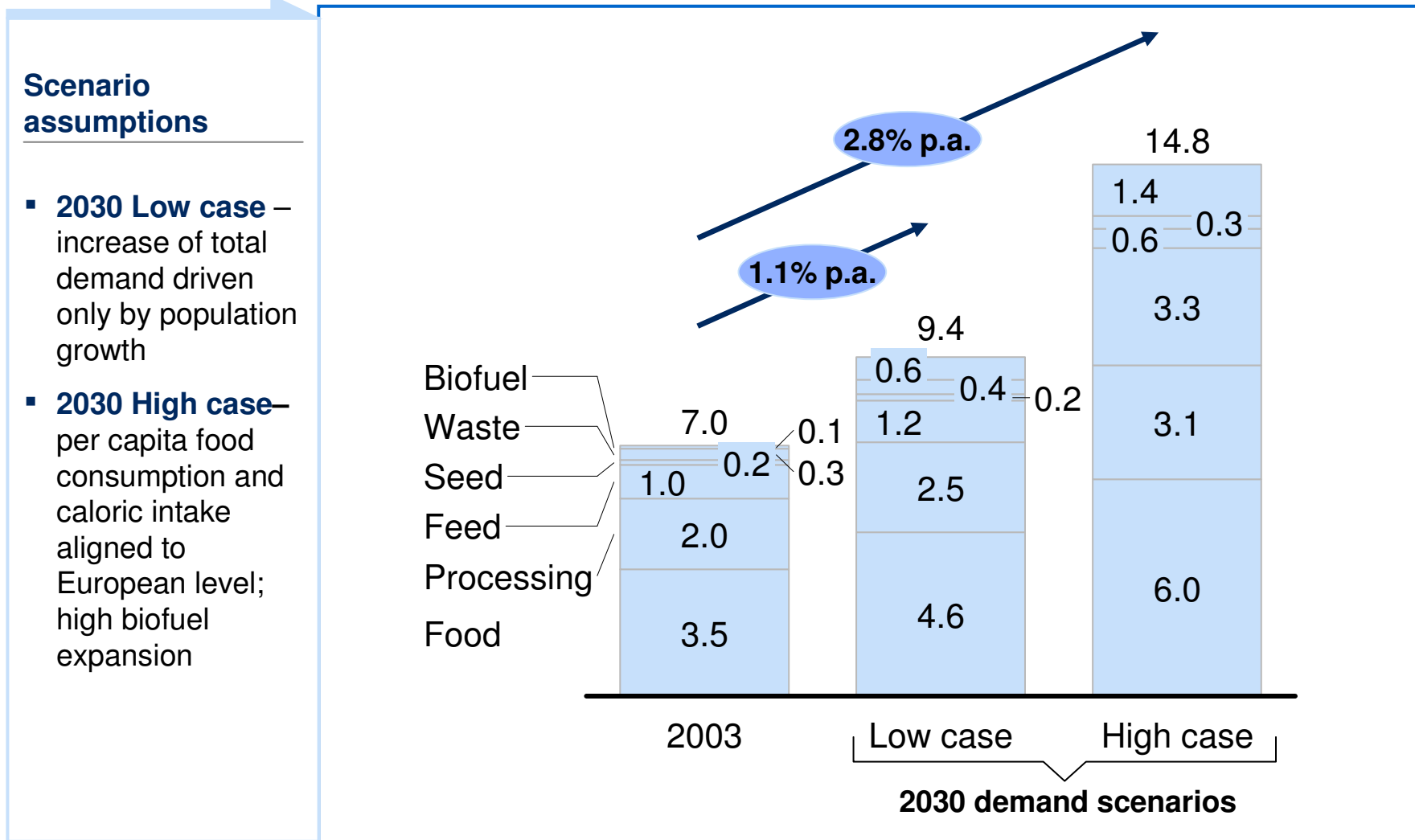
While food will account for the largest share of consumer spending, non-food sectors will grow faster as incomes increase

