INSIDE AFRICA

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EAGLESTONE SECURITIES

CONTENTS

In-Depth:

- How can we ensure Africa continues to rise? 2

- As Africa rises, is poverty changing? 3

IMF, WORLD BANK& AFDB 4

INVESTMENTS 9

BANKING

Banks 10

Markets 12

Tech 17

Fund-Private Equity 17

ENERGY 18

INFRASTRUCTURE 21

MINING 23

OIL & GAS 24

TELECOM 26

RETAIL 27

AGRIBUSINESS 28

UPCOMING EVENTS 32

....

BRIEFS

Africa

- Bank of China targets Africa with Mauritius banking licence
- Equity Bank may be interested in parts of Barclays Africa: CEO
- Nomura follows Africa's merger trail

Angola

- Angola's CPI quickens to 20.26 pct y/y in February
- Norway's Statoil sells stake in oil block in Angola
- Combined cycle power plant project in Soyo, Angola, expected to cost US$900 million

Botswana

- Botswana's 2016 GDP growth estimated at 3.7 percent: IMF

Egypt

- Egyptian T-bill yields jump at auction
- Egypt Said to Weigh Tighter Regulations on Currency Bureaus

Ghana

- Bank of Ghana holds benchmark interest rate at 26.0 pct

Kenya

- Kenya secures $1.5 bln IMF standby facilities in case of shocks
- Kenya's TransCentury secures $20 mln in capital as bond deadline nears
- Kenya aims to cut 50 bln shillings from net 2015/16 spending
- Kenya's market regulator to tighten rules against money laundering
- Kenya's KCB eyes mid-sized banks for acquisition: CEO
- Kenya 91-day T-bill yield slips to 8.410 pct at auction

Mozambique

- Investors find Mozambique "tuna bond" debt swap offer fair
- Brazil's Andrade Gutierrez starts construction of dam in Mozambique
- Exxon Mobil in talks to buy into Eni's giant Mozambique gas field

Nigeria

- Nigeria inflation at almost 3-1/2 year high in Feb: Stats office
- Nigeria's state oil company withheld $16 bln in 2014: auditor-general
- Nigeria's state oil firm withheld $25 bln from government between 2011 and 2015 - state body

Senegal

- Senegal to issue seven-year 150 bln CFA bond on Mar. 21

Zimbabwe

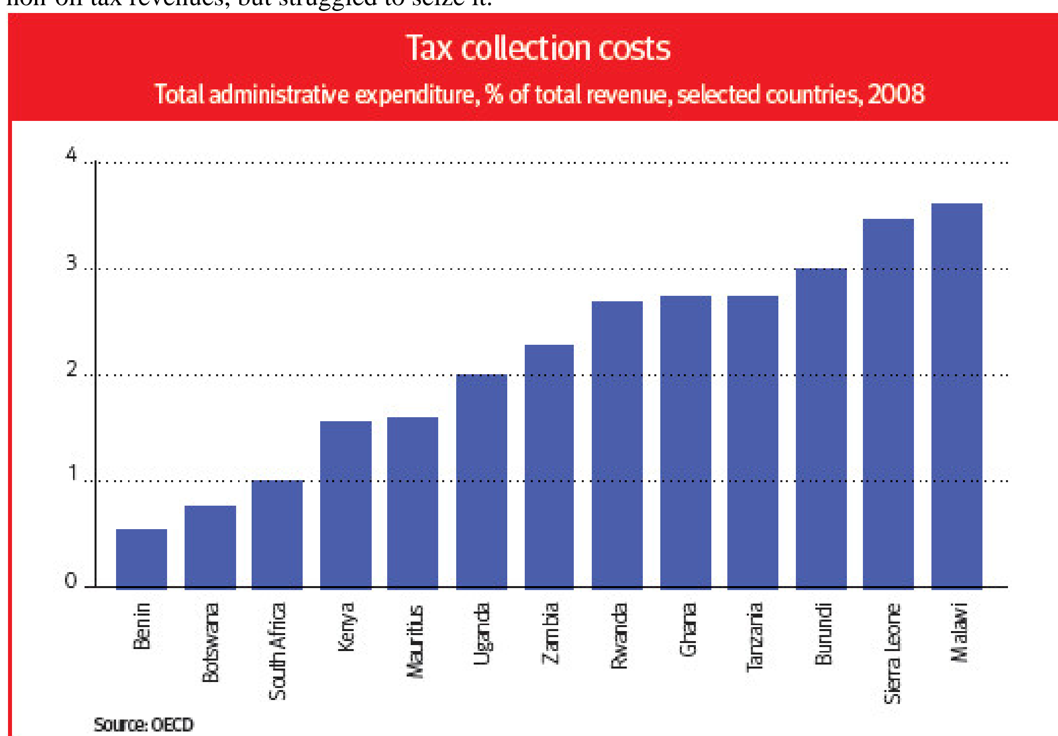
- Zimbabwe consumer prices fall 2.22 percent yr-on-yr in February
- Zimbabwe must clear arrears to get IMF loan: spokesman

In-depth:
How can we ensure Africa continues to rise?

Africa's rise is in danger of faltering. After years during which the continent's economy grew at an average annual rate of 5%, global uncertainty, depressed commodity prices, and jittery external conditions are threatening to undermine decades of much-needed progress. Ensuring the wealth and wellbeing of the continent's residents will not be easy; but there is much that policymakers can do to put Africa back on an upward trajectory.

First and foremost, policymakers must secure the financing needed to pursue sustainable development in an uncertain global environment. The World Bank estimates that Africa will require at least $93 billion a year to fund its infrastructure needs alone. Climate-friendly, sustainable infrastructure will cost even more. And yet, as long as global growth remains weak, Africans cannot count on developed countries to fully honor their commitments to help attain the Sustainable Development Goals.

Africa must rapidly develop its own resources, beginning by nearly doubling tax revenues. Across Sub-Saharan Africa, tax revenues account for less than one-fifth of GDP, compared to more than one-third in OECD countries. This means there is plenty of room for improvement. From 1990 to 2004, for example, Ghana reformed its tax system and raised revenues from 11% to 22% of GDP. Admittedly, such progress is difficult; in Nigeria, we saw an opportunity in raising non-oil tax revenues, but struggled to seize it.



Another source of domestic resources is the roughly $380 billion in pension assets held by just ten African countries. Policymakers should be leveraging these considerable sums.

At the same time, African countries will have to find a way to diversify their economies. Diversification requires investment in the future, in the form of education and well-developed infrastructure, including telecommunications, power, roads, rail, and water.

There are plenty of models to follow: Dubai, Singapore, Thailand, Malaysia, Mexico, Indonesia, and South Korea are all admired by Africans as economies that managed to transform themselves. Dubai, for example, set out more than three decades ago to prepare for a future without oil. The government implemented a step-by-step transformation of the country into a service economy, putting in place the infrastructure and incentives necessary to build up financial services, tourism, medical services, real estate, media, arts, and culture. South Korea and Singapore, which had few natural resources on which to rely, are no less inspiring.

The secret behind these countries' success is relentlessly focused leaders, whether entrenched but benign dictators or democratically elected politicians with a shared vision of a broad-based economy. Sub-Saharan Africa has paths for diversified growth that many of the trailblazers did not: value-added agriculture and agro industry, the processing of mineral resources, petrochemical complexes, manufacturing of durable and consumer goods, tourism and entertainment, and an emerging information-technology sector.

As the necessary measures for diversification are implemented, policymakers must ensure that the economic growth they are pursuing creates jobs. Sadly, this has not always been the case. Much of the recent growth has benefited only a few, leaving many behind – most notably young people and women. From 2006 to 2013, inequality rose in many of the continent's most important economies, including South Africa, Nigeria, Ghana, Tanzania, and Rwanda.

These were challenges that we were starting to address in Nigeria when I was finance minister. We knew that we needed not just to secure growth, but also to improve the quality of that growth.

To that end, policymakers must ensure that growth is channeled into sectors that create jobs, such as agriculture, manufacturing, and services. They may also have to redistribute income and strengthen social safety nets to protect better those at the bottom of the ladder.

Matching skills to job opportunities will be crucial. Some 70% of Africa's population is under 30, and the continent is home to half the world's primary-school-age children who have been deprived of the opportunity to study. Offering Africa's children basic reading, writing, and technology skills, as well as vocational, technical, and entrepreneurial training, must be a top priority.

Weak health-care systems must also be strengthened in order to tackle the endemic diseases that sap productivity, such as malaria, as well as improving preparedness for outbreaks of deadly epidemics. The stakes are high. The World Bank estimates the Ebola outbreak shrank the economies of Sierra Leone, Guinea, and Liberia by 16%.

As the world economy sputters, African countries will have to develop trade with one another. In 2013, African goods and services accounted for just 16% of trade within the continent, and just over 3% of world trade. One problem is that most African countries produce the same type of commodities and trade them with very little value-added. Policymakers must encourage greater specialization; differentiated goods and services will add value and volume to trade.

Logistics pose another obstacle to intra-African trade. Policymakers must make it easier to move goods across borders, by improving connectivity between countries and reducing bureaucratic hurdles and administrative costs. For example, road transport tariffs across Africa are estimated at $0.05-$0.13 per ton-kilometer, compared to the average of $0.01-$0.05 for all developing countries.

The Rift Valley Railway project, which will eventually link Mombasa on the Kenyan coast to Kampala in Uganda, is a good example of the benefits that investments in transportation could provide. The African Development Bank estimates that it will double the volume of trade between the two countries, while reducing marginal costs by 30%.

As they make these investments, policymakers must not forget that much of Africa's recent growth can be credited to good macroeconomic policies and sound economic management. Extending the continent's rise will require strengthening the continent's economic fundamentals.

This means ensuring that prices in the economy are correct, starting with the exchange rate. Some countries may need temporary controls to curb damaging capital outflows, but policymakers should aim for a market-based exchange rate and a solid plan for governing inflation, debt, foreign-exchange reserves, current accounts, and fiscal balances.

Africa's potential can hardly be overstated. The continent is well placed to build diversified economies based on low-carbon, sustainable infrastructure. But policymakers cannot simply assume that Africa's rise will continue. They must take the right steps to ensure that it does. *(World Economic Forum)*

As Africa rises, is poverty changing?

Static poverty measures fail to distinguish between an individual who has been in poverty all her life, and another who happens to have had a small misfortune for the year the measurement was carried out. But these distinctions matter. The forces that conspire to condemn some individuals to remain stuck in poverty for years are generally somewhat different from those that randomly drag them down for a brief period. The latter group may need only some temporary relief – perhaps only some short-term employment insurance till they get the next job – while the former would need also longer-term interventions aimed at breaking the persistence of poverty. Indeed, the longer people spend in poverty, the lesser tends to be their chance of exiting it. As Africa rose, has its poverty remained mainly chronic, or has it become a more transient state of affairs?

Researchers interested in understanding poverty dynamics in Africa now have access to an emerging collection of nationally representative panel surveys (see, for example, Living Standards Measurement Study–Integrated Surveys on Agriculture). This is a vast improvement over the situation just a decade ago. However, data coverage remains low – only seven countries– and the time period spanned is limited to 2-4 years. So, what to do to get a picture of poverty dynamics for most of SSA, and over a longer time period?

In a background paper for the recent Poverty in a Rising Africa report, we construct synthetic panels instead from available cross sectional household surveys, which have been proven to perform well when validated against data from actual panels (for details see our earlier blog). These synthetic panels are much more widely available and span longer time periods; they also enable a more systematic application of the same methodology across countries, which improves comparability. A similar approach has been applied recently for countries in the Latin America and Middle East and North Africa regions.

Here, synthetic panels were constructed for 21 countries with at least two comparable surveys accounting for 66% of the SSA population and spanning on average six years. Each country's poverty rate - using the $1.90 per day in 2011 purchasing power parity (PPP) dollars – was subsequently decomposed into four components: 1) chronically poor (households that were poor in both periods), 2) downwardly mobile (households that fell into poverty in the second period), 3) upwardly mobile (fraction of households which were poor in the first period but not in the second) and 4) the non-poor (households that were never poor). Two important insights emerge (figure 1):

First, on average about 35% of Africans are chronically poor (i.e., poor in both periods). Another 25% are transiently poor (i.e., poor in either one of the two periods) with 11% experiencing downward mobility, and 14% upward mobility in period two. Put differently, among those who were poor in either one of the two periods considered (i.e. 60% of the population or around 250 million people in our estimation sample), 58% (or around 145 million people) were chronically poor (= 35/60).Second, countries that are similar in terms of poverty rates may be dissimilar in terms of poverty dynamics. For instance, Burkina Faso and Sierra Leone both show poverty rates of about 55%, but the share of chronically poor people is larger in Burkina Faso. Also, in some of the countries that appear to have had success in reducing poverty, a large share of the poor are chronically poor. Botswana, for example, has poverty rates that are among the lowest in the region, but almost all of its poor are chronically so (for more details see the Poverty in a Rising Africa report).Chronic poverty thus remains widespread in Africa, underscoring the continued need for structural interventions. But, an important part of Africa's population (one quarter) is also hovering around the poverty line (switching and an out of it over time), pointing to the increasing importance of effective safety nets (which are also important to help the chronic poor, say, through enabling them to adopt more risky but possibly more remunerative portfolios and technologies). Having a good grip on poverty dynamics also offers additional insights into how best to target chronic and transient poor. In the absence of long running national panels, the synthetic panel approach applied here can already provide important insights for developing and targeting the appropriate interventions. *(World Economic Forum)*

IMF, WORLD BANK & AFRICAN DEVELOPMENT BANK

IMF Executive Board Approves New Arrangements for Kenya Totaling US$1.5 billion

The Executive Board of the International Monetary Fund (IMF) approved a new SDR 709.259 million (about US$989.8 million) 24-month Stand-By Arrangement (SBA) and a SDR 354.629 million (about US$494.9 million) 24-month Standby Credit Facility (SCF) for Kenya, for a combined SDR 1.06 billion (about US$1.5 billion, or 196 % of Kenya's quota).

The Executive Board also completed the second and final reviews under the previous SBA and SCF for Kenya. The SBA and SCF, initially for 12 months, with a combined total access of SDR 488.52 million (about US$688 million), were approved by the IMF's Executive Board on February 2, 2015 (see Press Release No. 15/29), and extended until March 15, 2016 on January 27, 2016.

The Kenyan authorities have indicated that they will continue to treat both arrangements as precautionary, and do not intend to draw on the new SBA and SCF arrangements unless exogenous shocks lead to an actual balance of payments need. The decision would make available SDR 542.8 million (about US$757.5 million), and the remainder in four tranches upon completion of semi-annual program reviews.

