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Joining hands to unlock Africa's potential

A new Indian industry-led approach to Africa

Executive summary

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India's relations with African nations are time-tested and historical. While the Indian Ocean separates the Horn of Africa and the Indian subcontinent, it is not out of place to visualise the same waters lapping and linking the two shores. Indeed, geographic proximity has played an important role in developing the relationship since ancient times. The text *Periplus Maris Erythraei* (Periplus of the Erythraean Sea)—which dates back to the mid-1st century—refers to trade relations between the Kingdom of Aksum (present Ethiopia) and ancient India around the first millennium.

In more recent times, say the last two centuries, a shared political and ideological agenda against imperialism, colonialism and hegemony, common development challenges and the need for a new international economic order have brought India and Africa closer. If Mahatma Gandhi laid the moral foundations for India–Africa relations, it was Jawaharlal Nehru who gave the relationship its political structure, bridging the gap between Asia and Africa and launching the first Asian–African Conference. More recently, India's importance was outlined even further when President Pranab Mukherjee was among the six heads of state who spoke at the service of anti-apartheid icon Nelson Mandela.

A leitmotif of Indo-African ties has been economic symbiosis, though the intensity has been inconsistent. This is poised to change. The past decade has served to quicken Africa's economic pulse. Its continuing rapid growth presents a very large opportunity for nations and companies to contribute to the development of this billion-people continent. India has recently built momentum in Africa, even though some economies like China and the Middle East are in a stronger position. India has the opportunity to propel this momentum further with a special value proposition to partner in Africa's development based on our geographic proximity, cultural affinity, IT/engineering talent, entrepreneurship and low cost operating models. Building on these strengths, India should develop a new approach where Indian industry acts as a "solutions partner" to solve business and developmental challenges, and benefits from the business opportunities that this opens up.

RE-IMAGINING THE INDIA–AFRICA PARTNERSHIP

India can aspire to quadruple its revenues from Africa to USD 160 billion by 2025 by developing its presence in sectors where India has a unique value proposition and African nations have high needs such as IT services, agriculture, infrastructure, pharmaceuticals and consumer goods. India can aspire to capture almost 7 per cent of the IT services market, 5 per cent of the FMCG space, 10 per cent of the power sector, and 2 to 5 per cent of the agri-allied services. However, to be a true solutions partner, Indian industry could continually engage with governments and businesses, proactively surface opportunities through sector and country studies, build an open consortia of interested companies in advance and use funding from low cost countries (like Japan) for large projects where Indian cost of funds is a disadvantage. Drawing from its own development experience, India's approach may not be conceived as a donor–recipient or a patron–client relationship but as a partnership of equals, strengthening cooperation and bringing mutual economic benefits. This approach could be developed and tested for two pilot countries in Africa, Tanzania in East Africa and Nigeria in West Africa—illustrative options based on market size and macroeconomic stability, India's need and/or the ability to have impact, and inter-country relations.

Each of these sectors requires a customised approach from companies to overcome challenges like the lack of local talent in IT, fragmented and logistically complex consumer goods market. Apart from addressing these sector specific challenges, Indian companies will need to adopt 10 common imperatives that have been identified by studying successful and unsuccessful MNC businesses in African markets. These include thinking long term, going granular, becoming insiders in the country and innovating to deliver value across price segments.

Through this approach India can help fulfill African nations' needs of skill development, employment creation and low cost innovation, using its own low cost innovation and operating models and cultural affinity to Africa. Simultaneously, Africa—with its strategic geographic location, large working age population, vast resources and the hugely untapped rising middle class—can also be a globalisation base and a medium- to long-term growth opportunity for Indian companies.

To move forward, the CII India–Africa conclave could be followed up with focused round table discussions between a group of relevant Indian industry leaders and business and government leaders from the pilot countries within the next 1 to 2 months. These can be built upon with further talks and potential sector/country analyses in the latter half of 2014 to help catalyse some actions.

India's development cooperation with Africa has significantly expanded since 2005, when India became a full member of the Africa Capacity Building Foundation, and was granted observer status at Common Market for Eastern and Southern Africa (COMESA), South African Development Community (SADC), and Economic Community of Western African States (ECOWAS). It's time to take the relationship to the next level.

