

The Reality of the African Middle Class

The Evidence All Around Us



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Is the African Middle Class a myth or a reality?

Do we really have an African Middle Class?



Objective & Research Questions

The main objective of the research paper is **to explore evidence of existence of the African middle class**

➤ **We will seek to answer the following research questions:**

Is there really a population in Africa that is able & willing to spend far and beyond meeting basic needs (food, shelter, clothing, education, healthcare...)?

Is there an increase in such a population in the past few years or is the scenario static in Africa?

If there is such a population, then what is its evidence on the ground?

What are the opportunities offered to the business community by the existence of the middle class?

Methodology

We employed a mix of **both Qualitative & Quantitative methodologies** to collect supporting data & information including:

- Immersions
- Observation & Photography
- Desk Research

We also employed the use of a Case study extrapolating the findings of the same to a larger population.



Defining the Middle Class

Africa Development Bank broadly classifies the middle class as anybody with an annual income exceeding \$3,900 per year or **who spends between \$2 & \$20 a day** (AfDB, 2011; Banerjee and Duflo, 2008)

The Kenyan middle class can be defined as anyone spending between **Ksh. 23,670** and **Ksh. 199,999 p.m.** (KNBS, 2011)

A much more useful definition of middle class is people **earning** between US\$10 and US\$100 per day... People in this income bracket can be considered a “**global middle class**” by the standards of any country (Earnst & Young, 2013)

Since all definitions emphasize on **income & expenditure** capabilities, we wish to evaluate the middle class based on a population that is able and willing to spend, far and beyond meeting their basic needs indicating a rise in the purchasing power of such people

In relative terms, the middle class can be defined as those individuals or households that fall between the 20th and 80th percentile of the **consumption** distribution (Birdsall, 2010)

The middle class is defined as the population **earning** \$2-\$13 a day threshold (World Bank, 2008)



The African Middle Class

A Focus on Kenya



The African Middle Class

By 2010, the middle class had risen to **34.3% of Africa's population** — or nearly **350 million people**. This represents the population that is between Africa's vast poor and the continent's few elite (AfDB, 2011; AfDB, 2013).

Africa's middle class has **tripled** over the last 30 years, with **one in three people** now considered to be living above the poverty line - but not among the wealthy (Deloitte and Touche, 2012)

The African middle class constituted **about 14% of the African population by 2008**, with projections that by 2020, **more than half** of African households will have discretionary spending power and fit into the African middle class (McKinsey and Company, 2010)

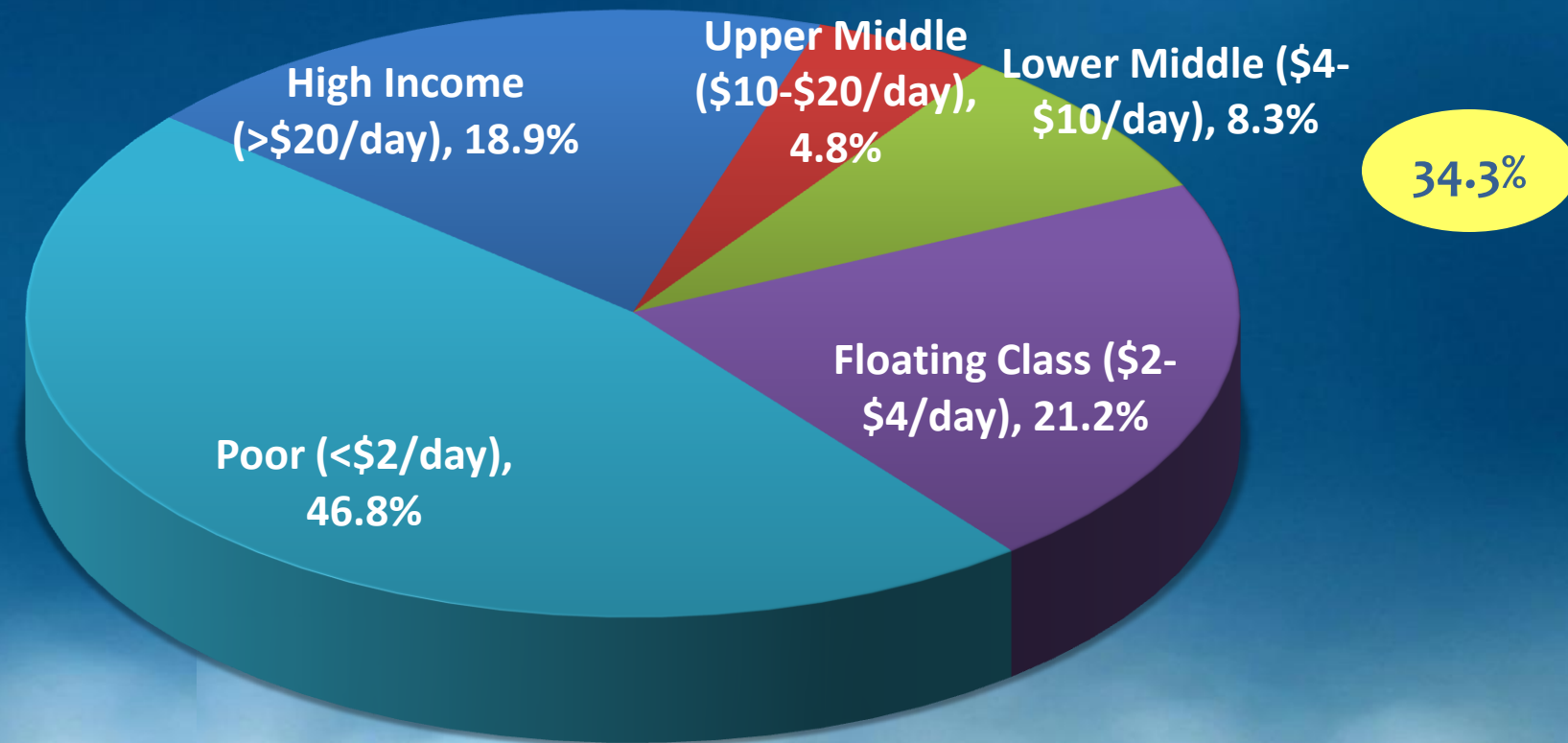
Some **122.7 million Africans** are now classified as 'middle class' (daily per capita expenditure of between \$4 and \$20), 30% higher than in 2000... (KPMG, 2013)

