# 6 The Birth of the African Lions

## 6.1 Introduction

The evolution of African Founded Firms (AFFs) from small and medium-sized businesses seeking to meet domestic demand for goods and services, to multinationals companies that are now challenging for brand recognition and market share across Africa and on the global stage, was a slow process that happened in several stages and within several epochs.

The birth, growth and expansion of AFFs was moderated by Africa's history, politics and policy directions of various governments. Entrepreneurship has always abounded in Africa but its recent growth has been influenced by the interest of outsiders. But increasingly, indigenous entrepreneurs are playing a larger role in the provision of goods and services on the continent.

African entrepreneurs have been relentless in their attempts to meet the needs of consumers. But over the years these attempts have either been suppressed or promoted depending on the prevailing political actors and the policies they enact. For this reason, entrepreneurship in Africa has been defined by three distinct epochs; the colonial era, the post-independence era and the post structural adjustment and liberalization era.

Colonialism created a new economy in Africa. It promoted trade as colonial merchants brought new products and took minerals and agricultural produce out of the continent. New urban centers were created that led to movements of whole populations from rural villages to urban centers and in the process creating the need for consumer goods and services. All the while, entrepreneurship thrived as business people moved to meet the expanding needs of growing cities and towns.

After independence, the visions and ideology of Africa's leaders defined the policies that shaped post-colonial Africa. Shifts toward socialism put governments at the driving seat of the economy, a push for industrialization led to institution of import substitution programs, and an inability to manage discordant political voices led to conflict, coups and civil wars, a new reality dawned in Africa.

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After a couple of decades of policy missteps and political upheavals, the continent was left ravaged by wars, debts, and dependent on aid. At that time, indigenous private sector was emasculated and foreign investors had absconded. Governments made a policy reversal and ushered in the structural adjustment and the liberalization era that called to the private sector to take a greater role in economic affairs.

Since the post structural adjustment era, the private sector, especially homegrown businesses, have taken up the challenge to address the age long problem of shortages of good and services on the continent.

Today, the investments of Africa's indigenous entrepreneurs have created the spark that have ignited interest in Africa by MNCs, attracting FDI and accelerating the development of the continent.

## 6.2 African Entrepreneurship in Colonial Times (1900–1960)

Africa was set up as territories to sell manufactured goods and harvest raw materials by most colonial merchants and governments. As urban centers developed, the need for consumer products, construction materials, and healthcare products was for a long time provided by trading companies acting on behalf of manufacturers on continental Europe.

As colonialism took root in the late nineteenth century and the early part of the twentieth century, two distinct classes of economic agents influenced policy and trade. These were the internationals agents aligned to the colonial powers and the national agents.

The international agents comprised the colonial bureaucracy, major import and export traders, and major domestic corporations owned by colonial people. National agents on the other hand were indigenous groups that were involved with agriculture, trading, and craft activities, and showed interest in local development. This group consisted of small corporations owned by colonial people, small farmers, autochthons, small traders, immigrants from India and Lebanon, and other Arabs (Kilby 1975).

There was a great deal of conflict of interests between national and international economic agents during the colonial era. International agents were engaged in activities linked with imports of manufactured goods, trading, production and export of primary products from the colonies to the metropolises and the international market.

There was a paucity of local production of goods, in 1930, three large trading companies handled between two-thirds and threequarters of West African trade, namely, United Africa Company (a subsidiary of Unilever), the Compagnie Francaise de l'Afrique Occidentale, CFAO and the Société Commerciale de l'Ouest Africain, SCOA (Wilkins 1998).

The demand for basic consumer goods continued to increase due to rapid urbanization and increased population. There was a growing desire for local production of these items but colonial governments moderated and held back these desires

through policies that constrained local production (Austin 2010). Added to that, indigenous entrepreneurs were hampered by lack of capital, expertise and sometimes legislation that prevented them from venturing into manufacturing or some sectors like financial services.

The colonial governments, however, gave different levels of autonomy to their African colonies. Those with large settler populations had more leeway to engage in local manufacturing. Companies were established to engage in local manufacture in South Africa, North and South Rhodesia, Senegal, Kenya, and Congo DR during the colonial era. Thus, some form of domestic manufacturing was made possible as business in these countries began to produce, domestically and on a small scale, products which contained a considerable amount of local raw material, such as textiles, bottles, soap, and cigarettes. Locals were also engaged in banking and transportation. There was also some form of local manufacturing in the Congo DR (Austin 2010).

British and French colonial governments, however, resisted investments in most other parts of their colonies in SSA. Private enterprise was likewise not encouraged in Portuguese and colonies, including Angola, and Côte d'Ivoire.

Geopolitical events helped to hasten up manufacturing and the growth of indigenous enterprise in Africa. The two World Wars, the first between 1914 and 1918 and the other between 1939 and 1945 disrupted ability of most merchant trading MNCs to export and distribute goods in Africa, as resources were first diverted to prosecute the war and eventually for reconstruction in Europe. Thus, there was a practical, if not urgent, need to develop local capacities in the production of goods and services.

With shortages persisting in across Europe in the interwar years, the restrictions against local manufacturing were relaxed, especially as countries moved closer to independence. The stance of most colonial governments was further softened in the face of political agitation from African activists, politicians and businessmen. In the years leading up to independence, governments started to demand greater local production of goods. MNCs joined forces with local businesses to raise capital and found several manufacturing companies. But indigenous African firms also seized the opportunity to established their own businesses.

These companies were founded and thrived in Kenya, Egypt, Zimbabwe, Morocco, Nigeria and South Africa and they were established with the purpose of producing goods and services for the domestic market. They focused on manufacturing consumable goods and expanded in their domestic markets through the establishment of distribution depots and additional manufacturing plants in large cities within their domestic markets.

The 1950s spurt in manufacturing mainly comprised French and British companies seeking to protect existing markets. British MNCs like United Africa Company (UAC), which was a diversified trading company 100% owned by Unilever, through joint ventures became a major brewer and textile manufacturer. UAC, which was predominantly a trading company, invested some £15 million in Nigerian industrial projects between 1956 and 1961, with projects rising from 15% to 47% of the company's annual capital expenditure (UNECA 1971).

