

African Union

- **Africa:** While Western investors dominated Africa 2 decades ago, Asian investors currently rule the roost. Should the West not wake up, they might find themselves excluded from Africa.

Two decades ago, Africa was dominated by Western investors. Today many Asian countries, led by China, have moved into Africa and are thriving. A wide range of Chinese businesses, from manufacturers of food products, textiles and shoes to restaurants, tour firms, wholesale and retail centres, have become an everyday sight. By the end of 2011, the private sector had registered 923 projects in Africa, representing 55% of all Chinese outbound FDI (OFDI) projects in Africa. About 36% of the private projects are in manufacturing, with 22% in the services sector. The top five recipient countries are Nigeria, South Africa, Zambia, Ethiopia and Ghana, making up to 40% of all projects in the region. African governments are happy as they seek to attract Chinese money to their countries and hope to spur employment and achieve industrialisation. Kenya presents investment opportunities in various sectors, e.g. energy and construction. Ghana's interested in attracting Chinese investment into the industrial sector, where there are considerable growth opportunities. Many other African countries are making such calls. Africa's large markets, less intense competition, low production costs, especially cheap labour, and availability of raw materials are attraction factors. However, overall operating costs are high in Africa. For more information, read [here](#).

- **CAS View:** Generally speaking, many Chinese entrepreneurs are moving into Africa, tapping into entrepreneurial opportunities in numerous sectors of the economy. They are hardworking and frequently face quite a number of hardships. In spite of the latter, they adjust to the local environments. However, they do not necessarily integrate into the local communities they find themselves in. It is not only the small scale entrepreneurs that move into Africa. In addition to G2G support from China, large corporates are also moving into Africa. As such, China is involved in the R84 billion Modderfontein development in South Africa. There are a number of such projects in Africa. Also in South Africa, Perfect China is a company involved in the wine industry in the Cape Winelands. The mining industry is another sector with Chinese ties. With the apparent isolationist approach of the new US president, as well as the uncertainty associated with Brexit, Africa will increasingly be looking towards China and other Asian countries. The markets in the East are massive and many African countries are drooling over the prospects of tapping into the billions of consumers in the East. As for investing in Africa, China is not the only player. As referred to in earlier newsletters, countries such as Japan, South Korea and India have also targeted Africa in a meaningful way. The West should take note and wake up, lest they find one day that Asian countries have become entrenched in Africa. It will be more difficult to eject an incumbent at a later stage than it would have been to claim a stake at the earlier stages of growth.
- **Africa:** The new head of the AU Commission has a difficult job ahead of him to implement all the decisions taken by the AU on projects such as Agenda 63.

Moussa Faki Mahamat from Chad is the new head of the AU Commission. Mahamat inherited a dual problem. Beyond deaths in conflict-ridden countries, Africa is also suffering massive illicit outflows of its resources. Although solutions to the problems have been debated and agreed, implementation has been problematic. Of the 1800 decisions taken by the AU since its launch in 2002, many are still awaiting implementation. For example, to implement two aspirations of Agenda 63, i.e. "all guns will be silent" and "all remnants of colonialism will have ended and all African territories under occupation fully liberated," Mahamat needs to oversee the establishment of an African Human Security Index (AHSI) to monitor progress. He will also need to deal with the bigger question of

Africa's resources that are draining out of the continent. Illicit financial outflows from Africa total \$50 - \$60 billion per annum, which is more than the total official development assistance (ODA) to Africa. This is just one of the three aspects of illicit outflows. Africa would have lost over \$100 billion additionally between January 2015 and January 2017. This eats away at Africa's ability to finance its own development. For more information, read [here](#).

- **CAS View:** Mahamat has his job cut out for himself. His predecessor did not cover herself in glory as far as implementation is concerned. During the ASBF2016, Mr. Bonang Mohale, Chairman & Vice President, Shell Downstream South Africa (Pty) Ltd., made the point that Africa was brilliant at planning, but that it could not implement these plans. He also suggested that self-interest frequently drove decisions by Africa's leaders. Although his comment seemed to rile some of the Africans in the audience, this article tends to confirm his point. Agenda 63, for example, is a wonderful project, but Africa needs to put its money where its mouth is. The AU also needs to take a page from ECOWAS as far as security is concerned. ECOWAS did not hesitate to mobilise its forces to get rid of Yahya Jammeh from Gambia when he refused to vacate his office after losing the election to Adama Barrow. In contrast, the AU postured and huffed and puffed to move into Burundi after violence broke out in an election that was won by Pierre Nkurunziza after he had controversially changed the constitution to stand for another term as president. When Nkurunziza stated he would view any entry by the AU forces as an invasion and would respond with military force, they did not have the guts to call his bluff and consequently backed off. This does tarnish the image of the AU as a force to be reckoned with. The other issue the article refers to, i.e. the illicit outflows of capital from Africa, is a serious issue. He cannot deal with this unilaterally and will have to involve the leadership of Africa's countries. Given that the Mo Ibrahim Prize for good governance has again not been awarded in 2016, it is unlikely that Mahamat will have an easy job. Rent-seeking behaviour (and self-interest) by Africa's leaders will interfere with any efforts to address this problem. Having said that, however, there are still quite a number of leaders in Africa that he could cooperate with to gain traction in his efforts towards solving the challenges of Africa. CAS wishes him all the luck and goodwill possible - he will need it!

