African Union

- Africa: Akinwumi Adesina, the new president of the African Development Bank, believes Africa must think big. In an interview, Adesina identified energy as Africa’s most important priority as 630 million people have no electricity. The drivers of prosperity in Africa, i.e. factories, SMEs, farms, and schools cannot function properly due to a lack of electricity. To address this, Africa must optimize its energy potential, e.g. solar (11 terawatts), hydro (350 gigawatts), and wind (110 GW) by using global and regional partnerships and the private sector. Agriculture is viewed as the bane of Africa’s economy. 70% of its population relies on agriculture for their livelihood and 65% of all the arable land left in the world is in Africa, but it’s underutilized. Unlocking that potential and generating new income streams in agriculture will create jobs, balance economies and reduce Africa’s dependence on imports. Feeding itself and having value-added agro-industrial development will allow Africa’s economies to be more resilient and have more fiscal stability. Africa must tap into its total discovered natural resources worth $82 trillion, to finance this. The AfDB can help the countries negatively impacted by the Chinese stock market volatility, to manage volatility, provide fiscal support, diversify their economies, and facilitate the growth of exports by getting involved in trade finance. Inequality is also problematic, with the incomes of the upper quintile of people in Africa being 11 times that of the bottom quintile. The GDP of the top 5 countries is 30 times of those at the bottom. Financial inclusion is key to develop the growth and resilience of countries. Developing credit, savings and insurance products for low-income households will help drive inclusive growth. Regional financial market integration, harnessing private capital, and strengthening the bond and equity markets, are other focus areas. Youth unemployment is deemed a crisis area. A major jobs agenda for Africa will be developed. Addressing problems in energy, agriculture and financial services will create jobs, while Europe and other countries will be approached to create jobs in Africa for its people. (Keeler, D. 2015. African Development Bank Head To Focus on Power, Equality and Inclusion. Wall Street Journal Frontiers – www.blogs.wsj.com, 31 August.)

- CAS View: The new president of the AfDB has ambitious goals for Africa. Addressing issues in the fields of energy, agriculture, financial services, exports, equality, and employment will indeed go a long way to develop Africa’s potential to benefit its people. It is good to see the focus on beneficiation, import- substitution, financial market development, and youth unemployment. The exploitation of its mineral wealth needs to be done in such a way as to not create greater dependencies on commodity exports, and where possible manufacturing must be actively supported. It is also hoped that by addressing the renewable energy resources of Africa, it will be able to largely leapfrog the electrification process to provide sufficient electricity at a low cost without damaging the environment. Adesina deserves the support of the AfDB’s member countries to tackle these important issues he has identified.

- Africa: New research reveals that some of the West’s biggest concerns over Chinese investment are not always well grounded. China’s demand for Africa’s energy and minerals and the growing volume of Chinese ODI in Africa have given rise to a number of ideas about Chinese investment in Africa: it’s on the same scale as China’s trade; it’s aimed primarily at natural resources; and it’s concentrated in countries with poor governance. The authors show that each of these ideas is largely a myth. Firstly, Chinese ODI statistics show a stock of $26 billion in Africa (2013), amounting to 3% of total FDI in Africa. According to UNCTAD, Chinese ODI to Africa during 2013-2014 was 4.4% of the total to Africa. The EU, led by France and the UK, are the overwhelmingly largest investors in Africa. The US is also significant, and even South Africa invests more in Africa than China does. Secondly, the allocation across Africa of Chinese ODI and total FDI show that the more resource rich African countries attract more Chinese investment, which is the same for Western investment. Chinese ODI is also influenced by the size of the domestic market. The research finds that the investments (covering the primary, secondary and tertiary
sectors,) are not concentrated in natural resources; services are the most common sector; and there are significant investments in manufacturing as well. Chinese investment is also everywhere—in resource-rich countries like Nigeria and South Africa, but also in non-resource-rich countries like Ethiopia, Kenya, and Uganda. While Chinese ODI is less prevalent in skill-intensive sectors in Africa, it is more prevalent in the more skill-abundant countries, suggesting that Chinese investors aim to exploit the local comparative advantage. Chinese ODI is more concentrated in capital-intensive sectors in the more capital-scarce countries, suggesting its importance as a source of external financing to Africa. While total FDI is concentrated in countries with better rule of law, Chinese ODI is indifferent to this measure, but is positively correlated with political stability. This means that Chinese investment is not concentrated in poor rule of law countries; the biggest recipient on the continent is South Africa. It does mean that China’s investment is more visible in the poor rule of law countries because China has invested in those locations, whereas Western investment generally stayed away from them. (Chen, W., Dollar, D. and tang, H. 2015. China’s direct investment in Africa: Reality versus myth. Brookings – www.brookings.edu, 3 September.)