In the past decade, **more than one in three Africans** have entered the middle class, and their numbers are set to increase... Today at least **370 million Africans**, or **34%** of the continent's 1.1 billion people, are described as members of the middle class (United Nations Economic Commission for Africa, 2015)



Africa's Population Distribution by Expenditure (Est.) – AfDB 2013

- The estimates show a cumulative population of 34.3% existing within the African middle class segment, a combination of the floating, lower-middle and upper-middle classes spending at between \$2 – \$20 per day (AfDB, 2013)



Africa's Middle Class Distribution by Countries (2013 AfDB and ESTA Estimates)

Percentage of the middle class in their population:

➤ Top-five African countries:

- Tunisia (89.5%)
- Morocco (84.6%)
- Egypt (79.7%)
- Algeria (76.6%)
- Gabon (75.4%)
- Kenya (44.9%) - Position 10th

➤ Bottom-seven African countries:

- Liberia (4.8%)
- Burundi (5.3%)
- Rwanda (7.7%)
- Malawi (8.5%)
- Madagascar (9.0%)
- Mozambique (9.4%)

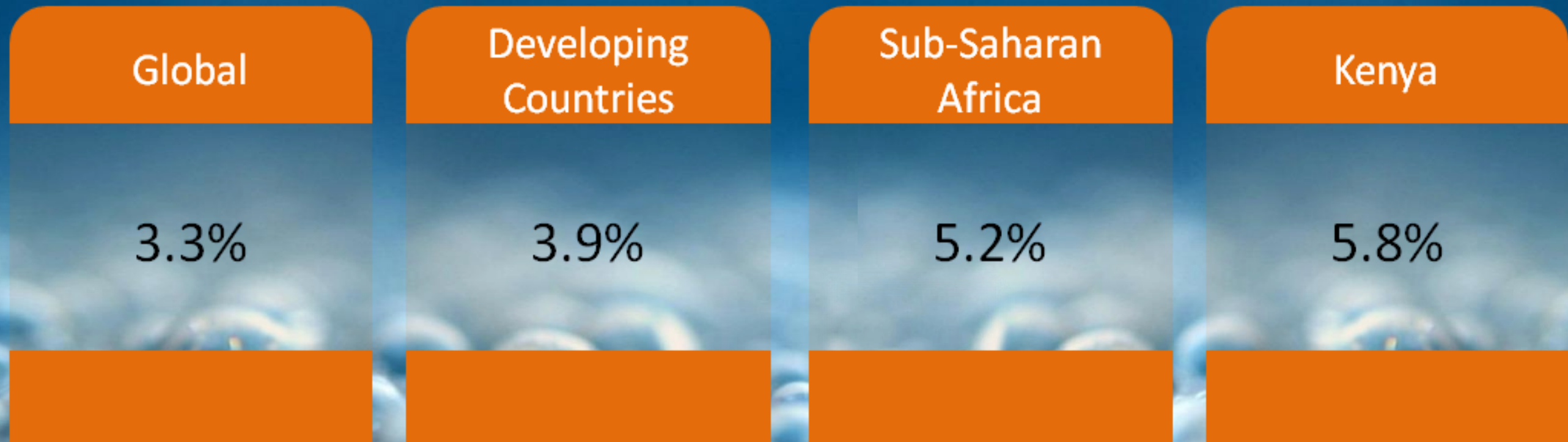
Countries	Floating Class		Lower-middle		Upper-middle		Total	
	% of pop	Pop (million)	% of pop	Pop (million)	% of pop	Pop (million)	% of pop	Pop (million)
Algeria	49.2	16.9	18.0	6.2	9.3	3.2	76.6	26.3
Angola	24.9	4.5	7.1	1.3	6.1	1.1	38.1	6.9
Benin	6.9	0.6	5.9	0.5	4.8	0.4	17.7	1.5
Botswana	18.3	0.4	9.4	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	28.1	0.4	15.2	0.2	1.6	0.0	44.9	0.7
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	16.6	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	174.3	8.3	72.2	4.8	41.8	33.0	268.4

Africa home to the Fastest Growing Middle Class

- Africa now has the **fastest growing** middle class in the world (Deloitte and Touche, 2012).
- In the past ten years, African countries have experienced unprecedented growth rates, with **seven of the top ten fastest growing economies** in the world being those of key African countries (Ethiopia, Tanzania, Mozambique, Ghana, Republic of the Congo, Zambia and Nigeria) (KPMG, 2014).

