

African Union

- **Africa:** PE in Africa is growing strongly off a very low base, and exhibits features unique to Africa. Challenges such as currency volatility, remain problematic to transaction execution and fundraising.

The long-term opportunities across African economies for PE are extremely robust and demonstrate long-term value creation and returns. As such, PE deals in Africa are growing from a low base equivalent to 0.18% of Africa's GDP in 2016. PE investors in Africa are distinct from other parts of the world. They hold investments for longer than in developed markets, use less debt and improve corporate strategy and governance. They invest more in growth and job-creation, often scaling small businesses to a size viable for trade buyers. Returns can be far higher than in developed markets, and at the same time, PE investors play a catalytic role in Africa. Investment in this sector tends to focus on growth capital, helping companies to improve governance and strategy, expand their footprint and contribute positively to the region's broader commercial ecosystem. PE activity in Africa has increased significantly in the last few years. From 2010 to 2016, PE firms invested around \$25.6 billion across a variety of sectors. More than 1000 PE deals were concluded during the above period. Currency volatility remains a challenge to fundraising efforts, and to transaction execution in general. For more information, read [here](#).

- **CAS View:** Africa is clearly a continent with 54 countries, requiring a unique approach to each. Even PE investments are different on the continent than elsewhere. Given the very low base of 0.18% of Africa's GDP, it has a long way to go. However, it is good to see that PE is contributing to growth and job-creation, and that they are playing a catalytic role in Africa. In a previous email, I showed that significantly less than 1% of Africa's registered companies are listed on a stock exchange, and as such have access to capital. Probably one of the more important features of PE in Africa, is their willingness to invest for longer periods, given the need for such capital in Africa. The positive contribution they make towards issues such as governance, given their equity stakes, is to be welcomed. Africa needs more of this, should we bear in mind that the Mo Ibrahim Foundation has once again in 2016 not awarded the Ibrahim Prize for Achievement in African Leadership. Since its inception in 2006, the prize has not been awarded in 2009, 2010, 2012, 2013, 2015 and 2016. Any contribution towards better governance in general should therefore be welcomed. Although not the purpose of PE investments, it does have this additional benefit!
- **Africa:** Africa's youth is being left behind in the race towards economic growth. They frequently form the largest component of the unemployed, and can become a major disruptive force in Africa.

The steep rise in GDPs that lent itself to the "Africa rising" narrative, did little for Africa's youth. The youth bulge is increasingly looking like a threat, with optimism turning to pessimism. The Mo Ibrahim Foundation report outlines how political disillusionment, an education to skills mismatch and the lure of escape via "the back way", or even terrorism, are stealing the dreams of Africa's young people. Despite growth, unemployment remained consistently high. Education has long been touted as the solution, but the report found a mismatch between the skills acquired and jobs available. In Tunisia and Egypt, youth unemployment was as high as 60%, proving that university degrees do not create jobs. Ethiopia is a bright spot. Agriculture accounts for 80% of the workforce and contributes 40% of the GDP. Ethiopia's unemployment and youth unemployment rate have remained relatively stable in the last decade. Last year, Ethiopia's general unemployment rate was 5.7%, while its youth unemployment rate was at 8.1%. Despite the political complexities in Ethiopia, policies like Agricultural Development-Led Industrialization have helped the country plough resources into developing its agricultural sector. For more information, read [here](#).

- **CAS View:** The article provides a reminder of the absolute necessity to put in place the strategies to develop Africa's youth appropriately. We must ensure that our demographic dividend remains a positive outlook, instead of Africa descending into a quagmire of violence, unemployment and despondency. Africa's youth is a vulnerable grouping. They have become the trigger for violent political upheaval in various countries. In North Africa, we have already experienced the Arab Spring. In South Africa, we have seen the violence and disruptions at universities in the country. It also seems the youth in general are susceptible to being used as cannon fodder by unscrupulous politicians. There is no denying they have legitimate gripes, but getting involved in political infighting, such as was recently the case in Durban during the memorial service of Ahmed Kathrada, does their legitimate issues no favour. Whatever way you look at it, the youth must be appropriately skilled to be employable. Authorities planning for economic growth, must keep the principles of inclusivity in mind. This should be applicable to all sectors of the economy. As it is, agriculture is, on average, the main employer in Africa. Yet the conditions in agriculture is of such a nature that the youth are leaving the sector and the rural areas to flock to the cities in the search for a meaningful job. This frequently creates slum conditions, ripe for further dissatisfaction and violence. Africa must address this situation urgently – it has no choice. According to Mo Ibrahim, to succeed, Africa must invest in its greatest resource, its young people! We will do well to always remember this mantra!

