NANYANG TECHNOLOGICAL UNIVERSITY
Nanyang Business School

Friday@Noon

A weekly electronic African news briefing for the Southeast Asian community
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NTU-SBF CENTRE FOR AFRICAN STUDIES

Issue 103 23 June 2017

African Union

- **Africa:** If the SDGs are to be achieved and the 23 poorest countries of the world are to benefit from impact investment, a new model is required. That new model is a large private fund and a manager focused exclusively on growth capital equity investments across these 23 countries.

  For the world's poorest 23 countries to move out of poverty, there must be a much higher volume of growth capital equity provided by private investors. There is an absence of local private equity, growth capital and venture funds in those countries, and deal sizes are relatively small. If the SDGs are to be achieved and these countries are to benefit from impact investment, a new model is required. That new model is a large private fund and a manager focused exclusively on growth capital equity investments across these 23 countries. To have a meaningful impact, the Fund would need aggregate capital commitments from its limited partners of between $600 million to $1 billion. Spreading the Fund's portfolio investments across 23 countries would, in contrast to single country and regional PE funds, provide investors with a healthy degree of diversification. In 2016, only five of the 23 had any private equity investment—Madagascar (two transactions), Togo (one), Burkina Faso (two), Rwanda (three) and Ethiopia (two). For more information, read: http://bit.ly/2sUQPaG.

  CAS View: The suggestion of a private investment fund managed by a fund manager, with investments spread over Africa to diversify risk, is an interesting one. For the world's developed (and rich) countries to sleep easy at night, they must ensure that the poor countries are also relatively well off. However, aid on its own has proven to be counter-productive, and high profile leaders such as President Paul Kagame of Rwanda had cautioned against it and suggested that investment in worthwhile projects should be the area of focus. The article clearly shows that local PE, growth capital and venture capital are at very low levels in Africa. In the same way that you cannot tolerate vast inequality between the rich and poor within a country, you cannot tolerate vast differences between countries in the world. The level of inequality within a system is only tenable to the extent that the have-nots find it acceptable. What you will find if you do not address the inequality, is what we currently are seeing with the thousands of migrants leaving Africa for the so-called rich countries in Europe. It is also why countries such as South Africa have become magnets for migrants in the region. It is also why cities are drawing more people than they can accommodate. It is not a sustainable situation. That is why it will be in the developed world's best interest to support initiatives such as this one. To not do so is to ensure the eventual collapse of the overall system. This is not a plea for more aid; it is a plea for investment in Africa's poor countries in ways that will make the future of these countries more sustainable. It will also require Africa's electorate to put in office leaders that will create confidence through good governance and business-enabling policy frameworks. The level of corruption in a number of countries in Africa are clearly scaring off investors. One has but to read the newspapers on the thoughts of the rating agencies as to why they have downgraded South Africa to junk status. This is not helping the country, nor the continent!

- **Africa:** PwC recently identified 5 themes likely to guide infrastructure investment, of which 3 are particularly relevant. These themes are converging to move private-sector involvement to the top of the infrastructure planning and development agenda in regions such as Africa and Latin America.

  Over US$4.5 trillion a year will be spent on infrastructure between now and 2020. PwC recently identified 5 themes likely to guide that investment in a rapidly changing world, of which 3 are particularly relevant, and are converging to move private-sector involvement to the top of the infrastructure planning and development agenda in regions such as Africa and Latin America. Firstly, with **new political leadership** in countries such as the USA and the UK, there's potential for reductions in aid flowing into emerging market infrastructure across the world. The burden may fall back onto emerging markets' national governments. Secondly, there is a need to build infrastructure that's **sustainable for the long term**. The megatrends transforming the planet can cause traditional assets to lose relevance quickly. Thirdly, the recent volatility of **global commodity prices** has led governments of resource-rich countries to suffer, with their budgets taking a big hit. And while many of these countries see infrastructure as a way to revive growth, protect living standards and reduce their dependence on commodities, money for investment is short. For more information, read: http://bit.ly/2rUNILv.

CAS View: I have in an earlier newsletter referred to the envisaged role of the private sector in infrastructure development and financing in Africa. In my comments in that newsletter, I did refer to the earlier attempts by the then president of the AfDB, Mr. Donald Kaberuka, to involve the private sector in Africa's development in various ways. In Africa, the requirement for infrastructure spending is US$93 billion annually. A major portion of this is in the energy sector. Other major requirements are in the water and transport sectors. It is also clear from the 5 themes that a number of them are external to the continent. African countries therefore cannot control them. However, they need to be able to position themselves to adapt to these forces. This is where the Continental Business Network (CBN), spearheaded by NEPAD, can play an invaluable role. The CBN is an advisory platform for African heads of State, providing advice on issues such as policy, investment risk ratings, project structuring and constraints to the implementation of the Programme for Infrastructure Development in Africa (PIDA). The CBN comprises of leading African and global business and finance bodies. As for investing, the article above on the private investment fund run by an investment manager, can be an instrument that can support activities in this regard.

