Pioneers on the Frontier

SUB-SAHARAN AFRICA’S MULTINATIONAL CORPORATIONS

A REPORT BY THE INITIATIVE FOR GLOBAL DEVELOPMENT AND DALBERG GLOBAL DEVELOPMENT ADVISORS
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td>The emerging African multinationals</td>
<td>3</td>
</tr>
<tr>
<td>Who are the African MNCs?</td>
<td>4</td>
</tr>
<tr>
<td>Objectives and paths of expansion</td>
<td>5</td>
</tr>
<tr>
<td>Expansion strategies</td>
<td>6</td>
</tr>
<tr>
<td>Acquiring businesses</td>
<td>7</td>
</tr>
<tr>
<td>Responding to latent demand</td>
<td>8</td>
</tr>
<tr>
<td>Creating beachheads</td>
<td>9</td>
</tr>
<tr>
<td>Leveraging partnerships</td>
<td>10</td>
</tr>
<tr>
<td>Contribution to economic development</td>
<td>11</td>
</tr>
<tr>
<td>Policies to enable further expansion</td>
<td>12</td>
</tr>
<tr>
<td>Conclusion</td>
<td>13</td>
</tr>
<tr>
<td>References</td>
<td>14</td>
</tr>
<tr>
<td>Appendix</td>
<td>15</td>
</tr>
</tbody>
</table>
At the height of the recent global economic downturn, business growth stalled in wealthy and developing regions around the world. Revenue growth for Standard & Poor’s 500 biggest American firms, which make about half of their sales overseas, dropped below 10 percent in 2006 and 2007, stagnated in 2008 and turned negative in 2009. But one group of companies grew at an annual rate of almost 30 percent from 2006 to 2009. These companies are quickly becoming a force to be reckoned with in one of the world’s most dynamic markets. They are the multinational corporations (MNCs) based in Sub-Saharan Africa.

Changes in Sub-Saharan Africa’s political and economic environment have set the stage for MNCs’ growth, with democratization and economic integration making the biggest impact. The spread of democracy is gradually making economic systems more meritocratic, opening up entrepreneurial opportunities and fostering a new middle class. Meanwhile, economic integration – though slow in some areas – is eliminating barriers to cross-border commerce.

Sub-Saharan MNCs have received relatively little attention in the global business media despite dramatic growth in the past several years both in revenue and in the scale of expansion across borders. They are expanding across the region, even into markets that global multinationals may have considered unprofitable, too complex or even dangerous. The biggest MNCs have turnover of more than $1 billion a year and many have opened operations not just in other African countries but on other continents as well. Their business lines cover a range of goods, such as petroleum and electronics, and services, such as insurance and tourism.

As a class, these MNCs present attractive opportunities for investment because of their proven returns and potential to grow across the continent and beyond. Their expansion demonstrates that success does not depend on cronyism and patronage in their home countries and their experience in the recent global economic crisis shows that their revenues are relatively unaffected by trouble in traditional economic hubs.

MNCs can be a powerful engine for development in Sub-Saharan Africa. By engaging with local communities in the countries where they do business, they can share knowledge, deepen workers’ skills and professionalize suppliers. In the long term, these collaborations can promote employment and raise living standards in a sustainable way. Yet they do not happen automatically. As they grow, MNCs will need to choose their investments carefully in order to unlock these benefits.

MNCs’ growth will depend in part on the actions of governments in their host countries. Currently, they are succeeding in policy environments that would be considered deal-killers in many other regions of the world; they are also overcoming limitations of public services, bureaucracy and infrastructure that stem from limited state capacity. Governments can foster a better investment climate by improving policies and regulations based on input from MNCs operating in their countries.

Insights and Recommendations

This report seeks to promote the expansion of Sub-Saharan MNCs by characterizing this emerging class and sharing insights from their expansion strategies. They have adapted strategies used by the leading global MNCs to the particularities of their environment. The following insights have been identified by executives interviewed for this report as keys to successful expansion in Sub-Saharan Africa:

**When acquiring businesses:** Companies found it beneficial to seek out markets with stable and transparent licensing systems and where cash can be moved freely. They allow ample time for due diligence and negotiation and do not underestimate firm and country level cultural differences.

**When responding to latent demand:** Companies use analogous trends in other markets to forecast growth in the new market and seek out anchor clients early in the expansion process, particularly clients big enough to justify
EXECUTIVE SUMMARY

expansion. Additionally, they plan long time horizons for riskier investments and try to avoid being seen as a foreign interloper.

