

Friday@Noon on Economic Development in Africa: 2018

by Johan Burger

The NTU-SBF Centre for African Studies publishes a weekly newsletter on issues relevant to Africa. This paper is based on issues addressed in the newsletter.

The year 2018 saw numerous cases of economic development on the African continent. This would include trade, etc.

Africa

The US\$2 trillion-plus Sub-Saharan Africa economy continues to strengthen from a low point in 2016, thanks to domestic policy adjustments and improved global economic activity. Growth is projected to increase from 2.7% in 2017 to 3.1% in 2018. With the exception of SSA's two biggest markets (Nigeria and SA), the rest of SSA has grown at 5.3% on average in the period spanning 2010-17, but with wider heterogeneity across countries. Hence, there are plenty opportunities for dedicated investors. The regional business climate is improving, with 40 African countries implementing a total of 107 reforms in the past year, up 24 on the previous year. SSA is home to 5 of 2018's top 10 improvers – Côte d'Ivoire, Djibouti, Kenya, Rwanda and Togo. Strengthening governance, fighting corruption and tackling obstacles such as inadequate electricity and financial services will support further business growth. Overall, growth prospects for SSA are favourable, although greater economic diversification would strengthen resilience to commodity price shocks. The IMF has predicted that in 2019, 18 out of 45 SSA countries will grow at 6% or higher compared to 10 in 2016 – well above the global trend.

Africa is frequently the target of bad news reporting. It is therefore refreshing to read about the positive prospects for Africa. Many African countries have implemented meaningful reforms to improve the ease of doing business in the country and to boost economic growth. This is the case even in countries that do not present good economic growth prospects for 2019, e.g. Nigeria. Africa must, however, continue on the path of economic diversification and on improving the general political and business climate. One aspect that should be eradicated from Africa's business environment, is corruption. There are still too many reports on this phenomenon. In spite of this, Africa presents an attractive investment destination for 2019!

Anheuser-Busch InBev (AB InBev) plans to spend \$250 million on a brewery in Nigeria and \$100 million on a brewery in Kenya, showing it is successfully tapping into SABMiller's African expertise. Africa is increasingly attractive to global brewing groups suffering flat or declining beer consumption in their home markets. According to research house BMI, global brewers need to be aware that African beer was "a volume over value story", with affordability a major issue for local consumers. AB InBev felt that it needed to develop its mainstream beer and make it affordable enough to further draw consumers over from the informal alcohol markets. Beer companies in Africa are increasingly championing the use of locally sourced ingredients, such as sorghum, barley, maize and cassava to make low-end beer that fits with more familiar flavour profiles for these consumers.

Africa is a market with huge potential. It must be borne in mind, though, that beer is a very local product. Although we do find a few global brands, most beer drinkers drink their local brew. In addition, by far the greatest portion of beer drinkers are from the low-income market segment. In a continent where the majority of the people are poor, it therefore makes sense for beer brewers

to adopt a “volume over value” posture. This does help to optimise the utilization of the equipment (as scale always does) and to position a low-cost beer in the market. SABMiller, which now is part of AB InBev, understands the dynamics of the African market very well, given that this is where they had the opportunity to expand into after the end of apartheid opened the world for them.

East Africa

East Africa is becoming a frontier market for milk exports from Europe, which is posing a threat to the region’s farmers and processors. Industry players feel the opening of the local market to imports would have a devastating impact on efforts to expand the industry, and could destroy the livelihoods of 1.5 million small scale farmers who depend on dairy farming. They fear that the dumping of cheap imports will kill the sector, because it cannot compete with the EU, where the cost of production is very low. For the EU, finding new markets for milk and milk products is a matter of urgency considering that milk production has increased sharply since the end of milk production quotas imposed in 2015 to prevent overproduction.

Imports from the EU, and other parts of the world, such as the USA, are creating challenges for local producers in Africa. East African textile companies are under threat from second-hand clothing imports from especially the USA. Subsidies in EU countries create an even more unequal playing field. It is not just East Africa that has to contend with these challenges. Both Southern Africa and West Africa frequently suffer from cheap imports that threaten the local industries. Free is not always fair; nor is fair necessarily understood in the same way by all concerned. One is reminded of President Trump recently saying, during the visit of President Buhari to Washington, that it is just fair that Nigeria opens up its markets to the USA in the same way the USA is open to Nigerian exports. And just to show it is not just the developed world playing hardball in Africa, we see the trade tiff between Tanzania and Kenya continuing with the former raising tariffs against imports from the latter. This is in spite of both being members of the East African Community. They have been involved in a tit-for-tat trade relationship characterised by some conflict. They should focus on creating regional benefits instead of focusing on national interests!

East African countries are also increasingly becoming an alternative for foreign investors and large consumer companies. East African countries, led by Ethiopia, Kenya, Tanzania and Rwanda, have been enjoying growth rates of more than 5%. The region’s positive economic growth, low labour costs, political stability, an improved regulatory environment and a big market of over 120 million people is attracting them. East Africa remains the fastest-growing sub-region in Africa, with an estimated growth of 5.6% in 2017, up from 4.9% in 2016. Growth is expected to reach 5.9% in 2018 and 6.1% in 2019. According to the AfDB, the industrial sector contributed about 39% of the region’s average real GDP growth in 2017. Nissan, Volkswagen, Peugeot and CNH have all announced plans for their own assembly lines. Ethiopia has been attracting investments for its industrial sector too, especially the textile and apparel sector. Numerous companies have relocated their manufacturing plants from countries such as Turkey, India and China to Ethiopia. European and American companies (apparel, textile and shoe brands) are increasingly flocking to Ethiopia. Saudi investors run over 200 investment projects in Ethiopia. Challenges to East Africa include inadequate infrastructure, cumbersome customs processes, a shortage of technical and managerial talent, low levels of social and environmental compliance, electricity and political unrest.

