Friday@Noon

A weekly African news briefing for the Southeast Asian community
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African Union

- **Africa:** African economies are predicted to grow higher in 2016 relative to the well-known emerging countries. African companies (called the African Lions), according to a BCG report, have been able to withstand and win market competition from multinational firms. These companies have the four Fs. Focus: African lions are winning because they consider the continent to be their primary market and source of revenue. They have a permanent face on the continent, are visible and strengthen partnerships. Field: On the ground experience and understanding the culture of African business is an advantage to African Lions. Their CEOs are down to earth, build strong personal relationships and understand that not all agreements need to be formalized. Facts: In Africa accurate data is not a given. To win, firms investing in Africa need to gather information through innovative strategies and use personal judgment. Flexibility: Applies where your business processes, products and activities are tailored to local conditions. The rules of doing business in Africa are changing; see the opportunities and take care of the risks, but by all means take advantage of the opportunities. For more information, read here.

- *CAS View:* These 4 Fs are strategic. Being seen as part of Africa, knowing the people, having the information, and being flexible to adjust to circumstances as and when they change, are all crucial for success. A lack of knowledge of the circumstances in Africa can be extremely expensive, as even African countries have found out to their dismay. Ignorance cost Tiger R2.7 billion! Africa is not a homogeneous entity and success in one country is by no means an indication of success in another. Companies in various industries have seen success in one country followed by failure in another. The solution lies in knowledge and flexibility, gained from being there. CAS has stated numerous times that Africa does present risks, but that these are mostly known and can be mitigated, provided proper due diligences are done.

- **Africa:** In 2015, Nigeria, Tanzania, Zambia and Burkina Faso all saw democratic transitions of power. However, in Burundi, Pierre Nkurunziza won a controversial third term that has caused major instabilities. In Ethiopia, the prime minister retained power with 100% of the vote. In 2016, there are six elections worth watching. Uganda: President Museveni is expected to win this election. Recent clashes between Museveni supporters and the opposition have raised concerns that things could deteriorate further. Niger: Niger has been battling to maintain stability. In December, President Issoufou announced the arrest of senior military officers for allegedly plotting a coup. Zambia: President Lungu won power earlier in 2015 to serve out the remainder of Michael Sata's term. Lungu has to convince the electorate that he can fix the country's huge challenges, e.g. a chronic electricity problem and a struggling economy with one of the worst performing currencies globally. DRC: Joseph Kabila has ruled the country for 15 years and he is term-limited from running again. The opposition has accused him of trying to amend the constitution so he can seek a third term. Ghana: President Mahama has presided over an economy that is beset by problems: rolling electricity blackouts, budget deficits, high inflation and declining growth. This can put his election campaign under pressure. Somalia: The political instability in Somalia that has characterized the last two decades, may be about to end. Different political factions came together and formed a National Consultative Forum to decide on what format the polls will take. For more information, read here.

- *CAS View:* The peaceful transfer of power in Nigeria, Tanzania, Zambia and Burkina Faso have createda wonderful precedent. It is hoped that the elections of 2016 will emulate this example. Investors globally want stable political systems as a sine qua non before getting involved. Instability in Uganda and Niger, given their roles in maintaining security in the region, would not only affect the country itself, but also the whole region. Niger, for example, plays a senior role in putting pressure on Boko Haram. In the DRC, we already have instability in the eastern part of the country. By standing for a third term as president, Kabila could destabilize the whole country.

It is said that his push to increase the number of provinces from 10 to 26 is part of his plan to diminish the political clout of some of the contenders for president. The power base of his rival in Katanga will be seriously curtailed. In Somalia a peaceful election could contribute towards the suppression of the power of Al Shabaab. This organisation has split up into several rival groups that will make it more difficult to deal with. Ghana has made the news the past few months for all the wrong reasons, e.g. a judiciary with corrupt judges (7 were suspended). It is imperative for a prosperous future that peaceful transfers of power become the norm in Africa and that stability becomes a characteristic of the African business environment.

East Africa

- **Kenya:** Kenya's first oil cargo is set to reach the export handling facilities at the Port of Mombasa using trucks and railway by September 2016 as the final word on the proposed crude pipeline from Uganda continues to hang in the balance. However, experts note that the earliest the Turkana oil fields can be commercially exploited is 2020. Toyota Tsusho reported that the flow of the first crude oil is expected in October 2022 at the earliest. Kenya's decision to begin early oil production comes at a time when global oil prices are falling, without clear prospects of recovering. Kenya's decision to export oil this year is expected to push Uganda to make up its mind on whether to embrace the northern (through Kenya) or southern route (through Tanzania) for exporting its crude oil. Kenyan ministries have been tasked with repairing the 200-kilometre Lokichar-Kitale road in western Kenya to ease the movement of oil tankers.The crude oil is expected to be moved by road from Lokichar oil fields to Kitale and then by train toMombasa. From there the crude will move by an existing pipeline to the landing stage at Kipevu oil terminal. For more information, read here.

