A New Economic Vision for Africa

Africa’s burgeoning consumer market, young workforce, and vast natural resources position the continent for robust economic growth, promising big returns on investment, said Akinwumi Adesina, the president of the African Development Bank (AfDB), at a recent Foreign Policy roundtable in New York City. In a wide-ranging conversation on Africa’s growth potential, Adesina emphasized the untapped economic potential on the continent.

“Don’t look at this continent from the perspective of development,” he said to a select group of investors, executives, and experts on emerging markets and international development. “Look at this continent from the perspective of investment.”

Addressing the room during his opening remarks, Adesina called himself an “eternal optimist” about Africa’s prospects and reminded attendees that Africa is not a monolith and should not be treated as such. While noting the variation in growth rates across different countries and regions, Adesina attributed the continent’s rapid growth to a broad trend toward sounder macroeconomic and fiscal policy, greater political stability, and improvements in business infrastructure and investment. Adesina directed attention to the region’s flourishing economic markets, which have a projected consumer expenditure of $2.5 trillion and a projected business-to-business expenditure of $3.5 trillion by 2030.

The AfDB has set an ambitious “High Five” agenda, focused on improving African integration, industrialization, food security, electrification, and quality of life. Over a two-hour conversation, these goals were acknowledged as the underpinnings of the success of African development and industrialization, particularly as Africa’s population continues to grow. By 2050, the continent’s population is predicted to be over 2.5 billion, according to the United Nations, more than the combined populations of China and India today.

Discussion focused on 10 key themes.

Chinese and U.S. investment in Africa

China has recently developed and diversified its investment in Africa, exporting $94 billion and importing $75 billion in 2017, compared with U.S. exports worth $20 billion and imports worth $34 billion in the same year. Adesina argued that “America needs to up its game” and look beyond the oil-based economic relationship it has traditionally had with certain states to a diversified investment portfolio that includes power, IT, and infrastructure. In the interest of ensuring that partnerships and investments from powers like China and the United States are nonexploitative and equitable, the AfDB has set up the African Legal Support Facility, which provides access to lawyers to negotiate or renegotiate trade contracts to reduce the burden on individual countries, an initiative that has already seen success in Guinea-Bissau and other states.
Growth in agribusiness
Africa’s agricultural industry will have an enormous impact on the future of food security and production globally—the continent is home to 65 percent of the world’s arable land, leading Adesina to predict that “the future billionaires and trillionaires in Africa won’t come from the oil and gas sector, they’ll come from the agriculture sector.” The food and agriculture business is expected to be worth $1 trillion by 2030, and the AfDB is capitalizing on this rapid growth by investing $25 billion in the agriculture industry, the largest investment of its kind on the continent. A priority is ensuring that Africans profit from the growth of this industry—currently, despite growing 75 percent of the world’s cocoa beans, Africans see only 2 percent of the profits from the chocolate industry, which is worth $120 billion per year. In response, the AfDB is investing in capital that will enable Africans to manufacture products, an acknowledgement that “agriculture is not a way of life, it’s not a development activity, it’s a big business.”

Youth as an asset
The youth population of Africa currently stands at 420 million, but only one-third of young people are in steady, formalized employment. The AfDB is working in partnership with several other entities to encourage skills training, education, and entrepreneurship to harness the innovation and creativity of African youth, including via an 8 million euro initiative in partnership with the European Commission. IT and agriculture were highlighted as key industries in which the jobs of the future would be concentrated—to that end, the AfDB has set up 130 coding centers across the continent to teach coding and computer science skills. Rather than youth empowerment programs, Adesina called for the creation of youth investment facilities, where financial institutions can put their capital at risk for the ideas and businesses of young entrepreneurs.

Opportunities for public-private partnership
The AfDB has estimated that in order to achieve the Sustainable Development Goals, the entire continent would need to spend between $68 billion and $108 billion on infrastructure alone each year, a mammoth amount that can only be reached in partnership with the private sector. “Africa is looking for partners,” Adesina said, and encouraging institutional and private investors to spend their money on infrastructure projects will enhance the
profitability of their future endeavors and increase quality of life. In addition to creating public-private equity funds such as the AfDB’s Africa50 fund, individual governments can encourage foreign direct investment (FDI) and private investment in projects by taking steps to improve the business climate in their countries, mitigate investment risks, and better understand the barriers that prevent private companies from investing in Africa.

Harnessing the opportunity of the CFTA
With a combined GDP of more than $3.3 trillion, Africa is poised to be a major player on the global economic stage. The forthcoming continental free trade area (CFTA) offers Africa the chance to accelerate economic activity, but success will depend on greater integration of physical and technological infrastructure to keep the transaction costs of trade low. The AfDB has invested $15 billion in transport infrastructure, such as the Senegambia Bridge, but more action is needed to integrate financial markets and to ease the burden of intracontinental travel. Currently, 51 percent of African states require an advance-issue visa for entry.

Shifting to clean energy
A new phase of industrialization provides Africa the opportunity to avoid the mistakes of other regions and to consider, quantify, and mitigate the negative externalities that are often the result of rapid GDP growth. Adesina argued that energy is at the root of sustainable growth and that while African nations can only diversify their energy sources gradually, investing in clean energy is the future. Since 2015, the AfDB has shifted its energy investment portfolio from being only 15 percent in renewables to 100 percent and plans to invest $25 billion in clean energy between 2020 and 2025. These investments include a stake in the Noor Ouarzazate solar farm, the largest in the world, and wind farms in the Lake Turkana region.

The fourth industrial revolution
As digital innovation drives growth in Africa, lack of reliable electricity and the potential for digital exclusion pose two major risks for the continent. Despite connecting 4.9 million people to the electrical grid in the past year, 640 million Africans do not have electricity. “Africa cannot develop in the dark,” Adesina said, arguing that expanding electrification will be key to widespread digital innovation. To ensure that marginalized groups are not further left behind by digital innovation, Adesina added that governments, multilateral organizations, and foreign investors should work together to provide more widespread access to technology. To that end, the AfDB is working with the Gates Foundation to create a $400 million fund for digital inclusion efforts, specifically focused on women.

Women’s economic empowerment
While traditional financial institutions have excluded women and prevented them from reaching their full potential, the AfDB seeks to increase female economic participation through credit, equity, and investment and by strengthening peer-to-peer networks. The AfDB is focused on encouraging African financial institutions to increase lending to female entrepreneurs, including via a new AFAWA rating system, which will take into account banks’ levels of lending and investment in women-led companies. It is also launching an initiative to raise $3 billion to invest in female-led businesses, the largest of its kind in Africa, by leveraging a newly created $300 million risk-sharing fund.

Addressing data gaps
Data gaps prevent investors and institutions from assessing the opportunities available in African markets and from understanding the economic contributions of the informal sector. To address these gaps, the AfDB has launched the Africa Information Highway initiative, which encourages governments and institutions to collect data using a set of standardized metrics and criteria. This will facilitate data analysis, encourage investment, and enable the creation of regional data centers, which will give Africa ownership over its data and intellectual property.

Capturing diaspora enthusiasm
Remittances sent home by African expats dwarf the amount the continent receives in both foreign aid and FDI, totaling approximately $75 billion annually. The AfDB is keen to ensure that the transfer of money is as easy and low-cost as possible, including through the creation of new financial technology platforms to lower transaction costs. The bank is seeking to find new ways to channel diaspora money not only into consumer spending but also into investment in infrastructure projects and business, taking the Suez Canal and the Renaissance Bridge—both entirely funded by citizens—as models for infrastructure development.