Friday@Noon

A weekly African news briefing for the Southeast Asian community

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African Union

- **Africa:** In spite of the challenges facing Africa, there are 10 scenarios that the APP sees unfolding in 2016 for Africa: **1. Climate gains** 2016 will see Africa making advances in low-carbon energy while defending its right to exploit fossil fuels. **2. Private sector momentum** The private sector will emerge as a critical catalyst for achieving global climate targets. **3. Energy transformations** 2016 will see greater global and regional political engagement on Africa's energy access. **4. Building the new multilateralism**Africa is receiving the global attention it deserves at top-level international meetings on financing for development, new global development goals and climate change. **5. Falling commodity prices will drive diversification** and cut fuel subsidies that have exacerbated inequality. **6. Africa's green and blue revolutions** Falling commodity prices will transform into a story about Africa's economic diversification that will focus on agriculture and fisheries. **7. Africa and the Fourth Industrial Revolution** Significant investments will be made in new technologies led by the private sector and supported by the international community. **8. Financing forward 2016** will see significant investments as big finance moves to tap the potential of the 80% of citizens who are excluded from the financial system, using mobile technology. **9. Managing migration** African leaders will begin to tackle the underlying forces driving this trend. **10. Global in-fluence** Africa's dynamism, voice and presence will increase across international arenas. For more information, read here.

- *CAS View:* Africa has already started to perform on a number of the above scenarios. Solar energy plants have been developed in a number of countries, where Morocco has registered the latest large scale plant. Not only is the private sector drawn in by a number of countries, such as South Africa where President Zuma just last week had a number of discussions as how to avoid a ratings downgrade, but did we also see the creation of a Conti-nental Business Network (CBN), a group of private sector experts and chief executives brought together to advise Africa's governments on the Programme for Infrastructure Development in Africa (PIDA). There is also a clear understanding amongst Africa's governments about the need to diversify their economies. In announcing Nigeria's budget, President Buhari was clear about this point. We also see clear signs of the embracing of the tenets of the 4th Industrial Revolution, by amongst others, Kenya and Ethiopia. In the case of latter, we see R&D in the field of robotics. CAS has also written about the use of M-Pesa to increase the levels of financial inclusivity in Kenya, amongst others. And we also see Africa understanding it needs to work on creating the conditions to keep their populations from migrating to Europe at a large scale. Africa also understands that it needs to industrialise its agri industry to keep high levels of employment, yet increase the production of food. None of these 10 scenarios are therefore new. However, they are all relevant for the years that lie ahead and Africa has no other choice but to deliver on them. We are also seeing a greater degree towards economic integration, both at a regional level, such as in the EAC who is striving towards monetary unity, but also at a continental level where we will be seeing steps towards the ratification of the TFTA.

- **Africa:** In SSA, the region with the highest prevalence of undernourishment (25% of population), between 30% to 40% of food produced is lost or wasted. There are two key issues responsible. "**Consumer-driven food waste**" relates to consumer preferences, use by dates, and aesthetic standards. The problem is increasing in Africa because of the growing middle class and changing consumer habits. "**Post-harvest loss**" is food that is lost between harvest to market due to inefficiencies such as inappropriate harvest techniques, inappropriate handling, inadequate storage facilities and loss due to poor roads. In Kenya, the aggregated loss of mangoes between the farm to the market is about 45%. In Africa, 50% of fruits and vegetables, 40% of roots and tubers, and 20% of cereals are lost in the postharvest stage. On average, post-harvest loss can cost up to 15% of farmer income and affects over 470 million small-holder farmers in SSA. The initiative will work with partners to address post-harvest

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loss in the mango (in Kenya), tomato (in Nigeria), cassava (in Nigeria) and maize (in Tanzania) value chains. Solutions include guaranteeing farmers steady access to new local and global markets, helping farmers access technologies and solutions to curb preventable loss. At a higher level, the foundation is engaging with big players such as governments and big companies. For more information, read here.

- *CAS View:* Educating both consumers and farmers will be crucial to curtail food waste in a continent that definitely cannot afford such a luxury. As it is, food security in Africa is a big problem. One of the priorities of the president of the AfDB is about feeding Africa. The reality is that these losses are all preventable, which makes it tragic. The loss of income for the 470 million small-holder farmers is equally lamentable. Solving the problem will make an immense contribution towards improving the conditions of the poor and the small-holder farmers, and as such deserves the support of all the governments of Africa.