Following the Executive Board discussion on Kenya, Mr. Min Zhu, Deputy Managing Director and Acting Chair, said:

"Kenya's recent growth performance remains robust and the outlook is positive. Despite positive policy steps undertaken under the current Fund-supported program, the economy remains vulnerable to shocks, reflecting less favorable global financial market conditions, as well as continued security threats and potential extreme weather events. In this context, the new precautionary arrangements would provide a policy anchor for continued macroeconomic and institutional reform, and would help mitigate the impact of potential exogenous shocks if they were to materialize. "The envisaged reduction of the fiscal deficit by 3 % of GDP over the next two years through a well-balanced policy mix would maintain space for high-priority infrastructure investments and greater provision of health and education services in a sustainable manner. Continued public financial management reforms—aimed at upgrading efficiency, transparency and accountability, to complement the envisaged fiscal consolidation—are key to containing risks. "The Central Bank of Kenya is committed to gradually reducing inflation to the mid-point of its target range (5+/- 2.5 %). To achieve their inflation objective, the authorities will align the interbank rates with the policy rate and formally announce and implement an interest corridor, thereby strengthening the monetary policy transmission mechanisms in the context of a floating exchange rate regime. "The authorities are taking actions to preserve financial stability. These include steps to strengthen micro and macro prudential stress testing and the capital adequacy assessment framework, and develop a legal and operational crisis management system. "Continued improvement in the quality of macroeconomic statistics and strengthening the business climate will be key to promoting transparency and evidence-based policy making, and supporting inclusive growth."

IMF Executive Board Completes Sixth and Seventh Reviews Under ECF Arrangement for Guinea, Extends Arrangement, and Approves a US$25.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed the sixth and seventh reviews of Guinea's economic performance under the program support

ed by an Extended Credit Facility (ECF) arrangement. The Board's decision enables the immediate disbursement of SDR 18.36 million (about US$25.6 million), bringing total disbursements under the arrangement to SDR 155.295 million (about US$216.7 million). The Board also approved a request for an extension of the current ECF arrangement

to end-October 2016 to allow time to assess the implementation of the program at end-June 2016 as well as a rephasing of the remaining disbursement under the arrangement.

In completing the review, the Board approved the authorities' request for waivers for the nonobservance of the performance criterion at end-2014 on the net international reserves of the Central Bank of the Republic of Guinea (BCRG) and for the performance criteria at end-2015 on the basis fiscal balance of the government, the net domestic assets and the net international reserves of the BCRG, the net domestic bank financing of the government. The Executive Board also approved the request for waivers for the non-observance of performance criteria on the contracting or guaranteeing by the government or the BCRG of new medium and long- term non-concessional external debt and on the introduction or modification of multiple currency practices.

The Executive Board approved the ECF arrangement for Guinea on February 24, 2012, for SDR 128.52 million (see Press Release No. 12/57).

Following the Board's discussion on Guinea, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, stated: "Guinea was declared free of the Ebola epidemic in end-2015, reflecting the sustained efforts of the government and Guinea's civil society. The epidemic has claimed thousands of lives, brought economic activity to a standstill, reversed socioeconomic gains, and aggravated poverty. "After solid performance in 2014, program implementation under the Extended Credit Facility (ECF) weakened in 2015, mostly because of the impact of the Ebola disease, and a large public investment program supported by central bank guarantees. Structural reforms also stalled, partly because of difficulties in securing technical assistance. Growth is expected to rebound in 2016 to 4 %, thanks to pent-up demand coupled with robust agricultural growth. However, given the severity of the shocks that have hit Guinea during 2014-15 and depressed commodities prices, the recovery will be gradual. "The authorities have taken strong adjustment measures to put their Fund-supported program back on track. Going forward, continued efforts are needed to restore macroeconomic stability and support the recovery, including structural reforms to improve the business environment, particularly in the mining and electricity sectors, and strengthen the delivery of public service. "The broad-based fiscal adjustment envisioned in the 2016 budget is appropriate, given the need to maintain fiscal sustainability and strengthen the central bank's international reserves. The recent reform of the exchange rate determination mechanism will allow the exchange rate to fully play its shock absorber role and safeguard reserves. The restructuring of some of the central bank guarantees will free budgetary space for social programs, including in the health sector.

"Inaccurate data on public sector non-concessional external debt had resulted in a noncomplying disbursement. In view of the remedial actions taken by the authorities, including planned measures to strengthen debt management, Directors decided to waive the nonobservance of the performance criterion that gave rise to the noncomplying disbursement."

IMF Staff Completes 2016 Article IV Mission to Algeria

An International Monetary Fund (IMF) staff team led by Jean-François Dauphin visited Algiers from March 1 to 14 to hold discussions for the 2016 Article IV consultation. Discussions focused on the impact of the decline in oil prices on Algeria's economy and the policies needed to adjust to the shock. At the conclusion of the mission, Mr. Dauphin made the following statement:

"Algeria faces important challenges, with the large decline in oil prices expected to be sustained over the medium term. In response, the authorities have begun to undertake fiscal consolidation and implement selected reforms. These efforts need to be intensified: sustained fiscal adjustment and wide ranging structural reforms are needed to respond to the oil price shock and address long standing vulnerabilities. The fiscal and external buffers accumulated in the past provide a window of opportunity to implement those reforms gradually and smooth the adjustment. This opportunity to reshape Algeria's growth model should be seized now, before a more rapid adjustment becomes unavoidable.

"The impact of the oil price shock on growth has been limited thus far, but the fiscal and external balances have deteriorated significantly. Real GDP grew by an estimated 3.7 % in 2015, with the nonhydrocarbon sector growing by a robust 5 %, and inflation increased to 4.8 %. The fiscal deficit nearly doubled to 16 % of GDP in 2015 as a result of much lower hydrocarbon revenues, and the fall in hydrocarbon exports by nearly half in 2015 caused the current account deficit to widen sharply. Reserves, while still substantial, declined by $35 billion in 2015 to $143 billion, down from a peak of $194 billion in 2013. External debt remains very low. However, growth and inflation are expected to slow in 2016 under the effects of fiscal consolidation on non-hydrocarbon activity.

"The mission welcomed the 2016 budget as a decisive step in the path of fiscal consolidation, better rationalization of spending, and subsidy reform. Algeria will need to sustain consolidation over the medium term to restore fiscal sustainability and ensure intergenerational equity. This will require controlling current spending, mobilizing more nonhydrocarbon revenues, pursuing further subsidy reform while protecting the poor, increasing the efficiency of investment, and strengthening the budget framework. Rapidly declining fiscal savings mean that Algeria will need to rely more on borrowing to finance future deficits. Opening the capital of some state-owned enterprises, in a transparent way, would also help meet financing needs while improving their governance.

"Wide-ranging structural reforms are needed to help support economic activity during fiscal consolidation and to diversify the economy to achieve high and inclusive growth over the medium term. Key reforms include improving the business climate, opening up the economy to more trade and investment, improving access to finance and developing capital markets, and strengthening governance, competition and transparency. Increasing the flexibility of labor markets

while better matching the skills produced by the educational system to those needed by the private sector is also needed. The mission noted that import restrictions, while perhaps providing a temporary relief, introduce distortions and cannot substitute for reforms aimed at boosting export.
“Exchange rate, monetary, and financial policies should support these efforts. Further efforts to bring the dinar in line with fundamentals, including through fiscal consolidation and structural reforms, would help restore external balances. As the decline in oil prices contributes to drying up excess liquidity in the banking system, the Bank of Algeria is appropriately reintroducing its refinancing instruments. Going forward, it should carefully calibrate monetary policy to guard against potential inflationary pressures. The banking sector as a whole is well capitalized and profitable, but protracted low oil prices increase risks. The Bank of Algeria should continue to transition to a risk-based supervisory framework, enhance the role of macroprudential policy, and strengthen the governance of public banks.
“The team met with Finance Minister Abderrahmane Benkhalfa; Industry and Mines Minister Abdessalem Bouchouareb; Trade Minister Bakhti Belaib; Agriculture and Rural Development Minister Sid Ahmed Ferroukhi; Labor, Employment, and Social Security Minister Mohamed El Ghazi; Minister Delegate of the Budget Hadji Baba Ammi; and the Governor of the Bank of Algeria, Mohammed Laksaci. The mission also held discussions with other senior government and central bank officials as well as with representatives of the economic and financial sectors and civil society. “The IMF team would like to thank the authorities and other interlocutors for their hospitality, cooperation, and candid exchange of views.”

IMF Staff Concludes Visit to Zambia
At the invitation of the authorities, an International Monetary Fund (IMF) team led by Tsidi Tsikata visited Zambia during March 9-18 to review recent macroeconomic developments and discuss with the authorities how best to address the current economic challenges facing the country.
At the end of the mission, Mr. Tsikata issued the following statement:
“The Zambian economy is under intense pressure. Lower copper prices, electricity shortages, and poor rainfall have dampened the pace of economic activity. Moreover, inflation has increased, expenditure pressures have risen, and financing conditions have tightened substantially. The mission estimated that economic growth declined to about 3 % in 2015. Resolute action is needed as quickly as possible to restore macroeconomic stability and pave the way for a return to high sustained growth.
“Government finances are under immense stress. Expenditure is running far above budget, in large part as a result of fuel subsidies and contracted emergency electricity imports that together are estimated to cost the treasury about US$660 million a year at the current pace (equivalent to 3.2 % of GDP). At the same time, domestic and external financing options have become more limited along with rising interest rates. Mounting domestic arrears are adding to concerns about debt sustainability. “Tightening of monetary policy has been effective in stabilizing the exchange rate but tight liquidity conditions have contributed to persistent under-subscription of treasury bills and bonds. However, there is little scope to loosen monetary policy as long as fiscal imbalances are not addressed. A key challenge going forward will be to normalize activity in the interbank foreign exchange market while avoiding a return of last year’s extreme volatility in the exchange rate. “The mission and the authorities reached a shared understanding of the challenges and risks associated with the current economic situation. The authorities stressed that, notwithstanding the upcoming general elections, they are committed to addressing the budgetary pressures, including moving to cost-reflective energy pricing, and scaling back on discretionary spending while safeguarding social protection programs. They indicated that strong near-term measures are being evaluated and that, at the IMF/World Bank Spring Meetings in mid-April, they would provide further guidance on the policy direction and reforms, and their plans for an IMF-supported program. “The mission is confident that Zambia’s current economic challenges can be overcome with resolute policy action, allowing a resumption of growth in line with the country’s abundant potential. In particular, a package of measures that makes clear that the fiscal pressures are being tackled would boost market confidence and pave the way for increased investment and growth. However, delays in implementing corrective measures will only worsen the situation, increase the adjustment cost and postpone the recovery. “The team met with Finance Minister Alexander Chikwanda, Bank of Zambia (BoZ) Governor Denny Kalyalya, other senior government and BoZ officials, members of parliament, leaders of political parties, as well as representatives of the private sector, labor unions, civil society organizations, and Zambia’s development partners. The mission thanks the authorities and the other stakeholders it met, for their openness and the constructive spirit in which all discussions were held.”

AfDB Executive Directors conclude visit to Malawi
A team of nine African Development Bank Executive Directors visited Malawi from March 6 to 11, 2016 on a high-level consultation and dialogue mission. During their visit, the Executive Directors met with President Arthur Peter Mutharika, Finance Minister Goodall Gondwe, Cabinet Ministers, Reserve Bank Governor Charles Chuka, the Speaker of Parliament, Richard Msowoya, senior government officials, representatives of the private sector and civil society, and development partners.
The Executive Directors noted with concern two major challenges facing Malawi – the difficult macro-economic situation, which is manifested in high inflation, depreciated currency, high interest rates and low growth as well as the

severe food crisis arising from weather shocks. However, they commended the Government for its tenacity in tackling the challenges under difficult circumstances.
They underscored the need to sustain the reform effort, particularly in fiscal policy and Public Financial Management to restore macroeconomic stability and instill private sector confidence.
The Executive Directors reaffirmed the Bank's commitment to assist Malawi build resilience and achieve sustainable development, through targeted support for irrigation, other key infrastructure especially energy and transport, and private sector development and policy advice. The Bank will support Malawi's efforts to expand domestic resource mobilization and eventually wean the country from dependence on aid.
While in Malawi, the Executive Directors visited selected social sector, road infrastructure and irrigation projects to get an understanding of the impact the Bank financed projects are making in promoting economic growth and reducing poverty in the country. Specifically, they visited Monkey Bay Rural Growth Centre, where they were able to appreciate the implementation and achievements of the Local Economic Development Project.
Projects financed under the Nacala Corridor Development project – namely Liwonde-Mangochi and the Lilongwe West Bypass Road, as well as the Zomba-Blantyre Trunk Road Project – were among the projects visited by the team. Both the Blantyre-Zomba Road and the Lilongwe West Bypass Road have been successfully completed and opened to traffic while construction on the Liwonde- Mangochi Road is planned to start later this year.
They also visited Chisoka Health Centre in Thyolo district, which was constructed with support from the African Development Bank under the Malawi Health Sector Wide Approach (SWAp) programme. The Bank's support has had significant impact on the health and livelihoods in a catchment area of 27,000 people in 18 villages.
In the meeting with development partners including diplomatic missions, the Executive Directors discussed a number of challenges and opportunities to improve the country's economy. In the short-term, they noted that it was important for the country to manage the macro-economic situation and reduce inflation and interest rates in order to attract private sector investment. In the medium- to long-term, emphasis should be placed on investment in infrastructure and irrigated agriculture to build resilience and enhance productivity. The Bank, in collaboration with other development partners, will continue to support the Government's socio-economic development initiatives.
In their engagement with representatives of the civil society and private sector, they expressed their satisfaction with the civil society's participation and urged them to continue to promote good governance in the country. CSOs, they said, play a significant role in the implementation of development activities particularly those targeting the poor and vulnerable.
In discussions with the Bankers Association of Malawi and Malawi Confederation of Chambers of Commerce and Industry, the Executive Directors noted the challenges faced by the private sector, among which is lack of access to credit. The AfDB will strive to deepen collaboration with the Government and local financial institutions to enhance financial inclusion.