- *CAS View:* A few issues need to be noted. Uganda and Kenya earlier concluded a bilateral agreement that Uganda would export its oil via rail through the northern part of Kenya to the Lamu port. However, since then, it has also been reported that Uganda was in talks with Tanzania to take a southern route. Kenya’s decision to start with early production can be seen as a strategy to convince Uganda to go the northern route. Secondly, for Kenya (and Uganda) security will be a major issue. The route envisaged through the northern part of Kenya is close to Somalia and could be a target for a vindictive Al Shabaab. Thirdly, timing is important. The price of oil is at a level not seen for the past 15 years, and it seems that it is unlikely to rise in the short-term future. Iran’s oil production and availability on the open market will (is) also affect the price as well, and as stated elsewhere, the world is currently running out of storage space for the pumped crude it currently has. Such low oil prices could put a lot of pressure on the money bags of Kenya in the short-term. Fourthly, the status of road infrastructure in Kenya, and the whole of Africa, is quite important. CAS has frequently reported on the need for this. Fifthly, Kenya’s bilateral agreement with Uganda, alluded to in the first point above, now gains new meaning. CAS has reported earlier on this agreement that included cheap sugar imports to Kenya from Uganda while Kenyan farmers could supply in Kenya’s needs, and the export of beef from Kenya to Uganda while Kenyan farmers could not supply in Kenya’s needs. It seems now that these arrangements would be sweeteners for the Uganda-Kenya pipeline to become a reality. Lastly, Kenya must guard against going the same route as Nigeria and Angola and refrain from depending on oil exports. They must develop a beneficiation strategy and ensure that as much value as possible is created in Kenya. Learn from what had happened in Nigeria and how they are currently doing their utmost to diversify the Nigerian economy away from crude oil exports. Like Otto von Bismarck, the Prussian chancellor of the mid-19th century, said, “Fools learn from their own experience; I prefer to learn from the experience of others!”

- **Burundi:** After President Pierre Nkurunziza forced through his third term as president, which is against the Burundi constitution, a lot of violence erupted in the country. The nature thereof elicited responses from both the UN and the AU. The latter was ready to provide a 5000 strong peace-keeping force. Nkurunziza responded by stating that should the AU force enter Burundi, it would be seen as an invasion and it would be attacked. The AU is now preparing for negotiations with the Burundi government after 15 January when the Burundi minister involved returns from leave in Belgium. Three main areas have been identified by the AU: Protection of civilians, where the police can have a more relevant role; assisting Burundi in the protection of vital installations in the country, which have been attacked on and off by opposition elements; and the disarmament process which the Burundian authorities are engaged with and where the African Union deployment could be extremely helpful. The AU has also been clear that it is not an occupation force, but a stabilisation force with the objective to protect people and respond to rumours about weapons, rebels, etc. For more information, read here.

- *CAS View:* Nkurunziza's bid for a third term started this violent opposition and has destabilised not only the country, but also the region. President Kagame of Rwanda has stated that should Tutsi's be attacked, he would not hesitate to get involved against the Burundi government. These actions are typical of what characterised Africa of yester year, and one would hate to see these phenomena becoming common place again. Africa does not need to have these turf battles warping its image in the world of investors. It does not need these battles when its people are suffering from droughts and famine. It does not need these battles when its people are migrating in millions to Europe because there is no future for them in Africa. What it does need is for its leaders to step up and be the leaders their countries need them to be, to give direction and hope, and to develop the economies that would enable their people to live meaningful lives with dignity and aspiration. The AU should ensure that peace is restored and not take no for an answer. CAS is somewhat bewildered that a minister is on leave in Belgium when his country is embroiled in civil unrest! But then, it could be seen as a stalling tactic to show the AU that Burundi will dictate the nature and pace of the talks. Still, exhibiting this kind of showmanship when your country is burning is totally unacceptable.

West Africa

- **Nigeria:** Christine Lagarde, MD of the IMF, visited Nigeria from 4-7 Jan. She remarked upon the following: Nigeria's economy is well diversified, no longer dominated by agriculture & oil, with services accounting for almost half of GDP, including a significant film industry and innovative startups from fashion to software development. Nigeria has grown at 6.8% p.a. for a decade. In 2015, growth is expected to slow to about 3.25%, with a slight recovery in 2016. Maintaining economic progress and moving towards inclusive and sustainable growth was important. Poverty, inequality, and unemployment levels remain too high. Falling oil prices, reduced emerging market demand, and tightening global financial conditions had to be dealt with. Policy recommendations to improve the competitiveness of Nigeria's economy were discussed, including focusing on infrastructure (especially power, transportation, and housing). The revenue base had to be broadened and careful decisions on borrowing, public spending, and managing fuel subsidies were required. This will require business friendly monetary policy, flexible exchange rate policy, and disciplined fiscal policy, and the implementation of structural reforms. Transparency and the rule of law will be crucial in reducing constraints to Nigeria's growth. For more information, read here.

