

## African Union

- **Africa:** The use of technology is changing the state of affairs in Africa and mobile applications are being launched in various parts of Africa to improve lives while contributing towards economic development and compensating for the lack of infrastructure.

The use of technology is changing the state of affairs in Africa and the mobile phone is the most used form of digital technology. Mobile applications are being launched in various parts of Africa to improve lives while contributing towards economic development and compensating for the lack of infrastructure. Due to these new technologies, the growth rate of the various communities has been rising progressively. The driving factors include peace in most regions, democracy, education and financial inclusion. Over 67% of the population have a mobile phone and 27% have a device that can access the internet. Africa is not only the fastest growing region when it comes to mobile phone usage, but it is also the cradle for creative innovations. These range from iHub and Nailab in Kenya, ActivSpaces in Cameroon, BongoHive in Zambia, MEST in Ghana, IceAddis in Ethiopia, to the Co-Creation hub in Nigeria; thousands of innovative minds are creating technological solutions to the issues facing their regions. Countries are shifting from resource-based economies to entrepreneurial and information-based economies partly facilitated by the availability of digital technologies. Governments are building infrastructures that support technology and are embracing more use of it in service delivery and governance. For more information, read [here](#).

- **CAS View:** A lot has been said in the newsletters from CAS on the role of mobile technology. We have also written a number of articles on specific issues, such as M-Pesa and Farm Crowdly, etc. Africa is clearly tapping into mobile technology to address challenges in the continent, and to leapfrog industrial era type of infrastructure, such as the traditional electricity pylons, by adopting solar mini-grids and using M-Kopa to pay for it. Mobile applications are also supporting various sectors of the economy, including the government sector. Dr Rafiq Raji, adjunct researcher of CAS, formulated it very succinctly when he said that “Africa Tech is the true Africa Rising.” His article can be accessed [here](#).

## East Africa

- **Djibouti:** The Port of Djibouti is being developed to remain as the transshipment centre for Ethiopia. It is also looking at diversifying its economic activities, to include attracting financial services and manufacturing capacity, amongst others.

China Merchants Group (CMG) has announced that it wants to turn the Port of Djibouti into a big hub port, similar to the Shekou terminal in Shenzhen, China. CMG bought a 23.5% stake in the Port of Djibouti and 67% equity in Doraleh Container Terminal. Djibouti is keen to attract manufacturing investment, including in the automotive sector, from companies that are being affected by rapidly rising wage costs in China. It has also mooted the possibility of attracting financial services companies to the zone. The Doraleh Multipurpose Port will have 15 berths spread over four terminals: container, bulk, breakbulk and roll on-roll off. Djibouti's growth has been aided by the completion of the \$4bn electrified railway from the port to Addis Ababa last year, cutting the travel time from two days to ten hours. Apart from being more efficient, the railway should help Djibouti maintain its position as the Ethiopian entrepôt in the face of expected competition from the planned new port at Lamu in Kenya. It could be argued that while Djibouti can function as a transshipment hub, with a population of just 950,000 it does not have the population – skilled or otherwise – to support a large city, although the government denies this. For more information, read [here](#).

- **CAS View:** Djibouti is a small country (23 200 sq km) in the Horn of Africa. Together with Ethiopia, it forms a stable basis in an otherwise volatile region. To its south, Somalia is a hotbed of conflict, while to its north, Eritrea has an authoritarian dictatorship for all practical purposes, with a population constantly striving to flee the country. Its geo-political advantages stem from its geographic positioning. We now have the USA, France and China with a military base in the country. It has also used this geographic position to create benefits for itself as the transshipment hub for Ethiopia. Although Lamu in Kenya is mentioned as possible competition, it is unlikely that Ethiopia will look towards any other country to play this role for it. The East African geography does not make this an attractive option; while the political situation of Somalia and Eritrea precludes these countries as realistic alternatives. It is good to see Djibouti also diversifying its economic base to reduce its dependence on Ethiopia as a source of income on the one hand, and the income from the military bases of the USA, France and China, on the other. Bearing in mind that the country is keen at attracting manufacturing investment, there is a definite need for skilled people. Djibouti would do well to pre-empt the increasing demand by creating a reliable supply of adequately trained and educated workers.
- **Ethiopia:** Ethiopia and other African countries must prepare themselves to receive Chinese manufacturing capabilities. China's government is encouraging manufacturers to move their industries to Africa, as part of the restructuring of the Chinese economy.