2008 \$ billion



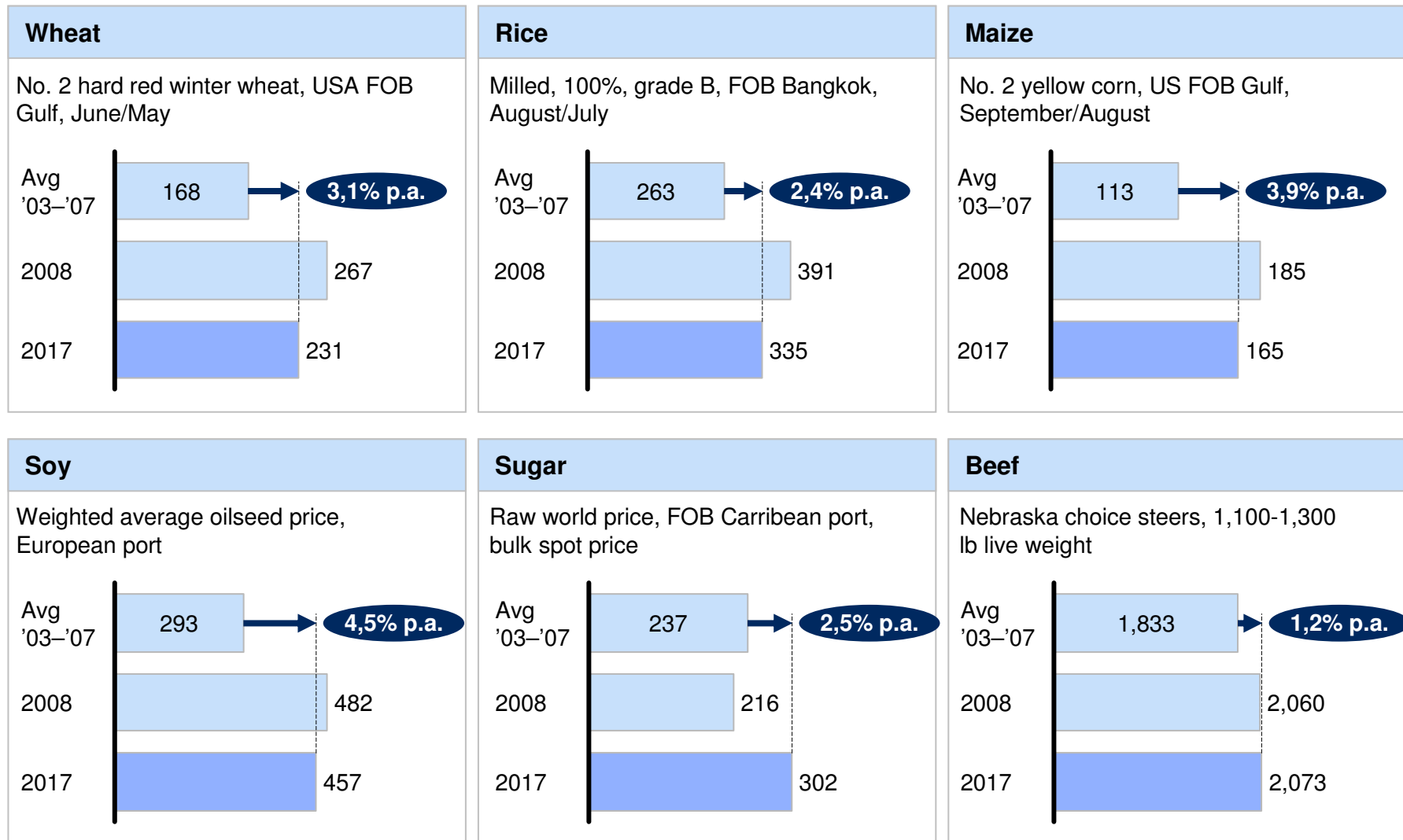
Demand for agricultural production will surge through 2030...