These pioneer entrepreneurs established food and beverage processing facilities like sugar refineries, cigarettes factories and flour mills and breweries. They also set up factories to produce building material like cement, roofing sheets, and iron rods manufacturing.

Some of these companies underwent various forms of evolution including being nationalized, but eventually, most were listed as public companies on their local stock exchanges.

### 6.2.1 Some Notable African Firms Founded in Colonial and Pre-Independence Era

Egypt and Kenya are the birthplace of some of Africa's oldest MNEs. While African firms faced the challenge of access to capital, technology and managerial skills, entrepreneurs relied on the large unmet demands in their domestic market to push their products against those of the few incumbents around.

**In East Africa:** The British colonies in East Africa were integrated by the East African Community formed in 1928 which allowed movement of goods between Kenya, Uganda and Tanzania. Some of the first African multinationals enterprises were founded in the region. Kenya's East African Breweries Limited was founded in 1922 by two white settlers, George and Charles Hurst. Kenya Commercial Bank was founded within the period.

Chandaria Industries was one of the first multinationals in the region when it set up aluminum rolling mills and integrated process for galvanize roofing sheet plants in Kenya and Tanzania in Between 1959 and 1961. In Uganda, Madhvani Group was founded 1914, the group has developed into a widely-diversified conglomerate with a geographical spread into various African countries, the Middle East, India and North America (Wa Wambui 2016).

**In West Africa**: A.G. Leventis is a large Nigeria-based conglomerate established in 1937, by Anastasios G. Leventis. The Leventis Group was one of the first AFF that grew to be a multinational company within West Africa. The group dominant in the economies of many West African countries and especially in Ghana and Nigeria. Leventis Group started out as commodities traders but ventured into bottling Coca Cola products and also established a supermarket chain.

The Ibru Organization was another Nigerian founded company that had operations along several West African countries. The company stated out in that started out trading in frozen fish but grew to become one of the largest conglomerates in Africa. Started by Michael Ibru. The company eventually had subsidiaries in transportation, aviation, hoteling, media and banking and 1990 it had between 9000 and 11,000 employees (Forrest and Forrest 1994).

Fan Milk was founded in Ghana 1960 by a Danish Merchant and Industrialist Erik Emborg to manufacturer and retail of ice cream and frozen dairy products in West African market. The company set up in operations in Nigeria and Ghana and exported products across the west African region.

Other companies started within the period included Nigerian Breweries and Flourmills Nigeria Limited. Nigeria Breweries was founded in 1946 to brew beer locally as another company facilitated into existence by UAC. The company has since grown to become the dominant beer manufacturer after rapid domestic expansion and acquisition of several breweries. Nigeria Breweries was eventually floated on the stock exchange and remains one of the most valuable stock of the Nigerian Stock Exchange. Flourmills Nigeria founded by George S. Coumantaros in September 1960 is also quoted on the NSE (Table 6.1). The company

**In North Africa:** There were also changes going on in North Africa where Algeria, Morocco and Tunisia were French colonies, Libya was under Italian dominion and Egypt was ruled by the British. In Egypt, Orascom Construction was founded in 1950. It is today an engineering and construction contractor primarily focused on infrastructure, industrial and high-end commercial projects in 25 countries including the Middle East, North Africa, the United States, and the Pacific Rim for public and private clients. Orascom Construction was one of the first multinationals in Africa. The company operated cement plants in several countries including Algeria, United Arabs Emirates and Saudi Arabia, Syria and Turkey. The Mansour Group was also established in 1956 as a cotton trading company.

**Table 6.1** Some companies founded in Africa during the colonial era

| Company | Country | Year founded | Product or service |
|---|---|---|---|
| United African Company of Nigeria | Nigeria | 1931 | Trading and manufacturing |
| Bamburi Cement | Kenya | 1951 | Cement manufacturing |
| Nigeria Breweries | Nigeria | 1946 | Beer, brewing |
| ONA/SNL | Morocco | 1919 | Manufacturing, distribution |
| Nigeria Bottling Company | Nigeria | 1951 | Coca Cola franchisee |
| Ynna Holding | Morocco | 1948 | Food Construction Retail Tourism |
| Standard Bank | South Africa | 1862 | Banking and financial services |
| Serena Hotel (1970) | Kenya | 1970 | Hospitality |
| Elsewedy | Egypt | 1938 | Manufactures Electrical products |
| East African Breweries | Kenya | 1922 | Beer manufacturing |
| Chandaria Industries | Kenya | 1964 | Paper converting and recycling |
| Mansour Group | Egypt | 1952 | Cotton and general trade, |
| Orascom Construction | Egypt | 1950 | Construction and engineering |
| Madhvani Group | Uganda | 1914 | Agribusiness manufacturing |
| Ibru organization | Nigeria | 1956 | Fisheries, manufacturing, transportation |
| Flour Mills | Nigeria | 1960 | Flour milling |
| Fan Milk | Ghana/ Nigeria | 1960 | Dairy products |
| A.G. Leventis | Nigeria | 1937 | Trading and manufacturing |
| Nation Media Group | Kenya | 1959 | Media services |

*Compiled by author*

It eventually expanded into a diversified conglomerate. Both firms were once nationalized but eventually returned to their private owners.

Moroccan chemicals producer, The OCP Group (formerly the Office chérifien des phosphates; Cherifien Office of Phosphates), was founded 1920. The company is one of the leading exporters of phosphate rock, phosphoric acid and phosphate fertilizers in the world. The OCP Group has nearly 20,000 employees located mainly in four mining sites and two chemical complexes in Morocco, as well as in other international locations. The group has several subsidiaries in and outside of Morocco. In 2018, its turnover amounted to USD5.884 billion.

Akwa Group S.A. is another Moroccan conglomerate company headquartered in Casablanca. The company is primarily engaged in the oil and gas industry, but operates also in the telecommunication, tourism, hotels and real estate sectors. Its service stations operate under the Afriquia brand.

