AFRICAPITALISM AND AFRICA'S SUSTAINABLE DEVELOPMENT

Tony O. Elumelu

AFRICA'S rise is real, but not assured. While many critical economic indicators—increasing gross domestic product, increasing real income per capita and increased labor market participation rates—have been recorded over the last 15 years, fundamental challenges remain. Chief among these, across the entire continent, is a seeming lack of economic resilience to withstand commodity price shocks.

Amidst much talk of "potential," Africa still has the highest incidence of poverty and the slowest rate of poverty decline. Population growth has exceeded poverty reduction. Inequality rates remain high—about 415 million people in sub-Saharan Africa live in poverty. Amongst what is labeled as Africa's middle-class (i.e., those earning between $2 and $20 per day), 60 percent make up the 'floating class' (i.e., those earning between $2 and $4 per day), with the danger of relapsing into poverty.

This must change if there is to be sustainable and inclusive broad-based development in Africa.

We all know that African economies have been largely defined by extractive activity—oil and gas, minerals, and a variety of precious metals. The continent's extractive industries often export raw materials elsewhere for processing, which means the "real" value of those resources is often realized outside of Africa. This lack of value addition to African resources is at the heart of the continent's failure to thrive, and the vicious cycle of "boom" when commodity prices rise only to "slump" at the end of a commodity price boom. The real question for Africa and its leaders is: how do we change this?

Tony O. Elumelu is Chairman of Heirs Holdings, the United Bank for Africa, and Transcorp. He is also Founder of the Tony Elumelu Foundation. You may follow him on Twitter @TonyOElumelu.

Photo: Heirs Holdings Ltd.

Tony Elumelu

I believe it is essential that we have a more thorough and open debate about Africa's economies and how to make them more resilient and move away from the shortterm feel-good narrative with comforting headlines such as "Africa is home to seven of the 10 fastest growing economies in the world." In order to help Africa grow sustainably, we must better understand its challenges and address them in a fundamental and holistic manner. Suffice it to say that to do otherwise would be to shy away from dealing with some critical issues.

The starkest example of a serious looming challenge that should be turned into an opportunity is Africa's demographic dividend. More than 200 million young Africans will enter the workforce by 2030. Africa is home to about 617 million young people of working age, and this number is expected to rise to 1.6 billion by 2060, effectively turning Africa into the world's largest workforce.

Good News

Africa's pool of labor has the potential to be a force for transformative growth across the continent. This can only be accomplished with a deliberate, comprehensive effort to create millions of new jobs and employment opportunities to accommodate these new entrants to the labor force in their millions.

The potential of an increasing population is in its human capital. The private and public sectors can turn this population surge into a rising and energetic generation that can be used to spur innovation and development on the continent.

The key to successfully addressing the employment challenge in particular is to ensure that African economies create more value locally. This means, for example, that rather than merely extracting natural resources and exporting them as commodities to countries outside of Africa that process, refine, and add "value," Africa must build the capacity to add value to its natural resources itself. This would enable Africa to reap more of the benefits, including generating the local economic activity that drives job creation, builds and sustains supply chains, and fosters a more holistic economic ecosystem.

Amidst much talk of "potential," Africa still has the highest incidence of poverty and the slowest rate of poverty decline.

Africapitalism

Africa is capitalism's final frontier, and as such it offers boundless economic opportunities that could solve many of the continent's most pressing social challenges. Longterm investment that creates economic profits, which can be recycled into Africa's economic ecosystem, as well as social wealth, sits at the core of Africapitalism. It is a private sector approach to solving some of Africa's most intractable development problems.

Africapitalism is an economic philosophy that embodies the private sector's commitment to transform Africa's economy through longterm investments that generate both long-lasting economic prosperity and social wealth for all Africans.

Africapitalism presents a different model from that which relies solely on government to manage markets and provide basic social services, as the public sector alone cannot be relied upon to develop Africa. Rather, it exhorts a new Africa emerging from the activities of a reinvigorated private sector, solving social problems by building businesses and creating social wealth.