**CAS View:** Although CAS referred to some of these statistics last week, this article provides a more comprehensive view on the possible faulty views on the extent of Chinese ODI in Africa. What is also interesting is the finding that the majority of investments in Africa are not made by the typical large MNC’s, but by the SME’s nobody ever reads about. This is a clear indication that there is ample opportunity for companies of all sizes to seize the opportunities presented in Africa. Singaporean SME’s should take heed of this finding.

**Africa:** Farming projects along lines of transportation are promoted as opportunities to attract investment and increase food security. In spite of the fact the agriculture is big business in Africa, farmers traditionally lack access to required networks and finance, with only 1% of commercial loans going to smallholder farmers. This relative underdevelopment, according to UN FAO agribusiness economist Eva Gálvez Nogales, is due to a lack of collaboration between various stakeholders, including government and investors. Nogales is a proponent of economic “agrocorridors”, which she believes can serve as a strategic tool to bring private capital and large-scale investment to agricultural projects in Africa. This will benefit smallholder farmers and boost food security. Agrocorridors are development programmes that foster agriculture along lines of transportation such as highways, railroads, ports or canals. They integrate investments, policy frameworks and local institutions. In spite of success stories abroad, in Africa, thus far, the benefits of such agricultural corridors remain mostly overlooked, though Mozambique and Tanzania have started programmes aimed at implementing them. Agrocorridors should be developed in areas where there is already economic density and untapped growth potential that can be maximized. The idea is to build on what is already going on in terms of transportation and different initiatives. Agrocorridors give policymakers a framework with which they can assist farmers (better access to markets and credit), and investors (supply opportunities to link up with those producers). The main challenge for agrocorridors is how to upscale good initiatives that are already taking place but making them wider and attracting other startups, businesses and foreign agribusinesses to follow the examples that are already in place. Government’s role in this is crucial, with agrocorridors requiring incentives and the provision of a better investment setup through aspects such as reduced transaction costs. The benefit of agrocorridors for governments is that they can massage and influence investments so they are beneficial for farmers and certain communities. Connectivity, competitiveness and the sense of community are the primary aspect of successful corridors. Extension of this collaboration across borders can only increase the impact of economic agrocorridors. (Jackson, T. 2015. ‘Agrocorridors’ to boost food security. African Business Magazine – www.africanbusinessmagazine.com, 26 August.)
**East Africa**

- **Ethiopia:** Following privatization of the former state-owned breweries to multinational companies, such as Diageo and Heineken, smallholder farmers in Ethiopia are turning towards contractual farming. This enables the farmers to work with breweries and provide barley malt sustainably as an input for the breweries. The government encourages the practice to save the foreign currency spent by the breweries to import malt. Since Diageo’s Meta Brewery introduced the practice 3½ years ago, this trend has increased with farmers becoming more interested in contract farming of barley malt for breweries, with 23,000 smallholder farmers engaged. This is in line with government’s strategy to convert the substance smallholder farmers to commercial farmers. The government is planning to replicate the practice to wheat producing farmers and agro-industries that use wheat as an input. The breweries contract with the farmers through farmers’ cooperatives and unions. Ethiopia currently supplies locally only around 40% of the demand of the 5 breweries. The main reason for limited local supply of malt is mainly due to lack of barely development activities. Meta Brewery has invested a total of 90 million birr over the past 3 years to source 50% of their barley from the local market. Ethiopia’s beer industry has seen a surge in demand associated with increased urbanization, population growth, and rising incomes. Beer production has risen from 1.0 million hectoliters in 2003/04 to nearly 3.1 million hectoliters by 2008/09 (24% growth). Ethiopia is one of the lowest beer per capita consuming nations in SSA at 4 liters per annum. (Gessesse, A.S. 2015. Ethiopia pushes its smallholder farmers towards contract farming. **New Business Ethiopia** – www.newbusinessethiopia.com, 10 September.)

- **CAS View:** Large MNC’s will do well to participate in this practice of import substitution. It is a win-win situation not only them, but also to the governments of African countries and to the farmers/local producers. Jobs are created, foreign reserves are saved, the trade balance is improved, the current account is under less pressure, and the wealth of employees are improved with more personal disposable income. In a sense, the breweries are creating a larger consumer market for themselves by doing this. The expansion of the practice to all sectors of the economy, where practically feasible, should be actively encouraged given the benefits cited.