East Africa

- **Kenya:** Kenya's banking sector is the scene of both consolidation and expansion.

The banking sector of Kenya continues with consolidation as smaller and weaker banks struggle to remain afloat. The low valuations on most of the banks have made them easy prey for their counterparts with stronger financial muscles. Kenya's banking environment is already going through consolidation as evidenced by heightened mergers and acquisitions over the last four years. From November 2013 to date, there have been seven such transactions. The latest development has left the market with 40 commercial banks, as Chase Bank and Imperial Bank remain in receivership. The sector may not see a reduction in the number of banks for long. The Central Bank of Kenya (CBK) has announced its intention to finalise the processing of licence applications for Dubai Islamic Bank and Mayfair Bank, as it mulls lifting the moratorium on the licensing of new commercial banks. In addition, CBK has said nine more banks are eyeing a stake in Kenya's banking sector. This will see the number of banks hit 51. For more information, read [here](#).

- **CAS View:** The Kenyan banking sector has experienced a number of phenomena the past year or so. The Kenya Revenue Authority broadened its fraud-related investigations to include the National Bank of Kenya, Commercial Bank of Africa and Cooperative Bank of Kenya for corruption and tax evasion, with plans to include several other banks with suspected similar syndicates. To make a bad situation more intriguing, President Uhuru Kenyatta signed into law a bill capping interest rates at 4% above the benchmark central bank rate. This was due to the very high returns Kenyan banks were experiencing in comparison to their peers in neighbouring countries. A factor of concern was the large number of small banks, which were threatened by the interest rate cap. A period of industry consolidation was envisaged at the time of the signing of the law. We did see some consolidation, but now we see the number potentially increasing to 51. The question is whether we will see more banks falling victim to consolidation. With a 4% cap above the CBK bank rate, it is doubtful whether the smaller banks have the scale to survive. Licencing more banks will do nothing to reduce the pressure on these smaller banks.
- **Kenya:** Kenya has seen the successful launch of its M-Akiba bond, the first attempt at crowd-funding. This democratisation of bond sales has a lot of potential in financing Africa's infrastructure and involving its diaspora.

The sale of the mobile phone-based Government bond M-Akiba closed ahead of schedule after Kenyan investors put in Sh150 million to fully subscribe to the bond. According to the National Treasury, the bond attracted 102,632 investors. Of these, only 5,000 purchased the bond. The bond, which is largely expected to open up lending to Government by common Kenyans, attracted different investors who put in varying amounts over the 13-day period that the bond was on sale. According to Treasury data, investments ranged from Sh30,000 (lowest by a single investor) to Sh1 million (highest). Over 94% of the money was transacted through M-Pesa (Sh142 million), while the rest was through Airtel Money (Sh8 million). The M-Akiba bond has an annual interest rate of 10% (tax-free). The just-concluded offer is a precursor of a larger bond that Treasury plans to float later this year, where it plans to raise Sh4.85 billion in a similar manner. The main M-Akiba bond will be launched in June and proceeds will be invested in infrastructure projects. For more information, read [here](#).

- **CAS View:** In 2015, there was the intention to launch the first M-Akiba bond. Due to problems, the launch was postponed to March 2017, creating fears that this was just a good idea without the possibility of implementation. The success of the recent launch can be seen as proof-of-concept. It will pave the way for many more bond issues on this crowd-funding basis. The “democratisation” of bond issues, making them accessible to the man on the street, has the potential to spread throughout Africa, and even to involve the diaspora of many African countries. Given the ease of access of the M-Akiba bond, it will be quite easy for people abroad to buy the bonds and receive their coupons via M-Pesa. The availability of small denomination bonds is by no means unique. South Africa sold defence force bonds in the early eighties. However, using mobile phone technology for both the sales and payment of coupon interest is. Technology is indeed a game changer in Africa, in so many forms and guises!

- **Rwanda:** Rwanda is diversifying its agricultural sector to boost exports.

Rwanda has a drive to diversify agriculture exports. The National Agriculture Exports Board (NAEB) is promoting horticulture, including flower farming and growing of fruits, to achieve this objective. This initiative seeks to increase non-traditional cash crop exports. A clear and targeted export strategy that supports farmer and exporter needs was called for. This should promote value addition among farmers and exporters “because agro-processing is essential to boost value and enhance quality of Rwanda’s exports.” It was also important to ensure that farmers gained access to quality inputs, including fertilisers. This should be complimented by the provision of extension services within communities and constant monitoring by agronomists. Horticulture has the potential to turn around Rwanda’s export sector. Rwanda sold close to 13.9 thousand tons of vegetables and fruits in the first two months of 2017, earning about \$7.6 million in exports. Farmers must access new crop varieties and embrace modern farming technologies to help improve Rwanda’s exports. This calls for more investment in the sector, particularly under the public-private partnership (PPP) arrangement. Experts believe boosting local production and value addition, while encouraging consumption of locally manufactured goods, could help boost exports. For more information, read [here](#).

