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Africa's Rising Middle Class amid Plenty and Extreme Poverty

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Key messages

With the emerging middle class, Africa is poised to become the next global economic powerhouse.

Not to omit the context of both a fast rise of rich and wealthy individuals in Africa.

The poor classes still constitute the overwhelming majority in almost all the African countries.

Neither the 'Africa rising' narrative, nor its opposite, can quite describe the continent's 54 trajectories.

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Acronyms

AEO	Authorised Economic Operator
AfD	Agence Française de Développement / French Development Agency
AfDB	African Development Bank
BRICS	Brazil, Russia, India, China, South Africa
CAR	Central African Republic
DRC	Democratic Republic Congo
EAC	East African Community
ECA	Economic Commission for Africa
ECDPM	European Centre for Development Policy Management
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
ICT	Information and Communications Technology
IMF	International Monetary Fund
MDG	Millennium Development Goal
MGI	McKinsey Global Institute
MIC	Middle Income Countries
MNE	Multinational Enterprises
NBS	National Bureau of Statistics
OECD	Organisation for Economic and Co-operation Development
PPP	Purchasing Power Parity
SME	Small Medium Enterprise
SSA	Sub Saharan Africa
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
WEF	World Economic Forum

Executive Summary

Recent high growth rates and increased foreign investment in **Africa** by developed and emerging economies have given rise to the idea that the continent is the next global economic powerhouse. This optimistic narrative gained prominence over the last five years as a result of the sustained growth registered by the continent. Notwithstanding other factors of prosperity as reported for example by the Legatum Institute, robust economic growth over the last 10 years of around 6% per annum has led to visible changes across Africa. Visitors to cities on the continent cannot help but notice the **emerging African middle class**.

The ink was barely dry on the African Development Bank's (AfDB) 2011 paper on *The Middle of the Pyramid: Dynamics of the Middle Class in Africa* when the still on-going debate broke out as to whether Africa's middle class really was rising or not or about the actual size of the rising middle class.

This paper seeks to provide an overview of some of the main arguments raised since then with the aim to propose how to move forward from sterile arguments towards a forward looking Pan-African Inclusive Growth Agenda that could ensure a sustained rise of Africa's middle class. Notwithstanding the dire poverty figures, the key question we want to address in this paper is whether the number of people with a disposable income driving domestic demand has been growing or not.

Thus, the purpose of this paper is to emphasise, while the optimistic discourse in the last decade or so has revolved around Africa's rising middle-class, not omit the context of both a fast unstoppable rise of fabulous rich and wealthy individuals in Africa through staggering business expansion and the fact that the poor classes still constitute the overwhelming majority in almost all the African countries. The message is that it is no longer necessary to try and claw out a larger portion of a limited pie based on *status quo* maintained by fear but to enjoy large portions of increasingly bigger national and regional pies on the continent.

The starting point is the on-going debate as to the classification of who is middle class:

- Are they a real middle class or just strugglers, or
- Are they the floating poor, a term the AfDB (2011) prefers to describe the same phenomenon?

In answering the above mentioned key question, the paper is limited by the fact that it does not present new evidence nor does it provide new estimations based on existing data. It simply reviews the existing pro (e.g. the AfDB; McKinsey etc.) and contra (Freemantle; Rowden etc.) arguments and statistics.

In section 4 we take a look at **what the middle class actually mean?** Some economists categorise the definition of middle class into two broad heads; relative and absolute terms. In relative terms, individuals or households that fall:

- between the 20th and 80th percentile of *the consumption distribution* or
- between 0.75 and 1.25 times median *per capita income*, respectively.

The AfDB (2011) use an absolute definition of people whose:

- Daily consumption is between the broad band of US\$2 and \$20 (in 2005 PPP) (€1.40 to €14).

The definition is based on the average cost of living of about 1 billion people in the continent. The AfDB divides its definition of middle class into **three categories**, which a lot of commenters have not mentioned:

- Population spending between US\$2 and \$4 a day is considered as '**floating class**', vulnerable enough to slip back below the international poverty line.

- The remaining population earning between US\$4 and \$20 a day is categorised as **‘stable’ middle class**.
- Within the stable middle class category are those spending between US\$4 and \$10 a day.

Section 2 observes the evidence that Africa's middle class is rapidly rising, fuelling the second fastest growing economic bloc in the world. Despite a reputation for thrift, middle class households do allocate part of the household budget to leisure and entertainment. This is important because the middle-class represents around a third of a total population of more than 1.108 billion inhabitants according to the (AfDB, 2014c). In fact, not less than 31 million of African households have joined the world's consuming class since 2000, with Africa's top 18 cities having a total spending power of US\$1.3 trillion. Consumer spending by the middle class reached an estimated quarter of Africa's GDP of US\$3,359 billion in 2012. By 2030 this figure will likely reach US\$2.2 trillion, although Africa will still only comprise about 3% of worldwide consumption. This rise will create more demand for local products and spark a cycle of increasing domestic growth if the continent can tackle its infrastructure and governance challenges.

Section 3 observes that there are currently two competing narratives on Africa. One is a story of modernisation, growth and global/regional integration. It is the story of street traders with smartphones; new cities and skylines; factories supplying the likes of Cadburys, Unilever and Walmart; and multinational Western companies – from Google to General Electric – tripping over each other to build regional offices. The second story is one of poor governance, conflict, poverty, and marginalisation, in short, the Four Horsemen of the Apocalypse.

Many other institutions such as the AfDB and analysts have shifted away from a narrative that depicts Africa as a desperate, poverty-riddled continent and have embraced the Africa rising story. But no sooner had the music started than sceptics turned the volume down, warning of over-exuberance and a speculative bubble. The sceptics consider these Afro-optimism reports as hype since the high economic growth rates have not translated to improved living standards and income/consumption inequality amongst a majority of Africa's citizenry. Neither the 'Africa rising' narrative, nor its opposite, can quite describe the continent's many trajectories across its 54 states. Both sides of the debate can muster plenty of evidence for their case.

We also carry out a brief reality check on the impressive growth figures above by asking whether the average African citizen believes that Africa is rising. There is a particularly negative perception regarding the governments' ability to create jobs or to narrow the income gap. And yet when you meet young Africans who have graduated from overseas universities, there is a new desire for engagement as a sign of incredible optimism and hope.

Section 3 also finds that recent major revisions to GDP estimates in some African countries have raised questions about reported levels and growth rates of GDP as called into question by Morten Jerven (2013) in his recent book *Poor Numbers*. For example, Nigeria rebased its GDP from 1990 to 2010, resulting in an 89% increase in the estimated size of the economy. The Statistical Department of the African Development Bank (2014a) has responded in two ways:

- First, it has set up a series of country-by-country Peer Reviews;
- Second, through two methodological surveys, the Bank has carried out a careful investigation of the sources and methods underlying African GDP statistics.

The results of the two surveys provide a broad picture of the quality of national accounts in Africa. According to the AfDB (2014a) that picture brings guarded reassurance about the quality of African national accounts.

An important first step towards achieving the post-MDG goals in our lifetime would therefore be to invest in improving the production and use of economic development statistics on the African continent. The paper referred to two recent innovative initiatives on how to gather reliable market information, insights and opinions from across the continent. One innovative solution is presented by Jana, a US-based company that powers one of the world's largest reward-for-survey platforms in emerging markets, mCent. Jana's platform integrates directly into the billing systems of 237 mobile operators, enabling 3.48 billion people in emerging markets to be rewarded with airtime for taking part in surveys. Another Australian firm, BiNU, is addressing the lack of smartphone problem with a different approach through a platform that gives basic mobile feature phones essentially smartphone-like capabilities.

Section 4 observes that three years ago the AfDB estimated that Africa's middle class reached more than 300 million in 2008, amounting to a third of the continent's population, or about the same size as its Chinese and Indian counterparts. That figure compares with about 158 million, or 27%, of the population in 1990. Defined as those earning between US\$2 and \$20 a day in 2008, Africa's middle class is expected to grow from 300 million (33% of Africa's population) to 1.1 billion (42% of the population) in 2060 (AfDB, 2011).

AfDB estimates that close to 123 million Africans fall into the category of stable middle class, i.e., people earning US\$4-\$20 a day. "Unfortunately the 300 million makes the term 'middle class' somewhat distracting," according to Salman Siddiqui, head of Middle East and Africa equities at Nomura Asset Management U.K. Ltd. "In fact 60% of this group earn between US\$2-\$4 per day – barely out of poverty" as mentioned above. Ugandan writer Joachim Buwembo argues that it is a very misleading term. He thinks that in East Africa, middle class refers to the poor people between the dirt-poor majority and the rich few. Most of Uganda's middle class don't have any economic base with no assets, and no savings.

Section 5 addresses the new phenomenon that more and more are now convinced that the opportunities are now inside Africa, not outside. There is a market for African produced goods and services. But for the rest, the agricultural production of Africa could turn to domestic African consumption. This would create a market for consumption of agricultural products in Africa. Currently, there is more activity at the regional level than at the continental level. McKinsey (2010) predicts that the fast-growing cities in the emerging economies will be filled with millions of new and increasingly prosperous consumers, who provide a new growth market for global corporations at a time when much of the developed world faces slower growth as a result of aging. In fact, as a result of high average economic growth rates and rapid population growth, Africa is urbanising at a greater rate than any other continent.

Oxford Economics (2013) has developed the African Cities Income and Consumer Spending Forecasting Service. This powerful analytical capability allows us to get beneath the surface of the new African growth story, exploring the economic trajectory of different cities on the continent and the commercial opportunities they offer. The continent's large urban areas will be the engine room of strong economic growth over the next two decades. Thus, no one denies the emergence of an urbanised and increasingly informed social group that not only spends more disposable income but also plans for the future and demands a greater say in the way their countries are run.

Finally, **section 6** discusses some of the major challenges to the growth of the middle class. Large investments for service provision have to be funded, yet at the same time the most vulnerable in society need to be protected from relapsing into poverty. The middle class enjoys higher purchasing power than the poor, which means it is better placed to help fund improvements to infrastructure.

Of the gains of the past ten years in Africa, very little has trickled down, and that is dangerous: it creates a volatile situation as witnessed in North Africa through the Arab Spring. There is still a huge divide between rich (5% in 2008) and poor (62% in 2008) in Africa. The middle class is not big enough (33% in 2008): it needs to grow much more. About 100,000 of the wealthiest Africans have a collective net worth amounting to 60% of the continent's GDP, according to the AfDB, citing 2008 figures.

When most of the economic gains go to the top, the only way the middle class can keep up is to borrow. People are now living beyond their means. People spend their money on things that can be seen by others like a car, clothes or the school their children attend.

Overall, although estimates show that, even with current high SSA growth rates, a quarter of Africans will still live below the poverty line by 2030. Still, there is opportunity to work on improving equality. It has indeed been shown that equal societies tend to be more effective at fighting poverty than unequal ones. And that is what should be on the agenda of African leaders: maximising the impact of economic growth to fight inequality and slowly support the emergence of an active electorate that can give a stronger push to development efforts.

In this paper, we have discussed the on-going debate about the number of middle classes there are on the African continent squeezed in between a sea of falling generalised poverty and a fast rising number of billionaires and millionaires. The reality is that the aspirational, smartphone generation is growing in an irreversible and sustainable manner in more and more countries so far. However, ultimately, as recently argued by Dr. Mthuli Ncube, the AfDB's chief economist and vice-president, "the emergence of the African middle class can only be sustained if the continent puts in place strategies that expand prosperity for all.

The paper makes the following recommendations with regards to the role of development partners:

- Key regional infrastructure is required to meet basic needs of the poor as well as the middle-class and promote economic growth such as affordable and reliable energy, available water for multipurpose uses such as food security, and communication systems to promote trade.

With regards to quality statistics required for better development outcomes:

- If governments are really serious in tackling income inequality, it is imperative that Africa generates its own robust data and statistics to accurately measure, monitor, evaluate and ultimately report on progress.

Finally, the paper proposes an agenda to boost Africa's economy:

Addressing the discrepancy between domestic and international perceptions on African development is critical for Africa to truly turn the page from the hopeless continent to become, unequivocally, the hopeful emerging economy. Survey results and the reactions to the Goldman Sachs report ¹ in South Africa should be a wake-up call to many African governments. Indeed, it goes without saying that ensuring that African citizens buy into the development Africa 2063 vision for irreversible Unity, sustainable Prosperity and lasting Peace and become active contributors to it, is critical for the long-term sustainability of current

¹ *South Africa: Two Decades of Freedom*, see <http://www.goldmansachs.com/our-thinking/outlook/colin-coleman-south-africa/20-yrs-of-freedom.pdf>

progress. However, efforts to boost economic growth must be accompanied by concerted action to reduce inequality.

Businesses need consumers in order to prosper and grow. Consumers in the middle class and below are the real job creators according to Robert Reich (2013). Unless the vast middle class, and everyone seeking to join it, have enough money in their pockets - and share sufficiently in the gains from growth - businesses cannot possibly do well. This was repeated at the recent US-Africa Business Forum² in Washington D.C.

Nevertheless, the biggest fallacy in Africa's growth scenario is that its future depends on the rising African consumer. It does, but that is a subplot and the numbers estimating its size range dramatically as I have shown in this paper. And even if Africa's consumers are rising, if its markets remain fragmented its overall effect on foreign investment as well as intra-regional trade and investment, will be limited. More important is the role of Africa's rising savers. The transformation of Africa's institutional investment landscape - public and private pension funds - over the next ten years will be the most important development for its future growth.

Ultimately, the emergence of the African middle class can only be sustained if the continent puts in place strategies, such as the AfDB's new Ten Year Strategy, that expand prosperity for all and ensure that more and more of its population exit out of poverty to join the ranks of the middle class increasingly through home-grown and innovative ways to raise living standards.

² <http://usafricabusinessforum.bloomberg.org/>

1. Introduction

Global consumption grew by US\$10 trillion between the end of the Cold War and 2010. Who benefited and by how much? **A global middle class may be emerging** but it might not be breaking down the old distinctions between rich and poor as much as some people think (see Annex 8). When considering how each layer of global society has fared since the end of the Cold War, it is found that about 15% of the growth in global consumption from 1990 to 2010 went to the richest 1% of the world's population (those living on more than US\$75/day).³

Recent high growth rates and increased foreign investment in **Africa** by developed and emerging economies have given rise to the idea that the continent is the next global economic powerhouse. This optimistic narrative gained prominence over the last five years as a result of the sustained growth registered by the continent (see AfDB, 2013).⁴ At this pace, it is predicted that seven out of the ten fastest growing economies by 2015, as measured by GDP, will be in Africa, namely: Libya 22%; Sierra Leone 11.6%; Cote d'Ivoire 9.2%; Chad 8.9%; Angola 8.8%; DRC 8.6%; Liberia 8.2% and Mozambique 8.2%. For 2013, the Africa Economic Outlook estimates an average growth for the whole continent of 3.9% (AfDB, 2014c).⁵

Africa has the opportunity to learn from the developmental mistakes of more established countries. One such mistake was to take a narrow approach to reading on data. Per capita, GDP is now considered a blunt instrument for determining if a country is on the right trajectory (Hastings, 2014). A recent report released by the Mo Ibrahim Foundation notes that 85.7% of Africans live in a country with greater economic opportunities and an astonishing 94% live in countries which have shown overall governance improvements since 2000. The trend is towards a holistic approach (e.g. the Legatum Prosperity Index), whereby individual well-being is as important as raw wealth. According to Legatum (2013), prosperous societies are those that afford their citizens good education, entrepreneurial opportunity, and freedom and social integration – among other things. A recent report by the Legatum Institute (2013) attempts to provide the reader with the data for 38 African countries and the context required to understand both the challenges (conflict, violence and instability, effects of corruption) and opportunities (the 'youth bulge' or effects of Asian FDI) facing the world's most dynamic continent. Notwithstanding these other factors of prosperity, robust economic growth over the last ten years of around 6% per annum has led to visible changes across Africa. Visitors to cities on the continent cannot help but notice the **emerging African middle class**.

Over time, the number of poor people escaping poverty is growing and the middle-class is rising. But the rich are also doing better. The amount of global consumption attributable to those who are richer is also growing. Thus, a different picture could also be painted by looking at who consumes the most globally; here, the largest number is based around the US\$50 a day a mark (i.e., the relatively few people who earn US\$50 a day consume far more than the US\$2 a day group, even though there are far more of the latter).

The World Bank (2013b) in its Annual Report 'End Extreme Poverty, Promote Shared Prosperity' observes that over the past three decades, the extent of global poverty has declined rapidly. Yet today, more than 1

³ Inequality round the world: Dumb-bell or emerging middle? The Economist 24/09/2013.

