

## African Union

- **Africa:** China's prowess in technology and innovation can be replicated in Africa if African countries commit to investing heavily in SMEs and providing platforms for innovators to succeed.

China's economic success has evolved in tandem with 3 key factors: steady deregulation, major investment in infrastructure, and a surge in innovative technologies. However, can they be applied to Africa's 54 countries? Unlike China, Africa has an extremely young population – the fastest-growing in the world. This provides Africa with the richest source of human capital in the world – but it must be nurtured. Great scientific and technological capacity is a must for China to be strong and for people's lives to improve, which is also true for Africa. The emphasis in both countries must be to push enterprise from the grass roots. Government zeal is key and, in Africa, there is a rapidly growing understanding among policymakers that innovation is critical. Therefore, investment in innovation ecosystems and infrastructure in Africa must be a key priority. China has benefited from state financial support and public- and private-sector investment in start-ups, SMEs and innovators. China's prowess in technology and innovation can be replicated in Africa if African countries commit to investing heavily in SMEs and providing platforms for innovators to succeed. For more information, read: <http://bit.ly/2h3EwRo>.

CAS View: The article refers to China and Africa, and then states, "...emphasis in both countries...". The reality is obviously that Africa is not a country, but consists of 54 clearly different countries, with different policies, infrastructure requirements and technology competencies. This slip does not negate the relevance of its conclusion that China's prowess in technology and innovation can be replicated in Africa should African countries make the necessary investments in SMEs and innovation platforms. The challenge is not in agreeing with the principles and factors underlying China's success. The challenge is in designing an application framework and implementing it with enthusiasm. Africa tends to be great at planning, but various commentators have referred to its inability to deliver on its plans. Care must also be taken to ensure that the unique characteristics of each country is taken into consideration during the planning and implementation of the various strategic interventions. It would be a serious mistake to copy and paste whatever worked in China to the African continent.

- **Africa:** Developing the cassava value chain is one of the best opportunities that Africa could capture by industrialising.

The AfDB has launched a plan to scale up financial support to produce crops with the highest potential to industrialise and support manufacturing on the continent. Top on the list is cassava, which could be used to produce ethanol for industrial use and other home products. The AfDB's plan is to support crop production of cassava and its rapid industrial processing to help farmers boost household incomes. Africa produces 50% of the cassava in the world and yet it accounts for just 5% of all processed starch in the world. Boosting crop production will enable African countries to substitute imports worth \$680 million – money spent on purchasing industrial ethanol and products used in the manufacture of spirits, beer and industrial sweeteners. Developing the cassava value chain is one of the best opportunities that Africa could capture by industrialising. The demand for cassava in Africa is estimated at about 7.6 million tonnes higher than the 2.5 million produced in Africa. The bank is targeting to work with more than 200,000 smallholder farmers to help boost crop yields. For more information, read: <http://bit.ly/2wXxhoc>.

CAS View: Cassava is indeed a crop with tremendous potential. Besides its value as a food crop (including as a source of gluten-free flour), it has value as a starch and as a source for maltose and ethanol. Nigeria is generating annual revenues worth more than US\$800 million with exports to China. Tanzania is also gearing itself to ramp up its production of cassava for export to China. These revenues will be complemented with the import substitution value of US\$680 million referred to above. There is clearly a shortage in the supply of cassava – more than 5 million tonnes. This presents a massive investment opportunity.

- **Africa:** Chatham House has identified policy options for governments, businesses, and investors to support job-creating private-sector development through scaling up SMEs.

Policymakers must better understand the drivers of and obstacles to the growth of African companies if they are to achieve national development goals and create better jobs. Good business will not flourish under poor governance. Chatham House has identified policy options for governments, businesses, and investors to support job-creating private-sector development through scaling up SMEs. Larger companies are more productive, more competitive and make better employers. SME's require increased access to mid-scale finance; experienced middle managers and a skilled workforce; better developed infrastructure networks, particularly electricity and roads; improved access to regional and international markets; and clear and consistent regulatory and tax regimes. New technologies can make a significant contribution to addressing key areas for action, such as education and skills development, and access to capital and markets. For more information, read: <http://bit.ly/2y66QKy>.

**CAS View:** The article touches upon a number of factors that are not new to its managers, yet they deserve repeating. Good governance is always crucial. Corporate governance has merited a lot of attention, of which the adoption of the various King reports in South Africa is testament to. The importance of scale is also emphasized. Factors such as financing, infrastructure (road, rail, ports and energy), routes to market, a skilled workforce, and a business-enabling policy environment are well-known to all businessmen. The importance of technology is also not new and novel. It seems that putting these factors to work in practice is the main problem. Why this is the case is not clear. There is no good reason why Africa's decision-makers are stumbling over these factors; it just does not make sense.

## **East Africa**

- **Ethiopia:** The Chinese want to make the most of Ethiopian industries such as textile and clothing, which should soon turn the country into a new Bangladesh.