Billion tons



... and long-term prices should increase over recent historical averages

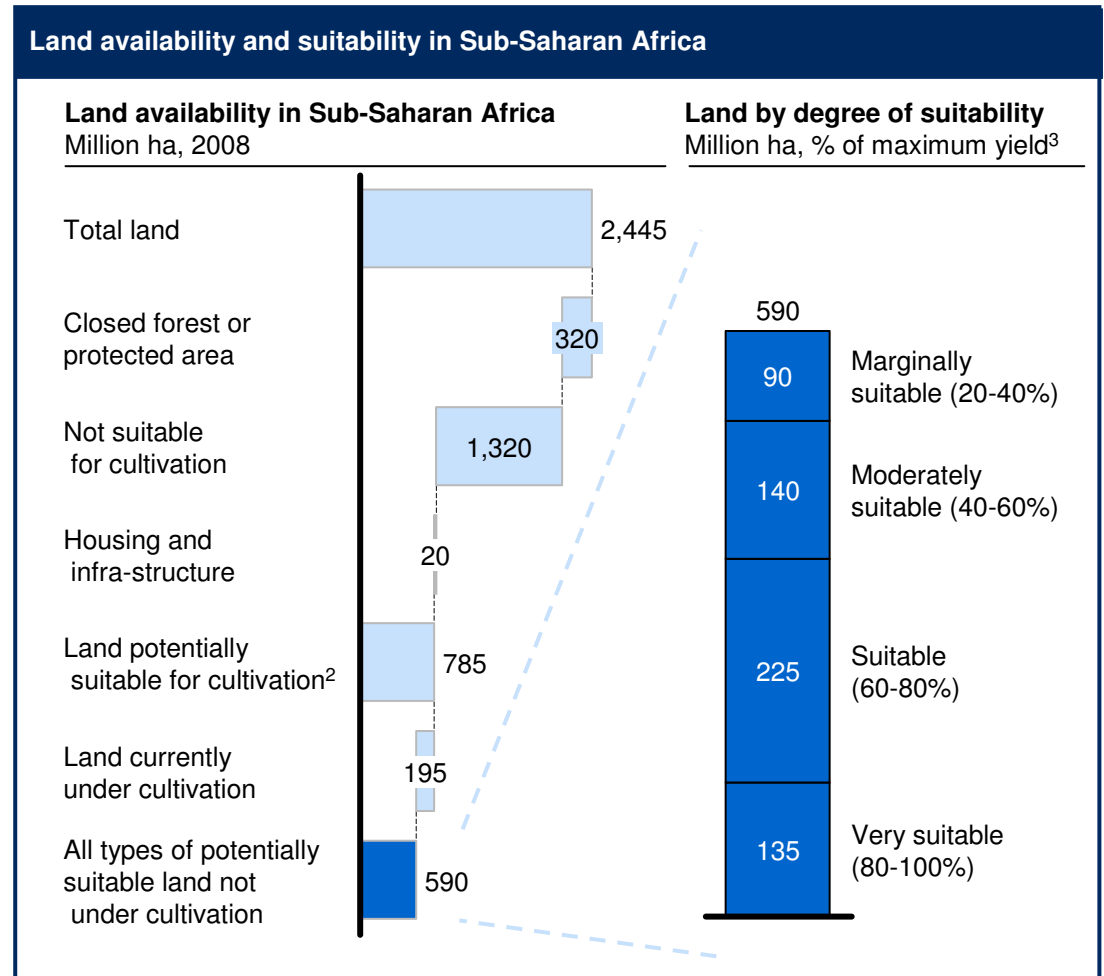
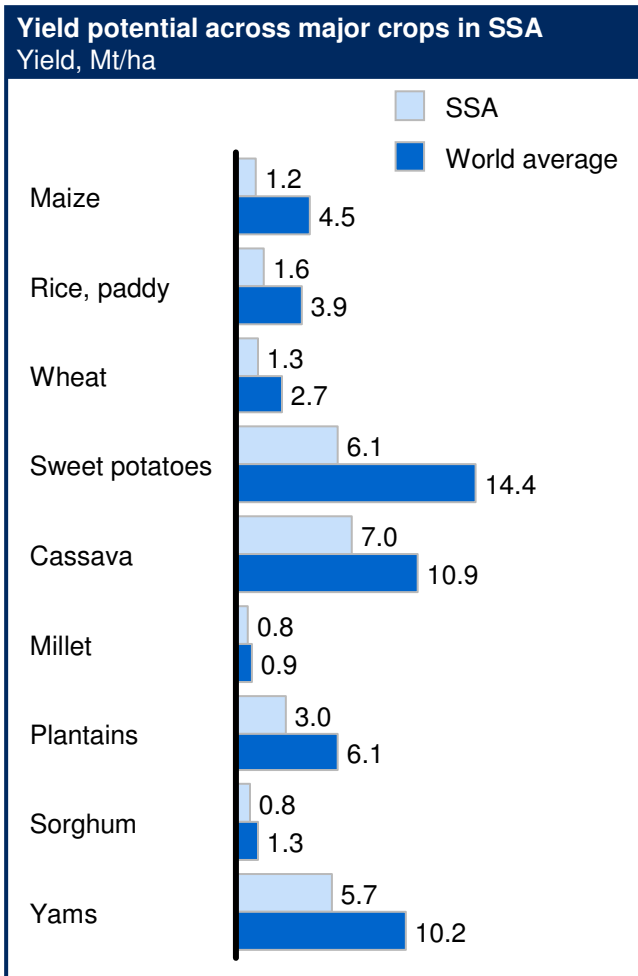
USD per ton