Gabon Seeks to Diversify its Economy as Oil Revenues Decline

- Oil price decline significant shock to the economy
- Country needs to diversify economy, contain spending
- Infrastructure crucial for economic transformation

Hit hard by the recent oil price decline, Gabon can build resilience and revive growth by continuing to diversify its economy, says the IMF.
In its annual assessment of the economy, the IMF also welcomed the government's plan to improve the level and quality of infrastructure, and raise the quality of human capital—the key constraints to economic growth.
IMF Survey sat with Montfort Mlachila, IMF Mission Chief for Gabon, to discuss the country's economic outlook and ways to adapt to the challenges it faces.
IMF Survey: The IMF just finished its annual assessment of the Gabonese economy. Could you tell us how is Gabon doing now?
Mlachila: The recent collapse in oil prices, following significant declines from the middle of 2014, is a major challenge for the Gabonese economy and its resilience. As you know, oil prices have declined by about 75 % over the past 18 months. They used to be a little over $100 per barrel. Now they're about $30 per barrel. It's a significant shock for the economy. It also means that government revenues have declined significantly, and so have exports.
In practice, there's less money circulating in the economy and that has affected the growth rate of the economy, which has declined to about 4 % in 2015. And this year it is expected to decline further to just over 3 %—about 3.2 %. So, the overall effect is quite significant compared to the level of growth rates that were observed before 2014. Between 2010 and 2014, the growth rate was around 6 %, so it has had a significant impact for the Gabonese economy.
IMF Survey: In these circumstances, how should Gabon adapt to this new environment?
Mlachila: The impact, obviously, has been mostly on government revenues, and the authorities are fully aware of the issues. The government can adapt in several ways. The key strategic objective over the long run is to diversify the economy so that it is less dependent on oil, which will make the economy more resilient. In the short run, the government needs to live within its means by doing two things.

First, it needs to raise additional revenue outside of the oil sector, notably, for example, by reducing the extent of tax exemptions; and then on the spending side the government can take a number of measures to control better the growth of the wage bill.
Second, it needs to reprioritize capital spending to focus on projects that have the highest benefits or the highest economic returns so that it can live within its means. So, those are the key areas that the government can adapt to the fall in the commodity prices.

IMF Survey: But isn't there a risk that the poorest segments of society will be hurt if the government reduces spending?

Mlachila: Indeed, and the government is aware of these challenges. The issue is to adjust spending in line with what is available in terms of revenue. On the one hand, the government can potentially raise additional revenue from the rest of the non-oil sector. So, the oil revenue loss can be, to some extent, compensated by additional measures which can mobilize additional revenues.
On the other hand, the government can put in place or strengthen its social safety net by doing a number of things. For instance, for people in the rural areas it can develop further the agricultural sector. This is an area where Gabon can do a lot more given that the country still imports a lot of food, and can produce some of the food more cheaply locally. The government is already working on addressing this issue. This can be done, for instance, by improving rural access roads or improving the availability of inputs in the agricultural sector.
At the same time, especially in the urban areas, the government can improve its social safety net by introducing or expanding cash transfers for the most vulnerable segments of the population. So it can do both, actually. It can definitely reduce some of the spending, but, at the same time, reinforce the social safety net by getting additional revenues from the non-oil sector.

IMF Survey: You also talked about the need for Gabon to be less dependent on oil. How do you see Gabon diversifying its economy?

Mlachila: Certainly, Gabon has been highly dependent on the oil sector, which in 2014 has contributed to about 45 % of government revenue and about 85 % of exports. So it is an important sector in the economy. But, there is a need to diversify the economy so that it is less dependent on oil and therefore oil prices.
To this end, the authorities have put in place a strategic plan. It's called PSGE, Plan Stratégique Gabon Emergent. First, it focuses on development of infrastructure, especially in the area of transport such as roads, ports, and railways, and, at the same time, also paying attention to improving availability of electricity. So, that's one area in which the government has been spending a considerable amount of money.
The government is also trying to increase the amount of value added in the economy by creating a Special Economic Zone. There's a Special Economic Zone called Nkok near Libreville, the main function of which is to develop various industries, notably in the wood processing industry where there can be additional value added. More generally, the government needs to improve the business climate throughout the country to promote investment.
Finally, in the area of education, for instance, the government is fully aware that there's a shortage of qualified manpower in various economic activities. So by investing more in training, especially in vocational training, there's potential to improve the performance of the economy, including through developing skills to help diversification into other new areas.

IMF Survey: To conclude, if you had three key priorities to identify for Gabon going forward, what would those be?

Mlachila: The key priority is for Gabon to boost its growth rate because without growth there's no improvement of people's incomes and livelihoods. For that, Gabon needs to implement structural reforms to elevate the level of growth over the long run.
The second priority is to diversify the economy so that it is more resilient to external shocks and therefore less likely to be hit by reductions, for example, in oil prices or other commodity prices.
And finally, Gabon needs to pay attention to ensure that long-run fiscal sustainability is safeguarded, without which there could be a significant increase in public debt levels in the economy, and it would make it difficult for Gabon to meet its key strategic objectives over both the short run as well as the long run.

The Bank Group and the Government of Japan agree to work together for co-development by promoting private investments on the continent

A 40-member delegation of Japanese investors paid a courtesy call on the African Development Bank Group in Abidjan on Monday, March 21, 2016, and met with AfDB President Akinwumi Adesina. The meeting focused on further strengthening AfDB-Japan cooperation in the public sector as well as promotion of Japanese business and private investments in Africa.
The AfDB and Japan agreed to give an impetus to cooperation and building a transformative partnership that would stimulate large-scale private sector investments in Africa and provide opportunities for constructing quality infrastructure in the region, with energy as a key priority for the continent's development.
Japan's State Minister for Foreign Affairs, Seiji Kihara, led the delegation. He described the meeting as a wonderful opportunity and expressed his country's interest to help boost Africa's economy through private sector investment.

"The Government of Japan will continue to promote investments by its private sector to Africa, which we believe will contribute to job creation, human development, industrialization and value addition of supply chain. It even brings a good work ethic for workers," Kihara said.
President Adesina recognized the relevance of AfDB's partnership with the country and said he was glad to meet with a wide representation of Japanese investors. "Africa is the place to invest. The opportunities are limitless. We need to work together for co-development," he said, underscoring Japan's prominent role.
Africa needs at least US $50 billion to address its energy needs over the next five years. Touching on how to mobilize such large-scale resources, the President identified three areas for government initiative: increasing the share of energy investment as a percentage of GDP, improving tax collection and reducing illicit capital flows.
The President also highlighted the Bank's deep appreciation for Japan's continuous support to the African Development Fund (ADF), the African Development Bank (AfDB) as well as the co-financing and direct funding provided by the Japan International Cooperation Agency (JICA) and the Government of Japan under the Enhanced Private Sector Assistance (EPSA) Initiative, expected to reach a cumulative US $3 billion this year since the launch of EPSA over ten years ago at the Gleneagles G8 Summit.

INVESTMENTS

Angola seeks to attract foreign investment in China

The new Private Investment Law in Angola was presented in Beijing during a conference with at least 3,000 potential Chinese investors, Angolan news agency Angop reported. The law was presented by the Director of the Technical Unit for Private Investment (UTIP), Norberto Garcia, and the Director of the Angolan Agency for Investment and Export Promotion (Apiex), António Henriques dos Santos, at a conference aimed at attracting investment to Angola. The two officials also talked about the priorities and other advantages of the law that aims to channel new investments into different sectors as a way of diversifying the Angolan economy. One of the main innovations of this law, the officials said, is that it no longer sets a minimum amount of foreign investment, unlike the previous version, which set a minimum amount of US$1 million. However, the rule that only foreign investment exceeding US$1 million can take advantage of tax benefits remains in place. After the end of the civil war in Angola in 2002, China supported the reconstruction of the country and Chinese companies got involved in reconstruction and/or construction of major infrastructure such as bridges, roads, railways, hospital facilities and others. *(Macauhub)*

AfDB President Woos Japanese Private Businesses to Africa

The President of the African Development Bank Group (AfDB), Akinwumi Adesina, on Thursday, 24 March 2016 began a two-day visit in Tokyo where he applauded the government's support to the Bank and underscored the need for more Japanese private investments in Africa. Leading a team of senior Bank staff, Adesina met with the Governor of the Central Bank of Japan, Haruhiko Kuroda; the President of Japan International Corporation Agency (JICA), Shinichi Kitaoka; the Chair of the Sasakawa Group, Jiro Hanyu and the Executive Vice President of the Japan External Trade Organization (JETRO), Katsumi Hirano, as well as several other business leaders. He thanked the government for the immense support to the AfDB and to Africa, noting that the Bank will continue to count on the country in the forth-coming replenishment of the African Development Fund, the concessional window of the Bank Group established in 1972. Japan is the third largest shareholder of the AfDB after Nigeria and the United States in the first and second position respectively; as well as the highest contributor to the ADF.
For instance, JICA, which is Japan's bilateral agency for official development assistance, has been forthcoming in the Bank's co-financing programmes contributing US$2 billion to the Enhanced Private Sector Assistance for Africa (EPSA) and Official Development Assistance to the tune of US$ 15 billion in 2014. It provides concession loans and technical cooperation grants through its 92 overseas offices, 26 of which are located in Africa.
Cooperation between Japan and Africa can only grow stronger as the continent continues to demonstrate resilience to internal and external shocks while posting an appreciable 4.5% growth projected to even rise further above global trends despite the fall in commodity prices and other difficulties. AfDB President said the Japanese private sector stood to gain by investing in quality infrastructure that Africa badly needs at this point, especially in the energy, agriculture and even health sectors, adding that the Bank would play a supporting role by buying down some of the risks associated with the African private sector. The implementation of the Bank's High 5s priorities (Light up and power Africa, feed Africa, integrate Africa, industrialize Africa, and improve the quality of life for the people of Africa) would certainly open up investment opportunities for companies determined to do business in Africa.
Besides, a recent study conducted by JETRO on Japanese-affiliated firms in the Middle East and Africa, showed that 55.6% of the respondents intend to expand their business in the next one of two years. Another 52.3% produced a surplus.
President Adesina and the team used the opportunity to take a ride on the 15-KM Yurikamome rail Mass Transit System on Tokyo Bay to assess its viability as a possible solution to mass transport and urbanization challenges across Africa.
The team also visited the Bank's Representation Office for Asia (ASRO) opened in Tokyo in 2012 as a bridge between Africa and the Bank's four Asian non-regional member countries – China, India, Japan and the Republic of Korea.

Key members of the team that will also visit South Korea and China include Tomoya Asano, the Executive Director for Japan, Saudi Arabia, Austria, Brazil and Argentina; Kevin Urama, Senior Adviser to the President; Kapil Kapoor, Acting Vice President, Sector Operations; Sipho Moyo, Director of Cabinet and Chief of Staff; Desire Vencatachellum, Director, Resource Mobilization and External Finance Department; Chiji Ojukwu, Director, Agriculture and Agro-Industry Department, and Caroline Manlan, Officer in Charge of Asia Desk, among others. *(AfDB)*

NEF supports bus companies through R90m investment

The National Empowerment Fund (NEF) has invested a cumulative R90-million that has helped transform two disparate but critical segments of the bus transport sector. A R45-million investment had helped bus company Africa People Mover (APM) expand and entrench itself in the semi-luxury, intercity bus transport sector.

The remaining R45-million investment had been used to fund AB 350, which offered a subsidised public transport service for an impoverished part of the Eastern Cape, including the former Transkei. “Bus transport is critical for mass travel in South Africa,” said NEF divisional executive for venture capital and corporate finance Hlengiwe Makhathini.

APM was established in December 2014 as a partnership between Diducap and the Johann Ferreira Trust, the owners of luxury bus service Intercape. The company had 17 buses, which operated 14 services on its routes spanning Johannesburg, Pretoria, Bloemfontein, Polokwane, Mthatha, Durban and Cape Town, as well as Kaalfontein to Nelspruit through Acornhoek. In March, APM launched new routes from Johannesburg to Mthatha through Queenstown; Johannesburg to East London through Bloemfontein; and Johannesburg to Port Elizabeth through Grahamstown. APM held 32 route licences and employed 89 people, including 40 drivers. Further, Makhathini noted that AB 350 had been established in response to a pressing social need. It was established through the award of a seven-year contract by the provincial government to provide public transport services on 166 routes in the former Transkei. So far, 136 of the routes were operational. The formation of the company offered a standardised, reliable service to an area that was previously serviced by independent operators with varying quality of buses and standards of service. The NEF advanced initial funding of R3.5-million to AB 350 in April 2007 to help establish the subsidised public transport service. In November 2009, the NEF provided a further R30-million as the company underwent expansion by launching the second phase of the service comprising 56 routes. In September 2015, the NEF approved a further R12.6-million of funding to help build a bus repair facility in Mthatha to service the AB 350 fleet. The facility would also provide repair and maintenance services to other bus operators in the area. “The successful participation of black players in this critical area of the transport industry is a proud achievement for the NEF and the entrepreneurs we have supported,” said Makhathini. *(Engineering News)*

Japan donates meteorological equipment to Mozambique

Japan has donated meteorological equipment to the National Institute of Meteorology of Mozambique in order to increase its capacity to monitor, forecast and prepare weather warnings, at an event held in Maputo. The equipment, costing an estimated US$100,000, includes equipment for calibration of barometers and thermometers, and its delivery was witnessed by the Minister of Transport and Communications, Carlos Mesquita, according to Mozambican newspaper Notícias. The resident representative of the Japanese Agency for International Cooperation (JICA), Kasuyoshi Sudo said that Japan’s support to the National Institute of Meteorology of Mozambique is estimated at US$2 million, under a programme that delivered its first shipment of equipment in February 2015 and will be completed in July 2017. Given that Mozambique is hit annually by natural phenomena such as floods, droughts and cyclones, “the improvement of weather forecasting and warning will enable the Institute to better perform its role to prevent the loss of human lives and destruction of assets,” said Sudo. The support programme includes a component of training of Mozambican technicians in Japan and Japanese technicians travelling to Mozambique. *(Macauhub)*

BANKING

Banks

Bank of China targets Africa with Mauritius banking licence

The Mauritius central bank said it has issued a banking licence to Bank of China, the first Chinese bank licensed to operate on the Indian Ocean island. Zhang Xiaoqing, who is leading a team setting up the Mauritius unit, said Bank of China wanted to provide financial services to African businesses and serve multinationals and others doing business between China and Mauritius. Bank of Mauritius Governor Ramesh Basant Roi told reporters the bank was expected to start operations in the next few months but did not give a date. Mauritius has a growing financial industry and has been promoting the territory as a base for businesses working in Africa and beyond. *(Reuters)*

Equity Bank may be interested in parts of Barclays Africa: CEO

Equity Bank, Kenya's biggest bank by deposits, may be interested in buying parts of Barclays' Africa business, its CEO said. James Mwangi told Reuters he saw potential acquisition opportunities following Barclays' decision to reduce its stake its Barclays Africa Group, which has businesses across the continent. "If there is anybody who is well-positioned in the region to take up the spoils, it is Equity Bank," he said about the Barclays decision, citing Equity's focus on small- and medium-size enterprises as a major competitive advantage.

