RETHINKING CAPITALISM IN AFRICA

Over the past decade or so, the fundamentals of the global economy have shifted. Investors look towards developing economies for higher rates of return as developed nations have become low growth economies. Although China, Brazil and India received much of the spotlight, China is transitioning to a developed economy while Brazil and India face major structural issues to deliver on their potential. This means Africa, despite its own challenges, is definitively the last frontier for capitalist opportunities.

Winston Churchill famously described democracy as the worst form of governance, except for all the others. You could say the same for capitalism. For all its imperfections, it has lifted billions of people out of subsistence poverty in the past three decades alone. Capitalism delivers good things when allowed to function as it should.

Governments and legislators in African nations should act as enablers of the basic principles of capitalism as an economic system, such as free market competition, private ownership and investment of capital to make a return. Treat capitalism as an economic system that has been empirically proven to work and everyone will benefit through the emergence of a large and more affluent middle class.

But twist it into so-called "crony capitalism" which, sad to say, has often been the African approach, and only the elite will continue to benefit and the very concept of capitalism becomes misunderstood and vilified.

Colonialists set the tone for this in Africa. While Britain and others were embracing free trade, industrialisation, liberalism, competition and the development of a market economy, the story in Africa was of conquest by European nations and the handing of *de facto* monopolies to powerful individuals to extract valuable natural resources. This benefited small elites rather than the collective interest, creating an inaccurate view among many governments of what capitalism is and the vast benefits it can deliver to the many, not just the few.

More recently, the combination of Africa's fertile land, abundance of natural resources, and governments that hope to benefit from foreigners' investment but without the technical expertise to retain and direct the benefits of such investment, have made the continent an easy target for exploitation by unscrupulous investors and politicians. This leaves the continent in a strange hinterland between development opportunity and crisis. This is, of course, a gross generalisation. Many countries have made enormous progress. The majority of today's African leaders want the best for their people. Investors want to invest but need legal certainty to take commercial risks. Investors are not looking for guaranteed profits. Capitalism is sometimes described as "red in tooth and claw" for good reason. Legal certainty simply allows potential investors to assess opportunities and risks on a commercial basis, which is essential for drawing in the capital Africa desperately needs to develop the infrastructure necessary to deliver on its growth potential. The question is how to do that.

With that in mind, earlier this year, Baker & McKenzie, together with *The Economist*, investigated infrastructure spending patterns in 22 African countries. Ironically, it was found that state capital and impact investors such as development banks and export credit agencies are the essential foundation stone for bringing private capital to the table. The results published in *Spanning Africa's Infrastructure Gap* showed among the largest funders of African infrastructure projects, the World Bank (22%), the Development Bank of Southern Africa (18%), the Asian Development Bank (18%), the French Development Agency (10%) and the US Export-Import Bank (7%). About $90 billion a year is required to enable the continent to catch up with developed countries, resulting in a $25.6 billion infrastructure funding gap per year. Chinese development banks are increasingly important in filling this gap. They have often worked alone but are now becoming more collaborative through their role in funding new development banks and the One Belt, One Road Initiative. Japanese export credit is also playing a key role, often partnering with commercial banks of major energy and infrastructure project financings.

One size does not fit all

Capitalism is both an economic model and an ideology. Different interpretations have meant significant variants from region to region. In continental Europe, capitalism is often blended with interventionist socialism, while China combines "state capitalism" with ideological communism; embracing the most beneficial economic aspects of capitalism to lift more than a billion of its people out of poverty in less than two decades. Even the US model has recently moved from pure capitalism to a more mixed and interventionist model. Nonetheless, in most contexts, effective capitalism requires a functioning state, respect for the rule of law, policies to enable entrepreneurship and a strong civil society.

In Africa, however, governments are often weak and the rule of law unclear or unevenly applied. This makes it difficult to drive infrastructure development, hard to demonstrate that the benefits of capitalism are being shared rather than concentrated in the hands of a small elite, or to enable the competitive production and consumption of goods and services in the global economy.