Africa could become a worldwide player in agriculture as the sector is far from reaching its potential

ESTIMATES

Boosting yields, more land

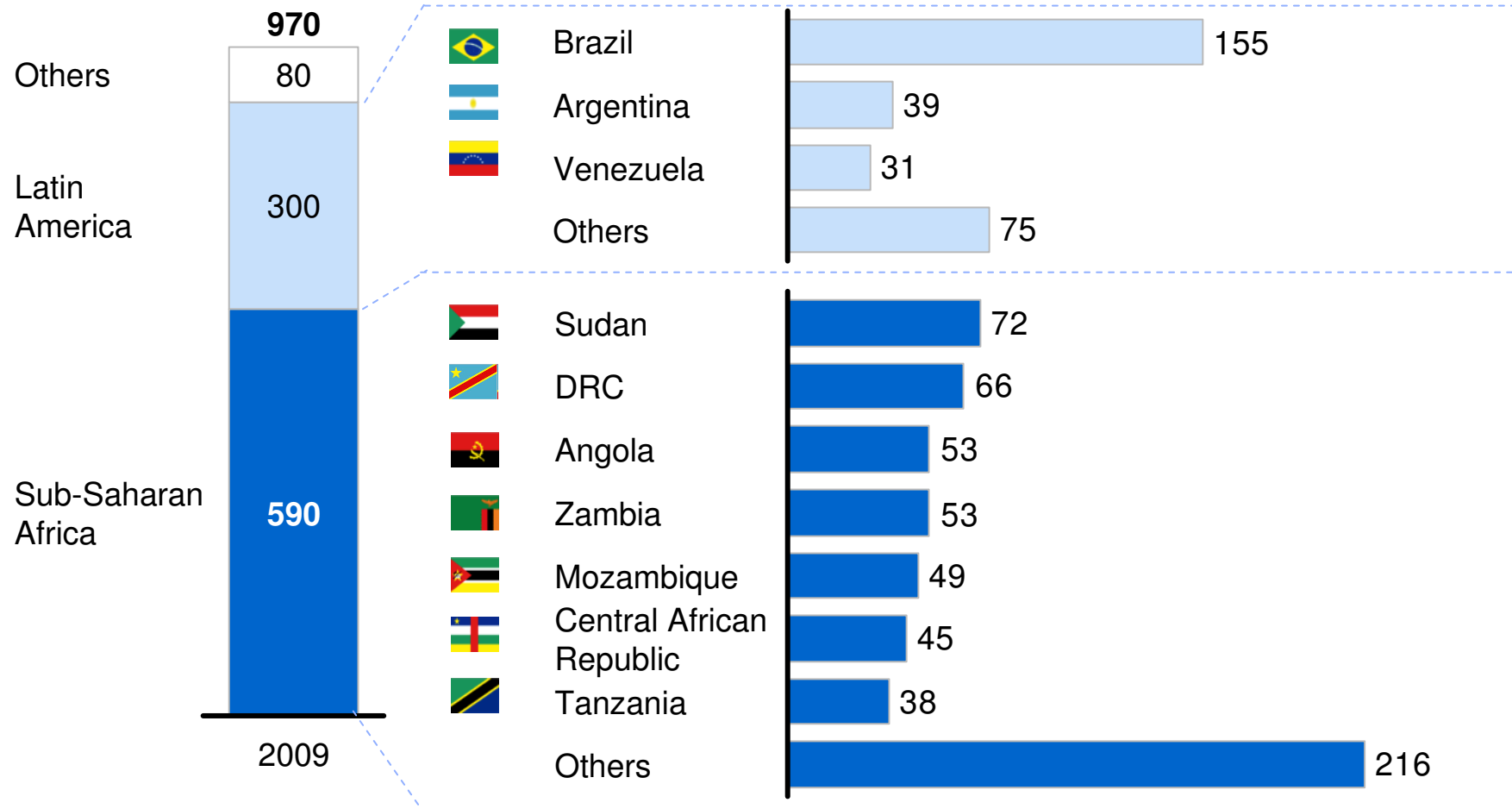


Note: IIASA (International Institute for Applied Systems Analysis); joint project on Land Resources together with the FAO
 1 Based on current yields and production for all countries, global average yields for maize and rice and best-in-class yields for cassava, sorghum and millet
 2 For all crop types; the optimal crop mix will differ by location
 3 Maximum climatically attainable yield

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.

4 Root causes explain low input use and resulting low yields

African agriculture is facing 4 main obstacles

Poor government policies

- Low government spending on agriculture (5% vs. 14% Asia)
