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Deloitte on Africa
The Rise and Rise of the African Middle Class

Africa's middle class has tripled over the last 30 years, with one in three people now considered to be living above the poverty line - but not among the wealthy. The current trajectory suggests that the African middle class will grow to 1.1 billion (42%) in 2060. As African economies are growing (7 of the 10 fastest growing in the world are African), the wealth is trickling down and Africa now has the fastest growing middle class in the world.

The rise of the middle class, as a percentage of the population, has been steady - in 1980, 111 million or 26% of the continent's population fell in this category rising to 151.4 million or 27% of the population in 1990 with a further surge to 196 million in 2000 and a dramatic increase to 313 million in 2010 equating to 34.3% of the population (African Development Bank, 2011). In contrast, the rise in absolute numbers, compared to the percentage rise, has been more dramatic and this is best explained by the increase in population with Africa having hit the 1 billion population mark in 2010.

This population boom captures, at once, the African opportunity and her dilemma. The opportunity is that large population numbers create the very necessary volume for any consumer goods and services. Numbers move product. The dilemma is that Africa's population growth has undercut any dramatic reduction in poverty. For now though, we will focus only on the opportunity on the premise that profit is underpinned by volume.

It is vital, at this early juncture, to define the term middle class. The African Development Bank (AfDB) defines the African middle class as those spending between US$2 and US$20 a day. While, in the developed world, this may appear too low to be classified as middle class spending, the Bank deems this range appropriate given the cost of living on the world's poorest continent. Middle class is defined in relation to the average income and that average is lower in Africa than in the west. They take a PPP perspective – not Private Public Partnership – rather, Purchasing Power Parity perspective. Simply put, US$20 has more stretch in Benin, for instance, than in the USA.

Within this broad African middle class category, there are further sub-classes: upper middle class equates to those spending between US$10 and US$20 a day. Lower middle refers to those spending US$4 and US$10 a day and the floating class are those that are the most vulnerable in society spending between US$2 and US$4 – this only slight above the developing world poverty line of US$2 person per day. At 313 million, the African middle class is roughly the same size as its Indian and Chinese counterparts and this is the very basis of media reports such as "Africa is the new Asia" - Newsweek cover in 2010 and the "The Hopeful Continent: Africa Rising" with the subtext: "After decades of slow growth, Africa has a real chance to follow in the footsteps of Asia (The Economist, 2011).

The African middle class: Who are they?

The urban/rural divide in Africa is pervasive of all socio-economic aspects and, evidently, that divide also features heavily in the definition of who is middle class in Africa.

What they are generally not:

- They do not derive income from farming and rural economic activities.

What they generally are:

