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new connections

Africa and Business: Can African entrepreneurs lead a new era of economic development?

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DITCHLEY

Conference Summary

EXECUTIVE SUMMARY

Despite many obstacles, private sector entrepreneurship is gaining pace in many African countries. This conference considered the potential for African entrepreneurship and explored the extent to which mobilisation of the private sector, partly enabled by global trends such as digitisation, demographics and globalisation, could drive broader economic development on the continent. It asked what the role for partners, investors, governments and the international community should be in working with African entrepreneurs and the private sector in various African states.

Overcoming the fragmentation caused by geography, dispersed populations, lack of infrastructure and insufficient education was identified as the means to business development and to increasing scale. This meant integration and aggregation across supply chains, logistics, subsidiary businesses and training in order to create business ecosystems. The prospects for business could be improved by creating local and regional markets, dealing with currency devaluation, finding better ways to move currencies across borders and matching the right kinds of capital investment (corporate partnerships, joint ventures, impact, development finance, venture, blended) to entrepreneurial need.

There was a burning need for 'patient capital' or long-term stable investment. A core group from the conference undertook to explore ways in which African financial institutions might come together to create this kind of patient capital investment fund, pooling African money to address African investment opportunities and, hopefully, attracting international capital in the longer term.

In some industry sectors, African countries can and do successfully follow Western models or those in Southeast Asia. In other sectors, African countries can lead and create distinct African models that serve the fundamental needs of the continent and its people, including for food and water. There was a particular focus on the growth of tech start-ups and opportunities for African business in finding applications to increase homegrown productivity. Sectors such as renewable energy (including energy storage), healthcare and agriculture were seen to have significant potential. To date, there has been an overreliance on the export of raw materials over finished products. This was seen as a common trend in African economies and one that should be tackled through investment. Better education, the development of local skills, immediate services and localised manufacturing would help to retain the value of producing finished products at home.

The need to build business ecosystems at sufficient scale was clear for the development of local, regional and national markets. Economic integration across the continent was thought to be the right ambition, with an African Continental Free Trade Area (AfCFTA) a step in the right direction. Private-public partnerships play a key role and governments could help by incentivising business to take up effective operational processes.

Entrepreneurial progress has inevitably been uneven. The effects of debt crises and armed conflicts in several countries (some of which are related to climate change) is degrading business development in some areas. But there is still potential for the continent to develop and even 'leapfrog', for example in mobile technology, and to take advantage of strengths in areas such as renewable energy, solar and energy and data storage, and the advantages that could come with a young and entrepreneurial population.

Changing past perceptions of Africa is crucial. There was optimism about a unique model of African business based on a continent-wide identity — a globally recognised pan-African brand that could be leveraged to realise a business model that serves the fundamental needs of the continent and its people.

Context and why this was important

The expectation for economic growth in Africa is longstanding, especially in the context of international trends: digital transformation, the global turn to renewable energy, natural resources, and a youthful population in a world that is otherwise ageing. The focus of this conference was explicitly on the role of entrepreneurs and business, as opposed to other forms of development aid. The conference asked what the global business environment looked like from the perspective of entrepreneurs in African countries. It asked what governments, businesses and institutions can do to enable economic development and to connect existing markets to wider economies, international infrastructure, capital and investment and to broader business networks.

People

The conference brought together entrepreneurs from a range of different business and industry sectors from Kenya, Nigeria, South Africa, Rwanda, Ghana, DRC, Morocco and Zambia. It included investors, finance and policy expertise from the US, UK, Japan, China and Canada, as well as UK policymakers and politicians. This conference contributed much to Ditchley's networks of entrepreneurs from several African countries.

