DOUGLAS WOODWARD is a professor of economics at the Darla Moore School of Business, University of South Carolina. Extensively engaged in Sub-Saharan Africa, his research includes studies of microenterprise business development in the region and economic impact analyses of Coca-Cola in South Africa, Kenya, and Morocco. He has helped lead a faculty development program to Sub-Saharan Africa for the past several years. Woodward earned his PhD in economics from the University of Texas.

Can an US enterprise compete in Africa? Douglas Woodward posed this question in his address to an International Executive Roundtable presented by the University of Colorado Denver’s Institute for International Business.

While some US multinational corporations are thriving, “there seems to be a lot of reluctance on the part of US business to get engaged in the economic transformation taking place in Africa,” said Woodward.

Crucial to a developing country’s economic prosperity is an increased inflow of foreign direct investment (FDI). “FDI changed Asia. Notably, it changed China and has contributed to the most incredible reduction in poverty in human history. But Africa, unlike Asia, has always had a historically low share of the world’s FDI – 3 percent. “Most of the investment is in oil, gas and other raw material extraction which does little to boost local incomes or create strong local economies as has been the case in Asia. This is one reason that Africa struggles to develop and raise its living standards.”

While many US companies keep their distance, Chinese businesses are seizing opportunities. “The Chinese exert a tremendous influence throughout every African country,” said Woodward. He referenced a trip he and a colleague made to Ghana in September 2010. What he saw was “a rapidly emerging economy with a middle class, in many ways different from the places I’ve been before in eastern and southern Africa.” Chinese businesses were participating significantly in Ghana’s growth.

“For example, Ghana just discovered oil off its coast and Chinese firms are getting contracts doing oil extraction. Every place you go in Africa you see the Chinese impact. Their engineering and construction firms are doing what for decades the World Bank has failed to do: they’re upgrading infrastructure, getting roads built,” said Woodward.

“Small-scale Chinese entrepreneurs are also appearing across the African continent. In interviews, the Chinese entrepreneurs say that China and other countries are too competitive right now. In turn, they are rapidly penetrating the whole African market. To be successful, they find that they need local businesses to work with them. Interestingly, that is what we learned about Coca-Cola’s success as well.”

One difference between Western and Chinese businesses: “The Chinese we met live right in the community, in close proximity to the people; the Westerners, including most Americans, tend to live separately, behind walled communities.”

Base of the pyramid

Most businesses focus their activities near the top of the economic pyramid, where people have higher disposable income. But Sub-Saharan Africa lies at the base of the pyramid (BOP) where a high percentage of the population lives on less than $2 a day. “It’s a huge market, but obviously very poor. That’s why a lot of US businesses – established multinationals (MNCs) included – are reluctant to get involved,” said Woodward.

“Typically, MNCs ignore poor markets which require huge volume and high efficiency to make a profit rather than high margins from lower volume.” Although the African market is still largely untapped, a few MNCs are finding a niche and proving that the market is profitable.

• Coca-Cola. “Coca-Cola is truly a pioneer in the private, market-based economy

Sub-Saharan Africa refers to the countries that are fully or partially located south of the Sahara. There are 49 countries in Sub-Saharan Africa.
in Africa,” said Woodward, whose first visit to the continent was at the request of the soda maker for the purpose of studying Coca-Cola’s impact on the local economy. That impact is vast. Got a thirst? No matter where you go in Africa you will find Coca-Cola products within easy reach. At least a million retail outlets – mostly small kiosks and spazas outside the formal economy – sell Coca-Cola products.

“The soft-drink business complex is the largest private sector employer in Africa, with 260 plants and 65,000 employees,” said Woodward. “They are in the vanguard of capitalism, having invested billions of dollars in new plants, modern equipment and advanced employee training.”

Coca-Cola’s strategy takes them into “rural villages, urban slums; there’s no place they won’t go,” said Woodward. Distribution is a key ingredient in the secret formula of Coca-Cola’s success. To achieve this, “they work with local entrepreneurs in the informal economy. They’re having a big impact on the retail sector.”

Is it possible that Coca-Cola considers the economically poor African market as important as the booming markets of China and India? Yes, according to a cover story in BusinessWeek (Nov. 1, 2010) on Coca-Cola in Africa, which Woodward cited: “India has always been resistant to Coca-Cola but Africa loves it.”