When creating beachheads: Companies target markets with straightforward financial regulations, create long-term relationships with local investors and operators, pursue local production rather than transfer goods across borders and integrate supply chains vertically.

When leveraging partnerships: Companies use patience in selecting the right partner, diversify partnerships used for expansion, and leverage partners’ local knowledge and capacity. Before securing long-term commitments, they require partners to commit resources to mitigate the risk of either side reneging.

The report also highlights policies that could help further the expansion of Sub-Saharan MNCs. Beyond the widely noted need to curtail corruption and the importance of maintaining stable economic policies, the most pressing goals for policy include harmonized tax regimes, regional trade agreements and liquid capital markets.

There are several areas where MNCs can work with government to improve the environment for expansion, including the following:

- **Participate in regulatory reform** by working with governments to update licensing and tax rules.

- **Accelerate economic integration** by lobbying government officials to sign regional treaties and to implement treaties that are already in place.

- **Contribute to educational attainment** by advocating for and sponsoring continuing education programs and technical training institutes.

- **Direct infrastructural investments** by joining with government and civil society to develop long-term strategies for improving competitiveness.

- **Improve access to public information** by serving as strategic advisors for the development of a national e-government strategy.

These steps can serve as the starting point of a productive dialogue between MNCs and governments. Together they can create environments that maximize regional economic growth.

INTRODUCTION

This report identifies and analyzes Sub-Saharan African MNCs, a class of companies that has yet to be widely recognized by the international business media, investment community or global multinational corporations. Data was gathered from research on the top 30 Sub-Saharan MNCs and in-depth interviews with executives from those and additional high-growth African companies. Executives provided insights on expansion strategies, suggestions to increase the development impact of MNCs and recommendations on how business executives can work with governments to improve the investment climate. The majority of executives interviewed are members of the Initiative for Global Development’s Frontier 100 network, a group of leading African, U.S., European and Asian business executives working to increase investment and reduce poverty in Africa.

Insights from this report are targeted towards African and global companies looking to enter or expand in Sub-Saharan Africa, policymakers that can shape the business climate to encourage MNC expansion and international investors with an interest in the region.
This is a moment of unprecedented expansion for companies in Sub-Saharan Africa. In pursuit of new markets and customers, more companies than ever before are reaching across borders to forge partnerships and open new operations. An impetus for this expansion has been a gradual reduction of the state’s role in many Sub-Saharan economies – as regulator, investor and operator of key businesses. Relaxation of the public sector’s influence has coincided with democratization, rising education and skill levels and the growth of an increasingly professional middle class.

Who are the African MNCs?

Sub-Saharan Africa is a unique ecosystem for the development of MNCs; no other region in the world has such diversity of resources, economic structures, political systems, challenges to development and opportunities for growth. Not surprisingly, the most successful MNCs in this complex environment cut across a wide range of sectors and are based in countries across the region.

Sub-Saharan MNCs are defined as companies that are homegrown and solidly in the private sector, in the sense that their headquarters are in Sub-Saharan Africa and the state owns at most a minority stake. To analyze the characteristics of the most successful MNCs, this report identifies the 30 biggest from The Africa Report’s 2010 rankings of the top 500 companies in Africa’s key business sectors. The majority are mature companies that have expanded significantly during the recent wave of economic opening. Companies from Arab North Africa and South Africa were excluded because North Africa’s distinct economic characteristics and South Africa’s high levels of economic and financial development differentiate these regions from Sub-Saharan Africa.

The top 30 MNCs’ revenues outpaced growth in the world’s major emerging regions and in the Organization for Economic Cooperation and Development (OECD). Their edge likely stems from chief executives’ ability to plan for the long term and from the region’s relative insulation from the financial crisis of 2008. Annual revenues ranged from $240 million for Kenya Commercial Bank to $2.4 billion for Oando, a Nigerian-based company. Sub-Saharan MNCs also performed well in comparison to other African companies. Between 2006 and 2009, their revenues grew faster – and more steadily – than the revenue of The Boston Consulting Group’s (BCGs) African Challengers, a group of notable companies based primarily in North and South Africa.

Companies are headquartered in countries with significant differences in population and economic output. At the two ends of the spectrum are Nigeria, a $200 billion economy home to more than 150 million people and almost half of the top 30 MNCs, and Mauritius, which has a population of fewer than 1.3 million people but boasts one of the highest gross domestic products in Sub-Saharan Africa of more than $7,000 per capita (Source: 2010 Africa Development Indicators published by the World Bank Group).