AFRICA'S GROWTH LIKELY TO OPEN UP NEW POSSIBILITIES

Africa's current–and future–growth will allow nations and companies to contribute to its development in a more significant manner. Africa's GDP grew to USD 2 trillion in 2013 (larger than India's GDP of USD 1.9 trillion) from USD 1 trillion in 2005. Its GDP is expected to continue to grow to reach USD 5 to 6 trillion by 2025. Africa is projected to overtake the Middle East as the second fastest growing region globally, second only to emerging Asia. During this period, more than half of Africa's 55 countries are expected to grow faster than 5 per cent annually. This growth is expected to be fuelled by different factors:

- The last decade has seen improved macroeconomic stability across Africa, visible through large drops in inflation, government debt and exchange rate volatility–all encouraging signs for global businesses. Analysis and research suggest that the next two decades could see further improvement in macroeconomic and political stability providing the necessary impetus to economic development
- Many African nations have instituted business-friendly reforms including telecom deregulation, tax cuts, power sector reform, land rights and others, encouraging MNCs to invest and participate more in this growth story. Such reforms are expected to continue unfolding across the continent over the next decade
- Encouraged by higher returns on FDI compared to other emerging economies, private foreign capital flows to Africa have risen sharply since 2005 and will continue to increase across several sectors notably resources, manufacturing and service oriented sectors such as information technology, communications, tourism, etc.
- Africa has more cities (more than 50) whose population exceeds 1 million compared to India, and this number is expected to double by 2025. In fact, Africa and China share similar levels of urbanisation. By 2025, Africa is expected to be 47 per cent urbanised as compared to 40 per cent in 2013
- Consumer spending is expected to increase by USD 2.2 trillion by 2025 driven by an 80 per cent increase in middle class households to around 190 million
- Africa has a significant and under-explored share of global mineral reserves, e.g., Platinum Group Metals such as diamonds, bauxite, phosphate, etc., which will feed future global demand and hence be a key growth driver. Africa would also continue to benefit from oil and gas including development of major new finds on the east and west coasts
- Almost 60 per cent of the world's uncultivated arable cropland is in Africa, attracting significant FDI. Simultaneously, there exists huge potential of at least 30 to 50 per cent upside across Africa by improving yields.

INDIA CAN ACCELERATE ITS MOMENTUM THROUGH A SPECIAL VALUE PROPOSITION

Though India has recently built momentum in Africa, some economies like China and the Middle East are further ahead. India has the opportunity to further propel this momentum and infuse more life to ties of old.

While India's share of trade with Africa has grown at the expense of Europe and North America, trade volume still lags China and the Middle East. India's FDI too lags that of countries like the USA, UK, and UAE. To date, Indian companies have largely entered Africa as individual businesses, while others, including Chinese firms, have benefitted from strong government-to-government initiatives and multiple complementary companies participating in the same opportunity in a coordinated way. As Indian companies start to globalise and look for growth outside India, they can use and build upon the existing momentum in Africa. By 2025, Africa's GDP is expected to reach USD 5 to 6 trillion, an increase of almost USD 4 trillion from 2013.

India can have a special value proposition to partner in Africa's development based on mutual catalysts – geographic proximity, cultural affinity–and India's strengths–IT/engineering talent, entrepreneurship and low cost operating models. This will apply particularly to sectors such as consumer goods, pharmaceuticals, IT, automotive, agriculture and infrastructure, where Africa offers great opportunity and India has relevant expertise and experience.

India's unique position and ability to contribute

As African nations continue to grow, they need constructive foreign investment. Indian industry, as a "solutions-partner" to African nations, could greatly contribute to their development–creating employment, spearheading talent and skill development, and developing infrastructure. To do so, India can leverage its strengths, such as the experience of setting up successful distribution for fragmented consumer markets, and the entrepreneurial mindset required to navigate ambiguity.

IT services, consumer goods, pharmaceuticals, automotive, agriculture and infrastructure are sectors where African nations' opportunity can be complemented by the Indian industry's strength. The report focuses on four of these sectors in detail:

- Low cost innovation to target the rapidly growing consumer class and efficient distribution in a fragmented market can help Indian companies competitively develop **Africa's consumer goods** sector

- The ability to train people at scale and formulate innovative delivery models can allow India to boost Africa's **IT services sector** and create jobs at scale

- An entrepreneurial mindset, engineering talent and the proven track record in the Indian market can help Indian companies participate in building Africa's **infrastructure sector**, as illustrated in this report for power

- India's expertise in manufacturing and robust distribution networks in agrochemicals, fertilisers, farm equipment, etc., can allow Indian companies to support the aspirations of African **agriculture.**

The other side of the coin is equally favourable. Africa would be a promising long-term business partner for India, providing a suitable globalisation base for Indian companies, with many market similarities posing familiar challenges. Africa's future development provides a high growth opportunity to Indian companies, and the potential hedge to India's resource risk.

