Challenges Remain In Place Despite "Africa Rising" Phenomenon

Contributed by Euromonitor
Monday, 09 June 2014
Last Updated Friday, 13 June 2014

Although the phenomenon of an â€œAfrica Risingâ€• has captured a great amount of attention from global businesses, the regionâ€™s growth figures have not reflected an improving quality of life and rising purchasing power for many consumers. Sub-Saharan Africa as a whole still faces major challenges, which have held back growth in household income and expenditure, with implications to the overall consumer market. Whilst companies can expect many long-term opportunities on the back of forecast solid economic growth in the period through to 2030, it is vital that businesses are fully prepared for the challenges and risks they are likely to encounter in Africa.

Solid Economic Growth

Sub-Saharan Africa has been experiencing solid economic expansion , with real GDP growth averaging 5.5% per year over the past decade. The continentâ€™s impressive strides in sustaining growth, in stark contrast with Sub-Saharan Africa of the early 1990s, have given rise to the narrative of â€œAfrica Risingâ€• and captured the attention of global businesses;

Against the backdrop of prolonged weakness in the global economy since the 2008-2009 global financial crisis, Sub-Saharan Africa is particularly attractive, because it offers a relatively empty marketplace with untapped opportunities and an alternative growth avenue to companies struggling to expand in developed markets. Between 2008 and 2013, total consumer expenditure in Sub-Saharan Africa grew by 17.6% in real terms (above the global average growth rate of 11.3% over the same period) to reach US$908 billion.

Uneven Growth Leads to Persistent Poverty and High Inequality

Beyond the headline growth figures, however, Africaâ€™s economic growth is uneven, with resource-rich nations enjoying faster pace of growth and relatively higher incomes. The heavy reliance on resource-based exports also makes the region vulnerable to the shocks in commodity prices. Among Sub-Saharan Africaâ€™s best performers, Rwanda stands out an exception for its non-reliance on natural resources for economic growth;

Sub-Saharan Africaâ€™s uneven growth further manifests itself in the high income inequality within each country, as economic gains have not been trickling down to benefit entire populations and beyond urban areas. As a result, poverty remains widespread (with nearly one out of every two Africans still living in extreme poverty) and the regionâ€™s consumer market is polarised into a booming luxury goods market and a vast â€œbottom of the pyramidâ€• market, making it difficult for consumer goods businesses to penetrate and expand effectively;

The African middle class is expanding in absolute terms, but their purchasing power is still low by international standards and, thanks to high income inequality, their share in total population has not risen significantly. In Nigeria, the number of people with an annual gross income of US$7,500-US$15,000 rose from 3.6 million to 3.9 million between 2008 and 2013, but their proportion in the population aged 15+ (that is, the income earning population) actually fell from 4.2% to 3.9%. The middle class is widely regarded as an important base for the consumer market, and therefore its slow growth can restrict the potential of the consumer market.

Poor Infrastructure, Corruption, Security Concerns Remain as Important Challenges

While widespread poverty and high levels of income inequality are symptomatic of the continentâ€™s uneven growth, many other risks and challenges remain, ranging from poor infrastructure, skills shortages, corruption, weak governance and political unrest through to gender inequality and security concerns. They present not only risks to the business environment but also obstacles to international consumer goods companies in their efforts to expand in Sub-Saharan Africa and seize the opportunities the region has to offer.

Republished with permission from Euromonitor Market Research Blog , originally posted on June 8, 2014.