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 88 10 March 2017

African Union

- **Africa:** African business leaders, entrepreneurs and economies must look at adopting business models suited for sustainability. This would develop significant economic opportunities and millions of new jobs in Africa.

  According to the African Better Business, Better World report, African business leaders, entrepreneurs and economies can benefit from and help develop significant economic opportunities, worth $1 trillion in Africa and create over 85 million new jobs by 2030 if they pursue sustainable business models. African companies are increasingly developing models for what can be achieved with ingenuity and innovation as they solve difficult social challenges. In Kenya, for example, there are digital innovators delivering banking, energy and health solutions. African business leaders are invited to join the Business Commission to enhance the process. Safaricom has been a leader in creating innovations that remove obstacles to financial inclusion through M-PESA, and increases sustainable energy access through M-KOPA. Bob Collymore states there is untapped potential for inclusive, green growth and development across Africa. The last few years have seen the leapfrogging by new technologies and the Internet to transform development and promote purpose. Throughout 2017, the Commission will work with companies to strengthen corporate alignment with the Global Goals, including: mentoring the next generation of sustainable development leaders; creating sectorial roadmaps and league tables that rank corporate performance against the Global Goals; and supporting measures to unlock blended finance for sustainable infrastructure investment. For more information, read here.

- *CAS View:* The African Better Business, Better World report is about creating a new business model aligned with the UN's Sustainable Development Goals (SDGs). It is about doing good and making money in the process. Creating 85 million new jobs over the next 13 years is a significant achievement. The field of renewable energy is indeed a field that has a lot of potential, as is shown by the article. Solar is punted as the new business model for Africa, and wind power and hydro power are close alternatives. These sources of clean energy are not just good for the world, but have become good business as well. Feeding Africa, which is both an SDG and one of the AfDB's High 5 priorities, is another field that has immense potential. Industrialising the agri-sector to increase food production in Africa, is a major initiative for any entrepreneur, be they corporations or individuals at SME level. Authors Mackey and Sisodia, in their book Conscious Capitalism, write that the concept of conscious capitalism refers to businesses that serve the interests of all major stakeholders—customers, employees, investors, communities, suppliers, and the environment. The days that profit is pushed at all costs, are over, and business models and strategies that have this at heart, are no longer sustainable. The good news is that there is still profit to be made in a world where sustainability rules, but no longer at any cost. The triple bottom-line of people, profit and planet is here to stay!

- **Africa:** Africa needs to drastically improve its transport and logistics infrastructure and economic integration to improve economic conditions on the continent.

  Owing to current aviation infrastructure, what should be a three-hour journey between Algeria and Cameroon, takes 24 hours. IATA has forecast that if another 12 African economies opened their skies to each other (open skies), fares would become 35% cheaper, enabling 5 million more people to take to the skies, creating 155,000 new jobs and adding US$1.3bn to Africa's GDP. A developed railway network will significantly reduce transportation times, and boost trade and the economy. The railway between Addis Ababa and Djibouti cuts the journey between the two cities down to 12 hours, reducing costs by a third, with considerable economic benefits. Rwanda is leapfrogging its lack of traditional transportation methods using drones, transporting blood supplies to patients in remote areas of the country. Using drones will provide huge socio-economic benefits, as they can help overcome a lack of connectivity and boost trade. In Africa, business spending is expected to grow from $2.6tn in 2015 to $3.5tn by 2025. By 2034, Africa will have a larger workforce than either China or India, and by 2025 Africa could nearly double its manufacturing output from $500bn today to $930bn. To become a global powerhouse, it will take the integration of countries across Africa for it to fully reap the benefits of these opportunities. For more information, read here.

- *CAS View:* Regional integration has long been punted as a solution to some of the economic woes of Africa. In 2015, the degree of intra-African trade was as low as 12%. This has apparently moved up to between 15 and 20%. However, this figure is still way below the degree of economic integration seen in the EU, to name but one example. The TFTA would increase intra-African trade to about 30%, while the CFTA would push up this figure by more than 50%. However, this will require dealing with so many challenges that it is debatable whether it is indeed achievable. One aspect that will support the economic integration in Africa, is the upgrade of transport infrastructure. Air, road and rail infrastructure must be upgraded to facilitate trade in Africa, as well as the movement of people. This will have significant economic benefits for Africa. We are fortunately seeing major projects addressing the needs of Africa in this regard. However, there is such a tremendous backlog that it will take quite a while before significant progress will have been made.

East Africa

- **East Africa:** Tanzania has refused to sign a regional trade pact with the EU, saying it stood in its way to industrialisation. This approach by Tanzania could split the EAC.

