

African Union

- **Africa:** Africa's two biggest economies have experienced poor growth since China's own economy is slowing. Expectations of 4.4% growth in Nigeria have been reduced to 2.35%, and South Africa's prospects need revising due to a shrinking of 1.3% in the 2nd quarter. Growth for both countries was therefore worse than the most pessimistic forecasts. Their slowdown is a sign that China's appetite for raw materials is waning. General consensus was that commodity-exporting countries would be troubled by China's rebalancing to a more consumer-driven economy. The slowing growth in Nigeria and South Africa confirms that 2015 will be Africa's most difficult year so far this century. High oil prices may have led investors and policymakers to ignore the deep structural problems within Nigeria's economy, which have now been exposed with the low oil prices. Razia Khan at Standard Chartered says that while the structural drivers of Africa's growth – rising demographics, greater rates of urbanisation, productivity gains, growth of financial markets, will remain in place, external challenges - deteriorating risk appetite and weaker commodity prices – may take the shine off growth trends. The World Bank forecasts GDP growth in SSA will slow this year to 4.2%, down from an average of 6.4% during 2002 to 2008. SSA's manufacturing remains weak; while exports from Africa more than quadrupled to \$457 billion in the decade to 2011, manufactured goods made up just \$58 billion of that. Africa could have rebalanced its own economies, by shifting from commodity-led growth to inter-regional trade. However, neglected infrastructure keeps the continent reliant on commodities. While Africa remains largely a primary goods exporter, it could find growth opportunities in forward-integrating its largely primary industries. (Ndaba, V.2015. Is 2015 the beginning of the end for Africa's China-led boom? **Moneyweb** – www.moneyweb.co.za. 1 September.)
- **CAS View:** Dependence on China has placed SSA countries in a difficult situation. Now that China's growth is slowing down and its currency devalued, Africa is feeling the crunch. Over the years it neglected to develop a meaningful manufacturing industry, and no meaningful exports other than commodities. Intra-African trade is also a problem, as Africa never needed it, again due to a reliance on China importing its commodities. Razia Khan's view that the fundamentals remain in place is good news, but Africa will need to restructure its economy. This is currently a problem, but presents a range of opportunities for informed investors.
- **Africa:** The African Development Bank (AfDB) will in coming years focus on addressing Africa's chronic power shortages to unlock its economic potential and end its vulnerability to fluctuations in commodity prices, its new president said. SSA has a billion people but consumes as much power as Spain, with less than 5% that number, due to poor generating capacity and limited transmission networks. Two thirds of Africans have no access to electricity. The lack of reliable power grids is a major obstacle to industrialising. Africa's economies at a time when Africa hopes to make a transition from commodities producer to a manufacturing hub and challenge Asia where labour costs are rising. According to the International Energy Agency, Africa requires an additional \$450 billion in power sector investment to halve blackouts and achieve electricity access for all in urban areas by 2040. As of 2013, the bank had lent a total of about \$94 billion. Should its energy problem be solved, Africa could grow at double-digit GDP rates. Energy poverty on the continent has to be solved as a matter of urgency, as a matter of scale. Africa has to industrialise, to add value to reduce its exposure to the continued volatility of global prices for commodities. Africa needs to mimic China and other Asian countries' use of an abundant supply of cheap labour to take advantage of globalisation and attract investment. As wages rise in China and elsewhere in Asia, Africa can offer a competitive edge with its cheaper workforce. There's a lot of opportunity in Africa today to take advantage of the wage differentials between China and Africa, especially in terms of light manufacturing, textiles, footwear and others. (Reuters. 2015. African Development Bank: new chief focuses on powering Africa. **The Africa Report** – www.theafricareport.com. 1 September.)