Sonatrach is an Algerian government-owned company that was founded in 1963 to explore the hydrocarbon resources of the country. It has some concessions in Libya, Mauritania, Peru, Yemen and Venezuela. Its diversified activities cover all aspects of production: exploration, extraction, transport, and refining. It has diversified into petrochemistry and the desalination of seawater.

**In Southern Africa:** Southern Africa had a large colonist settlement and enjoyed relatively more autonomy from the metropole as regards establishment of domestic manufacturing. The country gained independence from Britain relatively early and by 1910 South Africa was being governed by the white Afrikaans settlers. Following the discovery of diamond and gold in 1885, however, the agrarian economy of white Afrikaans settlers was upset by the rush to prospect for gold and diamonds and farmers lost farm hands to mines. Local administrators embraced manufacturing as a way of generating employment for the “Poor White Man”. The Afrikaans led Pact government promoted industrialization through import substitution policy. Protectionist policies like high import tariffs on imported goods were put in place by 1925 while some classes of manufacturers enjoyed government subsidies. The same pattern was repeated in Zimbabwe and Zambia and across the Southern Africa region (Zarenda 2014). Adoption of apartheid policies, however, led to the isolation of South Africa and most South African firms had to expand domestically to achieve scale. Apart from the expansion of Anglo-American through the establishment of operations in Canada in 1967, most South African firms remained within the country until 1990 when restrictions were lifted. For this reason, South Africa boasts some of the oldest and largest companies in Africa with some founded in the later part of the nineteenth century and the early part of the twentieth century. Media conglomerate, Naspers, was founded in 1915 as a newspaper publisher promoting the interest of the Afrikaans. South African Breweries, was founded in 1894 and grew to be the market leader in South Africa. SAB company only started its international expansion in 1990 but grew eventually to be the second largest brewer in the world by volume. Standard Bank was founded in 1862 and Tiger Brand, now the largest consumer good producer in Africa, was founded in 1862 (Verhoef 2017).

## 6.3 Post-Independence Era (1960–1980)

Several African states became independent sovereign states around between 1950 and 1960 but the first two decades of self-rule were marked by ideological shifts, political turbulence, economic policy mis-steps and eventually accumulation of crippling debts that left many countries depending on foreign aid. Following independence, some African countries forged new ideological path and changed the structure of their economies. Motivated by a desire to increase local production of goods and services, they adopted an Import Substitution Policy. In advancing their ideology, private asset was nationalized while large State-Owned Enterprises were established.

All the while, there was a growing conflict between proponents of opposing ideologies as well as tensions between tribal and ethnic groups, which eventually led to coups, wars and political turmoil. In the midst of all these. Investment by private capital shrunk and MNCs retreated from the continent in droves (Jones 2010).

### 6.3.1 Shift Towards Socialist Ideology

There was a wholesale shift in ideology in Africa following independence as political leaders declared their countries to be socialist. Between 1967 and 1975 a number of African countries adopted Marxism-Leninism as official doctrine and maintained that orientation at least through the early 1980s. Between 1967 and 1975, nearly 20% of African states had defined themselves as Afro-Marxist states (Paulson and Gavin 1999). The most definitive declaration made by Ethiopia, Somalia, Benin, Tanzania, Mozambique. Other countries like Nigeria, Ghana, while not declaring overt socialism, enacted policies that changed the structure of their economy to being state-led (Akyeampong 2018).

Private assets were in some cases nationalized, or some sectors were declared to be exclusive to government, this included refining and distribution of petroleum, telecommunications, education, aviation.

### 6.3.2 Import Substitution

In order to stimulate industrial growth, some countries implemented import substitution strategy. Import Substitution (IS) is based on the principle that the state plays a key developmental role and an active state policy is the main tool to transform an agrarian economy into an industrial society (Paulson and Gavin 1999).

The main objective of the strategy was to stimulate the start-up and growth of industries as well as enhance indigenous participation by altering the ownership structure and management of industries. IS was a strategy to target the domestic market. Import substitution was even the favored development approach by the World Bank.

Governments at national and sub-national levels embarked on the construction of factories to produce consumer goods like beer, biscuits, flour and inputs like bags, bottles and also established large complexes for industrial and commercial goods, machine tools, petrochemical plants, petroleum refineries and automobile and steel plants.

Companies set up through national (private or public) or foreign investment were provided with a local market and protected from outside competition through customs duties, through quantity restrictions on imports or by out-rightly banning them. The outcome of this was that some of the trading firms switched to local manufacturing and lobbied successfully for protective tariffs. For example, the United African Company became involved in textiles, brewing, plywood, and vehicle assembly.

These policies were designed after import substitution policies as implemented in Brazil, Argentina, Chile and several South and Latin American and south east Asian countries. The aim was to improve production of goods in their countries and thus creating employment and saving on foreign exchange.

In pursuing this aspiration, several countries diverted resources that would have been used to mechanize their agricultural production to building huge consumer goods production factories, equipping these factories. Countries like Congo and Nigeria were aided in this enterprise by the increase of commodities prices, while others borrowed heavily to finance these investments.

Nigeria embraced import-substituting industrialization through the first National Development Plan for the period 1962–68. Even though, the main objective of the IS strategy was to stimulate the start-up and growth of industries as well as enhance indigenous participation by altering the ownership structure and management of industries, it was characterized by a high degree of technological dependence on foreign knowhow to the extent that the domestic factor endowments of the country were grossly neglected (Chete et al. 2014). South Africa initiated an imports substitution strategy in 1925 and supported local industries with subsidies and high tariff on imported good. By 1970 South Africa had he most developed industrial sector in Africa that contributed 20% to its GDP (Zarenda 2014).

IS was mainly oriented towards satisfying demand on the local markets. However, domestic value added in these industries was considerably low because their products had high import content. This was particularly obvious in the automobile industries where most components were imported as completely-knocked-down parts. The only value added in was the assembling of those parts prompting them to be called screw driver industries.

This led African countries to have overvalued currencies in order to be able to import those needed intermediate products, and in order to protect their domestic producers, governments instituted import controls, protective tariffs and administrative allocation of foreign exchange (Adam 1999). These protected enclaves created a domestic market full of inefficient, monopolistic industries.