Analysis

FULL REPORT

This discussion considered the ways entrepreneurship is evolving across Africa in the context of both global trends and the persistent barriers entrepreneurs face. The starting point was the recognition of the significant potential of the continent in terms of demographics, skills, markets, natural and human resources. With a population of 1.5 billion people, projected to grow to 1.7 billion by 2030, the continent represents one of the world's fastest growing consumer markets. Africa was described as culturally entrepreneurial with high numbers of working-age adults. According to the African Development Bank, human capital is expected to be a main driver of African growth over the coming decades. In 2022, the median age in Africa was 18.8 years. This young and entrepreneurial population is seen as a source of innovation. However, debt crises, armed conflict, poverty, climate impacts, challenges associated with limited access to data and poor infrastructure remain significant barriers. While entrepreneurship is growing, pan-African companies are few and far between and Africa remains a micro-SME economy. Business models are frequently driven by the need to survive and to sustain a family or a community. Once the needs of families and communities are met, growth tends to stop. The need for aggregation, in other words strategies to promote growth and scale in African businesses, are key to longer-term development. Approaches to aggregation also meant increasing education, professionalism in administration, corporate governance, people development and succession planning, as well as investment in basic infrastructure. There was agreement over a fundamental need to overcome a lack of access to deep liquid capital markets for African entrepreneurs and many ideas about how such access can be increased within countries and regions.

Most African economies were said to be dominated by the export of resources and the import of finished goods. The role of manufacturing is underdeveloped. To develop sustained growth, African economies would need to move away from the export of commodities and focus on education, skills, services and manufacturing. The onshoring of manufacturing was seen by some as a clear way forward, with some successful existing models for knowledge and skills transfer. The Democratic Republic of the Congo, for example, has created a Department of Local Entrepreneurship, which requires international contractors to cooperate with local entrepreneurs and local companies, with the goal of transferring capacity and expertise from international contractors to local actors.

Technological innovation and shifts to a digital economy are inevitably seen as providing major opportunities for African businesses. The revenue in the e-commerce market in Africa is projected to reach about $60 billion by 2027. A combination of smart phones, electronic payments and digital platforms is empowering entrepreneurs to develop business models. Some participants felt that these changes had the potential to enable the showcasing of talent within emerging labour markets, regardless of where it comes from. Low and middle-income groups are also relevant customers and technology makes it easier to expand these markets. For example, M-PESA – a mobile phone-based money transfer and micro-financing service launched in 2007 by Vodafone and Safaricom – became the largest mobile network operator in Kenya. It has since expanded to Tanzania, Mozambique, the DRC, Lesotho, Ghana, Egypt, Afghanistan and South Africa.

There are high hopes for uses of artificial intelligence (AI), which is expected to enable African companies to increase productivity, aggregation and distribution. Between 2020 and 2021, the number of tech start-ups in Africa was said to have tripled to around 5,200 companies. This is where the demographic dividend with a young and tech-savvy population is expected to pay off.

However, technological barriers remain sticky and innovative AI-based technologies present new challenges. For example, Africa lags the rest of the world in terms of availability of broadband. In 2021, according to the International Telecommunications Union, only 33% of the population was using the internet. While social media can serve as an enabler of efficient marketplaces, there are open questions about the lack of content moderation, data sovereignty and the sources of data for AI applications.

In energy production, Africa has massive potential. Supplies of renewable energy are seen as a significant source of future business and Africa could become globally competitive in energy generation and storage. Voluntary carbon credit markets are another, albeit contentious, area. It is much cheaper to generate carbon credits in Africa than in Europe or North America. Consequently, several African countries have created voluntary carbon credit markets where companies and governments can purchase carbon credits to offset their carbon emissions.

Healthcare is another sector with great potential in Africa and healthcare markets are expected to be worth $200 billion plus by 2030. Moreover, there is an ethical imperative to further invest in healthcare in countries with a relatively low life expectancy. Technological advances can contribute to innovation in healthcare. For example, AI and the use of drones could optimise supply chain processes for the distribution of medication and vaccines. But technologies can only be effective if there is a reliable supply of electricity and clean water. Energy – green energy – and the provision of clean water would need to be placed at the centre of economic policy and development.