- **Africa:** Sub-Saharan Africa is consuming more sugar than it can supply itself. New capacity is being built.

Sugar-refining capacity across Africa and the Middle East will jump by a third in the next five years as a growing population drives demand, according to Wilmar International. Refining capacity may reach 20 million metric tons, compared with about 15 million tons now, Karim Salamon, Wilmar's head of market analysis, said. The region consumes double the amount it produces, which means it has to rely on imports. A lot of countries or importers are investing to increase their own capacity. While SSA doesn't have enough refineries to cope with demand, there is already excess capacity across the north of Africa and the Middle East. This has boosted supplies and eroded a premium for physical sales in the region. Africa and the Middle East consume 29.4 million tons of sugar a year, almost double the amount they produce. Demand may grow by 10 million tons in a decade. The planned extra refining comes as the global market is on the cusp of moving into a surplus. Supply will exceed usage by 2.5 million tons in the season that starts in October. For more information, read [here](#).

- **CAS View:** Developing capacity in sub-Saharan Africa to address supply shortages and growing demand, does make sense. Import substitution creates jobs and saves on foreign currency requirements. The global sugar sector seems to be in an oversupply situation, while Africa and the Middle East only produce half of what they need. Interestingly, Kenya forecasted a decrease in its sugar production in the marketing year 2016/2017, as cane farmers moved to produce other products such as dairy and horticulture. Consumption was forecast to increase modestly and any deficit would be offset by a draw-down of stocks and imports. What we are also seeing in the sugar sector, is the emergence of substitutes such as maltose produced from cassava. This is the case in both East African countries such as Tanzania, and West African countries such as Nigeria. It can disturb the dynamics

within the sugar industry, as demand from industries such as the chocolate and beer industries could move towards maltose instead of sugar. Whether the substitute will replace the incumbent product, remains to be seen, however. Given the global oversupply, it might in the short-term be cheaper to import sugar, but in the long-term developing a local capacity could be more advantageous.

East Africa

- **Kenya:** M-Pesa is 10 years old and thriving, while the banking sector is doing its best to catch up.

Smartphone payments are gaining ground in the US, but mobile money is old news in Kenya. The majority of Kenya's population is subscribed to a mobile payment service, and the most popular choice is M-Pesa, which celebrates its 10th anniversary in March 2017. M-Pesa has made a dramatic impact over this time. Today there are 30 million users in 10 countries and a range of services including international transfers, loans, and health provision. The system processed around 6 billion transactions in 2016 at a peak rate of 529 per second. M-Pesa is also lauded for its social value; offering opportunities for small businesses, and playing a significant role in reducing poverty. The next decade will bring new challenges. One problem has been the relative clumsiness of using M-Pesa. New streamlined solutions include a debit card that will allow users to tap and pay, and a new mobile app. The service will face stronger competition in future. The Kenya Bankers Association has introduced its own mobile payment platform. The Safaricom CEO welcomes the banks' intervention as he believes it will drive innovation and benefit the consumer. Financial analyst Aly-Khan Satchu believes that competitors will struggle to displace a service that has put down deep roots. For more information, read [here](#).