This situation confirms a trend that has been observed for a number of years, since the end of the commodity price super cycle and the slowing down of the Chinese economy’s growth rate, namely a tilt in investments from West Africa to East Africa. The East African economies have been recording high growth rates, in contrast to those of most of the larger West African economies. We also a relatively more stable political environment, with the biggest surprise

coming from Ethiopia and Eritrea respectively. Ethiopia is democratising at a substantial rate, which will hopefully bring about a more stable Ethiopia, sooner rather than later. Its new prime minister seems to be doing a lot of good things, amongst other reaching out to Eritrea and ending a long-standing conflict between the two countries.

Not only have we seen a continuation of the tilt from West Africa to East Africa, but we also see changes in East Africa itself. Kenya appears to be losing its lead position in FDI to Ethiopia, due to new investors turning their focus on the latter following wide-ranging socio-economic reforms. Ethiopia could surpass Kenya in the value and number of capital projects in less than 2 years. An EY report on FDI readiness ranks Kenya third in Africa after South Africa and Morocco in attracting investors with 67 FDI projects. Ethiopia was ranked fifth with 62 projects, marking a 288% increase in the number of projects funded last year compared to 2016. This has seen Ethiopia rise 7 spots in the index. It ties with Kenya and Nigeria at 9% in terms of the share of FDI to sub-Saharan Africa. Consumer products and retail (textiles) and real estate, hospitality and construction were responsible for three-quarters of this surge. The recent opening up of the telecoms, shipping, power generation and aviation sectors to foreign investment will prove to be a boost to investor interest in Ethiopia.

Ethiopia has been the flavour of the month for quite a while, in spite of ethnic clashes and the low availability of foreign currency. Its stated policy of industrialising agriculture and boosting its manufacturing sector played a role, as did the development of industrial parks (eventually there will be 17) all over Ethiopia. The appointment of a new prime minister, the young Abij Ahmed, who started with a number of political and economic reforms, and who reached out to his neighbours, including Eritrea, gave further impetus to the increasing attraction of Ethiopia. On the other hand, Kenya still has a more sophisticated economy with a well-educated workforce. It also tends to be more stable from a security perspective. And it has one of the largest harbours in East Africa, acting as an entrepôt for Rwanda, Uganda and Burundi, to name but a few. The Kenyan government has also started to crack down on corruption. Both countries can actually be seen as attractive investment destinations in East Africa.

Kenya

President Uhuru Kenyatta announced his Big 4 strategies at the commencement of his second term as president of Kenya. Funding and implementing the Big 4 seem to be a challenge. The Big 4 involve manufacturing, enhancing food security, universal health care and ensuring affordable housing for all as the key focus areas for Kenya's economic policies. The plan focuses on, among other things, meeting the demand for over 2 million low cost houses. Local banks have limited access to long-term funding. Kenya – with a population of over 40 million – has less than 25,000 mortgages. To turn these plans into reality, skills development and technology transfers are vital, and China has been identified as a valuable partner in this quest. China will provide a fund to set up the China-Africa teachers college of vocational education for many professions, including tour machines, manufacturing, joint research, and crop molecular laboratories.

Kenya meeting its “Big 4” objectives will improve the wealth and health of Kenyans dramatically. Boosting the manufacturing sector will boost export revenues, import substitution and job creation. As it is, the contribution of the manufacturing sector to Kenya's GDP is quite low at approximately 9%. Affordable housing is a challenge throughout Africa, with many Kenyans (and Africans) not being able to afford the available housing. Having only 25,000 mortgages with a population of over 40 million is an indictment against the system. Finding clever mechanisms to enable Kenyans and Kenyan financial institutions to finance housing purchases, will therefore boost the lives of millions of poor Kenyans. Food security and affordable health care are obvious goals worth striving for. The million-dollar question is always one of who will be paying for all of this. As

is frequently the case, China seems to be stepping up as Africa's partner, increasing Africa's dependence on this economic super power and its vulnerability to whatever happens to China.

In the agriculture sector, Kenya's horticulture sub-sector is growing in leaps and bounds. The value of horticulture production rose 41% last year compared with 2016 on account of good prices. However, the domestic market has never been well coordinated, which offers the capacity to engage with more stakeholders, and to extend the membership and grow the sector. The total value of horticultural produce exported in 2017 increased from ~US\$1 billion in 2016 to ~US\$1.15 billion last year. The strong increase in exports was attributed to compliance with the export market requirements by the majority of exporters, especially to the EU. Flower exports contributed ~US\$821 million, up from ~US\$707 million earned in 2016, representing 11.6% growth, on export volume of 159,961 tons. The domestic market has never been well coordinated, which offers the capacity to engage with more stakeholders, and to extend the membership and grow the sector.