The top 30 MNCs span five different industries, in addition to those with diversified businesses. Diversified companies’ portfolios include a wide variety of businesses ranging from construction to agriculture to retail. Of the remaining top companies, the majority were in financial services, followed by petroleum, telecom, transport and tourism.

See complete list of the top 30 MNCs on page 16
Objectives and paths of expansion

Motivations for MNC expansion vary widely, although they generally expand from major regional hubs in West and East Africa. Executives interviewed for this report identified the following objectives for expansion:

- Diversify the resources within a business line (such as oil wells or farming climates)
- Diversify lines of business to protect against cyclical and other vulnerabilities
- Find a more favorable regulatory climate
- Achieve greater scale after saturating the local market
- Create networking effects between assets spread across the continent

In West Africa, MNCs tend to expand into countries that share major economic attributes such as language, legal norms and business culture. Nigeria is the dominant base of expansion in the region. Its economy is considerably larger than other countries in the region; three times larger than the other 14 member states of the Economic Community of West African States (ECOWAS) combined. However, Senegal, Côte d’Ivoire, Gabon and Togo are emerging as new hubs for expansion.

East African MNCs are concentrated in Kenya and Mauritius

In West Africa, Nigeria is the dominant expansion base, though other hubs are appearing

In East Africa, MNCs are concentrated in Kenya and Mauritius and their expansion has also focused on nearby countries that share major economic attributes. However, Kenya and Mauritius present two very different cases. Kenya is the commercial hub for much of the region and its biggest MNCs have expanded into almost all neighboring countries. Mauritius is not a large consumer market on its own, but it has become a base for a fifth of the top 30 MNCs and these six companies have expanded to every other populated continent except South America. An important factor contributing to the number of successful MNCs in Mauritius is the ease of doing business; it achieved the highest score in Sub-Saharan Africa from the World Bank’s annual survey. Specifically, strong infrastructure and a straightforward tax system help foster MNC growth.
Sub-Saharan MNCs have used similar tactics to expand across the region and even off the continent. The following four strategies were identified in interviews with chief executives and managing directors who are actively managing MNCs in the region.

**Acquiring businesses**

Acquisition is the most basic form of expansion and can be the simplest, if the acquired business is treated purely as a portfolio investment. However, acquisition can also imply the integration of a foreign company with existing businesses, raising a host of complex legal, economic and cultural issues.

**RECOMMENDATIONS**

Allow ample time for due diligence and negotiation. The acquisition process can take longer in Sub-Saharan Africa than in other regions, particularly when expanding from one area of Sub-Saharan Africa to another, because of differences in reporting requirements, accounting standards and availability of regulatory information online or through public databases. Targeting a market, finding a potential candidate for acquisition, conducting due diligence and preparing the purchase can easily take more than a year to complete.

Seek out markets with stable and transparent licensing systems. MNCs need proper licenses to operate new subsidiaries abroad and should use caution when entering markets where political instability or corruption could disrupt the licensing process. Regime change in locations with politically controlled regulatory processes can force an MNC to restart negotiations.

Ensure cash can be moved freely within the expanded company. Tax rules regarding the repatriation of profits and the inflow of financing can be arcane, and bureaucratic processes glacially slow. Management can also be a challenge, as the incentives of local managers and executives in headquarters are not always perfectly aligned.

Be conscious of cultural differences. A clash of corporate cultures can make working together onerous even when complementarities exist on paper. Employees from headquarters and the acquired company may have to learn new languages and business norms in order to work together effectively.

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**ACQUIRING BUSINESSES**

**Equity Bank (Kenya)**

Equity Bank is a commercial bank with a social mission: using financial services to transform the lives of people in Africa. It has started new operations, for example in South Sudan, but has also grown by acquisition in neighboring Uganda.

James Mwangi, Equity Bank’s managing director and chief executive, says that the company chose Uganda as its first market for acquisition because of the ability to capitalize on its existing brand recognition. The country is home to hundreds of thousands of Kenyans and commercial links between Uganda and Kenya are strong. The Ugandan economy is also growing faster than Kenya’s. Still, reconciling employees of the acquired bank with Equity Bank’s corporate culture was time-consuming and expensive. To mitigate these costs for new operations in Rwanda and Tanzania, the company brought 100 employees from those markets to work at headquarters in Kenya before they began work at the branches abroad.
Responding to latent demand

Latent demand exists when potential clients in a market cannot be served by their local businesses or when popular products available elsewhere have not yet been introduced.

