

African Union

- **Africa:** Africa's hotel industry growth and investments by the top global hotel chains is an indication of support for the future of Africa.

The hotel industry will enjoy a boom in SSA in the next 3 years, with East Africa leading the growth that will see about \$3.6 billion worth of investment into the sector in the next 2 years. Tourism, diplomatic and non-governmental activities in Kenya, Rwanda and Ethiopia are leading the growth. The global fall in commodity prices, especially oil, and political instability have hindered a similar trend in Nigeria and the DRC. Marriott International, the world's leading luxury hotel chain, opened an outlet in Kigali, Rwanda last week. This is its first hotel in sub-Saharan Africa and the first international hotel to set base in Rwanda. Marriott also plans to build 5 hotels in South Africa. Hilton Worldwide, another leading hotel chain, will build the first modular hotel in Africa in Accra. Africa has attracted the world's leading hotel chains, including Marriott International, Hilton Worldwide, Starwood, Carlson Rezidor and Accor. The industry's estimated growth is 30%, this year, making it one of Africa's best performers. Africa has the fastest-growing middle-class in the world, which has led to a burgeoning in domestic tourism, pulling investors to tailor-make midscale hotels to accommodate them. For more information, read [here](#).

- **CAS View:** These leading global hotel chains investing in Africa is a sign of their views on the future viability of Africa as a source of good financial returns. The hotel industry is one of the most capital intensive industries in Africa. It is also dependent on good occupation rates, which in turn are dependent on the views of tourists about Africa as a tourism destination that is safe and secure, and that provides good value for money. One will also see business executives that travel throughout Africa and that need good accommodation facilities. These 5 groups are therefore clearly signalling to the world they are bullish about Africa. The growth in the African consumer class will boost tourism, and business executives travelling throughout Africa is an indication of the growth in business activity in Africa. The growth in hotels and concomitant tourism will stand Africa in good stead, generating jobs up and down the industry value chain, and generating good revenues for the countries concerned. Those countries that are viewed as unsafe will be losing out on this important growth spurt.

East Africa

- **Ethiopia:** China has just completed the rail link between Addis Ababa and Djibouti. A 3-day road journey will now be replaced by a 10-hour rail link. China has also signed a contract for \$100 million to build roads in Ethiopia.

A 750km railway between Addis Ababa and Djibouti, costing \$3.4bn, was 70% financed by China's Exim Bank and built by the China Railway Group and China Civil Engineering Construction. A fleet of new trains will ply the new route in a major boost to both economies. Chinese personnel will operate the trains until their local counterparts have been trained. The rail system will speed up the development of Ethiopia's manufacturing industry and provide huge benefits to the industrial parks and modern farms that will be built in the future. It will also give employment opportunities to Ethiopians. The new railway will take products between Ethiopia and Djibouti in about 10 hours, considerably less than the 2 or 3 days for a truck to come from Djibouti. The train is seen as a game changer. Ethiopia is one of the fastest-growing economies in Africa. The connection to the ports will give it a bounce, and its economy will grow faster. Both countries benefit from integration, with Ethiopia gaining access to the sea and Djibouti gaining access to Ethiopia's market of 95-million people. A high-level Chinese delegation in Addis Ababa for the inauguration on Tuesday signed agreements worth \$100m for the construction of roads. For more information, read [here](#).

- **CAS View:** Landlocked countries typically have a disadvantage to their counterparts that have direct access to the sea. Ethiopia has endeavoured to overcome this problem by developing an efficient rail link with Djibouti. Once again, as frequently the case elsewhere in Africa, China has stepped in to finance and build the railway. It is also running the railway until such time that the locals have been trained to take over. China has also obtained a contract worth \$100 million to build roads in Ethiopia. This kind of infrastructure is crucial for any developing country on its journey to achieve its developmental goals. Ethiopia is one of the bright stars in Africa as far as economic growth is concerned, and is succeeding in diversifying its economy and developing its manufacturing sector. However, Ethiopia is currently struggling with tribal unrest, with the Oromo and Amhara tribes (combined at more than 60%) protesting against the dominance of the much smaller Trigray tribe (6.1%). The government will need to deal with this civil unrest in a sustainable manner as a matter of urgency or all of its good work to date may become undone. As for China, this kind of infrastructure support will grow its influence in this anchor of the Horn of Africa. Interestingly, in spite of popular sentiment, China is by no means the largest FDI investor into Africa. Western Europe and the USA hold that honour

Central Africa

- **Chad:** A court in Chad has ordered Exxon Mobil to pay a fine of \$74 billion for underpaying royalties, as well as an additional \$819 million in overdue royalties.

