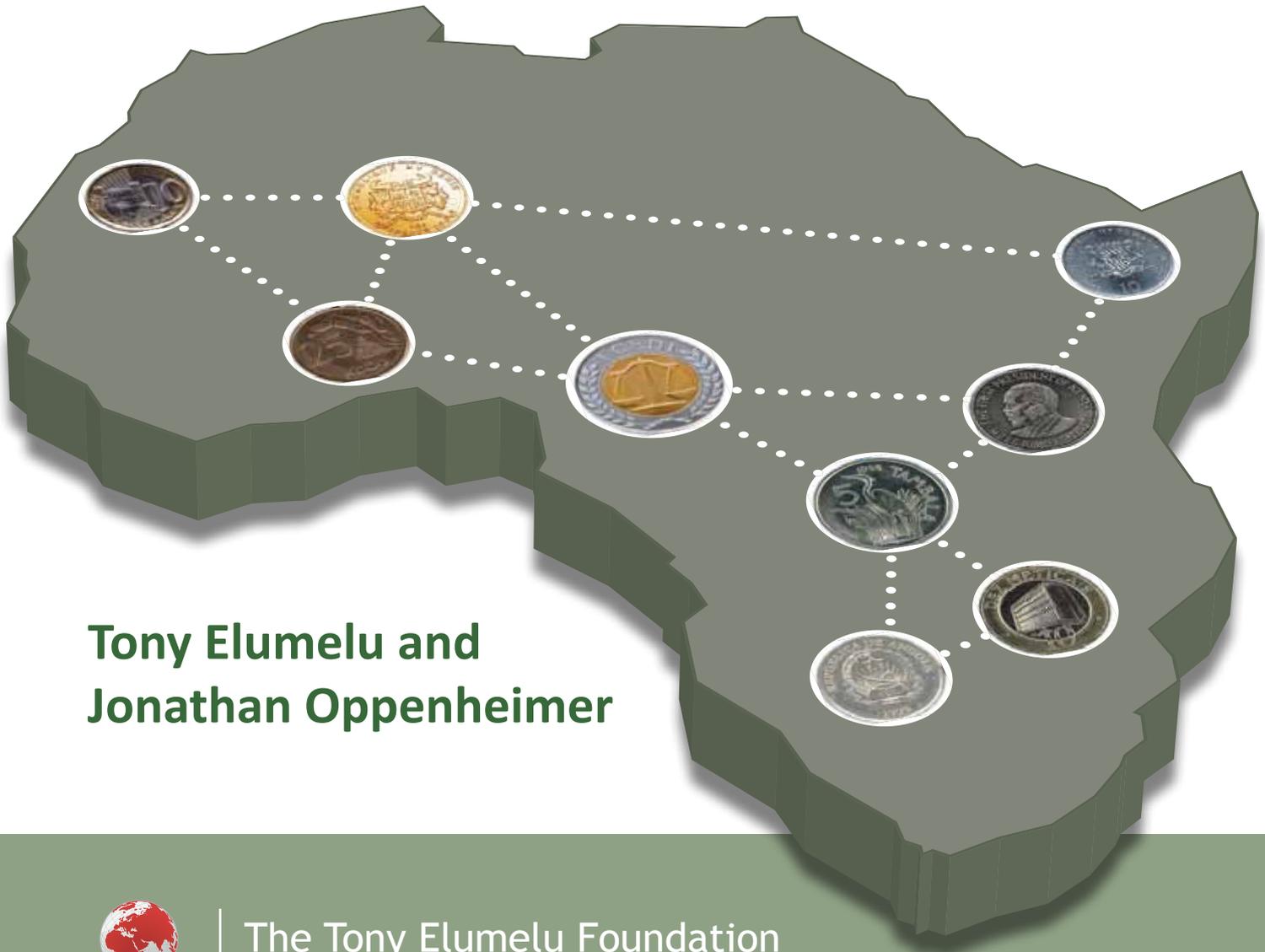


Africans

Investing in Africa

Building prosperity through intra-African trade and investment



**Tony Elumelu and
Jonathan Oppenheimer**



The Tony Elumelu Foundation



The Brenthurst Foundation

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About the Authors

Tony O. Elumelu, C.O.N, is an entrepreneur, a philanthropist and the chairman of Heirs Holdings Limited, a pan-African proprietary investment company with interests in strategic sectors of the economy that create economic prosperity and social wealth in Africa. **Jonathan Oppenheimer** is a South African businessman who has spent most of his working life in the Anglo American and the DeBeers Group. He has been actively involved in his family's various business, advisory and philanthropic activities, most notably in the establishment of The Brenthurst Foundation and the formation of Tana Africa Capital.