### 6.3.3 Nationalizations and Indigenization

Some African countries nationalized private assets including medium and large-scale factories of MNCs and local businesses, as they tried to stimulate industrialization of their economies through import substitution policies. African countries not only nationalized foreign multinationals, but also 'indigenized' properties of foreign merchants to distribute them among domestic ones. Indigenization did not occur in Latin America (Bucheli and Decker 2012).

Within Africa, the majority of expropriations both by number and by estimated size took place in Nigeria, Zaire, Ghana and Kenya (mostly indigenization with some nationalization). Other African countries focused mostly on nationalization, here it is worth distinguishing between states that mostly nationalized mines—Mauritania, Sierra Leone, Senegal and Togo—and socialist states: Zambia, Tanzania, Uganda, Ethiopia, Somalia, Congo, Benin, Malagasy Republic, Guinea and Mali. Guinea went further and made ownership of private assets illegal. Other states took minor or no action, but other than Cote d'Ivoire and Cameroon, none of them were economically very important. In North Africa, nationalization policies were pursued by governments in Egypt, Algeria, Morocco.

Tanzania was the first country to nationalize private capital with the policy adopted by Julius Nyerere. The radical government of Abdul Nasser nationalized the largest asset in Egypt, the Suez Canal and several private companies. It nationalized the assets of **The Orascom Construction** and **Mansur Group** in 1961, but after 1976 when Anwar Sadat rose to power, private assets were returned to their original owners. Morocco also nationalized several companies. In Algeria, one of the largest producers of oil and gas on the continent, the Sonatracth, was nationalized and remains a public enterprise.

In West Africa, socialist Marxist policies were promoted mainly in Guinea and Benin Republic. Guinea even went ahead to ban private participation in the economy, while Kwame Nkrumah in Ghana also espoused this ideology. He was overthrown in a military coup but new military leaders, still moved towards making the Ghanaian economy a state led economy (Bucheli and Decker 2012).

Nigeria and Ghana were instituted indigenization policies from MNCs and other foreigners including Lebanese and other African. By the mid-1970s, indigenization programs either contained or were accompanied by nationalizations in certain sectors in West Africa—timber and gold in Ghana, petroleum and banking in Nigeria—which were clearly of great importance for government revenue.

In East Africa, Julius Nyerere of Tanzania created an African national socialist plan, called Ujamaa. Ujamaa means family links or brotherhood in Swahili language. The main idea of his project and theory was to recover local traditions of community ways of working, producing and relating to the land. There was a process of nationalization of land and companies' combined with the promotion of new ways of workers' organization of labor. Nyerere's policies led to nationalization, establishment of huge SOEs and parastatals. In Tanzania's case tough, small and medium scale private businesses were allowed to operate. Ethiopia also became a champion of state monopoly under the military government of Mengistu Haille Marian.

South Africa became and independent country in 1910 and initiated policies to promote domestic manufacturing. The government of the era enacted protectionist policies, to keep out competition for domestic firms and under the Apartheid government, several companies which served the national interest were supported with subsidies as nationalized companies like SASOL, which used patented technology to produced petroleum chemical products and fertilizer from coal were treated as national companies. Sanctions against the apartheid government motivated the National Party to nationalize utilities like ESKOM (Zarenda 2014). The nationalization policy was also in place in Zambia, Zimbabwe and Botswana.

Governments also set up commodities marketing boards to buy agricultural produce and crops from farmer for storage, local distribution and export and also nationalized or set up banks that funded and supported their SOEs and parastatals as well as transport companies including shipping lines, airlines, road transport companies and rail companies. Almost exclusively, utilities were provided by state owned monopolies.

### 6.3.4 The Birth of State-Owned Enterprise

As part of the drive towards a state led, centrally planned economy, governments established several companies and parastatals to provide goods and services. Apart from the drive towards industrialization through the IS programs, governments took control of agricultural production and marketing of commodities, banking and utilities (Mendes et al. 2014).

So, besides the medium and large-scale industries set up at national and subnational levels, governments set up several state-owned enterprises to provide services and utilities. Additionally, and the establishment of services like hotels, airlines, banks and other financial service, agricultural marketing boards and milling and agro-allied goods processing (Nellis 1986).

For instance, in Tanzania, the number of public enterprises increased from 80 in 1967 to 400 in 1981. Similarly, public enterprises in nominally capitalist Kenya grew in number from 20 at independence to 60 in 1979. In Ghana, parastatals also expanded in number from virtually zero prior to independence in 1959, to over 100 in the early 1960s. Other countries such as Zambia, Tanzania, Senegal, Mali, Cote d'Ivoire, Mauritania, and Madagascar have also experienced tremendous growth in their public enterprise sectors (d'Almeida 1985).

By the 1970s public enterprises or state-owned enterprises (SOE) accounted for over 17% of African economies' GDP, compared to an international average of 10% and 5% in OECD countries. African SOEs accounted for 25% of total formal sector employment and more than 18% of all non-agricultural employment; SOEs accounted for more than 20% of gross domestic investment, compared to 4% in OECD countries, 15% in Asia and 5.5% in Latin America, and 34% of domestic credit. In 15 out of 22 Francophone African countries, SOEs ranked first in sales (Nellis 1986). Seeking to protect their new formed state-owned companies and

parastatals against competition, African governments made policies to close their markets and increased tariff for imported products.

The consequence of these policies was that private capital retreated as major players in the economy, while small and medium industry level players continued to be engaged in light manufacture and other cottage industries.

MNCs were cautious in buying into the new IS policies enacted across Africa by newly independent states. This was because pronouncements by leaders of independence movements and ideological shifts by the political leadership after independence left them uncertain of the policy direction of government. Companies like Bata, Firestone and Phillips retreated from several African markets. Fortuitously though, some multinationals were engaged as technical or management contractors in these newly established SOEs and thus providing limited equity, technical expertise and managerial knowhow to run these SOE.

