

# **Africapitalism as a Catalyst for the Development of Africa**

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## **SALUTATION AND ACKNOWLEDGEMENTS**

Thank you very much Dean Tufano for that very generous introduction.

It's great to be here at Oxford University, which continues to play an important role in the articulation of key global issues, as it has for hundreds of years.

I would like to appreciate the organizers of this conference for encouraging new thinking and perspectives about Africa across all disciplines.

I particularly want to thank Yasmin Kumi for her tireless work to facilitate my presence here today.

I want to speak about "*Africapitalism as a Catalyst for Development in Africa.*"

Today is a continuation of a conversation I started in November 2014 with a piece in *The Economist* where I declared that 2015 would be '*The Year of the African Entrepreneur*' and backed it up in December by launching the \$100 million Tony Elumelu Entrepreneurship Programme, also known as TEEP. This programme is identifying and providing mentoring, training, networking, and funding for 1,000 African start-ups per year for the next ten years.

The programme kicked off on January 1, 2015 and we had an amazing response from across Africa with over 20,000 applications from 54 African countries and territories. With support from Accenture and a pan-African Selection Committee, we picked 1,000 amazing entrepreneurs from 52 African countries. These 1,000 are now in the midst of a 12 week online business skills training programme, and have been paired with 400 expert mentors from around the world. In July, they will come from all corners of Africa to Lagos for a boot camp where they will complete their training, receive their first cheques, and build pan-African networks that will last a life time.

Last week, I was at the White House in Washington to support President Obama's Global Entrepreneurship Initiative, "SPARK" where I was invited to speak about my vision for how entrepreneurship can transform Africa,

including a focus on the Tony Elumelu **Foundation** Entrepreneurship Programme. The following day, I gave a keynote address at Georgetown University titled “Entrepreneurship-led Development”, where I spoke specifically about how entrepreneurship represents a bottom-up approach to development – the kind of small, young entrepreneurs supported by my foundation.

I've focused on entrepreneurship because it is the beginning of the story of how private enterprise can impact the development of Africa. After all, a healthy and resilient business ecosystem has a spectrum of enterprises – from the small entrepreneurial venture all the way up to the large, established multinational companies.

And today, I will focus on what already-established businesses can do to advance Africa's development through an economic philosophy I call "Africapitalism" – which centers around the private sector's critical role in driving economic and social development across the continent. In this context, my focus will not be on the individual entrepreneur, but on what the large, established companies in Africa, or those planning to come in to Africa, can do to maximize the private sector's *development dividend*.

## **FOLLOW THE MONEY**

Currently, African and donor governments preoccupy themselves with developing the right aid programs and the

right level of spending in each sector to advance development- OECD countries aim to set aside .7% of their national budgets for international development. On the African side, our African governments debate what percentage of their federal budgets to allocate to the various sectors of greatest social need- 5% for health according to the Abuja Declaration and 10% for agriculture according to the Maputo Declaration, for example.

Governments are the key players in official aid flows, aided by philanthropies and non-profit service organizations. For example, last year, Africa received a total of \$56 billion in Official Development Assistance (ODA), and a few billions more in philanthropic assistance – a new high water mark for total ODA to Africa in a single year. However, even with aid at record levels added to billions more in philanthropic

funds, it is still dwarfed by the total amount of annual private international capital flows to Africa.

Last year, Foreign Direct Investment (FDI) to Africa was \$57 billion – a billion more than what we received in official bilateral and multilateral aid. When we combine remittances and intra-African investments with FDI, we are talking of nearly \$200 billion in private capital a year and rising. This is already having an impact on development on the continent, but with a more deliberate effort to drive a new kind of private sector investment model, this could definitely have an even greater impact.

## **Private Sector Companies as Development Partners**

My point is simple.

We need to expand the pool of development actors and expand our development mechanisms to enable all actors to participate in a way that is congruent with the way they naturally function.