According to the Chinese Ambassador to Ethiopia, African countries need to be ready to receive Chinese manufacturing capabilities, which will enable them to create more jobs and improve their competitiveness in the global market. China's government is encouraging manufacturers to move their industries to Africa, as part of the restructuring of the Chinese economy. As these manufacturing capabilities will allow African countries to create millions of jobs and generate enough hard currency, Africa's governments must ensure they are ready to receive this relocation of China's manufacturing capabilities. The development of the Chinese economy currently requires a gradual relocation of its labour-intensive manufacturing industries (including garment and apparel industries) abroad through the 'Go Global' initiative. Reasons include rising labour costs and the rising cost of industrial inputs, including land, water and electricity. Despite China's desire to move the industries to Africa, it is up to the manufacturers themselves to decide based on market principles. Therefore, it is very important for African countries to be ready in the areas of politics, tax policies, customs policies and infrastructure. Challenges include training the workforce, removing red tape, and ensuring peace and security. For more information, read [here](#).

- **CAS View:** This article is a confirmation of the points made in earlier newsletters on the topic of Africa becoming the manufacturing hub, given that labour is becoming expensive in China. China is clearly on a road of developing a more advanced economy, and is moving away from more basic manufacturing sectors. It is reassuring that China's government is recommending Africa as the destination for new factories, as it does show China's commitment to support Africa. This is in line with Xi Jinping's commitment during FOCOC 2015 in Johannesburg, to support adding value at source. There is, however, a clear warning that Africa must get its act together and ensure that there is a business-enabling policy framework that will make for an attractive environment. Africa needs this kind of support – the benefits will be “yuge”! This will also stimulate the manufacturing capacity of African countries, a sorely needed development that will support the industrialisation of African economies.
- **Kenya:** Kenya's manufacturing sector is under pressure. Cheap imports, high production costs and a tough business environment, amongst others, are to blame.

Kenya's economy has been growing at a steady rate of 5–6% for the last few years. One challenge is its sluggish manufacturing sector, which only grew by 1.9% in the third quarter of 2016, down from 3.3% at the same point in

2015. In Nairobi, dozens of factories are closing down or relocating to other regions. Owners blame high production costs, counterfeits and a tough business environment. But cheap imports are the main reason behind the slump in the manufacturing sector. Many business owners buy manufactured goods in China at a cheaper price, despite concerns about the quality of the products. This makes a mockery of the “Buy Kenya, Build Kenya” slogan introduced by the government. Analysts say that Kenya should re-evaluate its taxation decisions regarding value-added tax, industrial development fees and the railway development fund, as they stifle local production, making locally made goods more expensive than imports. There are calls for investment in technical skills, creating a nurturing environment for SMEs with a special emphasis on women and youth enterprises, and making Kenya an export hub, thereby increasing the competitiveness for local business. Local consumers must be sensitised about the benefits of buying locally made products, such as creating jobs. For more information, read [here](#).

- **CAS View:** It is a reality that one can still buy cheap goods in China and import them to your own country in Africa. A number of textile sectors in countries in Africa have been severely damaged due to this phenomenon. Kenya is by no means the first, and will not be the last. Governments in Africa know this, or they should know this! Yet we see constraints such as high production costs, counterfeits, tax challenges, industrial development fees and a railway development fund. This makes it very difficult, if not impossible, for countries such as Kenya to compete against cheap imports from China. The tragedy is that many of these constraints could have been avoided. Although it is undeniable that buying locally made products will create jobs, if the consumer is struggling to survive, he/she will buy the cheaper product. It is up to industry leaders and government decision makers to ensure that local industries are not hampered by self-made challenges and constraints. The article above this shows upon the need for African countries to remove constraints in the manufacturing sector. This should not be news to governments!
- **Kenya:** The interest rate cap in Kenya has the unintended consequence of hurting SMEs as banks have become extremely risk averse.

The IMF has stepped up pressure on Kenya to review the interest rate controls, saying they were hurting SMEs. The Banking Act 2016 caps interest rates on loans and deposits. Credit growth has hovered around a 13-year low of 4.3%, with the Government fearing this might curtail economic growth as the private sector is denied credit. The IMF states that these controls have had unintended negative consequences on the availability of financing for SMEs, with the risk of reversing the remarkable increase in financial inclusion observed in recent years. President Kenyatta expressed frustration over the inability of Kenyans to get credit from banks, despite the lowering of interest rates. An unintended consequence of the capping of interest rates was a slowdown in lending by Kenyan commercial banks. Tough times were predicted for sectors such as cars, houses and firms in manufacturing, construction and real estate. The legislation was well-received by most Kenyans who thought it would redeem them from ‘greedy’ banks that for long enjoyed huge interest rate spreads. Before the onset of the law, lenders gave out loans at as high as 28%, even as some depositors received a measly 1% on their deposits. For more information, read [here](#).

