NANYANG TECHNOLOGICAL UNIVERSITY
Nanyang Business School

Friday@Noon

A weekly electronic African news briefing for the Southeast Asian community
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NTU-SBF CENTRE FOR AFRICAN STUDIES

Issue 155 20 July 2018

East Africa

- **Kenya:** As the majority of global trade is in manufactured goods and not raw commodities, Kenya wants to increase the capacity of the manufacturing sector by increasing its share of GDP from 10% to 20%, to boost job creation and exports.

  The manufacturing sector's share of GDP has stagnated in the past due to a number of challenges such as high production costs. Government is undertaking a number of reforms, including lowering the cost of electricity, to make Kenya a globally competitive manufacturing destination. Kenya's local manufacturers are facing fierce competition in East Africa, which has reduced the share of Kenyan exports. Kenya is planning to exploit the numerous trade agreements signed to diversify export markets. They also want to push more exports into lucrative markets such as Ethiopia, the DRC, Nigeria and Angola. The government has set a target to create over 1.3 million manufacturing jobs in the next 5 years through access to key strategic markets in Africa, Europe and the USA. The key to double digit growth of exports is value addition of raw materials, which are readily available in Kenya, especially in the agricultural and mineral sectors. For more information, read: https://bit.ly/2NRUfmg.

  CAS Analysis: Boosting the manufacturing sector in Kenya is part of President Kenyatta's Big Four Priorities. The manufacturing focus is on 4 subsectors: agro-processing (tea, coffee, fruits, meat), textiles and apparels, leather products, and fish processing. Other sectors include construction materials, iron & steel, ICT products and mining, oil & gas. In addition to the high production cost environment, the weak business environment has also constrained the growth in the manufacturing sector. What is also looked at, is to move to local production to cut down on costs. Some examples suggested by institutions such as Ken-Invest, include focussing on motor vehicle assembly, commercial vehicle assembly, food processing and packaging. Developing industrial parks, SEZ's and EPZ's and also part of the approach to grow the sector. It is crucial that Kenya's manufacturing sector investigate as many opportunities as possible to raise the sector's productivity and output. To raise the contribution of the sector from 9% (current level) to 15% (the targeted level) by 2022 and creating 1.3 million jobs in the process, are very ambitious targets. The strategy of value addition is a valid strategy, one that many countries in Africa aspire towards. We have even seen President Xi Jinping of China stating at the FOCAC meeting of 2015 in Johannesburg that China would be supporting Africa in its strategy of value addition at source. We need to see much more of this strategy manifesting in Africa. As Zambia's president Lungu said, it is time to talk less and do more! Boosting the manufacturing sector does create the opportunity for foreign investors to become involved in Africa. With a market of 1.2 billion people, and the vision of a continental free trade area, there are many opportunities waiting to be tapped into.

- **Kenya:** Kenya's e-commerce platform Kilimall recently said it plans to spread across Africa by end of 2022.

  The company was founded in 2014 and established operations in Uganda and Nigeria in 2017. They plan to be present in all African countries by end of 2022 in order to serve the growing demand for online shopping. A delegation of Chinese investors is currently seeking opportunities in Kenya's e-commerce sector. The Kilimall digital marketplace said its plan is to revolutionize the retail sector by allowing anyone to sell their goods and services online. Africa is expected to experience an e-commerce boom in the next 5 years as the cost of accessing the Internet declines. One of the biggest challenges facing the expansion of online shopping in Africa is the issue of trust by consumers that they will receive what they have paid for. Kilimall feels it is able to offer the best value for money by maintaining an online payment model where consumers pay before they receive the product. For more information, read: https://bit.ly/2NiO9KF.

  CAS Analysis: A few thoughts come to mind. We are seeing the growth of an e-commerce sector in Africa, with an increasing number of people turning towards this platform to buy. It also shows upon an increase in the number of people trusting the process of e-commerce. The number of e-commerce platforms is also growing. In addition to Kilimall in Kenya, we have Jumia in Nigeria, which is Africa's largest e-commerce player. In South Africa we also have players, with Spree merging with Superbalist, both online fashion retailers and both owned by Naspers. In Kenya, we are also seeing the creation of a new e-commerce platform, Masoko, which will be targeting formal retail and informal online trading, providing a platform for thousands of SME's interested in moving into the e-commerce sector. Once again, we see

China investigating opportunities for investment in Africa, this time in the e-commerce sector in Kenya. With the fantastic success of Alibaba in China, they clearly have a good understanding of the key success factors of the industry.