  Tanzania has yet again refused to endorse a regional trade pact with the EU, saying the deal stood in its way to industrialization. This stand threatens to split the bloc as Kenya and Rwanda have already signed the deal. Once signed, the EPAs would lead to up to 82% opening of the East African markets to European goods tariff-free in 25 years. The EU argues this would be reciprocal as it would also take in EAC products tariff-free. No export taxes would be imposed on key raw materials, which is likely to stall the region's quest to industrialize. Even if they don't sign, Uganda, Rwanda, Burundi, and Tanzania would still access European markets under the Everything But Arms arrangement as they are classified as least developed countries. On top of losing taxes through waivers on imports from Europe, there were more serious issues that EAC should consider before signing these deals. Amongst others, the implications of Britain's exit from the EU was of concern to the parties as it reduced the value of the EU's market for the EAC. For more information, read here.

- *CAS View:* John Magufuli is clearly looking out for the benefits for Tanzania, which is perfectly understandable. In this instance, the issues are not only relevant for Tanzania, but for Uganda, Rwanda and Burundi as well. It seems that Kenya is the only player that stands to lose in a major way should the EPAs not be signed. In a certain way, Tanzania is projected as the dominant player in the situation, and Magufuli's refusal to sign the EPAs will not endear him to Kenyatta, Kenya's president. At this stage, the EAC has been held up as the benchmark for regional cooperation in Africa. How long this will continue to be the case, remains to be seen. Magufuli has been shown to launch various initiatives that could be seen as attempts to take over the leadership role in East Africa. He and Kenyatta had a meeting at the end of last year that has been designated as a "kiss-and-make up" session. It is plausible that this latest "failure" by Magufuli will destabilise their relationship to an even greater extent.

- **Rwanda:** VWSA is investigating the start-up of a low-volume car assembly plant in Rwanda. This could also be an attempt by VWSA to diversify its risk of current concentration in South Africa.

Barely two months after starting production at a low-volume car assembly plant in Kenya, Volkswagen SA is in discussions with Rwanda about a similar operation there. Unlike the Kenyan JV, which is limited to building vehicles, VWSA's Rwandan deal could extend to car-sharing and other forms of urban mobility. Rwanda is reliant on dumped used cars, but they want to encourage a local motor industry. A JV-model in Rwanda might include vehicle assembly, as well as car sharing, taxi services and other forms of transport. It could be possible to start vehicle-assembly in Rwanda by the end of 2017. Tanzania and Ethiopia are both on VWSA's radar for future deals. Rwanda could support an annual market of up to 100,000 new cars. If Kenya, Tanzania and Ethiopia followed suit, and then other countries, the whole situation would change. If it didn't happen, then VWSA's risk exposure was small as the main financial risk is to their government partners to get the joint venture right. For more information, read here.

- *CAS View:* Rwanda is joining an increasing number of African countries bent on developing an own motor vehicle industry. Here we refer to Ghana, Nigeria and Uganda. We also see, in addition to these countries, that Kenya and Ethiopia, amongst others, have been targeted by companies such as VWSA, Toyota and Kia as a base for vehicle assembly. What is interesting to note is that the vehicle manufacturers are also looking at applications such as car sharing, etc. in Africa. What it also shows, is that VWSA is diversifying its risk in South Africa. The CEO of VWSA has recently indicated to the South African government that should it reduce the incentives for motor vehicle manufacturers, it would consider relocating to elsewhere in Africa. East Africa has become quite prominent in this industry. The region, or rather the EAC plus Ethiopia, seems to be stable enough to attract attention.

- **Rwanda:** Rwanda will house a BlockChain Centre for Excellence, that will drive the roll out of block chain technology in the 17 Smart Africa Alliance member countries, which represent 360 million people. This will see the use of digital currencies in Rwanda and the region.

  A Swiss cyber-security firm, WISeKey, wants to roll out block chain technology in Rwanda, which could see the use of digital currencies in Rwanda and the region. The technology allows for transfers and transactions that are inexpensive compared to other money transfers. WISeKey, wants to establish a BlockChain Centre of Excellence in Rwanda that will serve the 17 Smart Africa Alliance member countries, which represent 360 million people. The partnership between Rwanda and WISeKey will cooperate with local companies to position Rwanda as a key player providing access to policy, technical and business expertise. The service hub will provide benefits across multiple industries and encourage technological developments that can serve Africa. To succeed in the world of smart cities, opportunities in exponential technologies must be harnessed. These technologies include AI, robotics, drones, big data, IoT, Blockchain, and 3D printing. The development comes at a time when Rwanda is working to roll out multiple technologies and initiatives to facilitate financial inclusion. For more information, read here.