⁴ Moghalu (2014) contends that both those who see no prospect for African prosperity and those who want to celebrate Africa as a continent that has 'arrived' on the global stage are wrong. Acknowledging that Africa has several of the world's fastest growing economies – often cited by Africa champions as a sign of 'Africa rising' – Moghalu argues that economic growth based on cyclical and unsustainable extractive industries and commodity sales conveys "a false sense of arrival".

⁵ See <http://www.africaneconomicoutlook.org/en/data-statistics/table-2-real-gdp-growth-rates-2003-2013/>

billion people worldwide are still destitute, inequality and social exclusion seem to be rising in several countries, and many urgent and complex challenges must be overcome to maintain the recent momentum in poverty reduction. In order to achieve a 1% per year reduction in the poverty rate, it is necessary to maintain a strong annual growth rate of around 10-11% as in the case of China from 1990-2010 or 7-8% as for India. Hence the most difficult part from now until 2030 remains to be done for Sub-Saharan Africa, which now makes up most of the bottom part of the global distribution.

Another recent World Bank research paper by Lakner and Milanovic (2013) provides new evidence on the evolution of global interpersonal income inequality amongst all individuals in the world, irrespective of their country of residency between 1988 and 2008, the most globalised period ever in history.⁶ They find that the inequality in the global income distribution, as measured for example by a Gini index, does not change very much over this period.⁷ However, this hides substantial re-ranking of country-deciles and changes in the regional composition of different parts of the global distribution. They estimate the Gini index to be around 70%. The global Gini index has fallen over this 20-year period, with the decline being strongest between 2003 and 2008.⁸ Most global inequality is accounted for by differences between countries. The within-country component of global inequality, however, has increased continuously over this 20-year period.

After 1993, SSA states can be found both amongst the biggest gainers and losers. The Gini index calculated across all individuals living in a region is highest in Latin America and SSA. Between 1993 and 2008, the Gini index for SSA increased by approximately five Gini points (see Annex 6). They also find that from the growth in average income for the different regions of the world, SSA almost did not grow at all between 1993 and 2008. The average annual incomes per capita of SSA economies only increased from US\$742 in 1993 to \$762 in 2008 (measured in 2005 purchasing-power parity (PPP) -adjusted US dollars) (see Annex 6). If we exclude South Africa and the Seychelles, we see a decline from US\$608 to \$556 over the period.

This decline can be associated with a number of trends shaping each and every one of the 54 countries in Africa. They do so in different ways, but they do so everywhere. One of those is 'the demographic dynamics'. Africa has the youngest and fastest-growing population, a McKinsey report said in 2010, which is increasingly urban. The associated debate is whether Africa can benefit from the demographic dividend or whether population explosion will become a ticking time bomb. Africa's population went from 703 million inhabitants in 1994 to a projected figure of 1.2 billion inhabitants in 2014 with a median age of around 20 years versus 30 years for the rest of the world. These figures show just how many more people need to benefit from economic growth in order to promote shared prosperity. Since 2000, a number of African countries have had a population growth of more than 50%, these are: Uganda (6.9%), Eritrea (1.7%), Niger

⁶ Branko Milanovic and Christoph Lakner (2013) compiled a new database of 565 household surveys between 1988 and 2008. Household surveys with information on disposable income data come mostly from the World Bank's PovcalNet database, which they supplemented with data from the Luxembourg Income Study.

⁷ The Gini index is a common measure of inequality: the higher the index, the higher the degree of inequality. A new paper by Alex Cobham and Andy Sumner (2013) defines a new inequality index, the "Palma", as the ratio of national income shares of the top 10% of households to the bottom 40%, reflecting Gabriel Palma's observation of the stability of the "middle" 50% share of income across countries so that distribution is largely a question of the tails. In their paper they explore the Palma and corroborate the findings that the middle class does indeed hold over time and through various stages of tax and transfers. Further, Cobham and Sumner (2013) find that the Gini is almost completely "explained" by only two points of the distribution: the same income shares which determine the Palma. It thus appears that both the Gini and the Palma, in practice, summarise the same information about the income distribution: but only in the case of the Palma is this explicit. This, they argue, makes the Palma a more useful (and intuitive) measure of inequality for policymakers and citizens to track.

⁸ A joint IMF-World Bank study in 2012 estimated that the number of people falling below the poverty line during the global financial crisis 2008-2012 was as many as 150 million.

(5.3%), Angola (11.6%), Chad (9.3%) and South Sudan.⁹ When looking at the number of people born in Niger, the figure is around 46 million people born in less than 12 years.¹⁰

The ink was barely dry on the African Development Bank's (AfDB) 2011 paper on *The Middle of the Pyramid: Dynamics of the Middle Class in Africa* when the still on-going debate broke out as to whether Africa's middle class really was rising or not.

This paper seeks to provide an overview of some of the main arguments raised since then with the aim to propose how to move forward from sterile arguments towards a forward looking Pan-African agenda that could ensure a sustained rise of Africa's middle class. Notwithstanding the dire poverty figures (see Table 5), the key question we want to address in this paper is whether the number of people with a disposable income driving domestic demand has been growing or not. The starting point is the on-going debate as to the classification of who is middle class:

- Are they a real middle class or just strugglers? or;
- Are they the floating poor, a term the AfDB (2011) prefers to describe the same phenomenon?

In answering this key question, the paper is limited by the fact that it does not present new evidence nor does it provide new estimations based on existing data. It simply reviews the existing arguments and statistics.

Currently, there are two competing narratives on Africa. One is a story of modernisation, growth and global integration. However, Moghalu (2014) argues that economic growth based on cyclical and unsustainable extractive industries and commodity sales conveys "a false sense of arrival". Moghalu believes that mono-product, extractive economies – ones built on oil or minerals, for example – make a few very wealthy, while the majority remain poor. The second story is one of poor governance, conflict, poverty, and marginalisation in the sense that, right now, Africa is a passenger – not a driver – in the world economy, in short the Four Horsemen of the Apocalypse.

Promoting shared prosperity is defined as "fostering income growth of the bottom 40% of the population in every country" (World Bank, 2013). This focus on improving the income growth of the poorest 40% is a departure from the traditional practice of focusing on per capita GDP growth rates.¹¹ There is a high, positive association between income growth of the bottom 40% and growth in average household income (Annex 7). However, in situations where inequality is high or rising, especially when it coexists with limited access to opportunities for those who are less well-off, the growth of average incomes will not accrue proportionately to the bottom segments of the distribution. The economic pie must be expanded continuously and shared in such a way that the welfare of those at the lower end of the income distribution rises as quickly as possible.

Although Africa is counting more and more very wealthy people, including the new middle-class, poverty has not receded. SSA, which in 1981 counted 205 million inhabitants living in extreme poverty (less than 1.25 US-dollar per day), in 2010 counted 414 million inhabitants according to the World Bank. For example, a new poverty rate for Tanzania is estimated at 28.2% in 2011/12, which captures the number of

⁹ Annual real GDP growth (average over 2004-2012) in brackets extracted from the latest AEO.

¹⁰ Source: <http://www.information.dk/databloggen/475360>

See also Bechir Ben Yahmed's Jeune Afrique Editorial 'L'exemple a ne pas suivre', No. 2791, du 6-12 Juillet 2014.

¹¹ GDP growth rates are useful summary measures of a society's economic progress but they are unable to capture the distributional aspects of growth: it is entirely possible for a country to be growing rapidly on average while the poor within the country see their incomes stagnate.

Tanzanians who are not able to consume a minimum basic needs basket of goods and services.¹² The National Bureau of Statistics sets the basic needs poverty line at Sh36,482 per adult equivalent per month and this is based on the cost of a food basket that delivers 2,200 calories per adult and making an allowance for basic non-food necessities such as clothing, health and education. World Bank figures show that the number of poor in the EAC in 2012 constituted 87% of the total population in Burundi, 67% in Tanzania, 40% in Kenya and Rwanda, and 38% in Uganda. Or in other words, the residual, encompassing the rich class (consuming more than (>) US\$20 per day); middle-class (US\$4-\$20 per day) and the floating class (US\$2-\$4), constitutes only 13% in Burundi but around 60% in Kenya and Uganda.

The purpose of this paper is to emphasise, while the optimistic discourse in the last decade or so has revolved around Africa's rising middle-class, not omit the context of both a fast unstoppable rise of fabulous rich and wealthy individuals in Africa through staggering business expansion and the fact that the poor classes still constitute the overwhelming majority in almost all the African countries. The message is that it is no longer necessary to try and claw out a larger portion of a limited pie based on *status quo* maintained by fear but to enjoy large portions of increasingly bigger national and regional pies on the continent.

The paper is structured as follows. Section 2 shows how the middle-class in Africa has been rising and how the corporate sector is already taking advantage of this phenomenon. Section 3 briefly pauses to discuss whether there is any substance to all this buzz by presenting both different international perceptions as well as that of the ordinary citizen in Africa. These discrepancies lead to a discussion on the importance of producing reliable economic statistics to measure this phenomenon in Africa. This in section 4 leads to a discussion of what the middle-class actually means. On this backdrop the paper moves on to discuss in section 5 and section 6, both the opportunities and the challenges associated with the rising middle class. Finally, section 7 proposes a way forward to make sure that this unique golden turn-around moment in Africa's history is properly seized to ensure an irreversible structural transformation.

2. Africa's growing middle class has a huge appetite and how to benefit?

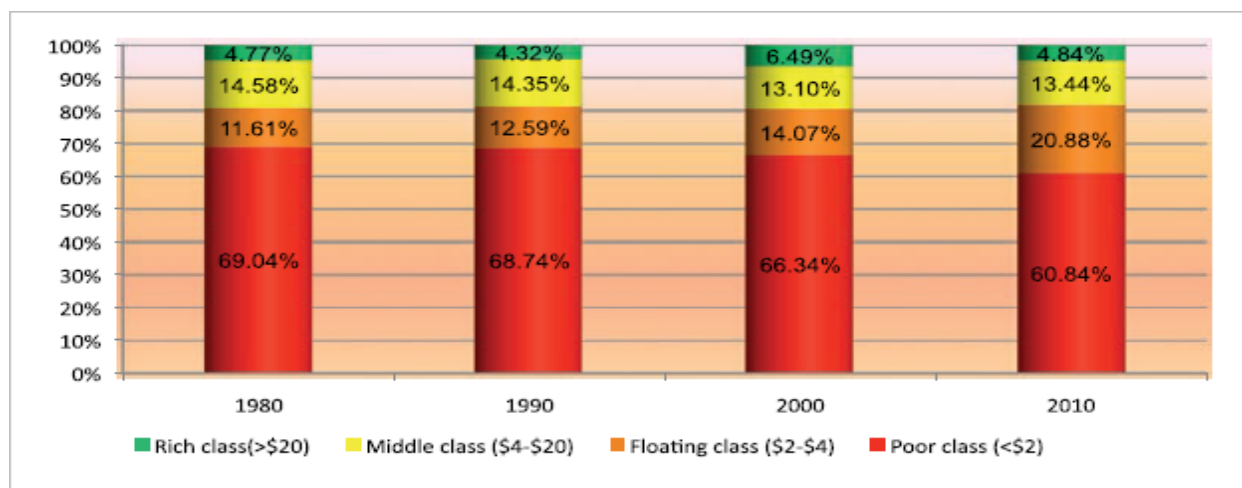
Africa's middle class is rapidly rising, fuelling the second fastest growing economic bloc in the world. Despite a reputation for thrift, middle class households do allocate part of the household budget to leisure and entertainment. A World Bank analysis shows that middle class households are likely to spend more on private education and health, as well as on household assets such as televisions and refrigerators (see also Kingombe, 2010). According to the World Bank's most recent Africa Pulse report,¹³ consumer spending accounted for more than 60% of SSA's buoyant economic growth in 2012. McKinsey (2010) further found that household expenditure on the continent was forecast to expand 63% to \$1.4 trillion by 2020. Africa is now in the age of consumerism with prediction of being the world's leading consumer market by 2050. This is fuelled by interrelated social and demographic changes that drive the continent's growth engine, urbanisation and the rise of the middle-class African consumer, whose numbers have tripled during the course of the last 30 years according to the definition of the AfDB (see Figure 1).

¹² The National Bureau of Statistics in Tanzania on the new figures which have resulted from the adoption of a new approach to the analysis of data in line with international best practices, according to Philippe Dongier, the World Bank Country Director for Tanzania, Uganda and Burundi. "However, because this new rate is not yet comparable over time, we look forward to the completion of the task of reanalysing the 2007 data using the same improved methods in order to have a proper sense of the trend in poverty rates between 2007 and 2012."

¹³ Source: <http://www.worldbank.org/en/region/afr/publication/africa-s-ample-resources-provide-an-opportunity-for-inclusive-growth>

The middle-class thereby represents around a third of a total population of more than 1.108 billion inhabitants (AfDB, 2014c). In fact, not less than 31 million African households have joined the world's consuming class since 2000, with Africa's top 18 cities having a total spending power of US\$1.3 trillion. Consumer spending by the middle class reached an estimated quarter of Africa's GDP of US\$3,359 billion in 2012.¹⁴ By 2030 this figure will likely reach US\$2.2 trillion, although Africa will still only comprise about 3% of worldwide consumption. This rise will create more demand for local products and spark a cycle of increasing domestic growth.¹⁵

Figure 1: Distribution of the African population by classes



Source: AfDB Statistics Department estimates.

Notes: *Floating class (US\$2-\$4), ** Lower-middle class (US\$4-\$10), *** Upper-middle class (US\$10-\$20).

Cashing in on the potential, retail heavyweights like Wal-Mart International, Massmart,¹⁶ Shoprite (South Africa) and Atterbury are taking advantage by building stores across the continent. French retail giant Carrefour also partnered with the French distributor CFAO to open stores in eight countries across the continent by 2015. Shantayanan Devarajan, the World Bank's chief economist for Africa, said in May 2013 that "this is a very good time for retailers to get a foothold in Africa." For example, there has been a leapfrog from existing small shop to shopping centres of 25,000m² in Nigeria and Ghana. Furthermore, multinational enterprises (MNEs) are now looking to Africa, seeing a lucrative new market for mobile phones, cars, electronics, clothing and food, among other products, in addition to financial services and entertainment, as millions across the continent aspire not just to escape poverty but also to become prosperous. This is happening as global demand for African commodities, fuelled by China in particular, has boosted growth and investment in badly needed infrastructure.

¹⁴ Source: <http://www.africaneconomicoutlook.org/en/data-statistics/basic-indicators-2012/>

¹⁵ See Chapter 2 'Towards More Balanced Growth: A Greater Role for Domestic Demand in Development Strategies' in UNCTAD's latest Trade and Development Report. UNCTAD (2013) argues that "It is not a new insight that growth strategies that rely primarily on exports must sooner or later reach their limits when many countries pursue them simultaneously: competition among economies based on low unit labour costs and taxes leads to a race to the bottom, with few development gains but potentially disastrous social consequences. At the present juncture, where growth of demand from developed countries is expected to remain weak for a protracted period of time, the limitations of such a growth strategy are becoming even more obvious. Therefore, a rebalancing of the drivers of growth, with greater weight given to domestic demand, is indispensable. This will be a formidable challenge for all developing countries, though more difficult for some than for others."

¹⁶ Walmart acquired a majority stake in Massmart Holdings Ltd. in 2011. Massmart operates more than 350 stores in South Africa and 11 other sub-Saharan countries. Brands include: Game, DionWired, Makro, Kangel, Builders Warehouse, Builders Express, Builders Trade Depot, CBW, and Jumbo Cash and Carry.

According to UNCTAD's (2013b) World Investment Report (WIR), Africa was one of the few developing regions that registered year-on-year FDI growth in 2012. Africa bucked the trend with a 5% increase in FDI inflows to US\$50 billion in 2012 up from US\$44 billion in 2010.¹⁷ This growth was driven partly by FDI in extractive industries, but investment in consumer-oriented manufacturing and service industries is also expanding, reflecting the above mentioned demographic changes. Between 2008 and 2012, the share of such industries in the value of green field investment projects grew from 7% to 23% of the total, although the absolute total amount fell from 2011 to 2012 (see Table 1).

Table 1: Green field FDI projects by industry, 2011–2012 (millions of dollars)

Sector/industry	Africa as destination		Africa as investors	
	2011	2012	2011	2012
Total	82 939	46 985	35 428	7 447
Primary	22 824	7 479	4 640	445
Mining, quarrying and petroleum	22 824	7 479	4 640	445
Manufacturing	31 175	20 863	23 107	4 013
Food, beverages and tobacco	5 115	2 227	411	438
Coke, petroleum products and nuclear fuel	9 793	5 661	20 742	50
Metals and metal products	5 185	4 469	9	1 144
Motor vehicles and other transport equipment	3 151	2 316	-	-
Services	28 940	18 643	7 681	2 979
Electricity, gas and water	10 484	6 401	1 441	60
Transport, storage and communications	5 696	2 940	419	895
Finance	1 426	1 511	916	614
Business services	5 631	1 886	2 282	889

Source: UNCTAD, 2013b:39.