Africa Home to the Fastest Growing Middle Class

- Africa's growth rate continued to rise, with Sub-Saharan Africa's 2013 growth rate of 4.7% rising to 5.2% in 2014, well above the developing country average of 3.9% and the global average of 3.3% (KPMG 2014; World Bank, 2015).



So, is there an African Middle Class?

Based on the estimates of the middle class offered by some of the most reliable and respectable experts, it is therefore fair to adopt their conclusions and conclude that:

- There really exists a middle class in Africa, which is rapidly growing
- A fair estimate of the middle class could be around **34.3%** of Africa's population, implying that about one in every three Africans is actually in the middle class



The Case of Kenya

The Kenyan Scenario as a Representation
of the African Middle Class

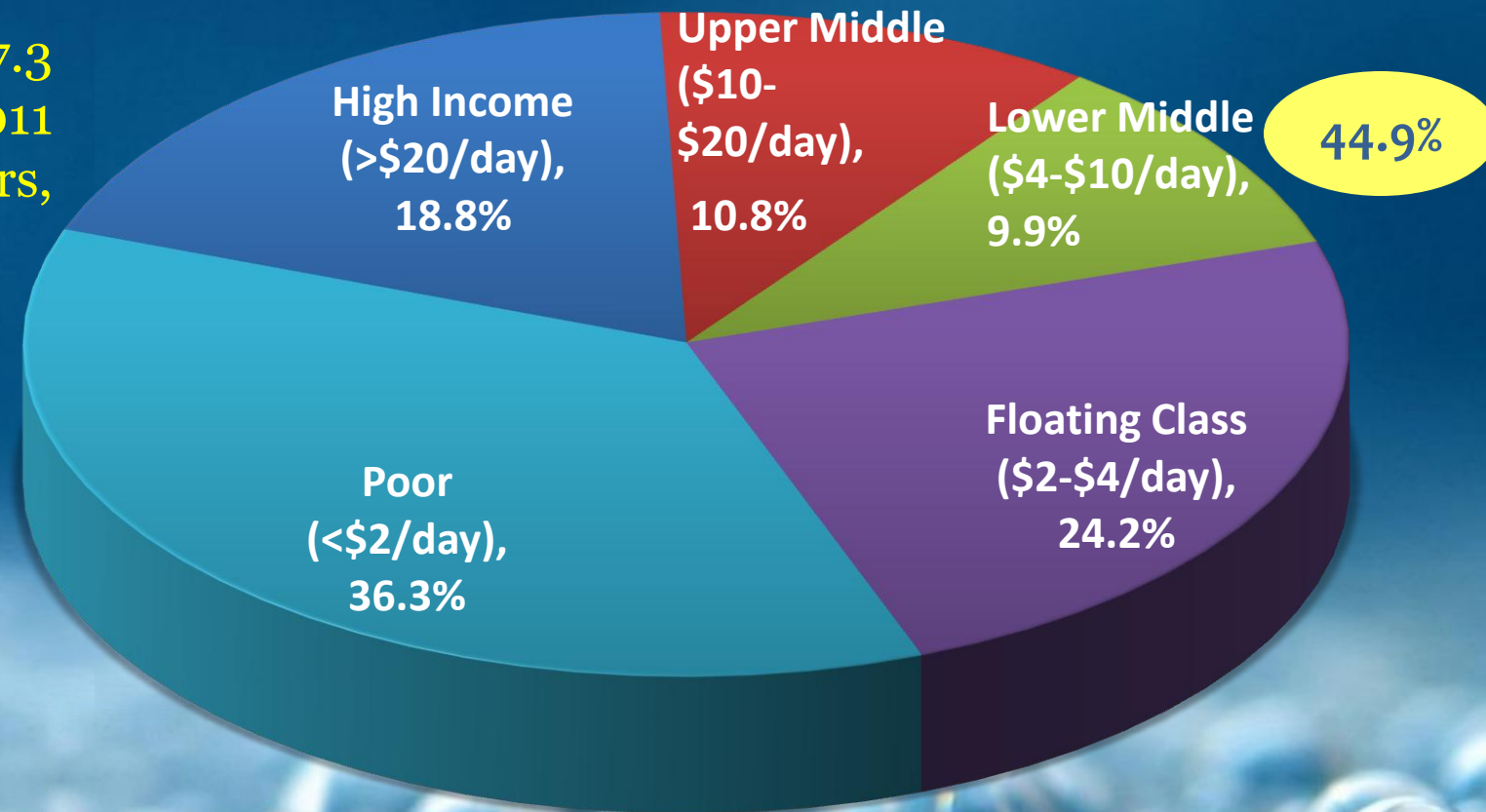


Why Kenya Fits as a Case Study

- Kenya is the East African business hub
- Kenya is also a preferred business hub for many regional and multinational businesses (KPMG, 2014)
- Kenya's estimated middle class size is around the middle of the range between the African country with the largest middle class size & the smallest
- With a middle class of around 44.9%, Kenya is slightly above the African average of 34.3%
- Kenya is a preferred hub for conducting surveys by both regional and multinational experts
- Kenya is a country that has a lot of data available for public consumption
- The Kenyan case study saves the researchers both time and money
- Kenya thus offers a fair view of what a real middle class really looks like

