An integrated Africa: A boon to the private sector

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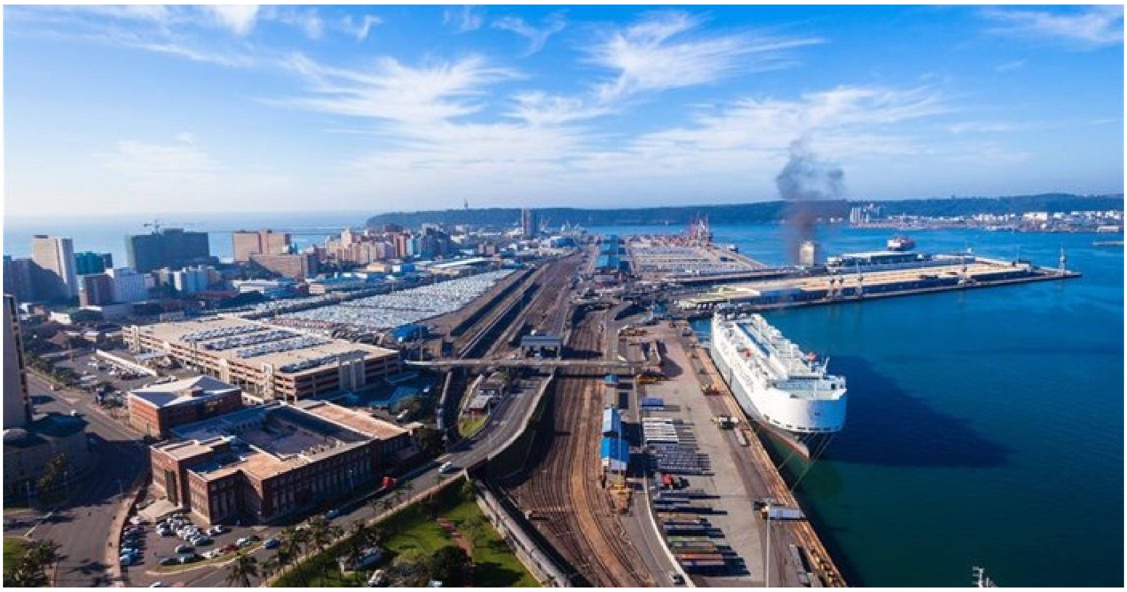
Can developing nations thrive in a global economy without a global, collective mind-set? This is a question every developing economy must ponder if it plans to have its economy scaled up and stay up.



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International organisations such as the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund affirm that for sustainable and collective growth to happen in a globalised era, large African economies must remove the walls separating them from the continent's underdeveloped economies.

According to UNCTAD's 2016 report African Continental Free Trade Area: *Advancing Pan-African Integration*, regional integration is needed to further technology and economic innovation in Africa.

Up until the 1980s, the public sector failed to create a sustainable upward trajectory in Africa's economic growth. Although countries like Côte d'Ivoire, Ghana and Kenya thrived in the 1960s, government-dependent economy slowed growth for most countries due to their limited capacity to meet consumption needs and a lack of competitive markets for goods and services.

However, African leaders are now throwing their nets wider and increasingly courting entrepreneurs and the private sector in general for partnerships in development. They have realised that sustainable economic growth on the continent cannot be achieved quickly without investments from both private and public sectors.

According to a report by the United Nations Industrial Development Organization (UNIDO), *Capacity Building for Private Sector Development in Africa*, the public sector needs to encourage private-sector partnerships in development projects and increase their capacity. It can do this by providing physical infrastructure, competitive markets, business support and financial services, according to the report.

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Once an enabling environment is created for public-private partnerships at the country level, governments should scale up further and seek bigger partnerships at the regional level. In the words of UN Secretary-General António Guterres at the 2017 G7 Summit, held in May in Taorimina, Italy, it is important to "support the continent's aspiration to achieve regional integration, including through the free movement of people and goods, and in investments in infrastructure and info-structure…" He said innovation was key to linking regions.

Guterres's remarks are correct, since African countries where multinationals and other big investors have presence, like Ghana, Nigeria and South Africa, create enterprise-friendly environments.

