

Rise of African cities

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Africa, previously viewed as a marginal location by mainstream investors and companies, is attracting the attention of corporate investors around the world, not least because of its enviable growth rate. Most Africans still live in rural areas, but, with around 4% of the population moving to urban areas every year, the spatial demography of the continent is changing rapidly.

Some of the world's largest institutional investors intend to make their first significant step into Africa over the next five years, according to a recent survey of 158 senior executives by the Economist Intelligence Unit. For instance, two-thirds of those interested in frontier countries identified African markets as having the greatest opportunity, and expect to have some exposure in the next ten years.

Potential investors are not interested purely in national markets. Today there are already more than 50 African cities with populations of over one million people, and several cities larger than London. People in cities are easier to reach—and they spend more than their rural counterparts. Between 1980 and 2010 the number of “middle-class” consumers in Africa more than doubled. Defining the middle class as those with a daily consumption of US\$2-20 per day in 2005 PPP US dollars, the middle class accounted for around 34% of the population, or a market of over 300 million people.

Thus, an increasing number of companies are seeking to set strategy at city level. This brings with it its own challenges, however. There is enormous variation in spending power between different African countries, but also within each country.

To meet this need, the Economist Intelligence Unit (EIU), working in collaboration with the Economist Corporate Network, carried out a syndicated research programme of 25 African cities (across 19 countries) that are of particular interest to corporates: Abidjan; Abuja; Accra; Addis Ababa; Alexandria; Algiers; Cairo; Cape Town; Casablanca; Dakar; Dar es Salaam; Douala; Durban; Johannesburg; Kampala; Khartoum; Kumasi; Lagos; Luanda; Lusaka; Maputo; Mombasa; Nairobi; Tripoli and Tunis. These represent some of the best opportunities for growth in 2013 and beyond. But up until now there have been few city data studies to support the case, and strategy, for market entry.

The EIU's Africa Cities tool provides a unique set of city-level data—household and business demographics—as well as a cost-of-living index, which was compiled through extensive primary and secondary research. Examples of city indicators include total population by gender; expenditure by household; and the number of businesses. The cost-of-living index—which covers the cost of over 100 products across 12 different categories of expenditure—is weighted according to a standardised criterion that reflects the share of income spent on each category by the general population.

The findings and insights of the data, which includes more than 5,000 data points, are valuable tools for government and business alike. Key findings include:

- City dwellers tend to spend roughly twice what people living in rural areas spend.
- 30% of Lagos households earn over US\$10,000 per year, compared to just 17% of households in Johannesburg.

- More than two-fifths of the populations of Luanda, Lusaka and Kampala are under the age of 15.
- Abidjan is the third most expensive city after Luanda and Johannesburg, with the highest prices for restaurants and hotels.
- Expenditure per capita differs markedly across cities, depending on the product in question. For instance, per capita spending on furnishings, household equipment and routine household maintenance is virtually identical in Cairo and Dakar—at just over US\$100—whereas per capita spending in Cairo on entertainment (US\$62) is double that in the Senegalese capital.
- The number of registered businesses in Lusaka is growing at close to 10% per year.

The results of the study are displayed in the form of an interactive Excel-based tool, with a range of analytical tools intended to allow cross-city comparisons, as well as deeper dives into a specific city and indicator. Users can, for example, view the data in the form of a map, chart or table. The filter allows sub-regional comparisons across cities, showing clearly which cities are doing well and offer the greatest potential for business opportunity. The cost of living index covers more than 100 items for each city, providing an unrivalled level of detail and the flexibility for users to adjust the basket of goods.

This is the first study of its kind and brings together a wealth of information—much of it brand new. Plans are already being developed to add more cities and also medium and long-term forecast for the city data.

For more information on the EIU's Africa cities capabilities and the tool for your organisation, please email AfricaCities@eiu.com.

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