Africa

- **Africa**: The presidents of Angola and Mozambique, respectively João Lourenço and Filipe Nyusi, have been invited to take part in the tenth BRICS summit meeting, being held from 25-27 July 2018 in Johannesburg, South Africa.

The visit by these two leaders of the Southern African Development Community (SADC) member countries was framed by the intention of the leaders of the BRICS (Brazil, Russia, India, China and South Africa) countries to boost their relations with Africa. Besides the mentioned presidents, 6 other African heads of state were also invited to participate in the Johannesburg summit, from Gabon, Namibia, Rwanda, Senegal, Togo and Uganda. The summit meeting will culminate with the adoption of the Johannesburg Declaration, which includes the goals agreed by the 5 BRICS countries up to 31 December 2018. For more information, read: https://bit.ly/2uPOi11.

**CAS Analysis**: The BRICS countries represent powerful trading partners of Africa, as well as significant foreign investors in Africa. As such they have a powerful role to play on the continent. Inviting the 8 countries mentioned above to attend the BRICS Summit in Johannesburg provides a clear indication that the BRICS countries do intend to expand their sphere of influence in Africa. The danger is obviously that the respective member countries of BRICS could become competitors instead of collaborators. As it is, India and China have developed competing initiatives with the Asia Africa Growth Corridor (India) and the Belt and Road Initiative (China). China has clearly indicated that the whole of Africa can participate in the BRI. We are also seeing Russia expanding its economic and military influence in Africa, with a clear intention of selling its nuclear energy value proposition to African governments. It is not farfetched to see these 3 countries starting to compete for influence and economic benefits in Africa. In addition, it is interesting to note that the major economy in Africa, i.e. Nigeria, was seemingly not invited. The same goes for the 2 dominant economies in East Africa, i.e. Ethiopia and Kenya. It is not clear why these dominant economies were not invited to also attend, or if they had been invited, why they are not attending.

East Africa

- **Kenya**: Kenya is looking for strong banks that are capable of withstanding shocks to finance large infrastructure projects, a move that has left the future of about 20 small banks hanging in the balance.

The Kenyan Central Bank is quietly engaging the small lenders in merger and acquisition talks to help them voluntarily close shop. Kenya’s small banks suffered a run on deposits after the collapse of Dubai, Imperial and Chase banks in quick succession in 2015 and 2016 as depositors shifted savings to big banks. Kenya has 42 banks, including those under liquidation and receivership; 20 small lenders control only 8.7% of the banking business compared with 8 big banks that control 65% and 11 medium-sized banks with 25% of the market share. The struggling state-owned banks (National Bank, Development Bank of Kenya and Consolidated Bank) are also looking for strategic investors. The expectation is a more transparent, well-governed and efficient banking sector with fewer players, who are larger and more stable. For more information, read: https://bit.ly/2LNa0T3.

**CAS Analysis**: The principle is always that when you have a situation where there are a large number of unprofitable players, that you should look towards a consolidation of the industry by the bigger players, or a large foreign player. The Kenyan Central Bank is clearly a proponent of this principle. A year or two ago, the government of Kenya adopted legislation where banks were restricted to a maximum lending interest rate of 4% above the Central Bank rate, and where they could not pay less interest than 2% below the Central Bank rate. This was in response to the huge returns the banks in Kenya were making, considerably higher than their regional counterparts. The feeling was that the banks were benefitting by exorbitant rates. These restrictions consequently placed pressure on the returns the banks were making, forcing many to tighten their lending practices and risk policies. This whole situation seems to have been bad news for the smaller banks. Given the uncertain situation in the banking sector, it will be interesting to see who would be courageous enough to become the envisaged strategic investors in the state-owned banks mentioned. The stated expectation of a more transparent, well-governed and efficient banking sector with fewer players cannot be faulted. The collapse of smaller banks would undermine the general public’s confidence in the banking sector, which cannot be allowed.
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- **Uganda:** The US Overseas Private Investment Corporation (OPIC) is investing $58 million in Uganda’s economy through lending financial capital to private companies to promote value addition and increase their operational scope.

OPIC is targeting logistics, transportation, telecommunications, internet connectivity and value chain projects in sectors such as agriculture across the country. They also deal in hotels, and their primary objective is to help to multiply the jobs in the supply chain and logistics. The money would be lent to exclusively private companies at an interest rate of about 5%. As the US Government’s development finance institution, OPIC has a long history of mobilising private investment in Sub-Saharan Africa, a region which today accounts for 25% of the agency’s US$23 billion global portfolio. For more information, read: [https://bit.ly/2uNwYtS](https://bit.ly/2uNwYtS).

**CAS Analysis:** It is good to see the USA investing in Uganda in a range of sectors. The mentioned project areas are all important to Uganda (indeed, for the rest of Africa as well). Interestingly, the money is not provided to the government, but to the private sector of the country. This is not just part of the OPIC’s approach to its investments, but it is in the USA’s best interest to help Uganda grow and develop, as the country is an important ally of the USA in the struggle against terrorism in the region. The stated interest rate of 5% is 4% below the Bank of Uganda rate of 9%, and is an excellent rate! The private sector has a significant role to play in Africa’s development, not only in Uganda. This has been identified by many commentators, including dignitaries such as both the former and current president of the African Development Bank.

**Southern Africa**

- **Southern Africa:** Turkey President Recep Tayyip Erdogan will further his outreach to Africa this week, as he visits South Africa and Zambia after a meeting of BRICS nations in Johannesburg.