3. There is a lot of buzz about Africa Rising: myth or reality?

Currently, there are two competing narratives on Africa. One is a story of modernisation, growth and global integration. It is the story of street traders with smartphones; new cities and skylines (e.g. see Bank of Africa's advertisements on the cover of African Business, the best-selling Pan-African business magazine); factories supplying the likes of Cadburys, Unilever and Walmart; and multinational Western companies – from Google to General Electric – tripping over each other to build regional offices. The second story is one of poor governance, conflict, poverty, and marginalization, in short the Four Horsemen of the Apocalypse.

Those images conjure the 'old' Africa. In the 1990s, this was the 'hopeless' continent, on the reckoning of *The Economist*; the world's most war-torn region, with conflicts raging in the likes of Somalia, Rwanda, DRC, Angola, Sierra Leone and Liberia. Then, the Kalashnikov-wielding child soldier was the continent's defining image at least for those who had watched either Terry George's 'Hotel Rwanda (2004)', Edward Zwick's 'Blood Diamond' (2006) or Kevin Macdonald's 'The Last King of Scotland' (2006).

3.1. Different international perceptions on African development

In Africa, strong economic growth, macroeconomic reform, fiscal prudence, improved health and education outcomes, enormous natural resource discoveries, and improved macroeconomic governance have all, the optimists say, helped to reduce poverty and brought about an African renaissance. Governments have become relatively more democratic,¹⁸ and some economies have become more open and regionally

¹⁷ In terms of FDI stock, Malaysia, South Africa, China and India (in that order) are the largest developing-country investors in Africa.

¹⁸ According to the AEO Table 24 - Political hardening 28 countries saw a hardening of the regime between 2000 (or earliest available data) and 2013 and 23 countries saw an improvement.

integrated.¹⁹ Longstanding violent conflicts - in Mozambique, Angola, Rwanda, and elsewhere - have ended, while other countries' stability was short-lived - Mali, Guinea Bissau, the DRC, South Sudan, Central African Republic, and lately, Libya have been returning to conflict. Once a sorry tale of corruption and hunger, the pendulum has recently swung to the other extreme by making the portrayal of Africa's development overwhelmingly positive. Many other institutions such as the AfDB have shifted away from a narrative that depicts Africa as a desperate, poverty-riddled continent and have embraced the Africa rising story.

Box 1: Exuberant reporting on Africa's market potential

The US investment bank Goldman Sachs, for example, points out that Africa's potential includes much more than natural resources. The continent is now ascending "the consumption, urbanisation, and perhaps industrialisation curves that the BRICs [Brazil, Russia, India, and China] have climbed." Indeed, household consumption in some parts of Africa has overtaken that of the BRICs.²⁰ Four years ago, McKinsey (2010) published its influential 'Lions on the Move' report which drew attention to surprising, continent-wide growth. Africa took 17 of the top 40 global GDP growth spots in the first decade of the new century. By late 2011, *The Economist* was eating humble pie, proclaiming Africa a 'hopeful' continent. A year later, *Time Magazine* copied with a lead story: 'Africa Rising'. *Forbes Africa*, an affiliate of the American magazine *Forbes*, in 2013 also has devoted an Economic Forum in the Republic of Congo to the 'The Emergence of an African Middle Class: Infrastructure funding, Entrepreneurship and new consumption trends'.²¹

Positive reports and fora from opinion makers are key for investors' confidence (see Box 1). Foreign investors now view Africa as their next/last investment frontier, which often means a continent ripe for profit-making through international trade and investment. Conference halls from New York, Davos and London to Arusha, Accra, Brazzaville, Johannesburg, 25th World Economic Forum in Abuja, Nigeria (7 - 9 May 2014); and lately, the Dakar Financing Summit for Africa's Infrastructure, are now packed with investors, rubbing their hands at the opportunities offered by a continent about to take off.

But no sooner had the music started than sceptics turned the volume down, warning of over-exuberance and a speculative bubble. A recent article by Rick Rowden (2013) in *Foreign Policy* dismissed talk of Africa's rise as "a myth".²² Pundits, such as Rowden and Dov Zerah (former Director General of the French Development Agency - AFD), consider these Afro-optimism reports as hype since the high economic growth rates shown above have not translated to improved living standards and income/consumption inequality amongst a majority of Africa's citizenry. This evidently begs the valid questions: Is the continent experiencing an economic renaissance? Is 'Africa Rising' a myth or reality especially considering the mainstream idea that industrialisation is central to Africa's development? Or could Africa move directly into a service-sector growth model?

Neither the 'Africa Rising' narrative, nor its opposite, can quite describe the continent's many trajectories across its 54 states. Both sides of the debate can muster plenty of evidence for their case. Optimists say a combination of good luck, good choices and helping hands has enabled many countries to ascend – and fast.

¹⁹ Currently the UNECA's ARIA reports don't contain any regional integration index, but both AfDB and UNECA are in the process of developing a new system of regional integration monitoring indicators.

²⁰ The global banking giant Goldman Sachs report on South Africa, released early November 2013, was titled, "Two Decades of Freedom". The report, which painted a generally positive picture of the progress of post-Apartheid South Africa, was met with harsh criticism.

²¹ Source: <http://www.forumforbesafrique.com/eng/program>

²² Source: http://www.foreignpolicy.com/articles/2013/01/04/the_myth_of_africa_s_rise

On top of this renewed scepticism, the statistical underpinnings of an alleged African economic boom have also been seriously called into question by Morten Jerven (2013) in his recent book *Poor Numbers*. Jerven ignited the uproar by tackling an unusual taboo: the quality of African statistics. Jerven's basic argument is this: Even the most basic African economic statistics cannot be fully trusted, because they are often riddled with major flaws and inconsistencies. And if those numbers are dubious, everyone from foreign aid donors to global lending agencies needs to reconsider their assumptions about Africa, including about the Africa Rising narrative.

We will address this serious accusation later. In what follows, we want to carry out a brief reality check on the impressive growth figures above by asking whether the average African citizen believes that Africa is rising?²³ Or is it only a popular narrative among international partners, institutions and investors?

3.2. Do African citizens agree with the new 'optimistic' narrative?

The "Africa Rising" narrative has been embraced by African opinion leaders, African governments, and many investment houses based in the industrially advanced countries. For much of the media, that narrative is not to be questioned. That surely has some impact on popular perceptions.

Joshua Keating (2013) has written a brief, thought-provoking article in *Slate* titled "The Optimistic Continent." He notes that the World Economic Forum's survey on the Global Agenda identifies Africa as the world's most optimistic region regarding the ability of institutions (public and private) to respond to "global challenges." He also cites a Gallup survey that shows that 14 of the 15 most optimistic countries in the world were in Africa with respect to respondents' future lives in comparison with their current ones. The same survey also shows that Africans are more optimistic than Europeans or Americans that their children will be better off than themselves.²⁴ For Keating, African optimism is credible because of the improved living standards in some countries, but he also observes that not only is inequality growing within countries, it is increasing between countries (see introduction above). African optimism is harder to explain. Optimists downplay internal post-millennium conflicts listed above.

But, amid Africa's new growth and dynamism, too many of its people - what Paul Collier (2007) calls the "Bottom Billion" - continue to suffer from poverty, unemployment, illiteracy, and curable diseases. Africa scores poorly in the United Nations Development Programme (UNDP)'s latest Human Development Index (HDI)- only Mauritius (HDI=0.737), at 80, and Seychelles (HDI=0.806), at 46, rank in the top 100 countries.²⁵

When we speak of a complex issue such as development, figures are not enough to convince. Ultimately it is about how change reflects on the daily lives of a citizen. A recent survey by the Afrobarometer sheds some light on African citizens' perception on economic growth and helps explain South Africans' reaction to the Sachs report. The survey conducted between October 2011 and June 2013, which unprecedentedly covered 34 African countries, notes that 53% of the population considers the current state of the national

²³ At the turn of the new millennium the World Bank collected the voices of more than 60,000 poor women and men from 60 countries in an unprecedented effort to understand poverty from the perspective of the poor themselves. **Voices of the Poor**, as this participatory research initiative is called, chronicles the struggles and aspirations of poor people for a life of dignity. Perhaps the time is ripe to carry out a similar study, which appropriately could be entitled **Voices of Africa's new middle class**.

²² Source: http://www.slate.com/blogs/the_world_/2013/11/18/why_are_africans_so_optimistic_about_the_future.html

²⁵ Source: <https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k>

economy to be "fair" or "very bad". Only 29% consider that positive improvements have been made, notably in Namibia, Zambia and Algeria (Hofmeyr, 2013).

This is consistent with the perception that living conditions have not particularly improved. Of those surveyed, 33% consider that their living conditions have worsened, while 34% indicate that no improvements have been made to their lives despite growth (Hofmeyr, 2013:2). Some African governments are praised through the self-monitoring African Peer Review Mechanism supported by the AfDB, UNDP and UNECA or the international community for their management of the economy. To quote the AfDB's (2012:7) African Governance Outlook: *"Due, in part, to the Bank's efforts, many African countries have now achieved notable progress in establishing institutions, implementing sound economic and financial reforms, and improving their governance practices. Some African countries have now set up independent institutions to establish checks and balances aimed at strengthening accountability and transparency, and combating corruption. A new political, economic and social climate is emerging, enabling civil society to participate in important governance debates, and demanding greater accountability and transparency from elected officials."*

Despite the empirical evidence that improved financial governance has contributed, among other factors, to more sustained economic growth in Africa (AfDB, 2012), that perception is not shared by the population, since 56% of Africans surveyed say their governments were not doing a good job in managing their countries' economies. There is a particularly negative perception regarding the governments' ability to create jobs or to narrow the income gap and yet, when you meet young Africans who have graduated from overseas universities there, is an excitement for Africa. They have a vision for their countries of origin, and a passion to return to, and invest in, their homelands. This new desire for engagement is a sign of incredible optimism and hope (Hastings, 2014).

3.3. AfDB in-depth situational analysis of the reliability of economic statistics in Africa

Most countries in Africa report steady annual growth of GDP and several are growing at Asian-style double digit rates. But is it true? Recent major revisions to GDP estimates in some African countries have raised questions about reported levels and growth rates of GDP. For example, Nigeria rebased its GDP from 1990 to 2010, resulting in an 89% increase in the estimated size of the economy. As a result, the country now boasts of having the largest economy in Africa with an estimated nominal GDP of US\$510 billion, surpassing South Africa's US\$352 billion. The exercise also reveals a more diversified economy than previously thought. Nigeria has maintained its impressive growth over the past decade with a record estimated 7.4% growth of real GDP in 2013, up from 6.7% in 2012. This growth rate is higher than the West African sub-regional level and far higher than the sub-Saharan Africa level (AfDB, 2014c).

The Statistical Department of the African Development Bank (2014a) has responded in two ways:

- First, it has set up a series of country-by-country Peer Reviews: national accounts compilers from each country meet with experienced statisticians from other countries in the region to explain exactly how GDP is being estimated, identify areas that may be problematic, and suggest what to do about them.²⁶
- Second, through two methodological surveys, the Bank has carried out a careful investigation of the sources and methods underlying African GDP statistics.

²⁶ Reports on these Peer Reviews are published on the AfDB website: www.afdb.org/statistics

- A First Stage Survey was conducted in March 2013 with 44 countries completing the Survey about the reliability of national accounts statistics in Africa (see the results in AfDB, 2013b).
- A more detailed Second Stage was launched in August 2013 with 51 countries taking part.²⁷

The results of the two surveys provide a broad picture of the quality of national accounts in Africa. According to the AfDB (2014a), that picture brings guarded reassurance about the quality of African national accounts: they are as good as can be expected given the limited funds that many African governments devote to statistics, and the AfDB (2014a) concludes, in response to Jerven (2013) and other sceptics, that there is no reason to think that levels or growth rates are deliberately falsified. However, it is acknowledged that in contrast to OECD countries, African countries are data-poor. In particular, they lack reliable data from surveys of households, enterprises and agriculture. Such surveys are so infrequent that when the new results become available, the rough estimates that had to be made since the previous survey must be substantially revised. These large revisions cast doubt on the validity of African statistics as a whole according to AfDB (2014a).²⁸

In a recent interview, Carlos Lopes, UN Under Secretary General and Executive Secretary of the Economic Commission for Africa (ECA), acknowledges that one of the areas where Africa has a weakness is precisely in employment and labour statistics. It is not known exactly how many people are really employed. If you take the statistics of South Africa you can be almost sure they are on the mark because they have more sophisticated machinery. For the rest, he believes that we have a guessing game.²⁹

Moreover, African statisticians are well aware of the need to include value added by informal/non-observed enterprises in their GDP. Among the countries that cover informal activities, it is clear that many underestimate the contribution of the informal sector to total GDP. Sizeable increases in GDP levels can be expected as these countries improve their coverage of the informal sector (AfDB, 2014a).

Based on answers to both stages of the AfDB survey, countries are ranked according to 50 Quality Factors that are likely to affect the overall reliability and usefulness of the national accounts. In general, the richer countries have the highest quality scores, and the poorer countries are lower in the quality rankings. But there are several striking exceptions, and it is clear that the quality of a country's national accounts is determined by political decisions. The scores are used to allocate countries to four "Quality Bins." Six of the ten largest countries are in the highest quality bin - Ethiopia, Algeria, South Africa, Morocco, Tunisia and

²⁷ 44 of the 54 Regional Member Countries of the AfDB replied to the first stage survey, and 51 to the Second Stage Survey, Eritrea, Libya, and Somalia being the only non-respondents. Both surveys used questionnaires sent electronically to national statistical offices. Because most of the more than 250 questions required only a yes/no answer, the surveys could not collect detailed information on sources and methods. A drawback of the approach applied is that it doesn't confirm whether the results were reliable (AfDB, 2014a).

²⁸ National statistical systems, primary sources of statistical data mostly use concepts, definitions and methodologies which differ from one country to the other, thus making comparisons difficult and generating aggregates without great relevance from the regional and/or continental point of view. In order to address these challenges, the Heads of State and Government of the African Union have adopted two major instruments for the development and coordination of statistical production on the continent, namely, the African Charter on Statistics and the Strategy for the Harmonisation of Statistics in Africa (SHaSA) respectively adopted on 4th February 2009 in Addis Ababa and the second on 25th July 2010 in Kampala. These two documents constitute the main frameworks for reference and guidance to regulate the production of quality statistics on the continent. At the AUC's Executive council 22nd Ordinary Session 21st-25th January 2013, Addis-Ababa (Ethiopia), the establishment of an Institute of Statistics of the African Union was agreed in order to accomplish this heavy mission which is the implementation of the Charter and the SHaSA in a bid to generate available, reliable and comparable statistical information at the appropriate time covering all aspects of Africa's cultural, social, economic and political integration, the establishment of an institute for the development of statistics referred to as STATAFRIC seems vital within the African Union Commission like EUROSTAT in the European Commission.

²⁹ Most African countries will be middle income by 2040. *Africa Today* 18/10/2013 by Kingsley Ighobor.

Ghana; three are in the upper-middle quality bin - Egypt, Kenya and Nigeria; and Sudan is one of six countries with the lowest quality rankings according to AfDB (2014a).

3.4. Improving the production and use of African economic development statistics

An important first step towards achieving the post-MDG goals in our lifetime would be to invest in improving the production and use of economic development statistics on the African continent. Much of the problem, Jerven (2013) writes, is that African governments have not put statistics at the forefront of policy and institutional reform agendas, leaving the private sector and non-governmental organisations to fill in the gaps. Yet the uncoordinated demands and needs from both sectors have resulted in fragmented collection of data.

As mentioned above, foreign as well as African companies are scrambling to get in on this growth, but one big barrier remains - how to gather reliable market information, insights and opinions from across the continent. For many research firms, traditional data collection has involved sending a fleet of researchers out with pen and paper to all corners of a country. But this is still the old-fashioned "Land Rover" methodology, says Nathan Eagle, founder and chief executive of Jana, a US-based company that powers one of the world's largest reward-for-survey platforms in emerging markets, **mCent**.³⁰ The expensive and timing consuming data collection method of heading out into the field using an old diesel driven land-rover, as I did for my own PhD in 2004/2005, is becoming an obsolete practice with the advent of mobile phones.

