

## African Union

- **Africa:** 2016 has been a year of upheaval for Africa, with some economies doing poorly and others doing quite well. 2017 brings about a number of challenges, but there are quite a number of opportunities.

2016 has been a tumultuous year for some African countries due to a commodities crisis and a global economic slowdown. 2017 looks to be the year the countries hardest hit by the crisis seek to recover from the economic reversals of the past few years. Challenges facing African countries include: 1) Increase productivity while creating and driving employment. 2) Ensure they are both producers and consumers. 3) Reduce extraction while simultaneously growing local industrialisation. 4) Build infrastructure for intra-Africa integration while controlling state-budget spending. 5) Grow African consumer spending while encouraging household savings. African countries have not done enough to reduce inequality and turn growth into economic development. Life expectancy and literacy rates have improved and infant malnutrition is being tackled, but poverty and inequality have continued to blight the African political economy. Corruption, authoritarian regimes, and atrocious working conditions continue to stifle economic development and economic change. Industrialisation is vital to economic transformation and job creation. African countries must wean themselves off their reliance on resources. Africa faces numerous challenges, but it has a lot of opportunities to sustain growth and development. Its advantages include a growing labour force, urbanisation and technological advances. For more information, read [here](#).

- **CAS View:** While 2016 has not been a good year for a number of countries in Africa, such as Nigeria and Angola, others have done well, e.g. Cote d'Ivoire, Senegal, Rwanda, Tanzania, and Ethiopia, to name but a few. 2017 seems to have quite a number of challenges ahead. For the oil-producing countries, the unexpected decision by the OPEC and non-OPEC countries to cut production, has had an immediate impact of a rise in the oil price. How sustainable this is going to be, is not clear, as it still remains to be seen whether the various oil producers will actually abide by the decision to cut production. These countries would do well to keep on diversifying their economies away from an over-dependence on oil. Notwithstanding the challenges, there are indeed a number of opportunities for Africa's economies and investors. What is equally clear, is that Africa must diversify their economies away from a reliance on resource extraction and exports. A lead factor in this process, will be a strong emphasis on the education of Africa's workforce. Without an educated workforce, Africa will be going nowhere.
- **Africa:** Africa is turning to sukuk bonds to complement its existing financing instruments.

Africa Finance Corp is likely to make a debut US dollar sukuk issue by early February. If AFC makes a final decision to go ahead with the proposed debt sale over coming days, the sukuk will be issued in two or three weeks through a private sale. At least one of the banks arranging the transaction is based in the UAE. The sukuk would be structured with a murabaha format, a popular cost-plus structure in Islamic finance, and use Nasdaq Dubai's platform for murabaha transactions. "We will see more sukuk issuance from Africa-based issuers over the next few years" as borrowers seek to expand their investor bases, said Dr. Mohamed Damak, global head of Islamic finance at S&P Global Ratings. "Another reason for issuers in Africa to choose the sukuk route is that sometimes sukuk can be cheaper than (conventional) bonds in terms of cost of funding, especially when it attracts significant interest from the market." For more information, read [here](#).

- **CAS View:** Africa has a substantial Muslim population, with many companies owned by Muslim families. The use of sukuk will make it easier for them to obtain financing. It will also open up Arabic banks in the Middle East as sources of capital for African projects. The fact that sukuks can sometimes be cheaper than conventional bonds,

is an added bonus. Africa is in great need of financing for its infrastructure projects. Increasing the sources of financing can only be beneficial, more so when it is cheaper.

## East Africa

- **Kenya:** Kenya is exploiting the use of biogas farms to complement its energy supply. This project is not only providing energy to the local environment, but they will also sell electricity to the national grid.

A commercial biogas farm in Kenya has become Africa's pioneering electricity producer powered by biogas to sell additional electricity to the national grid, cutting the carbon emissions associated with oil-powered generation. The Gorge Farm Energy Park in Naivasha generates 2 MW of electricity – more than enough to cultivate its 706 hectares of vegetables and flowers, and with adequate surplus to meet the power needs of 5,000-6,000 rural households. The new plant generates not only electricity, but also heat for the farm's greenhouses, with fertilizer as a by-product. The Gorge Farm plant shows that locally produced feedstock can be used to produce clean and less expensive power for Kenyans. The prospective for biogas generated electricity in Kenya is important, as some experts believe that biogas could produce around 29 and 131 MW of power. The biggest challenge is that the government will not pay adequately for it. Even though anaerobic digestion of waste to produce biogas is a recognized technology in Europe and Asia, the concept is still new in Africa at large scale. For more information, read [here](#).