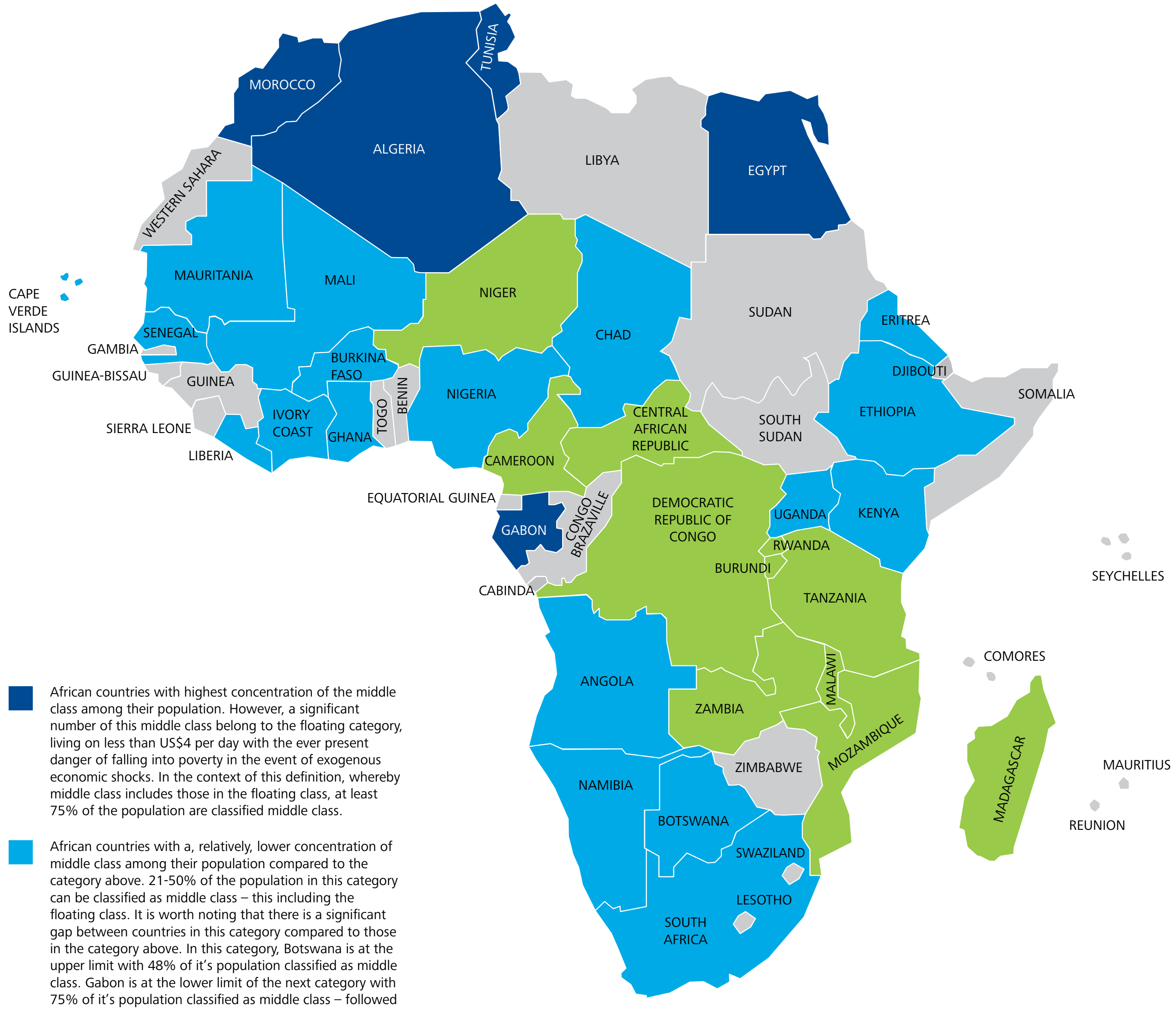
- They live in urban centres. In terms of residence, middle class households tend to reside in bigger and more permanent dwellings equipped with modern amenities.
- Higher levels of tertiary education.
- Hold salaried jobs.
- Are small business owners.
- Young and in the acquisitive phase of life.
- Have fewer children than previous generations and certainly than those in the rural areas.
- Have strong vested interest in their children's welfare. They tend to opt for private education and health services.
- Send their children to overseas universities.
- May receive remittances from relatives living in the Diaspora. Total Diaspora remittances are estimated at US$ 38 billion.
- Aspirational.

In terms of asset ownership, the middle class is typically associated with the widespread ownership of major household durable goods such as refrigerators, telephones, flat screen TVs and automobiles.

- They have more recreational time.
- They are harnessing technology.
- Political assertive.
- Culturally self-confidence.

The African middle class: Where are they?