Overcoming what historically has been a fragmented market within Africa is a particular challenge. Access to Europe and the US was said to be easier sometimes than access to other African countries and markets. It can be more difficult to import goods from Kenya to Rwanda than from China to Rwanda. What opportunities are there to create market linkages by connecting African sellers and African buyers and building market consolidation? Some participants argued that developing one strategy for 54 countries is difficult. The process of economic integration should therefore ideally evolve bottom-up: Pan-continental integration would need to be preceded by stronger economic integration in sub-regions and regions. The goal, however, was suggested to be an effective and fully functioning African Continental Free Trade Area (AfCFTA). In January 2022, AfCFTA had already taken a major step towards this objective with the establishment of the Pan-African Payment and Settlement System (PAPSS), which allows payments among companies operating in Africa to be done in any local currency.

Although the role of the private sector was front of mind in this discussion, there were also clear actions suggested for African governments, for example assistance with professionalising administration, the provision of tax breaks and forms of investment. Governments are often not only the biggest clients of companies but also the largest employers. Yet, access to government contracts is frequently based on personal networks and corruption. To tackle these kinds of practices, businesses need to join forces and demand better support across industry-wide sectors, rather than only for individual companies. The success of the East Asian tiger states was said to demonstrate the importance of coordination between governments and the business sector. Government partnerships and government-initiated sandboxes could help by enabling startups to experiment without having to go through the bureaucratic approval processes. International success is an important but challenging goal, particularly in regions where competition with the global market puts local producers at a disadvantage. Protective government policies to support and uplift the local market may be necessary in some situations.

European and North American countries were seen to have insufficiently engaged with African business in recent decades and had simply not invested enough. China filled the vacuum that had been left. As a result, Beijing is now said to be the continent's biggest creditor. In the context of the competition between the US and China, many African countries have chosen not to take sides, perhaps hoping to be able to attract investment from both. At the same time, debt and interest payments continue to be a large problem. For example, 50-60% of the Kenyan Exchequer has been used to repay debt. It was felt that, rather than simply forgiving debt, China and Western countries should properly support the opening of their markets to African products.

Development aid will continue to play an important role, especially in healthcare, but was also considered a double-edged sword (potentially undermining entrepreneurship). Suggestions were put forward as to how to avoid counterproductive effects. For example, European governments could offer a combination of grants, equity and debt, and NGOs might to try to identify market-based solutions that enable African businesses to participate in development projects.

Creating access to capital, distribution networks and long-term investment was the main route for partnerships with foreign investors, governments and the international community. Western partners have access to substantial overseas capital (war chests), which local companies do not. But corporate partnerships should avoid the risks of becoming exploitative or applying conditionality that can hinder growth. "*Grantrepreneurship*" is the risk whereby companies tailor their activities and strategies to align with the specific requirements of available grants over the need for long-term sustainability and strategic business coherence.

Impact investors, government and philanthropists have different goals from private investors and there were criticisms of impact investment in creating additional hurdles and skewing business practices. International investors should require accountability, but not prescribe strategy or micro-manage. Burdensome impact reporting can undermine the scalability of under-resourced startups. Impact investors should invest more to support the wider entrepreneurial ecosystem and partner with local venture capitalists, especially young and women investors.

The conference split into three Working Groups to consider how entrepreneurs can benefit from the demographic dividend for Africa, the tech revolution, and the opportunities for ventures with Western partners.

Realising the demographic dividend for Africa: How can entrepreneurs make the most of Africa's young workforce?

Unlocking the demographic potential in Africa (nearly 50% of the population is under 25 in some countries) was said to be crucial for economic growth, but also a source of serious risk if high unemployment were allowed to take hold. Employment opportunities and vocational training are essential. The formal education system requires reform and investment (described as too traditional by some) along with a step up in skills development and meaningful accreditation. Inadequate infrastructure, a lack of trained teachers and an old-fashioned approach to national education has held back attainment. Traditional academic pathways have overlooked the need for technical expertise and vocational skills.

