

## African Union

- **Africa:** Africa needs a manufacturing renaissance, with more local value-addition that would create more and better-paid jobs and contribute to fulfilling the aspirations of Agenda 2063.

The limited structural transformation in Africa has not translated into more jobs because the manufacturing sector itself requires extensive reform. Africa needs a manufacturing renaissance, with more local value-addition that would create more and better-paid jobs and contribute to fulfilling the aspirations of Agenda 2063. Despite the overall increase in manufacturing, its share of GDP has remained subdued at 10% in the past decade. Investment in infrastructure remains too low. The workforce is growing faster than the population dependent on it, freeing up resources. This can transform African manufacturing. Many African countries benefit from preferential market access, such as AGOA of the US. Countries must start taking full advantage of these opportunities, since they might not be extended for an unlimited time. Improvements in the business environment are clearly visible in several African countries. Challenges can be overcome and an African manufacturing renaissance is within reach should they embrace an agenda of enhancing its global competitiveness. Institutions, infrastructure, human capital and technology all need to be addressed. Political stability, governance effectiveness, rule of law and regulatory quality are important prerequisites to develop a sustainable manufacturing sector. Investment in human capital is also of extreme importance, as is technology, a key driver of excellence. For more information, read: <http://bit.ly/2uauXX6>.

CAS View: Industrialisation and developing the manufacturing sector has long been punted as the solution to many of Africa's woes, such as unemployment, lagging growth, and as a way to diversify its economies. I have made the point in the recent past that African countries should be careful about the industries they select to stimulate the manufacturing sector, showing upon the negative conditions in the South African steel industry, that is struggling to survive against cheap imports from the East, and more specifically China. This tenet remains valid. This article spells out the challenges to grow the manufacturing sectors in Africa, as well as the means to stimulate an African manufacturing renaissance. African governments also need to create the requisite business-enabling policy framework for manufacturers to grow and develop. Countries that have embraced this, includes Ethiopia, Tanzania, Uganda, Ghana, Rwanda and Kenya, amongst others. Guinea's President Alpha Conde has recently given instructions to his ministers of finance, industry and international cooperation to benchmark Ethiopia's development experience in various sectors, including agriculture. It shows what can be done with the right political will and dedication to industrialise the economy, in the process also developing the manufacturing sector. A decade ago Ethiopia was hardly the beacon of hope and benchmark for Africa what it is today. It must be applauded for its successes.

- **Africa:** It appears that, for various reasons. African entrepreneurs and start-up founders are discriminated against when it comes to funding their initiative. This has been confirmed by a Bill and Malinda Gates report on the matter. Various reasons are put forth for this phenomenon.

Some commentators are railing against the prejudice and mistreatment they observe and have personally experienced within Africa's start-up investment scene. Some argue that the quality and soundness of business ideas is rarely a consideration. Over 90% of funding for East African fintech start-ups typically goes to expatriate founders. East Africa posted a record haul in terms of start-up investment (\$84.7 million) over the last two years; 72% of that funding went to 3 companies - M-Kopa, Off-Grid Electric and Angaza. The balance went to 57 other companies. Reasons for this discrepancy include the following. Firstly, "the human capital trap" - home-grown start-ups fail to raise capital because they don't have the right team, but can't afford to assemble the right team without raising capital. Secondly, "business model constraints" - the challenge start-up founders face in coming to terms with how far behind the digital adoption curve some African markets are. Thirdly, the "debt capital gap" - the struggle local founders face in attracting the capital they need to achieve proof of concept. Fourthly, "the pattern-recognition problem". African start-ups don't fit the investment mould that investors recognise, and founders lack the academic pedigree and elite people networks investors favour. Africa must set its own investment agenda and solidify their own king-making criteria. For more information, read: <http://bit.ly/2uEV1eX>.

CAS View: It is a pity that African entrepreneurs have to fight against stereotypes, irrespective of in which sphere of life it is found. I have referred to countries such as Tanzania and Togo, where innovators have

built 3D printers from e-waste. In Kenya we have M-Pesa as arguably the most powerful mobile money platform, probably not just in Africa, but in the world. In Nigeria we find Paga, the equivalent of M-Pesa. Various countries have also developed their own vehicle models, such as Ghana and Uganda. Countries such as Nigeria (Farmcrowdy) and Kenya (FarmDrive) have developed platforms to support farmers in their activities throughout the agricultural value chain. The list is endless. To therefore discriminate on the basis of nationality (in this case, against Africans), is unfair and criminal. The richest man in Africa is Aliko Dangote, an African from Nigeria. Some of the other challenges indeed presents African entrepreneurs with a Catch-22 situation. Africa therefore needs to develop their own king-making criteria. Nobody else is going to do it for them. African governments also need to fight the corruption in their countries, as this does fan the flames as to the poor governance abilities of Africans. Africa does not need this!