A new Indian industry-led approach to join hands with Africa

Building on these strengths, India should develop a new approach where Indian industry acts as a "solutions partner" to solve business and developmental challenges, and benefits from the business opportunities that it opens up. Between 2003 and 2012, India accounted for 6.4 per cent of FDI flows into Africa, especially in sectors such as telecom, energy and mining. However, it still trails countries such as the UK, USA and France. As a solutions partner, Indian industry will continually engage with governments and businesses, proactively explore opportunities through sector and country studies, build open consortia of interested Indian companies in advance, and revamp the funding model, e.g., use funds from low cost countries (like Japan) for large projects where India is disadvantaged.

This approach should be developed and tested for two pilot countries. One of the main criteria while choosing these pilot countries is the impact Indian industry can have there. This can be evaluated by comparing nations across three parameters:

- Market size and macroeconomic stability

- India's need and/or the ability to add value, e.g., unmet demand in sectors where India has expertise, such as IT and pharma

- Strength of the nation's ties with India, e.g., existing political or trade ties with India, mutual appetite to improve relations, etc.

Based on these criteria, many African nations meet the bar. CII could pick Tanzania in East Africa and Nigeria in West Africa to be explored as pilots. If the pilots succeed and demonstrate a new way of engaging with African nations, it may be possible to roll them out rapidly, incorporating learning from the two countries.

Successfully implementing the new approach would include five elements:

1. Formulate a joint sector-wise vision to build trade and contribute to sector development in the pilot nation–industry bodies in collaboration with governments should play this role

2. Conduct intense and broad-based engagement with the partner country through government-to-government relationships to boost trade through FTAs, etc., increase in-country activity from industry bodies, industry conferences and regular round table discussions to build familiarity with needs and available capabilities, and to build insight into specific opportunities

3. Surface opportunities proactively through the participation of Indian companies in pre-feasibility, early sector and country studies

4. Build open consortia of interested and relevant Indian companies in advance to work on creating and acting on opportunities. Industry bodies can facilitate the formation of these groups where appropriate

5. Revamp the way Indian companies fund their projects in African nations, e.g., by leveraging funding from low cost countries (like Japan) for large projects where India is disadvantaged, multilateral funding in collaboration with allies with similar interests, and early-stage loans from institutions like the EXIM bank.

Role of the Indian government: While this new approach is fundamentally led by Indian industry, it needs the support of the Indian government and its various agencies, both on its own and in collaboration with African governments. Initiatives led wholly by the Indian government could include easing the process of securing funds from EXIM bank, proactive participation of Indian embassies in identifying opportunities in pilot countries, improving air connectivity, etc. With its African counterparts, the Indian government could review existing bilateral trade agreements in the light of present circumstances, help construct a conducive business environment, and support strengthening the tertiary education landscape.

Cooperation in education, for example, has ballooned since an India–Africa summit held in New Delhi in 2008. According to various estimates, Africa now has 50,000 students in Indian universities, around 15,000 of them on Indian and Commonwealth scholarships. India is in the process of setting up a string of institutes and collaborations across Africa to transfer Indian expertise and training standards. India is expected to support the establishment of a dozen institutes, which include a diamond-training institute in southern Africa, an institute of administration, planning and education in Burundi, an institute of foreign trade in Uganda, an institute for information technology in Ghana and a pan-African stock exchange institute in Egypt. Building on these recent successes, the Indian and African governments could support this new industry-led approach with the measures outlined above to deepen cultural and economic ties between the two.

INDIA CAN HAVE SIGNIFICANT IMPACT IN FOUR SECTORS

Indian industry could aspire to achieve USD 150 to 180 billion by 2025, up from USD 35 to 40 billion in 2013. A large proportion of this aspiration can be achieved by aiming to serve 5 to 10 per cent of the African consumer goods, IT services, infrastructure (specifically power), and agriculture sectors, which are among other fast growing sectors, by 2025.

While each of the “lead” sectors offers attractive opportunities, these also require a customised approach from companies to overcome challenges. Indian companies are well equipped to make good the challenges, like the lack of local talent in IT, fragmented and logistically complex consumer goods market, etc.

Consumer goods has great market potential with challenges familiar to Indian companies

Africa’s consumer goods market will have more than doubled to around USD 1.2 trillion by 2025; 30 cities spread across Africa will witness consumption growth of more than USD 2 billion in the next 5 years.

