

## African Union

- **Africa:** The EU, Sweden and the G7 pledged \$10 billion to the ambitious Africa Renewable Energy Initiative (AREI), an African-led plan to add 10,000 MW of additional renewable energy in Africa by 2020, which will provide clean power to millions across the continent. According to the UN Environment Programme (UNEP) Executive Director Achim Steiner, Africa's renewable energy revolution will ensure access to clean, reliable and efficient energy, while ensuring they do not add to greenhouse gas emissions. African Development Bank (AfDB) President Akinwumi Adesina stated that the AREI can sustain fast economic growth in Africa and put it on a low carbon development pathway. Approximately 600 million people have no access to electricity in Africa, which could rise to 700 million by 2030 without further action. AREI is targeting the mobilization of Africa's massive renewable resources, such as solar, geothermal and wind, to generate at least 300 GW by 2030, more than doubling current levels. For more information, read [here](#).
- **CAS View:** Lighting up Africa has been the first of Adesina's 5 priorities for the AfDB in Africa since he took over as president of the AfDB earlier this year. The reasoning behind electricity's high priority is not that difficult to grasp. Firstly, as stated, more than 600 million live without electricity, which reduces their quality of life. Secondly, these people currently use wood and other forms of natural product, which frequently is not only dangerous to their health, but also contributes to global warming and climate change. Thirdly, Africa's economic growth (and manufacturing focus) is tied to the availability of affordable, consistent and clean energy. Fourthly, Africa's massive lag in electricity provision has to be addressed in a manner that does not contribute to climate change, given the massive need. Should they go the conventional route of paying catch-up by emulating the industrialised world's approach, there would be a serious negative impact on climate change, something that Africa must try to avoid at all costs as it would be disastrous for Africa's food and water provision. This attempt of AREI can therefore be seen to leapfrog the developed world's approach by embracing renewable energy as the business model for Africa. Various countries are already starting to build solar plants, i.e. South Africa and Morocco. But Africa also has to tap into Waste-to-Energy (WTE) opportunities, something which has a lot of potential, but which is scarcely exploited. CAS has referred to this opportunity in Issue 26, amongst others.
- **Africa:** China's promise last week to deepen partnerships with African countries and provide \$60bn over 3 years to address constraints to development, was good news for Africa. But next year will be a difficult one for SSA. Africa's petro-states have slashed budgets and put infrastructure projects on hold as budgets dry up. Lower commodity prices signal that 2016 is going to be difficult for Africa. Currencies in Africa have lost significant value. Fitch predicted that emerging markets will face another wave of ratings downgrades next year. SA is looking at growth rates of about 1.5% and a widening trade deficit. SA, like many other African states, is also facing the challenge of rising debt. Ghana and Zambia have turned to the IMF for help with growing fiscal crises caused partly by unsustainable debt levels. By the end of 2016, SSA's sovereign external debt burden is likely to have increased 38% from 2013. Continental growth rates have fallen from more than 5% for a decade to below 4% this year. This may inch above 4% next year, but will remain off previous highs for some time. Security issues in some countries present challenges, and third-term bids by presidents presage possible political destabilization next year and in 2017. Positive stories include strong growth rates in Kenya, Ethiopia and Mozambique, for example. Nigeria is tackling some of its deep-seated challenges, while Tanzania is cutting back wasteful state expenditure. This presents an opportunity for real structural change, which will require strong leadership. For more information, read [here](#).

- **CAS View:** These, amongst others, appear to be the negatives held in store for Africa for 2016. And they do appear to be quite severe. China's proposals in Johannesburg last week contain 10 programmes that, if implemented, will structurally address these challenges. Africa's problems have not been created overnight, and they will need to be addressed with the long-term in mind. Amongst the Fococ programmes is the plan to develop/boost beneficiation at the source. This will stimulate economic growth, and help with budget deficits and current account imbalances, which in turn will strengthen the currencies of Africa. CAS also addresses the Nigerian budget for 2016 in this issue, and it is clear that Nigeria is addressing the structural challenges which should contribute towards alleviating the problems identified above. So is Tanzania, with their new president, John Magufuli (addressed in Issue 26). So, whilst the short-term does appear to look a bit bleak, there are important growth drivers that should not be ignored. The article rightly concluded that strong leadership is going to be an important factor in the solution. And it seems that we have quite a few African leaders that are stepping up, i.e. in Nigeria, Tanzania, Namibia, Senegal, Botswana and Rwanda. So, while it may appear that 2016 is going to be a bit of a bumpy ride, the sun will rise again over Africa. The opportunities are just too good to ignore.
  