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The Brenthurst Foundation
E Oppenheimer & Son (Pty) Ltd
PO Box 61631, Johannesburg 2000, South Africa
Tel +27-(0)11 274-2096 · Fax +27-(0)11 274-2097
www.thebrenthurstfoundation.org

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Introduction

Africa is on the global corporate agenda. A series of announcements from multi-nationals such as Coke, GE, Nestlé and Samsung regarding billion-dollar investments on the continent, have caught the attention of the global media. Management consultancies, development agencies and financial institutions have followed swiftly with increasingly positive reports on the business opportunities, which go far beyond the traditional perception of Africa as a resource story and a recipient of charity.

The African macroeconomic environment is transforming, as policy makers have pushed through painful structural adjustment programmes, established independent central banks and adopted pragmatic fiscal and monetary policies – all of which have helped to create a more business enabling environment. Also critical has been the decline of armed conflict – once the scourge of Africa, intra- and inter-state wars have declined by over 60 per cent since the beginning of the millennium. In turn, political stability, in much of Africa, is becoming the norm rather than the exception as countries democratise and begin to set their own agendas.

What has been less noticed is the role and influence of African businesses, entrepreneurs, policy makers and consumers in this revolution. A new generation of African entrepreneurs has been created – new African-owned and managed businesses are challenging traditional incumbents and introducing new business models and strategies that are driving domestic growth.

Our objective is to ensure that this profound change receives the attention it deserves, providing a rigorous analysis of the drivers of Africa's entrepreneurial-led growth, but also identifying the continuing barriers to progress and the means by which Africans themselves can overcome those barriers.

The Brenthurst Foundation and the Tony Elumelu Foundation are commissioning several in-depth case studies across a number of key sectors, highlighting how intra-African trade, often considered negligible, is transforming the continent, as Africans lead the way in investing across borders. The 'Oppenheimer

Elumelu' Research Series, for which this Discussion Paper serves as the introduction, will provide insight into how Africa's own entrepreneurs and businesses are becoming more regionally focused and creating multinational enterprises that are breaking down the often artificial barriers that have separated the continent. The case studies will form the empirical foundation for what we believe will be a major forum, bringing together leading academic, business, and policy leaders from across the continent to debate the findings and the specific policy implications. The cases will be published, and our Foundations will seek collaborative ways to catalyse the implementation of the key policy recommendations.

The African macroeconomic environment is transforming, which has helped to create a more business enabling environment

The case studies will identify key successes, but also highlight and offer solutions to the structural impediments that must be overcome to deliver the economic and social gains the continent requires. They should be read as a competitiveness manifesto for Africa that illustrates how and why Africans are, and should – even more so going forward – be investors in Africa.¹

Despite the relative economic success of the last decade, Africa still lags behind on many of the global surveys relating to business competitiveness. Policy makers have to continue to implement strategies that create the enabling environment that allows business and economic growth to flourish. Competitiveness as a concept needs to be entrenched in all segments of our society, as Africans realise that the global business world owes us no favours.

The goals of the Tony Elumelu Foundation and the Brenthurst Foundation are to develop agendas that position Africans as the key agents in the

continent's economic transformation, with the rewards and responsibilities associated with that role. Although, we bring different perspectives, geographically and in mission, we both share origins in

entrepreneurial success in Africa and a commitment to assist the process of Africa's economic and social development.

The Opportunity

Africa's statistics speak of tremendous potential: the continent is the size of China, Mexico, Europe, India, the United States and Japan combined. The population will soon surpass China's, with a middle class as big as India's.

More than a decade of sustained GDP growth, with no recession in 2008 and no recession now, have altered the trajectory of Africa's development. With growth equalling or often outstripping many other parts of the world, sub-Saharan Africa also boasts the lowest regional debt-to-GDP ratio in the world. FDI, encouraged by improved political and fiscal policies, has increased by a factor of five in the

The debate today should not be about how we realise our full potential – but rather how we realise it to our own advantage

last 10 years.