- **Africa:** Africa's rural areas require a different approach from businesses, as the typical consumer there is quite different from the urban counterpart. This article identifies various challenges, but also a number of solutions.

Even though Africa is urbanising, 60% of its billion-plus population still live in the countryside. Rural markets offer companies a first-mover advantage and the chance to build consumer loyalty due to the lower penetration of brands. The cost of labour is cheaper in rural areas than in cities. The rent is less, and you still find people with disposable incomes. Challenges include weaker purchasing power, lower average income, poor infrastructure and a geographically scattered population. Rural success demands appropriate pricing, relevant products backed by clever marketing campaigns, optimal local procurement (where possible) and cost-efficient distribution strategies. Equity Bank in Kenya, for example, used 'agency banking', partnering with existing retail outlets, to offer selected products and services on behalf of the bank in rural areas. Products and services must be priced correctly. Smaller pack sizes, payment plans and product quality are important. Given higher illiteracy, rural shoppers often base their purchasing decisions on packaging visuals. Media platforms, such as television, have low penetration here; marketers must plug into channels such as radio, outdoor media, point-of-sale branding, using opinion leaders in the community and local festivals. For more information, read: <http://bit.ly/2u1mhnp>.

**CAS View:** This article addresses an important aspect, namely the rural areas of Africa. One of the prominent trends nowadays is the urbanisation of Africa's population. On the one hand, it creates problems in cities where the authorities are not able to deal with the influx, and where the result is increased unemployment, lack of water and electricity, lack of housing, inadequate education facilities, lack of health facilities, and frequently a disgruntled and disillusioned population. On the other hand, we find the rural areas are losing especially their youth, who are the ones mostly leaving for the cities. Depopulation of the rural areas must be addressed with appropriate stimulation policies. On the business side, it is essential that they take the identified factors into consideration. This requires that market research is done at grassroots level. An old friend of mine worked in Kenya and would joke about the market researchers of a large MNC in the food retail business doing market research in a 5-Star hotel in Nairobi. They were shocked when he suggested that they actually go into the rural areas to ascertain the problems, pains, preferences and living conditions of the rural consumers.

## East Africa

- **Ethiopia:** Ethiopia is attracting various countries from the East, who are investing in various segments of the economy, especially in the manufacturing sector.

Ethiopia is fast developing into a dynamic apparel-sourcing hub as low labour costs lure international clothing makers to it. Manufacturers from China, South Korea, India, Japan and other countries have opened new plants in Ethiopia, while a growing number of European and U.S. brands are sourcing garments there. The industrial parks in Ethiopia are bustling with Chinese, Taiwanese and South Korean production facilities, conveniently clustering factories for textiles, apparel products and leather shoes in one area. Ethiopia's young, low-wage workforce gives it the potential to grow into a major garment-sourcing hub with a vibrant market. Another factor in favour of the country becoming a bigger manufacturer is its fast-developing infrastructure. Currently, companies targeting Ethiopia are mostly apparel makers and other light industry players. But General Electric plans to manufacture medical equipment in the country, and Samsung Electronics is working with a local partner to produce printers.

Hyundai reached an agreement with a local company regarding the construction of a plant to assemble commercial vehicles. For more information, read: <http://bit.ly/2tIZ2uL>.

**CAS View:** The article summarises the development taking place in Ethiopia's manufacturing sector over the past couple of years. It also shows the predominantly Asian countries tapping into these opportunities. Countries not yet in Africa in general and in Ethiopia specifically, are going to find a busy business environment when they eventually do. It is not only the East that are interested in Ethiopia. Morocco has also concluded agreements with Ethiopia. Elsewhere in this newsletter, I have referred to Guinea's president tasking a number of his ministers to benchmark their ministries against Ethiopia. This says it all. To provide a bit of balance, Ethiopia must ensure that it manages the political instability that arises from time to time. Should it be able to do that, this country will go from strength to strength. It seems that Ethiopia's Civil Society Organisation initiative has been achieving a good measure of success in this regard.

- **Kenya:** FarmDrive in Kenya is addressing is the lack of access to finance for smallholder farmers from the formal financial ecosystem. Many of their troubles could have been eased through quality farming inputs and modern equipment. FarmDrive has developed an innovative alternative credit-scoring model that can be used by financial service providers, such as banks, to assess the creditworthiness of farmers and allow more smallholders to access financing, while still protecting banks from defaults.

FarmDrive in Kenya is addressing is the lack of access to finance for smallholder farmers from the formal financial ecosystem. Many of their troubles could have been eased through quality farming inputs and modern equipment. But financial institutions were unwilling to provide them with the financing to do so. They needed capital to help grow their farm beyond the subsistence level, yet banks would only provide loans to larger established commercial farmers with credit histories and collateral. FarmDrive has developed an innovative alternative credit-scoring model that can be used by financial service providers, such as banks, to assess the creditworthiness of farmers and allow more smallholders to access financing, while still protecting banks from defaults. Through FarmDrive, farmers can apply, receive and repay their loans using their mobile phones. FarmDrive's role is to bring together all the information already available on smallholder farmers. Initially, FarmDrive operated in partnership with a single microfinance organisation, but has since positioned itself as a data analytics company targeting its software at financial service providers keen on lending to smallholder farmers. FarmDrive has also partnered with a large telco in Kenya – growing its network of smallholder farmers from 3,000 to more than 100,000 overnight. For more information, read: <http://bit.ly/2uB4pkw>.