RECOMMENDATIONS

Plan longer time horizons for investments in environments with higher risks. Expansion in response to latent demand can be profitable even when the political or economic situation in a country is unstable. In these cases, however, the additional uncertainty may mean that investments need several more years to break even, especially when the demand comes from government. Priorities for investments in infrastructure and state industries can fluctuate with political change, resulting in delays and even cancellations.

Seek out anchor clients early in the expansion process, particularly clients large enough to justify expansion. The business case for expansion is straightforward if a single, reliable client can make the new market profitable.

Avoid being seen as a foreign interloper. Companies and executives may be seen as foreign interlopers if they do not leverage local resources and knowledge. This is a particular risk when bringing a new product to a market abroad. Recruiting local personnel and demonstrating that the MNC is putting capital into the country, rather than pulling it out, can mitigate this risk.

Use analogous trends to forecast the growth of new markets. Forecasting a market’s growth can be difficult when an MNC will bring a product to consumers for the first time or greatly increase the product’s supply. In the past, executives have found it useful to project demand using underlying trends that have also been present in other countries, including changes in consumers’ income, the penetration of information and communications technology and investments in infrastructure.
Creating beachheads

An MNC starting operations in a new market may choose to establish a beachhead by launching a successful product line to cement the company’s reputation. The beachhead then provides distribution and sales networks for other products, as well as providing a base for expansion to other countries in the region.

**RECOMMENDATIONS**

Use beachheads to integrate supply chains vertically. To realize improved efficiency and greater profits, MNCs can base additional lines of business on the products that they established as beachheads.
CREATING BEACHHEADS

AICO Africa Limited (Zimbabwe)
AICO Africa is a vertically integrated agribusiness company with divisions that produce crop seeds, cotton and consumer products. Political instability in AICO’s home country, Zimbabwe, made expansion abroad a necessity to ensure the survival of the business.
Starting in 2003, AICO began to move production of seeds to Zambia and Malawi and then used this as a beachhead for expansion into Tanzania, Kenya, Ethiopia and other countries in the region. According to chief executive Patrick Devenish, AICO now plans to use the seed business in each of those countries as a beachhead for expansion of its cotton and fast moving consumer goods businesses. The approach uses beachheads twice over, to anchor expansion across the region and across product lines.

Gulf Energy (Kenya)
Founded in 2005, Gulf Energy has quickly become an important trader, distributor and retailer of petroleum-based products by creating a sophisticated, vertically integrated supply chain capable of overcoming inefficiencies in East African logistics. The company uses beachheads to expand the reach of its supply chain and capture opportunities in new markets.
Gulf Energy has used its Kenyan model to expand into Rwanda, Tanzania, Uganda and Zambia, says Francis Njogu, president and chief executive. A small team is deployed to a new market with access to Gulf Energy’s international supply chain. They are provided resources to meet operational expenditures for the first year and a commitment from headquarters to retain and reinvest profit to fuel further growth. The team can then focus on building one business line before overlaying others. In each country that Gulf Energy enters, the company can realize more economies of scale throughout its supply chain, so operations in every other country become more profitable.

EXPANSION STRATEGIES

Circumvent difficulties in trade by using local production. Some countries protect local industries by deterring imports through tariffs and other barriers to trade. In these cases, an MNC may find it more profitable to use a beachhead for production rather than trying to import goods and services from other branches for local sale.

Target markets with straightforward financial regulations. The launch of a new operation requires introducing start-up capital, supplying working capital as necessary, repatriating earnings and securing the import of goods and services. MNCs should look for countries with convertible currencies and transparent international tax regimes to make these transactions easier.

Locate based on ease of doing business as well as market size. Starting operations where the market is largest is not always the best approach; placing a beachhead in a neighboring country with better infrastructure may eventually put the firm in a stronger position to move into the bigger market.

Create long-term relationships with local investors and operators. Beachheads can take five to seven years to repay initial investments, so sharing a long time horizon with local partners can cement commitments and guarantee a return.

Build team skills. Giving employees the challenge of establishing a beachhead, instead of handing them a ready-made business, can bring out their entrepreneurial capacities.
Leveraging partnerships

Many MNCs choose to enter new markets with the help of a partner, when regulations or the business climate make working together an attractive or even necessary approach for expansion. For example, working with a partner can help MNCs comply with regulations on hiring local workers in the most efficient and useful way.