By 1985 several African countries had as much as 300–400 SOE and the general consensus is that most of these firms were inefficient in the allocation of resource, lacked technical skills, were overstaffed and almost times had to rely on loans, which ultimately were non-performing, from state owned banks. One study of West African countries showed that 62% of the public enterprises showed net losses while 36% had negative net worth. Similarly, a study of state-owned transport enterprises in 18 Francophone countries found that only 20% generated enough revenue to cover operating costs, depreciation and finance charges: 20% covered operating costs plus depreciation; 40% barely covered operating costs: and a final 20% were far from covering operating costs. Thus. In Kenya the average rate of return of public enterprises was 2%, while in Niger the net losses of public enterprises amounted to 4% of the country's GDP in 1982. In Tanzania in the late 1970s one- third of all public enterprises ran losses. Other studies indicate that in Benin. Mali, Sudan. Nigeria, Mauritania, Zaire, Sierra Leone and Senegal public enterprises have accumulated losses which sometimes amount to a significant percentage of the total economy (Nellis 1986).

### 6.3.5 The SOEs Fail to Meet Expectation

The 15 years period between 1965 and 1980 when several African countries experimented with socialism and state led economies did to meet their expectations. By 1980 several governments had come to the conclusion that their experiment was a failure. Most SOEs were loss making and not even producing the goods which they were set up to produce. Many were in debt and were only being sustained by loans from state owned banks.

Commodity prices had also fallen and governments were finding it difficult to balance their budgets, pay salaries to huge public sector workers, and service loans owed to international creditors. By 1980 African countries were forced to seek assistance from multilateral agencies like the World Bank and the International Monetary Fund to meet their balance of payment challenges. These institutions requested the devaluation of overly valued local currencies, privatization of SOEs and the liberalization of economies.

A number of reasons were adduced for the failure of the SOEs in Africa. These include lack of skilled manpower, inefficient production, lack of local intermediate raw materials, huge wage bills, imported machinery and equipment, lack of supply chain. Scholars, however, believed that these policies of nationalization and indigenization were motivated more by political expediency rather that economic interest as leaders sought to reward political supports and gain legitimacy. The reasons are myriad, but the inefficiency of SOEs and the toll that indigenization policies had on the economy forced African governments to run for assistance from the World Bank and IMF (Herbst 1990).

### 6.3.6 Debt and Aid

By the 1980s, many African countries went through a severe debt crisis and international financial institutions, such as the IMF and the World Bank, had to provide loans to avoid a debt default. Devaluation of local currency made imports costly, scare and unaffordable.

From an estimated USD8 billion in 1970, the total external debt of African countries (excluding arrears) has risen to an estimated USD174 billion at end-1987, including short-term debt estimated at USD12 billion. Measured in constant (1980) US dollars, total African debt at the end of 1987 was nearly seven and a half times its level in 1970. Total debt-service payments by African countries are estimated to have grown from less than USD1 billion in 1970 to nearly USD18 billion in 1987, net of arrears and debt relief.

When the foreign debt crisis exploded in the 1980s, import substitution came to a virtual standstill. With their reduced income from commodities, huge debt burden and large salary overhang, governments rationed foreign exchange, and licensed the importation of consumer goods essential to daily life like flour, sugar, salt, cement, and health care.

However, these loans did not come without conditions. African governments were made to introduce a number of economic reforms, such as privatization, less government intervention and free trade, in the spirit of neo-liberal economic theory. The economist John Williamson has named the doctrine of imposing these structural adjustment programs on indebted developing countries, **The Washington Consensus.**

Several SOEs were eventually privatized with banks, insurance, the small and medium scale companies being easier to dispose of. In some cases, the state retained some nominal share and the right to influence the decision of the privatized SOEs. In some other cases, some assets, especially ports, were leased to concessionaires to operator. But to a large extent, governments still operated some SOEs. Today, some of the largest of Africa's Lions are SOE.

### 6.3.7 Impact of Nationalization, Coups and Political Conflict on Private Investment

After surviving nationalization of their assets, or being forced to include outsiders in their shareholding and management, some MNCs stopped investing on the continent. They looked to new locations to get raw materials, as agricultural output was falling in Africa due to heavy focus that had been placed on industrialization.

Companies like Nestle and Unilever sought new suppliers of agricultural raw materials from South American and South East Asian countries. They sourced for produce like palm oil, cocoa, coffee, rubber, cotton, sugar from South East Asian countries like Indonesia, Malaysia and Vietnam and south American countries like Brazil and Columbia.

But MNCs in the extractive sectors were critical to the economies of several African countries, and continued to mine minerals like bauxite, iron ore, copper, diamond and gold under increasingly belligerent conditions with their host governments. In Congo, the assets of UNHS the country's largest miner of copper was nationalized. These uneasy relations with MNCs were repeated in Nigeria, Angola, Algeria, and Ghana among others.

The consequences of these actions were dire. Foreign and domestic private investment was to a large extent stifled in this period. At the end of the post-independence era, most MNCs remaining in Africa were either there because they were in extractive or agricultural industry, or they were deeply invested on the continent. Companies like Nestle, Cadbury, Unilever still continued their operations in Africa.

### 6.3.8 Some Notable State-Owned Enterprises Founded During the Post-Independence Era (Table 6.2)

One of the largest and most successful state-owned enterprise in the world is the oil and gas company Sonatrach. Sonatrach was founded in 1963 following the discovery of vast oil reserves in Algeria and a few years before independence from France the independence of Algeria from France. Sonatracth is not only the biggest company in Algeria, it is one the biggest oil and gas companies in the world. Sonatrach started out constructing pipelines but today is an integrated oil and gas company with several refineries and a revenue USD35 billion in 2017.

Sonangol is the state-owned national oil company of Angola. The company was founded in 1976 and it dominates the business clime of Angola. Although Sonangol operations lie largely within the upstream and downstream petroleum sector, it has also expanded into sectors beyond its core oil industry focus. Amongst other things, Sonangol is involved in banking, air transport, telecommunications, catering, insurance and offshore financing. According to the audited financial statements for 2011, the total portfolio of non-oil interests amounts to some USD4.2 billion. The company has established several subsidiaries in strategic sectors using its capital.