Horticulture in Kenya makes a significant contribution to Kenya's GDP. Other counties in the region have also turned towards horticulture as an export product. Rwanda adopted strategies to boost its horticulture sector already in 2015. The Rwanda Horticulture Working Group (RHWG) was launched to boost the country's horticulture production, quality and exports. The initiative also seeks to attract more private investments into the horticulture industry, as well as to stimulate dialogue among stakeholders. Ethiopia over the past decade has managed to transform its horticulture sector from scratch to about a US\$270 million export business. The sector has managed to attract more than 100 companies, but has so far relied on farmlands scattered in various areas with potential for the sector. The Ethiopian government is considering organizing the sector into clusters and gathering farms in parks. It seems the East African region has a lot of potential for the horticulture sector. Some of the producers have not only targeted the European market, but are looking further afield to China, the USA and elsewhere.

Rwanda

Rwanda is a country that has been quite busy in the economic domain. Its exports have increased significantly from US\$400 million in 2007 to US\$1.6 billion in 2016. Non-traditional exports has been an important driver of growth, forming the basis for export-led development in the country. In order to promote the development of value-added products, Rwanda continues to promote the export of semi-processed or finished products and more sophisticated niche products instead of exporting raw materials and commodity products. Rwanda is focusing on harnessing its cost advantage through regional and international trade. It is using diversification, innovation, and entrepreneurship as some of the strategies to boost the export sector, as are the Made-in-Rwanda initiative and other home-grown solutions.

Rwanda has done a lot to grow its economy. Growing its manufacturing sector and exporting is helping its economy on its road of development. Diversification and value addition are important strategies for boosting its economy. This country continues to impress. The growth in its exports are quite significant. One must also bear in mind that being landlocked has some disadvantages. As such, landlocked countries face structural challenges to access global markets. They therefore often lag behind their maritime neighbours in overall development and external trade. Rwanda can therefore be seen as starting off with a handicap. The results show that due to good governance and appropriate strategies, the country is doing quite well. Developing appropriate road and rail transport infrastructure will improve its connectivity with other African countries. We are also seeing the development of rail infrastructure connecting it to the harbour of Dar es Salaam in Tanzania.

Rwanda, as well as Kenya, Tanzania and Uganda developed a challenge, based on a decision it took in 2016 to raise tariffs on the importing of second-hand clothing from the USA in 2019. In

March 2017, the Secondary Materials and Recycled Textiles Association complained that the import ban harmed US industry and that 40 000 US jobs were jeopardized by the looming import bans. The ban violated the countries' obligations under AGOA. Kenya, Tanzania and Uganda subsequently promised to reduce or eliminate the import barriers. Rwanda informed the US that it has the right to withdraw benefits of AGOA, but that Rwanda would not reverse its decision to restrict imports of used clothes and shoes. Rwanda increased tariffs on imported used clothes from \$0.20 to \$2.50 per kilo in 2016, aiming to eventually phase out importation. The USA subsequently removed textile products from the list of products Rwanda could export to the USA under AGOA.

East Africa has been struggling for quite a while to grow the contribution to GDP of its manufacturing sector. One factor that has always been a bone of contention, was the presence of imported used clothing from the USA. Another factor was the import of cheap textile products from China. The latter was specifically true for Kenya. One has to admire the courage of Rwanda to maintain its stance on raising tariffs on the importation of used clothing. This is not the first time the USA has "leaned" on African countries to force them to back down from tariffs against the import of cheap USA products. It was not long ago that South Africa had to submit to the import of cheap American chicken, given the threat of removal from the list of beneficiaries of AGOA. While it is true that the African countries do benefit from AGOA, it is at times such as these that the debate of "free versus fair" gains renewed prominence.

Rwanda is quite keen on reducing its trade deficit. To support this, the National Industrial Research and Development Agency (NIRDA) stated that supporting local food production and addressing pressing challenges in the sector, could save the country up to US\$118 million annually by 2020. The main challenges that hold back the food sector's productivity, include inadequate raw materials due to post-harvest food losses, food losses due to poor handling and processing methods, lack of access to technology, low research capacity, low product development innovation, lack of product diversification and weak linkages with research development institutions and the rest of the private sector, lack of adequate processing knowledge and skills, and the lack of proper information systems in the agri-processing industry. Currently, the agri-processing sector accounts for over 12% of Rwanda's net imports, partly a result of insufficient raw materials to be processed for the domestic market.

The president of the African Development Bank last year reported that Africa's countries were importing food annually to the tune of US\$35 billion net. Given Africa's potential for food production, this is a sad state of affairs. Given the strong political will demonstrated by Rwanda's leadership in all spheres of Rwanda's environment, it will only be a question of time before the country delivers on the issues reported upon above.

As stated above in the section on Kenya, Rwanda has been growing its flower sector. Flower growing is one of the areas Rwanda earmarked as "quick win" sectors over 6 years ago as it sought to increase its export revenues. The plan also aimed to stop importing flowers worth millions of dollars. To attract investors into the sector, the government has developed a number of incentives. Rwanda also wanted to capitalize on its excellent climate and good business environment, and the institutional support for pioneer flower investors. With new projects coming on online, Rwanda can now have a larger portion of the flower exports, bolster its prospects as a flower exporter, spur foreign earnings and create new jobs. The attractive investment climate and government's clear policy of supporting the development of the flower industry, were the other pull factors. Freight costs are now also much more affordable. Horticulture products are now key contributors to Rwanda's export receipts. Overall, Rwanda is looking at increasing its flower production to 44,000 tons per year or US\$140 million worth of export receipts by 2020.