The Rise of the Kenyan Middle Class

- About **44.9%** of the Kenyan population, or around 17.3 million Kenyans, are in the middle class, up from 24% in 2011 (AfDB 2011; AfDB 2013; Business Today, 2015; Horn Affairs, 2015; KNBS, 2011).



Kenya Now a Middle-Income Economy

- In September 2014, Kenya **rebased** its GDP from \$44.1B (Ksh.3.96 trillion) to \$55.2B (Ksh.4.97 trillion), crossing the threshold to become a Middle-Income economy:
 - Its Gross National Income (GNI) per capita of \$1,160 surpassed the World Bank threshold of \$1,036
 - The size of the economy was 25% larger than previously thought
- Kenya is now the 5th largest economy in SSA behind Nigeria, South Africa, Angola & Sudan and the 9th largest African Economy (Forbes, October 2014; Kenya National Bureau of Statistics, Sep. 2014; Bloomberg, Oct, 2014)



Kenya now has Several Hundred Thousand Millionaires

- The number of bank accounts holding more than Sh100,000 rose in 2014 to a record 1.1 million, reflecting rising personal fortunes & expansion of businesses in tandem with Kenya's economic growth
 - Hundreds of thousands of these high-value accounts, which have nearly tripled over the past decade, held Ksh. 2 trillion, placing the average deposit in each account at Sh1.8 million:
 - The bulk of these accounts are held by individuals
- (Central Bank of Kenya, 2015)

'00,000's in the

MILLIONAIRES CLUB

The Boom in the Real Estate Sector

- Kenya is the most improved real estate market in 2014 globally, followed by Qatar, Ghana & Nigeria (Jones Lang LaSalle (JLL), 2014)
- Housing scenario in Kenya: Demand 156,000 units vs. supply 35,000 units (23%)
- Residential property values have skyrocketed 357% from 2000 to 2014
- The average value of a property surged from Ksh.7.1M (2000) to Ksh.25.6M (2014)
- Most property purchases are cash-based transactions:
 - The mortgage market remains underdeveloped, as there are only 20,000 Kenyan mortgage holders today
- The biggest demand is for the mid- and lower-middle markets— Acorn Group, 2014; Hass Consult, 2014.



Skyrocketing Land Prices

➤ On average, land prices in urban areas & satellite towns rose by more than five-fold:

Area	2007 Average Price per Acre (Ksh.)	2015 Average Price per Acre (Ksh.)
Eastern Bypass (Ruiru – Thika Road – Msa Rd)	800,000	40,000,000
Nairobi Area	32,400,000	173,000,000
Runda Estate	20,000,000	67,000,000
Eldoret CBD	15,000,000	100,000,000
Kitengela, Athi River	300,000	6,400,000
Ruai, Njiru	300,000	3,600,000
Ruaka	11,000,000	56,600,000



NAIROBI LAND PRICES HAVE RISEN FIVE-FOLD SINCE 2007

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A birds eye view of some of the blocks of the newly constructed civil servants houses at Ngara, Nairobi. FILE PHOTO | NAIROBI NEWS

By BERNARDINE MUTANU, @mutanuberna
Nairobi's most expensive land is in Upper Hill, at around Sh470m per acre, followed by Kilimani at around Sh370m an acre

Land prices in Kenya mainly set through speculation, based on past trends



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Skyrocketing Land Prices



Front view of the parcel of land



The trip...



The terrain of the land



Land with natural vegetation



The stop over...



Safaricom Investment
Co-Operative

Sections of Lukenya Hills: Before & After

The Rise of the Retail Sector

- The rise in shopping malls e.g Thika Road Mall, Garden City Mall, Galleria Mall , the upcoming Two rivers mall in Runda which have attracted both local & International companies.
- We can see international boutiques e.g. The Bossini from china (Clothing Store), Chelsea Boutique, Manic clothing store from Ireland, Levis from the USA, N3 Milles from Nigeria, etc.
- International franchise & retail stores e.g The Game, KFC, Big Square, Subway, Dominos



Entertainment & Youth Trends

The rise in outdoor events e.g Blankets and Wine, Masaku7, Kiamburing, Koroga Festival & Luo Festival this shows that young people have more income that they can spend on events, food & drinks, vehicles, entertainment, etc.



Tourism & Travel

Evident in the rise of Travel agents that have come up with travel deals at a lower rate to different part of the world i.e Kenya, Africa as well as International e.g Naivasha deals, Christmas safari packages, Bali Indonesia, Seychelles, Dubai.

