ECONOMIC PROPECTS AND DIGITAL CHALLENGES

Catalan companies in sub-Saharan Africa

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Photography: "Moving Shadows", Girma Berta

Apart from the social and macroeconomic impact of COVID-19, in recent months the pandemic has changed how Catalan companies do business, both in the domestic market and abroad. The lockdowns have forced factories to shut down, created imbalances between supply and demand, changed consumption habits, triggered a supply crisis, broken value chains and driven increases in the prices of international goods transport, among other impacts. Added to these factors is the acceleration of digitisation and sustainability processes, two transformation vectors that were already necessary and which the pandemic has now made urgent.

From a global viewpoint, the impact of these changes is and will be unequal in each region, depending on the economic impact that this situation has had, the robustness of the country's industrial fabric, the dependence on raw materials, or, to a significant degree, its integration in international trade flows. In this respect, COVID-19 has once again shown the high degree of integration of Catalonia's business fabric in world trade: the Catalan economy more acutely suffers the effects of a slowdown in global trade because it is more

exposed to it, but, for the same reason, it recovers more quickly when trade picks up. Thus, while the first lockdowns caused a sharp drop in Catalan exports, they are currently growing again at rates higher than before the pandemic and they are recovering faster than compared with the financial crisis of a decade ago.

Testimonials

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> “Electrification based on renewable solutions enables replacement of domestic use of fuels that cause health problems, among others”
> Azimut 360 / Aiguasol

Indeed, internationalisation is undoubtedly one of the Catalan economy’s main features and a phenomenon that has driven the country’s competitiveness in recent years, to the point that Catalonia’s openness to international trade is above the European Union average and exceeds that of similar-sized countries such as Denmark or Finland. Internationalisation has become an inseparable part of the Catalan business community’s DNA, in the awareness that more exports mean a broader customer portfolio, improved management efficiency, more innovation, diversified risks and, therefore, more competitiveness. These consequences are more important than ever in the context of COVID-19.

We now found ourselves at a crucial time when the economy of the coming decades is starting to take shape within a transformation process in which companies are reappraising their strategies, production methods and marketing. And that includes their internationalisation. In this changing environment, companies’ export departments must monitor in real time where new business opportunities may appear, which new countries they can start to trade with, whether it is necessary to open a branch abroad to be closer to customers, or whether it is necessary to change the supply strategy in a particular region. In this respect, geographical diversification is one of the challenges that Catalan businesses will have to address, driven by the increase in protectionism, phenomena such as Brexit or the shortening of global value chains.

Fostering diversification in sub-Saharan Africa

At present, Catalonia exports mostly to other countries in the European Union (59.5%), ahead of the rest of Europe (13.8%), Asia (8.7%), Africa (5.2%), Latin America (5%), North America (4%), the Middle East (2.8%) and Oceania (0.5%). A common market and cultural

and geographical proximity explain why Catalan companies sell mostly to other European Union countries. However, in recent years, we have seen that the internationalisation process has increasingly reached out to other regions.

If we take the case of Africa, traditionally it has been presented as if it were a single country, distant and unknown. However, despite the entry barriers and the challenges it poses –further complicated by COVID-19– it is one of the regions that offers most opportunities for growth to Catalan companies. Our country's SMEs and businesses have a strong trade presence in the north of the continent, especially Morocco (it ranks 12th among the countries to which Catalonia exports most) and Algeria, but in recent years there has been a growing interest in sub-Saharan Africa.

Thus, if we analyse the last decade, we see that trade relations between Catalonia and sub-Saharan Africa have experienced sustained growth. Specifically, Catalan exports have increased 50% during this period, reaching 1.024 billion euros in 2019, with a notable acceleration in recent years. Although exports contracted 17.2% in 2020 due to the crisis triggered by COVID-19, we are now seeing that they are recovering above pre-pandemic levels: between October and November 2021, exports have grown 1.5% compared with the same period in 2019. The main products exported by Catalan companies to this region are plastics (11.6% of the total), food products (10.8%), electrical appliances and material (9.1%), machinery (7.5%) and fuel (7.3%). Sales of paper and cardboard, chemicals, meat, vehicles and pharmaceuticals also stand out.

Testimonials

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> "We are very optimistic about Africa's potential: our company has based part of its organic growth in this continent"
> AIS Group

Sub-Saharan Africa represents almost 20% of the world's land surface and consists of around 50 countries: every city, country or region has unique features that require a specific strategy for successful trade. It is thus a very large region, culturally and economically diverse, in which certain areas concentrate a large part of commercial exchanges. This is the case of South Africa, which generates more than 30% of Catalan companies' sales in sub-Saharan Africa and is the region's most advanced economy. With a

population of almost 60 million inhabitants and a mature industry, quality infrastructures and a diverse economy, it is acknowledged as the gateway to the other countries of southern Africa. One of the BRICS countries, it has the business facilities of a developed country and a high consumption capacity. In fact, many of the distribution chains present in the region are South African, such as Woolworths, Shoprite or Pick & Pay.