**CAS View:** I have, in an earlier newsletter, spoken about the Farmcrowdy initiative in Nigeria as a platform for supporting investors, farmers, and the market along the total value chain. FarmDrive is an application in the agricultural sector that supports farmers in Kenya in their actions to obtain financing from banks. Once again we find the innovation activities of East Africa using mobile technology to address problems in society at large. As said a number of times previously, necessity is the mother of invention. When Thomas L. Friedman so eloquently stated that the world is flat (with technology being the leveller), he must have been thinking about Africa! There are many other examples of Africa using technology in other fields, such as motor vehicles, 3D printing, robotics, the medical sector, etc.

## **West Africa**

- **Nigeria:** Nigeria, despite its massive oil reserves, has embarked upon a programme to enter the renewable energy market.

Nigeria has announced the construction of the first solar power project in Nigeria, i.e. the 1.2 MW solar power plant in the lower Usuma Dam in Abuja. The project is aimed at boosting Nigeria's renewable energy position. Nigeria is home to enormous energy resources such as petroleum, natural gas, coal, nuclear power and tar sands. Royal Dutch Shell plans to spend as much as \$1 billion a year on its New Energies division as the transition toward renewable power and electricity cars accelerates. Shell sees opportunities in hydrogen fuel-cells, liquefied natural gas and next-generation biofuels for air travel, shipping and heavy freight areas of transport for which batteries aren't adequate. Nigeria has failed to tap into its enormous resources, making it not only one of the harshest business environments in the world,

but also very uncompetitive. There is no doubt that the world is moving towards renewable energy as the fuel of the future. Nigeria is said to be endowed with all it takes to succeed in this venture. Accordingly, there is an enormous opportunity. Experts predict that Nigeria will surpass Africa's renewable energy target by 2020. For more information, read: <http://bit.ly/2vlQ9ti>.

CAS View: Nigeria has massive oil reserves and as such, oil exports constitute more than 90% of government export revenues. This has created many of the current problems, in that Nigeria's economy was not diversified. When the oil price went south, Nigeria's economy subsequently picked up major problems. I have frequently stated that it seems that solar is the new business model for energy in Africa. With its vast oil reserves, there must have been a massive temptation to back oil. It is therefore refreshing to see Nigeria moving into the field of renewable energy (solar), especially given the massive resources they have in this field. It will allow Nigeria to use renewable energy for the home market and export its oil products abroad (first adding value at home!). Should they develop a consistent supply of electricity from renewable energy sources, it would go a long way to stabilise the internal supply (with happy households, who now currently frequently need to revert to generators for backup supply) and have a beneficial impact on the manufacturing sector as well.

- **Nigeria:** Dangote is looking at various initiatives in the field of agriculture, in the process contributing to diversifying the Nigerian economy.

Dangote Group plans to invest \$3.8 billion in sugar and rice, and \$800 million in dairy production in the next 3 years. It plans to increase its sugar production to 1.5 million tons a year (on 350,000ha) by 2020 from 100,000 tons now, and is seeking to add 1 million tons of rice (on 2000,000ha). The company also plans to have 50,000 head of cattle producing 500 million litres of milk a year by 2019. Given the lack of foreign exchange to pay for imported goods, there is an increasing burden on local agriculture to meet the demand for food. All raw sugar and flour milling must be imported today. Dangote has been investing in agriculture as the government seeks to diversify away from oil, which accounts for 90% of the nation's export earnings. Dangote is also planning to invest in other agricultural projects, including the production of soybean, oil palm, palm kernel and corn. It will support rice cultivation by supplying high-yield seeds, pesticides and fertilisers to contract farmers. For more information, read: <http://bit.ly/2vEFY2h>.

CAS View: Much has been written about Nigeria's need to diversify its economy. Here we see various instances of expansion opportunities by Aliko Dangote's group. This will go a long way to reduce the pressure on imports and on the need for dollars. In the process, much needed jobs will be created, and there will be a number of opportunities for entrepreneurs in the rice sector to produce for the Dangote group. Other opportunities in the agriculture sector in Nigeria would include tomatoes, poultry and eggs, and cassava, to name but a few. This is hopefully a sign of many more projects in the agricultural sector to drive the diversification of Nigeria's economy. It also creates many opportunities for foreign investors interested in tapping into these projects, in the process feeding the largest population in Africa, and even producing sufficiently for exports.