

## Africa:

- **Africa:** Despite an economic slowdown, most African countries are reported to have a positive economic outlook. Remittance income is deemed to be a panacea to the economic quagmire of Africa.

Nigeria was the biggest receiver of remittances, receiving 29% (US\$22 billion) of total remittances flowing to Africa in 2017. Egypt was the second biggest receiver of remittances with US\$20 billion. Remittance flows also continues to play an important role in Ghana, amounting to US\$2.5 billion in 2014 (18.6% of exports); in 2017 they declined to US\$2.2 billion (15.8% of exports). East Africa is Africa's best performing region with a GDP forecast at 6.3% due to its economic diversification and investment-driven growth. In Central and West Africa, growth is forecast at 2.9%, due to subdued non-oil economic activity by Nigeria. Growth in the franc zone is forecast at 4.6%, largely driven by a boost of 7.4% in Ivory Coast, where investment is driving rapid expansion. Egypt is forecast at 5.3% due to structural and policy reforms, which have boosted manufacturing and investment. Its tourism sector has also continued to recover. Southern Africa has been affected by continued slow growth by South Africa, forecast at 1.5%. As remittances play an important role in African economies, policies should focus on reducing the cost of remitting funds. For more information, read: <https://bit.ly/2NppnNs>.

CAS Analysis: According to the World Bank, in 2010, remittance flows to developing countries amounted to US\$325 billion. Remittances sent by 31 million international African migrants reached nearly US\$40 billion in 2010, equivalent to 2.6% of Africa's GDP. However, the true size of remittance flows to Africa, including unrecorded flows through formal and informal channels, is believed to be significantly larger than the official data. After FDI, recorded remittances are Africa's largest source of foreign inflows. As such, remittances generate large benefits for Africa and tend to be stable, and often counter-cyclical, compared to other private flows and help to sustain consumption and investment during economic downturns. Remittances are also associated with reductions in poverty, increased household resources devoted to investment, and improved health and education outcomes. Based on the article above, total remittances to Africa in 2017 amounted to ~US\$76 billion, a 90% increase since 2010. Africa's diaspora therefore seems to be contributing significantly to its growth. It would be interesting to see why Nigeria and Egypt's remittances constitute such a large portion of the total sum (55%). The other 52 African countries therefore only contribute 45%!

## East Africa

- **East Africa:** The manufacturing sector is seen as the engine to accelerate economic growth, create employment and alleviate poverty.

In Kenya, manufacturing is one of the Big Four sectors to drive growth. Manufacturing is expected to contribute 15% of GDP in 2022, up from 8.4% currently. However, the rising cost of production, competition from imports from China, declining purchasing power, rising labour costs, unfavourable policies, including tax hikes, and counterfeits have placed hurdles in this sector's development path. The manufacturing sector's contribution to GDP declined to 8.4% in 2017 from 9.2% in 2016 and the sector is leading in loan default. In Uganda, mounting challenges have forced industries to downscale their operations; the sector is operating at only 54% of installed capacity. In Tanzania, challenges such as rising production costs, limited infrastructure and high tax burdens have seen the sector's contribution to GDP decline from 7.6% in 2011 to 4.9% last year. This state of affairs has been brought about by the fact that the level of value addition has remained depressingly low. The structure of the sector has meant that it cannot withstand shocks ranging from increases in electricity tariffs, to high taxes, transportation costs and imports from China. For more information, read: <https://bit.ly/2NZmFgM>.

CAS Analysis: Africa's manufacturing sector is not in a healthy condition. A 2016 article by the World Economic Forum stated that in order to develop its economic infrastructure and to improve its balance of payments, local value-addition to Africa's natural resources and agricultural products was essential. It has been forecasted that Africa's population will double to 2.4 billion people by 2050. The middle class (or consumption class) is also rising, indicating an increase in consumption. There will also be a significant increase in the need for employment. Africa therefore has no alternative but to develop a strong value-added manufacturing base. However, this seems to be a challenge. In 2014, 30% of China's GDP came from manufacturing (29% in 2017 – World Bank), while Nigeria's share stood at just 9%, Kenya at 12%

and Zambia at 8%. Kenya for one has since then dropped to an even lower 8.4%! In Tanzania, the contribution of the manufacturing sector to its GDP has dropped by 2.7% over the 6 years from 2011 to 2017. Given the job creation opportunities inherent in growth in the manufacturing sector, it is essential that Africa address this challenge as a priority. It is good that the Kenyan president has included manufacturing as one of his Big Four priorities. Growing the sector's contribution to 15% over the next 4 years does seem to be a tall order; more so when it goes along with a target of growing the number of jobs in the sector by 1.3 million. It will be interesting to see how Kenya goes about to achieve this target. In the process, numerous investment opportunities and incentives will no doubt be in the offering.