- **Rwanda:** Farmers will be able to manage farming practices such as effective irrigation of their crops without being at their farms, thanks to a solar-powered technology developed by young Rwandan innovators.

  The technology uses solar-fuelled sensors and irrigation to collect data on soil moisture, nutrient needs and water needed to foster crop growth. This farming model (online platform is called 'farmbrook') will measure variations in conditions within a given farm and adapt its appropriate fertilising or harvesting strategy. Data about the state of the soil is displayed on a farmer's phone screen and the technology gives them a variety of activities to perform accordingly. The technique seeks to increase the quantity and quality of farm output (produce), while using less input (water, energy, fertilisers, pesticides, etc.). The aim is to save costs, reduce the environmental impact and produce more and better food. The system costs between $300 and $500. Rwanda wants to increase irrigated agricultural land from over 48,500 hectares in 2017 to 102,284 hectares by 2024. For more information, read: https://bit.ly/2NlbtHJ.

  CAS Analysis: This initiative needs to be seen within the context of the UN's Sustainable Development Goals, the AU's Agenda 2063 and the AfDB's High 5 Priorities. Food security has become very important, given the inability of the continent to provide in its own food provision. Africa is currently a net food importer to the tune of US$35 billion annually. This is in spite of its tremendous potential to actually be able to feed the world. The above case study is one of many small initiatives we are observing in Africa, where entrepreneurs are using mobile technology to create instruments to enhance productivity, link investors with farmers and with the market, to provide input suppliers to farmers, and provide data to bankers in order to provide loans to smallholder farmers. Industrialising agriculture requires a lot more of these initiatives, amongst other interventions, at a scale that will actually have the ability to bring about meaningful change in the agriculture sector.

- **Uganda:** Uganda, which plans to produce and refine its own oil, said it will require as much as $70 million to construct a storage facility for refined products on the outskirts of Kampala. It will initially build storage with a capacity for 60,000 cubic meters that it may upgrade to 138,000 cubic meters if there's demand.

  Uganda, which targets starting oil production in 2020, will seek a joint-venture partner for the project and will invite bids before the end of the year. It already has storage for 30,000 million litres in Jinja. The country signed a project framework agreement in April for the development of a 60,000 barrels-per-day refinery. The facility will initially operate at half capacity before being upgraded. The Ugandan government will have a 40% stake in the refinery. Of that shareholding, some percentage may be offered to neighbouring Kenya and Tanzania, who are apparently keen on taking up 2.5% and 8% respectively. Uganda will also export its crude through a 1,445-kilometer pipeline worth $3 billion to a Tanzanian port. For more information, read: https://bloom.bg/2uwkJSn.

  CAS Analysis: Uganda's oil find has been one of the stories behind the story of the trade tiff between Kenya and Tanzania. Initially, in 2015, Uganda agreed to export its oil via the port of Lamu in Kenya. Tanzania's President John Magufuli, however, convinced President Joweri Museveni to rather use Dar es Salaam as the export harbour. The oil find has the potential to boost Uganda's economic growth substantially. Should the country move down the value chain and refine its own oil, it will reduce its vulnerability to global oil price volatilities. By exporting the refined products to its neighbours, it will also boost its export revenues and create significant jobs in the downstream value chain. Hopefully it will not fall in the trap of focusing too much on the export of crude oil, thereby becoming a victim of the resource curse. Adding value at source is going to be a crucial element of Uganda's future strategy. Finding a JV partner will equally be very important. It will be interesting to see who submits the winning bid. For obvious reasons, China will be a strong contender. We have, however, recently seen Russia invited to participate in the oil industry in Sudan. Russia seems to be keen to grow its economic influence and exposure in Africa,

and would no doubt be interested in participating in Uganda. China's choice as JV partner is therefore not necessarily as straightforward as it would have been in the past.

West Africa

- **Nigeria:** Agriculture shows limited glimpses of recovery, but almost entirely through efforts of peasants and antiquated processes. The agricultural sector in the first quarter of 2018 grew by 3.00% (year-on-year) in real terms, a decrease by 0.38% points from the corresponding period of 2017 and also a decrease by 1.23% points from the preceding quarter.

  Agriculture is a critical success factor for Nigeria. *A*dding value to agriculture should be the policy priority of the government to make up for lost ground and realise its potential. Nigeria's agricultural production is characterised by low yields and growth, mainly through the expansion of land. Productivity suffers from the absence of the application of technology. There must be a focused effort to enhance the value chain by moving into processing, marketing and other value-adding activities, which could increase production by at least 70%. R&D is necessary to increase the value of Nigeria's foods. Agriculture also needs macroeconomic stability, controlled inflation, peace and public order and stable exchange rates. Infrastructure is critical as well. For more information, read: https://bit.ly/2Nl3nyr.