RECOMMENDATIONS

Be patient in selecting the right partner. The creation of partnerships, as with acquisitions, can take many years including a probationary period of working together while the final status of the partnership is uncertain. Selecting a potential partner can take several years. Many informal meetings may be necessary before any discussion of contracts can begin. MNCs also need to be willing to walk away from an unproductive partnership regardless of earlier investments.

Use partners’ local knowledge as well as their operational capacity. A partner can help to reduce complications in business processes by sharing its connections, practices and experiences with new entrants. The right partner will help an MNC navigate bureaucracy, avoid corruption, secure assets, create supply chains and distribution systems and minimize social risk.

Secure long-term commitments to mitigate legal and political risk. If a partner breaks off a relationship before an MNC is solidly established in a new market, the MNC may be left with an unviable business. In the absence of a strong legal system, it may be impossible to compel partners to fulfill their contractual obligations. Changes in government policy may also force the MNC out or give preference to the partner. Because of these risks, executives at MNCs seek out committed partners that share a stake in the success of a joint venture, ensuring that incentives are aligned.

Diversify partnerships used for expansion. Partners have different strengths and capacities and each relationship should take that into consideration. MNCs will not necessarily be able to replicate the partnership or use the same partner in different countries. Though this may imply a loss of economies of scale, diversification can have a positive role in expansion. By entering markets with diverse partners, MNCs can reduce the risk that the failure of a single relationship will have a dramatic effect on their business.

LEVERAGING PARTNERSHIPS

Imara Holdings Limited (Botswana)

From the beginning, Imara Holdings has had a pan-African strategy for the expansion of its financial services business specializing in corporate finance, asset management, trust and administration services and securities trading. As group chief executive Mark Tunmer recounts, the company targeted markets with burgeoning middle classes, primarily in the former British colonies that shared the English language and had similar legal systems. In each country, the process of creating a partnership was slow and deliberate.

Imara’s strategy has been to spend a long time – perhaps a few years – identifying the right local partner, then court the partner carefully before signing a memorandum of understanding. After the companies have worked together for some time, typically in corporate finance or securities trading, Tunmer and his colleagues decide whether to take equity in the business, maintain the initial arrangement, or terminate the engagement. From start to finish, the process can take three to five years.
These four strategies – acquiring businesses, responding to latent demand, creating beachheads and leveraging partnerships – were identified by the executives interviewed for this report as the most common and successful modes of expansion used in Sub-Saharan Africa. They are world-class strategies used globally, but adapted to the peculiarities of the Sub-Saharan region. When compared with strategies used by MNCs in other emerging markets, there are many similarities as well as notable differences.

Similar to companies in Sub-Saharan Africa, Latin American and Asian MNCs depend heavily on latent demand as a driver for cross-border expansion. In these cases, the goal is not simply to gain new business but to create an international profile, as the Mexican telecommunications operator America Movil did by purchasing mobile bandwidth at auction in Costa Rica and Peru. Partnerships are also common in Latin America and Asia, especially when MNCs enter a completely new region. For example, Latin American MNCs moving into the United States and Canada or Asia use partnerships by creating joint ventures and taking minority stakes in local firms.

In contrast to Sub-Saharan Africa, the most common mode of expansion in Latin America and Asia is mergers and acquisitions, where the M&A culture is better developed. Companies in these regions have been nimble in pursuing acquisitions in a variety of ways, including through the privatization of state assets, as Brazil’s Embraer has in Portugal, and the opportunistic purchase of entire chains of operations spanning several countries, such as India’s Videocon’s purchase of Thomson’s picture-tube manufacturing business in China, Poland and Mexico. The M&A strategies employed in these regions will likely become more common in Sub-Saharan Africa as the business environment in the region continues to become more advanced, as is occurring in South Africa.

Strategies for expansion evolve alongside changes in the business environment. MNCs in Sub-Saharan Africa will continue to adapt current strategies and adopt new ones in response to the region’s dynamic environment.

**LEVERAGING PARTNERSHIPS**

**Sonatel (Senegal)**

Sonatel is a diversified communications firm offering retail landline, mobile telephone, internet, television and enterprise data services in Senegal, Mali, Guinea and Guinea-Bissau. Though the company is now an established name in West Africa, it required a partner with a bigger reputation to engineer its expansion.