Jana's platform integrates directly into the billing systems of 237 mobile operators, enabling 3.48 billion people in emerging markets to be rewarded with airtime for taking part in surveys. Users sign up for Jana through a mobile-friendly website or Facebook app, enter their information, and pick what surveys they qualify for. After completing the survey, airtime - ranging from US\$0.50 to US\$5 (30p to £3) - is automatically credited to their phone. According to Eagle, the idea is to offer financial compensation for users that match the valuable data they are offering to market research companies - data that would be much more expensive to obtain in other ways.³¹

Although Jana rewards users through mobile airtime, users need an internet connection to fill out the surveys. The vast majority of mobile phones in Africa are feature phones, which can access the internet, but are generally sluggish in browsing and have high data costs. Yet another company is addressing this problem with a different approach. **BiNu**, an Australian firm launched in 2011, is a platform that gives basic mobile feature phones essentially smartphone-like capabilities by offloading all the processing to a cloud-based server, which offers an app store.³² "It's like your smartphone in the cloud," according to Gour Lentell, BiNu's co-founder. This makes it cheaper and faster to browse on feature phones. Through BiNu's

³⁰ Jana is the world's largest rewards platform. With integrations into the billing systems of 237 mobile operators, Jana can instantly reward 3.48 billion emerging market consumers in 70 local currencies with prepaid airtime. Global corporations are using Jana to understand, acquire, and retain emerging market consumers. Jana's airtime rewards platform can be easily integrated and configured to reward consumer actions including trial (registration, app downloads), engagement (watching a video, uploading a photo), advocacy (referring a friend), and product purchase (airtime rebates). With every action that it rewards, Jana gathers rich data about consumers and their behaviour. Source: <http://www.jana.com/about/>

³¹ Source: Jonathan Kalan. 2013. Connecting the 'last mile' of market research in Africa. November 2013.

³² BiNu is an app that gives basic mobile feature phones fast, cheap and easy access to Internet services and apps and for businesses wanting to reach emerging markets, it provides an unprecedented opportunity to understand, reward and engage millions of users. Source: <https://www.binu.com/>

"Research and Rewards" platform, customers are prompted to opt in to receive surveys and questionnaires, for which they are rewarded with BiNu "credits", convertible to music, books or airtime.³³

4. What does middle class actually mean?

What does middle class actually mean? Some economists categorise the definition of middle class into two broad heads; relative and absolute terms. **In relative terms**, individuals or households that fall:

- between the 20th and 80th percentile of *the consumption distribution* or
- between 0.75 and 1.25 times median *per capita income*, respectively.

The AfDB (2011) use an absolute definition of people whose:

- Daily consumption is between the broad band of US\$2 and \$20 (in 2005 PPP) (€1.40 to €14).

The definition is based on the average cost of living of about 1 billion people in the continent. The AfDB divides its definition of middle class into three categories:

- Population spending between US\$2-\$4 a day is considered as 'floating class'; vulnerable enough to slip back below the international poverty line.
- The remaining population earning between US\$4 and \$20 a day is categorised as 'stable' middle class.
- Within the stable middle class category are those spending between US\$4 and \$10 a day (see Figure 1 above).

Three years ago the AfDB estimated that Africa's middle class reached more than 300 million in 2008, amounting to a third of the continent's population, or about the same size as its Chinese and Indian counterparts. That figure compares with about 158 million, or 2%, of the population in 1990 (see Annex 3). Defined as those earning between US\$2 and \$20 a day in 2008, Africa's middle class is expected to grow from **300** million (33% of Africa's population) to 1.1billion (42% of the population) in 2060 (AfDB, 2011). To be sure, about 60% of them - approximately 180 million people - remain barely out of the poor category (i.e. the "*floating*" class). They are in a vulnerable position, constantly at risk of dropping back into poverty in the event of any unexpected shocks, such as the loss of income and the death of the head of household or the multiple effects of climate change.

AfDB estimates that close to 123 million Africans fall into the category of **stable middle-class**, i.e., people earning US\$4-\$20 a day and, in 2008, the Nigerian middle class accounted for 34.5 million or approximately 28% of the continent's middle-class. At the same time the Nigerian middle income class in 2008 accounted for 22.8% of the total population of Nigeria. The **floating class** in Nigeria is estimated at 19.5 million or 12.9% of the total population of the nation. The AfDB (2011) also calculated that just 18.7% of Uganda's population (almost six million people) fell into this broad middle income class category in 2008 (Table 2). In Tunisia the middle class represented almost 90% of the population in 2008 but in December 2013 only 53%.³⁴ The middle class has become more and more fragile. In Tunisia, the floating category alone constitutes 43% of the population.

³³ Source: Jonathan Kalan. 2013. Connecting the 'last mile' of market research in Africa. November 2013.

³⁴ Source: http://www.investir-en-tunisie.net/index.php?option=com_content&view=article&id=23560:la-classe-moyenne-en-tunisie-une-espece-menacee-&catid=35:alaune&Itemid=143

Given the World Bank's global absolute poverty line of US\$1.25 per day, some argue that the minimum average of middle-class as defined by AfDB appears too low (see for example King's College's alternative approach).³⁵ Moreover, in the Nigerian context, the daily expenditures on all the essential needs including accommodation, food, transportation, health and education works out to be over **US\$12 a day**. Thus, the middle class has to spend anything above that. More suitably, the Nigerian middle class consumes between US\$12 and \$20 a day, i.e., their disposable income boils down to US\$360 - \$600 a month.

For some time now, almost everybody has been obsessed with Nigeria's middle class. There is no denying that the per capita income increased significantly to US\$2,704 in 2012 from US\$390 in 2000,³⁶ reflecting the dividends of rapid economic growth over the past decade. In this period, economic growth not only elevated millions of people out of poverty, defined globally as less than US\$1.25 a day, but also parked them into a more secured income-class according to both AfDB's and King's College's definition.³⁷

Notwithstanding this remarkable rise, the World Bank estimates that over 80% of Nigerians live in informal housing structures in major urban areas or traditional villages on which they have no ownership rights. That begs the question as to whether there is still room for the idea of selling of houses in dire needs when the Nigerian middle class does not own one. Nigeria has a housing deficit of 17 million units as investment in housing accounts for only 0.4% compared to the global average of 15% - 35%.

Economic security according to Dr. Nancy Birdsall, founding President of the Center for Global Development, is associated with individuals getting entrepreneurial and exploring business opportunities since they are comfortably taking care of their basic needs. With the rising unemployment rate to 23.9% in 2011 from 21.1% in 2010, as revealed by the National Population Commission, economic security appears a far cry for the Nigeria. The Nigerian economy is growing without an iota of doubt but the growth is not translating into jobs. This could possibly be a repercussion of stagnation of Small and Medium Enterprises (SMEs), which fuel job creation for unskilled labour. This adds close to 2-4 million unemployed youth every year, which equals the total population of Congo Brazzaville.³⁸

Uganda's growing middle class may not be as wealthy as it would like to seem. Nevertheless, Uganda's new generation of entrepreneurs now have an income that means families can afford a fridge, a TV and other electronic goods in their modest homes. But education and spatial mobility are often key factors in procuring a middle class job. They allow people to move into a new sector or industry with higher wage rates, or to relocate to an urban agglomeration where there are greater job opportunities. The EAC region has witnessed strong expansion in manufacturing and service industries such as telecommunications and finance in recent years. This is expected to translate into sustained growth of middle class jobs in the future.

³⁵ King's College proposes an alternative approach based on four consumption layers. They are the 'global absolute poor' (US\$0-\$2 per person per day); the 'global insecure' (US\$2-\$10 a day); the 'global secure' (US\$10-\$50 a day); and the 'global prosperous' (above US\$50 a day). Identifying such benchmark thresholds is inevitably a rough and ready exercise. But they are derived in relation to patterns of actual consumption and the use of the average poverty line for developing countries of US\$2/day. A **US\$10/day line** makes for a rough approximation for 'security from poverty'.

The definitions of the middle class indicate that the first criteria retained to identify its contours is the income level, added to this is other criteria such as the socio-vocational categories, the effective consumption level of durable goods, the family size, the living space, employment status, heritage and the perception of belonging to the middle class category.

³⁶ Source: <http://www.africaneconomicoutlook.org/en/data-statistics/basic-indicators-2012/>

³⁷ Nigerian middle class: A myth? *Business Day* 16/01/2014 by Ruchi Gupta.

³⁸ *ibid*

Who exactly is in the middle class in South Africa? Simpson (2013) defines middle-class South Africans as those who earn between US\$1,550 (US\$52/day) and \$4,800 per month (US\$160/day) or who meet certain criteria, for instance, having a white-collar job and owning a car. He agrees with President Zuma's upbeat assessment and provides backup data. For example, currently 40% of black professionals work in the civil service, compared to 13% of whites. This has led to the rise of income levels in black families, which in turn has led to increased consumption. Simpson (2013) finds that between 2004 and 2012, the number of black middle-class families who owned a DVD player increased from 30% to 63%; the number with computers at home increased from 19% to 45%; and of those owning microwaves from 60% to 92%. South Africa's Standard Bank (2013) adds its voice to the excitement about a new and financially empowered black middle class, showing that car sales to blacks increased by 19% between 2011 and 2012, compared to an increase of 7% for white customers during the same period. South Africa's middle class generally spends a whopping US\$40 billion annually. Its 4.2 million black middle-class citizens represent a chunk of this amount, with nearly half having a post-secondary degree and more than 50% of families sending their children to private schools. Available data, says Simpson, indicates an expansion of the black middle class, and he sees this demographic as the engine of the South African economy because of its strong purchasing power and contribution to the national coffers through taxes.³⁹

Box 2: Misleading term

"Unfortunately the 300 million, as defined by the African Development Bank, who earn between US\$2-\$20 per day, makes the term 'middle class' somewhat distracting," says Salman Siddiqui, head of Middle East and Africa equities at Nomura Asset Management U.K. Ltd. "In fact 60% of this group earn between US\$2-\$4 per day – barely out of poverty" as mentioned above. Last year Citi's Africa economist, David Cowan, challenged the buzz surrounding the idea that Africa has a growing middle class created by a swell of people moving out of poverty into formal employment while developing the skills needed to transform their economies. He went as far as to say that "I don't believe that there is an African middle class". Nevertheless, "there is an emerging wealthy elite in Africa and a strong consumer group, which is growing quite steadily," with, ideally, US\$5,000-\$7,000 of disposable income a year, which is US\$14-\$19 a day. That expanding pool of consumers, a diverse range that includes: traders, cattle-ranchers, tech developers, accountants, teachers, hairdressers and taxi drivers, is helping to power Africa's economic boom.

However, Ugandan writer Joachim Buwembo argues that it is a very misleading term. He thinks that in East Africa, middle class refers to the poor people between the dirt-poor majority (the focus of the MDGs) and the rich few. In reality, he believes that the Ugandan middle class are no middle class; they are simply fellows like him who have a second-hand car and almost nothing else. Most of Uganda's middle class don't have any economic base with no assets, and no savings.

Ron DeLegge II believes that "99% of all statistics only tell 49% of the story";⁴⁰ so is the case with Nigerian middle class. Some believe that one should not myopically restrict the definition of middle class to the middle third of the country. In socio-political terms, middle class is that segment of the society which is economically secured, upholds the rule of law, invests and desires stability. *Economic security* implies that a household is cushioned against the catastrophic spell of downturns of the normal business cycle. The household is either secured through savings or by virtue of formal insurance. The household is equipped financially to see through a brief period of unemployment without having to sell its house or withdraw its children from school.

³⁹ Several factors have helped swell the ranks of South Africa's black middle class, including credit availability, education, the government's Black Economic Empowerment (BEE) programme and general economic growth, which has led to more job creation, says Simpson. The BEE programme aims to ensure the participation of previously disadvantaged non-whites in the corporate sector. The policy includes tax benefits and employment preference.

⁴⁰ Source: <http://www.quotestree.com/statistics-quotes.html>

5. Africa's economic rise and its burgeoning middle class: The opportunities

More and more are now convinced that the opportunities are now inside Africa, not outside. For example, Mo Ibrahim sees the growing middle class as crucial in ways that go beyond purchasing power. The middle class can always be a great force for stability, law and order as mentioned above. In this sense they can play an important role in Africa's trajectory. The AfDB's (2011) research indicates that middle-class households are likely to spend more on private education and health, as well as on consumer durables such as televisions and fridges. In addition to being better off in material terms, the middle class are in general both more satisfied and more optimistic about the future than their poorer compatriots.

5.1. The African single market for goods and services

According to a recent study by McKinsey Global Institute (MGI, 2010), emerging markets will be changing where and how the world does business. For the last three decades, emerging markets have been a source of low-cost but increasingly skilled labour. MGI (2010) forecasts that consumer spending in Africa would reach US\$1.4 trillion in 2020, from about US\$860billion in 2008. Along with similar projections, this boosted interest in the consumer goods sectors of a number of countries.⁴¹

There is a market for African produced goods and services. But for the rest, the agricultural production of Africa could turn to domestic African consumption. This would create a market for consumption of agricultural products in Africa. Currently, there is more activity at the regional level than at the continental level. African Free Trade Zone initiative says it very clear that the future will be through the regional economic communities (RECs). The problem is that the RECs are integrating at different speeds. From the most integrated East African Community REC to the least integrated Arab Maghreb Union REC, you have very different dynamics going on.⁴²

Based on the current improved data, Nigeria has leaped ahead and become Africa's largest economy in front of South Africa, having already overtaken Egypt in 2011. The AfDB (2014c) puts Nigeria's GDP in 2013 based on PPP valuation at US\$871 billion; South Africa's at US\$562billion; and Egypt's at US\$562 billion.⁴³ The new rebased GDP figure has moved Nigeria's economy up the ranks of the middle-income countries (MICs).⁴⁴ A big jump in GDP means a bigger share for each of Nigeria's 188 million people.⁴⁵ ThisDay said the boost in per capita income would attract interest in consumer names in Nigeria, from investors who are likely to extrapolate the effect of a seeming increase in purchasing power on such consumer stocks as Nestlé, Nigerian Breweries, Guinness, (Dangote) Flour Mills and PZ among others.⁴⁶ Nigeria's new status will improve its attractions to investors. Forbes magazine last year punted it as a rival to the BRICS. It said Nigeria's economy was more diversified than Russia's and more closely resembled

⁴¹ Cowan noted last week that listed consumer stocks in Lagos and Nairobi were already trading on a price to earnings ratio of 30 and suggested they were in bubble territory.

⁴² See forthcoming African Development Report 2013/14. *Leveraging Regional Integration for Inclusive Growth*.

⁴³ Among other improvements to Nigeria's new GDP series, it will be rebased, from 1990 possibly to 2008. According to ThisDay, this is the first overhaul of the country's GDP data since 1990.

⁴⁴ The newspaper noted that, when Ghana's GDP was updated in 2010, the size of its economy was found to be 60% bigger than previously recorded - US\$31billion, compared with \$18billion.

⁴⁵ Source: <http://www.africaneconomicoutlook.org/en/data-statistics/basic-indicators-2012/>

⁴⁶ See African Business's May 2014 edition with the ranking of Africa's Top 250 Companies including by region. The magazine also includes a special report on Nigeria.

Brazil's: rich in petroleum but blessed with other resources and a population that is only now starting to live up to their potential as consumers.⁴⁷

Ugandan president Yoweri Museveni has big ambitions, claiming in June 2013 that Uganda will become a MIC by 2017 and be classified as "first world" within 50 years. Last year the Irish embassy in Kampala commissioned a study on Uganda's burgeoning middle class and the potential economic opportunity it presents.⁴⁸ The research identified: population and economic growth, tertiary education expansion, advancement in information and communications technology (ICT) and innovation in financial services as key drivers of the country's expanding middle class. However, in August 2013, Uganda's central bank challenged Mr. Museveni's predictions, saying it would take two decades for the country to reach MIC status based on current economic and population trends. The bank's governor, Emmanuel Tumusiime-Mutebile, noted that while the minimum threshold for MIC status is gross national income (GNI) per capita of US\$1,036 (€760), Uganda's level in 2011 was about half that at US\$510. With the government aiming for annual economic growth of 7% a year and the population increasing by 3.2%, per capita income is estimated to be growing at 3.7%, meaning it will take 19 years for Uganda to double its real income. Moreover, the World Bank says Uganda may achieve MIC status by 2040.⁴⁹ The Irish Embassy study also sounded a note of caution, warning that the sustainability of Uganda's middle class will depend on its government's ability to "control population growth (still taboo in most African countries, see Egypt under the Muslim Brotherhood, which remained silent about family planning)⁵⁰, improve productivity through investment in human resource development and addressing the problem of corruption, poor infrastructure and low savings.