• **Procter & Gamble, Walmart.** Other multinationals have begun to congregate at the base of the pyramid. P&G, the purveyor of household, hair and skin products, is not new to Africa; they have enjoyed steady growth over the years, though not at the level of Coca-Cola.

Walmart has trained its sites on Africa with a $4.1 billion bid to buy South African retailer Massmart. Local vendors, however, may not be enthusiastic about the deal, fearing they will lose. But it’s clear that Walmart sees profits in Africa where others see problems.

Increasingly, multinationals will play an important role in the economic prospects of Sub-Sahara. “There is a connection between global business and local enterprise development, probably the most exciting thing I see happening in Africa,” said Woodward. “But Africa is still a largely informal economy. If you’re a multinational you’ve got to deal with people who are working off the books in a cash-only environment.”

**Informal retail**

“For the most part, Africa’s struggling economy in terms of employment is shrinking but the informal sector is growing,” said Woodward who with colleagues from the University of South Carolina conducted a study on South Africa’s informal sector. The educators worked with the University of South Africa and compiled random samples taken throughout the country in 2003, 2007 and 2010.

“About 80 percent of Africa’s retail establishments can be classified as informal; that is, they are unlicensed, unregulated and untaxed,” said Woodward. In South Africa, they spring up in various forms:

• **Spazas.** Small convenience-type stores usually run from home.
• **Tuck Shops.** Similar to spazas but separate from a residence, selling food, beverages and various consumer goods.
• **Shebeens.** Bar or pub.
• **Hawkers.** Street vendors, peddlers.

In Africa, where jobs are hard to come by, the informal sector provides a family with supplemental income and in many cases its only income.

Woodward’s study allowed him to understand the characteristics of these entrepreneurs. Among the findings: 58% were unemployed when they set up their retail venture; 89% had no business training; 21% had less than a secondary school education; 55% of owners were male. The informal retail trade is not kind to women. “They face difficulties in generating a viable income,” said Woodward.

**FDI: A sign of hope**

It is these informal retailers that link foreign investors like Coca-Cola with the local economy. Beyond Coca-Cola, can foreign direct investment in Africa push past its many challenges? What about export-oriented manufacturing? Can Africa emulate Asia’s great success?

“Foreign investors will find that compared to Asia, African wages are generally higher and productivity is lower. Moreover, between 10 and 30 percent of the labor force has HIV/AIDS. Absenteeism is a huge issue,” said Woodward.

The infrastructure, too, is not conducive to business development. “Despite Chinese road construction there are still transportation problems. Exporters have trouble moving goods from inland countries to the final markets in the US and Europe,” said Woodward, adding that the electrical grid, too, is unreliable. “You can’t produce electronics, for example, if you can’t depend on an uninterrupted flow of electricity.”

But before you get to deal with these challenges you first have to start a business and that may be the most daunting challenge of all. With a few exceptions (South Africa), African countries are lowest on the World Bank’s Ease of Doing Business Index. A reason to cheer is Rwanda, which has moved up in the rankings from a low of 140 to 70 in 2010.

“This example shows that change – making it easier to start and run a business – can and does happen in Africa. Rwanda still has a long way to go but the microeconomic reform starting to take root complements the significant macroeconomic reform (inflation and exchange rate stability) that took hold in the 1990s.”

Clearly, Africa’s economy is in transition and there are many signs that the future is brighter for business development. “Microfinance, which you see everywhere, is helping to develop Sub-Sahara’s embryonic entrepreneurial economy,” said Woodward.

“In addition, the market – measured by per capita gross domestic product – is growing again after the global financial crisis of 2007-2009. Economic and political stability is now the norm rather than the exception.” Consequently, FDI is slowly making its way across the continent. So is Africa now a good bet for FDI? By way of an answer, Woodward quotes an article in the Economist Sept. 30, 2010 about Walmart’s investment in Africa:

“This is the clearest sign yet that Africa is now near the top of the agenda for the world’s leading businesses. The continent still has its problems, but it is no longer ‘hopeless’—as this newspaper once described it—especially for anyone wanting to be part of a fast-growing consumer market.”