Mwangi also said the bank expected higher returns on assets and equity this year, mainly driven by profit from regional markets. Alongside Kenya, Equity has operations in Uganda, Tanzania, South Sudan, Rwanda and Democratic Republic of Congo. Mwangi said he saw opportunities to expand in Uganda and was interested in prospects for a new business in Ghana, in West Africa.
In the past five years, as Equity expanded in the region, the bank maintained a return on asset rate of 4.5 % and a return on equity rate of about 25 %, Mwangi said. "Now that subsidiaries have broken even and have started enjoying significant growth, we see ourselves returning to a return on asset of 5 % and a return on equity of 30 % by the end of this year," he said. Weaker currencies in Uganda, Tanzania and Kenya last year drove up prices and led to foreign exchange losses. But Mwangi said a steadier environment this year would boost earnings. "We are almost headed to a stable macroeconomic environment where inflation has started coming down, where exchange rates have stabilised," he said. Kenya's year-on-year inflation rate slowed to 6.84 % in February, its lowest since October last year.
A conflict in South Sudan, which led to a steep devaluation of the Sudanese pound in 2015, as well as surging interest rates in Kenya last year had also driven up bad debts. But the chief executive said the situation would improve in 2016.
"Non-performing loans will be much lower than where they were last year. We expect to come to our traditional cost of risk of 0.6 %. It had shot up to 1 % simply because we needed to provide for the non-performing loans," Mwangi said. South Sudan, which still only accounted for 0.3 % of Equity's total lending, was probably over the worst. "We don't expect the crisis in South Sudan to be worse than it has been. It has hit rock bottom," he said. The expansion of Equity's mobile phone banking operation, Equitel, which now boasts 1.7 million users since launching in 2015, had allowed Equity to reduce staff costs by 4 % last year and it expected further reduction by 5 % this year. Clients can use mobiles for services such as making payments or submitting a loan application. "Cost to income ratio went down by 1 percentage point last year and we expect significant improvement this year," Mwangi said. *(Reuters)*

Cooperative Bank Kenya FY 2015 Net Profit up by 46% to Ksh 11.7 Billion
Co-operative Bank Of Kenya released its Full Year 15 results posting a profit after tax growth of 46.2% to Ksh 11.7 Billion.
Key Highlights
- Net Interest Income grew by 9.0 to Ksh 23.2Billion driven by a 16.2% increase in loan and advances to Ksh 208.6 Billion.
- Earnings Per share grew by 36.7% to Ksh 2.31
- Return On Assets was up by 3.4%.
- Non-Funded Income increased by 22% to Ksh 13.2 Billion. This was driven by a 9.1%growth in fees and commissions to Ksh 9.5 Billion, a 125.2% rise in forex income to Ksh 3.2 Billion due to heightened forex activity in South Sudan as well as the switch to a customer centric model under the "Soaring Eagle" restructuring plan.

Prospects,Share Price Movement & Dividend
- Coop Bank expects a 20% growth in profit before tax in Full Year 2016 with a 19.0% growth in loans and advances and a 25.0% growth in deposits. They also expect a Return on Equity of 25% and a Return on Assets of 4% due to the implementation of the McKinsey driven "Soaring Eagle" transformation strategy
- Co-operative Bank of Kenya Ltd set a new one year high during trading session when it reached Ksh 23 before coming back to Ksh 21.The rally was attributed to the Profir rise & dividend growth.
- Over the last one year, the share price is up 2.44%.
- The directors recommend a first and final Dividend Per Share of Ksh 0.80 (Dividend Yield of 3.8%).

(African Markets)

Banks operating in Angola to have access to euros again
The National Bank of Angola (BNA) plans to auction off 130 million euros to commercial banks operating in the country. These operations now depend on the percentage of credit that each bank offers, according to a statement released in Luanda. The statement available on the website of the Angolan central bank said that of the total up for auction 90 million euros will "cover operations of companies providing services to the oil sector." The additional 40 million euros in currency to "meet priority expenditure requirements," including the coverage of operations related to family support, health, education, expatriate salaries, travel and remittances. Angola's foreign exchange policy is now defined by the new governor of the BNA, Vernon Filipe Duarte da Silva, sworn in on 7 March by the Angolan President, replacing the previous finance minister, José Pedro de Morais. In the week from 7 to 11 March, the National Bank of Angola did not sell any foreign currency to commercial banks operating in the country. *(Macauhub)*

Banco BPI exits capital of Angola's BFA bank
Any agreement reached between Santoro Finance and Spanish group La Caixa must involve the exit of Banco BPI's from the shareholder structure of Angolan bank Banco de Fomento Angola (BFA) and Santoro, which is controlled by Angolan businesswoman Isabel dos Santos, from the BPI shareholder structure, Portuguese financial daily Diario Economico reported.

Therefore BPI is selling the 50.1 % stake it holds in Banco de Fomento Angola and the Angolan businesswoman is selling off her 18.58 % share in BPI. Additionally there may be a clause that will also cover the 2.28 % of BPI owned by BIC, a bank that is 42.5 % owned by Isabel do Santos. Portuguese weekly newspaper Expresso reported a few days ago that Angolan telecommunications company Unitel, which controls 49.9 % of Banco de Fomento Angola, gave its approval to the negotiations taking place between dos Santos and La Caixa in connection with Portuguese bank BPI.
This agreement solves a months-long stalemate in time to meet the deadline set by the European Central Bank – 10 April – to solve the problem of BPI's overexposure BPI bank to Angola, a country that lost its equivalent supervision status. Banco BPI's main shareholders are currently CaixaBank (44.10%), Santoro Finance (18.58 %), Allianz SE (8.42 %) and HVF, SGPS (2.68 %). BPI controls 50.1 % of Banco de Fomento Angola, although there is a shareholders' agreement which limits voting rights to 20 %. *(Macauhub)*

Markets

Investors find Mozambique "tuna bond" debt swap offer fair

Holders of bonds issued by Mozambique's state-run tuna-fishing company Ematum said a proposed debt swap offer by the government looked "fair", raising the likelihood of a friendly exchange. Mozambique is offering to swap an outstanding $697 million of dollar-bonds issued by Ematum, which mature in 2020 and have a coupon of 6.305 %, for a new sovereign issue maturing in January 2023, priced at 80 % and holding a coupon of 10.5 %, according to exchange terms document.
However, holders agreeing to the exchange before March 23 will get an exchange ratio of 105 % for their bonds, effectively bringing the coupon to well above 11 %. "It is a good deal for the investors and it is a good deal for Mozambique - to me it looks very fair," said Luc D'hooge, Head of Emerging Market Bonds at Vontobel Asset Management, who plans to accept the offer. Those accepting after March 23 but before the final consent deadline on March 29 will get an exchange rate of 100 %. Dubbed the tuna bond, the original $850 million amortising bond was issued in 2013 and presented as funding for "tuna fishing and related infrastructure", though it quickly became apparent that much of the cash was for maritime surveillance and security.
At the time, governments across Africa rushed to capital markets to take advantage of rock-bottom global borrowing costs and investors' hunger for yield. Since then issuance has dried up as investors have become wary and demand higher risk premia. "They did not want to print an 11 % coupon as it would be the highest African coupon of all," said one fund manager who is holding the bond and also plans to accept the offer. "I think the deal will be accepted as it is a friendly deal, bonds trade still way higher than last week." Ematum bonds, which traded in the low 70s cents to the dollar in late February, have rallied in recent days in the run up to the debt swap offer. The bonds rose again and are now trading in the mid-80s cents.
The new bullet structure eliminated amortisation payments in coming years for the government, said Samir Gadio, Head of Africa Strategy FICC Research at Standard Chartered Bank. "Even so, issuing a bond at such levels will make it challenging to tap external capital markets in the future," he added. The bond should also be eligible for inclusion in JPMorgan's Government Bond Index (EMBI) - the most commonly used hard-currency emerging debt benchmark. *(Reuters)*

Egypt's Central Bank Sells $1.5 Billion in Auction to Cover Imports

An acute dollar shortage in Egypt is hurting the country's economy
Egypt's central bank sold $1.5 billion to banks in an exceptional auctionto help cover importers' foreign currency refinancing needs, just days after it devalued the local currency. The central bank is adopting several measures including a more flexible exchange-rate policy as it seeks to ease an acute dollar shortage that is hurting the economy. The exchange rate of 8.78 Egyptian pounds per dollar at auction, according to a filing on the bank's website, was stronger than the price of 8.85 pounds at which it sold dollars in an interbank auction earlier in the week, when it devalued its currency by nearly 13%. A weaker currency is however likely to push inflation higher, and most analysts now expect Egypt's monetary policy committee to increase key interest rates at its meeting scheduled to limit any rise in domestic prices. Still, the foreign exchange auction will provide some much needed foreign exchange to importers, many of whom have had to tap the black market previously.
Egypt is grappling with a shortage of foreign currency caused by years of political instability that has impacted the country's key sources of dollars, namely tourism and foreign investments. This has also limited the state's capacity to import essential goods such as medicines, wheat and fuel. "For the devaluation to reap its targeted goal of restoring confidence in central bank, it had to be followed up with a flood of FX to show that the central bank can meet demand," said Hany Farahat, a senior economist at Cairo-based CI Capital. He expects three to five such auctions in the next few weeks. The central bank usually holds three weekly auctions, with no more than $40 million sold a time. But it has sold about $2.4 billion in exceptional auctions in the past 10 days as part of several recent measures to restore confidence in the struggling economy.
Egypt's economy, once a favorite of foreign investors seeking exposure to growth in the Middle East region, has floundered since the uprising in 2011 amid political unrest. A spate of recent terror attacks has further weighed on sentiment. The central bank said it has been working on addressing distortions in the foreign exchange market to

achieve monetary stability, which will help restore confidence in the foreign exchange market and create a conducive investment climate in the country. *(Wall Street Journal)*

Senegal to issue seven-year 150 bln CFA bond on Mar. 21

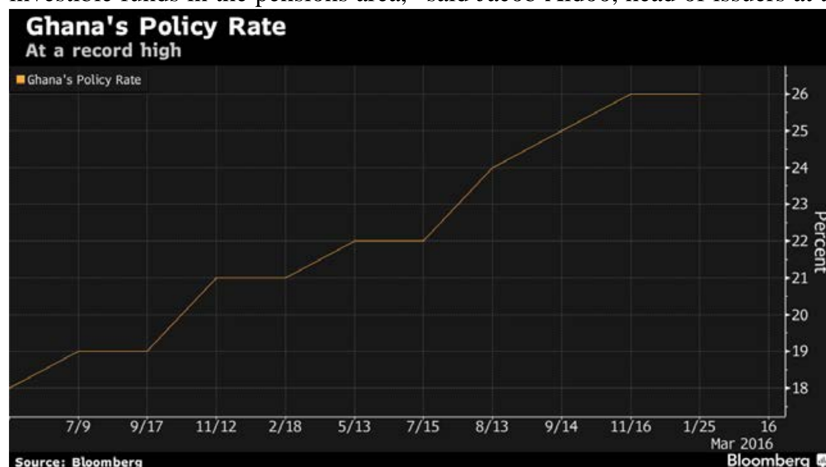
Senegal will issue a 150 billion CFA franc ($254.17 million)seven-year bond on March 21, a statement from the West African regional debt-planning agency UMOA-Titres said. The bond, which will have 5.9 % interest rate, will be sold in units of 10,000 CFA francs through an auction organised by the regional bank BCEAO. ($1 = 590.1500 CFA francs) *(Reuters)*

Kenya's TransCentury secures $20 mln in capital as bond deadline nears

Kenya's TransCentury Ltd said it had entered an agreement with Kuramo Capital to inject $20 million in fresh capital as the electrical equipment, logistics and engineering firm races to repay an outstanding five-year convertible bond due in 10 days' time. "This investment by the strategic investor will complement other funding options to settle the outstanding convertible bond and fund infrastructure projects," TransCentury said in a statement, describing Kuramo as an Africa-focused investment manager. Shares in TransCentury have plunged more than 70 % in the past year, raising concerns about its ability to repay the $75 million bond that falls due on March 25. The company in October said it planned a fund-raising programme over the next six months after conducting a strategic review. More information would be offered at a later date, TransCentury said, adding the process was still subject to regulatory and shareholder approval where applicable. *(Reuters)*

Ghana Debt Sales Bloom as Pension Funds Warm to Company Bonds

Ghana Home Loans Ltd. is among at least three companies in the West African nation planning bond sales this year as they seek to attract investors from local private pension funds, whose assets under management surged by 75 % in a year. The mortgage lender, owned by Abraaj Group Ltd. of Dubai, intends to raise the equivalent of $100 million over five years by listing debt for the first time, according to the Securities and Exchange Commission in the capital, Accra. Wealth manager Databank Group Ltd. is helping prepare debt sales by two financial service companies, said Armah Akotey, the firm’s brokerage head. “We should see brisker activity, because issuers have seen the availability of investible funds in the pensions area,” said Jacob Aidoo, head of issuers at the SEC. “The liberalization of the pensions market is driving the increase in corporate bond issuance we’re witnessing.”



Ghana ended the state pension fund’s monopoly in 2012, creating an industry that oversaw 800 million cedis ($208 million) by June 2014 and 1.4 billion cedis a year later. The private funds can allocate as much as 30 % of their holdings to corporate bonds traded on the Ghana Stock Exchange and the Ghana Alternative Market. That encouraged three companies to list debt in 2015, a figure the regulator expects to rise this year.

Last year, Bayport Financial Services Ghana Ltd., AFB Ghana Plc and Edendale Properties Ltd. raised a combined 350 million cedis, compared with the 80 million cedis sold by Izwe Loans Ltd. in 2014, the country’s first listed corporate debt in seven years. Frontier-market corporate bond issuance increased 43 % this year to $2.16 billion, according to data compiled by Bloomberg.