- **Ethiopia:** With help from PVH Corp — owner of Calvin Klein, Van Heusen, Izod, Arrow, Speedo, Tommy Hilfiger and other brands — Ethiopia is putting its name and its continent on the clothing map.

PVH is the anchor occupant of the industrial park in Hawassa, which employs 15,000 workers, with potential to add 45,000 more. The park is environmentally friendly, with state-of-the-art fabric mills and apparel factories running on renewable hydroelectric power and a zero-liquid-discharge treatment plant recycling all the wastewater. PVH says it chose Ethiopia because of its potential to become a truly integrated, vertical supply chain - from growing cotton to dyeing fabrics to sewing the final garments. Creating a new, lower-cost source of clothing was one of the drivers behind the decision to establish the factory in Ethiopia. PVH sees potential for Ethiopia and East Africa to become one of its top seven suppliers. USAID, Britain's Department for International Development, the AfDB, JICA and other international players have thrown their support behind the Hawassa project. PVH is supporting efforts to provide affordable housing and transportation for workers. The 10-year extension in 2015 of AGOA also convinced PVH to move ahead with its plans. For more information, read: <https://bit.ly/2CL7vHI>.

**CAS Analysis:** The previous article above addressed Africa's challenges in the manufacturing sector. Ethiopia has been setting itself up as a potential factory for those interested in relocating their manufacturing activities to a low cost environment. However, the World Bank shows that the sector's contribution to GDP in 2017 only amounted to 6%. According to Dr Arkebe Oqubay, a driving force behind the development of the manufacturing sector and industrialisation in Ethiopia, to make Ethiopia the leading manufacturing hub in Africa requires an annual manufacturing growth rate of 25% and an increase in manufacturing's share of GDP to 20% by 2025. He does indicate that the Ethiopian economy may fall short of this ambitious target. However, he also shows that Ethiopia's commitment to structural transformation in recent years may be starting to bear fruit. Its government has also developed the beginnings of a sharper policy focus. It has encouraged investment in new productive capacity, especially in priority manufacturing activities. Also, a new approach to hub development, agglomeration, and clustering was deemed essential, with the focus on building sustainable, specialized parks that apply a plug-and-play model. Ethiopia's model has been based on systematic learning from various Asian countries, including South Korea, Singapore, China and Vietnam, in addition to Mauritius, Nigeria, and the experience in Ethiopia itself. The quality and volume of FDI inflow has consequently shown very rapid growth and change, with FDI almost quadrupling to US\$4.2 billion in 2016/17 from US\$1.1 billion in 2011/12. Manufacturing drew in more than 80% of FDI during this period. This would include the investment by PVH indicated above. As is frequently the case in Africa, Chinese companies also play a significant role in manufacturing. According to a 2017 McKinsey survey, about 67% of all Chinese firms in Ethiopia were engaged in the manufacturing sector, which is twice the average of Chinese firms' engagement in Africa. For more information about this article by Dr Arkebe Oqubay, read here: <https://bit.ly/2QK1hfv>.

- **Somalia:** A World Bank report suggests that Somalia has the potential to emerge as the biggest mobile money market in Africa, with the number of mobile money transactions in Somalia surpassing that of Kenya. Kenya recorded 137.4 million mobile money transactions worth US\$3.17 million in June 2018.

Somalia recorded 155 million transactions worth US\$2.7 million in the months of 2017. Private sector actors have given Somalia the opportunity to leapfrog towards widespread financial inclusion. Mobile money has superseded the use of cash with over 70% of adult Somalis using mobile money services regularly. In addition to retail payments, mobile money is used for salary transfers, bill payments, remittances and cash transfers, and savings in mobile wallets. However, there are vulnerabilities in the

mobile money market, most notably a lack of oversight by the Central Bank of Somalia, of consumer protection and know-your-customer requirements. While stability of the overall financial system is a priority, the regulatory policy stance should also permit greater innovation by allowing experimentation in pilots without the need to fully comply with regulatory requirements. Somalia could use Kenya's blueprint on how to introduce regulations around mobile money. For more information, read: <https://bit.ly/2NuhPsR>.

**CAS Analysis:** A picture one can have of Somalia, given the many media reports, is that of a war-torn country where al-Shabaab terrorists run around killing people and setting off car bombs. It is therefore refreshing to see an article indicating normality in an otherwise conflict-ridden country. Kenya is the usual poster-country when it comes to mobile money usage. To see Somalia overtaking Kenya on the number of transactions, although not on the value, is therefore somewhat of a surprise. Mobile money has been playing a significant role in increasing the numbers of those formerly excluded from the formal financial systems in many African countries. In addition to a lack of access, trust in the formal financial system is also a challenge. Hence the significant growth in the uptake of mobile money. The regulatory environment has become very important, given the scale of the transactions. Any destabilising occurrences in the sub-sector therefore has the potential to destabilise the country's economy.

