

## East Africa:

- **East Africa:** One of the biggest constraints to the growth of the creative industry in East Africa is the lack of finance, as commercial banks consider it as too risky to lend to it.

According to the executive director of Culture and Development East Africa, Anne Wangusa, even where it is available, bank financing is expensive due to the perception of high risk. The debt facilities are also only available for a period of 5-10 years, which is too short to ensure a return on investment for creative enterprises. Therefore, there is a gap in the market for earlier-stage investments that may come with a higher risk. According to Wangusa, impact investment has tried to fill the gap for early stage investments; however, the sectors that seem to attract these funds are tourism, consumer goods, construction, manufacturing, infrastructure, healthcare, financial services, extractives and education. Heva Fund is the only impact capital vehicle that has a financial model specifically for the East African creative economy and has invested in more than 20 creative businesses in the fashion, digital content, crafts and decor value chains. In 2019, Bayimba Foundation, CDEA and the Nest Collective will launch the East Africa Social Impact Fund for Creative Enterprises. For more information, read: <https://bit.ly/2KpolXw>.

CAS Analysis: Impact investment in Africa presents a lot of potential. The reality is that even here there is an expectation of a return, commensurate with the risk. It also seems that the creative industry in Sub-Saharan Africa is a struggling industry, with the exception of Nigeria and South Africa. Nollywood is the second largest creative industry in the world, second behind Bollywood and above Hollywood. It would be interesting to research why Nollywood is such a success, and why the East African creative industry struggles. It does seem, though, that the Heva Fund is achieving some form of success in East Africa. Emulating its model would hopefully be equally successful. As to the reason for the success of the above-identified sectors in attracting impact investors, it should not be too difficult to determine that it is about the returns. Even those that are interested in impact investing, are in search of the requisite returns. All the identified sectors are “needs”, in contrast to the creative sector, which could be described as a “want.” Hence, they are deemed to be less important, unfortunately. A country without the creative arts is a country poor in spirit.

- **Eritrea:** UN sanctions against Eritrea were lifted on 14 November 2018. The country is now working to regain its place in Africa and the international community. The end of the punitive measures may kick-start a new age of prosperity for the Horn of Africa.

A decade of isolation has left a huge mark on the country's economy and infrastructure. Foreign investment is non-existent, imports are severely reduced, and the cost of commercial loans, insurance and shipping rates artificially elevated. The fragile peace could be threatened if Eritrea's growing economic interests encroach on its neighbours, particularly Djibouti. Djibouti processes 97% of Ethiopian imports, accounting for ~70% of the port's overall traffic. Should Eritrea impact negatively on this, the peace between the 2 countries could be threatened. The sanctions deprived Eritrea of financial stability and valuable resources, and much of its investment took place in the security sector rather than in the productive economy. Eritrea could turn out to be a case study on how to claw itself back to prosperity, or how not to do it. The country is currently ranked 189<sup>th</sup> out of 190 countries on the ease of doing business rankings. Entrepreneurs are therefore starting from a disadvantaged position that will take years to improve. For more information, read: <https://bit.ly/2R2Qw6x>.

CAS Analysis: It is interesting to see UN sanctions against Eritrea being lifted, with the approval of the USA. At the same time, the USA does not want to take Sudan off the list of countries supporting terrorism, which is part of the reason why Sudan is experiencing serious cash shortages. Getting back to Eritrea, it has the potential to provide Ethiopia and South Sudan with port facilities, going into competition with Djibouti. This is exactly what is warned against in the article above. In addition to this, it also has the option to provide military bases to outside powers, just as Djibouti has been doing. We have already seen Saudi Arabia and the UAE setting up a base there, from where they have been launching attacks against their opponents in Yemen. We have also seen Russia recently announcing plans to establish a logistics centre at a port in Eritrea. The aim hereof is to boost bilateral trade and infrastructural investment between the two countries. It also shows Russia's efforts to renew its ties with African states and boost its influence. In addition, it places Russia in a position of influence in a region of geo-strategic importance.