East Africa

- **Ethiopia:** Ethiopia is working to grow the manufacturing sector in the economy and penetrate the global market by developing specialized economic zones across Ethiopia and commissioning a number of industrial parks.

  Ethiopia is working to enhance the share of the manufacturing sector in the economy and penetrate the global market by developing specialized economic zones across Ethiopia and commissioning a number of industrial parks. Ethiopia's economic transformation will only be ensured when the contribution of manufacturing is boosted and its share to GDP improved. Between 2004 and 2014, manufacturing has been grown at 11% per year and manufacturing exports increased more than eleven-fold. This was largely because of the increasing export earnings of the footwear and apparel industries. However, the share of manufacturing to the GDP remains at 5%, well below the African average of 10%. By developing SEZs in different parts of the country, the government is working to increase the share of manufacturing to the GDP and realize its vision of becoming a manufacturing hub in Africa. Increasing the number of industrial parks will generate foreign exchange earnings, create jobs (2 million over the next 10 years) and accelerate technology transfer. For more information, read: http://bit.ly/2sAs1SE.

  CAS View: The contribution of the manufacturing sector to GDP in Africa as a percentage has remained consistently low over a period of time. Both the AU in its Agenda 2063 and the AfDB's High 5 priorities have emphasized the growth of Africa's manufacturing sector as a matter of urgency. Some countries have been more successful than others. I have recently indicated that Ethiopia has been working at it to grow its manufacturing sector, assisting in the process with job creation, export revenue generation and import substitution. They created industrial parks as well as integrated agro-industrial parks. While the contribution of manufacturing to GDP is only at 5%, this figure is set to rise soon, given Ethiopia's endeavours in this regard. Kenya, on the other hand, seems to be struggling in their attempts to grow their manufacturing base, and it has actually shrunk. Governments in Africa must, as soon as possible, do everything possible to grow their manufacturing sector. It will also help to diversify their economies, especially those in resource-rich countries. The benefits of doing so are many, while the disadvantages of not doing so are severe and equally numerous. Stimulating the industrialisation process and growing the manufacturing sector, as well as investing in the infrastructure base of Ethiopia, have all made a contribution towards Ethiopia taking over from Kenya as the economic powerhouse in East Africa. It is clear that the political will to succeed in these areas is present in Ethiopia, and there is a focused strategy to implement the strategies the country has developed in this regard.

- **Rwanda:** Rwanda's budget is focused on boosting the domestic manufacturing sector.

  In a bid to boost domestic manufacturing, the government of Rwanda has scrapped the 25% tax on imported textile machinery and tannery equipment. A year ago, government hiked import duties by 12% for used clothes and 15% for the shoes. East African countries also imposed a total ban on used textile by 2019. Government is also planning to ban the export of raw hides and skins as a way of encouraging investment in tanneries. The government will focus on the construction of the Bugesera International

Airport, upgrading Kamembe Airport, and improving and sustaining the quality of the road network through construction, rehabilitation and maintenance of road networks across Rwanda. The government plans to use $1.1 billion on development projects, using the cash for promoting export products, agriculture and the expansion of the state-run airline RwandAir, completing the construction of a new airport and renovating existing airports. The money will also go towards roads, power transmission lines, and water supply. For more information, read: http://bit.ly/2rCo8LK.

CAS View: Rwanda is another country that, such as Ethiopia (discussed above), has adopted a strategy to increase the size and contribution of its manufacturing sector. The article explains the broad outlines of the Rwandan budget for the year that lies ahead. The points highlighted here are all examples of actions to be taken by the Rwandan government to stimulate the manufacturing sector. Many of these do not only address the manufacturing sector directly, but also focus on putting in place the infrastructure to support the manufacturing sector. As stated in another article in this newsletter, the major infrastructure requirements are in the sectors of energy, water and transport. They are all essential to support and help grow the manufacturing sector.

West Africa

- **West Africa:** Artisanal fisheries in West Africa are threatened by industrial fisheries. Should the artisanal fisheries run out of access to fish due to overfishing by the industrial fisheries, millions of jobs can be destroyed and it could have a major negative impact on the diet of the population.

  Artisanal fisheries in West Africa are part of the social and traditional fabric, they employ nearly 7 million people, and provide 75% of the animal protein intake. Artisanal fishing focuses on making fish available for local communities through local markets. These fisheries are usually more selective, take place closer to shore, the boats they use are, on average, smaller, and employ more people; whereas industrial fishing in West Africa is mostly dominated by foreign companies. Most of the fish they catch is destined for export and the return to the West African countries can be as low as 4% of the ex-vessel value of fish caught. Economically, industrial fishing is costlier, more subsidized, but have little contribution to national economies in West Africa. Artisanal fisheries, on the other hand, impact the domestic economy with a potential economic output of US$15 billion per year. The industrial sector in West Africa has driven a number of fish stocks to collapse or near collapse since the 1970s. Governments have been urged to prioritize the benefits of local populations driven from the artisanal sectors over those of exports and industrial fisheries. For more information, read: http://bit.ly/2rUIi35.