## West Africa

- **Cote d'Ivoire:** Qatari businessmen have expressed keen interest to explore investment opportunities in Cote d'Ivoire's agriculture, mining, tourism, and real estate sectors. A recent meeting between stakeholders from both countries focused on ways of enhancing economic and trade relations between Qatar and Cote d'Ivoire and the establishment of business alliances and partnerships between Qatari and Ivorian businessmen.

The two countries enjoy strong ties and share a joint desire to elevate relations to higher standards, especially in the economic and trade sectors. The visit of the Qatari emir to Cote d'Ivoire last year established a roadmap to both countries' relations at various fields, especially in the economic and investment opportunities. The Qatari dignitary said "the Ivorian economy is open" and offers investment incentives for foreign investors such as free remittance and VAT exemption, as well as custom and taxes incentives for investors extended to 15 years. Cote d'Ivoire has seen significant economic reforms. President Ouattara encouraged Qatari businessmen to invest in his country and benefit from the opportunities it offers in the agricultural, industrial, and real estate sector. For more information, read: <https://bit.ly/2xvGaDs>.

**CAS Analysis:** Qatar is the largest exporter of LNG in the world, and has the third largest reserves. It does realise that this is a finite asset, and has been investing in assets in various countries. Cote d'Ivoire has significant natural resources in various fields, and is among the world's largest producers and exporters of coffee, cocoa beans, and palm oil. Yet it is a poor country. A French colony until its independence in 1960, it has wrestled with civil unrest and increasing poverty rates for years. In 2015, poverty in Cote d'Ivoire was as high as 46.3%. Having Qatar invest in it, is an obvious way to stimulate the economy to the benefit of all. It is also interesting to see Qatar's expansion into Africa. In itself a very small country, with less than 2 million inhabitants, of which less than 300,000 are Qatari's, it is punching far above its weight. Africa has become a focus of its rulers, both in West and East Africa.

## Southern Africa

- **South Africa:** The Department of Science and Technology (DST) stated that a "sovereign innovation fund" will be created to leverage co-investment by the public and private sectors to address gaps in technology commercialisation.

The fund will be designed to complement and enhance existing funding instruments and provide large-scale funding for the development and maturation of radical innovations and emerging industries. Within the public sector, agencies such as the TIA, the IDC and the DBSA, in cooperation with the National Treasury, can contribute to this fund. This is part of government's aim of increasing the country's investment on R&D. SA's gross expenditure on R&D (GERD) increased only slightly in recent years. Its global R&D share fell by 25% from 2007 to 2013, while India's share rose by 18% and China's rocketed by 92%. There are some

encouraging trends. Business has increased its R&D spending in the past few years. The R&D budgets of all the government departments that form part of the National System of Innovation have increased in real terms. The Government has recommitted to the target of increasing the intensity of R&D investment in the economy so that GERD reaches 1.5% of GDP in the next decade, and 2% a decade later. For more information, read: <https://bit.ly/2xpadNY>.

**CAS Analysis:** South Africa needs such a fund. It ranked 57 on the Global Innovation Index in 2017, and slipped to 58 in 2018. In 2016, it ranked at 54 (out of 128 countries), which was an improvement on the 60<sup>th</sup> place (out of 141 countries). This trend shows a similar pattern as that of the Ease of Doing Business rankings of the World Bank. With its new president, i.e. Cyril Ramaphosa, it can only be hoped that the country will reverse these trends and start to live up to its immense potential. As is clear from the article, innovation is not just a government responsibility. Business must step up and play its role in ramping up innovation in South Africa.

- **Zambia:** Zambia is taking all necessary routes to sustain investment as it aspires to attain middle-income status by 2030. Supporting trade-led development of SMEs is crucial as they are the cornerstone of development.

Their importance in job creation and economic growth cannot be over-emphasised as about 70% of private sector business in Zambia is conducted by SMEs. A recent conference focused on the goal of creating a single market, followed by free movement and a single currency union. A business guide was developed that will help the private sector and policy-makers to better understand and pilot the AfCFTA. With the business guide in place, it is anticipated that the private sector and policy-makers will develop safeguards against any negative effects of trade liberalisation that may result from the implementation of the AfCFTA, such as a loss of tariff revenue and jobs, particularly in the agriculture sector. The business guide to the AfCFTA will help ensure that the private sector, especially the micro, small and medium enterprises [MSMEs], women and youth entrepreneurs, take full advantage of the agreement. The Vice-President of Zambia also wants SMEs to be anchored to large companies to help them grow and become more competitive. For more information, read: <https://bit.ly/2xzMKZK>.

**CAS Analysis:** Zambia's actions to help its SMEs and entrepreneurs cope in a strange new world brought about by the tenets of the AfCFTA is laudable. One tends to focus on how governments and large corporates will operate under the rules and guidelines of the AfCFTA, without necessarily sparing a thought for the small entrepreneurs and SMEs.

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