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Africa Digest

Trends and Issues in Macro Environment

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1. Trends in Agriculture in Africa

INTRODUCTION

Agriculture in Africa is a dominant sector, involving more than 60% of its population. Yet it contributes less than 30% to Africa's GDP. Low productivity and archaic production methods continue to characterise agriculture in Africa. The average age of a smallholder farmer is 60 years, and youth are leaving the sector for the cities. Africa imports food, to the tune of between US\$35 and US\$41 billion annually. Governments, realising the precarious position in which agriculture finds itself, have organised initiatives to address the situation. This compilation addresses recent trends and events in this important sector.

EGYPT

Egypt and the United States seek to promote greater reciprocal market access for agricultural and industrial goods. According to the Minister Counsellor for Economic Affairs at the US embassy in Egypt, a growing number of American companies consider doing business in Egypt. The more than 1,200 US companies currently operating in Egypt are active in several sectors, including agriculture, energy, ICT, infrastructure, defence, and healthcare, among others. Currently, the stock of US direct investment in Egypt is over US\$22 billion.

The current bilateral trade between Egypt and the USA reached US\$2.2 billion in the first quarter of 2019. Egyptian exports increased from US\$465.6 million to US\$692.9 million, with a 39% increase in Egyptian non-petroleum exports. These products include vegetables, fruits, salt, textiles, ready-made garments, sulphur, stones, iron and steel, aluminium, and wood.

Current economic projects between the two countries focus on growth in agriculture, entrepreneurship, tourism, and water.¹

ETHIOPIA

Ethiopia is the world's biggest exporter of khat, an amphetamine-like leaf. Khat is a thriving business in the country. Despite health risks, the trade is lucrative and unlikely to slow down any time soon. An estimated US\$80 million changes hands on the market nightly. Khat is a stimulant that apparently enhances concentration and reduces tiredness while producing euphoria. While the market operates 24 hours a day, peak activity starts after sunset as for users to obtain the full effect, khat must be consumed within 48 hours of its harvest.

The hundreds of traders in the khat sector not only sell the drug in Ethiopia, but also export it to Djibouti and Somaliland. Apparently the government earns much more from khat sales than it does from coffee, officially the country's largest export product. While many countries have banned the consumption of khat, there are no international controls in place.

In Ethiopia, approximately 20% of all Ethiopians chew khat to an extent that may negatively impact their health. About 90% of adult males in Somaliland chew khat. Given its contribution to revenue in Ethiopia, it is unlikely that production and consumption will fall. An increasing number of farmers are abandoning coffee and other crops to cultivate khat. One kilogram of export khat sells for around US\$23 (coffee sells at ~US\$2.20/kg), but prices vary considerably according to product quality.²

GHANA

The HortiFresh programme in Ghana is supported by the Embassy of the Netherlands, which has prioritized commercial agriculture in its strategic plan to shift from aid to trade. The HortiFresh mission is to establish "a sustainable and internationally competitive fruit and vegetable sector that contributes to inclusive economic growth, food and nutrition security" in Ghana and Cote d'Ivoire. HortiFresh aims to reach 15,000 farmers and increase their productivity by 20% by 2021. In Ghana, it focuses on both the fruit and vegetable sectors, while its focus in the surrounding countries like Ivory Coast is on other regional fruit supply chain dimensions.

The objectives of HortiFresh include improving productivity in the vegetable sector, facilitating more efficient markets, including linking vegetable producers and other value chain operators with the Dutch private sector, improving the business climate and further professionalizing the value chain for vegetable production and consumption in Africa.

HortiFresh recently launched its first Fruit and Vegetable fair, which aims to serve as a trade promotion platform in the horticulture sector and to sensitize the general public about horticulture activities in Ghana. The theme of the 2019 fair is “Promoting Quality Fruits and Vegetables for a Competitive Domestic and Export Market”. This resonates with HortiFresh’s mission to develop an internationally competitive and sustainable fruit and vegetable sector in Ghana.³

KENYA AND SOUTH AFRICA: AVOCADOS

While Europe was traditionally the main export market for Kenya’s avocados, China now provides Kenyan growers with a lucrative alternative. Kenya faced stiff competition from South Africa for its European exports. Kenyan farmers must deal with middlemen who exploit the farmers, who are reportedly paid only US\$0.10 for Kenyan fruit that will sell for US\$3 per fruit in Europe.

Such new markets provide farmers with opportunities to develop different business models. Some smallholder farmers are teaming up with colleagues to lease land where they have planted avocado trees after undertaking training on best practices in avocado farming. They are also in the process of registering an export company to prepare for the Chinese market.⁴

A 2019 EU report observed that South Africa punches far below its potential in meeting growing avocado demand, despite a steep increase in international market prices. The increase in avocado demand translates into major economic expansion and growth opportunities for the South African industry. Currently, the local industry is growing at more than 1,000 hectares per annum. In 2018, the total production was estimated at 170,000 tons. Of this, approximately 86,000 tons were exported mainly to Europe and the United Kingdom. South African producers also seek to expand into new markets such as China, India and the USA. Industry experts have indicated that should global demand growth continue at present high rates, South African producers would have to double their production in ten years.⁵

LESOTHO

Pure Salmon, a fresh-water salmon fish-farming company, announced its establishment of a recirculating aquaculture system salmon farm in Lesotho, at a cost of US\$250 million. The project is in partnership with the Lesotho National Development Corporation. Pure Salmon’s parent company is Singapore-based 8F Asset Management.

At full production capacity, by 2023 the farm will produce 20,000 tons of fish, contribute 8% to Lesotho’s GDP, create more than 250 full-time jobs, and be powered from the nearby hydroelectric power station. Pure Salmon will deliver sustainable Atlantic salmon, a high-end consumable product, free of contaminants. The project has the active support of the Lesotho government.⁶

NIGERIA

The Governor of Nasarawa State recently commissioned a fully automated state of the art agro-processing, aggregating, export and commodity trading facility. The 20 tons per hour capacity facility, constructed through a private sector initiative, will add value to the food supply in Nigeria as well as for export purposes. In addition to adding jobs, the facility will improve the living standards of the people. The project will cost approximately US\$2.75 million and provide food and nutrition security for all Nigerians. Observers deemed the acceleration of agricultural development and industrialisation as being of the utmost importance.

