

## African Union

- **Africa:** Developing responsible smallholder agriculture will squarely address the 17 SDGs adopted by the UN and contribute to achieving the “High 5” priorities of the AfDB.

The green revolution was a game-changer for Asian economies and offers many examples for African states to follow. Over the course of three decades, Asian policymakers kept a lot more of their rural populations on the farms than is the case in Africa today. Success was achieved through focusing on agriculture and providing a supportive policy framework. Africa, in contrast, remains underfed and fails to produce even 67% of its consumption. There is clearly a crying need to develop responsible agriculture. Many objectives can be achieved by investing in and strengthening smallholder farmers and planters in Africa. The positive impact would be felt on improved food security, reduced import bills, increased rural and overall employment, poverty eradication, more robust rural infrastructure and a healthier population and economy. Developing responsible smallholder agriculture will squarely address the 17 SDGs adopted by the UN and contribute to achieving the “High 5” priorities of the AfDB. Indian banks have long been obliged to commit to the “priority sector”. In addition, India has also developed agricultural markets with close access to farming communities. Income from agriculture remains tax-free and the sector is largely reserved for smallholders. For more information, read: <http://bit.ly/2gl4Xl9>.

CAS View: India’s approach to their smallholder farmers clearly has been successful. Africa’s agriculture scene is in dire need of a reform effort. Agriculture is by far the greatest employer in Africa, with some countries registering up to 70% of the employment opportunities. Unfortunately, its contribution to the respective countries’ GDP is much less. Given the importance of the agri-sector as an employer, as well as a contributor to GDP, Africa must deal with the challenges in this sector. The annual food import account of Africa is in the region of US\$35 billion. We also find that the youth is no longer prepared to remain in the agri-sector, as their experience in this sector is one of poverty – that of their parents. Africa needs to transform the sector to enable its smallholder farmers to become wealthier, to provide a future for the youth that is worth striving towards. Amongst others, this would require increasing the productivity in the agri-sector, which would also require the industrialisation of the sector. Africa must do this, not only to feed itself, but also to keep its farmers on the farms, and out of the cities where there are no jobs nor housing and services for them. When the youth do leave the farms, it must be for the right reasons, i.e. such as for higher skilled jobs. Africa can therefore learn a lot from the Indian experience. It has nothing to lose and a lot to win!

## East Africa

- **East Africa:** Whatever happened to East Africa’s oil boom?

Until recently, East Africa was the shining frontier of Africa’s oil scene. Uganda sparked the rush in 2006 with discovering Africa’s largest onshore reserves in decades. Kenya’s Turkana region continued the run with new oilfields found in 2012. It was believed that oil could economically transform East Africa. Yet a decade on, little progress has been made on the pipeline, while Uganda and Kenya’s oil remains trapped far from international markets. Security risks have hindered developments, while the steep drop in crude prices from late-2014 has slowed things down. However, politics have also been central to the delays. In Uganda, a consensus has only now been reached to develop an export pipeline by the early-2020s. It was Museveni’s hard bargaining with international oil companies over the terms of production licenses that brought things to a crawl. In Kenya, an unhealthy relationship between local and national politicians could present an impediment to production. South Sudan’s oil industry has been severely undermined by political intervention and armed conflict. However, many disputes are yet to be resolved, while others may still heighten uncertainties. For more information, read: <http://bit.ly/2wkuy5e>.

CAS View: East Africa has been the beneficiary of a move in investment from West African countries to East African countries. On the western side of Africa, the oil rich countries of Nigeria and Angola were severely punished by the steep drop in the oil price. Now we are expecting the gas and oil reserves in East Africa to come on line quite soon. However, it seems that politicking is impacting negatively on the region’s ability to benefit from its oil finds. Given the current low oil price, it actually might have been to East Africa’s advantage that there had been delays; the oil might have started to flow with an all-time low oil price. The other side of the coin is that investors that have put up the money quite a while ago, are still

waiting for the start of the operations. This delay is creating a bit of frustration amongst these investors, which is natural. However, given that Africa is generally seen to be business-unfriendly (at times unfairly), it does not need this kind of outcome we see above. African countries have been progressing on the Ease of Doing Business rankings, but need to progress to a much greater extent than has been the case so far.