- **CAS View:** After 10 years, M-Pesa has developed into an omnipresent fintech technology in quite a number of countries. What is interesting to note, is how it has spread into central, west, southern and north Africa, eastern Europe and India. These are mostly countries where the financial infrastructure has been inadequate to provide in the banking needs of the population. While CAS has been suggesting for quite a while that the banking sector in Africa had better develop an appropriate response lest they become disintermediated, it had taken quite a while for banks in Kenya to react with a sector response. Individual banks such as Equity Bank, at the time a new player, did initially cooperate with M-Pesa, and later on developed their own mobile money application. The other banks, however, were slow to respond. In the meantime, M-Pesa has become entrenched in not only the Kenyan society, but also other countries such as Tanzania. The question is whether PesaLink, the banking sector response, will be able to dislodge M-Pesa from its dominant position. It might be an issue of too little too late! Millions of the 25 million users in Kenya alone do not have formal bank accounts, so will not be able to tap into the banker sector solution. In addition, given the schlep involved with banking per se, people that can avoid going to banks, will do so. This reality is reinforced with the absence of banks in many rural areas. The lack of trust in the banking sector, on the part of the previously and currently unbanked, is another factor that creates challenges for the formal banking sector. It does seem that the formal banking sector players have been idle for too long and consequently have provided M-Pesa with an empty playing field and an opportunity to become entrenched without significant rivalry from competitors. Their challenge now is much greater than it would have been 10 years ago!
- **Tanzania:** China is building the largest cement factory in East Africa in Tanzania – another feather in the cap of President John Magufuli.

China is expected to construct the largest cement factory in East Africa to meet cement demand in the region. The cement factory will be constructed in the north-eastern coastal city of Tanga in Tanzania. The projected plant is estimated to be the giant in east and central Africa. The factory is intended to meet Tanzania's cement demand,

as well as making the products accessible at a comparatively low price. The factory will offer lots of opportunities as it's in line with the Uganda-Tanga crude oil pipeline construction. The construction of the plant will act as a catalyst to Tanzania's industrialization strategy, as well as hasten Tanzania's socio-economic development. 70% of the product will be exported and 30% will be for the local market. Foreign markets include Somalia, Kenya, Mozambique, Sudan, DRC, and Uganda. Tanzania produces approximately 7 million tons of cement a year, with demand growing at 10% per annum. Cement consumption is seen as a gauge of construction activity, one of the main drivers of economic growth. For more information, read [here](#).

- **CAS View:** Another accolade for Tanzania's Magufuli! Convincing the Chinese to build the largest cement factory in East Africa in Tanzania, is no mean feat. This will definitely stimulate the Tanzanian economy and create jobs for its people. Import substitution on the one hand and export revenue on the other hand will be good for the trade balance, while the benefit from lower prices will stimulate the local construction sector. Magufuli has been launching various initiatives to position Tanzania as a player of note in the East African Community (EAC). CAS has speculated in previous newsletters that this is a conscious strategy of Magufuli. Care must be taken, however, to ensure that the region also benefits. Progress in Tanzania at the cost of regional prosperity will come at a high price. For foreign investors, Tanzania is becoming increasingly attractive as an investment destination.

West Africa

- **Cameroon:** teaching school kids to tap into sustainable sources of energy that come at a low cost, is a great strategy, not only for the kids in Cameroon, but for the whole of Africa.

At a school in Douala, students learn how waste can be turned into a renewable source of energy. The lessons are run by The Green Girls Project, an NGO in Cameroon that trains young women in technology. The founder focused on promoting sustainable development in Africa with the help of renewable energy, to help students in need of electrical light. By turning waste into biogas, the project is tackling pollution and providing cheap, renewable energy solutions. Anything from discarded fruits to grass and chicken droppings, once ingredients for a waste problem for the community, is now a source of power. The project has partnered with Bioenergy-Cameroon, which installs equipment that converts waste from septic tanks and pit latrines into biogas. Women and girls, especially in rural areas, are mostly responsible for procuring and using cooking fuels. Cooking gas is expensive for Cameroon's poorest. Families benefiting from the cheap biogas use the savings for other essential items, such as school fees and medical care. So far, the project has benefited 3,000 households. For more information, read [here](#).

- **CAS View:** As stated before, necessity is the mother of invention. Obviously, the underlying technology is not new. The willingness to explore all kinds of options to obtain power for such a mundane thing as light, is driven by a need for something that people in the developed world accept as a basic commodity. What is basic in the developed world, however, is anything but basic in many other parts of the world. The University of Stellenbosch in South Africa houses the Sustainability Institute at the Lynedoch Ecovillage. The home owners in the ecovillage use the solutions the Sustainability Institute faculty propagate to their students and other visitors to the Institute. This includes using human waste for biogas. The underlying principles are simple and should be replicated on a much larger scale. The Lynedoch Ecovillage is proof the model can be scaled. What should be constantly researched is how the technology can be simplified and costs could be cut. Africa is a poor continent and this approach could help millions of households and not just the 3000 in Cameroon. Combining this approach with solar and wind energy, will help as well. Lynedoch also addresses the recycling of water used by the ecovillage inhabitants, doing so at a low cost. Given the challenge of potable water in many parts of Africa, this is another element in the model that needs to be addressed to a greater extent than is currently the case.