- **CAS View:** The industrialisation of Rwanda’s agricultural sector is essential for the development of its export market, and for value addition. Once again, this will create jobs in the local economy and lead to import substitution, in addition to growing its export market, all of it boosting Rwanda’s economic growth. Africa has a dire need for food production and processing. Education and access to modern technology will enhance the success of this sector, and have been punted as prerequisites for moving into the modern era of agriculture. This makes the involvement of the private sector equally crucial for success in the transformation of the sector. Overall, it seems there are a number of investment opportunities for companies interested in the agri sector in Rwanda. The policy framework has been set up for a productive and business-friendly agri sector as well.

- **Tanzania:** Tanzania is supporting local manufacturers by procuring locally and halting the importation of products locally available.

Vice President Samia Suluhu Hassan says government is looking forward to halting the importation of international products to support local manufacturers. Hassan acknowledged local industries that manufacture durable and high quality transformers, adding that there would be no need for government to spend foreign currency on importing products that are already being produced in the country. Government was committed to support the private sector and will ensure they contribute to the country's economic growth. They want to protect local industries and make sure they grow. On tax payment, the VP said government is aware of bureaucracies and regulatory bodies, which left business less time and money for their productive activities, and is working on it. The Confederation of Tanzania Industries (CTI) highlighted that investors face various challenges, including changes of policies, which affect production and businesses in general. For more information, read [here](#).

- **CAS View:** Here we see efforts by the Magufuli administration to streamline regulatory issues and cut red tape. We also see efforts to support local manufacturers, creating local jobs and growing the economy, in addition to the normal benefits of import substitution and savings on foreign exchange. Africa's governments in general should all be committed to protect and support their private sectors. It does not make sense to import products from abroad when you have local producers and suppliers. Yet we frequently do see this phenomenon. Magufuli has generally been effective at growing the Tanzanian economy and implementing decisions taken. I referred last week to the perceived weaknesses of his governance style. If he can address this, he will definitely be remembered as one of the better presidents in Africa.

West Africa

- **Nigeria:** Nigeria's currency volatility is doing the country no favour. The shortage of dollars, the CBN's unpredictable controls and Nigeria's weak economy, have scared away investors. By easing the dollar shortage, the CBN is hoping to convince Nigerians and foreign investors that the naira's most nervous days are over.

As the CBN tried to manage the exchange rate rather than let it float freely, the parallel markets showed the real worth of the naira. In June 2016, after the CBN adopted a flexible exchange-rate policy determined by market forces, the naira fell sharply against the dollar. However, the naira was never fully floated; the CBN intervened in the market for dollars, which were in high demand. This didn't last, and everyone who needed dollars were forced again to turn to the black market. The CBN is back in the market now, supplying banks with dollars and allowing retail customers to buy forex at an approved rate. Recently, restrictions had pushed many to resort to the black market regardless. The shortage, the CBN's unpredictable controls and Nigeria's weak economy, had scared away investors. By easing the dollar shortage, the CBN is hoping to convince Nigerians and foreign investors that the naira's most nervous days are over. The central bank's ability to keep the supply of dollars flowing is dependent on conditions beyond its control, such as global oil prices and peace in the volatile Niger Delta region. The CBN's struggles to keep the naira under control have hurt its credibility. For more information, read [here](#).

- **CAS View:** By now we are all aware of the currency problems Nigeria has been facing the past 18 months. We are also aware of the other challenges Nigeria has been facing, which have their origins in the currency 'debacle'. It is a pity that Nigeria tried to 'manage' the exchange rate to protect it – in the end, it lost a lot of value precisely because of these management efforts. A number of MNCs left Nigeria because of the weakness of the naira and the lack of dollars. Its efforts had exactly the result they were trying to avoid, i.e. the weakening of the naira. In the process, the CBN has lost its credibility, a position no central bank wants to be in. There is still a large difference

between the bank rate for the naira and the parallel market rate, something the CBN probably hoped to avoid when they adopted a flexible exchange rate policy. And it seems that the path going forward is not going to be easy, as the conditions for keeping the supply of dollars flowing, are beyond the control of the CBN. These factors, i.e. the oil price and volatility in the Niger Delta region, are not going to be in Nigeria's favour in the short-term. The oil price seems to be destined to remain within the \$50 range, unless the current conflicts in the Middle East escalate in a meaningful manner, or OPEC succeeds in actually implementing production cuts. While the first possibility is always a source of concern, the latter is less likely.