Friday@Noon

A weekly African news briefing for the Southeast Asian community

Editor: Johan Burger

NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE | NTU-SBF Centre for African Studies Nanyang Business School

Issue 50 03 June 2016

African Union

- **Africa:** Standard Chartered is to launch its mobile and online banking platform in 8 African countries, as it seeks to grow in Africa at a time when some European banks are retreating. StanChart is compelled to do this as Africa's populations are moving quickly to embrace mobile banking and local banks have made material investments on the digital side. The bank's strategy stands in contrast to European rivals who have beat a rapid retreat from Africa in recent years, stung by plunging commodities prices and weaknesses in African currencies. The tough environment in Africa has seen bank stocks in Africa plunge and lenders in countries such as Kenya and Zambia fail. StanChart is nonetheless expanding its physical presence in the region, adding 10 branches in Lagos as part of a strategy to focus on Africa's capitals and top-tier cities. Former Barclays CEO Bob Diamond is also optimistic about the region and is bidding on his former employer's African unit. StanChart advocates looking beyond Africa's short term economic woes as they felt there were attractive long-term growth opportunities for Africa. For more information, read here.

- *CAS View:* Africa's banking scene does present an interesting environment. Kenya has had 3 banks the past year or so that have gone belly-up. This, it seems, can be attributed to poor governance. Barclays is seriously looking for a buyer for its Africa subsidiary. The news that StandChart is looking at investing under the same circumstances that have caused others to withdraw from Africa, is very welcome in Africa. They do acknowledge the short-term woes of Africa, but rightfully point out the attractive longterm growth opportunities presented by the continent. This is true not only for the banking industry, but for quite a number of others as well, ranging from opportunities for SME's and even individual entrepreneurs, to large-scale corporations. There are bound to be first-mover opportunities, as Africa likes its brands and are brand loyal. Those that are scared off by short-term problems might find it very difficult to re-enter.

- **Africa:** Africa is the largest and most diverse source of natural wealth in the world. As commodity prices have crashed, Africa has an opportunity to unleash the potential of agricultural entrepreneurs to create and scale new home-grown businesses, spreading prosperity across millions throughout Africa. With 60% of the world's uncultivated arable land, agriculture is the most significant source of potential long term wealth creation. Global demand for Africa's fertile land is creating both new opportunities as well as new challenges for the African people. The immediate priority with respect to African agriculture is the need to dramatically improve productivity. While the establishment of large-scale, foreign-owned farming operations will undoubtedly bring new technologies and techniques to African agriculture, resulting in higher productivity, most of the harvest will be exported for processing and consumption outside of Africa, which not only does little for the food security of Africans, but also generates limited employment along with other related benefits to local African economies. In order for Africa to achieve both food security and economic prosperity, the millions of Africans currently engaged in subsistence and small-scale farming must be provided with the tools, training and inspiration to leverage their experience into scalable agriculture businesses. For more information, read here.

- *CAS View:* Feeding Africa and developing food security on the one hand, and using agriculture to provide jobs and stimulate entrepreneurship on the other hand, seems to a prominent theme amongst the business and political leaders of Africa. CAS has frequently referred to the importance leaders such as former Nigerian president Obasanjo and the current president of the African Development Bank have placed on the industrialisation of agriculture. The have both emphasized the importance of not shedding jobs during the process of industrialising agriculture. In addition, the governments of countries such as Tanzania, Ethiopia and Rwanda are actively encouraging their people, especially the women and the youth, to engage in entrepreneurial businesses such as fish farming, bee farming, and silk production, to name but a few. Africa must diversify its economies away from mining and oil production. Africa must look towards providing meaningful jobs to its youth. Africa must look at developing food security. Tony Elumelu's thoughts will hopefully stimulate debate and get governments to actively pursue the industrialisation of the agricultural value chain.

- **Africa:** With most African countries diversifying from traditional sources of income, entrepreneurship is increasingly seen as a key to economic growth and experts say there is great untapped potential to drive Africa into its next phase of development. Entrepreneurship is seen as one of the most sustainable job-generation tools in Africa. African youth constitute about 37% of the working-age population. Many African governments have not been keen on developing policies to deal with youth unemployment. Spokesmen from Kenya and Uganda, however, have defended their support and approach to entrepreneurs. Uganda, for example, has remodelled its education system to include entrepreneurship as one of the subjects in secondary schools and colleges, and has established ICT innovation hubs that help entrepreneurs to launch start-ups. In Cameroon, the country's poverty-alleviation strategy is linked to entrepreneurship. The government is organising skills-acquisition and training programmes for entrepreneurs, and making credit facilities easily accessible to people with innovative technological and business ideas. Challenges that impede progress, include lack of funds, mentorship, and poor government policies. African governments should provide incentives to create more jobs through tax relief. Laws and regulations should favour entrepreneurs, and effective strategies and policies are required to create more employment within small and medium enterprises. For more information, read here.