- **East Africa:** The recent purchase of African coffee chain Java House by Abraaj Group has stirred further excitement among interested PE and multinational buyers with an eye on East Africa. Observers are betting on the region's expanding middle class, sustained population growth, growing urbanization, and changing tastes in food and ambiance.

The recent purchase of African coffee chain Java House by Abraaj Group has stirred further excitement among interested PE and multinational buyers with an eye on East Africa. Observers are betting on the region's expanding middle class, sustained population growth, growing urbanization, and changing tastes in food and ambiance. The sale of the diverse business represents an opportunity to create East Africa's Starbucks. But critics push back on three fronts. Starbucks is a place for everyone. It serves high-quality coffee, but has strategically incorporated other menu options to draw in consumers from all walks of life. Secondly, Starbucks is a consistently reliable option, with good coffee (or tea), free wifi, and good ambiance. Lastly, that ambiance creates a secure expectation for any visitor regardless of location. Why does this matter? Building a large scale premium food/drink chain requires a typical consumer who is willing to pay high margins on a consistent basis, and the consumer base includes everyone from the street cleaner to the billionaire hedge fund manager, and all those in between. Premium product for premium price at low cost is a winner, but making it work is not as simple as observers may imagine. The Starbucks model has a way to go in East Africa. For more information, read: <http://bit.ly/2erVCen>.

CAS View: Coffee in itself is a commodity and quite cheap. It is coffee chains such as Starbucks that have converted the commodity into an experience. Pine & Gilmore, in their book "[The Experience Economy](#)," refer to this phenomenon. People now happily pay S\$7 for something they could buy or make at less than S\$0.20. It is about the experience, and no longer about the commodity (the coffee bean), or the product (the cup of coffee). However, in Africa, in countries such as Ethiopia, there is a strong coffee culture with an appreciation for good quality coffee. As a matter of fact, the government of Ethiopia had to adopt certain policies to have the good quality coffee exported for the revenues attached to it, as the locals wanted to keep it in Ethiopia for local consumption! This is eventually what all industries do strive towards, i.e. the value addition to the commodity to be able to charge a much higher price than would otherwise be the case. In this instance, coffee chains such as Starbucks, or local versions thereof, stand a good chance to be successful. Entrepreneurs should always be on the lookout for opportunities up or down the value chain.

- **Rwanda:** At only \$4 a month per home with no down payment, Ignite has also managed to become the largest rural utility in Rwanda in less than a year.

Rwanda's Ignite has Africa's most affordable price plan for solar power, according to a Sendea report. At only \$4 a month per home with no down payment, Ignite has also managed to become the largest rural utility in Rwanda in less than a year. At the \$4 a month price point, the price plan exponentially increases the addressable market for Solar Home products in Africa. With a network of 1,600 installers, operational efficiencies and economies of scale, Ignite can make home solar more affordable than ever before. In recent years, the price of solar has been dropping. Solar home systems in Africa, however, have not followed suit, mainly because companies have found it difficult to reach scale and secure local financing. Ignite's new price plan, should it be able to be replicate it across the continent, could see it bring hope to the approximately 700 million people without access to power in Africa. The Ignite Solar Home product is said to be affordable for 80% of Rwanda's population. For more information, read: <http://bit.ly/2vKPRge>.

CAS View: Rwanda's Ignite is a version of Kenya's M-Kopa. The reality is that there are far too many people who cannot afford the high upfront cost of renewable energy (in this case solar). With more than 600 million people without access to electricity, the need is great. The M-Kopa's and the Ignite's of the world are therefore well-positioned to tap into this market. In the provision of this service, they are also

supporting the High 5 Priorities of the AfDB, the AU's Agenda 2063 and the UN's SDG's. Solar has the benefit that sunlight is free and that the technology is becoming cheaper while it is becoming more efficient. It can also be used on an individual basis, and in mini-grids. Every country in Africa needs a version of Ignite and/or M-Kopa. It is not only a good business proposition, but also an act of social responsibility.