The RDB (Rwanda Development Board) has invited local and foreign cyclists to enjoy the world class trails across Rwanda. In addition, it is promoting paramotoring as another sport to entice

sportsmen and women from across the world to visit Rwanda. The cycling trails encompass a combined distance of 760 km and give cyclists a chance to discover Rwanda. In addition, specialised guides and bicycle mechanics are available to ensure that the cycle experience is as seamless as possible. Secure campsites and other accommodation options are available on the cycling trails, some of which attract over 5,000 tourists annually. Events such as the Tour du Rwanda, Rwanda Cycling Cup and the Mountain Bike Race are positioning the country on the cyclist map. In addition, the RDB has introduced paramotoring (powered paragliding) to its adventure tourism offerings.

Cycling and paramotoring are but 2 examples of sport and related tourism in this country. Add a brand-new airport and a capital that is brand new, modern and clean, and kept as such, and you have a country really worthwhile visiting and vacationing in. The fact that it is rated as the 5th safest country in the world, is the cherry on top, as is the fact that it is probably the safest country to visit in Africa. In 2016, 1.2 million people visited this landlocked jewel, literally built on a thousand hills. Given the focus on increasing tourism by the RDB, this number could increase considerably in the near future, generating significant forex for the country. These initiatives provide potentially popular alternatives to visits to “gorilla tourism.” Tourism has the benefit of having a significant leverage effect on the economy, creating jobs upstream and downstream. The country has also been targeted by various upper-class hotel groups, providing good accommodation to prospective visitors.

Rwanda recently focused strongly on the Chinese market for tourism. This focus is largely based on the growth in consumption by China’s citizens in global tourism. In 2017 alone, there were about 131 million outbound Chinese tourists, with each estimated to have spent an average of US\$726 per person on retail shopping, while non-Chinese tourists spent an average of US\$486 per person. Total tourism expenditure from China stood at US\$261 billion in 2016. These are some of the reasons behind Rwanda’s move to launch an online platform to ease the booking of packages by China’s citizens. Chinese tourists can now directly book tour packages to Rwanda, following the launch of the ‘Visit Rwanda’ online pavilion on Fliggy, Alibaba’s travel platform that is accessed by over 500 million users in China. Despite the high volumes of consumption by the Chinese, there was little of it coming to Africa (only 2%), hence the launch of a target platform. Tourism stakeholders are optimistic they will earn more profits as intermediaries will be bypassed and commissions reduced.

The fact that Rwanda is one of the safest countries to visit, not only in Africa, but globally, increases its attraction. Modern upmarket hotels in Kigali and an easy entry into the country through the recently renovated airport adds to the experience. The absence of litter in the streets of Kigali also needs a mention. Rwanda also features a variety of other attractions that include several genocide memorial sites in Kigali, chimpanzee adventures in Nyungwe Forest National Park, wilderness experiences with big game in Akagera National Park, cultural experiences with the traditional dances and performances by the cultural Troup Intore, and visits to Iby’iwacu cultural village in Musanze where live dances are performed for visitors.

Rwanda has recently reached out to companies to invest in the timber production and other related industries to boost forestry and timber business locally. The key to its successful economic growth is the “Made in Rwanda” initiative since it promotes locally made products and creates jobs in the process. Forestry has become an attractive investment because of the rising value of timber and the allure of carbon credits. The industries could bring in US\$450 million per annum and therefore reduce the country’s negative trade balance. Up to US\$206 million would be invested in the construction materials industry, including the manufacturing of timber for construction products, paints, varnishes, etc. and another US\$124 million could prompt the investment of factories that manufacture ancillary and wooden packaging materials, wooden furniture, insecticides, etc.

Ghana

Ghana has also embarked upon the journey of adding value to its raw materials, and thereby stimulating its manufacturing base, tapping into the benefits of import substitution and export revenues. Mr. Yaw Osafo Marfo, Senior Minister, early in 2018 stated that the government had plans to stop the export of raw materials from Ghana to enrich other economies. Adding value to their raw materials would create employment for its own people. Ghana was in search of jobs for its people as unemployment was a huge problem in the country. Exporting unprocessed raw materials created jobs elsewhere, thereby creating revenue outside of the country.

As such, Ghana is now a member of a growing group of African countries that have legislated the beneficiation of raw materials before exports. This obviously entails moving down the value chain, with all the concomitant benefits. These include more jobs at higher skills levels, greater revenues and import substitution. Since President Nana Akufo-Addo won the election in December 2016, Ghana has gone from strength to strength. Its economic growth rate more than doubled from 3.7% in December 2016 to 7.9% in December 2017. This beneficiation policy has the potential to provide additional impetus to this growth rate.

One area that has received renewed interest in 2018, is in the cocoa industry. In this regard, President Nana Akufo-Addo and the President of Cote d'Ivoire, Alassane Ouattara, have signed the "Abidjan Declaration" to defend the interest of the two countries in the global cocoa industry. The agreement will address the common challenges cocoa producers from Ghana and Cote d'Ivoire face. The two countries are responsible for 60% of the world's cocoa output; subsequently the fall of cocoa prices on the international market by about 20% in 2017, have impacted negatively on the revenues of millions of cocoa farmers, as well as on the revenues of the two countries. The 2 presidents have reaffirmed their commitment to define a better, common strategy and a sustainable solution for the improvement of prices for cocoa producers in their respective countries, committed themselves to harmonising their cocoa marketing policies, and agreed to annually announce the price to cocoa producers. They have also agreed to intensify collaboration in the field of scientific research. More importantly, they also agreed to process a major part of cocoa in Africa and to invite the African private sector to invest heavily in cocoa processing in Africa.