- Limited spending on research and extension
- Lack of strategy and coordination at a national level

Land fragmentation and ownership issues

- Widespread of small farms of <5 ha on average (e.g., Uganda, Morocco) with subsistence farming
- Difficult access to larger land pieces for investors (e.g., administrative hurdles, availability)

Low quality infrastructure

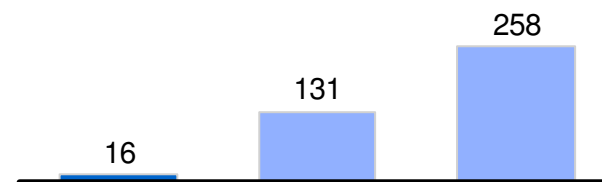
- Very low road density, 40 times lower than India in 1970
- Lack of adequate overall finance systems
- Expensive access to agro inputs and to markets

Inappropriate seeds and inputs

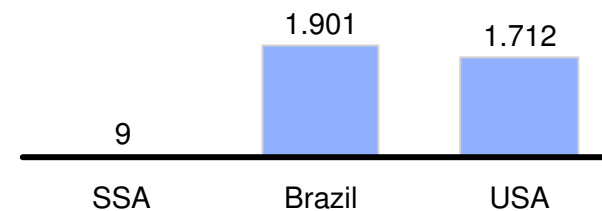
- 'Asian imported' varieties with low yields
- Slow development of adapted varieties due to slow dissemination
- Risk of vulnerable monocultures (e.g., diseases)