- **Kenya:** Kenya's flower growers had hoped to exploit the lucrative USA market and reduce its dependence on the European market. These hopes will not bear much fruit despite the recent launch of direct flights between Nairobi and New York.

The airline's strategy of allocating only 5 tons to cargo, means the flower industry cannot count on the national carrier to penetrate the US market. This is bad news for the industry that is currently dealing with a range of challenges, which include intensifying competition from emerging flower producers like Ethiopia, Rwanda, Uganda and Tanzania. Even should the airline introduce a dedicated cargo flight, the return flight will be empty as Kenya's main imports from the US are bulk machinery, cereals and aircraft that are shipped to Mombasa. Kenya are now aiming at protecting their key markets and seeking new ones in Asia. It is optimistic about increasing exports to China where volumes stand at 4,000 tons annually. The emergence of new cut flower producers, particularly Ethiopia, is causing concerns that Kenya's dominance is diminishing. For Ethiopia, factors like availability of land, cheap labour and government incentives, coupled with a vibrant logistics industry anchored by Ethiopian Airlines, have provided a fertile ground for the flower industry to bloom. For more information, read: <https://bit.ly/2DN08IS>.

**CAS Analysis:** Kenya's flower sector has been eyeing the USA market for quite a while, licking its lips in anticipation of tapping into the recent launch of direct flights to the USA. The fact that this will not happen for the reasons given above, must be a serious blow to the strategies of the sector. Currently, most of Kenya's harvest is destined for the EU market. The expansion of its markets to China is a delightful development. Growing this market in a meaningful way can make up for the loss of a meaningful expansion of its output to the USA market. Ethiopia is not the only new producer that is starting to present a threat to the Kenyan sector. Another country that is developing and boosting the growth of its flower sector, is Rwanda, even though they are currently still quite small. Both Ethiopia and Rwanda have governments that are supporting the sector, with airlines ready to support the sector. Kenya's flower sector already has a strong brand equity. Maybe its government should support the sector to open up the USA market. The jobs and foreign earnings generated by the sector is not to be sneezed at. On the other hand, should the market in China grow meaningfully, Kenya's flower growers might not need the USA. Having said that, developing new markets is always a good strategy.

- **Tanzania:** Tanzania's cashew nut traders are staring at huge losses after the government confiscated the produce of those who failed to show proof that they are farmers. The government launched the verification exercise to rid the sector of middlemen who have dominated the cashew nut trade for years.

Cooperatives have warned that they would be left saddled with huge debts after bankrolling farmers to prepare the farms and purchase inputs following the government decision to pay farmers directly for the produce. It has become apparent that most of the cashews bought by the government had already been sold to traders at lower prices than the Tanzania Agricultural Bank's price of US\$1.40 per kilogramme. The Mtwara Regional Commissioner Geldius Bykanywa said farmers were at the mercy of individuals who provided them with loans, which they repay using their harvests. According to him, the traders take advantage to negotiate with the vulnerable growers who cannot afford to buy agricultural inputs. He added that the middlemen have been buying the produce even before the harvest. He claimed executives of cooperative unions were lining up to benefit through payments to "ghost farmers." For more information, read: <https://bit.ly/2DNMv2W>.

**CAS Analysis:** Many smallholder farmers in Africa do not have the working capital to finance their operations cycle and fund their family expenses. Children and the family need food and clothing. Kids have to go to school. Revenue from farming activities, however, only come in once or twice a year. Some cooperatives and corporates advance these smallholder farmers with working capital for the year, an advance that is paid back after the harvest. When the cooperatives and corporations sell off the harvest, they then pay the smallholder farmer the difference between the advance and the revenue generated from the sale of the harvest. When the produce is therefore confiscated, the cooperative and corporation lose their advances. The fact that the government bought produce that had already been paid for by the cooperatives and corporations, mean that the farmer got a double pay, and that the cooperatives and corporations lose out big time. One now wonders what will happen next time around. Will the cooperatives be prepared to carry on as if it's business as usual, with the difference that they will pay the increased price as dictated by the government? If not, how will the smallholder farmer finance his/her working capital