The trading facility will serve as a manufacturing hub for the food industrial sector and exports, and contribute to curtailing post-harvest losses - Nigeria loses over 40% of its farm produce due to poor storage infrastructure and value addition.⁷

ZAMBIA

Zambia's President Edgar Lungu recently stated that Zambia had the potential to feed Africa, but questioned how long Zambians were going to talk about this potential instead of taking action to realize it. The Zambian government will drive action to unlock the country's agriculture potential.

The Zambian initiative envisions security of tenure for land (both for locals and foreigners); increasing productivity per acre of land; improving the skills of peasant farmers; disintermediating greedy and unscrupulous middlemen in the marketing value chain; sharing knowledge along the value chain; utilising international networks to source information about prevailing marketing opportunities; using futures markets to lock in prices and find off-takers for their produce; leveraging the continental commodities fairs and shows; exposing products to the international market and pursuing larger markets such as Nigeria and Kenya; diversifying agricultural produce that has high value instead of focusing on traditional crops; and promoting value addition across all the sectors and industries. According to the president, adding increased value is the only direction that will help create jobs and improve the income Zambia earns from its production in the mining and agricultural sectors.⁸

ZIMBABWE

Many smallholder coffee farmers in Zimbabwe nearly gave up on the crop when prices slumped to as low as US 20 cents a pound at the beginning of the 21st century, and foreign buyers took flight after land seizures drove out more than 120 white commercial coffee farmers under the banner of land reforms. However, now that the market has a big appetite for Zimbabwean coffee, companies such as Nespresso are willing to pay a premium for Zimbabwe's beans, and smallholder farmers are returning to the industry. Coffee output in Zimbabwe was 430 tons in 2018, a 10% increase over the previous year, and this year's production is set at 500 tons.

Although Zimbabwe was never among the world's top producers, its Arabica coffee is highly regarded. The sector once provided a livelihood for more than 20,000 poor farmers, whilst producing approximately 15,000 tons per year in the late 1990's.

Nespresso, which pays farmers in US dollars, started buying Zimbabwean coffee last year at a 30%-40% premium above international prices, helping drive the revival. Nespresso hopes to increase the volume of coffee from the smallholder farmers and to encourage other smallholder farmers to join the programme.⁹

POINTS OF INTEREST

- African governments seek assistance from overseas to modernise their agriculture sectors. Foreign governments increasingly assist Africa in their quest to modernise their farming practices and develop foreign markets. Foreign companies also seek to tap the opportunities presented by Africa's agriculture sector. To enhance the positive aspects of this phenomenon, African governments must create a business-enabling policy framework that entices an increasing number of countries and governments. For food security in Africa, its many needs include policy stability, good governance, security, value addition, training and development of farmers, more youth participation in the sector, modern farming practices, market development, and pricing strategies. While this list creates a clear picture of the challenges facing Africa, it also represents a clear picture of the opportunities for foreign investors.
- Governmental inaction on the continent, not just within the agriculture sector but also in government in general, cannot be ignored. Policies are formulated, then frequently not implemented. This must change. The continent can no longer afford this sad state of affairs.
- The low prices for coffee relative to that for khat in Ethiopia indicates the pricing challenges facing Africa's agriculture. The challenges facing cocoa farmers in West Africa is a more sober example. The willingness of Nespresso to pay a premium for Zimbabwean coffee supports the farmers and should be encouraged. However, consider the price of a single Nespresso pod at US\$0.47 for 5.3 grams of Livanto (\$0.65). This roughly equates to US\$89/kg. With raw coffee

going at ~US\$2.20/kg, it shows a massive imbalance. Business strategists explain this disconnect by differentiating between coffee as a commodity and coffee as an experience. While this explains the phenomenon, it does not give the farmer more for his/her product. As long as the African farmer is trapped within this cycle, poverty and food insecurity on the continent will remain a challenge.

- The cultivation of high value products such as salmon and avocados is an avenue with the potential to add significant value to farmers in Africa. The global avocado supply is currently threatened by crop failure in the USA, which drives up global prices. The 2019 crop in California was weak, with some growers reporting total failures due to record high temperatures last summer that destroyed much of the young fruit before maturity. Avocado prices were also quite high in 2017, again due to reduced harvests. On the demand side, it seems that avocados are fruit for the millennials, explaining the high demand for the product.

2. Infrastructure Trends in Africa

INTRODUCTION

Africa's infrastructure situation remains a major source of concern, despite being identified as a challenge for a considerable period. Infrastructure requirements increase annually, accompanied by growing needs for financing. Factors such as growing populations, increasing disposable income, and urbanisation, impact the African infrastructure situation. Housing, transport (road, rail, ports), energy and water all experience shortfalls. While the continent does face infrastructure challenges, these same challenges paradoxically provide investment opportunities for those willing to accept the risks of investing in Africa.

AFRICA

According to GlobalData economist Yasmine Ghazzi, while Africa accounts for 12% of the world population, it generates only 2.8% of global GDP and only 2% of world trade. Ghazzi also states that Africa's lack of infrastructure is a serious obstacle to growth and development, resulting in low levels of intra-African trade and trade with other regions.