...which result in large input gaps

Mechanization, tractors per 100 sq km¹, 2007



Fertilizer use, kg/ha¹, 2007

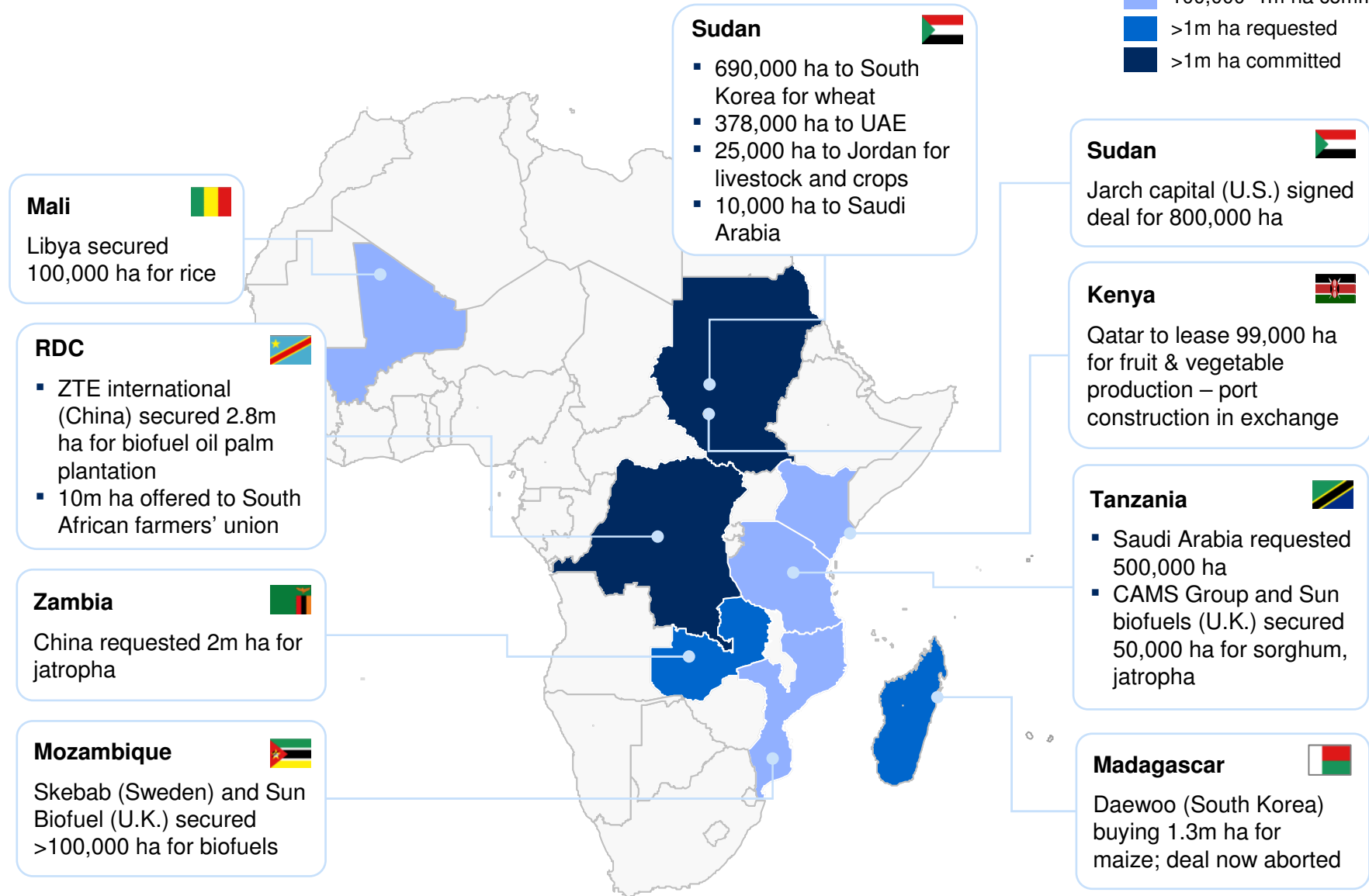


¹ Arable land

The recent FDI wave in agriculture could be a potential catalyst for the African green revolution