- **CAS View:** Africa's energy problem is a recurring theme in any debate on the development of its manufacturing sector and the process of industrialisation. What is clear is that it has no alternative but to put the infrastructure in place to generate and distribute the required electricity. It should also look at other sources such as renewable energy sources. Industrialising Africa would make it less vulnerable to volatility in large foreign players on the continent such as China. For this, however, energy is an imperative. AfDB's stance is to be applauded.
- **Africa:** Africa must rely less on foreign funding and pay its own way. It needs a new model for economic development. The current externally focused model of African economic development is not working. Indicators include the large numbers of Africans moving into Europe and the rising levels of unemployment among Africa's youth. Africa is overly reliant on developed market models of economic development. While single-digit GDP growth rates over the last decade has been lauded as a transformation, Africa's growth only looks good in relation to its poor past performance and against the backdrop of a recession in the developed world and a slowdown in Asian economies. Africa's challenge: how does it move from its modest growth of single digits to double digits? A change in mindset is needed. Africa needs to understand that although foreign investment and support are important and necessary, they cannot replace domestic savings and financing. The challenge is to significantly increase domestic investments in industry, infrastructure and production. Financing Africa's transformation requires bigger, regional banks as small banks and microfinance institutions are incapable of financing the infrastructure and large commercial operations necessary for economic development. Large regional banks can be a substitute for the absence of large local banks in smaller countries. At the commercial and industrial level, the emergence of African champions such as MTN, Shoprite, Dangote Cement, Protea and others capable of making large, transformational investments, have to be encouraged. They have energized their sectors, and attracted foreign investments. At the governmental level, a plan for financing economic transformation is needed. A more aggressive approach to mobilizing domestic financing and savings is needed, such as the privately managed pension schemes in Nigeria and the Public Investment Corporation in South Africa. Other measures include levies on imports, exports, natural resources and mobile telecommunication revenues. Also needed are programmes designed to make Africa a larger and more attractive market. To increase self-reliance and domestic integration, facilitate the free movement of people, goods and services, and allow for free convertibility of African currencies. If Africa is to accelerate its economic development and catch up with the rest of the world, it must move away from its current model of modest, low-level economic growth and adopt a more aggressive and creative approach to financing its development. (Ekpe, A. 2015. Ekpe: Africa needs a new development model. **African Business Magazine** – www.africanbusinessmagazine.com. 3 July.)
- **CAS View:** Ekpe provides a lot of good food for thought. Infrastructure development, access to finance, and free movement of goods and people will help to remove "artificial borders" to economic development in Africa. Punting the emergence of large corporates also makes a lot of sense, as it is the private sector that that will create the wealth required. Africa, however, must not just look at developing its own markets (which must be done), but must also develop its export markets for manufactured goods. Otherwise it would firstly remain the prisoner of commodity exports, and secondly it would be reshuffling poverty inside Africa. Innovating the whole value chains in industry sectors will help to develop new manufacturing and value-adding opportunities for exports. It also has to look at import-substitution to protect its foreign currency reserves. This could serve as an investment opportunity for foreign investors.

East Africa

- **Ethiopia:** CAS attended the Africa Japan Business Investment Forum in Addis Ababa from 31 August to 2 September. A site visit to the Reppie Waste-to-Energy Facility concluded the conference on Wednesday afternoon.

The waste site originally was on the outskirts of the city, but due to growth, it is now in the centre. The MD of Cambridge Industries Group, Samuel Alemayehu, had the vision to use the waste dump to generate renewable energy. It is the first of its kind of this scale in Africa. The fuel for the plant is municipal solid waste; and there will be 2 lines, each with a thermal capacity of 40.5 to 55MWth. For the technical oriented, the technical setup is as follows according to the information pamphlet: waste incineration (without pre-treatment), steam boiler, thermal power plant. The benefits are clear: the waste generated by the city's inhabitants are dealt with; the sore eye in the middle of the city is to be removed over the years; 50 MW of electricity is generated; employment opportunities are created; cheap electricity is generated at between 7-8 cents per kwh; and this project is seen as the blueprint for other projects that will be launched over Africa. The plant will meet the stringent requirements of the EU as far as air pollution is concerned, not because they have to, but because they choose to. A multinational team is involved, with the Chinese and Danish also involved. The vision behind the project is amazing. Where most saw a massive waste dump with all the negatives, Samuel had the vision of renewable and cheap energy.

- **CAS View:** Corporate capital funds are keen to be involved in the rolling out of additional plants into Africa. Given the growth of the population and the trend towards urbanisation, vast numbers of opportunities exist for the expansion of this project. Should Africa's cities be able to manage its waste according to European standards, the plants would also be even more efficient and cheaper to run. Dealing with waste therefore seems to have become a sustainable business opportunity for Africa, helping to deal with its energy problems, and providing much needed employment opportunities at a number of management levels.

West Africa

- **Nigeria:** Muhammadu Buhari's trip to the USA was a show of faith in the new administration, which is not just important for his presidency, but in rebuilding ties between Nigeria and the US that became strained towards the end of the Goodluck Jonathan administration. Unlike Jonathan, Buhari appears to realise that while relations with the US get news coverage, defeating Boko Haram will take broad regional cooperation. In the first two months of his presidency, Buhari has visited 7 countries: Niger, Chad, Cameroon and Benin – the 4 other regional countries fighting Boko Haram – as well as the trip to the US, attending a G7 meeting in Germany and the AU summit in South Africa. In addition, Buhari hosted the Cameroonian defence minister and the presidents of the other three countries in Abuja to discuss Boko Haram. This regional coordination, rather than more weaponry, is key to defeating Boko Haram. Funding networks, arms supplies, militant leadership and, indeed, fighters exist across borders. Coordination between the 5 countries has faced severe challenges. A small Multinational Joint Task Force to fight criminality in the Lake Chad region since 1998, is poorly developed and was quickly overrun by Boko Haram in January's Baga massacre. There are varying levels of mistrust between the countries. Chad and Nigeria fought in Borno in 1983 when Chad invaded Nigeria. In February and March, Chadian forces entered Borno again, this time to liberate towns from Boko Haram control. Nigeria and Cameroon have accumulated distrust over numerous small border disagreements and the disputed Bakassi peninsula. They do not systematically share intelligence on Boko Haram. Nigerian troops are not permitted on Cameroonian soil and vice versa. During a visit to Cameroon, Buhari laid to rest the Bakassi issue, saying that Nigeria will abide by the ICJ ruling, which gave the peninsula to Cameroon. Before the election, Buhari and his team outlined a foreign policy vision of concentric rings. This means that Nigeria's primary focus is its neighbours, then the West African sub-region, then the African continent, then the rest of the world. How Buhari has used his time in his first two months has followed this policy to the letter. To tackle Boko Haram, this region-first approach seems correct. It is systems that cross borders, not more hardware, that will determine the future course of this fight. (Schneider, J. 2015. Buhari's foreign policy: closer to home than America. **New African Magazine** – www.newafricanmagazine.com. 2 September.)