Investments in transport (road, bridges and railway) construction in Africa are set for rapid growth from US\$47.1 billion this year to US\$69 billion next year. This investment will accelerate the economic and trade integration process in Africa with the ratification of the African Continental Free Trade Area (AfCFTA). Increasing investment in railway projects drives growth in transport construction in Africa. Nigeria, Kenya and Egypt will lead these investments, with transport investments increasing significantly from 2019 to 2020. At completion, the tracked projects will total over 110,000km in length, of which 75,297km will be newly constructed, 29,197km will be upgraded and 5,561km will have an element of both construction and upgrade.¹⁰

From a population perspective, some view the current speed of Africa's urbanisation as the 'single most important transformation' in Africa. It will put tremendous pressure on urban infrastructure. In a weird way, those most interested in investing in densely populated areas are repelled by the very lack of infrastructure.

Africa's megacities, cities with a population of at least 10 million, are increasing in number. Existing megacities include Cairo in Egypt, Kinshasa in the DRC and Lagos in Nigeria. According to the UN, Luanda in Angola, Dar es Salaam in Tanzania and Johannesburg in South Africa will attain the status by 2030. In about 30 years, Africa is forecast to have 14 megacities. By 2042, according to the World Bank, Africa's urban population will exceed 1 billion, more than double the current number. By 2100, Lagos will be the largest city in the world with 88 million people, up from the current 21 million.

As clearly visible in many, if not most, cities in Africa, rapid urbanization has strained already overstretched infrastructure, creating complex problems for local governments. People need access to housing, jobs, public transport, utilities (water, electricity, sewerage), schools, hospitals, etc. Most of sub-Saharan Africa's urban residents live in slums and lack access to needed infrastructure and services. They are also vulnerable to various forms of urban violence, with crime a serious problem in many urban areas.

Africa's fast-growing cities require comprehensive infrastructure development planning to address these challenges. A well-developed urban development plan will require significant investments. This may also drive the formalisation of Africa's many informal economic sectors, which may represent up to 41% of Africa's GDP and provide 85.5% of total employment.¹¹

WEST AFRICA

West African countries met in July 2019 in Lagos, Nigeria to develop a strategy for an integrated port, road and rail transport sector. According to stakeholders, West African trade is growing strongly as more shipping lines find their way to its ports. This has led to huge port expansion projects and plans to build new terminals all over West Africa. New investments for the region will exceed US\$57 billion.

The new cooperation is driven by the emerging needs and opportunities from economic integration in the region. According to experts, the West African transportation corridor is the least integrated passage in the world, despite the many opportunities in the region. There is now a greater imperative for the ECOWAS states to speed up and sustain economic growth through a regional integration transport policy to link West African cities and states via ports, rail and road.¹²

GHANA

The Ghanaian government recently approved a project to build 14 roads across the country over the medium term, at a cost of more than US\$290 million. The projects will see the reconstruction, rehabilitation and upgrading of road networks spanning 381.3km in Ghana. The project will be funded through a medium-term budgetary allocation, covering the period between 2019 and 2023.¹³

KENYA

Shapoorji Real Estate (SPRE) (from India) and equity investor Actis (from the UK) announced their intention to invest ~US\$63 million in a middle-class housing development in Garden City Nairobi, consisting of 624 units. In addition to these housing units, the development will host a hospital, a hotel, office space and a mall with retail outlets, clinics, chemists, banks, eateries and a fun park. Their strategy is for the developer to fund building the first 208 units within the next 2 years, which they believe will redefine the Kenyan real estate market space.¹⁴

MOROCCO

Despite concerns over potential delay, the two countries promise to deliver the Nigeria-Morocco gas pipeline project on schedule. The Nigerian National Petroleum Corporation (NNPC) and its Moroccan counterpart announced they would deliver the pipeline in “record time,” as planned. The pipeline project, which will involve fifteen countries in West Africa, results from improved relations between Morocco and Nigeria over the last three years.

Both parties view the pipeline project as very important for job creation, economic prosperity and the achievement of overall peace and stability across the entire Africa. However, according to some critics, factors including political risks and significant commercial, technical, legal and financial challenges could make it difficult to finalise the project in the short - or even over the medium-term.

Nigerian stakeholders remain upbeat about the prospects of the project. They believe that bilateral cooperation between Morocco and Nigeria will boost the economies of all countries across West Africa and even up to Morocco. While the gas pipeline is a key step in the right direction, some feel that Nigeria and Morocco, working together, can do far more for continental development agendas.¹⁵

MOZAMBIQUE

The Mozambican government obtained a US\$99.7 million loan from the Islamic Development Bank (IDB) to construct a 400 KV electricity transmission line from Temane in Inhambane province to its capital Maputo. This will help alleviate electricity shortages in the southern region of Mozambique. The total cost of the transmission line is US\$550 million. In addition to the IDB loan, the World Bank promised a loan of US\$420 million, while Norway provided a US\$30 million grant.

The 560-kilometre transmission line, including three new sub-stations along its route, will link the proposed 400 MW gas-fired power station in Temane to the national grid in Maputo. The Temane power station is jointly developed by state-owned utility Electricidade de Mocambique (EDM), South African firm Sasol and independent power producer Globelec Africa.¹⁶

NIGERIA

The Transmission Company of Nigeria (TCN) received investments of about US\$1.661 billion from international donors to boost the Nigerian power supply. The projects include the Abuja Wheeling

Scheme that will bring five sub-stations and a new supply route to the territory. Ten contractors are pre-qualified for the project. The grid will automatically grow from 8,000 MW to at least 10,000 MW.

The managing director of TCN indicated that despite this massive investment, its distribution companies must match it through proportional equipment upgrades. Investments in the sector will address the challenges of erratic power supply to businesses and homeowners.¹⁷

RWANDA

Rwanda courted investors in digital and traditional infrastructure development at the recent AGM of Africa50, a pan-African infrastructure investment platform that contributes to Africa's growth by developing and investing in bankable projects. Africa50 now has 31 shareholders, with Zimbabwe being the latest shareholder to join. Rwanda is showcasing investment projects, including available opportunities in Kigali Innovation City (KIC), which has 11 components at a cost of US\$420 million. The KIC project also features the Rwanda Innovation Fund, a privately managed US\$100 million fund for the development of world-class technologies in collaboration with the private sector.