requirements? Typically, the banks are not queueing to finance these small farmers. With Tanzania being one of the largest cashew producers in Africa, with the prescribed price of the government, as well as the reduced supply due to the Tanzanian government buying up the stock, cashew prices have jumped 10% (according to Reuters). Governments should ideally stay out of the business environment, other than to create a business-enabling policy environment. Armies should ideally not be used for anything else but to ensure the national value of survival, which is hardly the case in the cashew industry. The Bulldozer seems intent on doing things his way. I am not sure this will be good for Tanzania and the region in the long term.

## Southern Africa

- **South Africa:** According to President Cyril Ramaphosa, SA's laws, policies and regulations must open the country to investment. He recently said this at a media briefing along with German Federal President Frank-Walter Steinmeier, who is on a state visit to SA.

When international investors look at South Africa, they must see that it is an investment-friendly destination. Ramaphosa stated SA welcomed the opportunity to renew the bonds between the two countries at political, trade and investment level. Germany has more than 600 companies operating in SA, providing more than 100 000 jobs. Steinmeier brought along a business delegation, and opportunities in SA would be showcased to them. Ramaphosa praised German companies operating in SA for driving skills development (including vocational training) among young South Africans. The aim is to drive sustainable investment in SA. Steinmeier said Germany was following the new developments in SA closely, especially the efforts to strengthen judicial independence and efforts to fight state capture. He said members of the business delegation would be checking if the investment climate in SA had improved and whether it was conducive to doing business. To this, Ramaphosa said SA had embarked on a journey of renewal to instil confidence, not only in its own people, but also among international investors. For more information, read: <https://bit.ly/2DTSAuP>.

**CAS Analysis:** Germany is a major investor in SA, and its investments have a concomitant impact on SA's economy. It has 3 large motor manufacturing plants in SA, i.e. those of Volkswagen, BMW and Mercedes Benz. There are also various other German companies in the country. Providing work for 100,000 workers in SA makes them a large and influential stakeholder group. A source of concern to them would be the labour situation, which is becoming a bit more turbulent. The premises of Nissan in Pretoria were stormed recently by a large group of disgruntled workers. One wonders what would happen should the likes of Nissan, BMW, Mercedes, Volkswagen, Ford and Toyota close down their factories in South Africa due to labour volatility and political uncertainty. As it is, apparently the EFF's leader, Julius Malema, recently warned companies in Rosslyn, Pretoria that the police would not be able to protect them against the workers. These companies include South African Breweries, PRAGA Technical, BMW, Nissan, Afrit Trailers and Coca Cola. The last thing SA needs is for large foreign companies to disinvest due to the political and accompanying labour volatility in the country. The travel companions of Ramaphosa's journey of renewal, which he refers to above, must include all the political stakeholders. One gets the impression some of them are more interested in scoring political points rather than improving conditions in SA. The "state capture" commission should also proceed with its work as fast as possible in order to lay to rest the climate of uncertainty and to prosecute the perpetrators of corruption. This will also help to create a conducive investment environment. The final aspect that is currently cautioning foreign investors is the issue of expropriation of land without compensation. Ramaphosa keeps on saying there will be no land grab and that it will be done according to the law. The sooner the detail operating model is announced, the better off SA will be. It has tremendous potential, but has been punching below its weight for a while. The world is keeping a keen eye on Ramaphosa's government. He also has many internal stakeholders that are waiting for his government to deliver on their expectations. To be fair, he inherited a government that was riddled with corruption, thanks to the inept Jacob Zuma. Still, he must now deliver the goods.

- **Zimbabwe:** The author, Kurt Davis, is quite bullish about investing in Zimbabwe, in spite of all the bad news being published.