When it comes to shaping the middle-class, the mobile phone has been revolutionary. According to the World Bank, SSA is now home to about 650 million mobile phone subscribers - more than in the European Union or the US and with 11 countries having more than 100 mobile lines per 100 inhabitants in 2012 (AfDB, 2014c). The mobile phone is changing not only the way Africans communicate with each other but also how they do business and demand greater accountability from their leaders. Mo Ibrahim, who created Celtel, the first pan-African mobile phone network, in the late 1990s, says this generation is a game-changer, because they are more sophisticated and better educated than the previous generations and better connected. They know what is going on through newly available technologies such as the mobile phone, internet, satellite TV, twitter and facebook. This has made the middle class more aware of what they don't have and what they want.

5.1.1. Urbanised and informed

MGI (2010) also predicts that the fast-growing cities in the emerging economies will be filled with millions of new and increasingly prosperous consumers, who provide a new growth market for global corporations at a time when much of the developed world faces slower growth as a result of aging.

⁴⁷ Source: Hilary Kramer. 2013. *Nigeria Beckons Investors Fleeing The BRIC*. Forbes. <http://www.forbes.com/sites/hilarykramer/2013/08/21/nigeria-beckons-investors-fleeing-the-bric/>

⁴⁸ See Irish Aid Publications: <https://www.irishaid.ie/news-publications/news/>

⁴⁹ See Wolfgang Fengler. 2012. *The East African ride to Middle Income*. Africa Can End Poverty Blog.

⁵⁰ After two decades of steady declines and modest increases, the birth rate in 2012 reached about 32 for every 1,000 people — surpassing a level last seen in 1991, shortly before the government of the long-time president, Hosni Mubarak, expanded family planning programmes and publicity campaigns to curtail population growth that he blamed for crippling Egypt's development. In 2012, there were 2.6 million births, bringing the population to about 84 million, according to preliminary government figures. The government of President Mohamed Morsi continued financing for family planning programs. But health officials surprisingly took a starkly different view of climbing birth rates, presenting the problem as one of economic management — not the size of the population. Source: http://www.nytimes.com/2013/05/03/world/middleeast/as-egypt-birthrate-rises-population-policy-vanishes.html?pagewanted=all&_r=0

Oxford Economics (2013) forecast suggests that GDP growth is set to outstrip that of any other world region between now and 2030. As a result of high average economic growth rates and rapid population growth, Africa is urbanising at a greater rate than any other continent.

Oxford Economics (2013) has developed the African Cities Income and Consumer Spending Forecasting Service. This powerful analytical capability allows us to get beneath the surface of the new African growth story, exploring the economic trajectory of different cities on the continent and the commercial opportunities they offer. If the continent can tackle its infrastructure and governance challenges, then Oxford Economics expects to see strong economic growth throughout Africa and its cities over the next two decades. The continent's large urban areas will be the engine room of that expansion. Today, Africa's major cities account for almost US\$700 billion of GDP, 36% of Africa's total output. By 2030, the GDP of these cities is expected to more than double to reach US\$1.7 trillion according.⁵¹

Table 2: Africa's top 15 cities in 2030 (2012 ranks in brackets)

Rank	Population 2030 (000s)		GDP 2030 (US\$bn 2012 prices)		GDP per capita 2030 (US\$ 2012 prices)	
1	Lagos (2)	25,145	Johannesburg (1)	196	Libreville (2)	29,749
2	Kinshasa (3)	16,707	Cairo (2)	168	Gaborone (3)	26,836
3	Cairo (1)	14,105	Luanda (4)	138	Malabo (1)	24,854
4	Luanda (5)	9,768	Lagos (8)	76	Johannesburg (5)	20,830
5	Dar Es Salaam (9)	9,449	Cape Town (3)	73	Port Louis (6)	20,769
6	Johannesburg (4)	9,426	Pretoria (5)	67	Pretoria (4)	20,438
7	Abidjan (8)	7,712	Durban (6)	62	Cape Town (7)	16,013
8	Khartoum (6)	7,306	Alexandria (7)	56	Windhoek (8)	14,818
9	Nairobi (13)	6,593	Dar Es Salaam (13)	49	Tunis (12)	14,504
10	Alexandria (7)	6,332	Tunis (11)	47	Luanda (14)	14,126
11	Abuja (27)	6,029	Algiers (10)	46	Bloemfontein (10)	13,823
12	Kano (14)	5,672	Casablanca (9)	39	Constantine (19)	13,668
13	Douala (20)	5,013	Khartoum (14)	35	Durban (9)	13,435
14	Ibadan (17)	5,011	Libreville (12)	30	Port Elizabeth (11)	13,128
15	Dakar (16)	5,011	Nairobi (17)	27	Oran (18)	12,989

Source: Oxford Economics.

Understanding evolving consumer demand across different parts of the continent is an essential element of building a business strategy to serve it. But the nature of that opportunity depends upon the kinds of consumers in each city, rather than just the city's aggregate spending power. Looking at spending power per head and population growth rates, Oxford Economics (2013) identifies four types of consumer city:

- In **Volume Opportunity cities**, exploding population numbers are set to create new opportunities in the form of a **rapidly growing emerging consumer class**, primarily still buying low-cost items and essentials. In Lagos, for example, per capita incomes are projected to grow by over 50%, to US\$2,810 per year, and absolute spending on food will more than double by 2030.
- **Expanding Mid-market cities** are characterised by both rapid population growth and **high levels of consumer spending power per head**. In Luanda, the biggest example of such a city, the level of spending on food will almost halve as a proportion of overall consumption, albeit continuing to grow significantly in absolute terms. Consumption of non-essential items will therefore grow rapidly, with the city's spending on hotels, restaurants and recreation becoming ten times its current size by 2030.
- **Mature Mid-market cities** are characterised by **relatively high levels of per capita consumer spending** and populations that are comparatively stable in size. In Johannesburg, for example, the

⁵¹ Source: <http://www.oxfordeconomics.com/africa>

distribution of growing consumer spending will remain more stable than in other cities, although spending on hotels, restaurants and recreation will approximately triple by 2030, in absolute terms.

- **Stable Essentials cities** offer relatively limited opportunity, with slower population growth than many of their peers and **low levels of spending power per head**.

Across all of Africa's cities, the fastest growing categories of consumer spending will be:

- recreational and cultural expenditure (growing 291% in 2012 dollar terms by 2030),
- restaurants and hotels (up 237%), and
- communications, goods and services (rising 231%).

However, by far the biggest consumer categories will remain food (doubling to almost US\$120billion), and housing-related spending, including utilities (more than doubling, to around \$150billion).

Oxford Economics (2013) also segments **households by income group** across Africa's major cities, which gives a sense of the diversity and rate of growth of the different consumer markets across the continent.

- Dar Es Salaam is set to see the biggest expansion in **emerging middleclass households** with incomes between US\$5,000 (\$14 per day) and \$20,000 per year (\$55 per day), their numbers growing by 251% by 2030.
- Luanda will have the largest increase in **established middle class households**, with incomes above US\$20,000 per year. But Cairo, with almost 3½ million such households, will have by far the largest number of any city on the continent by 2030.
- At the more affluent end of the household income distribution, several cities will see the number of households with income above US\$70,000 (above \$192 per day) increase several times over. However, Johannesburg will have by far the biggest such market, with 475,000 such households in 2030.

Thus, no one denies the emergence of an urbanised and increasingly informed social group that not only spends more disposable income but also plans for the future and demands a greater say in the way their countries are run. Moreover, drama, comedy and commercials that speak to the new, growing middle class about the new, growing middle class are beginning to appear. Africans are beginning to see what other Africans are doing. Kenyans are watching Nigerian and Ghanaian films, and vice versa. Africans are beginning to speak to themselves.⁵²

South Africa's Financial Mail newspaper reports that there was a shortage of 600,000 housing units for the working class this year. The paper attributed the current backlog of about 100,000 housing units a year-and growing-to rapid urbanisation, a reduction in the average family size and a fast-growing middle class. Affordable neighbourhoods for middle-income earners in Johannesburg, and in Pretoria and Durban in the KwaZulu-Natal province, are becoming overpopulated. The high demand for housing also puts a strain on services such as electricity. During the winter, for example, the exploding demand for energy often causes power outages.

Plans to reshape cities across Africa in the style of Dubai and Singapore threaten to deepen social inequalities and could prove costly to both investors and city authorities, according to a paper by Watson (2013), in which she reviews plans to renew, extend or replace cities in Angola, Democratic Republic of Congo, Ghana, Kenya, Nigeria, Rwanda and Tanzania. Watson (2013) notes that the planned modernist skyscrapers and landscaped freeways have been dreamt up, not in Africa, but in the offices of international

⁵² See TED Talk Africa by Chimamanda Adichie: The danger of a single story; and Telling the African Story: Komla Dumor at TEDxEuston.

architects and engineers. They appear to ignore the fact that the majority of people in African cities have low incomes, live in informal housing and lack land rights. They also do nothing to address the large deficits in provision for basic services. Watson warns that the planned developments could evict or relocate large numbers of the urban poor and leave them without access to vital services and livelihood opportunities. She suggests that one reason for the recent rash of new city 'master plans' is that the global economic crisis of 2008 has led property investment companies, architects and construction firms to seek new markets in Africa. The plans share a common vision of globally-connected, technologically advanced cities that provide business opportunities and homes for Africa's growing middle class.⁵³ It is difficult to imagine how households with such minimal spending power can afford the luxury apartments portrayed in the fantasy plans, according to Watson (2013).⁵⁴ It may be that prospective property developers are seriously misreading the African market. The paper concludes that as Africa's urban poor confront new alliances of international property capital, with politicians and emerging urban middle classes all intent on seizing and re-valorising land, they may lose not only land but also political rights.⁵⁵

6. Challenges

At a national level, therefore, the question is one of the governance of growth - meaning different countries can manage or govern growth very differently and this, along with other factors, plays a big role in who benefits from growth and how much. So what about the new global middle class, also called the 'buoyant billions'? It turns out that most of the change in the distribution of global consumption is confined to upper middle-income countries, those with an income per head of between approximately US\$4,000 (\$11 per day) and US\$12,000 (\$33 per day) a year; the category includes China and Brazil for example.

As we showed in the previous sub-section, the growth of the middle class represents a huge challenge for service provision. Large investments have to be funded, yet at the same time the most vulnerable in society need to be protected from relapsing into poverty. The middle class enjoys higher purchasing power than the poor, which means it is better placed to help fund improvements to infrastructure.

What we know for sure is that the population is increasing too fast and there is no historical precedent in the world where you have this kind of curve. This means we have to create 10 million jobs a year. Most investments in Africa are in the extractive sector, which does not produce many jobs. Of the gains of the past 10 years - and there have been a lot of gains in Africa - very little has trickled down, and that is dangerous: it creates a volatile situation as witnessed in North Africa through the Arab Spring. We have to pay attention to this disparity and inequality. When it comes to Africa's wealth gap, the figures are stark: more than 60% of the population of SSA still lives below the US\$2-a-day poverty line (AfDB, 2014c), which puts the "Africa rising" narrative into context.

⁵³ *Africa: Warning Over Race to Reshape African Cities As 'Urban Fantasies'*. International Institute for Environment and Development (London) 13/01/2014.

⁵⁴ A more striking portrayal of income disparity in Congo than Kinshasa's Cite du Pecheur (Fisherman's City) and the upcoming La Cite du Fleuve, (City of the River), would be difficult to come by. Pumping millions of cubic meters of sand, the British hedge fund Hawkwood Properties is developing 1600 acres of water to become a tranquil residential haven complete with swimming pools, schools, grocery stores and a sports complex. Dubbed "The Kinshasa of Tomorrow," the project will take 15 years to complete. Source: <http://www.globalpost.com/dispatches/globalpost-blogs/groundtruth/kinshasa-congo-wealth-gap-great-divide>

⁵⁵ *ibid*

6.1. Inequality

This gap between the rich and the poor is the most likely threat to the global economy in the coming years, the World Economic Forum (WEF) mentioned in a risk assessment ahead of the 2014 gathering of political and business leaders in the Swiss ski resort of Davos. The WEF said income disparity in the wake of the global financial crisis is the "most likely risk to cause an impact on a global scale in the next decade" and warned of a "lost generation" of young people coming of age in the 2010s that could stoke tensions in society due to high unemployment and precarious job situations, hampering their efforts to build a future. In the developing world, pent-up tensions have led to the (attempted) overthrow of regimes, most notably in the Arab world (Tunisia, Libya and Egypt), but also in SSA countries such as Senegal, Mali, Burkina Faso, CAR etc. This highlights how governments need to be mindful of the demands in society. "People are just not going to stand for it anymore," said Jennifer Blanke, chief economist at the World Economic Forum. "It's really eroding at the social fabric."⁵⁶

Prior to the WEF, the President of the World Bank mentioned that a good part of the reason for moving toward the MDGs in 2000 is that the international community was becoming increasingly conscious about inequality. Inequality has just gotten worse since the start the MDGs movement. While it is true that growth (still) is good for the poor in a general sense, patterns of growth can differ substantially between countries.⁵⁷ And the poor are likely to do better from growth when inequality is low or falling rather than high or rising.⁵⁸

6.1.1. The huge divide between rich and poor

There is still a huge divide between rich (5% in 2008) and poor (62% in 2008) in Africa. The middle class is not big enough (33% in 2008): it needs to grow much more. About 100,000 of the wealthiest Africans have a collective net worth amounting to 60% of the continent's GDP, according to the AfDB, citing 2008 figures.⁵⁹ Nigeria will leapfrog Egypt into second place behind South Africa, with Kenya in fourth place, in New World Wealth's projected 2030 ranking of African countries by dollar millionaires. Millionaires in Ghana will triple by 2030 with an advance of 144% in Angola, according to the New World Wealth report (2013). The number of high-net-worth individuals in Ethiopia, which grew the fastest over the past six years, will almost triple to 7,900 by 2030 amid a privatisation programme.

Already in August 2012, Barclays's African unit and Citigroup said that they saw opportunities managing wealth for Africans. The number of Africans with at least US\$1 million of investable assets climbed 9,9% to 140,000 in 2012, according to a report published in June 2013 by Cap Gemini and Royal Bank of Canada.⁶⁰ That was the fastest rate of increase outside North America as the economies of countries such

⁵⁶ Rich/poor gap the biggest threat to global economy: Davos. Associated Press 17/01/2014.

⁵⁷ However, all of this is based on a dominant measure of inequality - the Gini index - which is increasingly being questioned. The problem with the Gini is that drawing conclusions from the commonly used aggregate inequality measures makes it difficult to take a nuanced view of how global growth interacts with changing national and international inequality.

⁵⁸ See Shorrocks, A. & Hoeven, R.E. van der (Eds.). (2004). *Growth, Inequality, and Poverty Prospects for Pro-poor Economic Development* (WIDER Studies in Development Economics). Oxford: Oxford University Press.

⁵⁹ Millionaires in Nigeria, Kenya and Angola will more than double by 2030, boosting the prospects for private banking in Africa, according to research firm New World Wealth. The firm expects Nigeria, Ghana, Kenya will be the main drivers of wealth management growth in Africa. They all already have relatively well developed banking sectors so private banking is a logical next step. Millionaires in Nigeria, Africa's biggest oil producer, will rise 174% to 43,000 from 15,700 this year, according to New World Wealth, after using a sample of high-net-worth individuals and World Bank data to compile a report.

⁶⁰ Capgemini and RBC Wealth Management. 2013. *World Wealth Report 2013*. http://www.capgemini.com/resource-file-access/resource/pdf/wwr_2013_0.pdf

as Nigeria and Ghana grew at more than 5% in 2012. Nigeria has a "pretty diverse spread of millionaires" with transport, finance, real estate, basic materials and telecommunications also driving the economy. High-net-worth individuals are accumulating fastest in Côte d'Ivoire, where millionaires are expected to more than triple to 7,200 by 2030 as cocoa and oil production boost the economy, according to New World Wealth. Copper, agriculture exports and tourism will help triple millionaires to 2,700 in Zambia, where some rich farmers have relocated from neighbouring Zimbabwe (New World Wealth, 2013).⁶¹

Table 3: The full list of the biggest dollar gainers in Africa, measured from 31st December 2012 through 30th December 2013

Rank	Name	Net Worth	Change	Pct. Change
1	Aliko Dangote	\$22.9 billion	Up: \$10.1 billion	(79%)
2	Isabel dos Santos	\$3.7 billion	Up: \$2.8 billion	(311%)
3	Christo Wiese	\$6.5 billion	Up: \$2. 4 billion	(58.5%)
4	Folorunsho Alakija	\$2.5 billion	Up: \$1.9 billion	(317%)
5	Johann Rupert	\$7.8 billion	Up: \$1.4 billion	(22%)
6	Nassef Sawiris	\$6.6 billion	Up: \$1 billion	(18%)
7	Mohammed Mansour	\$3.1 billion	Up: \$900 million	(41%)
8	Koos Bekker	\$1.2 billion	Up: \$750 million	(167%)
9	Abdulsamad Rabiu	\$1.2 billion	Up: \$550 million	(85%)
10	Yasseen Mansour	\$2.4 billion	Up: \$400 million	(20%)
11	Yasseen Mansour	\$2.4 billion	Up: \$400 million	(20%)
12	Stephen Saad	\$1.45 billion	Up: \$350 million	(31.8%)
13	Youssef Mansour	\$2.3 billion	\$350 million	(18%)
14	Nicky Oppenheimer	\$6.6 billion	Up: \$100 million	(1.5%)
15	Mike Adenuga	\$4.7 billion	Up: \$100 million	(2.2%)

Source: Forbes.