- *CAS View:* The 17 members of the Smart Africa Alliance are spread all over Africa. Having the privilege of housing the Centre of Excellence in Rwanda, speaks volumes of the trust the Swiss company has in the governance and competence available in Rwanda. The rolling out of block chain technology could support and boost the acceptance of digital currency in Africa. Block chain technology has already been used in formal banking transactions in Africa. The initiative will also boost the development of smart cities in Africa. Some people stand sceptical towards this phenomenon, but some African cities have made good progress towards converting into smart cities, Kigali in Rwanda being a good example. To be honest, there is still a lot of work to be done in this field. However, initiatives of the kind represented by WISeKey do help to develop progress. Technologies in the field of AI, robotics, drones, big data, IoT, drones and 3D printing already exist in areas in Africa. Africa, however, still needs all the support it can get to drive the expansion of these technologies.

West Africa

- **Ghana:** Ghana's textile industry has declined to near irrelevance. The number of players has been reduced from 16 to 4, and the number of employees from 25 000 to 2 900. Cheap pirated imports are the main problem.

  The CEO of the UT Group, Mr. Martyn Mensah, stated the textile industry, which dominated the manufacturing sector in Ghana some years back, has seen a 90% decline in its contribution to employment. In 1970, the textile subsector had 16 textile manufacturers, which employed 25,000 people. There are now only four players left, and they employ 2,900 Ghanaians. Surviving companies are struggling against competition from cheap, pirated imports. In 2011, the ratio of imported to exported textiles in Ghana stood at 125%. By 2015, the figure stood at 827%. Given this, textile manufacturing will not be making any further meaningful contribution to Ghana's development. The textile industry cannot be overlooked when discussing Ghana's manufacturing sector. The industry has been declining over the years largely due to trade liberalization policies and programmes, resulting in the proliferation of lower-priced fake imported textiles in Ghana. The effect of this on youth employment is a source of serious concern, as Ghana's manufacturing sector is supposed to engage the majority of these youths in gainful and productive activities. For more information, read here.

- *CAS View:* In some countries in Africa, the textile industry has been hurting a lot. The article refers to the challenges of the textile industry in Ghana. Something similar happened in South Africa. For all practical purposes, it closed down with a very small number of players remaining. Foreign companies providing much needed jobs, disinvested. It was not only due to cheap pirated imports, but also the militant labour one finds in South Africa. It is interesting to note that Ethiopia seems to be growing its textile industry. As shown in earlier newsletters, Ethiopia's textile industry is the source of garments for companies in the USA, Sweden, the UK and elsewhere. One of the reasons for this is the relatively cheap and sufficiently trained labour in Ethiopia, as well as a government willing to support the local industry against foreign imports, as well as provide the requisite incentives and structures for the industry to prosper. It seems that without timely and efficient government support, Africa's textile industries are bound to hurt. This is where free trade needs to be complemented by fair trade.

- **Nigeria:** According to Allan Gray, the South African asset management company, Nigeria's banking sector presents good investment opportunities.

  Nigeria's struggling economy has led to a drop in foreign investment. But not all investors are fleeing the scene. Allan Gray recently announced it had increased its stake in two Nigerian banks, Zenith Bank and Access Bank, despite Nigeria's banking sector being under stress. Allan Gray sees more value in the country today than in the other markets it has invested in. They try not to get caught up with 'popular sentiment.' During 2013 and 2014, when oil prices were at their peak, Allan Gray were a lot more cautious. Today, with a lot less investor interest in the market, these valuations are much more attractive to them. They believe many of the fundamentals surrounding Nigeria's opportunity still exist – such as a large population with a growing consumer class. They believe that Nigeria's macro-economic environment is also likely to improve as its oil revenues rise. Access Bank and Zenith Bank are some of the better performers and could offer attractive returns. They have adequate capital levels, are fairly well managed, and have a dominant market share. While Allan Gray think these businesses are going to survive the current crisis, they believe not all banks will be as lucky. This could help both Zenith and Access increase their market share further. For more information, read here.

- *CAS View:* This is a refreshing approach towards Nigeria and its economic woes. It is true that Nigeria is on a downward spiral with high inflation, a weak currency, a low oil price, a contraction of the economy and a lack of dollars all conspiring to create a perfect storm. However, the naira has been strengthening the last few weeks. In addition, it is not too farfetched to think that Nigeria's downward spiral could be bottoming out. It is in times like these that one is bound to find good opportunities at bargain prices. As I wrote towards the third quarter last year, a friend of Nigeria suggested that had he had enough money, he would buy shares on the Nigerian stock exchange at low prices and wait for them to pick up, as they are bound to do. It seems that, broadly speaking, Allan Gray agrees with him. The bottom-line is that there is value to be unlocked in Nigeria. Those that wait too long, might find that most of the current bargain opportunities have become fully-priced.