  CAS View: The fish industry in Africa entails a major opportunity to feed its citizens and provide job opportunities for entrepreneurs. Tanzania, Ethiopia and Rwanda have all made a call upon their youth and women to venture into the fish industry to close the gap between supply and demand. In this way, they not only addressed the demand, but also created employment opportunities in the process. West Africa's artisanal fisheries employ a formidable group of people and its potential economic output is considerable as well. Industrial fishing, on the other hand, have a smaller contribution and more costs. In addition, it seems that it is on the verge of destroying the fish resource base. The question is why does the industrial fishing sector encroach upon the waters utilised by the artisanal fisheries. Does the poaching by larger countries from other countries have a role to play? Should nothing be done by national governments in West Africa, the artisanal fisheries will be destroyed, and with it the livelihood of 7 million people and their families. In addition, the valuable contribution to the daily diet of millions of people will also be negatively affected. The governments can therefore not afford to sit this one out. They will have to act, sooner rather than later.

Southern Africa

- **Southern Africa:** The SADC has placed industrialisation at the centre of its regional integrated development plan. Poor implementation has led to a lack of progress in integrating the economies of the region. A coherent sector-specific approach to support the development of regional value chains should be supported by efforts to reduce trade barriers.

The SADC has placed industrialisation at the centre of its regional integrated development plan. But implementation has been poor and little progress has been made to integrate the economies of the region. Recent studies on value chains highlight high transport costs and the continued use of non-tariff barriers in some countries as some of the main reasons for poor progress. A coherent sector-specific approach to support the development of regional value chains should be supported by efforts to reduce trade barriers. The industrialisation strategy stresses the urgent need for the region to use its abundant and diverse resources. Its key aim is to foster industrialisation through beneficiation and value addition. There are two big challenges related to trade. First, intra-regional trade is low. While there are plenty of opportunities to improve the situation, only a regional approach to value addition will work. Second, supply isn't keeping up with demand. Constraints such as development financing, transport costs and poor border logistics need to be addressed. Very little attention has been paid to identifying specific value chains within the agro-processing and mineral beneficiation sectors. For more information, read: http://bit.ly/2sq4JR7.

CAS View: Regionalisation has been punted as the appropriate strategy to stimulate intra-African trade. This article clearly shows upon the requirement that industrialisation should not just be a national strategy, but a regional one. Integrated regional value chains can play a meaningful role to link national strengths of the various countries in the RECs, to the advantage of the various members of the REC. The problem with this is that the member countries are frequently quite diverse as far as equality is concerned, which places constraints and pressure on integration in the RECs. Linking the regional value chains to global value chains, is another strategy that will increase the odds for success. A major problem, in addition to the issue of inequality, is the challenge of subordinating national interest to regional interest. This challenge is not just an African challenge, but a global one. The competition between Tanzania and Kenya has the potential to reduce the efficiency and potential for success of the East African Community. As it is, while they were competing, Ethiopia walked away with the proverbial bone (the economic powerhouse of East Africa). African countries within the respective RECs should take note of the old saying that says that "either we stick together or we will hang separately."

- **Malawi:** Malawi's economy has been through tough times the past 3 years. To increase its resilience against internal and external shocks, the article suggests various strategies.

  The last three years have been tough for Malawi. The economy was under stress due to a corruption scandal, severe flooding in 2015, and the worst drought in a decade in 2016. Reforms to Malawi's agricultural markets helped ensure food price stability and eliminated the price spikes and shortages of past droughts. The need to create space in the budget for food relief gave extra momentum to efforts to tighten control over public spending, and new measures helped to widen the tax base. Commentators are projecting a growth recovery, with living standards for the average Malawian set to improve for the first time in 3 years. Risks to this recovery include a fiscal deficit and rising debt levels. To build resilience to shocks, the following is required: (i) deeper policy reforms to reduce distortions in the agriculture sector, boost commercialisation, and ensure that markets function effectively, including through maize market reforms; (ii) maintaining macroeconomic stability and, in particular, improving fiscal discipline and carefully managing debt sustainability; and (iii) making investments to build resilience against weather shocks and to diversify the economy, while reforming and expanding existing safety nets to enable flexible responses to shocks. For more information, read: http://bit.ly/2sq25uy.

  CAS View: In the Friday@Noon Issue 97 of 12 May 2017, I made mention of the Malawi High Commissioner to the UK pitching for business people from the UK to invest in Malawi. This article shows upon the fact that the Malawi economy was stressed the past 3 years. It's very clear on what needs to be done to increase the resilience of Malawi to internal and external shocks. It is a poor country with a low GDP per capita. However, it does have potential that could be tapped into by means of FDI in various sectors. Agricultural products and uranium form the core of its economy. It is also a tourist paradise, with the Malawians being very friendly hosts. For the early entrant, Malawi could provide great opportunities with some very good returns.