To foster intra-African trade, African leaders have formed regional trade blocs like the Economic Community of West African States (ECOWAS), the Community of Sahel-Saharan States (CEN-SAD), the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The goals of these trade blocs are free trade, opportunities for economic cooperation and the elimination of tariffs and trade barriers.

Challenges

Ongoing efforts to foster free trade between the regions are laudable; however, a few challenges still linger.

According to UNCTAD, most African countries belong to more than one regional trade bloc and intergovernmental organisation, some of which set out conflicting regulations and benefits. This could easily cause some conflict, as "clashing regimes may conspire against expedited clearance at the border, and often require political intervention to resolve conflicts, reducing the benefits of automaticity (the 'spaghetti bowl effect')."

Other impediments to regional integration benefits include currency controls, high transport costs, nontariff barriers (NTBs) and high trade costs and tariffs.

Some of the multinationals that have benefited from regional trade blocs and free trade areas include Shoprite, United Bank for Africa (UBA), the Dangote Group and Ecobank. In the case of Shoprite, Africa's largest food retailer, free trade in southern Africa has had a major impact on the company's profitability. The company has expanded operations into neighbouring Lesotho and Zimbabwe and is now making forays into Kenya in East Africa, and in Ghana and Nigeria in West Africa, among other areas.

Despite increased revenue, NTBs continue to block smooth trade. According to Imani Development, a South Africa-based private economic and development consultancy firm, Shoprite, spent $5.8 million dealing with red tape in 2009 to gain $13.6 million in duty savings under SADC. Nevertheless, there are benefits to easing intra-African trade through these regional trade blocs.

Opportunities for multinationals

In the West African region, billionaires like Tony Elumelu and Aliko Dangote have partnered with companies and governments within and outside the ECOWAS regional trade bloc. For example, in the construction sector, Dangote Cement has invested billions in the manufacturing of plants and import terminals in Cameroon, Congo, Ethiopia, Senegal, South Africa and Zambia, among others.

The benefits of intra-trade in these regions are evidence that trading cross-border has the capacity to significantly boost profits. Some African governments are instrumental in facilitating regional integration.

The economic potential of northern and western African regions is enormous, and the recent Nigeria-Morocco Gas Regional Pipeline is a harbinger of new growth possibilities from this type of partnership. The pipeline will directly impact over 300 million people. According to King Mohammed VI of Morocco, this deal will create “a regional electricity market and be a substantial source of energy, which will help develop industry, improve economic competitiveness and speed up social development.”

Some private-sector businesses in African economies constantly seek to deploy their business capital into those African countries in need of investment. They are proponents of intra-African trade and include financial services and investment companies, such as UBA and Heirs Holdings, the latter currently chaired by its founder Tony Elumelu, an avid believer in boosting private-sector businesses across Africa under a theory he calls “Africapitalism.”

Elumelu used the phrase in 2010 to refer to the philosophy that the African private sector has the power to transform the continent through long-term investments, creating both economic prosperity and social wealth.

Adegboyega Festus, who heads UBA’s business development and treasury in North America, says, “UBA’s banking innovation has greatly facilitated regional integration, economic growth and the commercial interests of entities across Africa. The benefits include an increase in internal efficiencies and capabilities, volume and scope of business, and overall value creation and value capture for our customers and our businesses.”

Membership in regional trade blocs magnifies UBA’s role in facilitating intra-Africa trade, which has become more significant over the years as the bank’s footprint continues to grow in Africa.

Room for growth

While giving a talk at Oxford University in 2015, Elumelu cited Transcorp, a subsidiary of Heirs Holding, as an example of how multinationals and financial services can increase private- and public-sector capacity. Transcorp is investing in Nigeria’s ailing power sector, and is currently generating 20% of total electricity output in the country. This means new jobs, more access to power, and an opportunity for small businesses to operate and grow, said Elumelu. According to a 2017 *Guardian* report, Transcorp plans to generate 25% of total power capacity of the plant by 2018.

Although regional organisations need to streamline trade regulations for regional trade to thrive, businesses cannot grow without a strong community to trade with, hence African leaders must think beyond their borders. Building economies of scale starts from within.

*Source: **Africa Renewal***.