Large national and multi-national companies across Africa, both African and foreign owned, are creating hundreds of thousands of jobs, in multiple countries, and integrating the continent more and more each day. According to a World Bank study, Africa's private sector accounts for about two-thirds of total investments, four-fifths of total consumption, and three-quarters of total credit on the continent. This all adds up to increased development based on economic opportunity.



The private sector needs to be recognized and charged with being a key player in not just Africa's development, generally, but Africa's development agenda, deliberately, and specifically.

This is what I've been preaching- I call this Africapitalism.

Africapitalism is an economic philosophy that promotes long-term investment in strategic sectors that will create economic and social wealth- that is financial returns for shareholders as well as social dividends for society.

Although Africa received a record amount of FDI last year, a recent article in the *Financial Times* estimates that one-

third of that investment still flowed into extractive based projects.

This is why Africapitalism as an approach is so important to Africa's economic and social future.

In practice, Africapitalism advocates for more local value creation instead of the extraction model, intra-African trade and investment, regional integration, and the development of local human capital and other capacities to drive Africa forward.

As part of the global effort to reconsider the role of business in society, there are a number of movements with similar aims to Africapitalism. One of which I am a member and

supporter is called Inclusive Capitalism, championed by Tony Elumelu Foundation Advisory Board Member Lady Lynn de Rothschild and McKinsey Managing Director Dominic Barton.

Inclusive capitalism is, of course, like the capitalism you know, but a version in which the benefits are more widely shared by all.

Professor Michael Porter of Harvard Business School and Founding patron of the Tony Elumelu Foundation, promotes the concept of “Shared Value,” which is the belief that the competitiveness of a company and the health of the communities around it are mutually dependent.

Dr. Jim Kim, President of the World Bank, talks about “*Shared Prosperity*,” which is the necessity of achieving broad-based economic growth that permeates all levels of society, not just a small elite subset, as is usually the case with commodity-dependent economies.

Africapitalism brings these three concepts together because Africapitalism is “*Shared Purpose*.”

Africapitalism therefore means we cannot leave the business of development up to our governments, donor countries and philanthropic organizations alone. The private sector must be involved in the business of development. We in the African private sector must wake up, recognize and embrace our role in driving the

economic growth AND the social development of Africa, and we must act on that responsibility in tangible ways.

We must do this not just through philanthropy and the CSR practices that have been inherited from western companies, but by the way we run our business and the types of investment choices we make. As we strive for greater financial returns, the development dividend must be part of the strategic calculations we make.

And we must think in the long-term because the kinds of challenges we face on the continent require not only vision but also patience and perseverance.

I am the Chairman of Heirs holdings, and we practice what we preach.

We are a pan-African company that invests in the key strategic sectors of power, oil & gas, financial services, real estate & hospitality, agriculture, and healthcare -- all for the long term, and all with an aim of creating value within our own economies.

Let me share with you my personal experience of how the practice of Africapitalism in three sectors- financial services, energy/power and agriculture – has buttressed my belief that private companies do indeed create financial and social impact in their chosen sectors and geographies.

In 1997, my partners and I took over the shuttered Crystal Bank and rebranded it in to Standard Trust Bank (STB). We

were small but out-performing most of the other banks in Nigeria across a variety of metrics. We achieved unprecedented growth through innovation and by pursuing down-market customers who had not previously had bank accounts. This approach fueled an amazing growth trajectory for the bank, but also helped create a culture of responsibility and accountability, facilitated payments, and opened up access to credit for tens of thousands of financially disenfranchised Nigerians.

Though economic profit was our primary motivation, we democratized access to banking first in Nigeria, and then across Africa in the process. This had a formidable impact on my understanding of how a business, even in pursuit of profit can simultaneously deliver a meaningful social return as well.

The success of STB allowed us to merge with the much larger United Bank for Africa (UBA) in 2005. However, we had the vision of expanding financial inclusion beyond Nigeria and facilitating intra-African transactions, so we opened bank subsidiaries in 18 other countries across Africa, often allowing customers in some previously underbanked economies to open bank accounts with zero balance.

That strategic calculation to be patient and democratize access to banking services has paid off.