EXAMPLES

- 100,000–1m ha committed
- >1m ha requested
- >1m ha committed





In Kenya the development of the horticulture sector has been private-led

Vibrant private sector-led kick-started by FDI

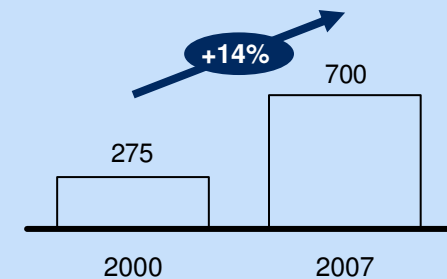
- Development of the sector kick-started by flagship FDI projects (e.g., Fresh del Monte for pineapple, Saupiquet for green peas) and Kenyan expatriates
- Know-how and business mindset now clearly anchored in the sector
 - Strong investment in high-tech for production
 - Close market monitoring and adaptation/anticipation of new market requirements and shift in consumer preference
- Integration along the value chain and strong linkages to importing countries (e.g., direct relationship with retailing import-export offices abroad)
- Tight cooperation amongst players via the Fresh Producers Association (e.g., branding/ marketing)

Hands off support by the Government of Kenya

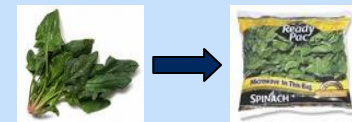
- Government role limited to facilitation and providing public goods
 - Facilitation of FDI installation and contract farming practices
 - Setup of quality infrastructure (port/airport) and education (e.g., Kenyatta University of Agriculture and Technology)
 - Enforcement of plant variety protection
- Private sector request for more of these interventions, esp. increase market access and funding some R&D effort

Development of sophisticated horticulture export

- Now 2nd export to tourism export, USD m



- Highly sophisticated product: from bulk to high value Add



- Constant adaptation to market
 - Private R&D effort for new variety
 - Know-how developed

Governments have put increased emphasis on agriculture

A parading shift in Africa's approach to agriculture

- **Launch of the Comprehensive Africa Agriculture Development Program (CAADP) in 2002**
 - An African-led initiative established by the New Partnership for Africa's Development (NEPAD) and the African Union
 - Main goal is to focus on agriculture-based development
- **Maputo declaration in 2003: African governments commitment to increase the share of public spending going to agriculture to at least 10%**
 - Public investment falling from 6,4% in 1980 to 4,5% in 2002
 - Annual development assistance devoted to agricultural investments falling from 26% in the late 1980s to 4% currently

Seven countries have reached the 10 percent target in five years*

At least 10%	From 5 to less than 10%	Less than 5%
▪ Burkina Faso	▪ Benin	▪ Algeria
▪ Cape Verde	▪ Equatorial Guinea	▪ Botswana
▪ Chad	▪ Ghana	▪ Burundi
▪ Ethiopia	▪ Kenya	▪ Cameroon
▪ Mali	▪ Lesotho	▪ Democratic Republic of Congo
▪ Malawi	▪ Madagascar	▪ Egypt
▪ Niger	▪ Mozambique	▪ Gabon
	▪ Senegal	▪ Liberia
	▪ Sudan	▪ Mauritius
	▪ Gambia	▪ Nigeria
	▪ Tunisia	▪ Rwanda
	▪ Zimbabwe	▪ Sierra Leone
		▪ Tanzania
		▪ Uganda
		▪ Zambia

Though many countries did not reach the goal, the numbers appear to be getting better slowly