The government of Rwanda, by investing alongside the private sector, was de-risking the ICT sector as well as exhibiting confidence in the available opportunities. Government spokesmen also stated that Rwanda would follow a proof of concept model in which solutions would be tested before being rolled out across Africa. The Chief Executive of Africa50 was of the opinion that Africa needed to find disruptive technologies to leverage to close the infrastructural gap.¹⁸

POINTS OF INTEREST

- Transport infrastructure weakness in Africa has a negative impact on the potential for intra-African trade (and even on food security). It is easier for Africa to trade with Europe and elsewhere than with itself.
- As for housing and cities, unfortunately it seems that very little urban planning takes place. Few African cities are planned – they just “happen” as many Africans flock to the cities in search of a “better life.” This leads to the slums and informal economies that are difficult to manage and often impossible to “fix”. As such they generate conditions that lead to revolt, and attitudes that are easily exploitable by political demagogues and populists.
- Providing electricity is a major challenge on the African continent. Not only does more than half of the population lack access to electricity, but its economies struggle to deliver electricity to their manufacturing sectors. South Africa, currently Africa's most sophisticated economy, is on the tipping point as Eskom, its state-owned electricity supplier, is on the verge of implosion due to corruption, poor productivity and extreme debt. Should Eskom fail, it will disrupt the entire South African economy, which will negatively impact the whole region.
- Public-private-partnerships (PPPs) seem to be a popular strategy in a number of countries for building large infrastructure projects. In this model, governments get the benefit of private sector investment and management skills. Some governments have also explored privatising their utility sector infrastructure. Strangely enough, some countries, despite clear evidence that their SOE's responsible for managing critical infrastructure are corrupt and incompetent, stubbornly cling to their ineffective and inefficient management models.
- Africa needs vast investments to address its infrastructure needs. To attract these investments, it needs stable governments and to provide clear indications of good returns. In this regard, Rwanda seems to be developing a reputation as a solid investment destination.
- The Morocco-Nigeria nexus is an interesting one. On the one hand, we have Africa's largest economy, i.e. Nigeria. On the other hand, Morocco is a country that positions itself as an attractive gateway into Africa. Morocco has recently re-acquired membership of the AU and applied for membership in ECOWAS. Linking Nigeria and Morocco with a gas pipeline will benefit both economies.

3. Manufacturing in Africa

INTRODUCTION

Commentators worry that many African countries are pre-maturely de-industrialising, pointing to the decreasing contribution to GDP from their manufacturing sectors. This situation has a negative effect on investment, job creation and technology development. Several African countries have launched various initiatives to boost their manufacturing sectors.

KENYA

The Kenya Association of Manufacturers (KAM) recently launched a hub to provide SMEs with access to finance, markets and capacity development, to stimulate the growth and development of SMEs. The Manufacturing SME Hub is to address key bottlenecks (regulatory, capacity and financing) that hold back the growth of indigenous start-ups. In addition to regulatory reforms, the Kenyan government will invest in support infrastructure including roads, electricity, water and storage facilities. SMEs play an important role in Kenya, contributing approximately 30% to Kenya's GDP and employing more than 16 million people. According to the government, the hub will boost the production capacity of SMEs, while enabling them to add value to their products so they can compete in global value chains.¹⁹

MOROCCO

French car manufacturer PSA officially opened a plant in Kenitra, fortifying Morocco's role as an African industrial hub offering international investors sound infrastructure, macro-economic and political stability, a qualified work force and competitive ports. Morocco replaced South Africa in 2018 as the leading African car maker, producing 402,000 cars. PSA plans to produce 100,000 cars in its Kenitra factory (with the objective to double production to 200,00 by 2021, along with 200,000 motorbikes) and Renault is gearing up to produce 500,000 in its Tangier and Casablanca plants.

Automobiles, accounting for 27% of the total, are Morocco's main exports. The country also hosts car part suppliers in its industrial clusters. The PSA factory alone attracted about 27 leading component suppliers, mainly from Japan, China and France. Local content in Renault and PSA vehicles currently stands at an average of 50%, with the objective to increase this level to 65% by 2020.²⁰

NIGERIA

According to its CEO, Ashish Thakkar, mobile phone manufacturing company Maraphone (with its head office in Rwanda), is investigating the development of a manufacturing plant in Nigeria to produce affordable smartphones. The Executive Vice Chairman of the Nigerian Communication Commission (NCC), Prof. Umar Danbatta, stated that the telecommunications industry in Nigeria needed to manufacture devices that Nigerians could use to access robust telecoms services. The NCC, intending to expand broadband connectivity and address the infrastructure deficit, licensed six infrastructure companies to deploy broadband infrastructure in the country. The NCC was keen to welcome investors in the telecoms space in Nigeria, believing that competition would help bring down prices.²¹

RWANDA

As part of the Rwandan government's policy to promote domestic investment and reduce imports, it has introduced tax breaks for alcoholic beverages brewed from locally sourced raw material. The excise duty for beers and wines whose local raw material content, excluding water, is at least 70% by weight of its constituents, will be halved from 60% to 30%. The current excise tax rate for beers is at 60% and wines at 70%. These rates will remain unchanged for beverages brewed using imported raw materials.

The new policy will help spur domestic investment by giving Rwandan farmers a premium market. This move will promote agriculture, assuming brewers turn to locally produced agricultural products for their

raw materials. Additionally, the new move is expected to reduce Rwanda's import bills and increase the fortunes of farmers within the country.²²

SOUTH AFRICA

South Africans plan to improve the country's ailing clothing and textile industry, which lost 140,000 to 160,000 jobs over recent years. One target is to stop the influx of illegal imports by limiting ports of entry through which these goods are imported into South Africa.

According to the National Clothing Retail Federation (NCRF), the master plan targets the creation of 60,000 new jobs by 2030. The revival plan is not based using the cheapest labour, but on delivery of an intelligent agenda to consumers, who are increasingly aware of sustainability.