- **CAS View:** The adoption of the Banking Act 2016 created a lot of discussion about the current state and future of the banking industry. The adoption also came hot on the heels of various reports on irregularities by various banks, as well as opinions on the possible consolidation of the industry. CAS referred last week to this consolidation, as well as the potential issuing of about 9 new banking licences. We now see that the IMF believes capping the interest rate (at 4% above the central bank rate) is hurting the issuance of credit to SMEs. This was to be expected, as normally the cost of debt is determined by the risk profile of the borrower. By capping interest rates at 4% above the central bank rate, Kenyatta made it extremely difficult for banks to manage the risk of risky

borrowers. They would have no other option but to be very risk averse. I am reminded of a saying that states that is no poor risk; there is only poorly priced risk. If one bears in mind the massive spread of lending rates of 28% and deposit rates of as low as 1%, one can understand why Kenyatta became so extreme. Kenyan banks are well known for their very high returns – significantly higher than their peers in neighbouring countries. It is now not difficult to understand why this is the case. But it seems they have done themselves no favour in the process, as did the government by adopting such a harsh response. It would be good for banking and business in general in Kenya were the respective stakeholders to actually discuss the road ahead to the benefit of all.

## West Africa

- **West Africa:** Ghana and Ivory Coast are producing cocoa and exporting the commodity to European countries where the value is added. This creates a situation where only 2% of global revenues in the industry comes back to Africa. African producers must relook this business model as it is not working for Africa!

Ghana and Ivory Coast are the largest producers of cocoa in the world, accounting for more than 60% of the global share, but cocoa price volatility has been unfavourable to them both. Cocoa prices have been at a 10-year low and that is expected to put pressure on the economies of the two countries. Current average cocoa prices reflect a drop of around 30% compared to mid-2016. But the two countries recently agreed to deepen collaboration and coordinate their production strategies by taking decisions on points concerning production and sustainability and on points concerning the volatility of prices. Ironically, while Africa produces about 75% of the world's cocoa, only 20% of the grinding process takes place in Africa, and of the annual \$100 billion value of the world's chocolate industry, only 2% comes to Africa. About 85% of the cocoa feeding the multi-billion euro chocolate industry in The Netherlands comes from African countries, with Ghana and Ivory Coast being the largest producers. In 2015, The Netherlands exported €2.8 billion worth of chocolate, semi-finished and cocoa butter products. For more information, read [here](#).

- **CAS View:** This article clearly shows where in the industry value chain the value (and risk) lies. The primary producers of cocoa have all the risk of producing the cocoa, but they then export a basic commodity to The Netherlands where the value is added and the margins are made. There is a very clear case to be made for forward integration in the value chain for the producers of cocoa. If we take that the annual value of the chocolate industry is \$100 billion, and that 75% of the cocoa comes from Africa, the fact that only 2% of that value (\$2 billion) comes back to Africa, is criminal. The Netherlands exported (excluding local consumption) about \$3 billion of chocolate and other products. It shows upon a very poor business model on the part of the producers in Africa. The simple question that should be asked, is why are the producers of cocoa not getting involved in the downstream activities of the value chain? This also shows upon a very big investment opportunity in both Ghana and Ivory Coast for agro processors. Here is another opportunity to stimulate the manufacturing capacity of African countries, create more jobs and boost local economies.
- **Nigeria:** Nigeria is supporting the development of exports through initiatives such as the Zero to Export Programme for non-oil commodities, including metals and non-metals.

To exploit export opportunities in Nigeria's solid minerals space, the Nigerian Export Promotion Council (NEPC) has informed exporters on the potential in the sector, citing the need to replicate the zero oil initiative across various sectors. The initiative would also give would-be exporters the opportunity to learn about the processes, procedures and the identification of markets for their products. The scheme is based on metals and non-metals.

The potential in the solid mineral space is under-utilized and enormous. This training is for people who have an interest in becoming exporters of solid minerals. Mentoring programmes will be deployed to make them competitive and attractive in the global market. Exporters are brought together to form cooperatives, and they are looking at coordinating and formalizing their operations to ensure that real export of solid minerals is carried out in Nigeria. They are also trying to replicate their zero to export programme for agro commodities. For more information, read [here](#).

- **CAS View:** The Zero to Export project is aimed at those interested in the export business and who are willing to invest in non-oil export ventures. The objectives of the programme are to develop the capacity of would-be exporters in practical terms in all the stages of export processing. It introduces the would-be exporters to the nitty gritty of logistics involved in exports. As such this an excellent initiative. It supports the drive to diversify the Nigerian economy. What does concern me, is the potential that Nigeria will complement the export of one basic commodity (oil) with another (minerals). Exporting agricultural commodities also creates a spectre of non-value adding product exports. Nigeria must strive to first add value before they export their products. Should they not do that, they will always be vulnerable to basic commodity prices, over which they in any case have no control. Value adding creates better job opportunities along the value chain, better revenues, and greater margins. The article above on cocoa exports in Ghana and Ivory Coast, should be compulsory reading for planners in Nigeria.