**Southern Africa**

- **South Africa:** Former South African minister of finance, Trevor Manuel, says South Africa needs one united business voice. Manuel shared his views on the most important investment challenges that SA and Africa currently face. He pointed out that it’s still the private sector that contributes most to the GDP, but the employment trend has flipped towards the public sector. This provides a very real contradiction. With the collapse of unions, an absent business voice (that prevents real issues to be brought to the table), and labour and capital not talking to one another, the system is broken. An organized business voice is needed to let Government know which regulations make sense and which don’t. Manuel highlighted the disconnect between job loss announcements in the mining industry and the wage demands by unions. Since SA is sitting on 95% of the world’s platinum reserves, new uses for it could significantly contribute to an economic lift-off in SA. He encouraged fund managers to invest...
in platinum-related research and development ventures such as the hydrogen cell. While 60% of the world’s un-cultivated arable land is on the African continent, only 5% of cultivated land is under irrigation, which is an opportu-nity waiting to be unlocked via infrastructure development - from roads to cold storage systems. Here too fund managers play an important role in economic growth by buying bonds issued by institutions like the AfDB to fund infrastructure development. One of the levers to expand economic opportunity is a well-oiled transport system. Regional integration is important for going forward. While SA has the world’s oldest customs union shared with Botswana, Lesotho, Swaziland and Namibia, it still has a lot to learn from the movement in East-Africa. According to Ernest & Young, one of the drivers of growth in Africa is a diversified economy. Here the African continent has made excellent progress as only 5% of FDI in Africa now goes towards extractive industries. “Africa is no longer a mining continent. In fact, the world now tries to copy technology and financial developments from Africa, such as M-Pesa.” (Anon. 2015. Manuel: SA needs united business voice. Fin24 – www.fin24.com, 6 September.)

- **CAS View:** Trevor Manuel, one of South Africa’s best finance ministers of all time, demonstrates clearly the challenges and opportunities South Africa represents. Here are an abundance of investment opportunities for R&D houses, ICT companies, road and rail transport companies, and cold storage companies, amongst others. Economic diversification and regional integration are two important strategies to help South Africa, and Africa at large, to grow its economy and become less dependent on the export of commodities Africa has become known for. While only 5% of FDI in Africa goes to extractive industries, a number of its large economies are still heavily dependent on 2 or 3 commodities for a major portion of its exports. Approximately 92% of Nigeria’s exports consist of oil and gas and 97% of Angola’s exports consist of petroleum oils. A lot therefore still remains to be done. Countries should innovate their “business model” to develop a value proposition that optimizes their key resources, in a way that creates a sustainable and revenue enhancing long-term future. The support of entities like the AfDB (with its views on the importance of the role of the private sector) is needed. Foreign investors, amongst others from Singapore, should also take note that it is mostly Chinese SME’s that make up the bulk of China’s ODI in Africa, and not the large MNC’s. This is a strategy to be emulated.

- **South Africa:** According to McKinsey, business and government need to make South Africa more employment ready through a dramatic expansion of vocational training. They found that a focus on 5 areas of the economy could add R1 trillion to annual GDP by 2030 and create 3.4 million jobs, i.e. advanced manufacturing; infrastructure productivity; natural gas; service exports; and agricultural production. In terms of infrastructure productivity, R1.4 trillion could be saved through more optimised infrastructure spend, while productivity gains could create up to 660 000 new jobs by 2030. To meet SA’s next energy gap, it could install up to 20GW of gas-fired power plants by 2030 through both imports and local shale gas resources (if proven). Financial services, the construction sector and business services represent the 3 largest opportunities for service exports to the region. McKinsey estimates that SA has only a 2% share of SSA’s service imports (Brazil’s 26%; UK 19%; Japan 8%) This represents a major opportunity for growth, given that the market for imported services in SSA (excluding SA) was worth R439 billion in 2012 and has been growing by 6% a year since 2009. McKinsey estimates that entry-level school leavers will fill only 22% of the jobs created. Nearly 50% will require vocational training. Only agriculture will create substantial levels of jobs for the elementary occupations. Construction, manufacturing, energy and natural gas, and services will require significant numbers of skilled artisans and employees competent in a vocation. The quality of the education system and the soft skills of SA’s youth must be improved, and business had to create more apprenticeships for the youth and participate in designing curricula. Unless South Africa can create the workforce to fill the jobs it creates, manufacturing and services companies will struggle to grow their businesses and may leave new opportunities on the table as a result. Growth and skills development will need to move in tandem to break this cycle. (Barry, H. 2015. SA needs more welders, tradesman – McKinsey. Moneyweb Today – www.todaymoneyweb.co.za. 10 September.)
CAS View: A prominent theme from McKinsey’s research is that an educated and well-trained workforce is imperative for South Africa’s growth prospects. Unfortunately this area is one of the issues in the WEF’s global competitiveness rankings where South Africa is not doing well. The reality is that there are very high quality schools and universities in South Africa, but there are also quite a number that do not meet the requirements. This is an aspect that requires immediate and thorough attention. All 5 sectors identified are impacted negatively by this problematic factor in the larger South African system. All the areas stated represent investment opportunities for foreign and South African companies. The need for imported services in Africa is quite clear, and as such represents a clear opportunity for South African companies. They could venture into Africa on a solo basis or in partnership with companies that have proven track records in service delivery.