

Africa:

- **Africa:** According to Bernard Looney, BP is committed to Africa. It has found and produced oil and gas, marketed and traded energy, made new investments and explored opportunities throughout Africa. Many international energy companies are making new investments in Africa.

Africa's growth factor was mentioned as a driving force behind BP's appetite in the region. Demand for energy in Africa is growing well ahead of the world average. Populations are growing, economies are advancing, cities are booming and energy production is growing even faster. In 2017, Africa's oil production rose by 5%, compared with a world average of less than 1%. Energy production in Africa is likely to grow by ~60% by 2040, almost twice the global rate. Almost US\$200 billion will be invested in African energy projects up to 2025. Changing oil prices highlight the second driving force behind BP's efforts in Africa – the ability to form strategic partnerships in a volatile market. Looney welcomed recent reforms Angolan President Joao Lourenco introduced to restore macro-economic stability and improve governance. The third reason to invest in Africa is that it provides opportunities for the long-term. In addition to having growing energy consumption and production, economic development is driving up levels of skills and capabilities, growing talent across Africa. For more information, read: <https://bit.ly/2lls3pB>.

CAS Analysis: While some countries and companies are doubtful about Africa's prospects, it seems that the oil and gas majors are quite bullish about the continent. The article mentions a few reasons. First, more countries are discovering oil and gas deposits, notably so in East Africa. This goes along with the current growth spurt in the oil price. Second, given the growing populations in Africa and the growth of the middle class, demand is growing strongly as well. Thirdly, both phenomena are supported by growing macro-political and economic stability in Africa. Fourthly, jobs are being created up- and downstream. What is imperative is that African governments do not focus only on exporting oil and gas, but use the opportunity to stimulate the value-added manufacturing sector. This will increase the creation of jobs and lead to import substitution and export of value-added products. We are also seeing an increase in motor vehicle production in Africa, as the demand in Africa grows. This will obviously stimulate the sector even further. A question that needs to be answered is that of the impact of these developments on climate change. Current motor vehicle usage is negligible in the greater scheme of things. When this usage reach levels similar to the developed world, it will contribute in a major way to Africa's carbon footprint.

- **Africa:** Rwanda, Ethiopia and Ghana are emerging as African models for pairing political will with government action to transform smallholder farms into businesses. To achieve this, governments must address market failures and governance challenges, and sustain political will over time.

Failure to boost the sector's growth continues to expose Africa to threats of food insecurity. This is happening at a time when demand for food continues to grow strongly, and is projected to more than double by 2050. National diets are shifting away from food staples like grains to horticultural and livestock products, and processed and pre-cooked foods, all of which add value within the agrifood system. The lack of political will to transform the agriculture sector is evident considering that only a few countries have implemented the AU's Comprehensive Africa Agriculture Development Programme (CAADP), which commits signatories to allocate 10% of annual budgets to the sector. In Africa, Ethiopia and Ghana have succeeded in driving the growth of the agricultural sector, having consistently exceeded the CAADP target of 6% annual growth for the past 25 years. For more information, read: <https://bit.ly/2QWJDUJ>.

CAS Analysis: The Centre has mentioned a couple of times that the lack of political will was a major constraint in the implementation of policies. In the agricultural sector, this has increased the threat of food insecurity. Given the massive growth projections of Africa's population, as well as the urbanisation trend, the demand for food will keep on increasing. The average age of Africa's farmers is higher than 60 years old. These factors all stack up to create an unhealthy situation and governments must step up to deal with the challenges. A further concern is the level of rural poverty in Africa. As stated by the article, African countries can learn from China's agriculture transformation programme, which has driven down rural poverty from 53% in 1981 to 8% in 2001. It is also important to transform Africa's agricultural model from a mainly subsistence model to a more commercial model. This has to be done in a way that will not increase unemployment, and actually entice the youth to take up opportunities in the agricultural sector.

- **Africa:** President Paul Kagame told world leaders at the UN that Africa has registered positive developments and that the management of its global position must change. Africa has too often stood out for divisions and dysfunction in practice, making it unable to articulate and advance its common interests.

The trend in Africa now is toward closer and more productive cooperation, both through the AU and its regional economic communities. Africa is also focusing its attention on the urgent need to get its house in order and fundamentally change how it does business. Kagame also pointed out that the CFTA is set to redefine Africa's place in the global economic and global architecture. Economies of scale and a higher level of intra-African trade will help Africa attain the sustainable development goals by 2030. Kagame called for more collaboration between Africa and the UN, saying it was critical to achieve the collective agenda for peace and security, gender equality and women's empowerment, environmental protection and shared prosperity. For more information, read: <https://bit.ly/2OgWi6n>.