Notwithstanding the small percentage (5%) of the total population, Venture Magazine (2013) reveals that Africa is home to many more billionaires in US-dollars than previously thought so far. This Nigerian magazine published a ranking of 55 African billionaires last October. And yet, this list constituted through a rigorous analysis of assets of each of the persons being ranked is according to Chi-Chi Okonjo, the founder of Venture Magazine, an underestimation. Venture Magazine counts 55 billionaires in US-dollars at an estimated wealth of US\$145 billion (€105 billion) – with 33 billionaires from South Africa, Egypt and Nigeria. Nigeria with its 20 billionaires is the country in Africa which counts the highest number of billionaires who primarily have made their fortune in the petroleum industry.⁶² Nigeria is followed by South Africa,⁶³ and Egypt with respectively nine and eight billionaires amongst their citizens. South Africa on the other hand is the country on the continent with the highest number of millionaires at a total of 48,700 in 2013, followed by Egypt with 22,800 and Nigeria with 15,700. However, according to Venture Magazine, certain big fortunate refused to discuss their wealth because they want to remain discrete about their businesses and because

⁶¹ Source: New World Wealth based some findings on research by Credit Suisse and Trading Economics.

⁶² The continent's richest man, the 57 year-old Nigerian cement, sugar and flour tycoon Aliko Dangote, is reported to be worth more than \$22.9 billion according to Forbes latest statistics up from \$12.8 billion at the end of December 2012.

According to Ventures, Folorunsho Alakija, another Nigerian, is Africa's richest woman, although she is ranked at the 24th position in Forbes.

⁶³ South Africa will retain the highest number on the continent with a 78% increase to 86,700. This means about 16% of South Africa's millionaires are black, Indian, coloured or Chinese, according to the research. Whites still dominate the list with 36,500 white males and 4,400 white females.

their relationship with the people in power is not always clear. This could explain the discrepancy between the findings in Venture Magazine compared to the ranking in Forbes Magazine.

Ethiopia is hailed by pundits as an "African lion" after a decade of stellar economic growth. Now further evidence of its turnaround has arrived with research showing that Ethiopia is creating millionaires at a faster rate than any other country on the continent. The number of dollar millionaires in the east African nation rose from 1,300 in 2007 to 2,700 by September 2013, according to New World Wealth.⁶⁴ That figure puts the country well ahead of Angola, up by 68%, and Tanzania, which had a 51% increase. Zambia and Ghana completed the top five. The New World Wealth study finds that the rise in millionaires has been closely tied to GDP growth, in which Ethiopia has also fared best over the past six years achieving 93%, followed by Egypt (81%) and Angola (61%).⁶⁵

Whereas much of Africa's boom has been driven by mineral resources, leading sectors for millionaires in Ethiopia include agriculture, manufacturing and transport.⁶⁶ According to the new Wealth Statistics in Africa report by New World Wealth (2013) there has been a lot of privatisation and certain sectors are growing well in Ethiopia. It is a huge upswing but it started from a low base. As in other parts of Africa, however, the growth is not necessarily shared. The millionaires are growing at a faster rate than the middle class, which does not really exist in a lot of African countries, including Ethiopia. Angola, for example, has had massive millionaire growth in the last ten years but that has not spilled through to the average Angolan.⁶⁷

6.1.2. Lessons from the past

Income inequality widened dramatically in the 1920s. It reached a peak in 1928, when the top 1% took home over 23% of total income - just as inequality rose in the years leading up to the Great Recession, culminating in 2007, when the top 1% again took home over 23% of total income (Saez and Piketty, 2013). It is no coincidence that 1928 and 2007 marked the high-water points of income inequality, and that the bottom fell out the following years. When most of the gains of economic growth go to the top, the vast majority no longer has the purchasing power they need to buy what the economy is capable of producing. It is also no coincidence that household debt more than doubled in the 1920s, from 15% of GDP in 1920 to 32% of GDP in 1929 - just as consumer debt mushroomed 80 years later leading up to the crash of 2008. When most of the economic gains go to the top, the only way the middle class can keep up is to borrow. People are now living beyond their means. There is a stigma to being poor and people feel they must always keep up appearances even though they might not have enough money to buy bread or milk.⁶⁸

⁶⁴ You don't see many Ethiopians in flashy cars, like you do with Luanda or Lagos (citizens in their respective countries). Flaunting your wealth is not part of the culture.

⁶⁵ Annual real GDP growth in Ethiopia; Egypt and Angola was respectively 10.8%; 4.6% and 10.8% on average from 2005 to 2013 (AfDB, 2014c).

⁶⁶ A construction boom is underway in the capital, Addis Ababa.

⁶⁷ Just outside Angola's capital city of Luanda is Nova Cidade de Kilamba a residential development of 750 eight-story apartment buildings, a dozen schools, and more than 100 retail units. The US\$3.5 billion development covers 12,355 acres and was built to house about 500,000 people, and this is one of "several satellite cities being constructed by Chinese firms around Angola. But the apartments in the complex cost somewhere between US\$120,000 and \$200,000 according to online advertisements, none of which helps the average Angolan given the country's per capita GDP of US\$5,144 per year, according to the World Bank. Source: <http://www.businessinsider.com/chinese-built-ghost-town-kilamba-angola-2012-7?op=1#ixzz39cZ7tGaM>

⁶⁸ Milford Bateman (2013) writes that "The microcredit-induced problems that emerged in South Africa are two-fold. First, microcredit *per se* is actually an "anti-developmental" intervention. For one thing, it exists on paper to support the smallest income-generating activities, but in practice is increasingly all about supporting consumption spending. In South Africa, the microcredit movement has created an incredibly risky and expensive way to support the immediate consumption needs of the very poorest. With few poor individuals possessing a secure income stream that might ensure full repayment of a micro-loan – unemployment is now higher than it was under apartheid – many of the poorest individuals have been forced to repay their micro-loan by selling off their household assets, borrowing from friends and family, as well as simply taking out new micro-loans to repay old ones. For far too many

Because of this, people spend their money on things that can be seen by others like a car, clothes or the school their children attend. In Tunisia, where the unofficial inflation rate is estimated to be as much as 14%,⁶⁹ the middle class has, in order to cope with soaring prices, made a massive use of consumer credit, which has increased from December 2011 to June 2013 by 22.4%, a dizzying figure knowing that the base rate of bank interest according to the Tunisian Central Bank financial statistics rose from 3,23% in 2011 to 4,75% at the end of August 2013.

More generally, you find people have their main day jobs plus a business or businesses on the side. These multiple lines of income all add up to more disposable income - though it is important to remember that the middle class in Uganda for example is still a very small percentage of the overall population. According to Tunisia's National Statistical Institute, the evolution of the quarterly rate of change of the average salary in the private non-agricultural sector was only 2.53% at the end of 2012 against 2,09% at the end of 2011. Which means that households must resort to a second job or borrowing. But as we learned from the 1929 and 2008 crises, there is a limit to how much can be borrowed. Eventually debt balloons burst, and millions of innocent people go bust (see Saez and Piketty, 2013).

Decades of persistent efforts in Tunisia to improve the knowledge and education levels, control of population growth, increased revenues, and the evolution of the social ladder which led to the emergence of a social stable middle class, previously the pride of the national Tunisian development model, are about to evaporate in the most absurd way and in a time period of only two years. The reasons for this rapid social regression of the standard of living of the Tunisian middle class find their origins primarily in the absence of any social, economic or political strategy during the transition phase after the revolution. What it shows is that, as in the case of Argentina 100 years ago, social progress is not an irreversible process.

Overall, although estimates show that even with current high SSA growth rates, a quarter of Africans will still live below the poverty line by 2030. Still, there is opportunity to work on improving equality. It has indeed been shown that equal societies tend to be more effective at fighting poverty than unequal ones. And that is what should be on the agenda of African leaders: maximising the impact of economic growth to fight inequality, and slowly supporting the emergence of an active citizenry that can give a stronger push to development efforts. Considerable progress has been made in addressing both poverty and inequality problems, and with more investment, they can be eradicated in our lifetime.

7. Way forward

In this paper, we have discussed the on-going debate about the number of middle classes there are on the African continent squeezed in between a sea of falling generalised poverty and a fast rising number of billionaires and millionaires. The reality is that the aspirational, smartphone generation is growing in an irreversible and sustainable manner in more and more countries so far. However, ultimately, as recently argued by Dr. Mthuli Ncube, the AfDB's chief economist and vice-president, "the emergence of the African middle class can only be sustained if the continent puts in place strategies that expand prosperity for all. Without such measures, which include expanding opportunities for technical and vocational Skills

now "financially included" individuals in South Africa, using microcredit to support current spending has been a disastrous and irreversible pathway into chronic poverty."

⁶⁹ The calculation of the official inflation rate is based on a 30 year old outdated methodology.

development and job creation,⁷⁰ the growth of the middle class is likely to be undermined by social friction (AfDB, 2011)."

7.1. Role of development partners

The OECD-DAC donors must move away from a donor-recipient relationship with Africa towards one of genuine partnership and collaboration as expressed at the recent EU-Africa and US-Africa (Business) Summits. In terms of the mentality and the priorities, there is a sea change taking place in Africa. The Pan-African Institutions are working with the African Development Bank and the African Union Commission on something called Vision 2063 – Africa 50 years from now.⁷¹ African ministers of finance have now approved the idea of transforming African economies and shift from agriculture into industrial and service sectors with industrialisation aimed to be the key driver of this transformation. This has to be done now with the assistance of Africa's development partners.

Since 2000, the AfDB has developed a more systematic approach to regional integration in Africa with an increasingly special emphasis on socially inclusive and environmentally sustainable economic growth. In line with the Bank's Ten Year Strategy (TYS), 2013-2022, and Inclusive Growth Strategy, and other relevant sectoral policies, the AfDB could support programs and projects that promote regional integration among the riparian countries, while simultaneously supporting activities targeted at yielding results on the ground. Key regional infrastructure is required to meet basic needs of the poor as well as the middle-class and promote economic growth such as affordable and reliable energy, available water for multipurpose uses such as food security, and communication systems to promote trade.

7.2. Quality statistics required for better development outcomes

There are concrete things that African countries and their development partners can do to both boost growth and reduce inequality. There are ways to do them both at the same time. If you are really serious in tackling income inequality, you have to measure, and to have data. The World Bank Group has committed itself to measuring the income group at the bottom 40%, and comparing that to growth of the country as a whole. It is a very good indicator of how the poor are doing relative to the rest of the society. We have got to find out what are those investments that will lead to the development of infrastructure, the development of the kind of industries that would both grow the economy and reduce inequality. The jobs for young people, jobs for women, jobs for the poor, which according to Carlos Lopes, are not being captured by the existing labour market statistical system. It is imperative that Africa generates its own robust data and statistics to accurately measure, monitor, evaluate and ultimately report on progress.⁷²

The better tools we have for measuring progress, the more we can ensure that those investments reach the people who need them the most. The AfDB, for example, has sent a mission to Lusaka to launch a review of Zambia's statistical programs. Another good recent example is that through the improved analysis of the 2011/12 Household Budget Survey as well as other exercises such as the population

⁷⁰ A recently completed International Growth Centre paper by Michael Carton and Christian Kingombe investigated technical and vocational education and training in Sierra Leone. A primary finding of the research is that the country is in an emergency situation concerning the provision of skills for the mining and agro-food industries, road construction, economic free zones, as well as SMEs and the informal sector in rural and urban areas.

⁷¹ See Agenda 2063 Vision and Priorities <http://agenda2063.au.int/en/vision>

⁷² Source: Statement by Mr. Carlos Lopes, UN Under-Secretary-General and Executive Secretary of ECA, 4th November 2013, Addis Ababa, Ethiopia. <http://www.uneca.org/arcm-sdg2013/pages/statement-mr-carlos-lopes-un-under-secretary-general-and-executive-secretary-eca>

census, the Government of Tanzania has been improving its stock of invaluable data in order to deepen its understanding of the characteristics and causes of poverty in Tanzania. The World Bank has supported this effort both through technical assistance and joint donor funding for the NBS surveys and capacity strengthening.

The 18th of November 2014 is African Statistics Day. It is celebrated every year to increase public awareness of the important role that statistics play in all aspects of social and economic life in Africa. The annual celebration this year focuses on data quality (to support African progress), which is an essential tool for monitoring the achievement of national development plan and international development goals, mainly poverty reduction strategy papers, regional integration and the MDGs. To quote Carlos Lopes: "I would put it in simple terms. We are not going to make a difference if we don't really become specialised on the knowledge of Africa's economic activities."

7.3. An agenda to boost Africa's economy

Poverty and inequality still blight much of the developing world, especially Africa, and breed other social ills, including crime and social instability. But considerable progress has been made in addressing both problems and, with more investment, it is believed that they can be eradicated in our lifetime. However, there is a lot of work ahead: 1.2 billion people remain in extreme poverty, and the challenges of inequality are threatening to undo the significant progress that has been made. There is growing consensus that rising and extreme inequality is harmful to us all — undermining growth, corroding social stability and robbing the poorest people of the support they need to improve their lives. Wealth and power concentrated in the hands of a few means that the voices of the poorest go unheard.⁷³

In Africa, strong economic growth, macroeconomic reform, fiscal prudence, and improved governance have helped to reduce poverty. African governments have become more democratic,⁷⁴ and economies have become more open (see AfDB, 2014b). Longstanding violent conflicts - in Mozambique, Angola, Rwanda, and elsewhere - have ended. Therefore, addressing the discrepancy between domestic and international perceptions on African development is critical for Africa to truly turn the page from the hopeless continent to become, unequivocally, the hopeful emerging economy. Survey results and the reactions to the Goldman Sachs report in South Africa should be a wake-up call to many African governments. Indeed, it goes without saying that ensuring that African citizens buy into the development Africa 2063 vision for irreversible Unity, sustainable Prosperity and lasting Peace and become active contributors to it, is critical for the long-term sustainability of current progress. Nevertheless, the bottom line is that development is a national project that needs to capture the citizens' imagination and secure their engagement.⁷⁵

Once a sorry tale of corruption and hunger, Africa's development narrative has become overwhelmingly positive. Foreign investors now view the continent as their next investment and trade frontier due to a large extent to the rising middle class. The US investment bank Goldman Sachs, for example, points out that Africa's potential includes much more than natural resources. The continent is now ascending the

⁷³ In the 14 years since the MDGs were launched, we have seen the fastest reduction in poverty in human history. Remarkably, the world has managed to reduce extreme poverty by half. There were 700 million fewer people living in extreme poverty by 2010 than 20 years previously. See 'The solutions to tackle global challenges are within our grasp.' By Winnie Byanyima, 05 August 2014. Devex.

⁷⁴ See e.g. Algeria; Angola; Burundi; Cameroun; Ethiopia; Ugandain AEO Table - Public Violence. <http://www.africaneconomicoutlook.org/en/data-statistics/table-23-public-violence/>

⁷⁵ Source: Mzukisi Qobo.2013. Africa's Poverty Amid Plenty.

consumption, urbanisation, and perhaps industrialisation curves that the BRICS climbed 15-30 years ago. Indeed, household consumption in some parts of Africa has overtaken that of the BRICS.⁷⁶ But, amid Africa's new growth and dynamism, too many of its people - what the economist Paul Collier (2007) calls the "Bottom Billion" - continue to suffer from poverty, unemployment, illiteracy, and curable diseases. Africa scores poorly in the UNDP's latest Human Development Index. In other words, while some people are making the most of the new opportunities, the gap between them and those left behind has widened. The construction cranes and skyscrapers in Nairobi, Lagos, Luanda and Abidjan are juxtaposed with the grim reality of poverty and helplessness in these cities' hinterlands and beyond. A high degree of inequality within countries correlates with greater poverty, unemployment, and crime. Excluding Africa's neediest from essential services erodes social cohesion and undermines what are still fragile democratic systems. So efforts to boost economic growth must be accompanied by concerted action to reduce inequality.⁷⁷

Yes, growth is good for the poor. But King's College researchers find a surprisingly modest amount of redistribution could have ended US\$2 poverty already. Their calculations show that:

- it would take 0.2% of world GDP to end global poverty of US\$1.25 a day;
- ending global poverty of US\$2 a day would take 1% of world GDP;
- Ending US\$10-a-day poverty, though, would be hugely expensive, taking 20% of world GDP.