Today the United Bank for Africa has over 7 million customers in 19 African countries - supported by over 20,000 employees - and through our financial platforms



and transactions, we are facilitating regional integration and development.

For our pan-African growth strategy – this was part of the equation – the social impact that would be created through a pan-African financial institution was something we were aiming for.

The story is documented for you all to read in an upcoming publication called “Africans Investing in Africa” that was co-funded by the Tony Elumelu Foundation and the Oppenheimer Family’s Brenthurst Foundation, and includes an introduction by Oxford’s own Professor Paul Collier.

Making financial services available to the unbanked in Nigeria and across Africa: that is Shared Purpose- that is Africapitalism.

In the power sector, Heirs Holdings recognized that over half of Nigeria's population of 170 million lacks access to power of any kind and we as a country only generate 10% of the 40,000MW our economy needs to meet our basic domestic consumption needs. So, our subsidiary, Transcorp, acquired a plant that was producing only 160MW of its 1,000 MW capacity under government control, and doubled the output within four months of us taking over ownership in November, 2013.

The plant now operates at 610 MW and we are currently upgrading and expanding the plant to generate 2,000 MW

with partners like GE. Our ambition is to generate 25% of the country's power supply, regardless of total generating capacity in the nation.

We made this investment with the intent of realizing profit for our shareholders, but also to unlock other economic opportunities, like new businesses and expansions which create new jobs - all of which will come as a result of reliable and affordable access-to-power and lower operating costs.

We know megawatts on the grid, means more electricity for homes, hospitals, businesses, and very importantly, more homework at night.

And we are doing it within the framework of the national power plan. So what is good for Heirs Holdings is good for Nigeria and her citizens.

*That is shared purpose- that is Africapitalism.*

The last experience I will share is in the agriculture sector, which is a strategic sector in just about any African country, though unfortunately normally treated as a social sector rather than one with real business opportunities. We know that 70% of employed people in Africa work in the agriculture sector, and agriculture accounts for about 30% of the GDP of most African countries.

Yet, our farmers who provide the very sustenance that fuels our bodies, our creativity and our economies, are among

the poorest among us. With the recognition that 50% of the population gains by 2050 will come from Africa and that the AU member countries have prioritized the agriculture sector, my company invested along with Nicholas Berggruen, an American investor, in 'Africa Exchange Holdings' (AFEX) to establish commodity exchanges in key markets across Africa. We started with the East Africa Exchange (EAX) in Rwanda, leveraging the amazing enabling environment put in place by President Kagame and his team, and then expanded to Nigeria where we recently became the first private company to secure a commodities exchange licence. We are planning to expand to Kenya, Uganda, and Tanzania over the next few months.

AFEX and EAX place our smallholder farmers at the center of our business model because they are the most critical

actors in any food security strategy in Africa. Our model was to create commercial platforms that will:

1. help farmers to reduce post-harvest losses through warehousing.
2. give them access to multiple and competing buyers in more markets,
3. provide farmers with access to credit and financial products, making them bankable; and
4. give manufacturers a reliable supply of raw materials and quality assurance.

Thus, our activities also stimulate the financial services and manufacturing industries, and we are doing it by treating agriculture as a business, not a welfare program, by treating small farmers as business partners, not charity cases.

The overall effect of this business model is to increase farmer incomes in a far more sustainable manner than any aid programme, transform their lives and communities, and promote food security and rural economic transformation across Africa.

Another example from outside the Heirs Holdings Group, is that of Dangote Industries. This company used to be the largest importer of cement and numerous other basic commodities in Nigeria. However, since they converted their operations to local manufacturing and began creating significant local value, they have not only grown to become the biggest company listed on the Nigerian Stock Exchange, creating thousands of jobs in Nigeria, but

their model has increased demand for their product and they are now operating in six different African countries.

*That is shared purpose- that is Africapitalism.*

The beauty of Africapitalism is that it is not restricted to only indigenous African businesses, though as African business leaders we must set the example for others to follow.

