Friday@Noon

A weekly African news briefing for the Southeast Asian community

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African Union

- **Africa:** Shoprite group chairman Christo Wiese believes there is much to get excited about in the rest of Africa despite the negative perceptions. Africa's total GDP is around $3 trillion, and it's home to 60% of the world's uncultivated arable land. It's enormously rich in natural resources. Its population of 1.2 billion is expected to grow to 4 billion by 2100. Can anyone therefore ignore Africa? Africa's in transition; it's still moving towards creating a business environment that is taken for granted in many other parts of the world. Over the years, enormous changes have occurred in the sophistication of consumers and attitude of governments to FDI, including a growing political maturity, increasing jobs and urbanisation driving consumption, and the uptake of technology causing rapid development. The TFTA is another development of great importance. Africa has to overcome obstacles such as the lack of adequate infrastructure in terms of rail, roads, harbours, and a lack of reliable and sustainable electricity supply. Challenges include red tape, bureaucracy, graft and corruption. Business must be willing to invest where they operate by growing the business and improving living standards in the community. Ultimately investors must be prepared to take a long term view. For more information, read here.

- *CAS View:* Wiese is one of a few business tycoons in Africa that are bullish about Africa and its future prospects. Another that is quite vocal, is Aliko Dangote from Nigeria. Africa has been good for Shoprite, as the article clearly shows. Yet for others, that has not been the case. An example is Tiger Brands. Lesson from this? Do your home-work. Understand the challenges you will be confronted with and put in place strategies to deal with them. Know that you will need to be in it for the long haul. A short-term orientation has not worked anywhere and will do so less in Africa. A point of importance that Wiese makes is the investment in the local community. Get the community on your side by engaging in a social license to operate. The reality is that Africa represents a massive growing middle class market on an urbanizing trend, with trillions of dollars in commodities. Who can ignore this market, is indeed a very good question!

- **Africa:** Building capacity in science, technology and innovation (STI), and R&D is critical for Africa to achieve the SDGs. One of the key conclusions from the 5th National Science Week in Kenya in May, is that Africa's capacity to compete in the global market depends on its people's ability to innovate and apply the relevant technology for growth and development. Africa is home to dynamic innovators and institutions poised to advance its research agenda and its future. However, the quantity of research output is worryingly low. Whereas Africa accounts for 15% of the global population, it produces only 2% of the world's research output. In order for Africa to achieve the SDGs, a knowledge-based economy needs to be established first. This requires a huge increase in investment on research. Most African countries invest less than 0.5% of their GDP on research. Local universities and higher learning institutions should think smart and start by encouraging students to take up technical courses in order to support local innovations. African governments should take action, prioritise, support and build capacity for local scientific research and innovation in order to shape the continent's R&D agenda. For more information, read here.

- *CAS View:* Michael Porter in on record for stating that the source of competitive advantage that is difficult to copy, and which has the most potential of being sustainable, is the human capital in an organisation. This goes for countries as well. In the end it is about the skills and competencies of your people. It is about their training and their education. It requires not only budget allocated by governments, but also skilled and competent teachers and lecturers. Unfortunately, many African countries do not rank well on the Global Competitiveness rankings of the WEF on the factors of education. Some countries spend a huge percentage of their GDP on education, yet still rank poorly on these rankings. Africa frequently face the challenge that its graduates leave schools and uni-versities and still require further training at corporates in order to be employable and useful. This should not be the case. In some of these countries, labour unions refuse to allow proper performance management of principals and teachers. This does tell a sad story. Africa cannot afford this. There are a significant number of institutions that do a sterling job. There are unfortunately far too many that do not! There are also too many students being trained in the humanities and not enough in the sciences and maths. The question that goes begging, is how can the world help Africa to help itself in this regard?

- **Africa:** The UK's possible exit from the EU could mean more direct trade for Africans, better incentives for African farmers, and renegotiated economic agreements for African trading blocs. James Cleverly, a pro-Brexit Tory MP says EU policy in Africa is "morally repugnant." "The EU's tariff regime disincentivises exactly the kind of investment that Africa needs to lift itself out of poverty and aid dependency." Both sides (leave and remain) agree on the short-term consequences of Britain leaving the EU — a weaker Sterling, housing prices dropping 20%, and a tighter job market. The UK would cease to be party to any of the EU's trade agreements. This could require a renegotiation of the recently signed EU-Southern African Development Community (SADC) Economic Partnership Agreement. Brexit will help Africa have a stronger relationship with the UK. The UK would be able to "deepen" its direct relations with African countries and other countries which play a significant role in Africa. On trade with Africa, the CAP (the EU subsidies system that critics say hurts farmers in developing countries) has distorted trade to the (detriment) of African countries. UK development aid channelled through the European Development Fund is allocated "a lot less efficiently" than British aid assigned directly to African countries. For more information, read here.