- **Africa:** Global companies expanding into Africa are having a tough time finding leaders to run their operations. According to recruiters, candidates with traditional management skills are in short supply. Driving the talent shortage is Africa's dearth of high-quality business schools. In countries such as Kenya and Nigeria, many with management aspirations tend to leave for school or work abroad, and persuading them to return home for their career is a challenge. Companies such as Coca-Cola, Diageo and Heineken have developed their own programmes to nurture Africa-based leaders. Schools in Kenya and Nigeria often fail to adequately prepare young people for work in global corporations. Local candidates also lack the internship or work experience and global exposure. Global firms have relied on imported talent to fill local roles but relocating people is costly and doesn't strengthen the local talent pipeline. To provide emerging leaders with international experience and training, more multinationals are trying rotation programmes that send Africa-based talent abroad with the plan that they will return later. While many executives in Kenya, Nigeria and South Africa see the diaspora as a key source of leadership talent over the next 5 to 10 years, far fewer of them felt local talent would be willing to return home. For more information, read [here](#).
  
- **CAS View:** CAS has been quite vocal about the need to develop Africa's human capital, and that foreign investors moving into Africa should make this a priority. Strong recognition is given to the hard side of infrastructure development, but not enough to the soft side. Africa will need to address the development of its human capital as a priority as there is not only a need to meet the job requirements of global companies, but they also need to develop the managerial skills for the purpose of developing the manufacturing sector of Africa. It is no use Africa gets the opportunity to expand its manufacturing sector and then do not have sufficient numbers of competent managers. Foreign business schools from countries such as India and Australia, to name but 2, are targeting Africa to tap into this opportunity.
  
- **Africa:** Africa has identified agriculture as a priority development area in the China-Africa strategic partnership. Agriculture accounts for about one-third of Africa's GDP, and provides jobs for more than two-thirds of its citizens. Given this, Africa is redoubling its efforts to invest more in the sector and boost production. In spite of challenges in improving its agricultural sector, Africa is endowed with fertile soils, a favourable climate and affluent water basin. One opportunity for development between China and Africa lies in knowledge and technology transfer and sharing, e.g. agricultural technology demonstration centres. A second opportunity lies in infrastructure development, particularly irrigation, transport network and storage facilities. A third opportunity lies in targeting smallholder farmers, who, with access to inputs such as seeds and fertiliser, credit facilities and extension services, have the

capacity to increase production. Fourthly, access to extension services is also critical for planning purposes, especially when farmers want to diversify into new crops or livestock. A lesson from Chinese agricultural development is that China was aware that agricultural policy implementations come at a cost. Therefore, they were patient with their policies and agricultural development was an incremental learning process. Furthermore, significant agricultural reforms in China were deeply rooted in fully implementing all agreed policies. For more information, read [here](#).

- **CAS View:** Feeding Africa is one of African Development Bank's 5 strategic priorities identified by Akinwumi Adesina. This is a crucial area as identified by the article. Ethiopia's Dr Arkebe Oquba was quite explicit that the development of Ethiopia's manufacturing sector could not be done at the cost of the agricultural sector. So did Adesina, who was adamant that agriculture should be industrialised, but not at the cost of shedding jobs. The above opportunities would go a long way to improve the productivity of the agricultural sector in Africa. As stated previously by CAS, Africa has the potential to feed the world, but is a net food importer. The DRC can feed 1 billion people, as can Angola, but the former struggles to feed its 70 million citizens! A factor that has not been mentioned in the article, is the vulnerability of the farmers in the remote areas they frequently find themselves in. This all ties in closely with the first 4 of the 7 aspirations of Agenda 2063, which is a document that sets out the aspirations Africa has developed for itself. It is therefore an extremely important development area. It is also quite clear that there are various investment opportunities in implementing this development area. Doing good frequently is good business.