Sonatel was partially privatized in 1997 to finance its expansion and France Telecom took a stake that now amounts to 42 percent of the company. According to CEO Cheikh Tidiane Mbaye, West Africans were skeptical that a local player could become a strong and reliable telecommunications provider. France Telecom became an operational partner and during the company’s first expansion, into Mali in 2002, used France Telecom’s Orange brand instead of Sonatel. This partnership helped Sonatel to build its own capacity and reputation, so that it could expand into Guinea and Guinea-Bissau in 2007 under its own name while using Orange as a commercial brand name in these countries.

In Sub-Saharan Africa, partnerships require patience – the process of creating a partnership can take many years.
CONTRIBUTION TO ECONOMIC DEVELOPMENT

Business growth is vital for development and Sub-Saharan MNCs have great potential to support the development of the communities where they do business. However, the potential of MNCs to have an additive effect on economic development is not always realized. Academic studies show examples of positive, negative and neutral effects of foreign direct investments on local communities. To maximize the positive results of their investments, business executives must be proactive in finding ways to unlock long-term local development through their core business. MNCs have benefitted local communities in Sub-Saharan Africa in the following ways:

NEW PRODUCTS AND SERVICES

Business expansion directly benefits consumers when investment addresses a shortage or introduces a new product or service that raises living standards. The expansion of Sub-Saharan MNCs has already resulted in several examples of companies’ foreign operations improving local living standards. For instance, when political turmoil in Zimbabwe put grain imports for Malawi and Zambia at risk, AICO Africa Limited brought improved seed stocks to both countries and contributed to the development of the agricultural sector. Another example is SEACOM’s construction of fiber optic cables, which resulted in a significant increase in broadband capacity. Since the construction of the cable began in 2007, internet usage in Africa has risen by 1,200 to 1,500 percent in most countries SEACOM serves and by 5,000 percent in Kenya.

LOCAL SOURCING

Companies can help host countries to develop by creating product lines that use local resources; doing so can increase credibility of their brand and establish their reputation. SAB Miller, for instance, launched a sorghum-based beer in order to use local crops for brewing in Uganda. This line of business has spread across Sub-Saharan Africa since it began in 2002.

ADDITIONAL COMPLEMENTARY INVESTMENT

The expansion of companies whose business provides the foundation for economic growth also results in complementary investments by companies in related industries. SEACOM estimates that its entry into a country is associated with $5 billion to $6 billion in related investments in infrastructure. Imara Holdings has done the same for the financial infrastructure in Botswana, Mauritius, Namibia and Zambia by helping their governments set up stock exchanges.

To maximize the positive results of their investments, business executives must be proactive in finding ways to unlock long-term local development through their core business

WORKFORCE DEVELOPMENT

Some global MNCs operating in Africa also have programs to encourage local development. One of the best known is BHP Billiton, which sponsored training programs for local workers near its Mozal aluminum smelter in Mozambique. The trained workers participated in the construction of the facility, solving a labor problem, and the knowledge they gained helped the local firms they worked for attain a higher overall skill level and serve other major clients as well. Another example is Karuturi Global Limited, an Indian MNC specializing in fresh flowers and other agricultural products, which now relies on the local workforces in Kenya and Ethiopia for 98.5 percent of its employees.
Given the potential for MNCs to support development, using policy to promote their creation and expansion can help governments improve living standards, boost employment and increase tax revenue. In interviews with chief executives and secondary research, among the most commonly cited priorities in the Sub-Saharan region were curtailing corruption, building capital markets, maintaining stable economic policies, honoring international agreements consistently and ensuring broad-based and inclusive growth. Most of the levers for pursuing these priorities rest in the hands of government, but there are important areas where MNCs can offer support, generating bottom-line benefits along the way.

REGULATORY REFORM

Unwieldy regulatory regimes open the door to corruption and hamper expansion by MNCs, especially M&As, which are rare in Sub-Saharan Africa by comparison with other regions. Some countries have already spurred growth by streamlining bureaucratic processes in areas including licensing, taxes, customs, information technology, telecommunications and joint ventures. These reforms have paid off: The World Bank’s Doing Business survey chose Rwanda as the top global reformer for 2010 and Mauritius ranked twelfth in the Heritage Foundation’s 2011 Index of Economic Freedom – higher than many members of the European Union.

MNCs can participate in the reform process by working with governments to update regulations, especially by sharing useful experiences from other countries. For example, the Botswana-based Imara Holdings has recommended that the Angolan government offer small tax breaks to companies whose shares are held by local people in order to speed the growth of its stock market, just as the Botswana government did.