- *CAS View:* Entrepreneurs will indeed be a very important class of players in the strategy of addressing the economies of Africa. They will help to address jobs and stimulate economic growth. They will also be the vanguard of diversifying the economies away from commodities. However, one will at times find that in spite of governments communicating about support for entrepreneurs, entrepreneurs in Africa frequently have to fend for themselves. Having said that, in addition to the examples of Uganda, Kenya and Cameroon above, the governments in Tanzania, Ethiopia and Rwanda have recently also been in the news in the efforts to grow and support entrepreneurs. The reality is that Africa has no other option but to stimulate entrepreneurs to help grow their economies and help create jobs. CAS has recently shared an article on its Facebook page about a young man, Sirjeff Dennis, developing his poultry business. We also referred to Lufefe Nomjana from Espinaca Innovations. These two young men have not only created an economic future for themselves, but also jobs for others. Both have done so without meaningful support from their governments. To scale their experience, however, government support will be a necessity.

East Africa

- **Ethiopia:** Local assembly plants in Ethiopia's fledgling auto industry plan to begin exporting cars in a couple of years in a market dominated by Chinese brands — part of an effort to industrialize the agrarian economy. Ethiopia has previously delivered on ambitious goals. Ethiopia has pulled off the Grand Ethiopian dam and others that helped make it an electricity exporter. The successful Ethiopian Airlines is the largest and fastest growing African airline. This year, a railway will link Ethiopia to Djibouti, providing a cheap and fast way to import raw materials and export finished goods. According to State Minister for Industry Tadesse Haile, the aim is to become a leading manufacturing hub in Africa. They want to become the top producer of cars on the continent in 15 or 20 years. Ethiopia currently produces about 8,000 commercial and other vehicles a year for the local market, including about 2,000 cars, but they could make more if they could get more foreign exchange to import more kits. Ethiopia has to compete with South Africa, which makes 600,000-plus fully manufactured vehicles, and Morocco, which makes 200,000. Egypt, Kenya and Sudan also assemble vehicles. Ethiopia faces challenges such as getting enough dollars to import kits and uncertainty regarding quality. For more information, read here.

- *CAS View:* Here we again find a country that is providing strong government direction to grow the economy, with perhaps a weaker focus on democratic and even human rights. Without expressing an opinion on the merits thereof, it is clear that the economy of Ethiopia is moving strongly in the right direction. Dr Arkebe Oqubay, author of "Made in Africa" and minister of state, has been the mastermind of Ethiopia's drive to transform Ethiopia's economy from an agrarian economy into one with strong manufacturing elements. The latest news of wanting to become an exporter of cars is not unexpected, as one wonders what Ethiopia will come up with next. Africa per se is looking towards getting more selfsufficient as far as cars are concerned. CAS has previously reported that in addition to the countries mentioned in the above article, Ghana and Nigeria are also looking at developing their own fledgling motor industries. The benefits are obvious, i.e. import substitution, saving foreign currency reserves, providing jobs, growing the economy, developing a growing middle class, providing for an expansion both up-stream and downstream of the actual manufacturing value chain, etc. Also, in addition to the projects mentioned in the article, Ethiopia is also building a Waste to Energy plant in Addis Ababa. While it is a very small project in comparison to some of the projects mentioned, there are plans to expand this project throughout a number of large cities in Africa. These are all signs of a mindset prevalent in Ethiopia that is good for the country and the continent economically. Ethiopia is also stimulating the development of entrepreneurs by encouraging and sup-porting women and the youth to take on projects such as growing fish, and farming with bees and silk. More countries in Africa, some of them even quite developed, should learn a few lessons from Ethiopia in this regard.

West Africa

- **Nigeria:** Muhammadu Buhari become Nigeria's president one year ago under a flurry of promises, including end-ing a reign of terror by Boko Haram in the north, stabilizing the economy, ending corruption and creating jobs for the youth. An opinion poll showed the Nigerian president got an approval rating of 64%. However, only 14% said he has created jobs, while only 21% said he had handled economic matters well. Compared to one year ago, 44% of Nigerians believe the country is currently moving in the right direction, while 37% believe it's moving in the wrong direction. Nigerians rated the president's performance on corruption at 55%, national security, 47%, while he was rated very poorly on job creation, 14%, and handling of the economy, 21%. Buhari's anti-corruption crusade has also characterized his first year in office. A number of high profile officials from the previous govern-ment have already been charged with corruption. Buhari's record with the economy is what is worrying investors most. For more information, read here.

- *CAS View:* I have openly been a supporter of Buhari's strategic approach as far as his external strategy was concerned. Drawing up a balance sheet of Buhari's presidency, will reveal a couple of assets and a number of liabilities. The assets would include his foreign policy activities, where he fixed ties with the USA, his neighbours, France, Franco-phone Africa, South Africa and China. Traditionally, Nigeria had a strong stance towards the West. Buhari was not averse to developing stronger ties with China. Other assets include his actions to put an end to corruption, even though some would say that amongst the people surrounding him there are still those who are seen and known to be corrupt. His actions at curtailing the activities of Boko Haram should also earn him a pat on the back, even though this terror group has not yet been destroyed. Lastly, his progress or intention to diversify the economy of Nigeria to make it less dependent on oil, also should be applauded. However, it does seem that the lack of meaningful progress in the economic field is a liability that undoes a lot of the good he has done in other fields. Job creation is problematic. The weakness of the naira and his unwillingness to devalue the naira is also causing a lot of negativity, as it is hurting the economy. His ban list is not well received either. Overall, it does seem that his liabilities in the field of economics have created a deficit on his balance sheet. He did, in his defence, inherit a fiscus that was empty at the same time the oil price went tumbling down. However, his economic stance is not gaining him friends! Maybe he should listen to the economists. Earlier this week it was reported that the Nigerian Central Bank would have more flexibility in managing the naira. Is this a case of too little too late? And what does flexibility mean? Will the Central Bank be allowed to announce a meaningful devaluation of the naira? I don't think so. Only time will tell. And in all fairness, he does have 4 years to fulfil his election promises.