## West Africa

- **Nigeria:** Nigeria has approved a 6 trillion naira (\$30.3 billion) budget for 2016, a 1.5 trillion naira rise on last year despite low oil prices. According to President Buhari, the cabinet wants to diversify the oilreliant economy by boosting the agriculture and mining sectors while cracking down on corruption to end the leakage of money from public coffers. 30% of next year's budget would be allocated for capital expenditure, to be funded through a rise in non-oil revenues. Nigeria relies on oil exports for 70% of government revenue. Nigeria's cabinet was working on an oil price of \$38 a barrel and oil production at 2.2 million barrels per day. Lawmakers passed the 2015 budget at \$53 a barrel in April. The budget would be funded by "trying to get more money from the various government agencies" and policing their collection, with borrowing making up any shortfall, which was anticipated to be 3% of the GDP. The government would identify spending excesses and impose guidelines to cut waste. It was not clear whether the fuel subsidy, a heavy burden on the nation's purse, would be retained in 2016. Analysts suggested the current low oil price would be an ideal time to cut it without hitting the population too hard. For more information, read [here](#).
- **CAS View:** Ideally speaking the diversification of Nigeria's economy should have been done 50 years ago. The current focus on boosting the agriculture and mining sectors is good news, but care should be taken to beneficiate as much as possible of Nigeria's production output, and the industrialisation of Nigeria's agricultural sector should be done in such a manner as to also create many more meaningful jobs. The focus on ending corruption, which was one of Buhari's election campaign issues, seems to be a continued focus. His changing of the guard at NNPC and the customs department and the care that he has taken to ensure his cabinet is corruption-free, to the extent that one can be sure of such things, is indicative of the seriousness with which he views this issue. His budget can be seen as giving substance to the mandate he asked from the Nigerian electorate. He has already put in motion the mechanisms to deal with Boko Haram by mending ties with the USA and his neighbours, replacing the military chiefs who seemed unwilling or unable to deal with Boko Haram, as well as building stronger relationships with France and francophone Africa. This budget shows the other side of the coin, i.e. the cleansing of the Nigerian

government apparatus and the “fixing” of the economy. The conservatism of the future oil price is laudable, as is the intention to keep the borrowings at a low level of 3% of GDP. CAS is becoming a fan of President Buhari. His strategic approach bodes well for Nigeria’s future!

## North Africa

- **Tunisia:** Due to Tunisia’s earlier orientation towards Europe, it is now not only suffering from Europe’s economic downturn, but also cut off from the African market. In terms of its share of African exports in relation to GDP, it ranks 29th. In terms of investment, it ranks 4th on starting and operating a local business, but only 28th in terms of attractiveness for foreign investment. Tunisia ranks 21st in terms of its share of the total exports of intermediate goods within Africa. Tunisian manufactured goods currently account for nearly half of its exports (48%), which are expected to increase to \$2.3 billion (an increase of 6.8%) by 2020. This figure would be doubled (to \$4.4 billion) if trade facilitation measures were enacted. Tunisia needs to reorient its tourism strategy towards the African tourist market, whose numbers and purchasing power are experiencing unprecedented growth. Tunisair, the Tunisian airline, has barely more than a dozen destinations in Africa, only 5 of which are in sub-Saharan Africa. Tunisia also has assets in many service sectors with high added value, such as medical tourism, higher education, engineering and consulting, which would enable it to capture a significant share of these rapidly growing markets. The message is clear: the economic future of Tunisia is unquestionably in Africa. For more information, read [here](#).
- **CAS View:** Up till now, the perception has been that the North African countries, stretching from Morocco in the west to Egypt in the east, were not really identifying with SSA, but either with Europe or with the Middle East. This is mostly still the case. However, the exceptions are starting to develop. Morocco has categorically stated it is identifying stronger with Africa and has been positioning itself as a gateway to SSA. It has also been developing trade policies to facilitate trade with SSA. The speech above by Dr Carlos Lopes, Executive Secretary of the Economic Commission for Africa (ECA), makes a very good case for Tunisia to rather orient itself with Africa than with Europe. The benefits of this are obvious, i.e. much improved trade and tapping into a quite sizeable tourist potential. While Tunisia was the birthplace of the Arab Spring with its Jasmine Revolution, it has stabilised significantly, to such an extent that its National Dialogue Quartet was awarded the 2015 Nobel peace prize. Tunisia had all the potential to sink into utter chaos, but although the political scene still presents a few vulnerabilities, Tunisia presents quite a number of opportunities. Being much more politically stable than a few of its neighbours, and with a professional military force staying out of politics, Tunisia now needs to address its economic future. Internally there are investment opportunities in the field of agriculture, tourism, and manufacturing, while externally it needs to tap into the potential that Africa offers. FDI investors that have been targeting Africa and North Africa specifically, could do much worse than having a good hard look at Tunisia.