  CAS Analysis: Nigeria's agricultural sector presents many investment opportunities, both in the production of raw products and in the processing sector. Once again, we see a call for value addition. As we can see above, Nigeria still plays mainly in farming, a low returns area. Nigeria therefore needs to increase the productivity of its agriculture operations, and then add value before exporting. It also needs to add value for local consumption. Importing food, as stated elsewhere in this newsletter, costs Africa US$35 billion annually. This will grow to US$110 billion by 2030, all else being equal. This is an expense Africa cannot afford. The preconditions for agricultural growth and development are clearly spelt out and are obviously not unknown to policymakers. Once again, we find a situation that requires less talk and more action. Once again, we find a situation in which foreign investors can make a difference and benefit significantly in the process.

- **Nigeria:** Nigeria still has to sign the AfCFTA for numerous economic and political reasons. The AfCFTA will create a single market of more than 1 billion people and a combined GDP of US$3.4 trillion.

  Nigerian businesses are expected to gain as the level of exports could rise due to an open access to markets previously unavailable to them. Signing the AfCFTA could make Nigeria the country of choice for the importation of finished goods for retailing in these African nations. These traders will leverage their networks and already established contacts to get best prices for products to stock their shops. This demand for Nigerian products all over Africa through these traders will push non-oil exports in Nigeria higher in years to come. The AfCFTA will help cut down the cost of importing goods and raw materials needed by Nigerian businesses. This will relieve the production cost of locally produced goods, allowing these companies to grow and expand. It will also help stabilise the exchange rate, assisting Nigerian local businesses to thrive in the international market. Productive businesses in Nigeria will be able to produce more goods, thereby generating positive economies of scale and creating employment opportunities at the macro level. For more information, read: https://bit.ly/2Nso77Q.

  CAS Analysis: Given the obvious benefits of economic integration for Africa, it is not always clear why some countries have not yet signed the AfCFTA. Granted, it is not always one-way traffic, and surely there will be some challenges in such an initiative. But by and large, the benefits exceed the costs significantly. Typically, according to tralac, fears of significant tariff revenue losses and an uneven distribution of costs and benefits are among the main obstacles to Africa's economic integration. Small economies and less developed countries may face substantial fiscal revenue losses and threats to local industries. There is also the potential for an uneven distribution of benefits and costs among member states. As Africa's largest economy, Nigeria's lack of involvement could be a problem. On the other hand, it can scarcely afford to not participate and be side-lined economically. It will just be a matter of time before Nigeria also signs the AfCFTA.

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Southern Africa

- **South Africa:** Saudi Arabia will invest at least US$10 billion in South Africa, mostly in the energy sector, including building oil refineries, petrochemicals and renewable energy. The UAE has also announced plans to invest US$10 billion in key sectors of South Africa's economy, such as tourism and mining.

  The Saudi move is part of President Ramaphosa's drive to attract US$100 billion in investment to boost the ailing economy. The pledge was made during an official visit by Ramaphosa and government ministers. South Africa imports about 47% of its oil from Saudi Arabia and regards the country as a strategic partner in the Middle East. The country is also a large investor in South Africa, especially in the area of renewable energy. The UAE's announcement followed Ramaphosa's first visit to the UAE last Friday, which marked the beginning of a new chapter in the long-standing relations between South Africa and the UAE. The two countries reaffirmed their deep commitment to further consolidate their strong bilateral relations across a variety of fields, including trade, transport, infrastructure development, tourism, mining, investment, and cultural co-operation. For more information, read: https://bit.ly/2KYaCQq and https://bit.ly/2Lof6f5.

  CAS Analysis: South Africa's economy is in serious need of growth. The president appointed a 4-person team of special investment envoys to gain US$100 billion of investment in the next 5 years. It seems he has not been sitting idle either, and has obtained investment to the tune of US$20 billion in a very short space of time. This has set the benchmark for the other 4 envoys. The GCC countries are clearly interested in investing in Africa. We have already seen them getting involved in various countries, such as Egypt, Sudan, Djibouti, Ethiopia and Somalia, to name but a few. It also seems that some of them are transferring their animosity towards each other in their expansion into Africa. Here we see Qatar (and Turkey) on the one hand, and Saudi Arabia and the UAE on the other.

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