Southern Africa

- **South Africa:** South Africa will hear on 3 June 2016 whether S&P will downgrade it to junk bond status. According to Dr. Martyn Davies, the real question is how the SA economy has to be restructured and repositioned for long term, competitive, productive gains to address the structural crisis in South Africa. The high growth global economy had masked the structural problems the SA economy was facing. These have now been exposed and the slow global economy is complicating SA's problems. According to Davies, those countries that successfully deal with the problems of corruption, conflict and ideology, will prosper. This requires leadership and taking on vested interests, cutting out rent-seekers, privatizing moribund parastatals and labour reforms. Political commentator Justice Malala said that the current political environment was complicating South Africa's efforts to prevent a credit downgrade, such as the obvious pressure that Minister Gordhan is under and the toxic politics that was putting a lot of pressure on both Treasury and the Reserve Bank. The Constitutional Court judgement that President Zuma had to pay for the upgrades at Nkandla said something about the state of SA institutions. If the institutions work, then South Africa is almost on the right track. For more information, read here.

- *CAS View:* SA has gone through somewhat of a crisis since December 2015 when President Zuma thought it good to fire the previous Minister of Finance and replace him with an unknown backbencher. This set the Rand into a freefall, wiping off billions of Rands of value on the stock exchange and pension funds. The past year or 2 has created an impression that the SA government had been hijacked by the Gupta family. All of this, together with a very sluggish economy, created an environment in which the ratings agencies were said to be inclined to downgrade the SA economy to junk status. This would have disastrous consequences for South Africa. If S&P downgrades, SA would lose its foreign-currency investment grade rating. The rand would weaken, bond yields would rise and SA's debt servicing costs would increase. The re-appointment of Pravin Gordhan as Minister of Finance did a lot to calm the stormy waters SA's economy found itself in. It would be interesting to see what the impact of such a downgrade would be on the political career of President Zuma. Should the downgrade not take place, we would never know, as it does seem that the rank and file of the ANC has united behind their president, in spite of quite a number speaking out against him. South Africa is holding its breath in anticipation of the decision by S&P!

- **South Africa:** South African wine exports were up 5% in 2015, and the industry is predicting more growth in 2016. South Africa's wine industry is enjoying one of its most exciting phases in history, said Roland Peens, director of wine retailer Winecellar.co.za. Wine exports have increased 20% over 4 years. South Africa is the 7th largest wine producer in the world. Annual wine production in South Africa for 12 months to June 2015 was 959 million liters, with 423 million liters sold for export and 395 million liters sold domestically. China in particular has become the promised land for South African winemakers. South Africa's wine quality has increased dramatically over the last 5 years. Winery costs have risen, but the battered rand has pushed many struggling wineries into a profitable position. South African wine now offers great value in export markets. Peens makes the following predictions: 1) South African wine will get more expensive. 2) Increased quality and higher prices will segment the market. 3) Vintage wines will grow as an investment market. 4) Water will become more important. Today's leading wineries have massive potential for investment gains. In rand terms, these wines are too cheap compared to their international counterparts. Wine growers with consistently poor yields and low prices may be forced to consider other farming options. For more information, read here.

- *CAS View:* SA wine farmers mostly do not hedge against currency fluctuations. It seems they believe that a strong Rand will be followed by a weak Rand, and that what you lose on the swing, you will win on the roundabout. A weak Rand is a gift to the SA wine industry. They are therefore currently living in paradise. This has probably helped quite a number of the struggling wineries to stay in business. Of course there are those wineries that do well due to excellent management skills and great business models. It is interesting to note that the successful wineries do not necessarily follow one specific business model. Kanonkop, for example, have a business model that focuses on producing and selling higher-end wine. They flourish. Backsberg, on the other hand, in spite of selling good wine, also does well given that they follow a platform business model where their planks consist of wine, blueberry fruit production, blueberry nursery, restaurant, events/concerts, and probably renting out cottages in the not too far distant future. That SA's wines are underrated abroad is quite true. They are therefore selling at below their fair value. Two years ago it was stated that the average returns in the SA wine industry was a paltry 2%. It does seem a bit on the low side, and probably leads to the conclusion that wine farmers are in the lifestyle business! It is also probably true that there are too many wineries in South Africa, and that a shake-up is imminent. The weak Rand is only prolonging the agony for some of them, and is postponing the inevitable.