In addition to creating jobs, attracting more investment, building local value chains, innovating new products and services, generating tax revenues, and creating positive economic spillovers, Africapitalism can also help address inequality.

However, in order to attain Africapitalism's goal of creating greater economic opportunity and social wealth, Africa's private sector must transition from short-term, rent-seeking economic activities towards a longterm entrepreneurial approach. Government policies must lend support to an entrepreneurship culture—entrepreneurship that is indeed solving social problems and adding value to Africans. It is this kind of support from government that makes for a robust private sector and allows government to play its proper role as an enabler of growth and development.

To help Africa grow sustainably, we must better understand its challenges and address them in a fundamental and holistic manner.

In Africa, the goal of economic development will not be addressed by growth alone. For decades, even in Africa's fastest growing economies, growth has had less of an effect on poverty than in Latin America and the Caribbean, emerging Europe, and Central Asia.

The major reason is that, to date, the growth process has not been inclusive. Growth has not been driven by longterm investments that add value domestically, but rather by the export of raw commodities at continually increasing prices. According to the 2011 *African Economic Outlook,* "Growth needs to be associated with employment creation because employment is the main channel through which growth affects poverty."

Nearly 80 percent of countries with economies dependent upon extractives have per capita income levels below the global average. Many of these nations also face significant challenges in energy, agriculture, environment, waste, transport, and basic infrastructure.

Six Key Africapitalism Sectors

Let's take a look at six key critical sectors for the sustained development of Africa which resonate with the Africapitalism philosophy.

The first key sector is *energy*. Given the severe energy scarcity in Africa (only 26 percent of the population of sub-Saharan Africa has access to electricity), investments by enterprises in sustainable energy priorities, such as energy efficiency, energy access, and cleaner sources of energy, will be key to supporting Africa's sustainable development. Investments in energy projects, co-generation, and enhancing energy efficiency will not only make commercial and industrial operations less vulnerable to power fluctuations and shortages, but will also enhance overall financial viability.

The second is *waste*. Businesses around the world are discovering 'wealth-in-wastes.' The private sector in Africa should lead the way in exploiting the potential of recycling and waste management that could lead to the creation of entirely new industries. Business enterprises need to look beyond business-as-usual models and use technologies creatively in order to generate wealth and move towards low carbon pathways.

The third key sector is *transport*. Transportation costs increase the prices of African goods by 75 percent, which diminishes their competitiveness. As more of Africa's natural resources are developed, and as the population grows significantly, there are tremendous opportunities for investment in transportation infrastructure, including in roads, ports, rail, airports, and mass transit.

The fourth is *environment*. A dozen major African cities will see their populations increase by 50 percent between 2010 and 2025, and the continent is projected to be 70 percent urbanized by 2050. The private sector can contribute to the development of new smart urban centers through public private partnerships (PPPs), implementing new low carbon technologies, and developing low carbon pathways for urbanization in Africa. As the UN Agenda 2030 makes abundantly clear, economic growth and sustainable development are not zero-sum games.

Africapitalism is an economic philosophy that embodies the private sector's commitment to transform Africa's economy.

The fifth key sector is *agriculture*. Agriculture employs 65 percent of Africa's labor force and accounts for 32 percent of gross domestic product. In addition, over 60 percent of the world's arable land is located on the continent. With the lowest farm yields in the world, there is a tremendous amount of value to be captured through the development of medium- to large-scale farming and mechanization in order to increase productivity dramatically.

In the agriculture sector, in addition to financing, purchasing, and supporting improvements in the cocoa crop for export, a new trade framework should run the gamut of the value chain and include support for opportunities in the storage, transportation, processing, manufacturing, and packaging of value-added chocolate, which Africa currently imports in large quantities.

And the sixth is *value chains*. Value chains offer an opportunity for Africa to build dynamic manufacturing sectors by processing its natural resources—from agricultural products and minerals, to oil and natural gas. For example, Mtanga Foods, a commercial agricultural business in which I invested in Tanzania, serves the full value chain of its operation, focusing on the production, processing, distribution, and retailing of beef, other meat products, and seed potatoes. Mtanga's operation introduced the first new varieties of seed potatoes in Tanzania in over three decades, supplying over 150,000 farmers, transferring know-how and technology to the Tanzanian Ministry of Agriculture, opening up the sector to new entrants, and creating jobs for local farmers, smallholder seed multipliers, and distributors.