Distribution of Middle Classes in Total Populations in African Countries in 2010



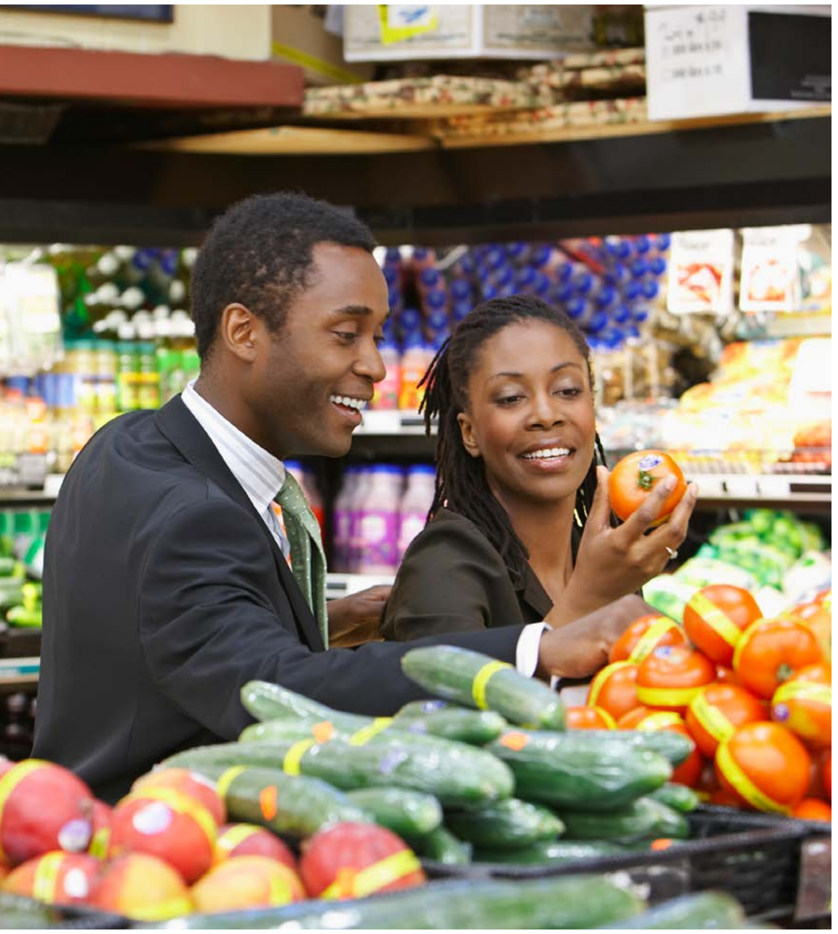
- African countries with highest concentration of the middle class among their population. However, a significant number of this middle class belong to the floating category, living on less than US$4 per day with the ever present danger of falling into poverty in the event of exogenous economic shocks. In the context of this definition, whereby middle class includes those in the floating class, at least 75% of the population are classified middle class.
- African countries with a, relatively, lower concentration of middle class among their population compared to the category above. 21-50% of the population in this category can be classified as middle class – this including the floating class. It is worth noting that there is a significant gap between countries in this category compared to those in the category above. In this category, Botswana is at the upper limit with 48% of it's population classified as middle class. Gabon is at the lower limit of the next category with 75% of it's population classified as middle class – followed Algeria 77%, Egypt 80%, Morocco 85%, and Tunisia 90%.
- African countries with, relatively, the lowest concentration of middle class among their population. In these countries, the middle class, including the floating class, constitutes up to 20% of the total population.
- African countries for which no data was available.

Source: African Development Bank; Deloitte analysis

How does the rise of the middle class manifest?

In the markets from Senegal to Swaziland, new traders are setting up mini “supermarket” stalls selling everything from mobile-phone Sim cards and phone-credit vouchers to microscopic 30g sachets of Sunlight and Omo washing powder that appeal to consumers with cramped homes and cramped budgets.

(Sunday Times Magazine, UK 26/2/2012)



In a globalised world, Africa is not impervious to new trends and influences that are fast shaping consumer behaviours and consumption patterns. Africans are also aspirational. African consumers want the same as consumers elsewhere – a mobile phone, a bank account, and the latest Beyonce CD bought in a store at a shopping mall. And indeed, shopping malls are sprouting in the continent’s major capitals - Dakar, Lagos, Accra, Nairobi and Lusaka. In Deloitte’s interactions with various clients expanding on the continent, it is clear that there is a need for more formal retail infrastructure.

Africa’s growth is, in fact, being primarily driven by the consumption of goods and services – retail, financial services and telecommunications with consumption accounting for two thirds of Africa’s GDP growth contrary to perceptions of it growing on the back of mining and commodities. Possession of cars and motorcycles in Ghana, for example, has risen by 81% in the past five years. Internet penetration, on the other hand, while still relatively low at 120 million users is growing rapidly - the growth rate between 2000 and 2011 was 2,527%, compared with a world average of 480% (Smith and Lamble, 2011).

What trends are driving growth now and into the future?

There are a number of social and demographic factors that are colluding and driving this new consumerism on the continent.

Firstly, as African economies grow, the growth is trickling down and people have more disposable income. Their spending patterns are being dictated and shaped through media and other influences as Africa ‘opens up’.

Secondly, Africa has a disproportionately young population with 62% of the population in Africa under 25 years. There is, therefore, a guaranteed consumer base for years to come in stark contrast to Europe, for example, which is characterised by a shrinking population. Europe’s workforce, for example, will reduce from 63% in 2010 to 51% in 2050.