Africa's 54 self-governing states incorporate a vast range of cultures and 2 000 spoken languages. This makes it important to understand the local market dynamics, skills and conditions. The disparity does not end there. According to the IMF, three of the world's 50 richest nations are African. But 21 of the 25 poorest nations on earth are also African. To begin to address these issues, growth and capitalism need to be facilitated by many things, but three essentials are:

- Strengthening the rule of law. Foreign investors will only ramp up their investments if they are confident no government can simply take away their assets on a whim.
- Cooperation. The emergence of nascent trading blocs such as the East African Union for example. As parts of the world seem to be fragmenting (for example, Brexit and the EU) or turning inward (the US), there is an opportunity for African nations to collaborate. Speaking with one voice means a strong hand in trade negotiations.
- Energy and Infrastructure in Africa and for Africa. It is the same old issue but it is an unavoidable fact that Africa cannot reach its potential without more and better energy and infrastructure.

According to World Bank forecasts, Africa's GDP grew with about 3.4% in 2015, a full percentage point above the global growth rate, and is expected to increase to 4.2% in 2016. The African Development Bank estimates that consumer spending will reach $2.2 trillion by 2030. An optimistic picture, dependent on more infrastructure, but indicative of our potential. Multinationals and other investors must beware though. Basing strategies around aggregated growth projections, rather than individual market assessments, means running enormous risks. Understanding the differences from country to country is crucial.

Leveraging the continent's wealth Although Africa is seeing an emerging middle class, it is uneven and often unsupported by government policies, which still frequently tend toward hand-outs for short-term electoral reasons rather than for the long term good of their citizens. To fully leverage the continent's wealth potential, legal structures need to be put in place to guide Africa's development agenda from within by enabling entrepreneurship, cutting red tape and bureaucracy, supporting success and selling opportunities to the wider world of foreign investors. African leaders understand that foreign investment is required for growth but often don't have their own private sectors in order, meaning foreign private capital will be wary. It's a case of getting our own house in order first as a foundation for growth. Enabling the domestic private sector to take the lead will generate long term benefits, draw in foreign capital, lead to both economic and social benefits, and let's not forget opportunities for African corporates to make their own cross-border deals and expansion.

Is Africapitalism the answer?

Africapitalism is a term coined by Tony Elumelu, the Nigerian-born banker who transformed a struggling Nigerian commercial bank into a $2 billion Pan-African financial services organisation, spanning 20 African countries.

Africapitalism is described as an *"economic philosophy that embodies the African private sector's commitment to the economic transformation of Africa through long-term investments that create economic prosperity and social wealth."*

As an economic idea, Africapitalism requires efficient coordination by government, civil society and markets, tapping into human behaviour and needs, rather than self-interest. Its purpose is to benefit the wider community and prioritises the common good over pure profit motive. This perspective is different from other forms of capitalism. The world is moving increasingly towards mixed models of capitalism and what is certain is that Africa needs one that both caters for its unique advantages and addresses its equally unique challenges.

Placing Africa front and centre

Africapitalism puts Africa, its culture and its people front and centre of any development in the region. Arguably, it is an inventive way of delivering the best of capitalism in a continent where its effects have previously had little influence on its people.

Economic nationalism is at the core of Africapitalism and unashamedly prioritises what is best for Africa. The challenge is applying it in a continent of so many nations. It is a laudable entrepreneurial pursuit and mind-set, to create shared value in, and more importantly, for Africa. It is not to be mistaken for philanthro-capitalism, usually applied by global supranational bodies trying to "solve the African problem" from the outside but risking undermining the innovation here on the ground that can potentially be accessed if the relationship between government, business and society can be remade.

Business is at the core of capitalism. Any change in the way capitalism runs today must involve entrepreneurs and corporations, both home grown and international. For Africapitalism to succeed, it will need buy-in from business, and requires understanding of and support from governments and legislators alike. That is a big ask, but necessary

The view of the continent as the last frontier of capitalism and thus enormous economic growth potential has for too long been associated with the exploitative and extractive form of capitalism. This is changing but needs to accelerate. Empowering and enriching the citizens of African nations is the true path to sustainable economic success. Our natural resources and trade with the rest of the world are key to this but through a different lens. Turning inward and becoming protectionist is not the way forward. Better governance, transparency and a stronger rule of law are.

Africapitalism may help to counteract the negative effects associated with those left behind by globalisation but carries its own dangers, as there is a fine line between economic nationalism, protectionism and outright nationalism, which has led to more wars than any other ideology in the history of the world. So let's be open to new ideas and redirect the positive energy of capitalism to meet the genuine development needs of Africans, while understanding we cannot do this alone. Foreign expertise and capital will be a necessity whatever the approach.

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