The proposed UN goal of eradicating poverty only aims at ending US\$1.25 poverty by 2030. Importantly not all growth is the same. In fact it can be quite different. They find four stylised patterns of growth that can be compared to the global average. There is

- growth that helps the poorer end of the distribution most (as in Ethiopia, South Africa, Malawi and Mali);
- growth that helps the middle most (e.g., Brazil);
- growth that - startlingly - hurts the poor and/or the middle (Nigeria and Zambia); and finally,
- growth that is equitable across the income spectrum (such as Vietnam, Nepal and the Philippines).

Businesses need consumers in order to prosper and grow. Consumers in the middle class and below are the real job creators according to Robert Reich, who was Secretary of Labour in the Clinton administration. In the United States, 70% of economic activity is personal consumption. Unless the vast middle class, and everyone seeking to join it, have enough money in their pockets - and share sufficiently in the gains from growth - businesses cannot possibly do well.⁷⁸ This was repeated at the recent US-Africa Business Forum in Washington D.C. where one of the panellists mentioned that the rich will grow richer at a point in time during economic growth and that there is nothing wrong in that if the capital is reinvested in the productive sectors. But he also mentioned that if you are going to drive consumption-led growth, which Africa will need, then that will only materialise by expanding the middle-class and by getting people in the low end of the income distribution to participate in that growth. That will not happen without financial inclusion. But if the poor are left out, only being able to operate with cash as the medium of exchange, i.e. cannot pay a bill easily, cannot borrow easily or cannot save money easily, then the individual can't be part of what the new economy is capable of doing and delivering. This is what financial inclusion should seek to address.

Nevertheless, the biggest fallacy in Africa's growth scenario is that its future depends on the rising African consumer. It does, but that is a subplot and the numbers estimating its size range dramatically as I have shown in this paper from the much-cited 2011 report by the AfDB to a recent report authored by Standard Bank economist Simon Freemantle (2014), which suggests the region's middle class is smaller than

⁷⁶ Colin Coleman, head of investment banking for Sub-Saharan Africa at Goldman Sachs, shares his thoughts about the rise of Africa as investment destination. See <http://www.africaammagazine.com/tag/goldman-sachs/>

⁷⁷ Africa's poverty amid plenty. Project Syndicate 04/01/2014 by Mzukisi Qobo.

⁷⁸ Source: <http://robertreich.org/post/60861581406>

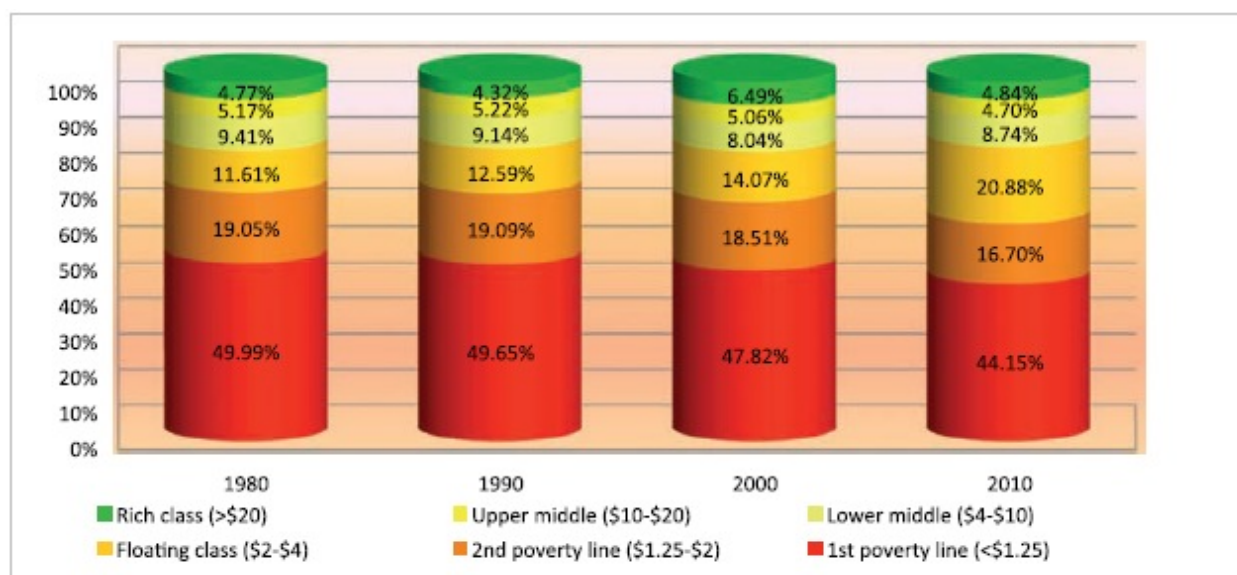
formerly believed. And even if Africa's consumers are rising, if its markets remain fragmented its overall effect on foreign investment as well as intra-regional trade and investment will be limited.

More important is the role of Africa's rising savers. The transformation of Africa's institutional investment landscape - public and private pension funds - over the next ten years will be the most important development for its future growth. American investors who gathered at the US-Africa Business Forum should be looking at the institutions that manage these funds and either look to partner with,⁷⁹ or raise from them, since most of the same wells in the U.S. will be dry. SSA's six biggest pension funds are growing at rapid rates; assets in Tanzania, Uganda and Kenya's pension funds are all growing at over 15% year-on-year. As African economies' dependency ratios even out and asset allocation regulations ease, vast opportunities will open up in domestic private investment markets.

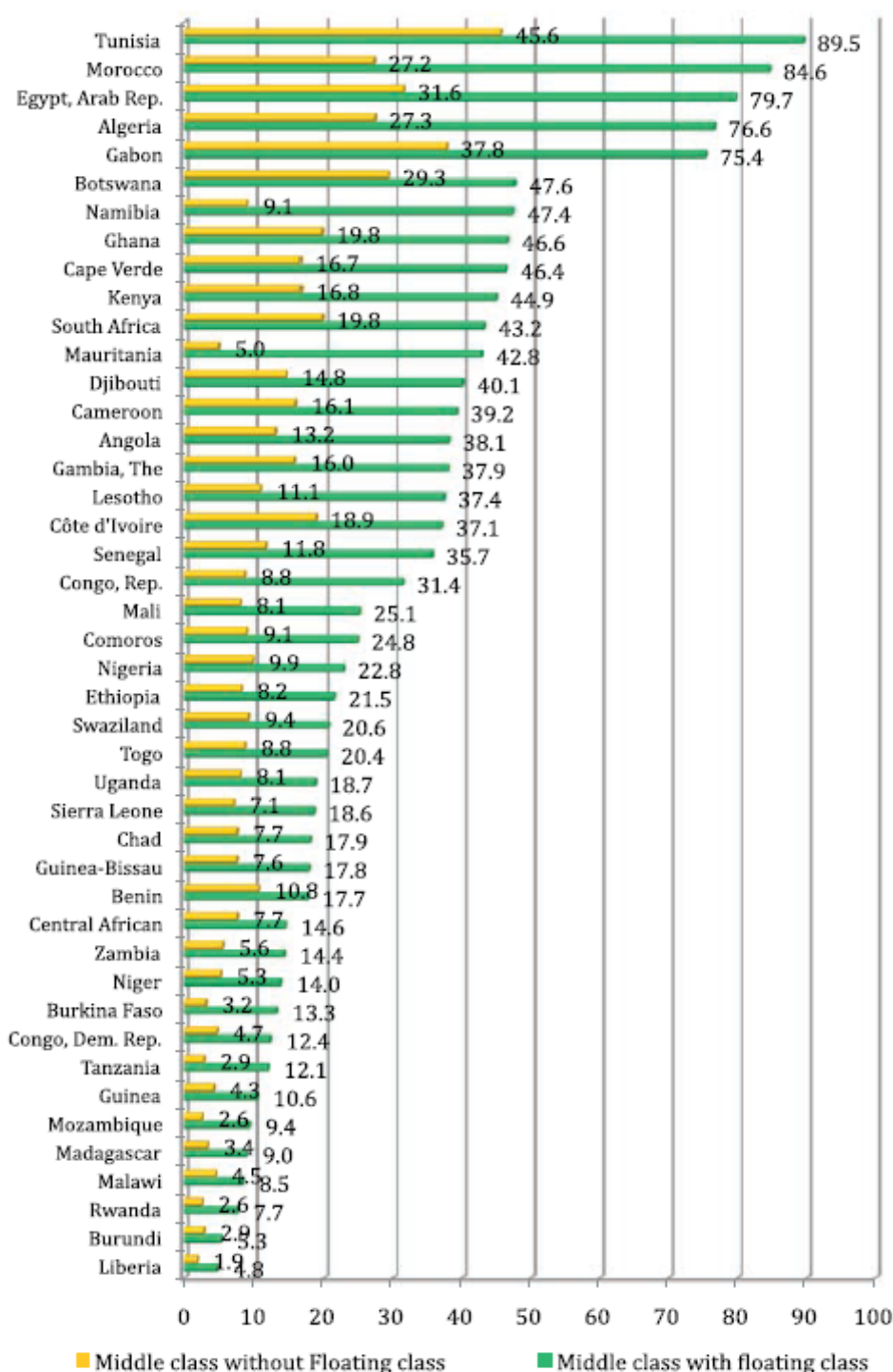
In order to spur the growth of the continent's middle-class the AfDB, through its recently adopted Ten Year Strategy 2013-2022, advocates policies that foster inclusive green growth and decent job creation as a buffer against poverty and inequality, by means of its five operational priorities: private-sector development, improved accountability and governance (of local, national and regional politicians), skills and technology, regional economic integration and infrastructure development all of which spur the growth of the middle class. Africa needs about US\$60 billion a year in investment to address its water, electricity and sanitation needs. Ultimately, the emergence of the African middle class can only be sustained if the continent puts in place strategies that expand prosperity for all and ensure that more and more of its population exit out of poverty to join the ranks of the middle class increasingly through home-grown and innovative ways to raise living standards.

⁷⁹ See Richard Wenu, 2013. Institutional Investors and PPPs in Africa. Regional Integration Speakers Series chaired by Christian Kingombe, AfDB, 20th February, 2013, Tunis.

Annex 1: Distribution of the African population by subclasses



Annex 2: Size of middle classes in total population in 2010



Source: AfDB, 2011:5.

Notes: According to Jerven's (2013) controversial and much debated book, **Liberia** is either the second-poorest country in Africa - or richer than most African countries, depending on whose data you believe.

The inaccuracies became obvious when **Ghana** updated its economic numbers in 2010, and its GDP was suddenly raised by 60%, making it officially a "middle-income country" for the first time. **Nigeria** is on the verge of a similar revision to its GDP, and its economy will also seem dramatically bigger overnight.

Annex 3: Summary of population, class size, by region (1990 and 2008 based on household survey means)

Region	Total Population (million)	Population (%)			Aggregate annual income/expenditures (2005 PPP \$ billion)			
		Poor (<\$2 per person per day)	Poor (\$2-\$20) per person per day	High (>\$20 per person per day)	Poor (<\$2 per person per day)	Poor (\$2-\$20) per person per day	High (>\$20 per person per day)	Total
	1990							
Africa*	584	69	27	4	77	225	64	366
Sub-Saharan Africa	274.8	75	24	1	70	109	44	224
Middle East and North Africa	162.3	18						
	80	2	16	247	39	303		
Developing Asia	2,692.2	79	21	0	843	721	42	1,605
Developing Europe	352.3	12	84	4	23	638	141	802
Latin America and Caribbean	352.5	20	71	9	31	641	480	1,153
OECD	639.0	0	24	76	0	735	9,636	10,371

Region	Total Population (million)	Population (%)			Aggregate annual income/expenditures (2005 PPP \$ billion)			
		Poor (<\$2 per person per day)	Poor (\$2-\$20) per person per day	High (>\$20 per person per day)	Poor (<\$2 per person per day)	Poor (\$2-\$20) per person per day	High (>\$20 per person per day)	Total
	2008							
Africa*	910	62	33	5	110	449	121	680
Sub-Saharan Africa	393.5	66	33	1	100	206	69	376
Middle East and North Africa	212.8	12	86	3	14	365	66	445
Developing Asia	3,383.7	43	56	1	696	3,285	350	4,331
Developing Europe	356.6	2	87	11	4	974	425	1,403
Latin America and Caribbean	454.2	10	77	13	22	1,008	924	1,953
OECD	685.4	0	16	84	0	542	12,617	13,159

Sources: PovcalNet Database, AfDB Statistics Department estimates for Africa and Asian Development Bank.

Annex 4: Summary of middle class in Africa by sub-classes in 2008

Year=2008	Floating Class		Lower-middle		Upper-middle		Total	
Countries	% of pop	Pop (million)	% of pop	Pop (million)	% of pop	Pop (million)	% of pop	Pop (million)
Algeria	49.2	16.9	18.0	6.2	9.3	3.2	76.6	26.3
Angola	24.9	4.5	7.1	1.3	6.1	1.1	38.1	6.9
Benin	6.9	0.6	5.9	0.5	4.8	0.4	17.7	1.5
Botswana	18.3	0.4	9.4	0.2	20.0	0.4	47.6	0.9
Burkina Faso	10.2	1.6	2.3	0.3	0.9	0.1	13.3	2.0
Burundi	2.4	0.2	1.9	0.2	1.0	0.1	5.3	0.4
Cameroon	23.1	4.4	8.6	1.6	7.5	1.4	39.2	7.5
Cape Verde	29.7	0.1	11.7	0.1	5.0	0.0	46.4	0.2
Central African Republic	6.9	0.3	3.8	0.2	3.8	0.2	14.6	0.6
Chad	10.3	1.1	5.1	0.6	2.5	0.3	17.9	2.0
Comoros	15.7	0.1	6.0	0.0	3.1	0.0	24.8	0.2
Congo, Dem. Rep.	7.7	4.9	2.8	1.8	1.9	1.3	12.4	8.0
Congo, Rep.	22.6	0.6	7.2	0.2	1.5	0.0	31.4	0.8
Côte d'Ivoire	18.2	3.8	11.8	2.4	7.1	1.5	37.1	7.7
Djibouti	25.4	0.2	8.8	0.1	5.9	0.1	40.1	0.3
Egypt, Arab Rep.	48.2	39.3	20.6	16.8	11.0	9.0	79.7	65.0
Ethiopia	13.2	10.7	5.3	4.2	3.0	2.4	21.5	17.4
Gabon	37.6	0.5	23.0	0.3	14.7	0.2	75.4	1.1
Gambia, The	22.0	0.4	12.3	0.2	3.7	0.1	37.9	0.6
Ghana	26.8	6.3	13.5	3.2	6.2	1.5	46.6	10.9
Guinea	6.3	0.6	2.8	0.3	1.5	0.1	10.6	1.0
Guinea-Bissau	10.2	0.2	6.4	0.1	1.2	0.0	17.8	0.3
Kenya	28.10	10.83	15.21	5.86	1.59	0.62	44.89	17.31
Lesotho	26.3	0.5	7.2	0.1	3.9	0.1	37.4	0.8
Liberia	2.9	0.1	1.2	0.0	0.7	0.0	4.8	0.2
Madagascar	5.6	1.1	1.8	0.4	1.6	0.3	9.0	1.7
Malawi	4.0	0.6	2.6	0.4	2.0	0.3	8.5	1.3
Mali	17.0	2.2	4.9	0.6	3.2	0.4	25.1	3.2
Mauritania	37.9	1.2	2.5	0.1	2.5	0.1	42.8	1.4
Morocco	57.3	18.1	15.6	4.9	11.7	3.7	84.6	26.7
Mozambique	6.9	1.5	1.7	0.4	0.9	0.2	9.4	2.1
Namibia	38.2	0.8	3.8	0.1	5.3	0.1	47.4	1.0
Niger	8.7	1.3	3.3	0.5	2.0	0.3	14.0	2.1
Nigeria	12.9	19.5	6.2	9.3	3.8	5.7	22.8	34.5
Rwanda	5.1	0.5	1.5	0.2	1.1	0.1	7.7	0.8
Senegal	23.9	2.9	7.3	0.9	4.5	0.6	35.7	4.4
Sierra Leone	11.4	0.6	4.6	0.3	2.6	0.1	18.6	1.0
South Africa	23.4	11.6	14.0	7.0	5.7	2.8	43.2	21.4
Swaziland	11.2	0.1	6.5	0.1	2.9	0.0	20.6	0.2
Tanzania	9.2	3.9	1.5	0.6	1.3	0.6	12.1	5.2
Togo	11.6	0.7	7.3	0.5	1.6	0.1	20.4	1.3
Tunisia	43.9	4.5	29.0	2.9	16.6	1.7	89.5	9.1
Uganda	10.6	3.4	4.8	1.5	3.3	1.0	18.7	5.9
Zambia	8.8	1.1	4.3	0.5	1.3	0.2	14.4	1.8
Total	20.0	184,76	8.3	77,87	4.8	42,37	33.0	305,01

Notes: Floating Class=\$2-\$4; Lower-Middle =\$4-\$10 and Upper-Middle=\$10-\$20.