Some commentators have cautioned against a quick and easy approach to value addition in the cocoa industry. According to them, chocolate manufacturing for global distribution will not work; as a matter of fact, even chocolate production for Africa has severe limitations. Understanding the respective elements of the industry value chain is crucial to identify the areas where value can be added in a meaningful manner. The lack of progress in the cocoa industry in West Africa is also a reflection that there is an uncertainty as to where the West African producers should be concentrating its efforts. It will be interesting to see to what extent these two countries, with their 60% of cocoa output, will be successful in controlling the market price of cocoa. Also, will they allow other cocoa producing countries to join the cocoa version of OPEC, an OCEC (Organisation of Cocoa Exporting Countries)?

Ghana, a relative newcomer to the oil industry, plans to award as many as 9 offshore blocks off its west coast in 2018 and 2019 in a mix of competitive tenders and direct negotiations. Ghana National Petroleum Corporation, the state-run company, will obtain one of the blocks that it will explore with a strategic partner. Ghana's current crude oil production is around 180,000 bpd, mostly pumped from three offshore fields, including the world-class Jubilee oil field operated by

Tullow Oil. Rising oil prices, higher production, and new deals likely to come online by the end of the year will drive the expected oil boom in Ghana.

Ghana has already benefitted significantly from its oil and gas reserves, increasing its GDP growth from 3.7% in 2016 to 8.5% in 2017. The assertion by oil experts that the oil boom for Ghana is yet to come, therefore paints quite a rosy future for the country. Whether this future will materialise is dependent on a number of factors. Firstly, President Akufo-Addo must ensure that all corruption is eradicated. Corruption seemingly unfortunately appears to raise its ugly head in the oil sector. Secondly, to gain from its oil reserves in a sustainable manner, Ghana's government must ensure that it uses the spoils from its oil to diversify and develop its total economy. Not doing this will create a vulnerability and dependency on oil it does not want. The disastrous effect of the oil price implosion on Nigeria and Angola should serve as a serious warning to President Akufo-Addo.

Companies in the Ghanaian coffee industry have asked the government to invest in coffee to boost the economy. According to the experts, coffee, apart from having the potential to rake in more revenue to shore up the US\$2 billion that cocoa generates annually, could also create more than 500,000 jobs for the youth. The reality is that Ghana cannot rely on cocoa production to develop its economy. Given that Ghana has the potential to be ranked as one of the world's leading producers of coffee, it is sad that coffee's share of Ghana's GDP only stood at 0.12 in 2015. It is also sad that Ghana's youth remain unemployed despite the great potential coffee provides. It is equally sad that Ghana's economy continues to be overly dependent on Ghana's age-old cash crop, i.e. cocoa, when coffee can boost the economy just as cocoa has done over the years.

The Top 5 dominant industries in Ghana excludes coffee, with services being the dominant contributor to GDP, followed by agriculture (coffee not mentioned as a meaningful factor), mining, construction, and manufacturing (in that sequence). It is well known that many of the youth are leaving the agriculture sector in Africa, due to the fact that it is a struggling industry. The average age of the African farmer is ~63 years old. Therefore, to just invest in coffee plantations is not going to get the youth involved. Uganda is a prime example of a country that has invested in coffee and still sits with the problem of aging farmers and unemployed youth in cities. Ghana and other agriculture producers must rethink their business models and start developing value added opportunities for their products. With very little value added, the cocoa farmers in Ghana (and in West Africa, for that matter) remain price takers and vulnerable to whatever happens on global markets. As it is, the cocoa producers in West Africa only receive about 4% of the total value added in the cocoa value chain. This cannot be a sustainable situation.

More recently, Ghana has embarked on an industrial transformation agenda that intends to change the Ghanaian economy. They formulated a national Micro, Small and Medium Enterprise (MSME) Policy to provide the administrative, regulatory, institutional and legal framework for the growth and development of the MSME sector. The Policy will hopefully stimulate the growth of MSMEs to produce world class products and services that can compete locally and internationally. This will also provide a supportive enabling environment and interventions of technology transfer, entrepreneurial culture, skills development, access to finance and market facilitation. The objectives of the policy are to coordinate and consolidate public resources, and to provide clear guidelines and the needed regulatory framework to businesses, prospective investors, development partners, financial institutions, service providers and other stakeholders to promote the development of the MSME sector. The Ghanaian MSMEs constitute about 92% of all business in Ghana, about 85% of manufacturing employment, and contribute about 70% to Ghana's GDP. The policy will subsequently improve the competitiveness in the sector and enhance the participation and contribution of the MSMEs to boost the Ghanaian economy.

While the initial prospects for Ghana's economic growth rate for 2018, as stated by the World Bank, was above 8%, this was reduced to 6.8% by the IMF. Given the massive contribution of

MSMs to GDP in Ghana, it makes a lot of sense to support this sector to grow the GDP of Ghana. Support for the MSME sector also increases its attraction to investors, both local and foreign.

Nigeria

The Swiss Government undertook to develop its relations with Nigeria in the non-oil sectors in line with its diversification agenda. Nigeria exports oil to Switzerland and both countries were working to diversify relations in other sectors. Typical examples include the likes of Lafarge Nigeria cement factory; Nestle Nigeria Plc; pharmaceuticals companies; as well as companies in new technologies. In addition, Swiss investors are also active in the agriculture sector, involved in Swiss-Nigeria JV's that are trying to promote the value of potatoes. Nigeria has since 2015 been Switzerland's largest oil supplier. In 2017, 45% of Swiss oil imports came from Nigeria. Some 45 Swiss companies are currently present in Nigeria. Together they employ nearly 9,000 people.