As an example of the challenges facing the industry, the owners of clothing manufacturer House of Monatic said in mid-March 2019 it faced closure if their "right-sizing" process does not improve operations. This strategy would impact some 140 staff as they said the group faced over-staffing, slack demand for locally produced clothing, and high production costs.

In April 2019, the Western Cape provincial government allocated R132 million (~US\$8.9 million) in stimulus funding over the next three years to support manufacturing, including the clothing sector. According to the former MEC for Economic Opportunities, South Africa imports too much and produces too little. The imports of clothing, textiles, and leather goods have sky-rocketed from just over R5 billion (~US\$336 million) in 2000 to almost R60 billion (~US\$4 billion) in 2019.²³

TANZANIA

Tanzania invited manufacturers of Liquefied Petroleum Gas (LPG) cylinders to set up factories, mainly to reduce prices for prospective customers. Many people, especially those in rural areas, cannot afford to use LPG due to exorbitant prices. Increasing the number of companies manufacturing the cylinders could lower prices. The Tanzanian government encouraged industry players to establish joint facilities, especially storage facilities and filling plants, all over the country. In 2018, LPG imports into Tanzania increased by 13% over previous years, and marketing companies imported 120,961 tonnes of LPG, up from 107,083 tonnes in 2016/17.²⁴

UGANDA

Uganda recently started the construction of an ICT Assembling Factory at Kampala Industrial and Business Park (KIBP) at Namanve. The ICT facility will manufacture and assemble mobile phones (Simi models), laptops, desktops and other ICT products. This will reduce Uganda's dependence on imported ICT products (including mobile phones). The ICT plant will boost economic growth and development and help build local capacity through the transfer of ICT knowledge, skills and expertise.

The Uganda Investment Authority (UIA) brought on board Engo Holdings from China to develop the plant. Engo already has a plant in Ethiopia. According to the Executive Director of Engo, Ares Chow Yu Qing, the company will focus on technology that is useful and relevant to the Ugandan context, such as the solar-powered mobile phones.²⁵

Engo plans to invest US\$15 million over five years and will manufacture both analogue and smartphones. The company's flagship brand is Simi Mobile, and the new plant will initially produce 100,000 mobile phone devices per month. The target is production of 1 million computers per year, but final figures for computers will depend on demand.

Until Engo can train qualified Ugandan workers to undertake the manufacturing processes, they will import motherboards, screens, touch panels, batteries, cameras, and other components from China.²⁶

In Uganda, according to state-owned Kiira Motors Corporation (KMC), the country wants to start assembling new vehicles by June 2022, with an initial production capacity of 5,000 units per year. In East Africa, Rwanda and Kenya are in the process of developing domestic auto industries to meet growing demand for new vehicles. According to the CEO of KMC, Paul Isaac Musasizi, the initial phase

should be completed and commissioned by end June 2022. The Ugandan government invested US\$40 million to fund KMC's operations up to June 2022, where after KMC plans to sell shareholding to private equity investors to finance further expansion. KMC will start by producing buses of various sizes to meet the demand for passenger transportation. Eventually, KMC hopes to expand to truck manufacturing. Various factors will play a role to support a domestic market for new cars. These include a healthy economic growth rate, a large and growing population, and technological innovations to reduce production costs.²⁷

ZIMBABWE

The Zimbabwean government recently launched a new industrial policy (the Zimbabwe National Industrial Policy – ZNIDP) to transform its economy. The policy focuses on value addition, increased employment levels and promotion of a culture of savings. This policy hopes to stimulate economic growth by providing a conducive operating environment for the private sector in Zimbabwe. The ZNIDP envisions converting the manufacturing sector into a technologically advanced and diversified industry by 2030, through facilitation and promotion of the development of inclusive and globally competitive industrial and commercial enterprises. According to the Industry and Commerce minister, Nqobizitha Mangaliso Ndlovu, Zimbabwe wants to attain a gross domestic savings rate of about 30% of GDP, manufacturing value added growth of 16% annually, merchandise export growth rate of 10% annually, and increase the manufacturing sector share of employment to 20% by 2023. To achieve these goals, the Government will, amongst others, focus on policy consistency, value addition and beneficiation, and the upgrading and modernisation of industrial equipment and machinery.²⁸

POINTS OF INTEREST

- Developing value addition in Africa has the benefit of growing the manufacturing sector. This benefit is in addition to growing export revenues, increasing import substitution and raising the number of meaningful job opportunities.
- The level of sophistication of Africa's manufacturing sector is growing, with motor vehicle manufacturing and mobile phone manufacturing. This also gives rise to greater development of their respective value chains, with all the concomitant benefits. Global manufacturers increasingly invest in Africa to tap its growing consumer class. Africa is currently importing significant numbers of second-hand cars. Manufacturing vehicles in Africa provides global manufacturers and related firms with opportunities not only to tap the growing demand for new cars, but also to become significant providers of second-hand cars and lorries.
- As global players enter high-volume manufacturing sectors in Africa, they will initiate technology transfer on a large scale. Africa is in serious need of such interventions. Currently, in addition to established players Morocco, South Africa, Nigeria and Kenya, countries such as Ethiopia, Uganda, Rwanda and Ghana are developing their own vehicle manufacturing sectors. Some have even developed hybrid (gasoline and electrical) cars.
- Africa's textile sectors are growing as well. Ethiopia has succeeded in stimulating its sector by attracting Chinese companies with attractive incentives and cheap labour. South Africa's textile sector was close to total close-down at the turn of the century, due to, amongst others, cheap Chinese imports. While stimulating the industry and developing a strategy based on the concept of sustainability is an admirable idea, it remains to be seen to what extent this strategy will succeed in the face of cheap imports.