**Table 6.2** Some state-owned enterprises from post-independence era

| Company | Country | Year founded | Product or service |
|---|---|---|---|
| NITEL | Nigeria | 1972 | Telephone |
| Kenya Commercial Bank | Kenya | 1970 | Banking |
| Kenya Petroleum Refineries | Kenya | 1970 | Petroleum Refinery |
| Sonatrach | Algeria | 1963 | Oil and gas exploration |
| NNPC | Nigeria | 1977 | Oil and gas |
| Telcom | South Africa | 1991 | Telecommunications |
| SASOL | South Africa | 1950 | Oil and Gas, Chemicals |
| Ethiopian Airlines | Ethiopia | 1945 | Aviation |
| Kenya Airways | Kenya | 1977 | Aviation |
| Royal Air Maroc | Morocco | 1957 | Aviation |
| ESKOM | South Africa | 1960 | Power |
| Transnet | South Africa | 1990 | Rail and logistics |
| Anambra Automobile | Nigeria | 1978 | Automobile manufacturing |
| Ajaukuta Steel Plant | Nigeria | 1979 | Steel |
| Sonangol | Angola | 1976 | Oil and Gas |

*Compiled by author*

There are several SOEs in the aviation sector. Where SOEs were being privatized, many African governments hung on to their airlines. These include Egypt Air, Royal Air Maroc, South African Airways and Kenyan Airways. For some countries, having an airline is a strategic and economic imperative as in the case of Ethiopia and Rwanda, both landlocked countries. These state-owned airlines are also a critical part of the tourism and horticultural industries in East Africa. Ethiopian Airline is today an African aviation behemoth.

South Africa is the country with the largest amount of SOEs in Africa. Following several years of isolation, the apartheid government supported domestic manufacturers with subsidies. Companies like SASOL were vital to the state as a fertilizer and petroleum producer were supported by the state as were the national electricity provider Eskom as well as Telcom the telephone service provider. State owned companies run rail, power, water utilities among others.

Morocco has a number of SOEs that are today part of the government's internationalization programs for Moroccan firms. Attijariwafa bank is one of Africa's biggest banks by assets that is partly owned by the Moroccan state, as is OCP, the largest miner and manufacturer of phosphate fertilizer in the world.

## 6.4 Post Structural Adjustment and Market Liberalisation

Between 1985 to 1990 the African context had changed considerable, as most governments were recovering from long periods of political crisis and macroeconomic shocks engendered by the crash in commodity prices which affected their balance of payment situation. Governments were saddled with debts following the failed attempts at state led economies and inefficiency of the SOEs.

Most of the countries that had espoused socialist economic systems abandoned them. SOEs were either shut or working far below their installed capacity. Governments sought aid from foreign governments and multilateral agencies. This situation led like the World Bank and IMF to prescribe a shift to a market led economy for several states.

The Structural Adjustment Programs (SAPs), the schemes of economic liberalization promoted by the World Bank and International Monetary Fund were voluntarily and involuntarily adopted by African governments for a range of reasons. The dates at which individual countries began 'adjustment' varied. For instance, Ghana made the movein1983, Nigeria and Tanzanian 1986; Zambia vacillated (Austin et al. 2016).

Governments also opened up several sectors to private investors through deregulation and sold of state-owned enterprise through privatization. Currencies were devalued and lost value against foreign currencies that were required for imports. As some governments still could not pay for imports, they mainly licensed private entrepreneurs and businesses to carry out those functions (Herbst 1990).

The macroeconomic reforms of the 1990s led to more sustainable fiscal policies, controlled inflation, and better managed debt. Some countries went further and addressed fundamental structural rigidities by divesting public sector activities, opening some government monopolies, such as telecommunications, to private participation, and reducing public sector borrowing from domestic banks to expand opportunities for the firms (Dinh et al. 2012).

Government subsidies to the manufacturing sector were cut, restrictions on foreign trade removed and currencies depreciated. Domestic manufacturers suddenly had to openly compete with importers and, in most cases, lost large parts of domestic markets. This was especially the case with South African firms which had enjoyed a long period of protection but faced new competitive pressures after the country joined the World Trade Organization in 1994 (Bell and Madula 2001).

These policy changes and structural adjustments tipped the scale in favor of indigenous private investors who provided substitute brands for imported goods. Thus, several AFFs that had been operating subliminally when governments did not encourage the contribution and growth of private enterprise, started slowly to flourish due to liberalization and deregulation of the economy. They had time to build their business as risk averse foreign competitors held off coming back into their markets due to uncertainty.

Governments started to license private entrepreneurs to import consumer goods. Food imports has become as significant consumer of the foreign exchange earnings of most African countries which had given less attention to their agricultural sectors as they focused on industrialization.

In heeding the advice of the Bretton Woods institutions, governments embarked on the program to privatized their SOEs. The stated aims of privatization differed from country to country. In Zambia, privatization was self-standing and had its own set of objectives. The only common denominator amongst the objective was to reduce fiscal deficit, but then many states, such as Benin, Cote d'Ivoire, Kenya, Tanzania, Cameroon, Ghana and Nigeria, also quoted the desire to develop the private sector, to broaden ownership of the economy and improve economic efficiency as major motivations for privatization (Berg 1999).

Across a wide range of commercial and industrial sectors, privatization and divestiture allowed private entrepreneurs to enter the market. Privatization commenced towards the late 1980s—Ghana and Nigeria in 1987, Benin in 1989, Kenya in 1992 and Zambia in 1994.

The number of privatization transactions, translating the acceptance by the government to reduce the size of the public sector in its portfolio, has jumped to the level of nearly 2804 by the end of 1997 from less than 200 in year 1990, and a total of 334 for the all period prior 1990 (Makalou 1999).

Governments sometimes retained shares in privatized entities, but the general trend was total exit from SOEs. Between 1990 and 1995, a third of SOEs in Africa was privatized, but since the majority were small- or medium-sized enterprises, the fiscal impact was still moderate. Only the cases of the Cote d'Ivoire and Guinea were national utilities included in SOEs to be privatized. In most cases, national utilities were explicitly excluded from the privatization programs.

The World Bank also advised that African countries to liberalize their economies. This meant opening up sectors that were monopolized by SOEs. Governments deregulated sector like telecommunication, banking and commodities trading. A key aim was to stimulate competition among domestic firms and between domestic import-competing firms and foreign firms with the objective of promoting efficiency (Herbst 1990).