Nigeria has for very long largely depended on its oil reserves to generate foreign revenue. The oil price slump of a few years ago hurt its economy severely and emphasized the need for a diversification of its economy. The involvement of the Swiss Government to expand its relations to non-oil sectors can only be good for the Nigerian economy. In addition to the diversification of revenue sources, the jobs created are an additional benefit. This case study should serve to warn countries with newly discovered oil reserves of the negatives that could arise from an overemphasis on the production of oil. It can also serve to show upon a route to reduce this over-dependence. Hopefully the Swiss influence will keep Nigeria focused on expanding its non-oil sector.

A Nigerian study has revealed that its maritime sector is losing about ~US\$4.13 billion annually due to its inability to exploit the 'blue ocean economy.' The loss excluded expatriate manpower costs, estimated at ~US\$1.66 billion annually. The study estimated that 90% of Nigerian generated trade come by sea with very limited indigenous participation, leading to enormous capital flight. Through various incentives, indigenous ship owners can now acquire new ships for local use and gradually build up their fleet at low cost. There are also initiatives between Nigerian entities to ensure that ship-owners are given the grace and the ability to participate in the shipment of Nigeria's crude.

Given the level of Nigerian imports, it makes sense for it to have a shipping fleet of some sorts. Given the geographic position of the country, these imports have no other practical way of reaching Nigeria but by sea. The costs to the country are astronomical. The capital flight mentioned adds woes to the Nigerian Naira, which it can hardly afford. Nigeria exports its crude oil, just to import the refined product later on at great cost. It seems to be adding injury to injury by using foreign shipping to deal with both the export and import. Being so dependent on the sea, one would think that Nigeria would have developed a fleet a long time ago. What it is doing currently, is developing additional port facilities, such as the Lekki Port and SEZ. However, more clearly needs to be done in Africa's largest economy to address the lack of exploitation of the blue ocean economy. Again we see an opportunity for a foreign investor in the maritime industry to help Nigeria develop its own capacity in this regard.

Angola

Diversifying Angola's oil-dependent economy is President Joao Lourenco's top priority. He has identified the fish sector as a focus area, as a lack of equipment and know-how has meant the industry has struggled. Fish oil is highly sought after by the cosmetics and pharmaceutical industries, while fishmeal is used by farmers as animal feed. He undertook to improve the

infrastructure to support fishing and to transform processing. The government wants to increase the annual fish catch by 16% over the next 4 years to 614,000 tons. Meanwhile, it is aiming for a 50% increase in fishmeal production to 30,000 tons over the same period. Angola has a critical lack of large fishing ships and processing factories. Furthermore, a lack of spare parts means ships often remain in the harbour. They also face maintenance difficulties, which seriously endanger the fishing industry. To stimulate fishing, the government recently announced the purchase of a specialised fishing vessel for US\$3.7 million. Some economists have greeted Lourenco's ambitious plans with scepticism as the fishing industry represents less than 1% of GDP.

Angola has no option – it must diversify its economy to reduce its vulnerability to oil price fluctuations and to develop other sources of national income. It is not the first country to choose the fish industry to develop. Tanzania and Ethiopia both targeted the youth and women segments to produce more fish. Angola has various mineral resources, in addition to its oil, that it can tap into. While the fish sector has the potential to generate jobs, concentrating on an industry that only contributes 1% of GDP, does raise a question or 2 and lends legitimacy to the point of view of some critics. Having said that, Africa must reduce its food imports, being a net food importer to the tune of US\$35 billion annually. The new president is also creating the impression that Angola will be more serious about governance, thereby improving the investment conditions.

In addition to stimulating the fishing industry, like Zimbabwe, Angola plans to privatise 74 state companies over the next few years, predominantly those in the industrial sector. The country has been the victim of the oil price slump over the past 4 years. President Lourenço undertook to reduce state interference in the economy, which remains centrally controlled. Although the prospectus did not list the companies or provide their value, a source indicated that Angola's ports, national carrier TAAG, BCI bank, and insurer Ensa were all being considered for full or partial privatisation. The government's long-term policy is that companies not required to remain under public ownership as a matter of policy, should eventually be privatised. Lourenço aims to revive growth by opening the economy to foreign investors and diversifying away from oil, which currently accounts for 95% of exports.

Africa seems to be struggling with the management of its state-owned enterprises (SOEs). Poor management skills, inadequate business acumen, and, unfortunately frequently, high levels of corruption are challenges these SOEs face. Angola's willingness to privatise 74 SOEs is an indication that their new president is serious about turning around the country's economy. This is obviously only true should these SOEs be sold off to competent people in a transparent process. President Lourenco has given signs that he is serious about constraining the previous high levels of perceived corruption of the country. Getting back to privatising the SOEs, governments are seldom, if ever, good business managers. The privatisation route is therefore a good option, and creates opportunities for corporations to enter into mutual value-adding agreements. South Africa has quite a number of SOEs that are characterised by rampant corruption and inefficiencies. The very competent Minister of Public Enterprises, Minister Pravin Gordhan, will have his hands full to get the likes of SAA, Eskom and Transnet back onto the straight and narrow. Now could be a good time to privatise these entities. However, it is most likely that opposition from the labour unions, and the upcoming election of 2019, will shift this unpopular strategy onto the backburner, at least for the next 18 months.