4. Mining Trends and Events in Africa

INTRODUCTION

Africa's mining sector is undergoing transformation, with significant activities in regions that are new to serious mining activity. When new players attract large investments from abroad, some companies and regions that once led the industry will inevitably lose out. A number of investment opportunities up and down the industry value chain present attractive returns.

WEST AFRICA

West Africa is a key source of gold, iron ore, bauxite, diamonds, phosphate, and uranium. A large portion of its untapped mineral wealth represents exceptional greenfield development potential. The region sees significant investment in gold exploration. West Africa, where foreign companies invested billions of dollars for gold exploration in the recent years, leads growth in proven gold resources.

In West Africa, 61 assets (33% of all assets, across all commodities) are in the production or construction stages, 24 assets, or 45% of all projects, are undergoing economic assessment studies, while 367 assets are in the exploration phase. As new projects enter the production phase, 74% of all exploration projects focus on gold, signalling the future importance of gold in West Africa's mining sector. According to mining experts on the region, significant local gold resources are underexplored, sparking even more interest from the international mining community.

According to recent production statistics, in 2017 South Africa was still the biggest gold producer in the region. However, by March 2019, West Africa's gold mining industry, led by Ghana, Mali and Burkina Faso, produced nearly twice as much gold as South Africa. In July 2019, it was reported that Ghana had overtaken South Africa as the continent's largest gold producer.

Some of West Africa's mines also find themselves on the global list of the Top six lowest cost gold operations. With South Africa's gold mining sector struggling with increased production costs at underground mines, socio-political turmoil and regulatory challenges, West Africa is quickly gaining the leadership role as the continent's main gold mining hub.²⁹

BOTSWANA

According to the president of Botswana, Mokgweetsi Masisi, the Khoemacau Copper Mine will generate approximately US\$905 million over its 22 year operational life from 2021-2042. He stated that the mine project would give a new lease of life to the Ngamiland region and the country. The mine will produce and export its first concentrate in the second quarter of 2021. Khoemacau committed an initial capital expenditure of more than US\$362 million between 2018 and 2021 for developing the necessary infrastructure to operate the mine. The government views this investment as an indicator of Botswana's attractiveness to foreign direct investment and as an explicit expression of confidence in the current government. In addition to creating jobs, the project would accelerate development of other infrastructure, including roads, electricity, telecommunications, housing and related infrastructure, health facilities, water, fibre optic networks, WiFi, security services, lodges and tourism services, and market for goods and services for SMMEs in the region. The president stated the project would have a positive impact on rural development in an economically depressed region.³⁰

ETHIOPIA

The Ethiopian government recently announced the discovery by British energy firm New Age of 1.6 trillion cubic feet (tcf) of natural gas reserve in the Ogaden basin. US-based Greencom proposed to build a processing plant to convert gas into various petroleum products, including gasoline and gas oil. Greencom plans to use Gas-to-Liquid (GTL) technology to convert the Ethiopian gas into liquid petroleum products. The total investment is estimated at US\$2 billion.

Chinese company Poly GCL Petroleum Investments, preparing to extract natural gas from a 4.7 tcf reserve, has discovered additional gas reserves, bringing the total volume of gas reserves to 6-8 tcf. A

new 760 km gas pipeline will transport the gas to a treatment plant to be built at the Port of Djibouti. Here the gas will be converted into Liquid Natural Gas (LNG) for export to China. The governments of Ethiopia and Djibouti signed an investment protection treaty for the pipeline construction.

OCP, the fertilizer giant from Morocco, proposed building a large fertilizer manufacturing plant in Dire Dawa, and requested the Ethiopian government to supply it with gas and potash as inputs.

According to the Ethiopian government, it now focuses on the mining sector, not the case in the past. The mining sector will henceforth support the agriculture and manufacturing sectors to grow the GDP of the economy. The minerals produced will be used as inputs for the manufacturing sector.³¹

NAMIBIA

Five African commercial banks (Nedbank Namibia, RMB Namibia, Standard Bank, ABSA and Bank Windhoek) have agreed to provide 80% of the funding (US\$375 million) required to build a new diamond mining ship, the world's largest of its type. Debmarine Namibia - a JV between De Beers and Namibia's government - will provide the balance of US\$94 million.

The ship, to be known as the AMV3, has capacity to add 500 000 ct/y to production from 2022, and will contribute US\$137.64 million annually in taxes and royalties to the Namibian government in its first five years of production. Mining, of which uranium and diamonds are a major element, contributed 14% of Namibia's GDP in 2018.³²

RWANDA

Rwanda is transforming the future of its mining sector; developing two gold and tin refineries, which provide the capacity to process large amounts of minerals sourced within the country and in the region. These joint ventures between local and foreign investors are Aldango, Rwanda's first gold smelter, located at the Kigali SEZ, and LuNa Smelter, a tin processing facility also in Kigali. The refineries will bring more value-added to the sector, and create more job opportunities.

The gold refinery has the capacity to process gold from across Africa, complementing the efforts of African countries to increase the revenues derived from their natural resources. Aldango, constructed at a cost of US\$5 million, has an installed capacity of 6 tons of gold a month. Traders now need not take their unprocessed gold to Europe, Dubai, or Turkey. This is a relief to African countries whose larger amounts of gold were transported to foreign countries, without receiving full value.

According to the Minister of Trade and Industry, Soraya Hakuziyaremye, Rwanda was answering the question of why Africa was exporting raw commodities by establishing the refineries.

Francis Gatare, the chief executive of Rwanda Mines, Petroleum & Gas Board (RMB), pointed out that the mining sector was continuing to grow in importance and size, and that Rwanda was diversifying the sector. Along with other metals, lithium is now coming to the market.