Thirdly, there is a trend towards urbanization with African cities growing rapidly. As aforementioned, socio-economically, Africa is defined along urban/rural lines and a move from a rural community to the urban area necessarily implies an increase in income, albeit informal. The link between urbanization and income is best illustrated with this statistic: while only a third of Africa’s population lives in cities, that segment accounts for 80 percent of total GDP, according to the U.N. Centre for Human Settlements. In the next 30 years, half the continent’s population will be living in cities. (Newsweek 2010)

Finally, statistical data show a link between those African countries with very low internet access and low levels of health, education, and income. This seems to indicate that there is a connection between social gaps and the digital divide. Stated differently, a correlation between mobile phone uptake and socio-economic development.

A landmark, pioneering Deloitte study, for example, found that a 10% increase in mobile phone penetration is linked to an increase in a middle/low income country GDP of 1.2% due to the ensuing economic activity that people engage in as a result of being ‘plugged in’ and connected. Internet access is both an indicator of socio economic well-being as well as a predictor of participation in the mainstream economy. ICT access is increasingly being seen not as a luxury but as a very necessary tool for development.

In Africa, the mobile phone is a tool that is, at once, equalizing and empowering and has allowed those marginalized in society to participate in the mainstream economy. Africa became the world’s second most connected region after Asia in late 2011, with 616 million mobile subscribers. With new mobile telephony applications continually being developed in areas such as banking, health, education, agriculture, it is clear that lives will also continue to change qualitatively.

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Opportunities exist ... but it is not necessarily business as usual

The biggest implication of this emerging African middle class is for consumer goods and services, such as consumer business/retail (both food and clothing), Technology, Mobile and Telecommunications (TMT), entertainment, financial services and healthcare but also with a spill-over effect into other areas such as construction, infrastructure development and agriculture. When focusing on the numbers - 1.1 billion middle class consumers or 42% of the population in 2060 – the African investment case is even more compelling. However, 2 caveats exist: first-mover advantage is everything and secondly, seizing these opportunities calls for leadership with a clear and long term vision.

However, despite these glowing statistics and a continent that is directionally correct, it is important to remember that 61% of the population still survives on less than US$2 a day. Clearly, for those companies seeking to expand their footprint on the Africa continent, opportunities lie at the bottom of the pyramid and this implies doing things differently. Do not be put off by the seemingly low daily spending levels. Africans are generally very entrepreneurial and often supplement their formal salary in various ways. While this informal sector is significant in Africa, it is unaccounted for. However, for illustrative purposes, Mozambique is growing fast but still remains one of the world's poorest countries yet Mozambique is one of South Africa's top 5 contributors towards tourism in terms of spending as Mozambiquans visit South Africa frequently for shopping purposes (South African Tourism).

In Deloitte's experience of dealing with companies expanding on the continent, we have gleaned the following in terms of needs and how best to respond to them:

- For financial institutions:
  - Package and formalise informal savings schemes.
  - Offer more credit facilities and ideally, unsecured lending.
  - Develop mortgage / bond products.
  - View African women as a distinct banking segment with specific needs. Women represent a significant untapped market which can be serviced profitably – both as individuals but also the segment of women entrepreneurs. An attempt to quantify the funding gap experienced by women-led businesses that lack adequate access to finance was undertaken recently by the G20. The conclusion was that a shortage of funding of the order of US$20 billion was needed to bridge the SME funding gap. The resilience of African women combined with statistics that women pay back loans on time represents an opportunity that the Banks have not capitalized on (New Faces, New Voices 2012).
- For consumer products:
  - Repackage goods into smaller units to suit local affordability.
- For food manufacturers
  - Adapt to local palates.
- For vehicle manufacturers:
  - Partner with a bank and offer vehicle financing.
- For healthcare providers:
  - More affordable healthcare models
- For property developers:
  - Shopping malls! Shopping malls! Shopping malls! To illustrate the size of this opportunity, for example, Nigeria has a population of 160 million people and has 36 states each with a sizeable population and requiring formal retail infrastructure.
  - More modern but affordable housing.
- For energy companies:
  - Africa is endowed with natural resources that can go some way in closing the current supply gap while also, allowing for a relatively easier migration to a cleaner energy mix. The real challenge is funding and developing models that allow for the average African consumer and industry to access this energy affordably. The funding gap, viewed conversely, however, presents an opportunity for greater private sector involvement and gives rise to new energy ownership models on the continent.

It is clear from the opportunities arising as a result of a growing middle class and the rising discretionary spending of consumers, that Africa is more than just a mineral resources play.

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