Exxon Mobil was ordered to pay a record \$74 billion fine in Chad for underpaying royalties. The fine is about 5 times more than Chad's GDP of \$13 billion. The High Court announced its ruling on 5 October in response to a complaint from the Finance Ministry that a consortium led by Exxon hadn't met its tax obligations. The court also demanded the Exxon pay \$819 million in overdue royalties. Chad is unlikely to collect most of the fine as it would be difficult to enforce this judgement outside of Chad. This leaves Exxon exposed to possibly losing everything it has inside Chad, but it is doubtful whether the assets they have there are worth that much. The two other companies named in the case are Chevron and Malaysia's state-owned Petroliam Nasional Bhd. According to Exxon, the dispute relates to disagreement over commitments made by the government to the consortium. Chad's government is struggling with an economic crisis due to a drop in oil revenue and the spillover of violence from Boko Haram, which has hindered trade with Nigeria and Cameroon. Budget cuts have prompted several strikes and student protests this year. For more information, read [here](#).

- **CAS View:** Given the phenomenon of fines levied against several MNC's in West Africa, one can come to the conclusion that large corporates are inclined to act unlawfully in their operations in Africa. Another explanation is that they are seen as easy targets by African governments in need of capital to give their economies a helpful boost. In Nigeria we have seen MTN first get a fine of US\$5.1 billion, which was eventually reduced to US\$1.7 billion. Thereafter, MTN was accused of illegally repatriating US\$14 billion between 2006 and 2016, with the help of 4 prominent banks in Nigeria. Next, we find that Nigeria charged a couple of oil majors of illegally exporting oil to the value of US\$12.7 billion between 2011 and 2014. Now we find in Chad the government accusing Exxon of underpaying royalties, with a fine of US\$74 billion! Coincidence? Will we see Exxon reaching an agreement with the Chad government to pay a much reduced fine? Will we also see the other parties in Nigeria reaching similar agreements with the Nigerian government? Whatever, this kind of phenomena does not do either the governments nor the companies involved, a favour. It is not good to market Africa as an investment destination of choice when it seems that MNC's are shaken down, or when it seems that governance is a bit shaky. It is also not good for the image of MNC's in Africa in general when it seems they are prone to illegal operations in Africa. Transparency in governance by all is crucial.

West Africa

- **Cameroon:** The government in Cameroon has taken steps to industrialise and modernise the palm oil industry in the country, to boost output by 65% by 2020.

The Cameroon Development Corporation plans to help boost palm oil output in Africa's third-largest producer by about 65% by 2020 to 450,000 tons. Output will total 270,000 tons in the 2016-17 season, which is less than the annual consumption of about 385,000 tons. To meet demand for the oil, the government often allows imports under preferential conditions, including tax exemptions and reduced customs duties. CDC officials recently visited Malaysia, the world's second-biggest producer, to study production techniques. The Malaysian performances are the result of the use of cutting-edge technologies, the use of high-yield seedlings and other production procedures. Should Cameroon could just implement a quarter of these, results will be visible almost instantly. Cameroon, which ranks behind Nigeria and Ivory Coast in terms of output, has about 180,000 hectares of palm plantations. The ministry has allowed 60,000 tons of crude palm oil imports this year to satisfy processing plant needs. To help farmers, the government is providing subsidies to buy fertilizers and distributing 6 million high-yielding palm plants for free. The Institute of Agricultural Research in 2015 introduced a programme to boost production by 26% in 3 years by establishing an extra 10,000 hectares of plantations annually. For more information, read [here](#).

- **CAS View:** Africa has the land available to support many agricultural activities. What it frequently needs are cutting-edge technologies, high-yield and drought-resistant seeds, and modern production techniques. Cameroon's efforts to support its farmers in this way must be applauded, and should serve as an example to other African governments. CAS has many times commented on the views of important stakeholders that agriculture in Africa must be industrialised and modernised. This is a good case study in the palm oil industry. Foreign agriculture processing companies such as Olam and Wilmar are also contributing in meaningful ways to increase the production output of the smallholder farmers in countries in Africa. Benchmarking against best practice in Malaysia is a sensible approach. Without these kind of interventions, Africa's farmers will not be able to rise to the occasion and produce at acceptable levels.
- **Nigeria:** Retail rentals have doubled in Nigeria, leading to tenants relocating to cheaper locations. Landlords have been forced to become innovative in managing their tenants' cash flow. Retail giants from elsewhere are also opting to adopt a partnership strategy in their entry into Nigeria.

Amid slowing economic growth, forex shortages and currency depreciation, retail rentals have doubled in naira terms since December 2014. To retain tenants, retail landlords have had to offer significant rental concessions and are accommodating their tenants' cash-flow constraints. Local retail brands are starting to take up space at shopping centres, especially outside prime locations in Lagos, as they often struggle to pay the high rents being charged in malls located within prime nodes. Despite the economic challenges, a total of 19,000m² of retail space was added to the core and secondary markets during the second quarter. Investors continue to see opportunities in the Nigerian retail sector, with South African retailer Pick n Pay announcing their entry into the market through a joint venture with Lagos-based AG Leventis, an established local retailer. Local and international investors into Nigeria have typically always taken a long-term view and they are being realistic to the current economic climate and adapting their business and operating models. Developers and investors now see the benefit of having a strong local partner rather than trying to enter the market by themselves, while some look at limited entry rollout or smaller developments. For more information, click [here](#).