CAS Analysis: These statements by President Kagame from Rwanda focuses on a number of important issues. Africa must stand up in the global forums as a responsible and productive player, collectively as a continent, but also as 54 individual players. The world outside Africa should also see Africa as 54 countries and not just as one homogenous continent. Too frequently many countries are found to be guilty by proximity given the shortcomings of their neighbours. Various bodies are working towards improving the image of Africa by addressing the challenges it faces. These include the AU, UNECA and the African Development Bank, to name but 3. Furthermore, the much-hyped AfCFTA has created many expectations, amongst others boosting intra-African trade considerably. Hopefully the ratification of the AfCFTA will be more successful than its predecessor, i.e. the TFTA.

East Africa

- **Uganda:** Uganda's industrial outlook is improving. Over the last three months, President Museveni commissioned 4 factories.

Simba Cement factory in Tororo will create 600 jobs, boost supply and trigger a reduction in the price of cement from sh40,000 to sh25,000 per bag. The Ntinda/Kampala-based Saachi Electronics will produce flat irons, television and radio sets, and an array of communication equipment. It already employs 35 Ugandans and will save Uganda millions of dollars in electronics imports. Global Tea factory, Bushenyi, is processing raw leaves into world class tea. It will create 650 jobs and provide a market for tea out-growers. The same is true of Kyamuhunga Tea factory with an installed capacity of 3 million kgs annually. Uganda's National Development Plan II seeks to "strengthen the legal and policy environment to support industrialisation.....". It also seeks to "...address the challenges such as inadequate infrastructure, testing and certification of locally manufactured goods". Prioritising electricity and infrastructure is meant to support manufacturing. Investment in electricity has grown supply from 60 MW in 1986 to 2,216 MW of power. Uganda's manufacturing capacity has been growing in tandem. The number of registered factories increased from 80 to 4,725 in the last 3 decades. For more information, read: <https://bit.ly/2N4Jyv2>.

CAS Analysis: Manufacturing has over time been identified by many researchers and policymakers as a fundamental path to economic growth and development. One of the major benefits of the sector is that it accommodates large numbers of workers and places them into productive jobs. Up to now, many countries have not been active in creating factories. Ghana is one country that embraced a policy of a factory in every district. Here we see the Ugandan government growing the number of factories in the country, increasing the number of jobs. The potential in Africa is huge. According to a report authored by Landry Signe (<https://brook.gs/2NA5frS>), business-to-business spending in manufacturing in Africa is projected to reach US\$666.3 billion by 2030, US\$201.28 billion more than that it did in 2015. Africa is also considered to be the world's next great manufacturing centre, potentially capturing part of the 100 million labour-intensive manufacturing jobs that will leave China by 2030. This trend creates a huge opportunity for Africa, not only for countries such as South Africa, Egypt, and Nigeria (all regional outperformers in the Global Manufacturing Competitiveness Index), but also for newer players such as Ethiopia, Morocco, Rwanda, and others (all of whom have recently adopted policies enabling manufacturing and industrial development). In the Top 40 of the 2016 index, it is only South Africa, Egypt and Nigeria from Africa that figure. For the 2020 projections, there are no additions, and only South Africa is projected to increase its ranking from 27 to 25. The drivers of global manufacturing competitiveness include talent, cost

competitiveness, workforce productivity, supplier network, legal and regulatory system, education infrastructure, physical infrastructure, the economic, trade, financial and tax system, innovation policy and infrastructure, energy policy, local market attractiveness and the healthcare system. To read more about the Index, click here: <https://bit.ly/2fA8F94>.

North Africa

- **Egypt:** Major oil trading houses are predicting the return of US\$100 crude for the first time since 2014, as OPEC and its allies struggle to compensate for US sanctions on Iran's exports. That's exactly the price surge Trump has been seeking to prevent by pressuring the OPEC to raise production.

Yet the cartel and its allies showed little sign they would heed US demands to rapidly push down crude prices. The market does not have the supply response for a disappearance of 2 million barrels of oil per day in Q4. This makes it conceivable to see a price spike north of US\$100 a barrel. This will definitely affect Egypt as it is highly vulnerable to crude oil price fluctuations, as each US\$1 increase in the Brent crude's price would cost the state EGP4 billion. The problem of high oil prices is a global problem, as a result of the US sanctions on Iran, which will affect Iranian oil exports. Therefore, this problem does not only concern Egypt, but the global petroleum market until another country compensates the 3 or 4 million barrels that was supplied by Iran. Until this happens, the global world will witness increasing fuel prices. For more information, read: <https://bit.ly/2zyvniGf>.

