African Union

**Africa**: Africa has the potential to become an economic powerhouse in the world, should it follow a number of recommendations.

Although Africa is currently a weak link, it is not destined to lag behind the rest of the world economy. It could become a global economic powerhouse – and within the next decade. To fulfil its economic potential, Africa must industrialize. It must challenge the international community and development partners to back their words with real financial commitments. It must build partnerships to operationalize programs that will enable Africa to become the world’s next main engine of economic growth. Africa’s economies must build dynamic and competitive manufacturing sectors with higher value added, and draw on the opportunities presented by participation in global and regional value chains. Investment in education and skills training is imperative to facilitate successful and lasting industrialization. Knowledge of other countries’ experiences will also help Africa to avoid the pitfalls of unbridled industrialization. Recommendations for Africa include: 1) Support for agriculture and agribusiness development, linking them with other sectors. 2) Measures to boost resilience to price shocks. 3) The need to deepen, broaden, and update the local knowledge base. 4) Invest in energy- and material-resource efficiency. 5) Promote green technologies and industries. For more information, read [here](#).

**CAS View**: The “Africa Rising” narrative got a serious knock with the drop in oil price, which led to the stagnation of large economies such as Nigeria and Angola, the slowdown of the Chinese economy, and the end of the commodity price super cycle. While it is so that a number of non-commodity exporters, such as Tanzania, Kenya and Ethiopia, have done well, the big guns in Africa have been hurting. The article above provides perspective on the potential of Africa and how it can become an economic powerhouse. Those global players that have a keen understanding of Africa’s potential, have kept a presence in the continent and are benefitting from this. It will be interesting to see what the USA’s stance towards Africa will be. Will it keep the AGOA in place? Will it put pressure on Africa’s leaders to conform to its model of democracy and governance? What will the impact of this be? Will Africa toe the line, or will they increasingly turn towards China and other countries in Asia? Germany has recently developed its Marshall Plan for Africa. It is undeniably so that Africa needs support to put in place the recommendations identified above. It cannot go it alone. It remains to be seen who the main future foreign players in Africa will be.

**Africa**: There is still significant M&A activity in Africa, and we are seeing activity moving from West to East Africa.

International law firm Clifford Chance saw an increase in M&A instructions in Africa in 2016. The power sector was particularly active in Africa in 2016, while other sectors which saw significant growth were agribusiness, education, and financial services. There was also a noticeable deal shift from west to east Africa. While concerns over FX risk and an economy adjusting to a sustained period of low oil prices dampened appetite for M&A in Nigeria, Kenya and other east African jurisdictions became more favoured investment destinations. Clifford Chance are seeing an increased use of bespoke purchase price mechanisms to protect against key risks and to bridge valuation gaps. Other risk mitigation strategies include investing in countries perceived to be regional hubs through which growth in nearby economies can be accessed, and establishing multi-jurisdictional platforms to build scale and a natural hedge against FX and individual country risk. Multiple years of significant economic growth have made Kenyan companies operating in many sectors, such as the solar sector, appealing targets for international private equity houses. For more information, read [here](#).
• **CAS View:** The article makes it clear that there are still investors quite keen on investing in Africa. It is important that one identifies the sectors with potential, the risks inherent in the country and the sector, and develop risk mitigation strategies. I have been stating this a number of times over the past 20 months. Should you not do your homework, you will pay the price. Clifford Chance have also confirmed the trend of “Africa Tilting”, with investment activity moving from West Africa to East Africa. In East Africa, countries such as Ethiopia, Kenya, Rwanda and Tanzania are countries currently presenting good investment opportunities.

**East Africa**

• **Ethiopia:** Ethiopia is looking at unlocking the strong potential of its mining sector, and is looking at attracting foreign skills and capital.

Ethiopia wants to boost its economy through the development of its mineral resources sector. Its Minister of Mines, Petroleum and Natural Gas told delegates at the “Investing in Mining Indaba” in Cape Town that the mining sector had been identified as a priority for development. Ethiopia is virtually untapped; diverse and vast mineral resources offer huge potential opportunities for exploration and development. The focus on developing its mineral resources is part of the government’s plan to shift from an agriculture-led economy to an industrial one. Ethiopia’s policy framework envisages the minerals sector to be the backbone of industry by 2023. The government wants to increase the sector’s contribution to GDP from 1.5% currently to 10% by the year 2025. Ethiopia was trying to create a conducive environment for investment. In addition to the development of infrastructure and the provision of quality geo-scientific information, policies and practices put in place to attract investment include a clear and transparent legislative environment and an enabling fiscal and tax regime. Whenever their efforts stumbled on a lack of experience, the government sought help from outside parties. Transforming the sector is a priority, but Ethiopia lacks capacity in a number of areas. For more information, read [here](http://www.ntusbfcas.com).