The Chinese factory of JP Textile is in the production test stage. Soon, thread imported from China will be converted into cloth fabric, which will then be shaped into "Made in Ethiopia" shirts for brands such as Calvin Klein or Tommy Hilfiger, so they can be exported to wealthy customers in Europe and the United States. China, its first trade partner, is leading this process. The 279 Chinese companies operating in Ethiopia registered more than US\$550 million in financial capital over the past 5 years. To become a middle-income country by 2025, Addis Ababa is strictly applying the second phase of its growth and development plan (GTPII) with China's support. The Chinese want to make the most of Ethiopian industries such as textile and clothing, which should soon turn the country into a new Bangladesh. Ethiopia has two advantages - a profusion of cheap energy and the possibility of benefiting from tax exemptions thanks to the AGOA. In some ways, Ethiopia is serving as a re-exportation hub towards more promising markets for Chinese firms. Another major advantage for Ethiopia is its young, cheap and abundant labour force. For more information, read: <http://bit.ly/2x0Yu6T>.

**CAS View:** Ethiopia is the poster boy/girl for the development of policies to industrialise the economy and boost the manufacturing sector. CAS has in previous newsletters referred to the development of Ethiopia's textile industry. China has been a major player in this initiative. In addition to the 3 advantages of cheap energy, tax incentives, and a large, young and cheap labour force, Ethiopia is also demonstrating a strong political will to succeed in this endeavour of theirs. Its industrial parks play a major role in its success as a growing manufacturer of note. By focusing on their "Made in Ethiopia" initiative, the country is generating substantial income, providing jobs to its population, and diversifying its economy. Its success makes it a case study worth studying and understanding.

- **Rwanda:** The formation of a cooperative bank will help grassroots-based savings and credit institutions (Saccos) to upgrade their status to boost access to finance, especially among SMEs.

The savings and credit cooperatives (Umurenge Saccos) are expected to enhance access to finance and boost financial inclusion at the grass roots level. To further improve efficiency, Umurenge Saccos have embarked on an ambitious plan of data cleaning and asset consolidation before they can merge to form district credit cooperatives across the country. The process will see the creation of more than 30 district Saccos that will then participate in the formation of a cooperative bank. Modern high tech software, which will help with automation, is due to arrive in Rwanda to further fast track the process. All Umurenge Saccos must embrace automation before they can merge. The formation of the cooperative bank will help

grassroots-based savings and credit institutions (Saccos) to upgrade their status to boost access to finance, especially among SMEs. The move could help boost financial inclusion. The sector plays a critical role in fostering economic development by offering financial services, particularly loans and opportunities for savings to people with limited access to commercial banking services. For more information, read: <http://bit.ly/2vTOWmr>.

**CAS View:** Creating a cooperative bank by consolidating district credit cooperatives makes a lot of sense. On their own, they lack the benefit of economies of scale. In addition, the governance of a large number of independent credit cooperatives are more problematic than managing a large number of branches of a bank, where common policies can direct the actions on the bank's employees. Using technology expediently can also enhance the efficiency of the bank, as well as cut the costs of its operating model significantly. A bank that has done this exceptionally well, rising above its status as a micro lender to the bottom of the pyramid, is Capitec Bank in South Africa. From very humble beginnings in 2002, Capitec is now a major bank. Equity Bank in Kenya was originally a provider of mortgage financing for the majority of customers who fell into the low-income population. It was technically declared insolvent in 1993, but changes in management and strategy saw it grow to become a microfinance institution and one of the largest and most profitable companies in East Africa. It became a registered bank in 2004, and grew to become the biggest bank in Kenya by customer numbers by 2010. There is therefore ample evidence that the Rwandan initiative has great potential. Judging from the share price history of Capitec, it might not be a bad idea to become involved in the Rwanda initiative. Capitec listed at R2.00 (US\$0.15 – current exchange rate) a share in 2002. Its closing price on 13 September 2017 was R898.12 (US\$68.22 – current exchange rate). A US\$1000 investment in 2002 would have realised a profit of US\$567,250.00 after 15 years!

- **Rwanda:** The Rwanda Development Board (RDB), through an MoU with a Chinese company, is set to construct a textile factory in Rwanda.

The Rwanda Development Board (RDB), through an MoU with a Chinese company, is set to construct a textile factory in Rwanda. The business and investment company, Huajian Group, mainly focuses on the production of high and middle-end women's shoes. It has 3 production bases, including one in Ethiopia. The company is not only set up in Ethiopia, but also produces shoes worth over \$30 million. It sees Africa as a place where it can make high quality exports for products consumed by markets like in the US. They see Rwanda as one of the most attractive places to do business and as a centre for East Africa. The company plans to invest over US\$ 1 billion for the next 10 years and create over 20,000 jobs. Moreover, the factory will hopefully produce shoes, clothes, bags as well as electronic equipment. The factory will contribute to export diversification, which is in line with Rwanda's vision. The company anticipates that the manufacturing plant will be up and running in April next year. For more information, read: <http://bit.ly/2wXwjpp>.

**CAS View:** Rwanda has the potential of emulating the Ethiopian example. Manufacturing and exporting textile products with Chinese support is exactly what Ethiopia has done. Once Rwanda has demonstrated that it can produce textile products cost-efficiently, it will be able to convince other companies in China to shift their production capacity from China to Rwanda, as is currently the case with Ethiopia. China wants to reduce the number of its companies producing at the low cost end of the spectrum, as its labour force is becoming more expensive. It is therefore encouraging these companies to relocate to countries such as Ethiopia. There is no reason why stable countries with cheap labour costs and efficient operating models, and governments that are prepared to incentivise foreign companies, cannot also benefit from this phenomenon.