CAS Analysis: While countries such as Nigeria and Angola are smiling about the increasing oil price, oil-importing countries are not as joyful. The obvious impact of the renewed USA sanctions against Iran has been an increase in the oil price, with a simple supply (decrease) and demand (unchanged) equation kicking in. A higher oil price has obvious benefits for shale oil producers as well, many of whom are in the USA. According to the International Energy Agency, 2018 would be the year that higher oil prices and operational improvements would put the US shale sector on track to achieve positive free cash flow for the first time ever. This has not happened for various reasons. A tidy increase in the oil price could change the situation. A year ago, Brent crude traded at US\$57.16. It now trades at US\$81.38. The day before the USA sanctions kicked in on 8 August, oil traded at US\$73.75. Conspiracy theorists could therefore be forgiven should new theories about the USA's sanctions against Iran see the light. The US\$8 price increase since 8 August has therefore cost Egypt EGP32 billion (~US\$1.8 billion)! In Africa, existing players such as Nigeria and Angola will hopefully use the breathing space brought about by the higher oil price to reduce pressure on their budgets and keep on diversifying their economies. New and smaller producers in Africa, such as Ghana and Sudan, could use the windfall to ramp up their economies as well. Ghana had the benefit of increased oil and gold production in 2017 to boost its economy from 3.7% GDP growth in 2016 to 8.5% in 2017. Sudan, with its severe liquidity challenge, can hopefully get its oil production up and running and tap into the benefits of the current increasing oil price.

Southern Africa

- **South Africa:** The economic stimulus package recently unveiled by President Ramaphosa is geared to inject capital into key labour-intensive sectors that over the years contributed to low growth indicators and large-scale job losses.

Agriculture Investments will be channelled to black commercial farmers to increase their entry into food value chains through access to infrastructure like abattoirs and feedlots. Various banks will be roped in to provide funding, which will mostly go towards labour-intensive export-oriented crops. **Infrastructure development** A R400 billion Infrastructure Fund will be used to reduce the current fragmentation of infrastructure spend – with large-scale projects focused on the building of schools, national roads, housing and water infrastructure. The projects will help accelerate service delivery. **Tourism** Tourism has recently been one of the sectors showing growth in SA. Amendments will be made to the controversial regulation that limited tourism. **Lowering of data costs** The high cost of communication is hindering the development of small businesses. To address telecommunication challenges, government will start allocating high-demand radio spectrum, which should unlock value in the sector and increase competition, leading to lower data costs. For more information, read: <https://bit.ly/2O2hGfJ>.

CAS Analysis: President Ramaphosa's stimulus package has created some comfort amongst a number of stakeholders. Where the money will be coming from, still remains to be seen. The ratings agencies, however, did not seem to be too convinced. Fitch stated that the package is unlikely to deliver a significant boost to SA's economic growth, and that it would take time for the measures to be finalised and have an impact. They also expressed uncertainty as to how the infrastructure fund would operate and whether it would increase contingent liabilities to government. Moody's was of the opinion that the package was too small to have much of an impact. The reality is that with SA's fiscal constraints, they have limitations as to what is practical. Ramaphosa is not in a very pretty position. On the one hand, his support in his own party seems to be finely balanced. On the other hand, his ability to spend to address the economic challenges of SA is limited as well.

- **Zimbabwe:** Local farmers can benefit from the US\$90 billion global horticulture sector and make rich pickings if they grow most of the demanded crops such as tomatoes and onions.

The Reserve Bank of Zimbabwe (RBZ) has implored producers in the manufacturing, mining and agricultural sector to export more of their products to boost foreign currency receipts. Increasing horticultural production and adding value to most of the products, is central to generating more foreign currency. Agriculture contribution to exports was 50%, but this figure dropped to 15% in 2017, dominated by commodities and raw materials. Zimbabwe's horticulture sector is still in the US\$90 millions when others are in billions. Opportunities, however, abound. In 2016, the EU imported horticulture products worth US\$85,9 billion, while COMESA took products worth US\$1,7 billion. SADC imported horticultural products worth US\$741,9 million in 2016. Products required included various processed foods, fresh produce and equipment. In the Middle East, Dubai wants fresh produce. For more information, read: <https://bit.ly/2OUWjtB>.

CAS Analysis: Zimbabwe's agricultural productivity took a major knock in 2000 with their transformation project on land ownership. They expropriated land owned by white farmers without compensation. Many farms were given to the political cronies of Robert Mugabe and his wife, Grace. The results thereof to the Zimbabwe agricultural productivity was disastrous. In 2015, some of the new owners started hiring those whose farms were taken to manage their former properties. The new government of President Mnangagwa has recently ordered an end to illegal land takeovers and has said the few white farmers left on the land can be given 99-year-long leases like their black counterparts. Agriculture is one of the 3 major sectors that can make a significant contribution to Zimbabwe's economy in the short-term, with the other two being mining and tourism. Manufacturing is another sector with real potential. The opportunities above are real; Africa is currently the net importers of food to the tune of US\$41 billion annually. Countries that are tapping into the high potential of the horticulture sub-sector include Kenya, Rwanda and Ethiopia.

Interested in subscribing to this weekly newsletter? Subscribe by clicking here: <https://ntusbfcas.com/african-business-insights/friday-noon>.