- **Nigeria:** The DBN is executing strategies to galvanise the SME sector for the overall benefit of the Nigerian economy.

The Development Bank of Nigeria (DBN) is being positioned to galvanise the SME sector for the overall development of Nigeria's economy. Buhari's administration is aware of the role of SMEs in the national economy, and wants to position the DBN as a catalyst for the development of the SMEs. The DBN has developed an inaugural strategy with its stakeholders, to ready itself for immediate operation upon the issuance of its license by the CBN. Currently, SMEs account for 45% of Nigeria's GDP, but just 10% of bank credit. Nigeria's financing of MSMEs lagged significantly behind other countries, e.g. Brazil (63%), Ghana (36%), Kenya (24%), and SA (21%). It is believed that through the activities of the DBN, some of the problems currently discouraging the growth of the SME sector would be effectively tackled. The DBN would lend to microfinance banks, which will in turn develop specific products for specific markets at a lower interest rate than currently available to SMEs. The DBN will have access to US\$1.3bn, which will be provided by the World Bank (WB), KfW, the AfDB and the Agence Française de Development. For more information, read [here](#).

- **CAS View:** SME's need all the support they can get. Adefolake Adeyeye identified a number of challenges they face in Kenya, but these factors would probably be relevant for most of the countries in Africa. These challenges include factors such as inadequate capital, limited market access, poor infrastructure, inadequate knowledge and skills and rapid changes in technology. Corruption and an unfavourable regulatory environment are other challenges. For more information, read the article on the website of CAS at [here](#). Nigeria's economy is hurting big time after the drop in the oil price, China's rebalancing of its economy, and the raise of interest rates by the Fed in the USA. Buhari's attempts to address the challenges to the Nigerian economy has not been successful, to say the least, and it has been the SMEs that have been hurting the most. The announced measures to support SMEs in Nigeria should play a meaningful role to help this sector. This is crucial as the growth and jobs tend to come from SMEs disproportionately to the support they get. Although it is not suggested that there is a linear relationship between financial support (currently 10% of bank credit) and contribution to GDP (currently 45%), it does not take rocket science to understand that more financial support will definitely have a profound effect on the results.
- **Nigeria:** It seems the Nigerian naira has been gaining ground against the US\$ and British £. Whether this will be sustainable, remains to be seen.

Since the global oil price crash in 2014, Nigeria's economy has been hit hard due to its overdependence on oil as its main source of revenue. China's economic slowdown, as well as the United States' rate hike, also affected its economy adversely. As a result, Nigeria's economic growth has declined dramatically, its currency is falling to an all-time low and investors are pulling out regularly. The CBN put in stringent policies to help save the naira from falling, but they backfired. However, it looks like the story is changing, as the CBN recently announced a new Forex policy on various transactions to make Forex readily available to commercial banks. Consequently, the naira appreciated by 14.29% from N525/\$ to N450/\$. The gap between the parallel and interbank market rate, which widened to N217 before the new policy implementation, reduced to N155 by the end of last week. The CPI rose by 0.17% from 18.55% in December 2016, to 18.72% in January 2017. Strategies that can enhance self-sufficiency in food production remain critical towards dousing the ongoing upward inflation trajectory. Given that improvement in oil revenue is critical to fiscal sustainability and external balance, the government must ensure that peace is sustained in the Niger Delta region. For more information, read [here](#).

- **CAS View:** That Nigeria's economy has been hurting, is common knowledge. The inflation rate has reached high levels, investors (including large corporates) are leaving, and the naira has plummeted against the US\$. The latter

has become extremely scarce and efforts to curb the demand for dollars by drawing up a ban list, did not have the desired effect. In the parallel market, the naira fell to levels over 500 naira to the US\$. However, as indicated by the article, in the very recent past, the naira has been strengthening against both the US\$ and the British £. One of the reasons (probably the main reason) is that the CBN had intervened with about \$591million in the market, which had led to the naira gaining strength. The last factor addressed in the article, i.e. sustaining peace in the Niger Delta region, is crucial for the stability of oil supply, and hence the stability of the naira. The higher oil price will be of little use to Nigeria if it cannot get the supply to the world markets due to the violent actions of bodies such as the NDA. It seems the previous regime paid MEND (Movement for the Emancipation of the Niger Delta) to keep a low profile. This practice was apparently stopped by the Buhari regime. It remains to be seen how it will address the current situation to obtain a lasting solution.