



## **Pathfinder Economic Flash**

### **African Renaissance: Opportunities for Sri Lankan Companies**

#### **Africa's Economic Revival**

Sub-Saharan Africa has become one of the fastest growing regions in the world. The 1990's was seen as the "lost decade" for the continent and Africa was written off as a basket case. Since then, there has been a "silent revolution" (Michel Camdessus, former Managing Director of the IMF). Conflict has abated, the macroeconomic policy framework has been strengthened and the investment climate has improved.

In 2012, Sub-Saharan Africa recorded growth of 4.7%. About a quarter of the countries in the region grew at 7% or higher. The following were among the fastest in the world; Sierra Leone, Niger, Cote de'Ivoire, Liberia, Ethiopia, Burkina Faso, Rwanda, Mozambique, Zambia and Ghana.

Shanta Devarajan (until recently World Bank Chief Economist for Africa and currently Chief Economist for Middle East and North Africa) has stated that "the broad picture emerging from the data is that African economies have been expanding robustly and that poverty is coming down." While the aggregate numbers hide a great deal of diversity in economic growth and performance across countries, the region as a whole is expected to record growth of more than 5% per year in the years ahead fueled by commodity prices and strong consumer spending.

FDI has also been increasing. While such investment has tended to be dominated by extractive industries, other sectors such as infrastructure-related projects in construction, transport, electricity, telecommunications and water have also been attracting FDI. Some of the large economies, such as Nigeria, South Africa, Kenya and Ghana, have been attracting increased investment into their growing consumer sector, particularly retail and banking.

It is noteworthy that US companies enjoyed a 20% return on investment in Africa in 2010. The corresponding figure for Asia and Latin America were 15% and 14% respectively.

Donna St Hill, Consultant/Equity Strategist currently working in Africa, has stated that the improvements in Sub-Saharan Africa's economic indicators over the past decade have been "nothing short of remarkable". In the last 10 years, Africa's trade with the rest of the world has increased 200%; inflation has averaged 8%; FDI grew by 25% in 2011 and foreign debt

decreased by 25%. It is also noteworthy that according to the latest Transparency International ranking only 7 of the 54 countries fall into the category of “serious concern” when it comes to corruption. Ms St Hill argues that a number of African countries are on an upward path economically, politically and socially.

### **Opportunities for Sri Lankan Companies**

While Sub-Saharan Africa enjoys the prospects of increased growth in the medium-term, FDI is expected to play a significant role in driving this. There are attractive investment opportunities across the continent. This raises the question whether Sri Lankan companies can benefit from this Renaissance. It would be important to choose the country and the sector carefully. Some local companies have already established a presence in Africa in areas such as mini-hydro power generation and port management. Ms St. Hill has identified a number of sectors that have the potential for FDI. These include the following which could be of interest to Sri Lankan companies.

- **Construction:** the entire continent is being rebuilt. There are opportunities all across Africa. China has played the dominant role so far. However, as African countries seek to broaden their economic relationships, opportunities are opening up for other players. Collaboration with South African companies are said to offer good prospects. South Africa is the centre of excellence for construction and building design on the continent.
- **Tourism:** continues to be a crucial sector in a number of African countries, including several English-speaking nations in East and Southern Africa. Opportunities are likely to exist in the area of hotel management, where Sri Lankan companies already have an international track record, as well as in investment in the sector.

Wealthy Africans are also looking for more ‘exotic’ destinations. This could offer opportunities to attract inbound tourists from the region.

- **Food and Beverages:** As incomes rise in Sub-Saharan Africa, the fast moving consumer goods sector will experience the same growth. Investment in the retail and logistics sectors could enable Sri Lankan companies to infuse capital and managerial expertise to expand operations of potential African partners.
- **Financial Services:** Sri Lanka’s well developed financial services sector can look for opportunities to tie-up with rapidly expanding African financial institutions.

### **Conclusions**

There are, of course risks involved in investing in Africa ranging from country specific ones to currency related risks. Some of these can now be mitigated by political risk products structured by multilateral institutions (e.g. the World Bank's Multilateral Investment Guarantee Agency [MIGA]) and bilateral development agencies. As in the case of any frontier market both the potential risks and rewards are high in African countries. However, the rates of return enjoyed by investors in Africa seem to justify a careful examination of the potential for developing business opportunities for Sri Lankan companies to take advantage of the African renaissance. In this connection, it is important that both existing diplomatic missions as well as the new ones that are being opened in Africa should attach high priority to economic diplomacy i.e. the promotion of trade, tourism and investment.

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