- **Africa:** President of the AfDB, Akinwumi Adesina stated that despite the decline in the price of oil, mineral and agricultural commodities, Africa is still the best place to invest. Nonetheless, it is facing challenges related to financing its development. Several African countries issued Eurobonds between 2006 and 2014 worth $26 billion; they now have the challenge of meeting the rising cost of financing in repaying the foreign denominated debt, or taking on a new one. Remittances to Africa have risen from $11 billion (2000) to over $62 billion (2014). Sovereign wealth fund assets under management have grown from $114 billion (2009) to $162 billion (2014); pension funds stand at $334 billion, and the continent generates $500 billion in domestic taxes. Africa must mobilise all these domestic resources to accelerate its development – that way it can decide its own direction and pace of growth. Adesina also highlighted the “High 5s for Africa”: 1. Light Up and Power Africa; 2. Feed Africa; 3. Industrialise Africa; 4. Integrate Africa; and 5. Quality of Life for Africa. For more information, read here.

- *CAS View:* This is not the first time Adesina has spoken about his 5 priorities for Africa. As a matter of fact, he has been consistent about them since his appointment as president of the AfDB. The evidence of what is available in Africa is also not new. Africa, however, must keep on reiterating these facts so that the world at large can take notice of the opportunities Africa does present, in spite of the doomsayers out there. CAS does not dispute that Africa has problems it needs to deal with. For too long it rode on the back of a high oil price and high commodity prices, without diversifying its economies and building a manufacturing sector. For the rest of the world, this failure in itself presents opportunities for good investments. They should take their lead from the “High 5s for Africa” – it will lead to high returns in the process of meeting Africa’s needs.

- **Africa:** African banks have been late to the fintech party, but after large parts of the population started to get financial services from telcos (Safaricom’s M-Pesa in Kenya), banks are increasingly seeing Africa as a testing ground for new financial technologies like bitcoin and the blockchain. The banking sector in Africa is going to be disrupted faster than anywhere else in the world. Bitcoin and blockchain is a trustless method of operating. You don’t need third parties like banks operating as trust brokers anymore. It’s all built into the code. Blockchain will leapfrog a lot of the financial infrastructure that exists today, and could be the most significant social and political innovation to impact Africa in 100 years. A digital economy based on blockchain and bitcoin could hold African leaders to a new level of accountability. Bitcoin itself has no counterparty risk, making it especially appealing in Africa. On a continent with 54 countries, using bitcoin as the interoperable system currency to convert between currencies could make cross-border trade infinitely easier. For more information, read here.

- *CAS View:* CAS published an article last year on the impact and importance of M-Pesa. It also showed upon the danger of disintermediation for African banks should the trend strengthen, which it has. However, banks have responded by either partnering with M-Pesa, or developing their own software. What has also become clear, is that Bitcoin (and Blockchain) has the potential to create even more disruption. Alec Ross, in his book "The Industries of the Future", has identified mobile money and bitcoin, including blockchain, as one of these industries in that it will become more prevalent. Contrary to popular believe, there are no secrets in the bitcoin world, as the "ledger" registering ownership is publically available and governments and regulators (tax authorities) can keep track of who owns what. However, at their current level of development, there are still instances of fraud. Given the nature of the technology, it is impossible to identify who had stolen your bitcoin from the ledger. So, although the technology does indeed have the potential to severely disrupt the banking sector, it will probably be a while before it is used on a large scale in Africa. Trust amongst consumers will still be an issue for the foreseeable future, as will the general level of technology.

East Africa

- **Kenya:** Kenya led the East African region in infrastructure deals struck in 2015. It accounted for 20 of the regions 61 big-ticket projects, followed by Ethiopia with 12 projects. Growth in shopping malls, commercial office development and the ongoing rail project are the biggest areas with the large construction works. The burgeoning middle class, coupled with the promise of high yields, also whet investors' appetite for retail, entertainment and lifestyle facilities in Kenya and Tanzania, resulting in investment in modern office parks and hotel space. Rapid urbanisation and influx of an expanding middle class continues to drive the need for infrastructural reform, expansion and upgrading. Heavy consumer spending in Kenya has been linked to the rapid development of shopping malls in Kenya. Collectively the East African region accounted for USD57.5 billion worth of infrastructure projects. For more information, read here.