Botswana

In order to stimulate the local economy, Botswana has imposed a ban on the import of bottled natural and mineral water packed in bottles of less than 10 litres. The implementation of the ban would promote the competitiveness and sustainability of the domestic water-bottling sector, and

stimulate investment in the sector. This could lead to job creation and poverty reduction. The domestic water bottling sector is a reserved business activity for citizens. The government also placed a ban on the import of beetroot, green pepper, butternut, watermelon, green mealies, among others. Other restricted crops include tomatoes, carrots and sweet potatoes. Local farmers are producing enough for the local market, hence the decision to ban imports on these vegetables. This will promote and protect local farmers.

Another African country is taking steps to stimulate the local economy by banning the import of selected products from abroad. The normal arguments in favour of import substitution are all valid. Importing these products come down to the exporting of jobs, etc. Boosting the productivity of these sectors has the potential to improve their profitability and, in the process, make the sector more attractive for stakeholders such as the youth and women. An increasing number of countries in Africa are reverting to such actions, including Ghana, Nigeria, Rwanda and Tanzania, to name but a few. It will be interesting to see how these prohibitions will be dealt with when the AfCFTA gets implemented.

South Africa

Saudi Arabia will invest at least US\$10 billion in South Africa, mostly in the energy sector, including building oil refineries, petrochemicals and renewable energy. The UAE has also announced plans to invest US\$10 billion in key sectors of South Africa's economy, such as tourism and mining. The Saudi move is part of President Ramaphosa's drive to attract US\$100 billion in investment in the next 5 years to boost the ailing economy. The pledge was made during an official visit by Ramaphosa and government ministers. South Africa imports about 47% of its oil from Saudi Arabia and regards the country as a strategic partner in the Middle East. The country is also a large investor in South Africa, especially in the area of renewable energy. The UAE's announcement followed Ramaphosa's first visit to the UAE last Friday, which marked the beginning of a new chapter in the long-standing relations between South Africa and the UAE. The two countries reaffirmed their deep commitment to further consolidate their strong bilateral relations across a variety of fields, including trade, transport, infrastructure development, tourism, mining, investment, and cultural co-operation.

South Africa's economy is in serious need of growth. The president appointed a 4-person team of special investment envoys to gain US\$100 billion of investment in the next 5 years. It seems he has not been sitting idle either, and has obtained investment to the tune of US\$20 billion in a very short space of time. This has set the benchmark for the other 4 envoys. The GCC countries are clearly interested in investing in Africa. We have already seen them getting involved in various countries, such as Egypt, Sudan, Djibouti, Ethiopia and Somalia, to name but a few. It also seems that some of them are transferring their animosity towards each other in their expansion into Africa. Here we see Qatar (and Turkey) on the one hand, and Saudi Arabia and the UAE on the other. President Ramaphosa also recently said China would invest US\$14.7 billion in South Africa.

So, we have seen 34.7% of the target being reached within the first 3 months of the 5-year target period. As Ramaphosa indicated at the time, the US\$100 billion might have been a low target, which seemed an ambitious target to quite a number of commentators at the time! The president has been criticized for not doing enough to rid his cabinet and his party from corruption. Clearly this cannot be said about achieving the stated target of US\$100 billion. From a South African perspective, the raising of more investments should hopefully see a further strengthening of the Rand, although the exporters might not be too happy with that outcome. Hopefully this will also strengthen Ramaphosa's powerbase, which should allow him to cleanse his administration and party.

Zambia

As was the case in Rwanda, the timber industry is growing in Africa and plays an important role in economic growth and can provide foreign exchange if well-managed and harvested. For Zambia, which is diversifying from copper, timber has the potential to become a major export commodity that could generate a lot of foreign exchange. The industry can create jobs and help reduce poverty, especially in rural areas. Zambia should take advantage of its vast forest cover by turning it into a source of wealth and jobs. The sector has the potential to spur human and economic development. The sector can contribute over US\$10 billion to GDP if well managed. Illegal harvesting, inconsistent policies and outdated laws are some of the challenges facing players in the timber sector., which have a negative effect on its growth.

While exporting timber is a form of diversification from an over-reliance on minerals and oil, ideally Zambia should look at forms of value-addition. This would increase the number of jobs and the revenue potential of the sector. It would also increase the level of import substitution. With Zambia's GDP in 2017 at US\$25.81 billion, adding an additional US\$10 billion annually is a very significant contribution (~39%)!

Zimbabwe

According to its Finance Minister, Zimbabwe has plans to privatise and merge its ailing parastatals. SOEs have performed poorly in recent years, most are struggling to service their debt, and they have faced allegations of entrenched corruption and poor levels of corporate governance. Larger parastatals and manufacturers are set for partial privatisation. The Civil Aviation Authority of Zimbabwe is to be “unbundled into a regulatory and airports authority”, while the current recapitalisation program for the National Railways of Zimbabwe is expected to continue. Parastatals such as Agribank and Allied Timbers are seeking strategic partners. The Infrastructure Development Bank of Zimbabwe, Zimpost and the People's Own Savings Bank will be partially privatised. Zimbabwe is also set to merge state-owned internet service providers such as Africom, Powertel and Zarnet, while the Posts and Telecommunications Regulatory Authority of Zimbabwe will be merged together with the Broadcasting Authority of Zimbabwe.