- *CAS View:* This article would have one believe that a Brexit would be to the benefit of Africa, as the UK would be more flexible in its relations with Africa. While some (if not most) of the arguments could be true, any move that would hurt the UK, would probably have a ripple effect and hurt the emerging country economies. Cleverly's arguments no doubt were aimed also at the 500 000 South Africans in the UK who are able to vote on Brexit, as well as all the others from Africa and of African heritage. By the time this Issue of Friday@Noon appears, the result of the referendum will be known. What will not be known is what the medium to long-term effects of the decision will be. Should Brexit happen, it would be safe to say it will definitely not be business as usual. Germany, France and the other member states cannot be seen to condone the UK's actions and allow the Brits to have their cake and eat it by putting in place bilaterals to replace the arrangements coming with EU membership. Should that be allowed to happen, what stops the next member to leave? A "leave" vote would probably force Cameron to resign, even though the referendum is a matter of politics and leaving will be a choice and not mandatory. The chancellor of the exchequer, George Osborne, has warned of a £30 bn hole should the UK leave. Economic growth will take a hit. There will be uncertainty in the relations between the UK and the EU, and politics and economics do not like uncertainty. And EU leaders have no doubt been busy developing plans to put in place should a Brexit happen. As they rightly should. It is not too far-fetched to factor in a worst case scenario of the destruction of the EU as we know it. As I finalise this newsletter, the "Leaves" and leading the "remains" with 51.8% of the vote against 48.2%, with 75.7% of the votes counted! The British pound is taking a beating, and is at a level against the dollar last seen in 1985! The world is waiting in anticipation!

- **Africa:** Martyn Davies of Deloitte Frontier Advisory is bullish on resource-poor developing countries, particularly those in Asia and East Africa, but he stresses that governmental reform is necessary for emerging markets to diversify and enter the next phase of development. "Resources confer no competitive advantage in an economy long-term." Rather, the key to success for emerging markets is to reform institutions to compete for talent and capital on a global scale. Diversification is not a policy, but a "people- driven initiative" about attracting skilled workers and intellectual property. "You want to ultimately become an economy that's not driven by resources, but one driven by ideas," Davies said. Davies sees barriers to human capital flow, like stringent visa requirements, as impediments to diversification in emerging markets. Africa's growth model needs to mirror the development of Asian economies after the 1997 financial crisis. Asian economies had to cut rent-seeking, attract talent and capital, and improve institutions to become more efficient. The takeaway for investors is to look for emerging markets with strong institutions for growth and avoid markets enjoying a temporary boost from high commodity prices. The latter are likely to suffer from Dutch disease, as resource development will render other sectors uncompetitive. Service sectors, including health care and education, are more promising candidates for long-term growth than resource extraction. For more information, read here.

- *CAS View:* The central tenets of this article on Davies' thoughts, complement those of the article on developing Africa's competencies in science, technology and innovation (STI) and R&D. It also complements the article on the suggestion that Tanzania should develop the knowledge base and practical skills of its people. Africa will not move into prosperity be concentrating on its commodities. It must concentrate on developing the skills base of its people. Foreign investors should bear this in mind when looking at investing in Africa. Foreign tertiary institutions should also look at how they can grow the skills base of Africans in the field of STI, instead of delivering education in fields that do not deliver skills that can make practical contributions to the economy. This is what Africa requires – developing the human capital of its people. This includes the competencies in the field of governance. Too many countries in Africa are frequently seen as being corrupt. There are bright lights, such as in Tanzania, Rwanda, Namibia, Senegal, and Cote d'Ivoire, but there are too many other rotten apples. This obviously deters investment. Davies is polite when he refers to corruption as rent-seeking. We should call it by its name, i.e. corruption! To do otherwise is to sugar-coat it and make it somewhat more acceptable. Dealing with governance and growing talent will require efficient institutions. The combination of the 3 will attract foreign investment and help grow the economies. Singapore is a glaring example of the proof of this statement!

East Africa

- **East Africa:** For decades the FloraHolland cooperative in the Netherlands was a hub from which flowers from around the world were distributed. But flower sales directly from growers to buyers have overtaken those sold through FloraHolland's auctions. Direct sales from co-op members who bypassed the auctions rose by 3.8% to US$2.59 billion in 2015. Energy and labour costs are the main reasons flowers are grown in Africa. Cheaper roses are mostly grown in Africa and sold directly to big retailers, which prefer fixed contracts to the daily fluctuation of the auction clock. This is challenging the status of the Netherlands as the centre of the flower trade. Kenya and Ethiopia top SSA flower exports, earning $699 million and $610 million, respectively in 2014. Rwanda has set a target of $104 million annually from floriculture and horticulture by 2018, up from current $10 million. Kenya has established a dedicated terminal at Jomo Kenyatta International Airport to support its flower business. Kenya is the world's thirdlargest flower exporter, with 500,000 Kenyans earning a living or supported by the sector. Ethiopian floriculture ranks among the top 5 global suppliers, 2nd only to Kenya among African producers and exporters. The sector is responsible for 75,000 direct jobs. For more information, read here.