Source: AfDB/ESTA Estimates.

Annex 5: Ten large countries: GDP strengths and weaknesses

Country (rank)	Strengths	Weaknesses
Ethiopia (1)	1) Latest published GDP data for 2012 2) Base year for constant price is 2007 or later 3) Good coverage of non-monetary transactions 4) HEIS, Enterprises, Agriculture, and Informal surveys since 2007 5) Good coverage and maintenance of SBR 6) Full User Cost for urban and rural dwellings	1) No GDP(E) at constant prices 2) Government CFC not calculated 3) No Household LFS since 2007
Algeria (5)	1) GDP based on annual SUT 2) HEIS, LFS, and Enterprises surveys since 2007 3) Wide range of price statistics 4) Several sources for SBR 5) Full User Cost for urban and rural dwellings	1) Latest published GDP data for 2011 2) No informal sector survey since 2007 3) No agriculture survey/census since 2007 4) Base year for constant price estimates earlier than 2007
South Africa (9)	1) GDP based on annual SUT 2) HEIS, LFS, Enterprises, Informal Sector and Agriculture surveys since 2007 3) Good coverage of informal activities 4) At least one multi-phase informal sector survey since 2000 5) Good coverage and maintenance of SBR	1) Base year for constant price estimates earlier than 2007 2) Government CFC not calculated 3) User cost not used for rents of dwellings
Morocco (8)	1) Good coverage of non-monetary transactions 2) HEIS, LFS, and Enterprise surveys since 2007 3) Good coverage of informal sector and at least one multi-phase survey of informal sector since 2000 4) Regular business register surveys	1) Except for current price GDP(P), latest data refer to 2011 2) FISIM not allocated to consumers 3) No Agriculture of Informal sector survey since 2007 4) User cost not used for rents of dwellings
Tunisia (11)	1) GDP based on ERETES 2) Good coverage of non-monetary transactions 3) HEIS, LFS, Enterprises, and Informal Sector surveys since 2007 4) Regular business register surveys	1) Latest year for GDP is 2011 2) No agriculture survey/census since 2007 3) User cost not used for rents of dwellings
Ghana (12)	1) Current and constant price GDP available for 2012 2) Good range of price statistics 3) Full User Cost used for urban and rural dwellings	1) No HEIS, LFS, Enterprise, Agriculture, or Informal sector surveys since 2007 2) Statistical Business Register not updated at least annually
Egypt (15)	1) HEIS, LFS, Enterprise, and Agriculture surveys since 2007 2) Good range of price statistics	1) Change in inventories not explicitly estimated 2) No multi-phase survey of informal sector since 2000 3) User cost not used for rents of dwellings
Kenya (16)	1) HEIS survey since 2007 2) Annual enterprise survey 3) Good range of price statistics	1) Current and constant price GDP only available for 2011 2) No LFS, Agriculture or Informal sector survey since 2007 3) Change in inventories not explicitly estimated 4) User cost not used for rents of dwellings
Nigeria (21)	1) Multi-phase informal sector survey carried out since 2000 2) Good coverage of SBR and annually updated	1) Current and constant price GDP only available for 2011 2) Government CFC not calculated 3) Crops and livestock for own consumption not included in GDP 4) No LFS, Enterprise, Agriculture or Informal sector survey since 2007 5) Only consumer price statistics 6) User cost not used for rents of dwellings
Sudan (41)	1) Good coverage of non-monetary activities	1) Latest GDP estimates only available for 2010 2) No LFS, Enterprise, Agriculture or Informal sector survey since 2007 3) SBR not regularly updated 4) Informal activities exclude from GDP 5) User cost not used for rents of dwellings

Source: AfDB, 2014:30.

Annex 6: GDP based on PPP valuation (US\$ million), GDP per capita (PPP valuation, final consumption (private); GINI coefficient and Palma

	Population Density (pop / km2)	GDP based on PPP valuation (US \$ Million)	GDP per Capita (PPP valuation, \$)	Annual real GDP growth (avg over 2004-2012)	Gini coefficient**		Share of consumption (%)	
					Survey year	Index	Lowest 10%	Highest 10%
Algeria	15	274 496	7 523	3.1	2000	35.3	2.8	26.9
Angola	16	126 214	6 260	11.6	2000	58.6	0.6	44.7
Benin	81	15 505	1 658	3.5	2003	38.6	2.9	31.0
Botswana	4	31 491	15 337	4.7	2003	61.0	1.3	51.2
Burkina Faso	64	24 027	1 374	5.9	2003	39.6	3.0	32.4
Burundi	314	5 489	627	4.1	2006	33.3	4.1	28.0
Cameroon	43	50 324	2 459	3.3	2001	44.6	2.4	35.5
Cape Verde	125	2 175	4 303	4.5	2001	50.5	1.9	40.6
Central Afr. Rep.	7	3 847	841	2.8	2003	43.6	2.1	33.0
Chad	9	21 335	1 803	9.3	2003	39.8	2.6	30.8
Comoros	416	872	1 127	1.9	2004	64.3	0.9	55.2
Congo	12	19 267	4 552	5.1	2005	47.3	2.1	37.1
Congo Dem. Rep.	30	27 533	396	6.3	2006	44.4	2.3	34.7
Côte d'Ivoire	64	39 635	1 925	2.0	2002	48.4	2.0	39.6
Djibouti	40	2 377	2 576	4.3	2002	40.0	2.4	30.9
Egypt *	84	537 758	6 405	4.8	2005	32.1	3.9	27.6
Equatorial Guinea	26	28 029	37 853	10.9	...	...	...	...
Eritrea	47	4 412	791	1.7	...	...	...	...
Ethiopia*	78	103 138	1 192	10.9	2005	29.8	4.1	25.6
Gabon	6	26 711	17 080	3.6	2005	41.5	2.5	32.7
Gambia	161	3 495	1 916	2.9	2003	47.3	2.0	36.9
Ghana	107	83 176	3 256	7.4	2006	42.8	2.0	32.8
Guinea	43	12 250	1 169	2.7	2003	43.3	2.4	34.4
Guinea-Bissau	44	1 902	1 204	3.0	2002	35.5	2.9	28.0
Kenya	74	76 074	1 780	4.8	2005	47.7	1.8	37.8
Lesotho	73	3 945	1 780	4.3	2003	52.5	1.0	39.4
Liberia	38	2 693	635	7.4	2007	52.6	2.4	30.1
Libya	4	87 913	13 589	7.8	...	...	...	...
Madagascar	37	21 372	975	3.1	2005	47.2	2.6	41.5
Malawi	134	14 581	918	5.6	2004	39.0	3.0	31.9
Mali	13	17 355	1 063	3.8	2006	39.0	2.7	30.5
Mauritania	4	7 615	2 102	4.5	2000	39.0	2.5	29.6
Mauritius	644	20 259	15 420	4.0	2006	38.9	...	...
Morocco	73	170 953	5 244	4.5	2007	40.9	2.7	33.2
Mozambique	31	26 215	1 071	7.4	2003	47.1	2.1	39.2
Namibia	3	16 845	7 124	5.2	2004	60.0	0.6	65.0
Niger	13	13 530	813	5.3	2005	43.9	2.3	35.7
Nigeria	180	450 535	2 704	7.2	2004	42.9	2.0	32.4
Rwanda	428	14 908	1 323	8.3	2006	46.7	2.1	37.8
São Tomé & Príncipe	179	403	2 345	5.3	...	...	...	...
Senegal	67	26 504	2 022	3.9	2005	39.2	2.5	30.1
Seychelles	192	2 410	27 295	4.1	...	...	...	...
Sierra Leone	85	8 376	1 367	7.2	2003	42.5	2.6	33.6
Somalia	15	...	...	...	...	...	...	...
South Africa	42	578 640	11 404	3.6	2000	57.8	1.3	44.9
South Sudan	16	...	...	...	...	...	...	...
Sudan	19	80 431	2 276	5.1	...	...	...	...
Swaziland	70	6 149	5 038	2.0	2001	50.7	1.8	40.8
Tanzania	50	73 498	1 542	6.9	2000	34.6	3.1	27.0
Togo	111	6 899	1 098	3.3	2006	34.4	3.3	27.1
Tunisia	65	104 413	9 754	3.8	2000	40.8	2.4	31.6
Uganda	147	50 591	1 420	6.9	2005	42.6	2.6	34.1
Zambia	18	23 676	1 705	6.3	2004	50.7	1.3	38.9
Zimbabwe	33	6 909	531	-0.3	2004	50.1	1.8	40.3
Africa	36	3359 148	3 204	5.4	...	...	...	...

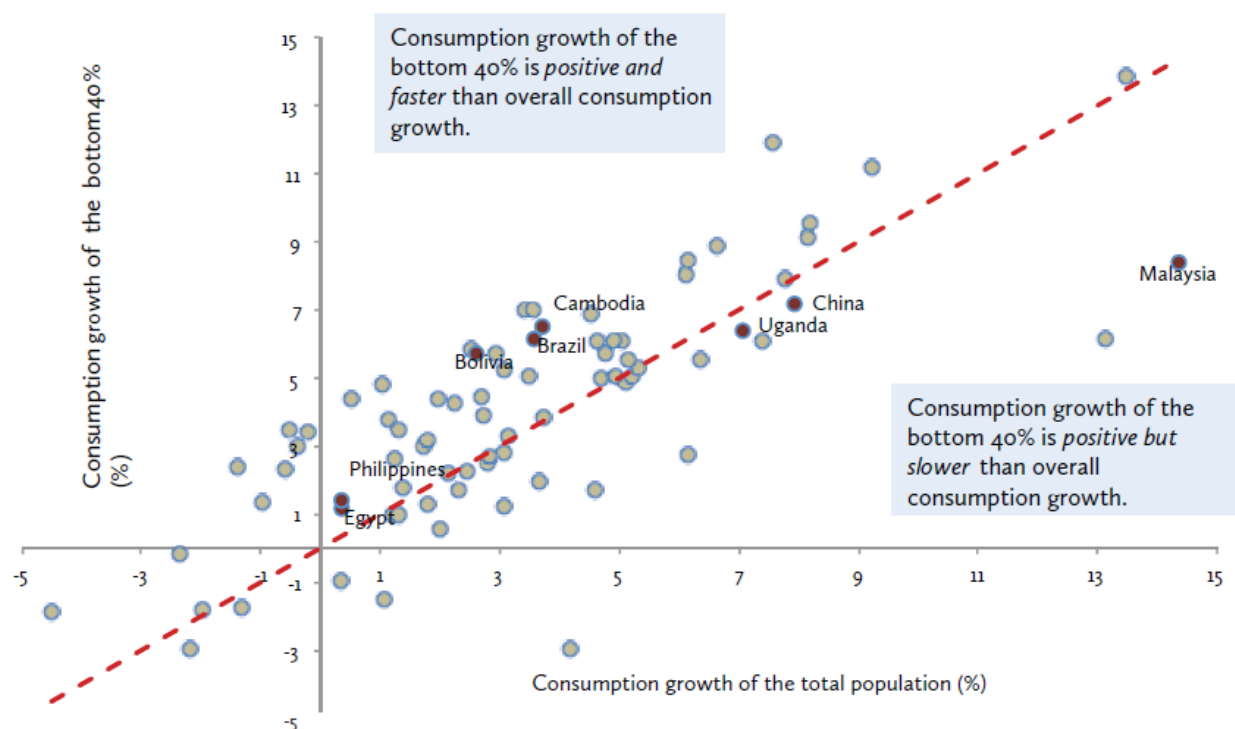
Note: * Fiscal year July (n-1)/June (n)

Notes: International comparisons of GDP per capita ignore within-country inequality (i.e. every individual in a country is assumed to have the same level of income) and GDP is not the same as disposable income, which more accurately reflects living standards.

Sources: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, The 2010 Revision.

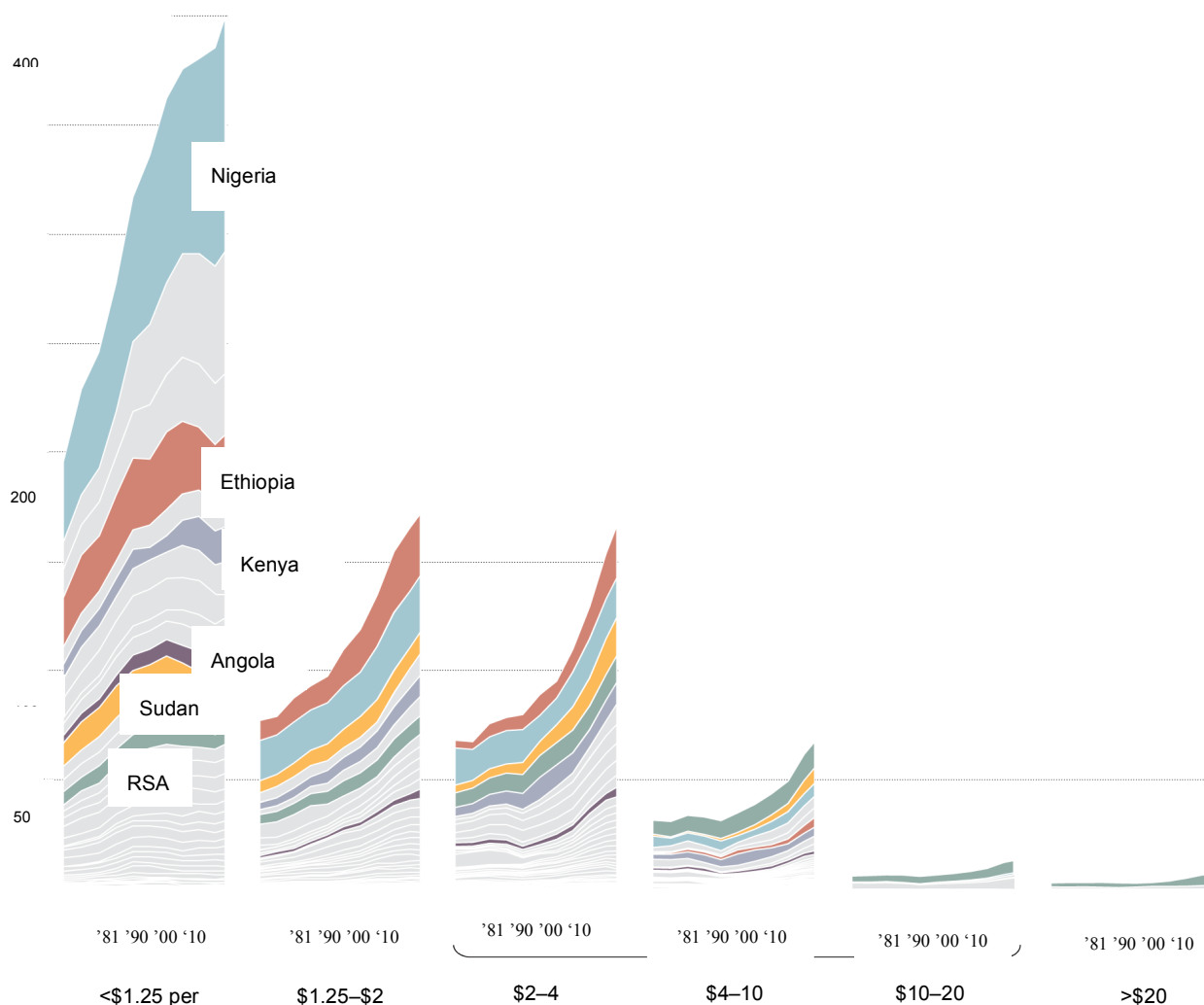
Source: AfDB Statistics Department, Various domestic authorities and AfDB estimates.

Annex 7: Growth rate of the bottom 40% and growth rate of the total population



Source: PovcalNet as of 20th September 2013, and micro data from regional databases of LAC and ECA regions.

Annex 8: Economic Classes in Africa: Population by earnings per day



Source: PovcalNet, Development Research Group of the World Bank reproduced by THE NEW YORK TIMES, July 20, 2014. http://www.nytimes.com/interactive/2014/07/20/world/africa/economic-classes-in-africa.html?_r=0

Notes: *South Sudan did not gain independence until 2011.

There are more than twice as many people considered middle class in sub-Saharan Africa than there were 30 years ago. But in most countries, the poorer and richer classes grew as well, so income distributions have gone largely unchanged.

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