Investor Confidence

The Ghana Stock Exchange set up the alternative market in 2013, targeting companies seeking reduced listing costs and lower thresholds than required by the main board. That’s helping to spur bond sales that attract investors seeking the ability to buy and sell the securities, said Randy Mensah, head of equity trading at Ecobank Development Corp. in Accra. “Looking at the size of some of the companies that it tends to attract, those may not meet the full requirement of coming onto the main exchange,” Mensah said by phone. “Listing the debt gives investors the comfort and confidence that they can exit whenever they want.” The pricing of corporate bonds, which pay a premium above the government’s 182-day bills, makes them attractive to investors, Databank’s Akotey said. The 182-day yield increased to 24.6 % at its last auction on March 4. The yields reflect inflation, which rose to a record 19 % in January before easing to 18.5 % last month. The central bank increased its benchmark interest rate by 400 basis points since July to a 13-year high of 26 %. The cedi was 0.2 % stronger at 3.855 to the dollar at 2:21 p.m. in Accra. “We expect some more issues during the first half,” the SEC’s Aidoo said. “Advisers have been talking to a number of small and medium-sized businesses, putting their books in order so that in the next two to three years they can list.” *(Bloomberg)*

Kenya: Treasury sets Sh30m ceiling for IPO, corporate bond fees to woo large firms
The Treasury has capped approval fees payable by issuers of initial public offers (IPOs) and corporate bonds at Sh30 million, in a move aimed at encouraging more large companies to list securities on the stock exchange. Companies pay a fee of 0.15 per cent to the Capital Markets Authority when listing. A large issue in the size of the Safaricom IPO which raised Sh50 billion would attract a levy of Sh75 million under the previous rules that had no levy cap. However, with the Sh30 million cap, any company issuing an IPO of more than Sh20 billion will stand to make a saving on the levies chargeable.
The Central Depository and Settlement Corporation (CDSC) has also emerged a winner in the revision of capital market levies with the transaction levy charged by the depository rising from the current 0.06 per cent to 0.08 per cent of the value of a given transaction. “The review of the fees, levies and commissions was necessitated by the need to ensure financial sustainability of the capital markets sector, and raise levies collected by the CDSC given its national importance to market stability and to support continuous improvement of systems and strengthened operational oversight,” said CMA acting Chief executive officer Paul Muthaura. “The transaction fees levied by brokers at the NSE have been reduced from 1.78 per cent to 1.76 per cent, by reflecting the percentage increase in the CDSC levy, implying that the cost to investors has not increased.” Mr Muthaura added that approval fees for rights issues are also subject to the maximum cap Sh30 million per issue. Government bonds, whose approval fees are payable at 0.075 per cent of the amount raised, have their levy capped at Sh50 million.
The amendments on the Capital Markets (Licensing Requirements)(General)(Amendment) Regulations were made through a legal notice issued by Treasury CS Henry Rotich, who has also gazetted the derivatives markets regulations that consolidate the framework of the derivatives exchange, clearing houses, derivatives contracts and derivatives brokers. *(African Markets)*

Kenya's KCB eyes mid-sized banks for acquisition: CEO
Kenya's KCB Group is looking at medium-sized lenders to buy as part of an expansion plan and is building up capital to boost its acquisition war chest, the chief executive of country's biggest bank by assets said. With 43 commercial banks, executives say, Kenya's banking industry is ripe for consolidation that will create fewer bigger institutions able to write bigger loans for the growing economy. "We will look for businesses where there can be synergy, where there can be ability for us to scale up, so medium-sized banks will be areas that we are focusing on today," KCB CEO Joshua Oigara told Reuters in an interview.
KCB planned to sign up a transaction adviser to raise the bank's capital before the end of this month, he said, although he did not say how much the bank was seeking. KCB's total capital stood at 79 billion shillings ($779.48 million) at the end of last year. "That scaling up of capital is actually part of the preparation for that (potential acquisition)," he said, adding that he was interested in Kenyan lenders. But he said KCB was not looking at any parts of Barclays Africa Group that could come up in the wake of Barclays Plc's decision to reduce its stake. Kenya's Equity Bank had said earlier this week that it could be interested in some Barclays assets. Oigara said KCB expected strong growth in its Tanzania and Rwanda businesses, helping offset the impact of a downturn facing its unit in conflict-torn South Sudan, which contributes 8 percent of the group's annual revenue. Authorities in South Sudan, whose economy has been ravaged by fighting since December 2013, abandoned its fixed exchange rate in December and floated the pound, leading to a big devaluation and putting pressure on KCB's balance sheet. "For this year our plan is that Kenya, Uganda, Rwanda and Tanzania will actually deliver a growth that will compensate the challenges we see in South Sudan," Oigara said. Growth in Rwanda is driven by lending to small- and medium-sized enterprises, while the Tanzanian business is benefiting from an expansion of Kenyan firms into that market, he said.
In Kenya, KCB's biggest market, the cost of funds for banks has eased after a spike in interest rates and volatility last year, he said, adding that a more stable environment would help lead to lower commercial lending rates. Businesses and the central bank have complained in the past about high corporate lending rates. "It is also already clear we are going to see lower interest rates because the cost of funding is now coming down from what we saw last year," Oigara said. Parliamentarians are seeking to impose a cap on rates that banks can charge. But Oigara said imposing such constraints would simply force banks to cut the amount of lending, starving businesses of credit and reducing investment. ($1 = 101.3500 Kenyan shillings) *(Reuters)*

Reluctant Bond Market Dries Up South African Property Deals
A record run in takeover deals in South Africa’s real-estate industry is coming to an end. The risk of a recession and a downgrade of the country’s credit rating to junk, interest rates at their highest level in six years and plunge in the rand has all but shut the bond market to property companies. Borrowing costs now exceed the rental income the firms receive from shopping malls, according to Growthpoint Properties Ltd. Chief Executive Officer Leon Norbert Sasse. That’s slowed mergers and acquisitions, with the value of deals in the sector falling 27 % this year from the first quarter of 2015, according to data compiled by Bloomberg. Average yields on rand-denominated bonds have jumped more than 130 basis points over the past year to 9.26 %, resulting in losses on South African debt of 20 %, the biggest decline among 31 emerging markets monitored by Bloomberg

"The bond market is really not conducive to funding," Sasse said in an interview in Johannesburg, where the company is based. "You're making a loss pretty much from day one,'' he said. Sasse forecasts that it may take a year for sellers to lower asking prices to compensate for higher financing charges and the weaker currency. Real estate companies are struggling with rising vacancies and unpaid rents with growth in Africa's most-industrialized economy forecast by the central bank to slow to less than 1 % this year.

Rental Yields

The country has been knocked by the worst drought in more than a century, falling commodity prices and weak demand from its biggest export market, China. Investor confidence in South Africa has been reeling since President Jacob Zuma fired two finance ministers in the space of four days in December, causing the currency and bonds to plunge. The rand weakened 1 % to 15.6711 per dollar by 9:35 a.m. in Johannesburg, extending losses over the past 12 months to more than 20 %. Growthpoint, South Africa's largest property company by market value with a portfolio worth more than 110 billion rand ($7.1 billion), could probably borrow at rates of about 9.5 %, the CEO said. That compares with rental yields across the company of less than 8 % in the year through December, Sasse said. Companies will need to increase rentals to boost yields that "continue to remain reasonably low for premium-rate property in all sectors," Henry Playne, head of capital markets in South Africa for Jones Lange LaSalle Inc., a real-estate services firm, said in an interview in Johannesburg. "There will be a lead time of anywhere from six to 12 months where sellers have to wake up to the new normal that their properties' yields must increase."

Tighter Lending

A more conservative approach by banks on lending is also hurting deal flow, said Des de Beer, the CEO of Resilient REIT Ltd., which owns retail and industrial properties in South Africa. The number of transactions in the property industry declined to 15 deals worth a combined 10.1 billion rand this year, compared with 20 deals totaling 13.83 billion rand in the first three months of 2015, according to data compiled by Bloomberg. There were 90 deals done last year worth 107.3 billion rand, the highest by deal count on record and biggest by value since 2010. Deal-making is also being hampered by a commercial property market that's too expensive, according to Darren Wilder, CEO of Cape Town-based Fairvest Property Holdings Ltd.

Expanding Abroad

Investors including Redefine Properties Ltd., the country's second-largest Real Estate Investment Trust, are increasingly expanding outside of South Africa for better returns and to profit from the weakening rand when earnings abroad are translated back into the local currency.

"Our geographic diversification works for us, whereby the windfall from currency gains serves as a safety net from the domestic pressures," CEO Andrew Konig said in an interview in Johannesburg. "The cost and availability of capital in South Africa is an even bigger challenge for smaller, less liquid property owners and developers and new development activity will slow." *(Bloomberg)*

Investment bank Nomura to open SA branch

Asian investment bank Nomura would establish a permanent branch in South Africa, the group announced. Jan Newman, formerly of Newman Lowther & Associates, was appointed head of Nomura South Africa and head of investment banking in South Africa. Ben Lowther was appointed co-head of investment banking in South Africa. The group said in a statement that the establishment of Nomura South Africa on April 4 would enhance Nomura's ability to provide local and international clients with investment banking services in the country and provide Nomura with a platform for expansion into and across sub-Saharan Africa.

The appointments allowed Newman and Lowther to continue their successful partnership under the Nomura umbrella, underpinned by over 40 years' combined experience working at Newman Lowther & Associates, and an established track record in domestic and cross-border merger and acquisition (M&A) transactions in the region. Nomura South Africa would focus on providing a relevant and tailored range of investment banking and risk solution services to further support its current and new clients in the region. The team would combine its strong local knowledge and execution capabilities with access to Nomura's global network across multiple industries and geographies, including its highly active consumer, retail, industrial and natural resources sector teams. Nomura had a strong track record of M&A

and advisory in South Africa, having advised and financed private equity firm Brait on its acquisition of UK fashion retailer New Look in 2015, as well as acting as financial adviser to Coca-Cola Sabco on the proposed creation of Coca-Cola Beverages Africa, which was announced in 2014. “South Africa is a key economic hub on the African continent and global investors and corporates are increasing investment in the region. The establishment of Nomura South Africa will expand our global footprint and in-country capabilities in investment banking; and enable us to provide our clients with direct access to and insights on growth opportunities in sub-Saharan Africa,” Nomura head of the Middle East, Europe and Africa Jonathan Lewis said. *(Engineering News)*

Nomura follows Africa’s merger trail

Japan-headquartered global investment bank Nomura, attracted by a surge in mergers and acquisitions into the rest of sub-Saharan Africa, will set up shop in Cape Town next month. Jan Newman, who has been appointed head of Nomura’s South African operation, said the bank found a doubling in mergers and acquisitions flow initiated by South African multinationals, as reported by market insights firm Dealogic, attractive. "Outbound (mergers and acquisitions) activity in 2015 increased by 109% from 2012, demonstrating increasing internationalisation efforts of South African corporates, which are using their strengths at home to build up their international presence in Africa and beyond," he said. Law firm Allen & Overy, which specialises in mergers and acquisitions, recently pointed to insurer Sanlam’s $375m deal to buy a 30% stake in Morocco’s Saham Finances; as well as investment holding company Brait’s £783m acquisition of a majority stake in fashion retailer New Look and gym chain Virgin Active for £691m, as some of the deals that helped spur deal making during the year.

International investors have also expressed an interest in the rest of Africa, with Swedish telecoms operator Millicom buying an 85% stake in Tanzania’s Zanzibar Telecom from Etisalat for a nominal $1, while it assumed $74m of the target’s debt. UK-based private equity fund Helios bought 70% of Telkom Kenya from French operator Orange for an undisclosed amount. Mr Newman said this kind of activity — initiated by international investors and corporate entities into sub-Saharan Africa — had also increased, resulting in growing demand for investment bankers with expertise gained on the ground.

Still, it will face stiff competition from Standard Bank and Rand Merchant Bank, who have advised on megadeals such as Anheuser-Busch InBev’s inward listing on the JSE, and Woolworths’s acquisition of Australian fashion retailer David Jones. "Nomura’s Asian heritage and market-leading presence in Japan and Asia represents a key differentiator, which we hope to leverage for the benefit of our global and local clients," Mr Newman said. Along with heading the bank’s Cape Town branch, Mr Newman will jointly lead its investment banking activities with Ben Lowther, his partner at mergers and acquisitions adviser Newman Lowther & Associates. The firm’s team of eight people has been absorbed into the branch. *(BDLive)*

Barclays Africa plans to issue less debt in 2016

Barclays Africa Group plans to issue less debt in 2016 as lending growth slows and the company’s parent considers ways of reducing its stake in SA’s third-largest bank. "It’s too uncertain for us to go to the market right now," Barclays Africa treasurer Mike Harvey said. "We’re going to hold back on issuance."

The lender, which relies on debt capital markets for less than 10% of its funding, is paring back on issuance as SA’s economy hovers near a recession and after average yields on rand-denominated government bonds jumped by more than 140 basis points over the past year. Barclays Plc, which holds 62.3% of the South African bank, said on March 1 it would reduce its stake to 20% or less in the next two to three years. "We don’t need to raise debt funding right now," Mr Harvey said. "Maybe we’ll go back to the market in the second or third quarter. Our funding plan is to issue slightly less this year because we expect balance sheet growth to reduce."

Without the implied support of its parent, ratings companies Standard & Poor’s and Fitch Ratings this month downgraded Barclays Africa’s national credit status, bringing it into line with its South African peers. Even so, the South African bank, which had operations in 12 countries on the continent, did not expect the pricing of its bonds to change, Mr Harvey said. "We’re 100% self-funded and there’s no reliance on Barclays Plc," he said. "We never saw any ratings benefit and our pricing has always been in line with our peers." *(BDLive)*

Investec Plc expecting largely unchanged profit

Investec Plc, owner of a bank and money manager in SA and the UK, expects to report fiscal full-year operating profit that is little changed after the rand weakened against the British pound, hurting earnings when converted into the UK currency.

Excluding the effect of currency translations, the company will report a "solid increase" in operating profit in the 12 months to the end of March, Investec, which is based in Johannesburg and London, said. Impairments are expected to be about 20% lower than the prior year, it said.

Investec, which also has operations in Australia, makes the bulk of its operating profit in SA, where the rand has dropped 19% against the pound since the beginning of March 2015. The effect of the currency’s decline on Investec’s earnings comes as other UK financial services companies with operations in SA, Barclays Plc and Old Mutual Plc, reduce holdings in Africa’s most industrialised economy. "The UK specialist banking business is expected to report

results substantially ahead of the prior year, whilst the South African specialist banking business is expected to report results comfortably ahead of the prior year in rands," the company said. "Wealth and investment is expected to report results marginally ahead of the prior year, whilst asset management is expected to report results behind the prior year." *(BDLive)*

Tech

Mozambican tax authority plans to allow tax payments through banking network

The Tax Authority (AT) of Mozambique intends to extend the tax payment system to various parts of the country through the country's commercial banks. This facility is currently only available to the Large Taxpayers Units of Maputo and Matola, an AT official said recently. Mozambican daily newspaper Notícias, reported that this system allows the taxpayer to submit tax files via the Internet and make payments through the bank, and the bank transfers the revenue to the Treasury Single Account within 48 hours of collection. As well as making it easier for taxpayers to meet their tax obligations, this system prevents tax posts from having to deal with the risk of carrying large sums of money to the bank. Carlos Fafetine, manager of the e-Taxation Project, recently said that the e-Statement enables the submission of Value Added Tax (VAT), Simplified Tax for Small Taxpayers (ISPC) Company Tax (IRPC) and Tax on Personal Income (IRPS). Carlos Fafetine also said the Taxpayer Portal was being prepared. Through the new portal taxpayers have the opportunity to interact with the AT dynamically and independently. *(Macauhub)*

Grotech obtains R62m to invest in 'disruptive' firms

Venture capital technology fund Grotech has raised R62m, and is now in a position to invest in disruptive, high-growth technology companies. Grotech joint CEO and chief investment officer Clive Butkow said an average investment of R10m would focus on financial technology (fintech) ventures.