- **CAS View:** Progress and economic development takes place within a secure environment. Nigerians CAS has spoken to, point out that should Buhari deal with only 2 issues, i.e. corruption and Boko Haram, they would be extremely satisfied. It seems that although Buhari still has to appoint his cabinet, he has been very active in creating the systemic environment with which to tackle Boko Haram. He clearly is a strategist, something that his predecessor seems to not have been.

Southern Africa

- **Zimbabwe:** Nigerian Aliko Dangote said on Monday he would build a cement plant in Zimbabwe, a major boost for the Southern African country that is desperate for foreign investment. Dangote, whose business empire includes Dangote Cement, also told journalists after meeting Zimbabwe Vice President Emmerson Mnangagwa that he aimed to invest in coal mining and power generation. He was also due to meet Zimbabwe President Robert Mugabe. According to Dangote, the plant would produce 1.5 million tons of cement a year, but did not say how much it would cost to build. If government permission is given, construction will begin in the first quarter of 2016. The government has halved this year's growth target to 1.5%, attributing it to a severe drought that has hit the key agriculture sector. Zimbabwe has been struggling for 5 years to recover from a catastrophic decade of contraction that was marked by billion percent hyperinflation and widespread food shortages. Some analysts say Zimbabwe could tip back into a downturn this year. (Reuters. 2015. Nigeria's Dangote plans cement plant in Zim. **Moneyweb Today**– www.today.moneyweb.co.za. 2 September.)
- **CAS View:** Dangote is the second cement company in the space of a month to invest in Zimbabwe. CAS reported in Issue 9 that SINOMA has provided \$20 million to its Gweru-based subsidiary, Sino Cement Zimbabwe, for the setting up of a brick and tiles manufacturing company, while the total investment would cost \$50 million. Both these companies clearly see an opportunity in Zimbabwe. Being an astute businessman, Dangote would not throw good money away on bad investments. Pres Mugabe has recently also asked the West to invest in Zimbabwe. It remains to be seen whether these 2 companies will be followed by other investors, eager to tap into the infrastructure projects that clearly are available. A Zimbabwe with a well-developed economy can only be good for the region and its neighbours. Its success with attracting foreign investors is therefore to the benefit of all.
- **South Africa:** Mauritius overtook South Africa in the WEF rankings a few years ago. This did not happen by accident and there are some lessons South Africa can learn from Mauritius. 1) **Continuity in policy and plans:** Mauritius' service culture, focus on education and willingness by successive governments to keep the same norms (or to enhance them), have made it attractive to foreign investors. Mauritius implemented a free education strategy a long time ago, which has helped the country tremendously. 2) **A simple tax system:** A harmonised tax rate of 15% for resident individuals and companies, and VAT of 15% simplifies life. This simple tax structure has been an enabler for doing business and helped enhance the country's competitiveness. Mauritius also has no exchange control, which is attractive to companies that operate from countries like South Africa, Mozambique and Rwanda. There is no tax on dividends, no inheritance tax and no capital gains tax (with the exception of Mauritian real estate). 3) **A clear strategic pathway:** Mauritius has a clearly defined economic development strategy over the next 5 years, which covers every single sector of the Mauritian economy and is a very well thought-out document. It sets out where the government wants to take the economy in a few hundred points. 4) **Open for business:** Mauritius is open for more trade. A number of South African trade delegations have visited Mauritius and noted that while the latter country has got some very good policies, they could never implement it in South Africa because they are mired in bureaucracy. In Mauritius, government departments generally have a flat structure and government is accessible. (Lamprecht, I. 2015. Four things SA can learn from Mauritius. **Moneyweb Today** – www.today.moneyweb.co.za. 1 September.)

- **CAS View:** Whilst this editor read the article, the thought came up that Mauritius could be replaced by Singapore. The content would still ring true. South Africa has indeed some things to learn from the African leader on the WEF's global competitiveness rankings. Policy uncertainty is not conducive to investments. A bureaucracy mired by red tape has the same effect, and will even lead to an outflow of companies, more so with complex tax regimes. A clear direction as to where South Africa is heading, would complement the clarity and continuity of policy frameworks. This situation does present an opportunity to countries such as Mauritius and Singapore to share their experience and processes with South Africa. Singapore's vast experience and its dedicated institutions, as well as its clear willingness to share, can only be to the benefit of countries such as South Africa and others in Africa.