## Southern Africa

- **South Africa:** Simon Brown, founder of JustOneLap, expects a lot of the current trends in the South African market to continue next year, but also anticipates certain shifts. **1) Currency:** With the rand trading at R14.61 at the time of writing, Brown said the currency’s recent demise was not a blowout, but a gradual collapse, which started in late of 2011. He does expect it is going to start to come back. Risks include the downgrading of SA’s credit rating to junk bond status, which will have money move out of the country, which will further weaken the currency. **2) Eskom:** The new CEO Brian Molefe seems to be doing a decent job. The mining and manufacturing sectors’ woes have led to a meaningful decline in the demand for electricity. For global manufacturers stable electricity supply is non-negotiable, and potential foreign direct investors will have noticed. **3) Drought:** Brown said the drought would have “massive implications” in 2016. In the interim, meat prices are coming down due to

a glut of meat coming into the market as farmers are slaughtering a lot of their animals. The price of maize has risen sharply. When it does rain, it will take time for land and herds to recover. Food producers will face an uphill battle as a result. Costs will increase and their margins will be squeezed, as they will not be able to pass increases on to consumers in its entirety. **4) Commodities:** “More of the same” is expected. The demand for commodities has collapsed. In the near future, the oversupply of commodities remains intact. **5) South Africa Inc.:** While Brown does not expect the country to enter a recession in 2016, an economic growth expectation of 2% is probably optimistic. The FTSE/JSE Africa Top40 index will be flat “at best” next year. A correction below 40 000 points would provide a buying opportunity. For more information, read [here](#).

- **CAS View:** Brown played it safe. With the exception of the Rand’s volatility, all the other factors are easy to predict and any half-way decent economist could have done so. None of these 4 issues are really key uncertainties. They are obviously important, that cannot be denied. The volatility of the Rand is a factor that tends to be a lag en is driven by other factors. While it seems Brown got them wrong, few could have foreseen what would happen. On Wednesday, 9 December 2015, the president of South Africa, Jacob Zuma, fired his minister of Finance, Nhlanhla Nene, and replaced him with someone that is an unknown entity. That Nene is held in high regard by both the internal and international community, was clear when the Rand took a nose dive. Social media in South Africa exploded with criticism against Zuma, and quite a few called for marches and for Zuma to be recalled by the ANC. While the Tanzanians ask, “What would Magufuli do” when they are contemplating the right thing to do, it seems when we ask about South Africa, we should be asking “what would Zuma do” to try and understand potential negatives! The question as to why Zuma fired Nene, generates quite interesting speculation. The main reasons doing the rounds include that Nene stopped the chair of SAA to renegotiate deals with Airbus (and everyone “knows” she is a favourite of Zuma), that he was too enthusiastic in his curtailing of the nuclear procurement deal, and that he refused to buy Zuma a new jet. Whatever the reason, the timing of the sacking is suspect as it was done less than a week after the ratings agencies announced their ratings for SA’s credit. Whether these agencies will wait for a next round or whether they would respond immediately with a cut to “junk bond” status, remains to be seen. The end result will be quite negative, as money, that which will still be in SA (as investors could anticipate a cut and leave early), will flow out and the Rand could (will!) test new serious lows! It weakened to way above R15/\$, and the weakest rate appears to be R15.48 during the past 24 hours. That’s a 6% drop over 24 hours against the R14.61 mentioned by Brown, and a 8.25% drop against the Rand/\$ of R14.30 on 4 December. The silver lining would be an increase in export revenues. However, this will hardly make up for the negatives, as the cost of capital for SA will become prohibitively expensive, as will imports. The drought will bring about the need for even more food imports, which will come at a more expensive price, which will increase inflationary pressure, and so the vicious cycle will continue. It will be interesting to see what impact, if any, this will have on the local election results in South Africa in 2016. In all fairness, one has to give David van Rooyen, Nene’s replacement, a chance to prove his metal. CAS remembers when Trevor Manuel was appointed as Minister of Finance in the late 1990s, coming from a labour environment. The reaction was quite negative, and yet he turned out to be the best Minister of Finance South Africa has had. However, a major difference is that Manuel was appointed by the giant, Nelson Mandela, who had South Africa’s best interests at heart. Zuma’s interests, by his own admission, does not lie firstly with South Africa. The Rand is in for a bumpy ride that is no mistake!