- **CAS View:** In spite of the less-than-optimal economic conditions currently prevailing in Nigeria, it seems that there are still investors that have been able to identify good investment opportunities. While most retailers from South Africa have traditionally opted to enter countries in Africa via a greenfields model, it now appears that some of them have selected to use a partnership model for expansion into Africa. Nigeria's economic woes have forced developers and landlords to be creative in handling their tenants, who in turn have opted to relocate to cheaper locations to ensure their survival. It is clear that the economy of Nigeria is hurting in so many ways. Innovative approaches by all stakeholders are therefore required to deal with the pain of the economic slowdown in Nigeria due to the drop in oil prices, the end of the commodity super cycle, and the results thereof, such as slower economic growth, forex shortages and the naira's depreciation.
- **Cote d'Ivoire:** Solea will be developing 3000 hectares of cocoa in a bid to up the supply. In the process, it will involve the communities and the myriad of smallholder farmers, who currently produce about 90% of cocoa in Cote d'Ivoire.

Solea, a unit of Brussels-based KKO International SA, is developing about 2,000 hectares of land and is trying to secure another 1,000 hectares. The project is unusual because currently 90% of its cocoa comes from family-run farms of 2 to 4 hectares. About 800,000 farmers grow cocoa in Ivory Coast using a limited amount of fertilizer and reaping beans from aging trees. The result? Yields of about 500 kilograms of beans per hectare, half of those in Malaysia. Production methods are archaic. The nation became the world's No. 1 grower at the expense of its forests, which have made way for plantations. While demand is increasing, global output isn't. Solea wants to plant 4 million cocoa trees on 3,000 hectares by the end of 2018 and targets production of as much as 15,000 metric tons of beans, with a yield of 5 tons a hectare, when its trees reach maturity in 2024. Securing the land was difficult. Once found, it took months of talks to reach a deal with the local population. Solea signed leases of 35 years. In return, they committed to hire villagers and give landowners 5% of the company's revenue. Solea is looking at ways to have 6,000 cocoa trees per hectare -- compared with 1,300 in a regular Ivory Coast plantation. For more information, click [here](#).

- **CAS View:** Here we see another example of industrialising and modernising agriculture. Smallholder farmers will be complemented by large scale corporate farms. Better and more modern farming practices will dramatically increase the yields. Employing the villagers will provide meaningful job opportunities, and the 5% revenue sharing arrangement with the landowners will keep them loyal as well. It would need many more of these schemes to replace the output of the 800,000 famers producing 90% of its cocoa, but it should be done in such a way to ensure that jobs are not eliminated, as agriculture is the biggest employer in Africa. Cote d'Ivoire is currently the only major commodity exporter amongst the high growth economies in Africa, which is due to the high global demand for its cocoa.

Southern Africa

- **South Africa:** FirstRand plans to buy assets in Nigeria as it feels there are opportunities to be unlocked, given the devaluation of the Naira. This position is also true for its stance towards Kenya.

FirstRand Limited plans to buy assets in Nigeria, as it seeks to capitalize on the global fall in commodity prices that has pushed down asset valuation in Nigeria. The plan comes 5 years after FirstRand decided against buying majority shares in Sterling Bank Plc because of high prices in shares. The Naira fell to a record low of 309 against the dollar in July, further lowering asset valuation in Nigeria. According to Laurie Dippenaar, chairman of

FirstRand, asset prices in Nigeria have become much more realistic and they are looking for acquisition opportunities to obtain scale. FirstRand's decision is likely to help Nigeria's struggling economy. Last month, Aliko Dangote advised the government to sell some of its assets to boost the economy. FirstRand is also eyeing Kenya, the biggest economy in East Africa, where the banking sector is considered ripe for investors by market analysts. The quality of assets is likely to improve in the wake of new regulations such as the capping of interest rates. The sector is now considered attractive to both investors and clients. FirstRand's decision to seek expansion in Nigeria and Kenya has been attributed mainly to the volatile environment in South Africa, where investor confidence is slow. For more information, read [here](#).

- **CAS View:** There are 3 issues I would like to focus on. Firstly, there are good opportunities to be tapped into in Nigeria. I already pointed this out two weeks ago. The question is obviously how far the economy of Nigeria will still contract, and how much the Naira will still depreciate before bouncing back. This is a factor of the oil price, amongst others. It seems that FirstRand has made its bid, obviously of the opinion that there is already considerable value to be unlocked. Secondly, Kenya's banking sector has recently been the source of various newspaper articles on banks being placed under administration, as well as the capping of the interest rates by the president. There are quite a number of smaller banks that now will be under pressure, creating opportunities for consolidation in the banking sector. FirstRand can not only play a role in the consolidation process, but can also provide much needed governance and back office expertise. Thirdly, South Africa's banking sector seem to be the victim of the struggle between the president of the country and his finance minister, where the latter needs to be removed in order for Zuma to get unhindered access to the state coffers. His apparent greed will do massive harm to the country should the ratings agencies downgrade the debt rating of South Africa to junk status in December. The ANC needs to take a good hard look at the situation and know history will judge its role, or lack thereof, in this saga. Every time the minister became the target of actions from Zuma's lackeys, the banking sector saw massive losses in its market capitalisation. This is never good news for the sector!