• **CAS View:** Ethiopia has been held up a benchmark of economic development. Its industrialisation drive and stimulation of its manufacturing sector has boosted the economic growth rate of the country, albeit from a low base. The development of its energy infrastructure aims at making it a powerhouse in the region. The focus on the mining sector has the potential to boost the economy to an even greater extent. Whilst the Ethiopian government has been circumspect as to which sectors of the economy it opened up for foreign investment, it has been quite open about its intention to attract foreign investment and competence in the development of the mining sector. Given the examples of the negative impact when countries do not adopt a value-added approach to mining, Ethiopia must guard against this. Beneficiation must form an important part of its mining policies. It will make them less susceptible to the vagaries of global commodity prices, create jobs locally, support import substitution, and overall boost the economy. However, its political scene has been marred by political violence due to protests from the Oromo and Amhara tribes against exclusion from meaningful participation in the politics of the country. Ethiopia must address the causes of this phenomenon. As it is, FDI into Ethiopia dropped during 2016 relative to 2015, and commentators ascribe this to the political violence referred to. The country must do everything possible to keep on track with its economic, social and other forms of development.

• **Ethiopia:** Ethiopia is developing its sugar sector, with Aliko Dangote looking at becoming an investor.

Aliko Dangote wants to diversify his investments in Ethiopia, and he’s looking at sugar production. Ethiopia produces enough of its own sugar to stop importing it this year and start exporting it. The country is expected to have 13 large sugar factories by 2020. With the new factories that will get fully operational this year, the nation will have a capacity to produce 700,000 metric tonnes of sugar this year. With this capacity, Ethiopia no longer needs to
import sugar. Dangote said that he plans to establish an Ethiopian packaging facility in few months as part of his efforts to diversify. They are also looking at the possibility of looking at other areas, sugar and others, mainly agriculture. Sugar development is key to reducing unemployment in Ethiopia. So far, the sugar industry has provided jobs for more than 350,000 Ethiopians. It’s expected to create 600,000 more jobs by the end of 2020. The government said it has been building dams and other irrigation infrastructure for new sugar development projects in remote areas devoid of infrastructure and social service institutions. Dangote is entering the Ethiopian sugar industry at a time when the government is just starting to reach out to foreign partners. For more information, read here.

- **CAS View:** Dangote from Nigeria is tapping into the growth prospects of Ethiopia, and the government’s willingness to attract foreign investors in certain sectors of the economy. This does create an expectation of more economic growth in Ethiopia as Dangote is known as a savvy investor. It’s good to see Ethiopia becoming self-sufficient in the field of sugar. The jobs created (and to be created with future factories) will be good for Ethiopia in so many ways. The benefits of import-substitution are self-evident, as is the greater revenue from sugar exports. The development of the infrastructure to support the sugar development projects will not only benefit the latter, but will also stimulate the development of other agricultural products and manufacturing entities dependent on energy and water.

**West Africa**

- **Senegal:** Dakar has developed a strategy for urban resilience.

Dakar aims to boost its ability to weather floods, disease, unemployment and other shocks through a strategy for urban resilience. By anticipating disasters, creating more green spaces to help curb climate change, and tackling problems like waste, Dakar is aiming to craft a model for other cities facing similar challenges in Africa. Protecting Dakar's beaches against coastal erosion, and re-thinking housing policies where half-finished buildings are a common sight, are crucial. The resilience plan includes projects in five priority areas: civic engagement, health and sanitation, private-sector partnerships, energy efficiency and inclusive governance. One idea is to introduce the concept of resilience in early education, teaching children about environmental responsibility and what it means to be a citizen. Another is the creation of a brand to promote local crafts and goods with the label "#MadeinDakar," increasing artisans' visibility and helping them partner with formal businesses. One of the more ambitious goals is to install a city-wide recycling system. The next step would be to instil ownership of the initiative in the local population, working with youth groups, women's organizations and the media to spread the message. For more information, read here.