CROSS-BORDER INTEGRATION

Policies that favor economic integration, such as free trade agreements, treaties for travel without a visa and currency unions all make expansion easier for MNCs. In West and Central Africa, 14 countries already share a currency (the CFA franc) and 15 participate in the Economic Community of West African States, which is slowly becoming a customs union. East Africa has historically lagged behind in integration, but the five countries of the East African Community – Burundi, Kenya, Rwanda, Tanzania and Uganda – began implementing a common market protocol in 2010 that may allow them to take the lead.

MNCs can help accelerate integration across the Sub-Saharan region in areas ranging from customs regulation to protection of intellectual property to standards for communication and transportation. The actions they can take include sharing experiences from other regions with local governments; advising on the areas that have the biggest impact for local firms; offering technical support to governments that are writing legislation; and integrating regional supply chains and distribution networks to create informal precursors for formal integration. United Bank for Africa, for example, has been urging finance ministers to sign treaties on financial regulations and create incentives for greater cross-border integration of the industry.

EDUCATIONAL ATTAINMENT

Finding skilled workers is a constant challenge for Sub-Saharan MNCs, according to their executives. Raising the levels of literacy, educational attainment and skills in the workforce would lead to a marked increase in expansion. According to the United Nations Human Development Report, the average adult literacy rate for countries in the region is 65 percent and the average school enrolment is just 53 percent. But these figures mask much diversity
and several bright spots; literacy is higher than 90 percent in Zimbabwe and Seychelles and enrolment is more than 70 percent in Seychelles, Gabon, Mauritius and Botswana. Many countries in the region have raised education rates in the past decade.

MNCs can contribute to this effort by sponsoring or supporting organizations that provide continuing education and business training, which will in turn benefit the MNCs when graduates of these training programs form successful businesses that create demand for MNCs’ products.

INVESTMENTS IN INFRASTRUCTURE

Even within the confines of a tight government budget, prioritizing spending on infrastructure can unlock substantial returns. Networks for transportation, communications and energy are among the most basic requirements for many MNCs to consider expansion into a given market. In the World Economic Forum’s Global Competitiveness Report 2010-2011, Namibia was the Sub-Saharan leader in the quality of infrastructure, ranking just below the United States and above Australia, Norway and the United Kingdom. Other leaders in the region were the Gambia, Mauritius and Swaziland.

MNCs that construct infrastructure projects directly improve the business climate where they operate. Additionally, leaders of MNCs are often well positioned to help governments select investments that will benefit the economy. One way to contribute is through working groups that help set a country’s strategy. Equity Bank’s James Mwangi has done this as chairman of the Vision 2030 Delivery Board, which brings top government administrators and regulators together with business executives in an effort to make Kenya a middle-income country within two decades.

ACCESS TO PUBLIC INFORMATION

From data on economic conditions to legal requirements for opening a business, information collected and generated by government can be hard to access even for executives in Sub-Saharan Africa with access to the best communications systems. Putting this information online and keeping it up-to-date, optimally via a national e-government strategy, would simplify due diligence and bureaucratic processes.

MNCs with information and communications technology (ICT) expertise are well positioned to serve as strategic advisors or supply products governments can use to publicize information. For example, Nigeria’s Computer Warehouse Group can share expertise implementing information technology systems in large organizations.
Homegrown Sub-Saharan African companies have taken advantage of positive economic, political and social trends to grow into a diverse group of successful MNCs. Though these companies have received little international attention, their performance has outpaced business growth in major emerging and developed markets. This growth is projected to continue in the next decade as Sub-Saharan companies continue to expand across Africa and beyond.

Successful MNCs have adapted modes of expansion used globally to fit the unique characteristics of the countries in which they operate. Keys to success shared by MNC executives include taking time for due diligence, looking for the right policy environment, being conscious of cultural differences and seeking long-term anchor clients and partners. These approaches have allowed Sub-Saharan MNCs to enter and thrive in difficult business environments.

MNC expansion has contributed to sustainable economic development in the countries where they operate. Core business activities often open markets and provide consumers with more choices. Additionally, companies have taken an active role in the communities where they do business by raising skill levels, supporting education and deepening the capacity of local suppliers.