* 18 countries did not report

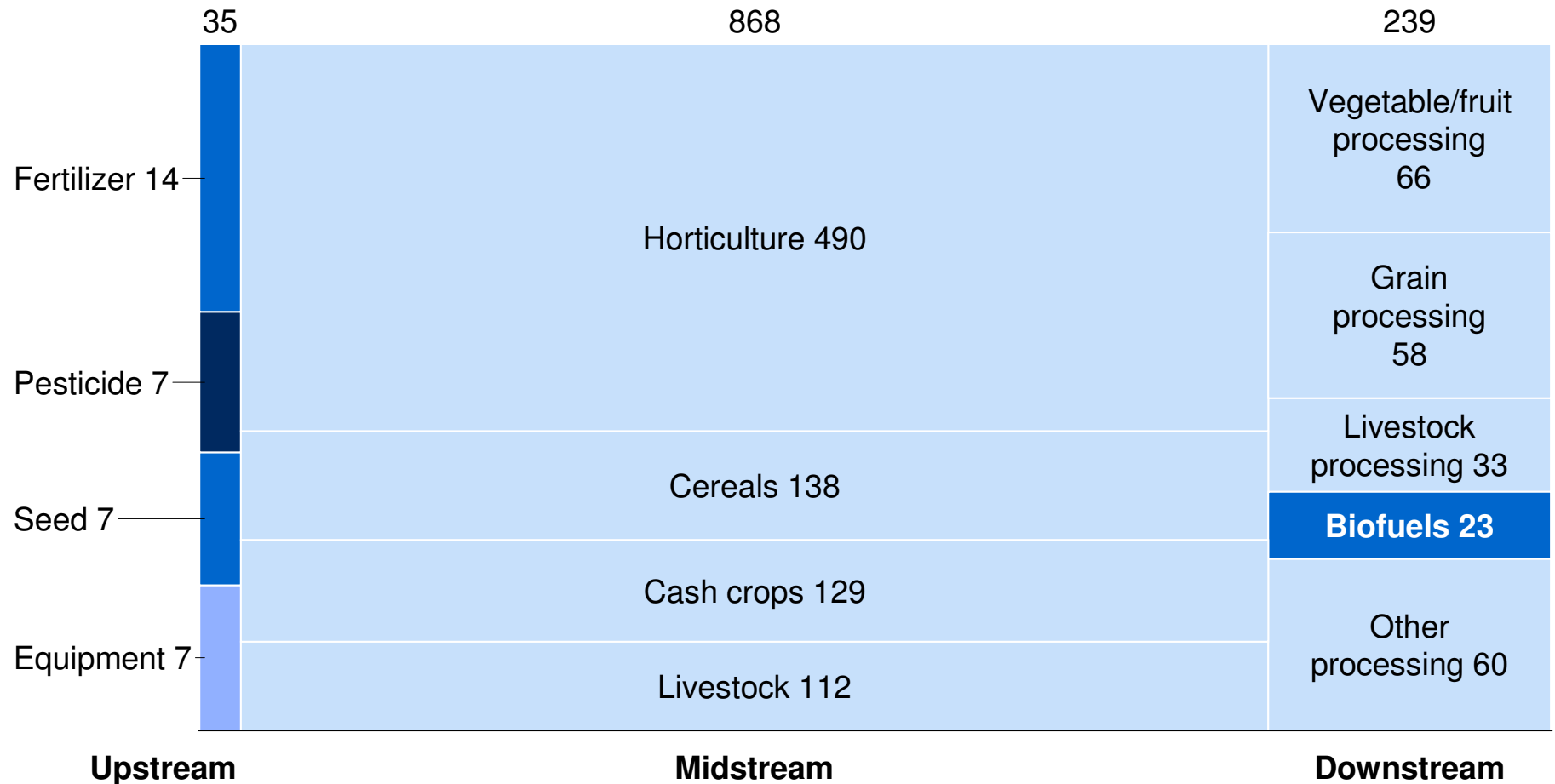
Downstream agricultural processing offers a large business opportunity

Africa agriculture revenue potential, 2030

USD billion

ESTIMATED OPERATING MARGIN

- 0–5 percent
- 5–15 percent
- 15–20 percent
- 20+ percent



Thank you

The full report can be downloaded at:

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