Shows there is more to be spent in terms of vacations far and beyond meeting basic needs



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Hotel	Hotel Rating	5 days Package (now to mid may) Rates are Per Person Sharing For entire Stay

Dubai Holiday - 5 Days, 4 Nights @ Kshs 59,800

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Highlights
5 days Seychelles From Ksh 125,000/- Per Person WHATS INCLUDED IN THE COSTS ABOVE Economy...

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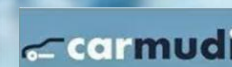
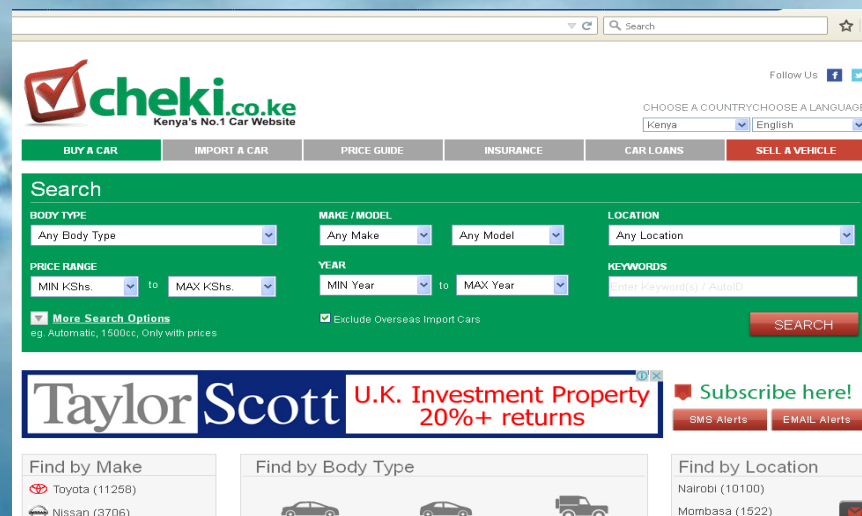
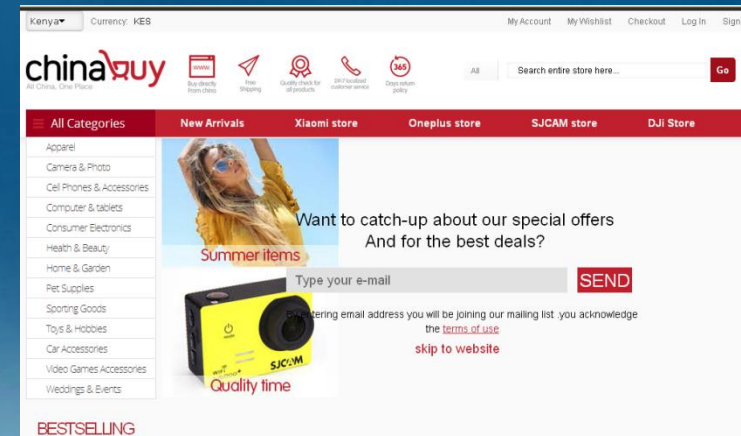
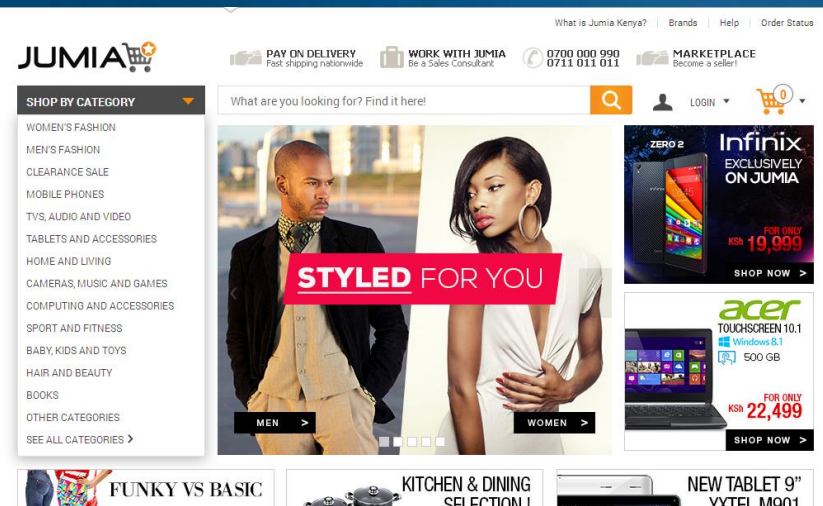
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Online Stores & E-Commerce

Examples: N-Soko, Cheki, OLX, Jumia, BuyrentKenya

- Online buying/shopping has grown exponentially and this has been characterized by strong consumer demands and the increasing number and type of goods available.
- Shopping outlets like Bata, Victoria Courts, Nairobi sports house have partnered with Jumia and this has enabled them increase their sales This portal allows users to browse for products, make their purchase online and get it delivered to their doorsteps. This has created convenience to customers.
- E-commerce has allowed the growth of more businesses, this is greatly affected by the number of internet users.....