The objective was to achieve this through a reduction in both tariff and non-tariff barriers, scrapping the commodity marketing boards and market determination of the exchange rate as well as the deregulation of interest rates, meant to foster financial efficiency and industrial productivity.

The structural changes within Africa created new opportunities for the private sector. Governments initiated policies to attract foreign and domestic investors into their newly liberalized markets and deregulated sectors.

Thus, when government were selling off and privatizing their SOEs, these local and indigenous companies were among the first to invest by acquiring these privatized assets. Local companies were able to purchase small and medium sized government assets, some of these assets were manufacturing factories, thus increasing the productive capacity and scale.

### 6.4.1 The Rebirth of African Private Enterprise

Several of the AMNEs today were far from being the billion-dollar establishments they are today, but rather, were small and medium sized corporations engaged in trade, distribution and light manufacture. Many were engaged in distributing goods and raw materials for multinationals or in some form of small and medium scale manufacturing (Ramachandran et al. 2009).

Africa has always had a thriving mercantile and entrepreneur class operating informally as importers and distributors as well as engaging in light manufacturing. As economies underwent structural adjustments, a lot of the indigenous companies were licensed to import goods deemed to the essential to consumers. Indigenous

firms made profits from the importation of fish, sugar, rice and flour, vegetable oil among others. Notable among them were Ibru Organization, Ishaku Rabihu and Dantata in Nigeria, and Bidco Africa, Mohan International in Ethiopia and in Kenya and Bahkresa and MeTL in Tanzania.

These firms had been importers and exporters as well as being distributors for SOEs and MNCs. From their trading and distribution background, some eventually ventured into manufacturing and even acquired the assets of retreating MNC and privatized SOEs. In Uganda, Madhvani Group formed the Kakira Sugar Works, in 1985 to take over the old assets of Madhvani Sugar Works Ltd. in Eastern Uganda—a factory that was seized from the family in 1971 and was no longer operational with a nucleus estate that had reverted to bush.

### 6.4.2 Acquiring the Assets of Retreating MNCs

Even as governments took a friendlier view of private capital, some MNCs still divested from some sectors. The decision by some multinationals to retreat from Africa led them to sell off some of their assets on the continent. As structural adjustment programs were being implemented across the developing world, Africa was shunned as an investment destination.

Manufacturing companies like Bata, Dunlop, Michelin and Philips sold of factories to local business owners. In Kenya, Unilever sold of its vegetable oil unit to Kenya's **Bidco Africa** as the company moved into more profitable segments. **Samaar Group** acquired the assets of Firestone East Africa (1969) Limited, which was established in Kenya in 1969 by Firestone Tyre, the Rubber Company of the USA and the government of Kenya to produce tyres for the East African market. Sameer purchased a significant part of the shareholding from Firestone Tyre and Rubber Company, with the Yana brand officially launching in November 2005. In Nigeria and Ghana, MNCs divested as indigenization policies forced them to relinquish management controls to local managers. Unilever divested from United Africa Company and its various subsidiaries. This selloff was also prominent in the downstream sector of the oil and gas industry oil companies where increases in oil prices affected the price of imported refined petroleum. MNCs in the downstream sector faced multiple pressures as several countries devalued their currency because balance of payment constraints.

Governments strict control of petroleum prices put pressure on margins for retailers like Shell, Agip, Total and Texaco. A major sell off happened when Shell offloaded its assets in 19 countries across Africa to Helios Investment Partners, an Africa focused private equity. Other African players like Nigeria's **Oando** in West Africa and Kenya's **Kenonobil** also bought the assets of these MNCs.

Subsequently, MNCs were reluctant to return to investing in Africa even after the deregulation and liberalization of the economy and in spite of the vigorous implementation of an IMF structural adjustment program. Between 1980 and 1999, Africa only accounted for less than 3% of global stock of FDI. Africa was largely bypassed in the 1980s as there was a resurgence of globalization and foreign direct investment boom around the world.

FDI inflows into Africa almost stagnated as the MNCs completely ignored Africa increasing only modestly from an annual average of USD1.7 billion for the period 1981–1985 to USD2.8 billion in 1986–1990 to USD3.8 billion in 1991–1995. During the same period inflows to developing countries as a group more than tripled from less than USD20 billion in 1980–1985 to an average of more than USD70 billion in the years 1991–1995 (UNCTAD 1999).

Thus, Africa's share in global FDI inflows as well as in total inflows to developing countries dropped significantly. From almost 9% of flows into developing countries between 1981 and 1985 this share dropped to just over 5% in 1991–1995, as did the share in global FDI inflows from 3% in 1981–1985 to 2%.

This situation meant African entrepreneurs, who had largely been marginalized and ignored in the period of state led economic policies, were now the only business class willing to invest in Africa at a time governments were embarking on privatizing their SOEs.

### 6.4.3 Acquiring the Assets of Privatized SOEs

As part of the structural adjustment program, governments were advised to privatize their SOE. At a time when MNCs were not interested in Africa, it was the weak indigenous private sector that ended up acquiring some of the privatized firms.

At the outset of SAP and privatization program the indigenous private sector was challenged by lack of finance (Pedersen and McCormick 1999). The indigenous private sector had limited capacity to absorb the privatized public entities. Most indigenous firms were only able to acquire medium scale industrial complexes and other government service-related assets. Moreover, many SOEs listed for privatization were heavily in debt. Governments often had to sell the companies at a discounted rate.

The average value of transactions most privatization transaction in Africa were extremely small. Most were a few hundred thousand dollars in value. The numerous sales in Angola and Mozambique and Guinea are accounted for largely by retail shops and similar small-scale operations. Very few of the main public services have been touched up to now (Berg 1999). However, many of today's large African acquired some privatized assets. Firms like Madhvani acquired state-owned sugar farms in Uganda and Rwanda.

### 6.4.4 New Opportunities in Deregulated Sectors

Deregulation and liberalization opened up new opportunities for private investors in Africa. Several sectors were deregulated and private investors allowed to participate in sectors like banking and financial service, utilities, trade and media and entertainment (Table 6.3).