Entrepreneurship

More than 200 million young Africans will enter the workforce by 2030, and the current rates of job creation will not be able to absorb them all. This makes the case for the promotion of entrepreneurship—and particularly for policies that will create an enabling environment for entrepreneurs to thrive—overwhelming. Not only does entrepreneurship empower individuals to find and pursue opportunities to improve their economic circumstances, it also expresses Africa's ability to find solutions to its economic problems at the micro level.

Enterprise development is fundamental to poverty alleviation, job creation, economic growth, strengthened technical skills and capacity, and overall sustainable economic development for the continent. Deliberate policy focus, training, and incentives in the SME space will enable entrepreneurs to thrive; achieve financial security; accumulate wealth, create jobs and incomes in their communities; generate tax revenues for governments; and catalyze a range of multiplier effects—ranging from food security and improved nutrition, to better access to healthcare and education for future generations.

It is encouraging to see the new wave of creative and confident young entrepreneurs that has emerged in Africa, developing innovative start-ups in areas such as the environment, health, and skills development.

I am so resolute in my belief in the role of enterprise and SMEs in Africa's transformation that, through the Tony Elumelu Entrepreneurship Programme, I have begun to invest $100 million over a ten-year period to identify, mentor, train, and seed 10,000 African start-ups. The first 1,000—representing 51 African countries—have already completed their training and received their first tranche of seed capital, and they are poised to produce the next generation of transformative business leaders. There are millions more aspiring African entrepreneurs who deserve a chance, if only governments would prioritize support for entrepreneurship.

In high-income countries, SMEs account for more than 60 percent of both employment and GDP; in low-income countries, they account for nearly 80 percent of employment but less than 20 percent of GDP. As a result, whether entrepreneurs start their businesses because they cannot find jobs ("necessity entrepreneurship") or because they see market opportunities ("opportunity entrepreneurship"), helping them grow is a development imperative.

For large companies, enterprise development is also a business imperative. It strengthens the value chain by increasing quality, quantity, and security, while potentially decreasing costs on the supply side and increasing sales capacity on the distribution side. It expands the market by driving job creation and GDP growth, and enhances corporate reputations by contributing to local, national, and global priorities.

Just as enterprise development is critical to large firms, large firms are critical to enterprise development. They can support entrepreneurs through corporate social investment in start-up capital, basic business skills, mentoring, and networking with peers and potential customers.

However, large firms increasingly realize that, when it comes to supporting entrepreneurs, their comparative advantage is not social investment, but rather demand for goods and services from startups and SMEs within their core business operations and value chains—demand that creates the business opportunities entrepreneurs need to grow. To help them take advantage of these opportunities, many large firms adjust their procurement policies and practices and provide small-scale suppliers, distributors, and retailers with information, training, technology, and other capacity-building resources.

Africa's public sector leaders will need to take more proactive measures to tackle lingering issues in areas such as reliable and functional infrastructure, taxation, skills development, and corporate governance that often hinder start-up organizations operating in non-traditional sectors. African governments must also use incentives and other mechanisms to ensure that micro, small and medium-sized enterprises (MSMEs) and labor-intensive activities can thrive alongside large firms in both traditional and new areas of their economies.

A New African Story

Africa offers tremendous opportunity that is still largely untapped by Africans and the rest of the world. For me, I will continue to increase my investments across Africa and keep empowering young African entrepreneurs so that we may develop Africa in concert.

I look forward to a new African story, where Africa's private sector works alongside African governments to grow domestic value-adding industries, thereby underpinning the development that Africa needs. The results of such a partnership must and will deliver massive job creation, as well as technological advancement, innovation and, most importantly, a rebalancing of the unequal exchange of cheap raw materials for expensive finished goods that has put Africa at a perennial disadvantage.