With 9% of total exports, the second market which receives most Catalan exports is more than 5,000 kilometres from South Africa. This is Ivory Coast, the hub for French-speaking West Africa. It has a strong industrial base, a very stable currency shared by 8 African states and developed infrastructures. It is followed by Nigeria (8.9% of the total), the continent's largest market in terms of population and the continent's leading economy; Senegal (6.5%), which stands out for its industrial base in agri-food and building materials; and Ghana (6.3%), considered the hub of English-speaking West Africa and one of the countries most commonly chosen to gain entry into the continent because of the facilities provided for doing business there and its stability.

	Volume (MEUR)	% of total
South Africa	257.3	30.4%
Ivory Coast	76.3	9.0%
Nigeria	75.0	8.9%
Senegal	54.9	6.5%
Ghana	53.2	6.3%
Cameroon	31.4	3.7%
Burkina Faso	25.6	3.0%
Kenya	25.5	3.0%
Angola	21.1	2.5%
Equatorial Guinea	17.9	2.1%
Rest	208.5	24.6%
Total	**846.5**	**100%**

Elaboració ACCIO (dades ICEX-Estacom)

Trends and opportunities

Aside from the new context created by the COVID-19 pandemic, the social, demographic and economic reality of sub-Saharan Africa has changed in recent years, with the emergence of new challenges, trends and opportunities. The first is population growth, from a sparsely populated continent to one of the world's regions with the highest growth forecasts. The population of sub-Saharan Africa is expected to almost double in the next 30 years, from 1.4 billion people today to almost 2.5 billion in 2050. It is estimated that out of the 20 most populous countries in 2100, nine will be located in sub-Saharan Africa, with Nigeria leading the way to become the world's third most populous country, behind China and India.

One significant feature of the region's demographics is that it has one of the world's youngest populations (with a population pyramid that is the reverse of ours) and substantial growth of the middle class in recent years, with more purchasing power and more purchasing capacity. This impacts on the dynamism of the internal market and consumption patterns, contributing to a more modern distribution system, with the appearance of shopping malls that coexist with a significant informal economy. All of this is closely linked to urbanisation. More and more people live and will live in cities. This trend is expected to accelerate in coming years, with consequences in terms of infrastructures and challenges related to improved connectivity, sanitation or waste treatment.

In fact, although the majority of Africa's people still do not have adequate sanitation and a large part still live in areas without tarmacked roads, access to new technologies is growing to the point that there is an African population that has a mobile phone but no access to running water, making the continent one of the world's regions where mobile penetration has grown most. E-commerce is also growing, with local companies such as Jumia, and digital payment solutions are proliferating. This is the case of M-PESA in Kenya, a digital payment system that allows users to pay school fees, restaurant bills, medical bills or send money to a relative. It is more common to pay by mobile phone than by credit card. For instance, we know of Catalan companies that have closed orders with African customers by WhatsApp during the pandemic.

Testimonials

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> "In spite of the digital divide, the continent is showing creative emerging technologies and countries are making progress in improving data penetration"
> AFR-IX telecom

In this context, we can point to four main sectors that offer opportunities for Catalan companies. The first is industrial systems: some countries are starting to develop their industry or are working to improve it, and it is one of the priorities of many African governments, particularly in areas such as agri-food, pharmaceuticals-health, packaging, chemicals, construction and textiles. With their industrial background, Catalan companies have an opportunity to take part in this process, contributing their know-how, machinery, processes, technology or raw materials. Agriculture is another priority sector in the region, as traditional methods still predominate and there is a great need for modernisation, which requires importing technology. Catalan SMEs specialised in farm machinery, seed

production, fertilisers, insecticides, irrigation techniques or post-harvest storage are finding internationalisation opportunities in Africa.

On the other hand, due to electricity supply problems and to address energy challenges, some countries in sub-Saharan Africa are clearly committing to implementing a renewable energy industry, with the support of global multilateral organisations. As a result, Catalan companies that are able to provide engineering, consulting or technology services have a wealth of opportunities in this field. Also those working in health infrastructures and laboratories in the context of combatting COVID-19.

Challenges and barriers

From a statistical viewpoint, in the medium term, the IMF estimates that sub-Saharan Africa will grow at an average rate of 3.9% during the period 2022-2023. Some of the countries that will grow most during this period include Mozambique, Senegal, Ivory Coast, Kenya or Ghana, which will have growth rates above 5%.

Even so, the region has to resolve a number of challenges, beyond the immediate challenge of COVID-19. First, improving infrastructures will be crucial for sustained growth, particularly in the energy sector, but also in roads and railways and waterways. This process must be accompanied by a greater degree of economic diversification, as some economies are still too dependent on the income from raw materials or the primary sector, which in turn is linked to more industrialisation so that the region's countries can increase their participation in the entire value chain and reduce their dependence on imports. At the same time, sub-Saharan Africa countries are aware that they must move forward in regional integration, as shown by the fact that only 15% of African exports go to other countries on the continent. An important development along these lines is the enactment of the African Continental Free Trade Agreement, the world's largest economic integration area.