RMB data shows that Rwanda's mineral exports generated US\$399 million in 2017-2018. The country has set a target to generate US\$600 million in export revenues in 2018-2019. Rwanda's mining sector has been growing at an average rate of 20% since 2006-2007. The country wants to increase its minerals export revenues to US\$800 million by 2020, then to US\$1.5 billion annually by 2024.³³

SOUTH AFRICA

According to consulting engineer and industry expert Roger Dixon, gold and platinum mines in South Africa faced severe challenges, but were repeating the same actions while hoping for different results. Typical South African mines faced increasing depths, increased temperatures, reduced extraction rates and increasing travel times. Dixon added that the mines remained obsolete despite the persistent downward trend in production, particularly for gold, since 1999. Despite this, operators changed neither the mining methodologies nor their organisational structures.

Dixon explained that actual working time underground was only four hours out of an eight-hour shift, and that 10% of the workers were absent at any given time. Combining these two factors with the

general decline in production foreshadows a disastrous financial outcome. Further negatives for the industry include the Mining Charter that had successfully repelled investment, a recent 523% increase in electricity tariffs for mining companies, and underinvestment in mining research.

Dixon's opinion was that the South African mining sector faced a potential loss of more than a million jobs, and he was in favour of developing a "20-year strategic vision that considers the life of mine, the expected production, the future workforce, where the workers will come from, what skills they will have, what the company will look like and how it will function." Dixon also cited four mechanisation projects that resulted in varying degrees of success.³⁴

ZIMBABWE

Australia's Invictus Energy recently announced results showing the improved potential of the discovery of oil and gas in Zimbabwe. These findings strongly support the likely existence of 1,3 billion barrels of oil equivalent (BOE) or alternatively an estimated resource of 206 billion litres of oil in the Cahora Bassa Basin in Muzarabani. The total prospective resource consists of 9,25 tcf (trillion cubic feet) plus 294 million barrels of conventional gas/condensate.

According to the MD of Invictus Energy, Scott Macmillan, the Muzarabani Prospect has grown significantly in scale and now represents one of the largest conventional exploration targets globally. Invictus has engaged ENVOI, an acquisition and divestiture adviser from the UK, to run the farmout (drilling of an oil and/or gas well and obtaining commercially viable production levels) process.³⁵

POINTS OF INTEREST

- South Africa's mining sector faces several severe challenges, as indicated above by Roger Dixon, and has been overtaken by Ghana as the continent's largest gold producer. Some global mining players are leaving the country, including AngloGold Ashanti. Given the large number of jobs created by the mining sector, any reduction in the size of the sector could increase the country's current unemployment dilemma.
- Value addition is an important strategy in the sector, with much potential. Adding value requires technology transfer. Currently most mineral resources are exported in a raw form, and then re-imported as a refined product. The oil and gas sector has potential in this regard.
- New discoveries of minerals and oil and gas have the potential to add significantly to the economies of the respective countries. However, up till now it seems many governments have failed to use the revenues of their mining sectors to diversify their economies, in spite of paying lip service to this strategy. The governments of the "new" mining countries should pay heed to the circumstances in countries such as Nigeria and Angola, where most of the oil and gas is exported and little diversification taking place. With the major drop in the oil price a few years ago, these economies were hurting in a big way. There was then a lot of talk of diversifying the economies, with special focus on the agriculture and manufacturing sectors. Unfortunately, any significant developments still remain to be seen.
- It is interesting to note the development of a gold and a tin refinery in Rwanda. This small land-locked country punches significantly above its weight. Given its high economic growth rate and stable government, Rwanda is a preferred investment destination, in the context of its successes in agriculture (horticulture – flowers), manufacturing (cars, mobile phones, textiles), ICT (smart city, ICT hubs) and tourism (game – including gorillas, biking, power gliding). The country of a thousand hills is becoming a model to emulate!
- Zimbabwe's economy is currently in dire straits! The discovery of oil and/or gas in this country could be just what the doctor ordered. It is a pity the country faces such economic problems, as it has significant potential in tourism, mining and agriculture. The Zimbabweans themselves must, however, start to focus on that what is important for economic recovery and stop politicking for the sake of politicking.

5. Regional Integration and Politics in Africa

INTRODUCTION

Regional integration presents potential solutions to many of Africa's economic and political problems. Its implementation will significantly improve the level of intra-regional trade, and facilitate the free flow of capital, goods, services and people. However, despite the benefits promised by regional integration, it seems many African countries are unable to rise above squabbles with neighbours to embrace regionalism. The evidence so far shows a mixed bag of results. As stated in previous digests, many African leaders appear to be unable to subordinate national interest to regional interest.

AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

Countries in Africa that ratified the AfCFTA that was formally launched in early July 2019 in Niger will be insured from revenue losses under a US\$1 billion adjustment facility. The purpose of this funding is to accelerate ratification of the AfCFTA. The Afreximbank said it would establish a digital platform — the Pan African Payment and Settlement System - through which transactions between countries would be settled in local currencies, reducing their dependence on hard currencies such as the US\$.

By 10 July 2019, the AfCFTA had already been ratified by 27 of Africa's 54 countries, with Eritrea the only one yet to sign. The agreement seeks to remove tariffs on more than 90% of goods traded within Africa by 2025, which is expected to eventually boost net income by US\$2.8 billion annually. It will create a market of 1.2 billion people with a GDP of US\$3 trillion. Its target is to raise the level of intra-Africa trade from 16% to 52% over time, compared with 69% in the EU and 59% in Asia.³⁶

COMESA (COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA)

Given the lack of industrial diversification and the presence of non-tariff barriers such as supply side constraints and cumbersome border measures, most products traded amongst the COMESA countries have limited value addition, and this trade ranks at only 11% of the total region's exports.

According to COMESA's director of agriculture and industry, should these constraints not be addressed, COMESA countries will find it difficult to take full advantage of mega trade agreements such as the TFTA and the AfCFTA. COMESA launched a capacity building initiative to deal with this situation. The project covers five COMESA members' countries: Kenya, Uganda, Rwanda, Ethiopia and Malawi. Kenya and Uganda will begin with the pilot implementation of the project.