One of the key changes fuelled by this sustained per capita GDP growth is the sharp rise in disposable income, which has turned many Africans into increasingly sophisticated and discriminating purchasers of goods and services. The impressive growth of the African consumer market (estimated to be \$1.4 trillion by 2020, with 128 million homes with

disposable income in the same period) has so far been largely restricted to Africa's older, urban elite, though a much broader increase in disposable income is inevitable in societies which continue to strengthen their governance and institutions.²

Urbanisation in Africa is striking – it is estimated that, by 2030, nearly 50 per cent of the African population will be living in cities.³ Over the next 30 years, Africa will be home to a quarter of the world's working age males, the largest workforce in any region in the world.

Mobile phone penetration has been rapid and catalytic. The economic and social impact of a communication and data revolution, increasingly delivered on cheap smart phones providing digital access to the global village, has the capacity to transform every sector from healthcare and banking to politics and entertainment.

These facts illustrate the opportunity – an emerging class of purchasers of consumer goods, financial services and infrastructure as well as a potential source of manpower for industrialisation and agricultural development.

Africans must not squander this auspicious alignment. The debate today should not be about how we realise our full potential – but rather how we realise it to our own advantage. We need to recognise that the alignment of opportunities and interests must be balanced with sufficient social development to ensure an acceptable balance between the haves and the have-nots.

The Challenges

Just as Africa's opportunities are now widely recognised, so too are the barriers to its success which limit its competitiveness.

The list of impediments to investment on the continent affects both Africans and foreign investors

alike. Yet it is our ability to engage in intra-African business that will allow us to maximise the opportunity we now have to contribute to the continent's social and economic development.

Low levels of infrastructure investment inhibit trade and the basic functioning of the economy. Without power, factories cannot process, machinery cannot be operated and operations are limited to the hours of daylight. Without effective transportation, produce and services cannot reach markets efficiently. Power shortages result in 6.2 per cent of the value of each product sold being lost – which is 2 per cent more than in Latin America, and 27 per cent of businesses regard transportation as a major constraint to commerce, compared to only 19 per cent in Latin America.

Education naturally impacts on competitiveness. It requires long-term thinking and innovation, both in terms of investment and delivery. The series will highlight how smarter, novel approaches to delivering skills for the 21st century can assist Africa's on-going transformation. Traditionally, the most talented Africans have sought educational

advancement and careers overseas, but a combination of transformational educational technology, growing opportunities at home and the poor global economic climate will see this brain drain becoming a brain gain. Recruiting and retaining talent, home grown or otherwise, is critical.

Although there is progress in the improvement of African countries in the World Bank's *Doing Business* Index and various indices, such as the persuasive Ibrahim Index, are having a positive impact, ultimately economic success goes hand in hand with inspirational and effective political leadership. All of this must be set within a constructive legal framework, where investors are protected and can be confident of fair and balanced arbitration when inevitable conflicts of interest occur.

As these agendas are set, we will begin to see the marginal costs of doing business in Africa fall.

Where are the African Investors?

There is frustration that Africans are not reaping the rewards of the current global investor confidence – Asia is the only other world region that ranks ahead of Africa in terms of investor perception.

There remains the uncomfortable reality that much investment in Africa does not benefit Africans as much as it should. The mass export of commodities to the East and the West is yet to truly facilitate the 'trickle-down' effect of wealth that home grown investment, focused on value adding industries, could have.

It is important that we strike the right balance between adding value to our economies and providing attractive investment opportunities

Africa is a place of almost limitless diversity. There is, however, a strength of common identity on the continent that non-Africans often find surprising, not least given the images of conflict and communal violence which, at least to the outside

world, have been the face of Africa. But the cultural affinity of African investors – however strong it might be across borders – has not afforded the added advantage it surely represents. Indeed, some still perceive 'Africaness' as a disadvantage, at least when compared to other 'foreign' investors. Above all, it is important that we strike the right balance between adding value to our economies and providing attractive investment opportunities – the two are not as far apart as some think.