Although Turkey is not a member of BRICS, Erdogan will attend a special session as the current chair of the Organisation of Islamic Cooperation (OIC) at the Summit. Erdogan is also said to be due to meet Russian President Putin. Erdogan’s visit to Zambia on 28 July 2018 will be the first ever visit by a Turkish head of state to this country. Erdogan has made it a foreign policy priority to establish new ties with emerging economies in Africa. He has visited 20 African countries since he was elected president in 2014. Turkey has also established strong military ties with Somalia and deepened its relationship with Sudan, while its presence in West Africa is also being felt. For more information, read: [https://bit.ly/2mMmJkN](https://bit.ly/2mMmJkN).

**CAS Analysis:** I have written in previous newsletters about Turkey’s outreach to Africa, and the extent of its presence in Africa’s diplomatic scene. Lately we have also seen Turkey becoming involved in the upgrading of the port of Suakin in Sudan. Given all of its initiatives in Africa, it is not unreasonable to deduce that Turkey wants to play a significant role in the development of Africa and trade with the continent. Turkish Airlines travels to many African airports and is a popular choice, given its efficiencies and relative low cost. President Erdogan’s outreach to the Russian president must be seen within the context of the cool relations between the two countries since Turkey’s shooting down of the Russian fighter plane of a year or two ago. The thawing of these relations will create an interesting conundrum for the USA, not only in the Middle East, but also in Africa, given the outreach of both Russia and Turkey towards Africa.

- **South Africa:** The news that China will invest in the local economy has supported some foreign inflows. South Africa’s rand firm more than 1% on Tuesday to a three-day best after President Cyril Ramaphosa said China would invest US$14.7 billion in South Africa, spurring some offshore demand for the currency.

According to traders, news of China’s investment had soothed sentiment rattled by a score of patchy economic indicators. The Rand has seen volatile trade in the past 2 weeks, and fell sharply last Thursday when the central bank warned that risks to inflation were rising and the outlook for economic growth had worsened. The currency, however, remains a favoured carry-trade target owing to the return offered by low inflation and relatively high lending rates against a backdrop of economic reform promised by Ramaphosa since his election. For more information, read: [https://bit.ly/2LMWbuF](https://bit.ly/2LMWbuF).
CAS Analysis: After coming to power, President Ramaphosa put together a team of special investment envoys in April 2018, including 2 business people and 2 former senior government ministers. They have been given the task of recruiting investment to the tune of US$100 billion over the next 5 years. The investment envoys are former finance minister Trevor Manuel, former deputy finance minister Mcebisi Jonas, and business people Jacko Maree (banker) and Phumzile Langeni (business executive). The media has reported the following investments since April 2018 (actually in the last month): Saudi Arabia – US$10 billion; UAE – US$10 billion; and China – US$14.7 billion. So, we have seen 34.7% of the target being reached within the first 3 months of the 5-year target period. As Ramaphosa indicated at the time, the US$100 billion might have been a low target, which seemed an ambitious target by quite a number of commentators at the time! The president has been criticized for not doing enough to rid his cabinet and his party from corruption. Clearly this cannot be said about achieving the stated target of US$100 billion. As for the Rand’s strength, it is currently trading at R13.25 to the greenback. According to the Big Mac Index, it should be trading at below R6.00 to the US$; it is therefore significantly undervalued. From a South African perspective, the raising of more investments should hopefully see a further strengthening of the Rand, although the exporters might not be too happy with that outcome. Hopefully this will also strengthen Ramaphosa’s powerbase, which should allow him to cleanse his administration and party.

- **Zambia:** Africa’s development will be the focus of the BRICS summit’s agenda as it focuses on “collaboration for inclusive growth and shared prosperity in the Fourth Industrial Revolution.” It is vital businesses embrace this revolution to strengthen Africa’s economies and boost food security across the region.

In agriculture, the utilisation of new technology, investing in R&D and working with local farmers to improve crop yields and income are vital steps for future growth of the sector. New mining technology will help drive down costs, improve productivity and gain a deeper understanding of potential resource bases at exploration stage. This will allow investments and pursuing opportunities which may have previously been deemed economically unviable. New technology has also brought other advantages such as the creation of jobs, providing an additional source of revenue for government through taxes and mineral royalties, and having a positive knock-on effect on other industries such as transport. Advances in technology have reduced the cost of generating power through solar, providing a viable alternative for countries that have relied on coal and hydro power. The FIR can also improve connections between Zambian communities, utilising mobile money agents. To successfully capture its benefits, Zambia needs to foster a “culture of production.” For more information, read: [https://bit.ly/2LM4c37](https://bit.ly/2LM4c37).

CAS Analysis: African countries can be forgiven if they stand sceptical towards such events as the BRICS Summit, currently being hosted in Johannesburg over the period 25 – 27 July 2018. The reality is that given the profile of the members of BRICS, there is a major opportunity for these countries to make a huge difference in Africa. The Summit is a perfect opportunity for members to discuss key topics that could help close the developmental gap between African countries and the rest of the world. Since China, for example, is moving up the value chain and producing more advanced goods, Africa can be the new factory of the world. To do this, however, Africa needs to expand its population’s skills in STEM (science, technology, engineering, mathematics). This will help African economies to upgrade its exports from raw materials to value-added goods and create many meaningful job opportunities in the process. Given the beginnings of a trade war between the USA and China, as well as between the USA and the EU, Africa could be an unintended victim. Stronger trade flow between BRICS countries and Africa might help offset the negative consequences. The above article clearly articulates the envisaged benefits for Zambia from the FIR, a major topic of discussion at the Summit. This could be true for all of Africa. The specific mentioning of agriculture shows upon the importance of this sector in Africa. According to the FAO and Olam International, a comparison of crop yields between various world regions shows that a huge amount of potential is being lost. Sub-Saharan Africa’s fields yield only 24% of their potential, while best practice from around the world produces up to 3 times as much. Zambia and Africa can therefore benefit immensely from support in this regard.