Indian companies such as Dabur, Godrej, Marico and Emami currently have limited presence in Africa’s consumer goods landscape following their recent entry. These players, as well as other interested companies, must immediately enter or strengthen their play in the focus countries. Success for Indian companies in Africa’s consumer goods sectors requires long-term brand building, especially brand promise and identity, which is then consistently advertised; balancing quality with price for aspirational products and to build consumer trust; investing in robust distribution channels, especially partnership routes and alternative channels; proactively managing supply chain issues by working with local providers where possible; and leveraging the online channel.

IT services, a nascent sector in Africa, has significant potential to create jobs

Africa’s IT spend is expected to triple itself to USD 80 to 95 billion by 2025. In the near future, over 60 per cent of this rise in spending will come from South Africa, Nigeria, Egypt, Kenya and Ghana. The domestic IT sector offers growth opportunities in integrated e-government solutions, new banking platforms, security and information management, industry specific solutions and processing functions. Africa could create around 2.5 million new jobs by 2025 if it captures 5 to 10 per cent of the addressable European outsourcing and offshoring market. However, Africa needs to resolve some macroeconomic and sector-specific challenges before it can reap the benefits. These include high operating costs and a fragmented market in the continent; inadequate local talent and very high rates of attrition which require a constant training cycle; poor basic infrastructure which includes underdeveloped fixed networks; weak regulations; and political and macroeconomic risks.

India can offer African nations a comprehensive, integrated package to help strengthen their IT sector. India’s technical expertise in verticals such as banking platforms, mobile applications, etc., the ability to develop local talent, as well as the capabilities to set up low cost IT parks can help Indian companies make inroads in various countries and boost the sector. These can help Africa become a leading space for sophisticated ICT solutions; transform various domestic sectors like banking and education to spur economic growth; and build on the existing sector to achieve scale which could lead to the continent becoming a major force in the world of IT services and offshoring, and bring in precious foreign exchange.

Infrastructure is expected to grow rapidly

The transport and power sectors present the largest opportunities in Africa's infrastructure space. The report has detailed out Africa's power sector as an illustration of what Indian companies could do in the infrastructure space. As Africa's power sector races to catch up with other emerging markets, it provides a huge growth potential for Indian companies. North Africa's high electrification rate guides the compass of opportunity there—by 2040, Sub-Saharan Africa's electricity consumption of around 1,600 TWh will represent a USD 800 billion opportunity.

However, multiple challenges, all typical of developing nations, abound and Indian companies will have to face them. These challenges and shortcomings include sub-scale power generation and demand, and poor distribution across all nations; uncertain power purchase agreements; fuel supply constraints due to the lack of coal mines in all geographies; poor regulations; limited local talent; and the element of political and economic volatility.

Private Indian companies have added large generation capacity in India in the last 5 years. They can leverage the Indian entrepreneurial mindset and superior engineering capabilities in Africa. Many Indian players such as Nava Bharat Ventures, Tata Power, JSPL and Essar have entered the African power sector. It appears that Indian companies have an added advantage in small- to medium-sized power projects, which plays to their strengths. To successfully win projects, Indian companies must join hands to offer a complete, vertically integrated solution, participate early in the market, ensure project viability and secure international funding where required.

The Indian government's support can be crucial for Indian power companies to succeed. Nations in the continent prefer direct dealings with the government, especially in the early stages of the project.

Food self-sufficiency is crucial for Africa

Africa's aspired "green revolution" could raise its agricultural output from USD 280 billion in 2010, to around USD 880 billion by 2030 through the cultivation of new land, yield improvement and shift to high-value crops. Enabling such a significant jump in agricultural output will require the influx of agro-allied services such as increased usage of agrochemicals, fertilisers and farm equipment, improved irrigation systems, etc. Indian agro-allied services can help boost Africa's agricultural output and thus taste success in this sector. Africa (especially Sub-Saharan Africa) significantly trails other economies in fertiliser application rates; fertiliser usage might have to increase 5X from 2007 levels to enable a "green revolution". Almost 30 to 50 per cent of potential Sub-Saharan Africa yields are not realised due to various biotic and abiotic stresses; improved seeds and agrochemicals can help minimise yield losses.