Removing visa restrictions and facilitating free movement between African countries were seen to be important steps. Private sector presence within rural areas and philanthropic intervention in vocational training can help with short-term growth. Longer-term investment in manufacturing and emerging industry and manufacturing sectors, such as electric car manufacturing, does require strategic planning and infrastructure and skills development. Recognition of self-taught skills, the potential for online training and newer forms of accreditation could be opened via social media platforms. The potential for creating online visibility within job markets was seen as particularly hopeful.

How can African entrepreneurs make the most of the continuing technological revolution and AI?

Technology and digitalisation were seen to offer potential for increased productivity, broader market access and job outsourcing to Africa, but there had to be sufficient investment in technology to start with. Potential was noted for AI applications in areas such as disease detection (and dealing with malaria), carbon measurement and agricultural optimisation. Expectations for AI are high with the hope that AI can accelerate start-up growth, create alternatives to a reliance on formal education, and identify individuals' skills for a better job fit, as well as being the means for changing international perceptions of Africa. But there are risks associated with the ways new technology is introduced. It was argued that domestic and national needs should guide AI development in Africa, and home-grown entrepreneurs should take the lead in innovation, as was seen in successful models from India and China. Concerns were expressed about data access, the scarcity of African language data, the sovereignty and ownership of data and a lack of cybersecurity, which leaves people and companies vulnerable to corporate and criminal exploitation. Uses of AI could increase opportunities across countries and regions or reduce them. For African countries not to fall behind, it is critical that specialist and niche roles are found such as the hosting or perhaps production of data. The African Union's Smart Africa policy was described as a start, but it is voluntary and it is difficult to get licensing from one country to another, thereby undermining potential for scaling.

How to open access to finance, investment and markets: constraints and opportunities.

Finding ways to encourage more investment of local currency capital into domestic companies was seen as an important local route to increasing access to finance. A goal for stakeholders in African economies should be the creation of more local currency capital invested in domestic companies. African money invested in Africa. There are significant potential sources of finance locked up in pension and insurance funds and in investments in land, which were described as 'dead capital' and untapped. Across the whole continent, many countries possess significant pools of money that are currently inaccessible for equity investment. This "dead" money could be unlocked and used to fuel market growth. 'Patience' was seen as the essential ingredient for capital investment with a need for a long-term investment mindset both at organisational and individual levels. Models for delivering 'patient capital' had to be developed. At the same time, however, there is not the supply of suitable companies attracting attention within capital markets and restrictive stock exchange rules and low company evaluations in USD currently hinder market development. In the Kenyan Securities Exchange, for example, only 65 companies are listed. While a wide group of people invested in Safaricom stocks, there are few similarly compelling, growing companies that attract interest in the country and more widely in Africa.

Scaling up stock exchanges, and potentially on a continental level, was thought to be the right ambition. Many African economies are not large enough to sustain national exchanges and companies listing on African stock exchanges often suffer from low evaluations. Governments could consider developing regional stock exchanges, offering tax incentives for market investors and establishing public companies for long-term investment in smaller enterprises. Foreign governments could provide debt relief with a condition to increase local government's equity investments. Much, however, depended on the execution and the need for better processes of governance. Foreign governments can play a part too – as external credit providers they could offer debt relief with a requirement to increase local governments' equity investments through, among other routes, pension funds.

Acknowledging difficulties with implementation.

This conference explored a huge range of entrepreneurial activity and opportunity across current and future economies and in international markets. For African countries, development is real and significantly under way. For Western business and governments, the prospects of partnerships and the opportunity to make up for decades of insufficient engagement are obvious. But there are also risks and pitfalls in the detailed processes of implementation. Effective policy execution is everything, but the potential for African nations to continue leveraging the pan-African brand seemed to encapsulate the current moment.

This summary reflects personal impressions of the conference. No participant is in any way committed to its content or expression.

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