In association with Caleo, Grotech plans to build a R200m portfolio of disruptive, high-growth technology companies. "We have probably between 10-15 companies that we are talking to at the moment. Only one or two are in advanced discussions. Some of them are fintech; some being in banking and insurance," Mr Butkow said. He said Grotech was already talking to some of the established financial services companies to look at opportunities for co-investing. There was also an opportunity for the companies Grotech was looking to acquire to work with banks, he said.

Earlier this month, financial services group Sasfin said it wanted to buy financial technology companies as part of its plan to enhance its banking offering. The acquisitions will be made through Sasfin's Private Equity business. Barclays Africa has already tied-up with RainFin, a platform that facilitates unsecured lending online.

Barclays Africa said last month it was looking to cut the costs it incurs when advancing loans to small and medium enterprises by using the online platform of its financial technology partner, RainFin. Barclays Africa owns 49% of RainFin and sees an opportunity to advance loans in a cheaper and faster manner through the RainFin online credit marketplace as an alternative to the costly traditional Absa branches.

First National Bank has played a leading role in innovation in financial services, and Standard Bank launched an incubator in the past year to develop innovative and disruptive entrepreneurs. Grotech said Caleo Capital, a wealth and asset management business, had invested significant capital into Grotech to help build and grow its venture capital interests. *(BDLive)*

Fund – Private Equity

AfDB supports Healthcare Sector in Africa with a USD25 Million Equity Investment in the Abraaj Growth Markets Health Fund

The Board of Directors of the African Development Bank (AfDB) has approved a USD 25 million equity investment in the Abraaj Growth Markets Health (Africa) Fund (the "Fund"), the Africa focused parallel partnership of the Abraaj Growth Markets Health Fund. This contribution will allow the Fund to provide access to finance and capacity building for scalable and sustainable healthcare models for lower-middle and low-income segments of the populations in Africa. The proposal is well aligned with the Bank's High Five Item on Improving the Lives of Africans and with various Bank and target country strategies.

The Fund will address investment capital needs of growing healthcare demands that are driven by Africa's rapid urbanization and attendant population growth. The urban growth is also associated with a growing middle class that in turn drives consumption of goods and services including private health care. The Fund's investment will see a major improvement in health care infrastructure and quality of services at affordable pricing for the target population.

The Fund Manager, i.e. The Abraaj Group, is one of the most experienced fund managers in Africa in this sector, with over 18 investments in healthcare in Africa alone. Its comparative advantage stems from a strong local presence in target zones and the quality of its team, with demonstrable first-hand experience in private equity healthcare management in Africa.

The main development outcomes are expected to stem from increased access to affordable and quality healthcare services and direct benefits to low and middle-income households, mothers and children, with further benefits expected to arise from private sector development based on investments in scalable and sustainable healthcare companies. *(AfDB)*

ENERGY

Investor appetite for emerging market renewables rises

A change in global markets has seen more than half of global annual investment in clean energy targeted at emerging markets as opposed to the developed world. The catalyst? A demand for power from those that need it most.

In sub-Saharan Africa, despite extraordinary progress in recent decades, more than 600 million people still have no access to electricity. Most rely on wood and charcoal for their domestic energy needs.

Yet the technology revolution sweeping the continent and the growth of the middle classes have given the population a voice that is demanding change. This is not confined to Africa. The same is happening in other emerging markets, from Asia to Latin America.

This issue is one of three energy priorities driving political agendas in both developed and developing countries. The so-called 'Energy Trilemma' is forcing governments to grapple with the challenge of balancing growing demand for accessible and affordable energy with their commitments to tackling climate change and ensuring energy security.

The balance between these three factors differs in each nation. But the evidence is clear that in emerging markets in particular renewable technologies can provide solutions that address all three demands. The result has been the creation of an investment environment in emerging markets that is becoming increasingly attractive to foreign investors. This abundance of goodwill and sentiment can go only so far, however. None of this can happen without firm political resolve.

Governments in emerging markets need to institutionalise policies and regulations that protect private sector investment and create the appropriate structures to enable independent power projects to be successful.

Morocco, for example, has set an impressive benchmark by demonstrating that a combination of vision and political will can be translated into success. Earlier this year, the Rabat government switched on the first phase of the world's largest solar plant that will ultimately provide electricity to 1.1 million people when completed in 2018.

By 2020, Morocco intends to generate 42 % of its energy from renewables, with one-third of that total coming from solar, wind and hydropower respectively.

Funding glut

Political will is only one of the necessary factors. What does this fundamental shift in geographic investment in renewables mean for the investment community?

Firstly, and critically for investors, the funding available for renewable energy projects in emerging markets is plentiful and growing.

From private equity and venture capital to development finance institutions and pension funds, the appetite from a diverse range of investors for these projects is undeniable. The lack of viable projects to finance as opposed to the financial resources is the bottleneck to success.

Secondly, the commercial case for investment in clean energy technology in these markets is clear. Compared to developed markets, such as those in Europe, we are seeing far fewer barriers to commerciality.

Renewables investments in Spain and Italy, to cite just two examples, require heavy subsidies. This translates to significant tariff reductions and limited economic viability of certain projects.

In comparison, emerging markets are likely to adopt unsubsidised policy models. These markets present renewables opportunities at, or even below, grid parity. This greatly reduces investment risk.

Thirdly, the path to commerciality is short. Renewable energy technologies, especially solar technologies such as solar PV, require short construction timelines. This minimises operational risk and allows projects to monetise quickly.

For example, a 50MW solar PV plant that is able to provide power for some 200,000 homes can be up and running within six months of financial close.

Despite this positive investment environment for renewable technologies in emerging markets, specific challenges remain, as they do in every global jurisdiction.

Development finance carries risk. One of the biggest challenges in developing markets, such as sub-Saharan Africa, is limited grid infrastructure. As a result large-scale projects can take a long time to be delivered.

Starting small may be the way forward. By investing in smaller scale projects from 10-50MW that can be connected into existing infrastructure, investors ensure power can be delivered effectively and efficiently. Scalability can be built in to meet future demand.

Developers and investors in emerging markets are busy weaving the golden thread of energy into something of real substance. If successful, this will secure the energy future of millions for decades to come.

Reda El Chaar is executive chairman of Access Power. *(This is Africa)*

South African nuclear regulator receives site applications from Eskom

South Africa's nuclear regulator said it has received two nuclear installation site license applications from power utility Eskom to build new reactors along the east coast and the west coast. Africa's most industrialised economy, which operates the continent's only nuclear power station, wants to install an additional 9,600 megawatts of nuclear power by 2030 to overcome chronic electricity shortages that have dented economic growth. Eskom operates the Koeberg nuclear plant on the west coast near Cape Town, and has been designated as an owner and operator by the government, which plans to issue a request for proposals for the new nuclear fleet by the end of March. The sites applied for by Eskom are

Thyspunt in the Eastern Cape province and Duynefontein in the Western Cape province, the National Nuclear Regulator (NNR) said in a statement. "Both applications mentioned the applicant’s intention to construct and operate multiple nuclear installations (power reactors)," the regulator said. The licensing process includes a thorough review and safety assessment, the regulator said, adding that compliance with regulations would also be determined. The intention to build a fleet of six nuclear power stations has raised concerns of how South Africa, struggling with low growth and facing a ratings downgrade to "junk" status, will be able pay the costs estimated between 400 billion rand and one trillion rand ($25 billion to $63 billion). Besides the cost implications, environmentalists and activists are also arguing that South Africa, blessed with an abundance of sunshine and wind, should ramp up adoption of its green energy projects instead of building nuclear power plants. ($1 = 15.6531 rand) *(Reuters)*

AfDB extends $24m loan to Rwanda for hydropower project

The African Development Bank (AfDB) has extended a $24-million loan to support Rwanda’s contribution to the development of the multinational 147 MW Ruzizi III hydropower project. The project – a joint initiative between Rwanda, Burundi and the Democratic Republic of Congo (DRC) – would entail the construction of a run-of-river dam on the Ruzizi river, between the DRC and Rwanda, downstream of Lake Kivu and the Ruzizi II hydropower dam.

The project included an 8.3 km 220 kV transmission line to the Kamanyola power dispatch centre and associated power evacuating lines which were funded separately. The output would be equally shared among the three participating countries and the project would increase Rwanda’s clean energy generation capacity by about 50 MW. Additional benefits of the project included the creation of permanent and temporary jobs and a reduction in greenhouse-gas emissions. An unnamed private sector partner, acting in the capacity of investor/developer and major shareholder was recruited to implement the project and would be awarded a 25-year concession to operate the project on behalf of the joint partners. AfDB resident representative Negatu Makonnen encouraged the government of Rwanda to consider more joint infrastructure projects to enhance regional integration and emphasised that, “Sustainable regional infrastructure is necessary for strong regional integration and key to successfully tackling the most challenging climate change-related challenges. “The multinational Ruzizi III hydropower plant project is central to AfDB’s strategic vision for the development of the African energy sector through the promotion of universal access to low-carbon and inclusive modern energy,” he added. *(Engineering News)*

De Aar solar project expanded to 175 MW

Renewable-energy project developer Solar Capital has inaugurated the second phase of its De Aar solar farm project, with De Aar 3 adding 90 MW of capacity to the overall project. This was in addition to the first phase of the project, the 85 MW De Aar 1 solar farm, which came on line in August 2014.

An investment of R5-billion was made into the first two phases of the De Aar project, with 25% of the investment equity financed by local companies and the Public Investment Corporation. The remaining 75% had been financed through loans from Standard Bank South Africa and Deutsche Bank in London, in the UK. Solar Capital chairperson Paschal Phelan noted that Solar Capital had installed over 500 000 solar panels at the project.

At its peak, 2 000 people were employed, with 90% from the local community. There were currently about 220 people working on site, with a further 120 people to be employed to maintain the solar farm once the final two phases of the project were complete. Phelan noted that the company planned to develop a total of 300 MW of capacity in De Aar. The next phase, the 86 MW De Aar 2, formed part of the extended Renewable Energy Independent Power Producer Procurement Programme 4.75 bid. Energy Minister Tina Joemat-Pettersson stated that the De Aar solar project was the largest solar farm in Africa, the Middle East and the southern hemisphere. She congratulated Phelan on delivering the project, which she said could be the “blueprint” for further solar projects in South Africa and that the project showcased the Northern Cape’s potential to be the solar capital of the world. *(Engineering News)*

New solar energy solution to ensure sustainable power supply to off-grid schools

A new modular solar energy solution, the PowerTurtle, which is valued at about R600 000, was launched at Pheasant Folly Primary School, in Palm Ridge, Gauteng, this month. First presented to the Gauteng Department of Education (GDE) in 2015, the system provides a way for government to provide sustainable and secure energy solutions for rural off- the-gird schools, renewable energy business Ugesi Gold CEO and PowerTurtle developer James van der Walt said at the inauguration of the system.

“The off-grid PowerTurtle incorporates a unique container-based design that provides signifi- cant security for the energy system. Morning sunshine triggers the solar panels to roll out on a specially engineered rail system and unfold in minutes. In the evening, the solar panels slide back into the reinforced 6 m shipping container for safe keeping.” This system includes sixteen 310 W solar photovoltaic panels that produce 4.8 kW, locally produced Freedom Lite lithium batteries, and 8.5 kW Schneider Electric solar technology and XW+ adaptable single-phase and three-phase hybrid inverters with grid-tie functionality and dual alternative current power inputs, engineering, procurement and construction company AM Solar CEO Alastair Armstrong explained. The PowerTurtle pilot was produced by AM Solar, Ugesi Gold and RexiVista, which completed the project in the past two months. It was sponsored by the GDE, while funding for the pilot was provided by conference company EnergyNet. The PowerTurtle is the first pilot of its

kind to be deployed at a Gauteng school and the first independent power producer investment project for EnergyNet in South Africa. In October 2015, during its South Africa: Gas Options meeting, EnergyNet launched the ‘Not Just Talking Fund for Energy Access’ with its advisers, Impact Brands Africa, Fieldstone and ERM. The fund is designed to provide an alternative financing solution for small-scale, beyond-the-grid projects across the continent that will contribute positively in communities – especially in areas of healthcare, education and female empowerment. EnergyNet’s first investment was made in partnership with South Africa’s increasingly active Independent Power Producer Office, as stipulated by Minister for Energy Tina Joemat-Pettersson. Speaking at the event, senior adviser to the President on energy Silas Zimu highlighted the importance of electricity and, consequently, the system, “as energy leads the economy, the economy boosts education and education sustains the country”. Government estimates that 2 500 off-grid schools in Gauteng, which are typically located in informal settlements across Gauteng, require support. However, crime and vandalism are the prime factors hampering the adoption of solar PV power in South Africa. While previous pilots have been attempted, only to have the solar panels stolen, destroyed or vandalised, the PowerTurtle, a new generation of the SolarTurtle system, is even more secure than the first pilot launched at Ngangolwandle High School in the rural Eastern Cape, Van der Walt said. “PowerTurtle is the first step towards secure, reliable and sustainable electricity for schools like Pheasant Folly Primary School,” he noted. Van der Walt emphasised that the PowerTurtle forms the first phase of a larger vision, in which schools will become energy wells for local communities through the installation of solar kiosks where batteries can be recharged, while providing the basis for future information and communication or Internet-based learning. He therefore hopes the launch of the PowerTurtle in Palm Ridge demonstrates the potential of secure electricity for the school as well as an energy solution for the whole community. PowerTurtle is not only in South Africa’s, but also Africa’s, best interests, following requests for the system from Nigeria, Mozambique and Burundi, Van der Walt pointed out. The plan, therefore, is to supply a pilot for Mozambique in the next year, and, potentially, a pilot in Nigeria, Van der Walt said, stressing that it is vital to gain a firm foothold for the system locally. “Another aim is to install at least six SolarTurtles and at least 50 PowerTurtles this year, with the prospects of doubling this capacity each year as confidence in the concept is established,” he concluded. *(Engineering News)*

Solar EPC company plans further projects in Africa

Global solar engineering, procurement and construction (EPC) company Sterling and Wilson (S&W) has committed to executing 500 MW of photovoltaic (PV) power plants across Africa in the next three years. This follows the recent commissioning of a 90 MW solar PV plant on behalf of Solar Capital in the Northern Cape. Solar Capital last week inaugurated the second phase of its De Aar solar farm project, with De Aar 3 adding 90 MW of capacity to the overall project. The EPC company’s scope of work included construction of a 132 kV substation and 15 km transmission line, including refurbishment of a 5 km line. During installation of the solar power plant, S&W employed more than 90% unskilled employees from the local community. It would also be responsible for the operation and maintenance of the plant. “The fact that S&W was selected ahead of well-entrenched international solar EPC companies to partner with Solar Capital De Aar 3 in constructing this 90 MW solar PV plant is an indicator of our engineering and project execution capabilities,” said S&W electrical and solar business president Bikesh Ogra. A major challenge that S&W encountered while planning the project was finding a solution to reduce power generation losses while transmitting the power to the substation situated at a distance. The plant was engineered to work at a high performance ratio of around 80%. *(Engineering News)*

City of Cape Town sets target of sourcing 20% energy needs from renewables

The City of Cape Town has set itself a target of sourcing up to 20% of its energy needs from renewable energy sources by 2020, Mayor Patricia de Lille revealed at the weekend. She stated that the Western Cape was engaging national government on building its own renewable energy plants, buying directly from independent power producers and bringing natural gas to the Western Cape.