**Manufacturing and Industrials:** Some Zimbabwean companies have plans to expand manufacturing internally and externally, depending on the sector. The development of local manufacturing offers the best

potential. Zimbabwe also offers one of Africa's most literate and educated population. **Healthcare Sector:** This sector presents investors an opportunity to improve goods and services. An influx of illegally imported drugs into the country, and outdated technology and infrastructure have not satisfied locals. Entrants to the sector will have to raise significant capital for the infrastructure, but the opportunity in Zimbabwe and the region is huge. **Mining:** Zimbabwe has the second largest reserves in the world of platinum and equivalently large diamond reserves. Gold and coal prospects are sizeable. The capital requirements are too big for some investors, while the politics of extractive industries confound other investors. The reality of the on-ground situation is less tricky than international news sources paint it. **Agro-processing** should not be avoided. Local packaging and branding of agriculture products have great potential, with high import prices. Sourcing from small-scale farmers eliminates land tenure concerns. For more information, read: <https://bit.ly/2DDmt1g>.

**CAS Analysis:** I have been referring regularly about the potential of Zimbabwe. The new president has promised various changes and initiatives, but is struggling to implement them, for various reasons. Kurt Davis has identified opportunities in 4 sectors that are waiting for investors. With an educated labour force, and even more of them in the diaspora, skilled people are locally available. The government will no doubt have various incentives in place to attract investors. Added to the above sectors, the tourism sector is also an attractive option for investors. It is time for foreign sanctions to be lifted to help the country get its act together. It is time for investors to target the great opportunities in Zimbabwe, and in the process generate jobs and wealth. It is also time for internal stakeholders to stop playing party politics and to work together to further the national cause of Zimbabwe. It is a wonderful country with great potential and good people.

## North Africa

- **Sudan:** The Vice-President of Turkey, Fuat Oktay, recently pledged to increase Turkey's oil and agricultural investments in Sudan. He stressed that Turkey would contribute positively to enable the Sudanese to benefit from their rich oil, agricultural and animal resources.

The VP pointed out that Turkey had provided Sudan with expertise in education and health areas, and described the joint military cooperation between the two countries as very distinct. He also pledged to enhance cooperation in the fields of energy, agriculture, electricity, livestock, transport, aviation, health and education. The VP said they would open a Turkish bank in Sudan to facilitate trade between the two countries. He also promised to increase the flights of Turkish Airlines to Khartoum and Port Sudan to promote tourism. During President Erdogan's visit to Khartoum in December 2017, the two countries signed 12 cooperation agreements and agreed to launch a strategic partnership covering agriculture, industry, minerals and health. They also agreed to raise trade exchange between them to US\$1 billion within one year to reach US\$10 billion in the future. Turkish investments in Sudan amounted to US\$2 billion from 2000 to 2017. There are currently 288 Turkish investment projects in Sudan. For more information, read: <https://bit.ly/2TuZKKn>.

**CAS Analysis:** Turkey is by now no new entity to Africa. It has more than 40 diplomatic missions on the continent, and Turkish Airlines flies to more than 50 destinations in Africa. As for its activities in Sudan, it is also involved in developing the naval port in the Suakin island. Its GCC ally, Qatar, is involved in the renovation of the commercial port on the island. Turkey and Sudan have signed various agreements over a period of time, such as a US\$100 million oil exploration deal, an agreement allocating 780,500 hectares of Sudanese agricultural land for investment by Turkish companies, an oil field development agreement, Turkey's Ziraat Participation Bank opening a branch in Khartoum to strengthen financial ties, agreements totaling US\$50 million in the fields of water and energy, including the construction of a dam on the Nile river, etc. It is clear Turkey is stepping in to help Sudan survive. It shares the limelight in Sudan with China and Russia, with Qatar also making an impact. In spite of all the support Sudan is getting, it is still struggling under a major liquidity squeeze, with serious cashflow shortages. Given Sudan's strategic position along the Red Sea, it is strange to find no Western world country investing in any serious way in Sudan. The investment opportunities are many, in spite of the many challenges.

Interested in subscribing to this weekly newsletter? Subscribe by clicking here: <https://ntusbfcas.com/african-business-insights/friday-noon>.