- **CAS View:** City development in Africa has always been a challenge. Given the strong trend of urbanisation, large numbers of people have flocked from rural areas to cities in search of jobs and accommodation. Unfortunately, the provision of the requisite infrastructure could not keep pace with the needs. Neither could the financing required for the development of the infrastructure. The end result has been urban sprawl, slums, poor services (water, sewerage, energy, transport), poor education, unemployment, and health problems. Seeing Senegal's capital, Dakar, developing an urban resilience strategy, is therefore heartening. Africa needs to not only formulate such strategies, but to put money behind their active implementation. It is not only about infrastructure, but also about health services, education and local economic stimulation. Creating jobs and boosting the local economy will increase the standard of living through higher personal disposable income, higher taxes, and hence a greater ability to achieve the above objectives. Good governance is going to be crucial as well. This is where companies
such as Singapore’s Surbana Jurong can play an important role, as they are experts in the field. Let’s hope we see many more cities in Africa following Dakar’s stellar example.

**Southern Africa**

- **South Africa:** Private school provider Curro is going from strength to strength, given the poor state of government education in South Africa.

Private school operator Curro Holdings expects its year end results to improve by at least 57% for the year to end December. In August, Curro said it would spend R950 million to build nine campuses in the year and increase the number of schools under its portfolio to 200 by 2020. Chief executive Chris van der Merwe said the group wanted to invest up to R2 billion, with R800 million earmarked for the construction of new campuses and R450 million for the expansion of existing campuses. With South Africa’s public education sector facing a continued crisis of providing quality education, the private school operator has seen a boom and has looked beyond SA borders for expansion, particularly in the tertiary education sector. In November, Curro acquired a 50% stake in Botswana-based BA Isago University. The acquisition will add 3 000 students to the 42 000 already at Curro campuses. Curro’s current share price currently reflects that the market is pricing in very high growth over the coming years. For more information, read [here](#).

- **CAS View:** Education in South Africa is a major problem. In the WEF rankings for 2016/17, SA ranked 126 out of 138 on quality of primary school education, 134 out of 138 on quality of the education system of higher education and training, and 138 on quality of maths and science education. Interestingly, it ranked as high as 21 on the quality of its management schools. In the first article of this newsletter, I have referred to the importance of education as a driver in the strategy to develop Africa into a global economic powerhouse. It is therefore disconcerting to see how poorly South Africa ranks in this very important field. Curro is a private education provider that has provided quality education at quite reasonable prices. Given the perceived poor quality of the government education system, more and more parents from all racial groups are investigating private education as an alternative. Given the instability and violence on university campuses last year with the #Feesmustfall campaign, it is quite realistic to see Curro’s drive into tertiary education picking up speed. The inability of the South African government to provide quality education is the main driving force behind the growth phenomenon of private schools. One of the first things the ANC government did when it took over political power in 1994, was to close down teacher training colleges. This seems to have been a disastrous mistake. For the sake of South Africa’s youth and its future, it is imperative that the government gets experts to help it get education back on track. More of the same has clearly not been working the past 23 years!

- **South Africa:** Spaza shops in South Africa form an integral part of the informal economy and contribute significantly to job creation and GDP growth.

Since the mid-1970s, spaza shops have been the backbone of South Africa’s township economy. These make-shift retail spaces in residences often stand in stark contrast with consumer landscapes of the formal economy such as malls. It is estimated 300 000 jobs are created by the spaza economy and it contributed R9 billion to the economy per annum. To improve growth in the SA economy, government must remove the barriers that prohibit growth & sustainability for spaza shop owners. Access to formal credit will improve the growth of spaza shops. This must be supported by extensive skills development programmes, as spaza shop owners suffer from a combination of inadequate retail and merchandising knowledge and insufficient bargaining power to effectively negotiate discounts. Very few spaza business incubators exist, which can stimulate growth and sustainability. Crime
is another problem spaza shop owners face. With limited space, shop owners are forced to purchase their goods in smaller quantities, which limits growing the business into a more successful and larger business. It also limits the negotiating power with suppliers. These challenges raise questions regarding the sustainability of small retailers. For more information, read here.

- **CAS View**: Spaza shops represent entrepreneurs in the townships of South Africa. They play an important role in providing goods and services to people who do not have cheap access to public transportation, and generally must travel far to malls and shops. They also make a sizeable contribution to both jobs and GDP. Many of them probably do not pay tax, given the informal nature of the sector and that many of them would not be registered. It is therefore probably quite likely that the number of spaza shops, the jobs they create and their actual contribution to the economy are quite higher than indicated in the article. The spaza shop owners, however, do struggle as other entrepreneurs do, due to a lack of financing and managerial skills and knowledge. Government must play a larger role in supporting these entrepreneurs. The fact that these shops are frequently the victims of crime is also totally unacceptable. Should there be greater support, they would be more successful, with more jobs and a greater contribution to the economy, and being then registered, more would be paying their fair share of taxes.