She noted that the city was looking at alternative ways of procuring energy and had re-evaluated its role in terms of energy supply. “National government must change the funding model for local governments, as we have seen negative growth in the past four years in electricity revenue,” she said, explaining that this had a negative impact on the city’s income. De Lille noted that the city used the Steenbras dam to effectively avoid Stage 1 load-shedding and implemented low curtailment schemes in some of its industrial areas where companies had been able to instantaneously reduce their energy use, thereby avoiding total shutdowns. She added that Cape Town was the first city in South Africa with a feed-in tariff for households that were generating their own electricity through photovoltaic panels and wanted to feed excess electricity into the city’s grid. “We have signed small-scale embedded electricity generation contracts with Black River Park Investments and 17 other major commercial industrial customers who are able to feed electricity into the city’s grid,” she said. She added that Cape Town had also signed contracts with 43 residential customers who were able to feed into the city’s grid in a legal and responsible manner and noted that the city was retrofitting the lights in its buildings, traffic lights and street lights. All 1 500 traffic lights had efficient light-emitting diode (LED) light bulbs and more than 25 000 street lights had been retrofitted. These initiatives, conducted progressively over the past six financial years, had saved over 70 000 MWh, which translated into savings of over R100-million, she said. The lighting retrofitting of Cape Town’s Civic Centre was currently under way, where around 20 000 light fittings were being

upgraded to LED technology, with occupancy sensors linked to timers and daylight harvesting. The payback period was less than three years and the electricity demand saving of 1.2 MW would save an additional R6-million in the first year, with more than R36-million saved over the next five years. “Another vital component of our energy security programme has been the installation of more than 45 000 solar water heaters on roofs across Cape Town,” she said. De Lille noted that the solar water heater programme had so far added R774-million into the economy and, in the last year alone, had saved almost 120 000 MWh of electricity, resulting in savings of over R256-million to residents. “The City of Cape Town is absolutely committed to bringing about sustainable energy security,” she concluded. *(Engineering News)*

Land disputes threaten Kenya renewables projects

Despite making strides towards generating more power from renewable sources, Kenya’s new mega power projects are in jeopardy due to ongoing land disputes that are stalling implementation. Fierce legal disputes between local communities, developers and the government are casting a pall over the future of the 60 MW Kinangop Wind Power (KWP) project and the 300 MW Lake Turkana Wind Park (LTWP). The two projects have attracted combined investment in excess $800m. If unresolved, the rows could deny the east African country a lead position in wind energy generation on the continent. For the Kinangop project in central Kenya, construction was set to start in May 2015. However, farmers in the area have taken to the streets and to the courts. The ferocity of local protests have made the site “unsafe”, according to the KWP’s CEO James Wakaba. The company halted all construction activity on February 22. A joint investment between Norwegian private equity firm Norfund, South African asset manager Old Mutual, and Australian fund Macquarie, the project has stalled since last year with no solution in sight despite interventions by Kenya’s president Uhuru Kenyatta.

Residents opposed to the wind park claim the KWP engaged in underhanded deals involving local administrators, lands officials, banks and brokers designed to swindle locals of their land or acquire it at throwaway prices. Kenya has a long history of controversial land disputes. Prominent figures in business and politics are frequently accused of appropriating land illegally and irregularly. These tensions reflect issues caused by weak land tenureship systems across Africa, and the negative impact this can have on project development US giant General Electric has delivered 38 power turbines and signed on to a 10 year maintenance deal for $58m in February. However, Mr Wakaba has warned that the project could collapse entirely if a solution is not found quickly.

According to Pavel Oimeke, director of renewable energy at Kenya’s Electricity Regulation Commission (ERC), the Kinangop Wind Park project will fall apart unless a political solution is found quickly. “The government has done everything it can to resolve this dispute and ensure the investment is not lost, but at this stage, only a political solution can save the situation. That is what we want the local political leadership to do,” he tells This is Africa. He blames local leaders for failing to resolve the matter. But the area deputy governor Waithaka Kirika accuses the developer of being dishonest. He claims they want to fold-up operations over flimsy reasons so as to earn millions of dollars from the government in compensation for a failed multi-million dollar investment. “We have not refused to resolve the matter…[They] want to earn this money, they are not being honest,” he argues.

Solutions in sight

A similar row has not spared the LTWP project in Turkana, one of Africa’s largest wind power enterprises. However the picture here is not as gloomy. Construction started in 2015 in remote and arid northern Kenya, and is continuing even as the legal dispute grinds on. Residents in Marsabit county are mainly semi nomadic pastoralists who make a living keeping cattle. They have gone to court seeking to halt works at the site, alleging that the company started construction before compensation was fully settled for part of the wind farm’s 40,000 acres. The community claims it is owed $75m in total for the land, and is contesting reparations for 150 hectares of land. The court declined the request to halt construction, and granted the firm use of 87 of the contested 150 hectares. Efforts to resolve the matter out of court are underway as well. The project is fronted by KP&P Africa B.V.. Co-developers include the Industrial Fund for Developing Countries, Vestas East Africa Limited, the Finnish Fund for Industrial Cooperation and Norfund. Mr Oimeke remains is optimistic that the row surrounding Lake Turkana project has an easier resolution in sight. “The problem at LTWP is not much [sic], a solution should soon be found. Progress on the ground is good with construction going on well/” he says. Kenya hopes to generate some 5,000 MW of power by 2020, nearly all of it from renewable sources. Power generation currently stand at 2,300MW. *(This is Africa)*

INFRASTRUCTURE

Kenya in Talks on Funding for Railway Link to Ugandan Border

Kenya is in talks about funding for the remaining stretch of the standard-gauge railway that will link the port of Mombasa to Uganda and plans to start work on a link between the capital, Nairobi, and the western town of Naivasha by December. The first phase of the line from Mombasa to Nairobi is on schedule to be completed by June 2017, Kenya Railways Managing Director Atanas Maina said in an interview in Voi, about 300 kilometers (186 miles) southeast of the capital.

The Export-Import Bank of China is financing the first phase of the project that will link Nairobi to Mombasa, East Africa’s biggest port, and cost 327 billion shillings ($3.2 billion). That part of the line is expected to be commissioned

in June 2017, he said. A contract has been signed with the Chinese ex-im bank to also fund the $1.5 billion Naivasha leg, Maina said. "We should be starting implementation of that project before the end of the year," Maina said. "We are also in the process of concluding discussions, commercial contracts, they are currently under government approval for Naivasha to Kisumu and to Malaba" on the Ugandan border. The Standard-Gauge Railway project is Kenya's biggest investment in infrastructure since it gained independence from Britain half a century ago.

10% Growth

Kenya's government is expanding ports, railways and power plants to help accelerate economic growth to at least 10 % a year from 5.6 % in 2015. The railway, which will link Kenya to landlocked Uganda and Rwanda, and possibly South Sudan, will complement an existing line built by the British colonial government at the end of the 19th century.

The government of neighboring Uganda has already signed commercial contracts for the funding of the link from Malaba to its capital, Kampala, Maina said. "They have completed the discussions with the contractor," he said. "They are now at the application stage for funding, again with China ex-im bank for the Malaba-Kampala section." Financing has yet to be arranged by Uganda for a line to Nimule on the South Sudan border and Mirama Hills on the border with Rwanda, Maina said. While regional heads of state have targeted June 2018 as the completion date for the project, he said a more likely timescale is 2020 to 2022. Kenya's existing track that links Mombasa to Uganda is operated by Rift Valley Railways, a unit of Cairo-based Qalaa Holdings SAE. *(Bloomberg)*

Earthworks for Majuba rail project nearing completion

The structures and earthworks for State-owned power utility Eskom's Majuba rail project, in Mpumalanga, are 98% and 96% complete respectively, with 55% of formation ready for track laying, said construction and engineering group Aveng Grinaker-LTA earlier this month. Most of the site has been handed over to business unit Aveng Rail, which is installing the rail, with engineering and construction company Ircon installing the overhead traction equipment lines and signalling. "We expect to complete the project in August," says Aveng Grinaker-LTA contract director Allan McCormack, adding that "once the rail is commissioned, coal supply to the Majuba and Tutuka power stations will be secured at 21- million tonnes a year".

The Majuba rail project is a component of the Eskom Road-to-Rail Initiative, with the construction of a railway line that links the Majuba power station to the main coal railway hub in Ermelo, Mpumalanga. The 68 km corridor is the first large greenfield freight rail infrastructure project to be carried out in South Africa since 1986 and will be operated by State-owned logistics provider Transnet Freight Rail. The initiative aims to ensure the security of coal supply through logistics solutions at the Majuba, Tutuka, Camden, Grootvlei, Kendal and Hendrina power stations to cater for a throughput potential of 32-million tonnes a year of coal by rail. The coal would be unloaded at the terminal by the upgraded coal tippler system, Creamer Media's Research Channel Africa reported in January.

The project will yield lower life-cycle transportation costs, improve coal-delivery turnaround times and enable Majuba to access more coal sources, according to Eskom. Aveng Grinaker-LTA's civil engineering division was awarded the main civil construction and earthworks contract for the project in January 2013; construction activities started in March that year. The scope of work includes construction of the bulk earthworks, layer works, bridges and culverts, with Aveng Rail responsible for the construction of the railway line and overhead power lines. The structures to be constructed in the project include 96 culverts, nine cattle creeps, 32 agricultural underpasses and overpasses, 18 bridges, one service duct and 40 cattle grids. Aveng Grinaker-LTA, an operating group of Aveng, is responsible for all construction activities required to get the formation ready for the laying of sleepers and track, comprising earthworks, layer works, drainage and concrete structures. These include 1.06-million cubic metres of layer works, 1.2-million cubic metres of blasting in cuttings, 2.4-million cubic metres of unsuitable material spoiled and 2.8-million cubic metres of bulk fill. Aveng Grinaker-LTA, together with Aveng Rail, has an established record in the rail and freight sector with the completion of similar projects, including the Kgalagadi and Nacala railway lines, in the Northern Cape and Mozambique respectively. Aveng Grinaker-LTA achieved a significant milestone of three-million work hours without a lost-time injury (LTI) at the Majuba project in February, which translates into a lost-time- injury frequency rate (LTIFR) of zero. This achievement preceded another significant milestone of one year without an LTI on February 14. McCormack acknowledges that previously the project was struggling with an LTIFR of 0.44 after seven LTIs had been recorded over a ten-month period from May 2014 to February 2015. This milestone was achieved through the implementation of several proactive initiatives, including a refocus on the ownership of safety by the supervisors, visible, felt leadership involving all senior management team members and executives, the implementation of the action notice system and trend analysis, together with the near miss/stokvel system. *(Engineering News)*

Mozambican state spends millions of dollars on improving airports

Mozambican state-owned airport management company Aeroportos de Moçambique (AdM) expects this year to spend US$60 million improving airport infrastructure in the country, which will have the support of France, Mozambican daily newspaper Notícias reported. The schedule of works cited by the newspaper, which includes the acquisition of equipment and systems, will spend most of the money on repairing runways (US$22 million) and construction and modernisation of buildings (US$22 million).

According to figures included in the state budget for 2016, ADM will spend US$8.5 million on studies and projects, with the remaining US$7.5 million invested in various projects, such as runway maintenance, fencing, access roads and buildings and construction of fuel tanks. Part of the funds needed to carry out this plan will come out of the state budget, with a percentage that has not been disclosed to be disbursed by the French Development Agency. The newspaper recalled that the country has been modernising and expanding its airport facilities, including those in Maputo and Nacala, whose air base was transformed into an international airport by Brazilian construction company Odebrecht. *(Macauhub)*

MINING

South Africa Mine Group Sees End to Black Ownership Dispute

South Africa's Chamber of Mines is optimistic that it will resolve a dispute with the government about the requirements for black shareholding in mining companies this year.

The chamber, which represents the largest producers in the country, including Anglo American Plc and Glencore Plc, will argue in the High Court that the Mining Charter stipulates that companies should be credited with disposing a minimum of 26 % of their assets to black investors even if those stakes were later resold. The Department of Mineral Resources says that companies should maintain black shareholding above the threshold at all times. The chamber remains open to finding a mediated settlement with the government, Roger Baxter, the chief executive officer of the Johannesburg-based lobby group, told reporters in Johannesburg.

Once the parties receive feedback from the judge presiding over the case, they may continue talks "on the idea of third-party mediation," Baxter said. "It is very feasible to see some outcomes this year. It is important to get some outcomes this year." South Africa's push for increased black ownership of the mining industry, which accounts for almost half of the country's exports, is part of an effort to address the legacy of apartheid that locked the black majority out of key industries. The Mining Charter also sets targets for companies to boost the numbers of black people in management and improve training and benefits for communities near mines. The country is the world's biggest source of platinum and manganese and Africa's largest gold and coal producer. The chamber's members concluded deals worth 205 billion rand ($13 billion) since 2000 to expand black ownership, Baxter said. "We don't think the industry has had a fair hearing on the progress that we have made," he said. *(Bloomberg)*

Diamond Hunters Scent Hidden Fountainhead of Huge Gems in Angola

The diamond explorers known for discovering some of the world's most-valuable gems in recent years, including a 404-carat stone sold last month, say they're closing in on the source of their finds. Lucapa Diamond Co., the Perth, Australia-based company that's unearthed a stream of discoveries sifting through Angola's gem-rich soil, is using cash from such sales to seek the "kimberlite" diamond-bearing rock where the stones probably originated. "We're finding some of the very best diamonds in the world," Chief Executive Officer Stephen Wetherall said in an interview in London. "It's telling us there is something big close by."

Lucapa are currently alluvial miners, combing for diamonds that have been washed out of the kimberlite core. However, about 85 % of the world's diamonds are found by directly mining the cores, carrot-shaped pipes formed when violent explosions forced molten rock from the Earth's mantle up to the surface, carrying a diamond lode.