The reality of African investment in Africa is more positive than the perception: In 2009 alone, South Africa invested \$1.6 billion (FDI outflows) into other African countries.⁴ Equally, efforts to create common markets, such as the Common Market for East and Southern Africa (COMESA) and the East African Community (EAC), are yielding real results as East Africa is increasingly seen as one trading zone of over 150 million people. Kenya's ICT companies are investing in Rwanda and are now looking to enter Nigeria, while Nigerian banks are rapidly expanding into other African countries. Since 2005, for example, the United Bank of Africa Plc has expanded its operations into 19 African countries, with many other Nigerian banks following

suit. In telecoms, MTN, a South African company, now operates in 21 countries across Africa, and Glo, a Nigerian mobile operator, is operating in the Republic of Benin, Ghana and Côte d'Ivoire.

However, that these examples are exceptions, rather than the rule, should be a cause for concern. Given the positive global view on Africa in 2013, why is it that Africans seem to choose products and investments from outside the continent, and prefer to export outside Africa rather than to trade, manufacture and add value within? Equally importantly, what is preventing Africa from being home to value-adding and value-creating businesses? Why should Africa not industrialise, why should her agricultural richness not generate an integrated growing and processing industry as it has done in Brazil?

The environmental barriers – ranging from unfriendly policies, allegations of corruption, poor infrastructure, high start-up costs, protectionist practices as well as some legal, corporate, social, and cultural differences – undeniably discourage cross-border investments. Talent mobility is also an issue for companies expanding beyond their borders.

And we cannot ignore the limited amount of locally manufactured goods. Most African countries trade raw materials. Nigeria for example produces crude oil, Ivory Coast produces cocoa, but both

countries sell their unrefined products largely outside of the continent, to countries that have the ability to refine them. Most African countries do not have the capability to refine or process these raw materials, thus they look to purchase the finished product, which they import largely from outside of Africa. The lack of manufacturing investment in Africa is

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a function of opportunity, or lack thereof, and risk, perceived and real. Unblocking this trading conundrum will go a long way in driving intra-Africa trade and will allow the proper leveraging of the various Free Trade Areas being developed across the continent. If the environmental barriers are not tackled seriously, however, there will be little point in focusing on a beneficiation strategy.

The 'Oppenheimer Elumelu' Research Series will explore the business, cultural, social and policy issues that contribute to the challenges raised above.

Encouraging Intra-African Investment: A Solution

Sound economics and enabling policies may appear simplistic remedies, but they hold the key, not just to wider investment, but wider intra-African investment. There are many measures that can be taken to improve intra-continental economic relationships, and the shared culture and identity among Africans can only help to bridge those policy divides.

Africa also requires an enabling environment that encourages and supports large processing plants to thrive. Such a climate would facilitate greater market integration by enabling the formation of integrated regional production chains where raw materials are processed into finished goods that are transported to local and regional markets. Regional trading blocs, including the Tripartite Free Trade Area, which encompasses the East African Community (EAC), the Common Market for Eastern and Southern Africa

(COMESA), and the Southern African Development Community (SADC) should thus thrive, paving the way for a Continental Free Trade Area that would produce and trade high value-added goods internally – a generational dream. Ultimately, there will. Ultimately, there will be a significant reduction in the cost of doing business, as well as fewer challenges associated with securing work permits, labour mobility and integration in neighbouring countries.

Beyond this, as Africans we need to take a hard look at ourselves in relation to the soft issues preventing more intra-African trade and investment. We must explore ways to move beyond regional differences and competition to build Africa together from within, so that Africans at all levels become the primary beneficiaries of the continent's growth.

This series of case studies will assist in identifying key policies, pragmatic and effective, that will help all those committed to Africa's social and economic growth.

Our case studies will highlight successes, but we will be rigorous in revealing where policy and other

factors can and must be moulded to create an environment where competitiveness becomes the mantra and key to success.

We look forward to creating debate and contributing further to the important changes already occurring on our continent.

Endnotes

- 1 Earlier work on competitiveness in Africa includes 'The Lake Kivu Consensus: An Agenda for a Competitive Africa, *Brenthurst Discussion Paper 02/2009* (Johannesburg: The Brenthurst Foundation, 2009).
- 2 'Lions on the Move – The progress and potential of African economies', McKinsey Global Institute, 2010.
- 3 At <http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/the-african-consumer-market-8901/>.
- 4 At http://www.africaneconomicoutlook.org/external_financial_flows/direct_investment_flows/source_of_fdi.