- *CAS View:* Africa needs infrastructure development to the tune of US$90 billion per annum for the next 30 years. According to the International Energy Agency, Africa requires an additional $450 billion in power sector investment to halve blackouts and achieve electricity access for all in urban areas by 2040. Above we see infrastructure development to accommodate the urbanising population and growing middle class. Malls, office space, urban development projects are all projects that spell out good news for construction companies in Africa. What Africa should guard against is the haphazard growth and development of its cities. A proper masterplan that is updated regularly is essential to avoid some of the urban "disasters" one can find in Africa. This is where entities such as Surbana Jurong have much to offer Africa. One form of infrastructure development CAS would like to see much more of, is the development of Waste-to-Energy plants. Cambridge Industries is building one such plant in Addis Ababa, Ethiopia. There are few, if any, other such plants being built in Africa, in spite of stated intentions, and in spite of a massive need for such plants to help do away with solid waste (and avoiding landfill sites) and generate additional electricity capacity, whilst developing more jobs!

Southern Africa

- **South Africa:** The latest performance figures for the industry confirm that South African PE funds continue to enjoy double-digit rand-based returns. A significant portion of capital raised by PE fund managers in Southern Africa, originates from foreign investors. 2015 was a "very active year" for fundraising by local PE fund managers. Currency considerations will likely render fundraising more challenging in the next year or two. There is lively interest in PE across sub-Saharan Africa, with many investors viewing various African markets as an attractive source of returns. It is critical for the Southern African PE industry that new local investors be brought into PE and VC. A particular focus will be to market the asset class to pension funds in South Africa and other African jurisdictions. The Southern African PE industry has seen a number of exits over the past year, as mature portfolios reach the end of life and prepare to return capital to investors. These asset realisations have supported the positive returns performance from the industry. South African PE delivered a ten-year IRR of 20.7% in the period ending September 2015. This compared with the 14.9% yielded by the JSE All Share Total Return Index over the same period. For more information, read here.

- *CAS View:* CAS has previously shown upon the dire need for capital in Africa. Less than 1% of registered companies are listed on a stock exchange in Africa. In addition, only 1% of the world's PE (US$3.8 trillion) goes to Africa. This is in spite of the dire need for capital, as well as the excellent returns for investors. However, Africa (including South Africa) needs to do its homework to put the minds of investors at rest, by creating the circumstances that will increase PE and VC investment, such as political stability and doing away with corruption. In some countries this is becoming a reality, but there are still too many that are not attractive destinations in this regard. In addition, unfortunately, all too frequently investors see Africa as a homogenous entity, without taking into consideration that there are actually 54 countries, each one unique in its own right. A colleague taught in Belgium during the Arab Spring in 2011. Before his return to South Africa, the students asked him whether he was afraid. When he asked as to the reason, he was referred to the unrest in North Africa! The irony was that they were far closer to the unrest than South Africa. On a financial level, the stats above clearly show that the returns in the PE industry in South Africa are not to be sneezed at!

- **South Africa:** Poor infrastructure, water scarcity, a lack of skills in the Karoo, and public concerns regarding the potential environmental impact of shale gas operations are hampering development in the unconventional gas sector in SA. While SA has significant potential for shale gas development (8th biggest reserves of shale gas in the world), and despite the local need for new energy supplies, little progress has been made in exploiting these resources. SA should plan infrastructure and ensure water management is taken into account, build local expertise and provide financial incentives such as tax incentives. Eskom officials estimate that shale gas from the Karoo could be produced and directly absorbed by existing electricity networks up to 1 to 2 GW, with no need for pipelines. A clearer stance on tax incentives and subsidies, and ownership of mineral rights should be taken and formalised to attract potential partners and foreign investment. The largest hurdles for the Karoo will be infrastructure development and water availability. Shale gas could drive the development of road, pipeline, water management, and municipal infrastructure that could improve the services available to communities and build goodwill with the industry. For more information, read here.

- *CAS View:* The proposed development of shale gas operations in the Karoo has elicited quite an emotional response in SA. A lot of this is based on the negative ecological impact found in reports on similar operations in the USA and elsewhere in the world. As it is, the Karoo is semi-desert, or very dry at the best of times. Water is therefore in short supply, and should shale gas operations negatively impact the underground water reserves, it indeed will have severe negative consequences. Having said that, it does seem that with the proper planning and risk management, procedures and policies could be put in place to mitigate these risks. The benefits of exploiting these gas reserves, especially for the development of infrastructure at local government level, as well as for job creation, are obvious as well. The need for a clear policy framework is also explicitly pointed out by the report. The project would increase FDI flow into SA, something SA needs a lot. The overall economic growth rate could be positively impacted, and it might even contribute towards staving off a possible downgrading of the country's credit rating, given the need for economic growth. However, whether the environmentalists would be pleased with any exploitation of gas reserves in the Karoo, remains to be seen.