- *CAS View:* The flower industry of Africa, especially that of Kenya, Ethiopia and Rwanda, are symbols of entrepreneurship and modern supply chain management in Africa. Due to modern technology, storage and transportation, flowers cut in Africa today are available in retail outlets the world over tomorrow. The low cost base of Africa helps the floriculture and horticulture industry tremendously. The availability of relatively cheap and very rich soils in Africa along the tropics also contribute to the growth of this sector. The end result is a large number of job opportunities, direct and indirect, and growing export revenues, all stimulating economic growth.

- **Tanzania:** Tanzania's government has started to seize undeveloped land larger than 20 hectares from investors to give to farmers. In May 2016 alone, over 1,800 hectares was expropriated and allocated to poor Tanzanians. The programme is being implemented because investors in agriculture and energy do not meet the requirements of their title deeds, which stipulate that a title holder should develop land within 3 years rather than holding onto it for 'speculative value'. This policy was designed to reduce the risk of clashes between communities competing over scarce resources. President Magufuli also made significant efforts to curb corruption. He has removed 10,000 'ghost workers' from the government payroll and has fired officials for suspected corruption or poor work-ethic. He also fired the Minister of Home Affairs for attending parliament whilst drunk. While it has been stated that since Magufuli stepped into office, the number of investment projects in the country has increased by 20%, others say his actions threaten to alienate key political figures whilst increasing political risks for investors. To manage risks and uncertainty in Tanzania, foreign investors should pursue a dual strategy of strict compliance with local laws and engaging stakeholders to build strong political relationships with the government. For more information, read here.

- *CAS View:* Magufuli has attracted a lot of attention and hype for his high profile actions at the start of his presidency. However, he also needs to deal with the socio-economic realities of Tanzania. These include a large group of poor people who have no land, as explained above. He also has to generate alternative revenue streams. In this, he is tightening up on tax collection. He is also placing emphasis on replacing expatriates with qualified Tanzanians. Companies in Tanzania have stated that these policies are clear and that there are no uncertainties as to what Magufuli wants to achieve. Some would question his methods though. Land ownership is always an emotive issue in Africa. Ownership thereof, however, does give people a stake in the future of the country. The way it was handled in Zimbabwe has drawn a lot of criticism. South Africa also needs to deal with the redistribution of land to meet the demands of its landless poor. The way this will be handled, will be important for the stability of South Africa. Both Tanzania and South Africa will need to ensure that the issue of land is dealt with in such a way as to not deter prospective investors.

West Africa

- **Nigeria:** The Nigerian naira fell sharply on Monday after the Central Bank of Nigeria removed the peg to the dollar to devalue it in response to tumbling oil prices. The naira dropped more than 30%, hitting 280 naira per dollar. The CBN said that it would move to a purely market-driven currency system to help Nigeria cope with the effects of the global oil price slump. In the short-term, the move is expected to be painful. Long-term however, the naira floating freely will be a net positive to Nigeria's economy as a weaker currency will help Nigeria's economy by encouraging import substitution and attracting foreign investors. Analysts have long argued that Nigeria would eventually have to capitulate and devalue its currency, given that the government's controversial agenda of currency and price controls created a bunch of economic stresses in Nigeria. Devaluing the naira won't solve all its problems. Nigeria saw its economy shrink by 0.4% in the first quarter of 2016, and continues to suffer turmoil when it comes to fuel shortages, along with disruption to the oil industry because of the Niger Delta Avengers. Despite these issues, rating agency Moody's sees the move as a net positive for Nigeria. For more information, read here.

- *CAS View:* Buhari's economic policy has probably been his weakness in his overall performance as president of Nigeria. I have stated previously that I am a fan of his overall strategic approach to foreign policy. His intentions to banish corruption and to destroy Boko Haram, were equally laudable. However, his unwillingness to devaluate the naira has created a series of bad consequences for Nigeria, such as unemployment, disinvestment, and higher inflation. Unless he manages to do something spectacular in his remaining time as president, this is what he will be remembered for. On Monday the naira in the parallel market strengthened to N335 to the dollar. This has led to the CBN expressing optimism that its ultimate target of the Naira settling at about N250 would be realized. The CBN also felt that freeing the naira could be the first step in attracting foreign investors, boosting domestic import substitution, while potentially abolishing the parallel black market exchange rate, which recently rose to as high as N370 to the dollar.