Given the vast differences of strengths and weaknesses among African countries, a greater level of collaboration is required between countries that belong to the same Free Trade Area (FTA).³⁷

EAST AFRICA: ETHIOPIA AND KENYA

Kenya and Ethiopia established the Joint Ministerial Commission (JMC) to drive bilateral ties. The JMC will drive more than 30 agreements and MoUs spanning nearly all economic, social and political dimensions, including security, defence and trade, movement of people, transport, and culture.

Despite such initiatives, Kenya and Ethiopia still struggle to conduct an active trading partnership, with bilateral trade between them remaining quite low. Non-tariff barriers, such as long bureaucratic procedures, bans and sanctions, and a strict foreign currency regulatory regime by Ethiopia's central bank, are the main reason for this situation.

The recent entry of Equity Bank into the Ethiopian market is seen as a boost for Kenyans intending to venture into the Ethiopian market. Equity's move into Ethiopia follows that of KCB into Addis Ababa four years ago. The current reforms and liberalisation in Ethiopia, along with Kenya's adoption of an open-door policy for Africans, should further enhance the relationship.

Currently, Kenya, Ethiopia and South Sudan are jointly implementing the Lamu Port-South Sudan-Ethiopia Transport corridor project (LAPSSET), launched in 2012. The project seeks to link the three countries by building port and rail infrastructure.³⁸

EAST AFRICA: TANZANIA AND UGANDA

Uganda and Tanzania will meet at a September 2019 business forum to discuss trade barriers affecting the flow of goods and investments between them. Uganda traders frequently complain that their products are blocked at the Mutukula one stop border point, despite the free trade agreement between East African Community (EAC) member states.

The presidents of the two countries will preside over the forum.. In addition to boosting bilateral trade and investments between Uganda and Tanzania, the forum will raise awareness about investment and business opportunities, address residual non-tariff barriers and open dialogue between the two countries.

As late as middle July 2019, sugar and edible oil from Uganda were denied entry to the Tanzanian market more than six months after a ministerial meeting between the two countries agreed to allow free movement of these products between Tanzania and Uganda.³⁹

According to the High Commissioner of Tanzania to Uganda, certain trade barrier issues were resolved. While goods from Uganda initially had to pass through 21 stops before reaching Tanzania, this has now been reduced to only three stops. As a sign of governmental cooperation between the two countries, both have started to invest in vessels that transport goods on Lake Victoria, with the objective to reduce transportation costs. Currently there are only two vessels, which can carry only 24 wagons in 17 hours of daily operation, which in turn delays the transportation of goods.⁴⁰

EAST AFRICA: KENYA AND UGANDA

Ugandan police officers recently stormed Kenya's Sumba Island in Lake Victoria to confiscate five boat engines and fishing nets from local fishermen. This move by Ugandan security officers were apparently prompted by the local fishermen's fishing in foreign waters with illegal fishing gear. After confiscation of the equipment, the Ugandan police officers would ask for between Sh40,000 and Sh50,000 before the engines are released. This was a problem for the poor fishermen as they did not have that much money readily available. The confiscation of the boat engines also meant the fishermen could not carry out their daily fishing activities.

At least 350 Kenyans residing on Sumba Island depend entirely on fishing. They urged the Kenyan government in 2018 to provide a police post and raise the flag daily to remind all that the island was in Kenya. This was after Ugandan maritime officers unsuccessfully tried to arrest the local fishermen in Lake Victoria on the grounds that they were using illegal fishing gear.⁴¹

EAST AND CENTRAL AFRICA: BURUNDI, DRC AND RWANDA

Senior representatives of the governments from Rwanda, Burundi and the Democratic Republic of Congo (DRC) recently endorsed the long-awaited joint Rusizi III Hydropower Plant Project. The project, which is located in southwestern Rwanda on the border with the DRC and Burundi, will be implemented at a cost of US\$625.19 million. Various sources of funding include the French Development Agency (ADF), the European Investment Bank European Union, and the African Development Bank. The plant will generate 144 MW of power by 2026, and construction will start by 2021. The development will be funded and operated through a public-private-partnership (PPP).⁴²

SOUTH AFRICA

The South African parliament recently established a committee that will propose constitutional changes to allow for expropriation of land without compensation. The purpose of this step is to speed up land reform, a highly contentious issue in South Africa. President Cyril Ramaphosa has gone out of his way to assure investors that land reform will be done in an orderly manner and that no illegal land-grabs would be tolerated. The committee is expected to propose constitutional amendments by March 2020, after which parliament will vote on them. The changes are generally expected to be approved. Those opposing the expropriation of land without compensation have argued that it will have devastating consequences on investor confidence and South Africa's ailing economy.⁴³

Many commentators in South Africa on land reform have raised the issue of agricultural land in government hands. Deputy President David Mabuza recently announced that the release of government-owned land will be prioritised to support the objectives of accelerated land reform. According to him, the acceleration of the land reform programme would continue to focus on improving access to land for agriculture, economic development and sustainable human settlements. The government would also work with traditional leaders to ensure that farmers in these communities are supported with the necessary infrastructure, mechanisation and support services to improve production.⁴⁴

POINTS OF INTEREST

- The frequent failure of smaller regional entities such as COMESA and EAC to set aside internal problems and squabbles raises the issue of the potential for success of the larger regional community, i.e. AfCFTA. It remains to be seen the extent to which AfCFTA will deliver on its promises. While the initiative is to be lauded, one must remain cautious about the achievement of its objectives.
- Despite the stated challenges, one must acknowledge a number of successes. One is the hydropower project between Burundi, the DRC, and Rwanda. The project has been endorsed by representatives of the three governments, in spite of the political issues between Burundi and Rwanda. As recently as December 2018, Burundi's president sought a special regional summit on his country's conflict with Rwanda.
- South Africa's land reform process will hopefully come to a satisfactory conclusion in the next few months. The uncertainty surrounding the process and goals is bad for the country's image and economy. Potential investors hate uncertainty of any nature related to their potential investment.

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