It appears that the government of Zimbabwe has the political will to do something politically very sensitive, namely rationalizing SOEs. Given that the government will be giving away some, if not all, control over the SOEs to the private sector and that the chances are good that jobs will initially be lost, trade unions normally tend to object strenuously to these measures. However, privatisation is frequently the right strategy to follow in the circumstances described above. Strangely enough, its southern neighbour, South Africa, also brought out a report during the Zuma administration that it should follow the same process. The active opposition by Cosatu, the umbrella trade union federation in South Africa, amongst others, have caused this strategy to fizzle out to nothing. With a new minister in charge of public enterprises in South Africa and a new president, they will hopefully see better managed SOEs, if not privatized ones. Getting back to Zimbabwe, the process does provide opportunities for foreign investment. This has frequently been the case in Africa. Gaining sorely needed management skills and technical expertise, in addition to the capital injections, will be of great benefit to Zimbabwe.

Zimbabwe signed a US\$1 billion deal with Sinosteel Corp in 2018 to build a 400MW coal bed methane-fired power plant and set up new ferrochrome smelters. The first phase will involve the

drilling of two Coal Bed Methane (CBM) wells to fire a 12MW pilot power station. During the second phase, more productive wells will be drilled to set up a 400MW plant. Sinosteel will build 2 ferrochrome smelters. The project has a potential to create more than 25,000 jobs and the electricity will be used for chrome smelting operations, with excess supplied to the national grid. Sinosteel is considering setting up 3 more furnaces to increase the annual ferrochrome production. President Mnangagwa added that the agreement with Sinosteel was part of his administration's strategy to open up the economy to investment and engage the global community to do business with Zimbabwe. Over the past 6 months, President Mnangagwa's administration attracted FDI commitments worth US\$11 billion in various economic sectors.

The country has massive potential in a number of sectors. In addition to minerals, agriculture and tourism are sectors worth considering as well. It has been stated by some commentators that Zimbabwe has become the flavour of the month as far as investment is concerned. The early movers will undoubtedly be in a position to benefit the most from tapping into the many opportunities presented.

The author, Johan Burger, is the director of the NTU-SBF Centre for African Studies, a trilateral platform for government, business and academia to promote knowledge and expertise on Africa, established by Nanyang Technological University and the Singapore Business Federation. Johan can be reached at johan.burger@ntu.edu.sg.

Links:

1. <https://allafrica.com/stories/201803060491.html>
2. <https://www.ghanaweb.com/GhanaHomePage/business/Ghana-to-stop-exporting-raw-materials-Osafo-Marfo-635473>
3. <https://allafrica.com/stories/201803270672.html>
4. <https://www.iol.co.za/news/world/trump-set-to-suspend-duty-free-clothing-imports-from-rwanda-14162329>
5. <https://www.businesslive.co.za/bd/companies/retail-and-consumer/2018-04-06-ab-inbev-brewing-bigger-plans-for-african-market/>
6. <https://www.newtimes.co.rw/business/agro-processing-sector-could-save-rwanda-118m-annually>
7. <https://www.fin24.com/Economy/Africa/zimbabwe-announces-privatisation-of-parastatals-20180414>
8. <https://africa.cgtn.com/2018/04/20/china-to-aid-kenya-in-achieving-its-big-four-agenda/>
9. <https://www.nation.co.ke/business/Horticulture-nets-Kenya-Sh305-billion/996-4489854-ut965tz/index.html>
10. <https://www.theeastafrican.co.ke/business/East-Africa-dairy-sector-at-stake-Europe-cheap-powder-milk/2560-4538874-t4xrl1/index.html>
11. <https://www.enca.com/money/angola-looks-beyond-crude-oil-to-fish-oil>
12. https://www.cnbc africa.com/news/southern-africa/2018/05/11/angola-telling-investors-get-invest-eurobonds/#cxrecs_s
13. <https://oilprice.com/Latest-Energy-News/World-News/Ghana-Looks-To-Award-Nine-Offshore-Oil-Exploration-Blocks.html>
14. https://constructionreviewonline.com/2018/05/zimbabwe-china-seal-us-1bn-power-deal/?utm_source=Magazine+Offers&utm_campaign=f50159c8c2-newsletter&utm_medium=email&utm_term=0_a89c87e295-f50159c8c2-161700541
15. <https://southerntimesafrica.com/site/news/botswana-bans-import-of-bottled-water-vegetables>
16. <https://www.iol.co.za/capetimes/news/saudis-to-invest-r133bn-in-sa-energy-15991629>
17. <https://www.iol.co.za/news/politics/ramaphosa-secures-us10bn-investment-in-sa-economy-during-uae-visit-16013991>
18. <https://www.moneyweb.co.za/news/south-africa/rand-firms-after-ramaphosa-announces-14-7-bln-china-investment/>
19. <https://punchng.com/switzerland-promises-improved-relations-with-nigeria-in-non-oil-sector/>
20. <https://www.africa.com/east-african-countries-have-become-the-investment-haven-in-africa/>
21. <http://www.newtelegraphng.com/2018/08/nigeria-loses-n1-5trn-annually-to-ocean-blue-economy/>
22. https://expogr.com/detail_news.php?newsid=5490&pageid=2

23. <https://www.ghanaweb.com/GhanaHomePage/business/Coffee-can-be-Ghana-s-next-cocoa-Coffee-Federation-690823>
24. <http://www.daily-mail.co.zm/timber-zambias-untapped-gold/>
25. <https://www.ghanabusinessnews.com/2018/11/13/government-works-on-national-enterprises-policy-to-boost-economy/>
26. <https://www.newtimes.co.rw/rwanda/why-rwanda-targeting-chinese-tourists>
27. <https://www.standardmedia.co.ke/business/article/2001300817/kenya-losing-new-foreign-investors-to-ethiopia>
28. <http://africanreview.com/finance/economy/the-africa-region-holds-firm-despite-external-challenges>