- **CAS View:** It is good to see the development of alternative sources of electricity in Africa. Africa is tapping into all sources, ranging from coal-fired and nuclear energy, to renewable energy sources such as solar, wind, hydro, and biogas. Given the cost of coal-fired electricity, and the climate negatives associated with it, clean and renewable energy should be a matter of priority. While a decade or so ago renewable energy was expensive and a non-starter for large scale projects, this has changed dramatically. Renewable energy should be actively aspired towards as the energy business model for Africa. In addition to biogas projects such as the Gorge Farm Energy Park, Waste-to Energy projects such as the Reppi Project in Addis Ababa, Ethiopia, are also worth noting. Large-scale hydro projects and wind parks in Ethiopia are adding to the energy scale, as are solar projects in countries such as Morocco and South Africa. The challenge is to get the more than 600 million poor Africans without access to electricity, to afford this. Amongst the innovative solutions to this challenge is M-Kopa, which transforms the high upfront capital cost of solar energy to an affordable monthly operating cost. More such financing instruments are needed. Overall, many more such alternative energy projects are needed. In South Africa, a substantial number of corporates and SMEs have opted to add solar energy to their supply, reducing their dependence on the main grid, and hence their vulnerability.
- **Ethiopia:** Ethiopia has embarked upon the privatisation trail to stimulate economic growth and get technical and management expertise into the economy.

Ethiopia has invited foreigners to invest in its state-owned shipping and logistics company. Other coveted sectors usually off limits to foreigners — like telecommunications and banks — weren't mentioned in the solicitation. Foreign investment has been rising from the ground up in Ethiopia, including flower farms and products like wine and apparel for export and manufacturing. Ethiopia plans to let foreign firms own stakes in some state-owned companies, "not because of a shortage of finances, but because we want to modernize the system itself," Prime Minister Hailemariam Desalegn said. "When foreign companies get into these kinds of companies, they will obviously bring technologies, know-how and managerial capability." Awash winery, which produces Ethiopian wine

under 12 brands, recently became fully privatized. The U.S. hopes to bring its technology, know-how and managerial skills to Ethiopia. Ethiopian government officials have ruled out liberalizing the telecoms sector, saying the revenue it generates is being spent on railway projects. For more information, read [here](#).

- **CAS View:** Going the privatisation route is not new for Africa's economies. A company that benefitted in a major way from privatisation, is SABMiller. It bought a number of breweries in Africa that were initially state-run. The motivation behind Ethiopia's privatisation drive is apparently to get new technology and expertise into the country. Ethiopia can only benefit from this. The new investors should, however, be committed to sharing their expertise with local players as well, and not just be in Ethiopia for the profits involved. Failing to do so, would make their venture unsustainable. Ethiopia must endeavour to deal with the social and political instability currently visible in this country. Given the growth of the last few years, it does not need the negatives that go with the political turmoil associated with the Oromo and Amhara. The attacks on foreign companies recently seen, will definitely have a negative impact on potential investors. Having said that, Ethiopia is still a case study on what can be done to stimulate economic growth by means of industrialisation and stimulating the manufacturing sector. The textile industry has benefitted in a major way, with entities such as H&M, Tesco and PVH (who owns the Calvin Klein brand, amongst others) sourcing their apparel from Ethiopia.

## West Africa

- **Nigeria:** Nigeria has created a company that will provide credit enhancements for infrastructure projects. This will stimulate investments in Nigeria's infrastructure, something Nigeria is in dire need of.

The Nigerian Sovereign Investment Authority is partnering with GuarantCo to set up a Credit Enhancement Facility Company that will enable pension funds to invest in Nigerian Infrastructure bonds. The new company will serve as a facility to help provide credit enhancements for infrastructure projects. The lack of an appropriate credit enhancement system has been a barrier to attracting capital to invest in infrastructure funds. An improvement in the credit ratings would enable a fresh surge of capital, such as Nigeria's pension fund, which has \$26.4 billion of assets under management at December 2015. The new venture will provide a form of monoline insurance, giving a guarantee and allowing pension funds and insurance companies to invest. The company aims to boost the financing of infrastructure projects in Nigeria. Infrastructure has been a major obstacle to harnessing Nigeria's potential. An investment in infrastructure would help boost Nigeria's growth and promote greater inclusiveness and poverty reduction. For more information, read [here](#).

