

NEWSLETTER

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 ENGLISH VERSION

AFRICA



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“AFRICA IS THE FASTEST GROWING REGION IN THE WORLD”

The German Government and the European Union have recently paid more attention to Africa in the context of the migration issue. What support can European companies expect when investing in Africa?

At the national level, the well-known instruments of foreign trade promotion are available. These include Hermes guarantees, investment guarantees and export promotion programs for specific sectors, such as renewable energies.

In the field of development cooperation there is support for engagements related to areas such as training or improving the social environment. Funding from the Federal Ministry for Economic Cooperation and Development (BMZ) is available here. There are also programs that target financing issues. One example is the German Investment Corporation (DEG), which supports with loans and equity investments in developing countries. That is the state of affairs today.

The Afrika-Verein is in discussion with the German government, pointing out that the restraint of German companies in relation to Africa has its reasons. African markets are considered difficult and risky, so we recommend that policymakers expand their risk minimization tools and make structural changes. We are watching a growing willingness of the Federal Government to respond.

At EU level, measures focus especially on the MENA area. These primarily support governments, and companies benefit at best indirectly - for example, when there is investment in infrastructure projects. However, the EU Commission is preparing - similar to the German government - new programs aimed at promoting private sector initiatives.

In your opinion, which African countries are particularly attractive as sales markets for European companies?

That depends on the industry. Consumer products require larger markets with purchasing power.

For example, Ethiopia and Nigeria, South Africa and Kenya, the Ivory Coast and Egypt are quantitatively large. These are the markets that can be interesting as a „mass market“ for consumer goods.

The sale of technical goods and infrastructure projects is not about the purchasing power of the population, but about doing business with governments. The decisive factors are the regulatory environment, the reliability of the state actors and the financing options. Especially for such projects, niche markets can be very interesting.

Even a small country like Gambia can be an interesting destination for SMEs, because there is a lot of interest in modernization at the moment.



Christoph Kannengießer
CEO, German-African Business Association, Berlin

Which countries are suitable as direct investment locations?

Again, there can be no answers that apply equally to all companies. However, some countries can be identified in which German companies are increasingly involved. Volkswagen is investing in the sub-Saharan region, Beiersdorf and B. Braun in Kenya. Kenya is generally considered one of the countries providing a solid basis for investment. German companies are also investing in Rwanda, as well as in Ghana and Nigeria.

Investments from other industrialized countries are increasingly flowing to Ethiopia. The government is very concerned about the construction of industrial parks, with the aim of improving the business conditions.

So far, however, the top location remains South Africa, where 60 percent of Germany's investments in Africa are concentrated. Botswana is considered a market where doing business is considered easy, although it is small in size.

What are the biggest challenges for doing business in Africa?

The challenges are at the bureaucratic level, processes take a long time. The financing issue is also a headache, especially when companies are dealing with governments or state-owned enterprises.

These actors often do not have sufficient credit ratings for international banks. Then the question arises as to whether states or the EU can step in with guarantees or guarantees. Such constellations make business activities challenging.

What can African governments do to improve local investment conditions?

At the top is the creation of a constitutional and market-based framework, with swift processes and predictable decisions.

A positive benchmark is Rwanda and you can see how successful even such a small country can become with the right measures. That is something other governments can use as an example. Some countries are already making progress, as indicated by the relevant indices.

Why would you recommend companies to do business in Africa?

Africa is the fastest growing region in the world, especially south of the Sahara. The population there is growing massively now and will probably continue to do so over the next decades. In a few years, 25% of the world's population of working age will live in Africa. Nobody will be able to ignore Africa and it is a good idea to go there early.

“PLACING THE RIGHT COUNTRY MANAGER IS KEY”

What skills do executives require to succeed in Africa?

Most African countries present considerable challenges to local management. An inadequate and unreliable infrastructure in many places, bureaucratic hurdles and the difficulty of recruiting suitable personnel for sales and production tasks are all part of this. The diversity of many countries in terms of languages, ethnicities and religions adds complexity.

Managers working in Africa therefore need to have an exceptional level of flexibility, stress resilience, and the ability to find unorthodox solutions.

However, the local CEO does not only have to understand „his“ market, but at the same time succeed in the structures of an international company. Selling to African clients requires acquaintance with the local customs, however, managers may not simply play according to the local rules. Local management has to strike a balance between the required actions for business success and international compliance rules.

Country-level management plays a crucial bridging role between corporate headquarters and the local market. Placing the right Country Head is thus one of the most important decisions determining success.

How do you find qualified managers for Africa?

Due to the bridging function described above, usually only candidates with work experience in international companies are eligible for management positions. Ideally, candidates also bring experience from abroad, e.g. by a study tenure in Europe or the USA.

Virtually all countries host subsidiaries of international companies, even though their numbers are low in some places. The managers working there can be basically considered potential candidates.

Another interesting target group are the so-called repatriates. This refers to people who are currently living outside their home country, but are basically prepared to return.

For example, a search could focus on identifying Ethiopians, Moroccans or Nigerians who currently live in Europe and are interested in a leadership role in their native country. Ideally, such candidates will bring along a blend of local expertise and international experience.

However, not all such candidates will still be able to leverage active networks in their native countries or be willing to relocate back on a long-term basis. Returnees sometimes see themselves as „expatriates in their own country“ and demand considerable compensation packages.



Christian Tegethoff

Managing Director
CT Executive Search

Placing an expatriate can be an option. Expatriates are frequently used in the context of production startups and the associated technology transfer.

What distinguishes the African leadership market?

The African continent is very diverse and it is not easy to make generalizations. However, there are some aspects that concern all local markets - with the exception of South Africa, which is a special case in many ways.

As described, in most countries there is a relatively small pool of managers with work experience in international companies. As a rule, companies will not have many options when assigning key positions, but will rather have to cut back on the desired profile.

To make matters worse, many African countries are not very attractive for repatriates or European expatriates. Cities such as Nairobi, Kigali or Addis Ababa have a rather bad reputation and it is difficult to attract foreigners to work here long-term.

Another typical feature is the enormous difference between employees' salaries. Managers at the top of the organization can easily receive ten or twenty times what „normal“ employees earn.

“INVESTORS LACK INFORMATION”

In which markets are companies currently especially interested in?

From our database and the discussion with more than 200 companies in Germany we see a clear demand for Nigeria, Kenya and Ethiopia. This interest is mostly driven by two factors: the market potential for our clients and the stability and reputation of a certain country.

The stability factor is decisive for economies in Africa. The East African Community (EAC) for instance recognised that economic integration can only flourish if peace, stability and security are established throughout the region. Such initiatives promote and increase the potential and attractiveness of markets and FDI like it did in Rwanda, Kenya and Ethiopia.

What do you recommend a European company planning to enter an African market?

First of all, we do always recommend seeing the African market as 54 different markets.

INTERVIEW



Marc Zander

CEO/Partner, africon GmbH

Having said that we believe that all 54 African markets will have to be prioritized for each company according to the potentials they might find.

Secondly, we strongly recommend taking time when planning to enter the African markets. Processes, establishing business contacts and understanding local markets can take time and does require a lot of resources.

Lastly, we recommend travelling to each selected market. A week in Nigeria can surely open your eyes for various potentials. Just recently we travelled to Lagos with a client from the chemical sector and she stated that she was positively surprised to find clients already using their products.

Why is there so far relatively low direct investment activity in Africa?

There are several reasons for the low direct investment activity in Africa. One for sure is the lack of information. Most investors lack market knowledge, have difficulties to estimate the market potential and face challenges in obtaining enough information to make an investment.



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