## Southern Africa

- **Angola:** Angola seeks to roll back oil dependency to diversify its economy through agriculture.

After suffering a huge blow following the fall in the oil price, Angola has turned to the agro-industry to recover from its current economic crisis. Its revenues have gone down by at least a third over the past two years alone due to falling prices. Angola has subsequently embarked on a process of economic diversification, and at the forefront is agriculture. In the 1970s, Angola was the leading exporter of coffee, sisal, sugar cane and bananas. But all that was seriously damaged by its 27-year civil war that ended in 2002. While agriculture contributes only 10% of its GDP, the country, which has 58 million hectares of arable land, imports 80% of the consumer products and relies on bananas and coffee production. More than 2 million inhabitants (total population = 29 million) are small-scale farmers still using rudimentary means. The government has moved to support the sector through the development of micro-credit to finance irrigation projects. Angola aims in 2017 to produce an annual output of 2.5 million tons of cereals and 20 million tons of cassava. It also wants to cover 60% of its chicken consumption and reduce to 15% the share of imported milk, two products massively imported. For more information, read: <http://bit.ly/2vcYK0X>.

**CAS View:** The oil-producing countries of Africa have been hit hard with the steep drop in the oil price. When the oil price was high, they were smiling broadly. It seems that they thought that what goes up, stays up. They were obviously disappointed and came down to earth with a thump. One of my undergraduate students recently stated that to have only one client was deemed to be risky. Why would governments then put all their eggs in one basket, in this case oil? It is not as if people were ignorant of the principle. Saying the problem lay with greed is too an easy answer. But the reality is that countries such as Angola and Nigeria derived more than 90% of government revenues from oil. Both have now turned towards agriculture to diversify their economies. As said so many times the past 2 years, Africa can feed the world, but currently imports more than US\$35 billion of food annually. Elsewhere in this newsletter, I referred to the [article](#) by Ranveer Chauhan and Mahbob Abdullah on the Green Revolution in India, where the smallholder farmers are now the focus of government support. Angola and Nigeria, amongst others, should learn from this experience. They will be able to reap the same rewards India currently does.

- **Mauritius:** Mauritius is fast-gaining a reputation among investors as being the true 'gateway to Africa' – a title once reserved almost exclusively for South Africa.

Despite a larger economy and a much bigger population, South Africa's political uncertainty, questionable policy direction, and failure to draw cost-sensitive investors have given way for the rise of Mauritius as the top investment destination in Africa. As such, Mauritius is fast gaining a reputation among investors as being the true 'gateway to Africa.' In 2006, Botswana was ranked as the most attractive destination for investors, with South Africa ranked second. In 2017, Mauritius has the top spot, and South Africa has dropped even further to fourth. This is behind Mauritius, Botswana and Rwanda. From a size and impact perspective, the South African economy is much bigger, but what Mauritius is doing right is that there is policy certainty from a tax perspective, and the government is benign – not getting too involved in businesses. They also have a lot of policies to attract investments. South Africa's government, in contrast, has used regulation and red tape to make business operations in the country very difficult. Mauritius' growth rate is also well above 4%, while South Africa is struggling to reach even 1%. For more information, read: <http://bit.ly/2wKx5yq>.

**CAS View:** It is no secret that Mauritius is number 1 on two of the important rankings available, i.e. the Ease of Doing Business of the World Bank, and the Global Competitiveness Report of the World Economic Forum. They have become the darling of the investor community. South Africa, in contrast, has

deteriorated over time. On the ease of Doing Business Rankings, it has slipped from number 1 to number 5. Above it we find Mauritius, Rwanda, Morocco and Botswana, in that sequence. On the Global Competitiveness rankings, it is now at number 2. It does seem that the South African government's focus is elsewhere. It frequently seems that policy certainty is not a priority for them. It has slipped down the investment ratings as well, to the extent that 2 of the 3 major ratings agencies in the world have downgraded them to junk status. It also seems that there is substance to the charges of state capture that have been made against the ANC government. The bottom line is that South Africa is currently in a bad position, and the short-term future looks a wee bit bleak. Maybe it should take note and learn something from the Mauritius experience.