- **CAS View:** Nigeria has developed an innovative way to enable pension funds to invest in infrastructure projects. Given the infrastructure demands of Nigeria, such as roads, rail, ports, housing, etc., there is a serious demand for capital to fund infrastructure development projects. Inequality and poverty in Nigeria are serious issues as well, with 60% of the 180 million people lacking basic amenities. This numbers to more than a 100 million people. Failure to address this situation will always serve to increase dissatisfaction and create a pool of potential recruits for extremist groups such as Boko Haram. The use of the above mentioned venture, however, could help to not only create social stability, but could serve as a driver of economic growth with infrastructure development projects providing jobs and stimulating the economy. Care should be taken that they strive for pro-poor and inclusive growth. To leave the 100 million very poor people behind, would be self-defeating!
- **Ghana:** Ghana's new president has been sworn in and will have his job cut out for him.

Nana Akufo-Addo was sworn in as Ghana's president on Saturday, pledging to cut taxes and boost the private sector to accelerate growth in an economy that's recording its slowest expansion in two decades. He believes that it is crucial to provide vision and direction and shine the light down the path of their entrepreneurs and farmers. The new government is counting on a vibrant private sector to drive growth and create jobs. The new president won last month's election on campaign pledges to create jobs, encourage mining of bauxite and solve chronic energy shortages that have crippled small businesses for the past three years. The previous administration was forced to seek a \$933 million emergency loan from the IMF last year, blaming the downturn on low prices for Ghana's main exports cocoa, gold and oil. Akufo-Addo will face the task of reigniting growth while reining in inflation and consolidating public debt. After expanding at the fastest annual pace in Africa at 14% with the start of oil exports in 2011, Ghana's economy was projected to slow to 3.3% growth last year. For more information, read [here](#).

- **CAS View:** Here we have another example of a political transition in Africa by means of the ballot, and not the bullet. This is increasingly becoming the norm, in spite of highly publicised cases where leaders still cling to power after losing the election. The current case of Gabon is such an unfortunate example. Akufo-Addo will have his work cut out for him. Stimulating growth, creating jobs, and dealing with debt issues will be no easy task. It is good to see the president emphasising the positive role the private sector can play in dealing with the issues of the economy, as well as the role government has to play in creating a business-friendly policy environment. Ghana has tremendous potential with the gold and oil discoveries of the recent past. However, it needs to move beyond the export of crude product and the import of refined or value-added products. It must look at adding value at source in Ghana. This would be beneficial by providing import substitution and creating many more jobs. Its current negative trade balance would also benefit from this.

## Southern Africa

- **Botswana:** Botswana's diamond industry has been the mainstay of its economy. However, Botswana needs to look beyond diamonds and diversify its economy.

South Africa's economic slowdown has crippled demand for many companies in Botswana. Similarly, sales to Zimbabwe have been hit by import restrictions. Without thriving neighbours, Botswana finds itself in a tricky situation. It is blessed with natural resources—mainly diamonds, but also copper, nickel and beef, and is seen as an upper-middle-income nation. As its diamond reserves dwindle, it is scrambling for a new economic model. The diamonds that propelled Botswana's exceptional growth, could be exhausted before 2050. The government is taking note. In February, it launched a fiscal stimulus programme to tackle unemployment, estimated at 19%. Government investment promoters talk up Botswana's potential as a hub for tech firms or green energy producers. However, a more realistic strategy to diversify away from its reliance on diamonds, is to attract more tourists (Botswana is a great place for a safari). But instead, much of the government's focus has been on deepening its dependence on diamonds by trying to become a global centre for cutting and polishing. For Ian Khama, the elections in 2019 is a source of concern, given frustration with unemployment and with water and power shortages. For more information, read [here](#).

- **CAS View:** Botswana has been hailed as one of the economic superstars of Africa. It has a stable political system, with a stable economy and currency. However, it does seem that there is a gremlin or 2 in the works. Botswana must learn from the experience of Nigeria and Angola, amongst others, and diversify its economy before the negatives of diamond industry drags it down. It has been aiming to develop coal-fired electricity for the region, but that could be problematic as well, given the variable demand. The advice of the article is to emphasise tourism.

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There is no denying that Botswana has a lot to offer the foreign tourist. Both the natural habitat and the animal life are spectacular. However, whether this would be sufficient, is highly debatable. Whatever Ian Khama and his government decides, it is imperative that Botswana diversify its economy as a matter of urgency – the sooner the better. This goes beyond party-political survival – it deals directly with the economic and social stability of the country as a whole. Southern Africa as a region also requires a stable and well-functioning Botswana economy.