Transport & Motor Vehicle Sector

- The number of vehicles import in the last four years has been raising, with over 8,000 car registrations per month (KRA, 2015; KNBS, 2015)
- Car ownership estimated at 44 per 1,000 Kenyans
- Number of high-end car dealers setting base or enhancing operations in Kenya – Toyota, Mercedes, Porsche sales overtake Mercedes in 2014, Ford planning to introduce the Mustang in 2015,
- The number of car bazaars have increased with some utilizing “roadside car hawking” strategies to attract customers
- Recently A.I.G discontinued motor insurance for Subaru and Bmw valued less than 1.5m.
- The traffic menace in Kenya, with efforts aimed at reducing the menace so far failing.

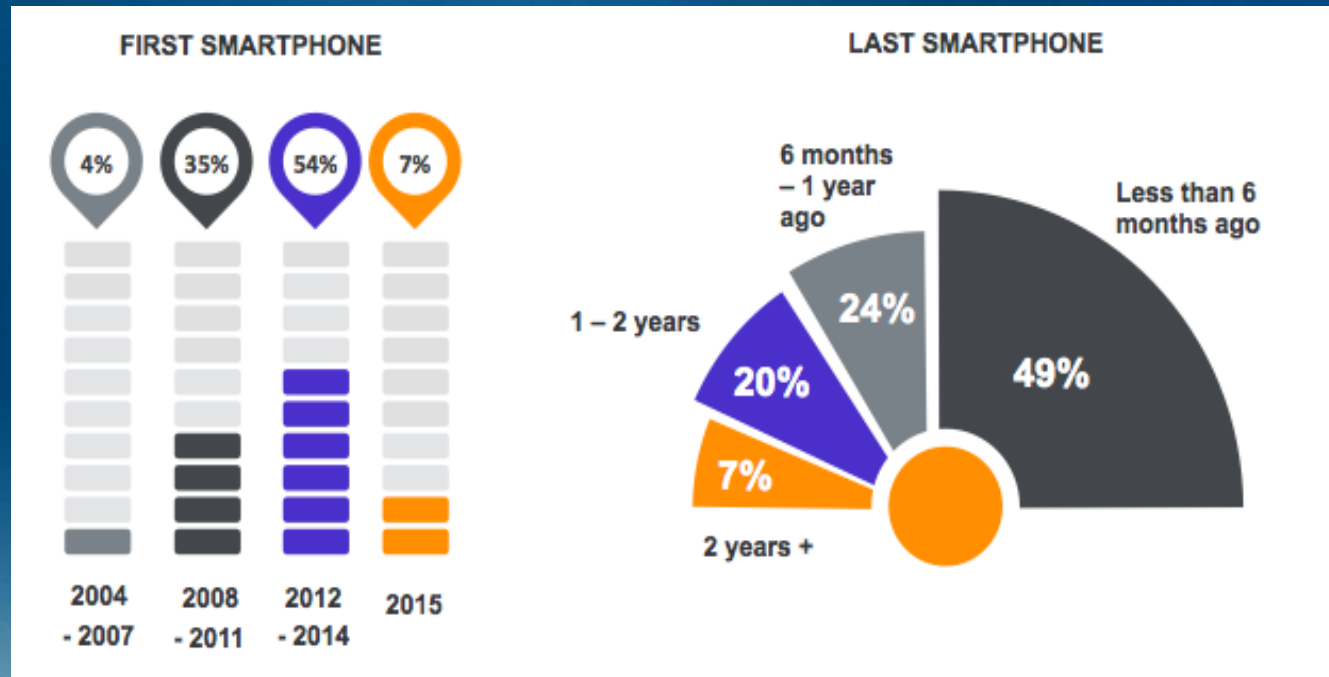


Mobile Money Transfer

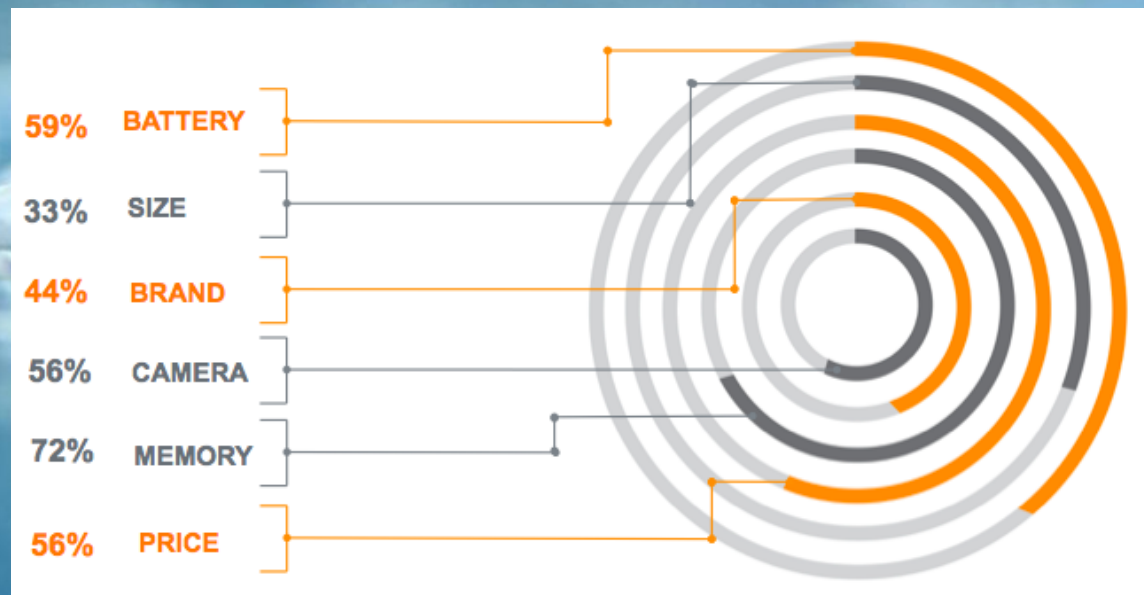
- Mobile money transactions hit Sh2 Trillion in 2014, an amount almost equivalent to the 2014 Kenyan budget.
- Safaricom partners with Standard Chartered Bank so as to increase the minimum amount of money that could be transferred through M-Pesa “allowing customers to now transfer up to Kshs. 50m on M-Pesa via StanChart” up from the previous amount of only Kshs. 5 million, mainly targeting corporate and M-Pesa agents