Some multinationals have already followed this path in Africa. I recently heard a case study of two multinational FMCG companies in Nigeria who 30 years ago had roughly equal market share. One of the companies invested significantly in local manufacturing and linking to domestic supply chains, while the other maintained an import driven model. The company that invested locally is now seven



times the size of the one that did not, and the laggard company is now struggling to catch up by – you guessed it, investing in local manufacturing and linking to local supply chains.

Africapitalism is really the way in which all existing and future local and foreign investors can and should develop their investment plans for Africa. They must separate themselves from the traditional investors who have collectively extracted trillions of dollars' worth of riches from beneath the African soil, or grown in the African soil, while delivering little to no enduring tangible opportunities for the economic advancement of the millions living on the surface.

To be clear, the “*Shared purpose*” inherent in Africapitalism does not absolve governments of their role in advancing development.

In fact, “Shared Purpose” means everyone has a role: business, government, philanthropies, NGOs, and multilateral institutions alike. Africapitalism is the nexus between the ability of the private sector to create value and the government's creation of a business-friendly environment. These two roles have become further intertwined and even mutually dependent and mutually reinforcing to create an equitable, inclusive, and prosperous Africa.

**Enhancing the impact of Africapitalism through Entrepreneurship**

Now I want to talk about how companies can recreate this virtuous cycle of development through economic empowerment. Many companies, particularly those in commodity-dependent economies, need to redouble their efforts to incorporate emerging local entrepreneurs into the value chain of their businesses. This not only helps to create jobs and build local capacity, it also helps to insulate their businesses from breaks in their supply chain caused by external shocks.

For instance, Coca-Cola pursued a concerted strategy of sourcing juice concentrate and other raw material for its beverages in local markets across Africa. This is creating opportunities for local fruit growers, aggregators, and transporters while also supporting local agri-processing and the local beverage industry. It has helped create entire

supply chains of entrepreneurs where there was formerly none.

I am proud to say that Transcorp's agribusiness subsidiary, Teragro, the first company in Nigeria to process our abundant oranges, pineapples, and mangos into concentrate, is the most recent addition to the Coca Cola local supply chain in Africa.

Coca-Cola, Transcorp, and Dangote Cement's activities are examples of local value creation, a key pillar of Africapitalism. Companies that incorporate local value creation will be both more sustainable and more profitable in Africa in the long-term. In addition, by investing in local economies and creating local jobs, they are also

increasing the pool of those who can afford their products and services.

## **CONCLUSION**

Africapitalism is a call-to-action for businesses to make decisions that will increase economic and social wealth, and promote development in the communities and nations in which they operate. Such a decision will ultimately help businesses become more profitable as the communities they serve become well-off consumers, healthy and better educated employees, and even entrepreneurs who go on to become suppliers and service providers – and consumers.

As students who will soon enter the workforce, your generation is more conscious of the way in which business

is conducted than any other generation before you. This is expected considering you live in a time when the earth's population is stretching our resources to the limit, and when income inequality is more pronounced than ever. If you do not care about how business is conducted your very futures may be at stake.

What kind of employer do you want to be?

One that maximizes short-term profits by taking the shortest route to profitability, uncaring or sometimes even to the detriment of the local community?

**Or one that takes a** longer-term view and that practices patience in the pursuit of profits while building up the capacity of the community?

As consumers, who would you want to buy your products from?

As investors, who would you want to invest your capital in?

Africapitalism's call-to-action is to use your power as individuals - employees, employers, investors, and consumers - and for almost all of you - leaders in the public, private and social sectors - to support the kind of business practices that lift up society whilst making profits.

You are the world's future leaders and the most important determinant of Africapitalism's success or failure can be boiled down to that single, but complex imperative: leadership.

A true leader is one who remains committed to a higher purpose that most others do not yet see.

The old business model of a myopic pursuit of profit above all else is at best imprudent and, at worst, reckless in our increasingly interconnected and interdependent world.

As future leaders, you must therefore shape how businesses need to change in order to address the complex challenges of the 21st Century, not just for Africa, but for the entire world.

It won't be easy, but nothing worth having ever is.



Thank you.