This agreement is called to become one of the factors that will help lower entry barriers into sub-Saharan Africa. For example, companies must face certain obstacles such as payment, because of the difficulties that local African companies have in accessing financing. This means that it is necessary to identify projects that have multilateral or bilateral funding, the support of private equity funds or which are backed by government-based financing solutions. Beyond the cultural aspect, there are also possible logistical obstacles due to the state of infrastructures, the existence of customs tariffs, protected industries or certain specific regulations in each country.

Four internationalisation strategies in the region

Aware of the existence of these barriers and the fact that companies sometimes need support at the destination in order to implement their internationalisation processes, in 2014 ACCIÓ –the Catalan Ministry of Business and Labour's business competitiveness agency– created the Africa Plan, an initiative that proposed to provide a series of services

and open more Foreign Trade and Investment Offices on the continent. In addition to the offices in North Africa and the office in Johannesburg (South Africa), offices were also opened in Accra (Ghana) and Nairobi (Kenya) to complete the coverage of the region's main markets. In recent years, we have been able to advise hundreds of companies in expanding trade on the African continent, identifying the best approach in each case, depending on the country, the industry in which the company operates and its international experience.

This requires identifying the hubs that act as platforms for entry into each region: Ghana in English-speaking West Africa; Ivory Coast or Senegal in French-speaking West Africa; Cameroon in Central Africa; Kenya in East Africa (Ethiopia would be a separate gateway, given its idiosyncrasy); and South Africa in Southern Africa. Having understood this, and after analysing statistical criteria and consumption habits, a list of priority countries can be drawn up, taking into account each country's language, currency, cultural, customs or legislative barriers.

I. Export projects

However, above all, depending on the product or service offered by the company and the goal it pursues in the region, the internationalisation strategy may vary considerably. Thus, it may be an export project to sell a specific product through a network of local distributors or a sales agent, for example. In this case, it is vital to identify the right local partners, what contacts they have and what level of market penetration they can achieve. It is essential to accurately analyse the market positioning in order to design a penetration strategy adjusted to the company's level of competitiveness in a highly price-sensitive environment, bearing in mind that Catalan companies usually have an entry position in the middle-high end of the market. As in all export processes around the world, the Catalan company must make sure that it has sufficient production capacity to meet the orders that it may receive and sufficient financial capacity to cover the expenses that will be generated before the first sales. In the case of sub-Saharan Africa, at present there are more than 1,600 Catalan companies that export there regularly, that is, they have been exporting there for the last four years.

II. Implementation

Another strategy is to establish a physical presence, by opening offices or a production plant. This option, which is used by companies that offer services or companies that want to produce directly in the target country, enables them to work more closely with their customers, offer a better service and deepen their knowledge of the local market. It is a trend that will become more popular as global value chains shorten and protectionism becomes more prevalent. In this case, recruiting local talent is a key factor for guaranteeing a good presence and proximity with the African markets, which place great importance on personal relationships and social capital. Accordingly, promoting talent exchange programmes between sub-Saharan Africa and Catalonia is a fundamental forward-looking strategy for developing links and a network that will strengthen long-term economic relations.

III. International public procurement projects

There are also many Catalan companies that are using international public procurement projects in the region to internationalise in sub-Saharan Africa. This strategy will probably gain increasing traction as the continent is set to become one of the main regions receiving funds from international financial institutions in coming years. In this respect, two main players stand out: the African Development Bank, with a budget of close to 10 billion dollars in 2019 for projects in Africa, and the World Bank, which allocated more than 42% of its funds to sub-Saharan Africa, North Africa and the Middle East in 2019. Another player worth mentioning is the European Commission, which has prioritised the continent within the new 2021-2027 multi-annual financial framework. Specifically, 32 billion euros will be allocated to sub-Saharan Africa during this period, 23% more than in the previous financial framework.

IV. International cooperation

The fourth strategy followed by Catalan companies focuses on technology transfer and international cooperation projects. Here, Catalonia's innovative fabric has a unique opportunity to position itself as a technology leader for African companies and technology centres that are looking for know-how to develop their economies, particularly in the agri-food, agriculture, environment and health sectors. African markets are experiencing a leapfrogging process, directly acquiring and adapting the latest technologies available, without going through all the intermediate development stages followed by the more mature economies. Therefore, from the viewpoint of a Catalan company, adapting these technologies to the local environment and providing support in training are key factors.

Several international programmes are currently supporting technical cooperation, R&D and technology in the region, such as the European Commission's Horizon Europe, which has included sub-Saharan Africa as a priority in over 30 programmes, or the USAID's (US Agency of International Development) Development Innovation Ventures. These multilateral and bilateral international cooperation tools are increasingly focusing effort on creating instruments that facilitate the development of a local business fabric endowed with the capacity to grow, create jobs and generate solutions for the continent's challenges. They are programmes that offer opportunities for Catalan companies and technology centres to work in partnership with these local partners.



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