Mobile Telephony



- In 2015 so far, 58% of all phones that were sold in the Kenya, an estimated 1.8m devices, were smartphones
- Kenyan's embracing mobile telephony, with a desire to spend more on devices that offer more than just voice and messaging services



Internet penetration	Mobile penetration
World: 42%	World: 51%
Africa: 26%	Africa: 79%
Kenya: 58%	Kenya: 83%



The Family Set-up

- The Family's basic needs have been redefined:
 - Before: food, shelter, clothing, education and healthcare



- The Family's basic needs have been redefined:
 - A good school for the kids
 - A family car
 - A good house
 - Medical insurance cover
 - Multiple TV channels including kids channels
 - Children demand for access to or ownership of technological gadgets such as smartphones, tablets, kids laptops, etc

The Family Set-up



Conclusion

So What?



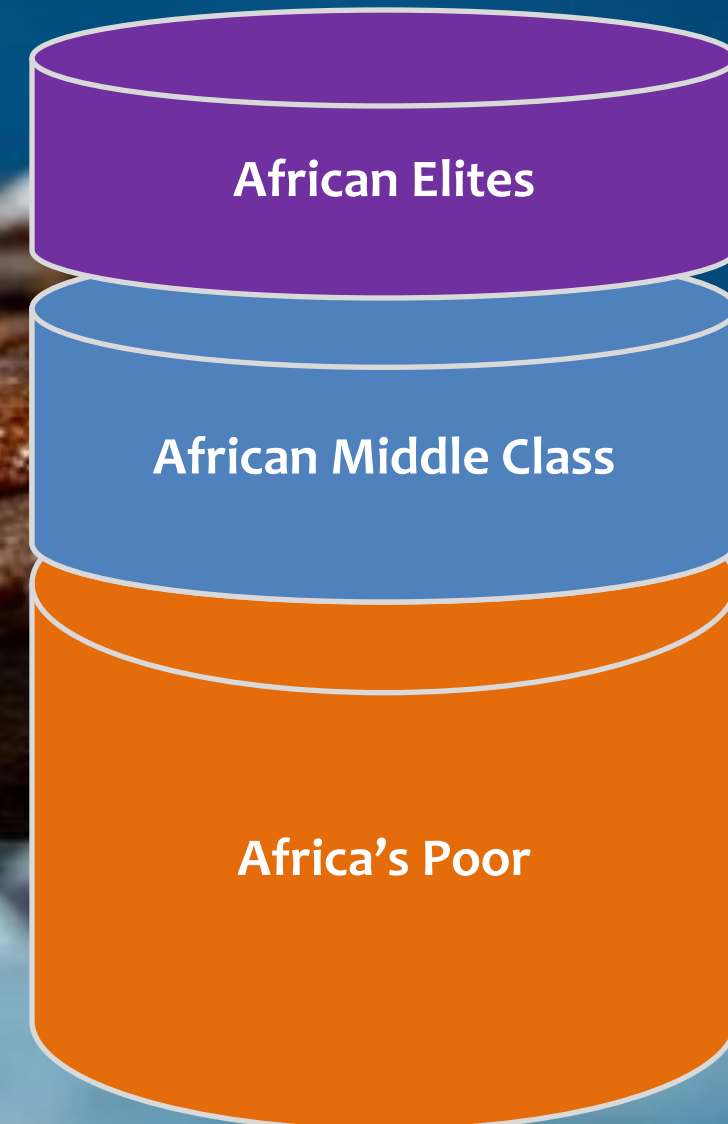
Conclusions

- Kenya acts as a good case study of the growing African middle class, offering the evidence of the fact that **the African Middle class is indeed a reality**.
- There is evidence that exists supporting the existence of the African middle class and showing how the situation on the ground has changed compared to a few years ago.
- We make a conclusion that there actually exists an African middle class, with its estimated size being around 34.3% in Africa.



Conclusions

- We do not wish to disqualify the fact that poverty and its related effects are issues that Africa is still contending with, but it's important to note that even as this happens, the African economies are still growing, some at a very high rate, and with such growth there has been a commensurate growth in the financial muscle of the African population, a factor that has enabled about a third of that population to be able and willing to spend on luxury and non-essential products far and beyond their basic needs.