In the period since the adoption of structural adjustment program, two of the most successful sectors for private investors in Africa have been finance and telecommunication. Prior to 1990 these two sectors were in regulated by government.

**Table 6.3** Some companies founded in Africa during the in the post liberalization era

| Company | Country | Year | Products and services |
|---|---|---|---|
| GTBank | Nigeria | 1990 | Banking |
| Equity Bank | Kenya | 1984 | Banking |
| Orascom Telecom | Egypt | 1998 | Telecom |
| Qalaar Holding | Egypt | 2004 | Private equity |
| Cetival | Algeria | 1998 | Agribusiness |
| Econet | Zimbabwe | 1993 | Telecom |
| Ora Bank | Kenya | 1988 | Banking |
| MTN | South Africa | 1994 | Telecommunications |
| Shoprite | South Africa | 1979 | Retailing |
| Ecobank | Togo | 1985 | Banking |
| Brookside Dairy | Kenya | 1993 | Diary products |
| Africell | Gambia | 2000 | Telecommunications |
| Juhayna | Egypt | 1983 | Dairy products |
| Echourouk | Algeria | 1991 | Media |
| Dangote Industries | Nigeria | 1981 | Manufacturing |
| Massmart | South Africa | 1990 | Retailing |
| Edita | Egypt | 1996 | Bakery |
| Bidvest | South Africa | 1988 | Logistics |
| Zenith Bank | Nigeria | 1990 | Banking |
| GlobaCom | Nigeria | 2003 | Telecommunications |

*Compiled by author*

While indigenous private banks were permitted in some countries, many multinational banks exited several African markets following nationalization and indigenization policies. Today, banking and financial services is the sector with the greatest number of African Lions.

Across Africa, several governments deregulated the provision of infrastructure and utilities. Policies were enacted that encouraged private investment in infrastructure. Ports and airports were handed over to concessionaires or sold off to private investors who were also allowed to develop new facilities.

The telecommunications sector was also deregulated in some countries and telecommunication utilities privatized. Additionally, companies were licensed to provide mobile telecommunications services. These licensing rounds earned several governments large sums of money as licensing fees. The licensing of a new generation of banks and telecommunication companies gave indigenous entrepreneurs a new impetus.

African founded telecoms companies include Econet Wireless, Sonatel, MTN, Orascom Telecoms and Africell. Liberalization opened up opportunities for media and entertainment companies after the restrictive years of military or authoritarian rule in Africa. Media companies established newspaper, radio stations and television stations among the notable was IPP group in Tanzania and Africa Independent Television in Nigeria. Pay TV services also were set up and new media thrived in

the form of internet service providers. Other sectors that were deregulated included aviation, hotels and hospitality, commodities trading, upstream and downstream oil and gas operations.

### 6.4.5 The Fall of Apartheid and the Arrival of the South Africans

Economic and political changes that were happening in Africa coincided with the repeal of apartheid laws in South Africa in 1990. South Africa had been a closed economy with a highly developed agricultural, mining, manufacturing, retail and financial services sector.

In 1994, South Africa joined the WTO and willingly removed tariffs and other barriers in its protected market. This meant South African manufacturing firms were not so competitive and started to face new competitors and lose market share in their domestic market (Verhoef 2018).

Since the beginning of the 1990s, economic liberalization and regional integration in the southern African region provided a launchpad for South African firms to expand into regional markets. Initially, because of South Africa's political and economic isolation during the apartheid era, trade with its neighbors remained modest. However, with GDP exceeding USD125 billion in 1996, South Africa's economy was more than three times larger than the combined economies of all SADC countries. After the first democratic election in South Africa in 1994 marking the end of that era, South Africa's trade with its neighbors expanded rapidly, fueled by increases imports of primary and intermediate goods and the expansion of its manufactured exports.

Eventually, some companies like Shoprite and MTN started to move to countries in the SADC region to seek new markets. Others like SABMiller, Anglo-American, Steinhoff, and Standard Bank expanded into markets in Europe, changed their headquarters and even listed their shares on the London Stock Exchange (Games 2004).

## 6.5 Conclusion

The participation of private capital in the provision of goods and services in Africa had been stifled at different times on the African continent and this has affected the contribution of two principle economic agents. In colonial Africa, the colonial governments-controlled attempts at local production due to the view that colonies were markets for goods produced in the metropoles. But geopolitical events like the World Wars led to relaxation of such policies.

Some colonial governments, however, were more relaxed about these policies allowing the growth of the private sector in Kenya, South Africa, Zimbabwe.

Companies like, Nigeria Breweries, were founded in this era by local businessmen who eventually took their companies public. Ironically, it is the fact that several of these companies now publicly quoted that they now have multinationals or other

interest groups dominating their management. Yet in this hostile business environment, several companies were set up across Africa with the most enduring of these being those founded in South Africa.

But following independence a desire to improve local capacity and substitute imports with locally produced goods led several countries to situate the state as the driver of national economic growth. The institution of policies that nationalized private assets and ceded control of management of foreign firms to indigenous managers led to the retreat of foreign private concerns and those that did not withdraw reduced their investment activities. Adding to that governments took monopolistic control of several sectors like banking, aviation and media. Meanwhile, several African states were embroiled in political turmoil, wars thus further damping investment sentiments.

Macroeconomic shock, huge debts and the failure of SOEs forced governments to reshape the structure of their economies and this led to the adoption of free market principles.

Africa markets were highly regulated but one of the outcomes of structural adjustment was the enactment of policies that opened up certain sectors that were at first controlled by the public sector.

The deregulation of the financial services sector at a time most MNCs were unwilling to invest in Africa gave African companies a clean competitive environment. Another sector that was deregulated and had a great impact on Africa's democracy was the media sector.

The infrastructure sector was also deregulated and some utilities privatized, specially, telecommunications, power and transport utilities.

In an effort to attract investors most African countries also offered tax incentives and pioneer status to firms. Deregulation has given the African consumer choice. With MNCs unsure of entering countries like Nigeria and Ghana, it was left to indigenous business to take up the responsibility of meeting the gap between supply and demand.

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