- *CAS View:* Lagarde's views and the topics of discussion were to be expected for any student of the situation in Nigeria, and can be seen as a textbook prescription for the ills that beset Nigeria. The current oil price at below US$33 is, however, already putting Nigeria's 2016 budget under pressure as it was working on an oil price of US$38. This places greater emphasis on the need to diversify the Nigerian economy away from oil! Buhari's budget does provide for this in all fairness. His revenue base is still bound to be under pressure, given the low oil price base. The question is obviously for how long we could expect such low oil prices. Reports have been noted stating that the world is running out of storage space for the oil being produced. This does not bode well for the short-term oil price. Buhari's actions to implement the rule of law and bring a stop to corruption was also quite timely, as was the curtailing of unnecessary foreign exchange expenditures. Nigeria should have implemented these actions 2 decades ago. Dealing with the issues of poverty, inequality and unemployment will become more problematic with Nigeria's revenue base under pressure. Given the above, now is probably a good time to invest in Nigeria, as bargains were bound to be plentiful (for those brave enough to target Nigeria and dealing with a currency that is also under pressure), with Nigerians eager to receive foreign investments to help grow the economy. The industrialisation and diversification of the Nigerian economy (and all of Africa's economies for that matter) is no longer a nice to have, but has become an urgent necessity!

- **Ghana:** The agricultural sector is the mainstay of the economy of Ghana and employs over 40% of working Ghanaians. However, the sector has been starved by various governments of the attention it deserves in order to ensure increased and consistent growth. The low growth of the sector has been attributed to government's inability to implement programmes planned for the year 2015. The sector minister explained that the projected slow growth in the sector in 2015 has largely been due to weather conditions and the budgetary situation had not been dramatically decreased. Ms. Clara Osei-Boateng, Director of Policy Advocacy Programme at SEND-GHANA, stated that if Ghana still relied on the weather in order to boost growth, it was an indication that the country had done very little as far as agriculture is concerned. She expressed concern that government allocated money to the Agriculture Sector, but that less than half of that amount was released. She said in 2014 there was no fertilizer subsidy. However, in 2015 government brought the programme back, but then it delivered half of what it committed to do. For more information, read here.

- *CAS View:* Agriculture is one of the top priorities of the African Development Bank's president, Akinwumi Adesina. Although Africa has the ability to feed the world, it cannot feed itself. We see droughts causing famine, and we see a lack of foresight and a lack of utilising technology to develop agricultural practices to reduce the negative impact of droughts. Although it cannot be denied that weather patterns are currently causing havoc in agriculture (food scarcity in countries such as Ethiopia and South Africa), it is so that drought-resistant crops and water-saving practices are not new. Ms Osei- Boateng is therefore correct on questioning the validity of the minister's response to blame the weather for the lack of growth. It cannot be overemphasized that the agriculture sector, with its important role of feeding and employing Africa's people, must be grown and industrialised. It must be done in such a way to enhance the job-creating aspects thereof. We frequently see production facilities in agriculture move abroad due to the instability in Africa. This must stop. The onus, however, is on Africa to ensure that it makes commercial sense to remain in Africa. Importing food when you can feed the world does not make sense!

Southern Africa

- **South Africa:** South Africa Minister of Trade and Industry Rob Davies announced that negotiations between SA and the US over health issues related to meat imports were concluded on Wednesday, which should ensure SA remains a part of AGOA. This means that the South African market is now open for 65 000 tons of US poultry imports. John Purchase, CEO of Agbiz, which represents about 80 companies and associations involved in various agro-food value chains, welcomed the deal which now paves the way for SA to remain in AGOA. For Michael Jordaan, chair of Wines of South Africa (WOSA), the AGOA deal is great news. "Ideally we would like to trade freely within Africa, but also with Europe and China," said Jordaan. With the rand breaching R16 to the dollar this is an opportunity for all export oriented industries to consider how they can grow in the US market. The Western Cape trade promotion agency Wesgro also welcomed the retention of AGOA benefits for Western Cape farm products and hopes that the strong growth in agricultural exports out of the Western Cape made possible under AGOA will continue. South African Poultry Association CEO Kevin Lovell told Fin24 that with its decision the government has put animal and human health at risk. For more information, read here.

- *CAS View:* Having followed this AGOA saga the past few weeks, one at times got the impression SA was playing chicken (no pun intended) with the USA on health-related issues on chicken imports. It is bad that this whole issue was allowed to drag on until such a late stage, because should the USA have kicked SA out of AGOA, it would have had quite a negative impact on the South African economy, more so now that the US$ is trading at close to R16! Given the size of agricultural exports to the USA, the cancellation of the AGOA benefits for SA would have hurt the agricultural sector severely. The wine industry in the Western Cape for one seems to be quite relieved, as the USA is currently the most valuable wine market in the world. It is not totally clear what the real problem was as the USA is exporting the same chicken to more than 100 countries in the rest of the world. It is difficult to believe that only SA has the correct health protocols in place. But, as the saying goes, all’s well that ends well.