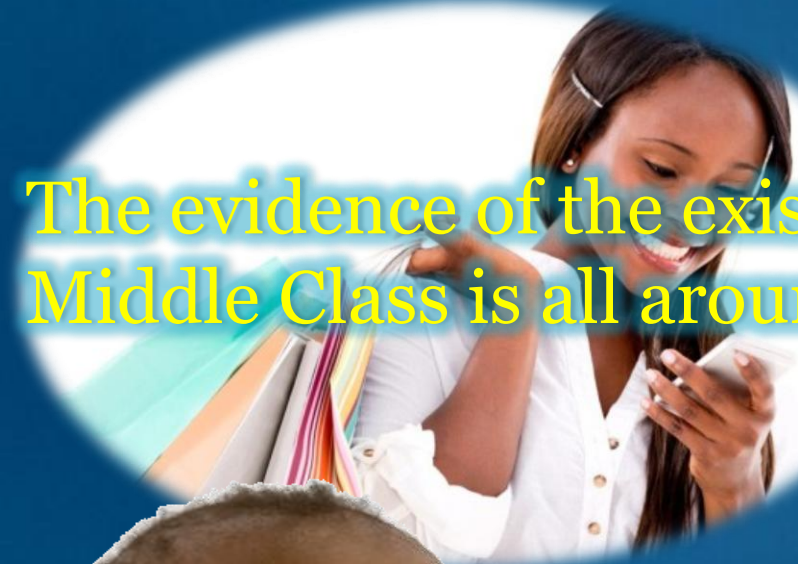
What's in for the Business Community?

- There is a **growing middle class** population in Africa, about 34.3%, willing & able to spend more on luxury & non-essential products & services, far & above meeting their basic needs
- **Price** has ceased to be the main driver to choice for many Africans, getting replaced by quality, convenience & style, market trends, etc.
- The African middle class has become **brand-oriented**, being influenced more by trends, information access and innovation than by their needs
- This middle class is being **targeted** by the business community, both local & multinational businesses.
- There is a **growing demand** fueled by a growing middle class with new patterns of income and consumption (United Nations Economic Commission for Africa, 2015)
- **Opportunities exist, but it is not necessarily business as usual** (Deloitte & Touche, 2012).



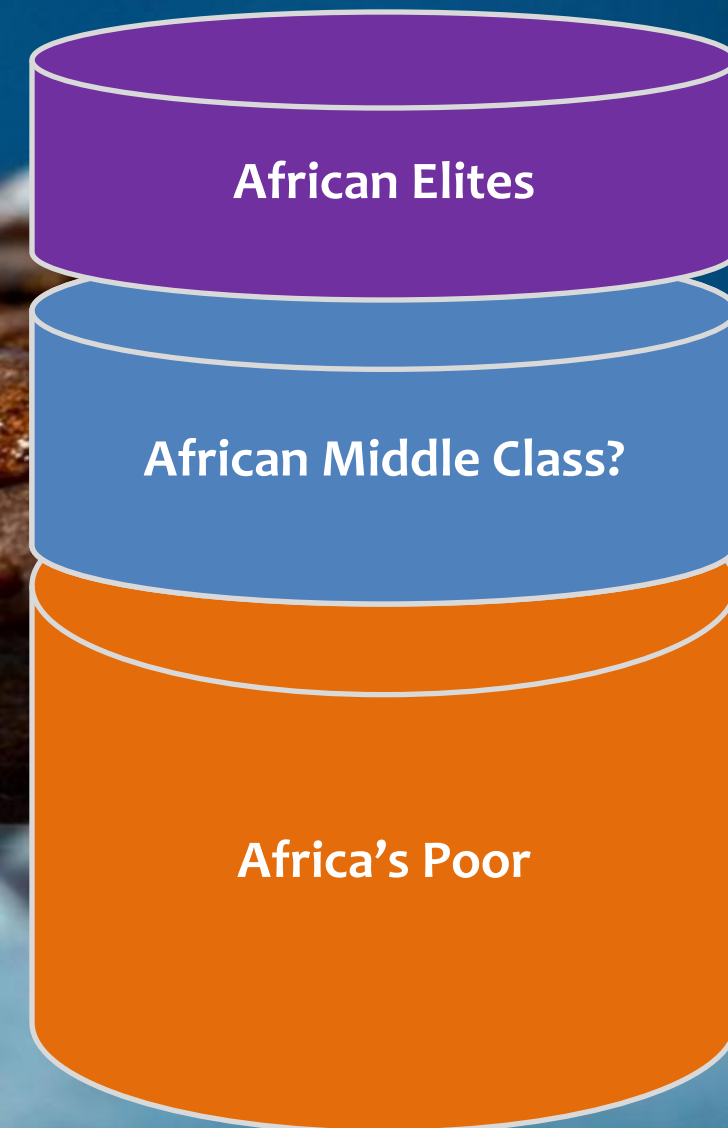


The evidence of the existence of the African Middle Class is all around us



So, is the African Middle Class a myth or a reality?

Q&A Session



Thank You

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