Companies operating in Africa can learn from their counterparts featured in this report about how to expand effectively and maximize their impact on development. MNCs in Africa that proactively integrate local development into their core business operations will reap significant benefits and find support from local stakeholders for their future business expansion. Insights in the report come from executives successfully operating in Sub-Saharan Africa and are applicable across regions and industries. International investors and companies should be aware that the businesses identified in this report are only a small segment of the potential investment partners and investees in the region.

Executives have also engaged in constructive dialogue with policymakers in the countries where they have expanded. Barriers to investment persist in many locations, however, and continued discussion about regulatory reforms, cross-border integration, educational attainment and investments in infrastructure is necessary. By working together, governments and MNCs can guarantee that business expansion has an additive effect on local employment and stability.

This report should serve to promote increased coordination between policymakers and Sub-Saharan MNCs. A platform such as a working group involving MNC leaders, government agencies and civil organizations from across the region could greatly facilitate this dialogue. Such a platform could also operate at a regional level, taking advantage of the links already forged through economic integration and sectoral trade groups.

Sub-Saharan MNCs are an exciting class of companies experiencing impressive growth. They have expanded rapidly by applying local knowledge to strategies used by MNCs worldwide. As they move into new markets, these MNCs are contributing positively to local economic development. They are now poised to play an important role in shaping policies to improve the region’s investment climate.


APPENDIX

Abbreviations

IGD  Initiative for Global Development
M&A  Mergers and acquisitions
MNC  Multinational corporation
OECD  Organization for Economic Co-operation and Development
ECOWAS  Economic Community of West African States
ICT  Information and communications technology

The Top 30 Sub-Saharan MNCs

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Country</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oando</td>
<td>Nigeria</td>
<td>Petroleum</td>
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<tr>
<td>2</td>
<td>Kenolkobil</td>
<td>Kenya</td>
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</tr>
<tr>
<td>3</td>
<td>African Petroleum</td>
<td>Nigeria</td>
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</tr>
<tr>
<td>4</td>
<td>Dangote Group</td>
<td>Nigeria</td>
<td>Diversified (Construction)</td>
</tr>
<tr>
<td>5</td>
<td>United Bank for Africa</td>
<td>Nigeria</td>
<td>Financial Services</td>
</tr>
<tr>
<td>6</td>
<td>Kenya Airways</td>
<td>Kenya</td>
<td>Transport</td>
</tr>
<tr>
<td>7</td>
<td>Groupe Sifca</td>
<td>Côte D’Ivoire</td>
<td>Diversified (Forestry)</td>
</tr>
<tr>
<td>8</td>
<td>Zenith International Bank</td>
<td>Nigeria</td>
<td>Financial Services</td>
</tr>
<tr>
<td>9</td>
<td>First Bank Of Nigeria</td>
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<td>Financial Services</td>
</tr>
<tr>
<td>10</td>
<td>Conoil</td>
<td>Nigeria</td>
<td>Petroleum</td>
</tr>
<tr>
<td>11</td>
<td>Oceanic Bank International Nigeria</td>
<td>Nigeria</td>
<td>Financial Services</td>
</tr>
<tr>
<td>12</td>
<td>Ecobank Transnational Inc.</td>
<td>Togo</td>
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<td>13</td>
<td>Sonatel Mobiles</td>
<td>Senegal</td>
<td>Telecoms</td>
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<td>14</td>
<td>Guaranty Trust Bank</td>
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<td>15</td>
<td>The Mauritius Commercial Bank</td>
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<td>Financial Services</td>
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<td>16</td>
<td>Ireland Blyth</td>
<td>Mauritius</td>
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<td>17</td>
<td>UAC of Nigeria</td>
<td>Nigeria</td>
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<td>18</td>
<td>Skye Bank</td>
<td>Nigeria</td>
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<td>International Trading Oil and Commodities Corporation</td>
<td>Senegal</td>
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<td>Nigeria</td>
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<td>21</td>
<td>Cecagadis</td>
<td>Gabon</td>
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<td>23</td>
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<td>Côte D’Ivoire</td>
<td>Diversified (n/a)</td>
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<td>24</td>
<td>Food and Allied Group of Companies</td>
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<td>26</td>
<td>Compagnie du Komo</td>
<td>Gabon</td>
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<tr>
<td>27</td>
<td>Rogers Group</td>
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<tr>
<td>29</td>
<td>New Mauritius Hotels</td>
<td>Mauritius</td>
<td>Tourism</td>
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<td>30</td>
<td>Kenya Commercial Bank</td>
<td>Kenya</td>
<td>Financial Services</td>
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</tbody>
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Acknowledgments

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