Many African countries are also transforming their agricultural sectors through various initiatives such as the creation of 700 to 900 nucleus farm-based commercial ventures in Morocco, development of logistics infrastructure in Mozambique, agribusiness clusters to transform the southern Tanzania trade corridor, etc. These initiatives present an opportunity, both in upstream and downstream activities for Indian companies. For starters, Indian companies can help African nations make the "New Rice for Africa Initiative" a success by sharing learnings from the green revolution. They can further enable low cost mechanisation of the farms to improve utilisation of inputs and enhance yield per acre, e.g., low-cost tractors, drillers, irrigation solutions, etc., and help develop local talent and companies to make the model self-sustainable. For the African nations the benefits are clear—higher efficiency of inputs such as seeds, fertilisers, etc., resulting in higher yields; meet challenges of climate change; and generate employment for a growing working age population.

10 SUCCESS FACTORS FOR INDIAN COMPANIES IN AFRICA

Africa poses multiple challenges to Indian companies looking to invest there. Challenges in Africa are inherent to any emerging market and include a fragmented opportunity with unfamiliar risks, infrastructure bottlenecks, lack of talent and a nascent financial services sector. Apart from the sector specific initiatives, Indian companies will need to adopt 10 common imperatives identified by studying successful and unsuccessful MNC businesses in Africa.

1. **Prioritise early** — Identify priority sectors and countries quickly and set up strong business organisations there.

2. **Go granular** — Understand local nuances and adapt business models accordingly. Africa is one continent with 55 different countries, each with its own culture, customs and behaviours.

3. **Expect to iterate** — Customise approach based on continuous learning. There are no fixed answers to succeed

in Africa; hence, companies should be ready for initial disappointments and tune their business model accordingly, like P&G did in Nigeria. They spent a decade to get their operating model in sync with Nigerian conditions, including tailoring their product and package mix to price them according to limited disposable incomes.

4. **Choose distribution channels carefully** — Understand and control the route to market for success in such a fragmented geography. This is a challenge which Indian companies have mastered on the home turf, and must now face in a geographically larger context. In Africa, Indian companies could take a leaf out of Coca-Cola's book—the beverage major developed a manual distribution network to compensate for the fragmented market structure.

5. **Build brands aggressively** — In Africa, brands are considered to be the clinchers in making purchase decisions. Hence, brand building, especially in the consumer goods sector, is critical. Kirloskar used its "Triple A philosophy—Adaptable, Appropriate and Affordable" to establish itself as a trusted brand in Africa.

6. **Deliver value across price segments** — Innovate to meet the entire range of needs as the landscape is still open for brands and whole categories. In the consumer goods sector, Indian companies can meet this challenge with their wide product ranges.

7. **Think long term** — Business in Africa cannot be built quarter-to-quarter—companies must be willing to invest for the long term, spend effort on setting up the business' roots in the country, and only then achieve success. One company that has tasted success due to its long-term vision for Africa is GE. It has been present in the continent for over 100 years.

8. **Involve locals and insiders as partners** — This is necessary to get local insights, benefit from regulatory know-how and develop relationships. The ultimate aim must be to become the insider.

9. **Partner with local governments** — Governments in most African nations play an important role in business development, and partnering with them is crucial to creating opportunities. In Kenya, where beer is popular among 60 per cent of the customers, Diageo partnered with the Kenyan government to reduce the consumption of spurious beer by developing a low cost beer made of local ingredients.

10. **Invest in building local talent** — Given the relative lack of local talent, developing talent will play a critical part in scaling up any business, and must be invested in proactively.

ACTING ON OPPORTUNITIES CREATED BY THE NEW APPROACH

This new approach has been discussed with and has received an encouraging response from Indian ministries and industry bodies, as well as some African diplomats. The highlights of these discussions include:

- The new approach, especially the idea to pilot test it in two countries, is a good idea to create momentum and achieve significant success in sample geographies
- It is critical to form open consortia with defined leadership —most African nations prefer dealing with a single point of contact for a large project, as opposed to multiple parties
- Continuous engagement after the conclave, by both representatives of the Government of India and industry stakeholders, will be crucial to develop and concentrate on ideas, e.g., focused round table discussions at regular intervals with relevant stakeholders, participation in pre-feasibility studies
- There might be need to set up an Indian industry representation in the pilot countries to provide a direct contact route for business in both countries, as well as assist Indian companies in studying the pilot markets for opportunities, e.g., a CII office there.

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India and Africa have enjoyed a healthy and mutually beneficial relationship since time immemorial. In the context of a changing world, it is time to reinvent and strengthen that relationship. The Indian industry could take the lead to jointly continue to enhance the well-being of two ancient civilisations.

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For more information contact:
Vimal Choudhary
Global Practice Manager, McKinsey Asia Center
+91 124 333 1547
mckinsey_asia_center@mckinsey.com

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