Tell-Tale Signs

This is what Lucapa is hoping for next. While alluvial gems are easier to mine, it's hard to tell how long any deposit will last. Hitting kimberlite is where the big money is made.

The CEO and his team say they're finding tell-tale signs of kimberlite beneath the area they're currently mining. Using cash from their share of the $16.7 million raised from the 404-carat diamond, the biggest ever found in Angola, the company is bringing in drill rigs and hopes for a better idea of what they have by the end of the second quarter. Lucapa has also discovered five more gems greater than 50 carats this year. Discovering kimberlite is no guarantee of success. Of the more than 6,000 such pipes that have been tested in the past 140 years, only 60 have been worthwhile mining, according to De Beers, the former monopolist and still the biggest producer of diamonds. No more then 10 of those have been so-called super deposits, capable of shifting global supply. Another obstacle is Angola, not always an easy place to operate. De Beers has cut back its operations there, while BHP Billiton Ltd., Petra Diamonds Ltd. and Trans Hex Group Ltd. also surrendered deposits in the past. Producers must sell their stones through Angola's Sodiam state marketing unit, resulting in discount prices relative to global trading hubs.

Should Lucapa find the conditions it's seeking, the Australian-listed miner will probably look to London and its mining-investor base to fund the expensive business of building a mine. "London understands diamonds and London has the pockets," Wetherall said. *(Bloomberg)*

Mali 2016 gold output forecast to rise as new mines start

Gold production in Mali, the third-largest gold producer in sub-Saharan Africa, is expected to rise to 52.9 tonnes this year from 50.5 tonnes in 2015 as new mines made up for dwindling output from existing projects, the mines ministry said. Production from industrial mines is expected to hit 48.9 tonnes, with 4 tonnes coming from smaller artisanal mines, said Karim Berthe, head of the mining division. "The increase in production is marked by the return in May of

the Wassoul'Or mine which is expected to produce 5.48 tonnes," Berthe said. Mines held by Randgold Resources at Loulo and Gounkoto lead the field with a forecast of 21.8 tonnes this year, followed by Resolute Mining's Syama mine with 7.45 tonnes and Endeavour Mining's Tabakoto mine expected to produce about 5.5 tonnes.
After a slump in gold prices that has lasted three years and led to an industry-wide slowdown, the ministry is still concerned about the impact on the industry. "This year we are concerned that the price of gold is struggling to rise. There are technical problems, and it is not ruled out that they could disrupt production forecasts," Berthe said.

Mines /(companies)	2016 Forecast (kg)	2015 Production (kg)
Sadiola (Anglogold)	5,212,000	6,124,385
Morila (Randgold/Anglogold)	2,791,000	4,706,122
Yatela (Anglogold/Iamgold)	310,000	668,452
Kalana (Avnel gold)	239,000	355,898
Loulo-Gounkoto (Randgold)	21,801,000	21,355,972
Tabakoto/Segala (Endeavour mining)	5,506,067	5,416,242
Syama (Resolute Mining)	7,451,171	7,845,485
Wassoul'Or	5,486,570	0
Nampala (Robex)	62,202	29,972
Total Industrial Production	48,859,010	46,502,528
Total Artisanal Production	4,000,000	4,000,000
Overall Gold Production	52,859,010	50,502,528

(Source: mining ministry)

(Reuters)

OIL & GAS

Q&A: How can we improve trust in the oil and gas industry?

This article is part of a World Economic Forum series of interviews with CEOs from our PACI community, which aims to rebuild trust, transparency and integrity in business.

What does greater transparency and integrity mean for the oil and gas industry?

Greater transparency and integrity for oil and gas relates to an inherent and consistent problem - lack of trust within the industry. It should focus on how to engender trust amongst the various stakeholders through the development and implementation of effective and efficient policies and regulations across the board.

How can this be achieved in Nigeria?

Trust is very dependent on who tells the story. Transparency and integrity can be achieved through honest and open stakeholder engagement. The industry already has some of the highest standards of corporate governance but has very little or no advocates to speak on their behalf. By ensuring third party acknowledgement of these efforts in an unbiased, balanced and open way, trust can be re-established.

How has signing the Partnering Against Corruption Initiative (PACI) impacted your company?

One take-away from PACI was the act of ‘designing’ corruption out of any system. Sahara has adopted this principle and rather than ‘fight’ an unending battle, has created an organized system through the use of technology via an Oracle ERP system to limit ‘temptation’ areas while driving the culture of the company and the PACI values through the entire organization.
The platform established under PACI by which Sahara abides to has enabled us not only limit corruption within our own system but has also helped to limit our level of exposure to corruption within the industry as a whole.
Thus, signing up to PACI has played a major role in reaffirming our stance on the importance of a sound governance framework as the foundation for sustainability in any enterprise.

How important is setting the tone at the top for building a culture of integrity and trust in an organisation?

It is imperative that the tone is set at the top as this usually lays the foundation for the organization’s ethical performance and the attendant trickle-down effect on employees of the company. To build a culture of integrity and trust it is important that the top management also live and lead by the culture set in the organization.
Top management are always in the spotlight, whether they know it or not and their actions reflects upon their employees with or without their consent. Therefore, it is critical that their actions are also in line with the ethics and integrity of the organization as those watching are more likely than not to imbibe what they see.

How can PACI and the community better contribute to increasing transparency in the oil and gas sector?

As earlier mentioned, one of the issues facing the oil and gas sector is the lack of trust which can be improved through transparency. PACI and the community can contribute to increase transparency in the sector through the following;

- The use of self regulation from established industry standards, to setting and enforcing rules and guidelines relating to the conducts of companies in the industry. Self regulation helps to increase public trust, combat negative public perceptions, and to ensure commitment and compliance.
- Creating awareness through praise and recognition of companies that are in line with industry standards and have performed effectively over time. Praise and recognition helps to increase stakeholder engagement, rebuild trust and strengthen accountability within the industry. *(World Economic Forum)*

Exxon Mobil in Talks to Buy Stake in Big Mozambique Gas Project From Eni SpA
Shows major oil companies are again hunting for deals after energy prices crashed in 2014
Exxon Mobil Corp. is in advanced talks to acquire a stake in a giant Mozambique natural gas development project from Italy's Eni SpA, a sign that major oil companies are again hunting for deals after energy prices crashed in 2014.
The acquisition could be announced in coming weeks, according to people familiar with the matter. Terms of the deal aren't clear, but one person indicated Exxon is in talks to buy a stake of around 20% from Eni, which owns 50% of the development. As with all discussions over deals, timing could slip, talks could fall apart at the last minute or the size of the stake could change. Any such purchase likely would be a drop in the bucket for Exxon, which has a market value of around $350 billion. A 20% stake in the concession sold for more than $4 billion in 2013, before energy prices tumbled.
The Mozambique Area 4 offshore development is expected to become a major global supplier of liquefied natural gas. Eni has said Area 4 may hold 85 trillion cubic feet of gas. The Italian company estimates it may hold enough gas to meet U.S. residential consumption for nearly two decades.
For Exxon, the assets would represent an important move toward adding to oil and gas reserves with acquisitions during the downturn in oil prices, a step many analysts have estimated it would take as prices fell. Last year, the Irving, Texas-based company was only able to replace about two-thirds of the oil and natural gas it produced, the first time that has happened in 22 years.
The Mozambique project involves separate giant natural gas discoveries in the Indian Ocean that a host of companies want to exploit. Eni and Anadarko Petroleum Corp. made the original discoveries in the area and agreed last year to coordinate development that is likely to cost in the tens of billions of dollars.
Anadarko owns a 26.5% working interest in Area 1, which is a separate tract not included in the Eni deal under discussion with Exxon Mobil. Area 1 could hold as much as 75 trillion cubic feet of gas. Partners there include Japan's Mitsui & Co. Anadarko isn't a partner in Area 4.
The projects come at a difficult time for Anadarko and Eni. As oil and gas prices have plunged, Anadarko has said it would cut spending by almost half, complicating its ability to advance the Mozambique development. Both companies have yet to make a final investment decision on the project. It is unclear how a potential Eni stake sale would impact the funding picture for Anadarko.
The backing of Exxon, which has a AAA credit rating and recently sold $12 billion in bonds to build its acquisition war chest, could be a lifeline for Eni as it seeks to make the discovery viable. Exxon is said to have an interest in becoming an operator in the development, people familiar with the matter said.
Energy deal making has been relatively muted because of the downturn in oil and gas prices. The largest energy deal so far this year is TransCanada Corp.'s agreement to buy Columbia Pipeline Group Inc. for $10.2 billion. *(Wall Street Journal)*

Mozambique LNG promotes gas in Singapore
The Mozambique LNG consortium is negotiating with Indian companies to supply liquid natural gas due to be extracted and processed in Mozambique, said Steve W Hoyle, vice president of US group Anadarko Petroleum for natural gas and shipping. Hoyle, who addressed the 200 participants at the conference "LNG Supplies for the Asian Markets in 2016″, held from 14 to 17 March in Singapore, noted that two of the participants in the consortium, Oil and Natural Gas Corp, Bharat Petroleum and ONGC Overseas Ltd, jointly control 30 % of the project and are two of the major players in the natural gas market in their country, India. Quoted by the Press Trust of India, Hoyle recalled that Mozambique has a strategic position in relation to the Indian subcontinent, which is a distance of just seven days by sea compared to over 17 days to reach Japan, the world's largest importer of natural gas.
This project, called Area 1, is located in the Rovuma basin in northern Mozambique. The consortium is made up of the Anadarko Petroleum group, which is the operator with a share of 26.5 %, Japan's Mitsui & Co 20 %, Oil and Natural Gas Corp with 16 %, Bharat Petroleum with 10 %, PTTEP of Thailand with 8.5 %, Oil India Limited with 4 % and the Mozambican state ENH with 15 %. *(Macauhub)*

Nigeria's state oil company withheld $16 bln in 2014: auditor-general
Nigeria's state oil company withheld 3.2 trillion naira ($16 billion) in revenues from the federal government in 2014, the auditor-general said, the same year that the central bank governor was suspended after making a similar assessment. Constitutionally, the Nigerian National Petroleum Company (NNPC) must hand over all oil revenue - which makes up about 70 % of total income - and money is then paid back based on a budget approved by parliament. Samuel Ukura, who presented his findings in a report to lawmakers at the national assembly, said other government ministries and agencies had also failed to remit funds, taking the total not passed on to 3.3 trillion naira for 2014. No one at the NNPC

could immediately be reached to comment or provide details of the amount remitted that year. According to the latest figures on OPEC's website, Nigeria's oil exports are worth about $77 billion a year. Development in Nigeria, Africa's biggest oil producer and largest economy, has been stunted by decades of corruption and mismanagement. President Muhammadu Buhari took office last year on an anti-corruption ticket. Ukura's report stated that it was based on an "examination of NNPC mandates to CBN (Central Bank of Nigeria) on Domestic Crude Oil Sales and Reconciliation Statement of Technical Sub-committee of Federation Account Allocation Committee (FAAC) meeting held in January 2014". "Amount not remitted to FAAC was N3,234,577,666,791.35," the auditor general said in his report. In 2014, the then central bank governor, Lamido Sanusi, was suspended after accusing the NNPC of failing to pay $20 billion into government accounts between January 2012 and July 2013. *(Reuters)*

KenolKobil net earnings surge 84pc on lower finance costs

KenolKobil nearly doubled its net profit for the year ended December 2015 helped by a reduction in borrowing costs and the sale of assets following disposal of its units in Tanzania and the Democratic Republic of Congo. The NSE-listed oil marketer's after-tax earnings grew by 84 per cent from Sh1.09 billion in 2015 to Sh2.01 billion during the period under review while finance costs went down by 53 per cent to Sh651 million. The company is forecasting better results this year to be driven by expansion into the retail business. "The Group is optimistic that the growth in earnings and profitability will be sustained in 2016 and going into the future. This will be driven by focused expansion of the retail network by adding new service stations in the countries where we operate in," said KenolKobil's managing director David Ohana. The oil firm is also eyeing partnerships with various brands including restaurants at selected service stations to boost income from non-fuel business. Last year, KenolKobil earned Sh1.4 billion from other sources outside sales of fuel. The income stood at Sh851 million in the preceding year. Following the positive performance, KenolKobil has declared a dividend of Sh0.25 per share, subject to approval by shareholders during the annual general meeting to be held on May 12.

Sale of units

The company is planning to settle all its debt this year, currently standing at about Sh2.8 billion, using income realised from sale of its businesses in Tanzania and the Democratic Republic of Congo, largely seen as non-productive. KenolKobil cited "lack of a level playing field" in Tanzania where it said it was in competition with other oil marketers, some who allegedly are not compliant to regulations such as taxation. It operated 17 service stations in Tanzania. The closure took about three years during which Mr Ohana says the company had reduced its staff to about 7 who were finally affected by the shutdown of operations. "The group has developed an effective strategy of constantly reviewing and restructuring debt. With the traction we gained and supported by low oil prices, we are confident that the group will be debt free within 2016," said Mr Ohana. Apart from Kenya, KenolKobil operates in Uganda, Burundi, Rwanda, Zambia and Ethiopia. *(African Markets)*

TELECOM

Africa Internet Group Raises More Funds in Bid to Become Continent's Amazon

Startup raised more than $327 million in latest round with investors valuing firm at just over $1.1 billion

Africa has its unicorn. Africa Internet Group, the startup behind what has been called the Amazon.com of Africa, said it raised more than €300 million ($327 million) in its latest round of funding, with investors valuing the company at just over $1.1 billion.

With that fundraising round, the Lagos, Nigeria-based firm becomes the first in Africa to join the ranks of tech startups valued at over $1 billion—called unicorns in the lexicon of Silicon Valley. And it is passing that threshold just as investors in the U.S. and elsewhere start taking a harder look at some of the astronomical valuations bestowed on an earlier generation of unicorns.

Rocket Internet SE, the Berlin-based tech incubator, founded Africa Internet in 2012. The group's first business was a Nigeria-based online retailer called Jumia. It is a general merchandiser that sells electronics, groceries and clothing, though selling cell phones is one of the biggest parts of its business. Jumia is now in 11 African countries. Jumia is the biggest division of Africa Internet, which runs nine other online businesses on the continent, including Uber-competitor Easy Taxi and auto-classified site Carmudi. Investors in the round included Goldman Sachs Group Inc., African telecom giant MTN Group Ltd., and French insurer Axa SA. Rocket Internet also invested in the round. Previously, it had owned a third of the company, but didn't disclose its current stake after the most recent round. Unlike Amazon, which largely uses outside delivery services such as United Parcel Services Inc. in the U.S., Sacha Poignonnec, one of Africa Internet's two chief executives, said Jumia delivers 90% of its orders with drivers in its own network. It has experimented with delivering goods using drivers from its Easy Taxi service and plans to further test that strategy.

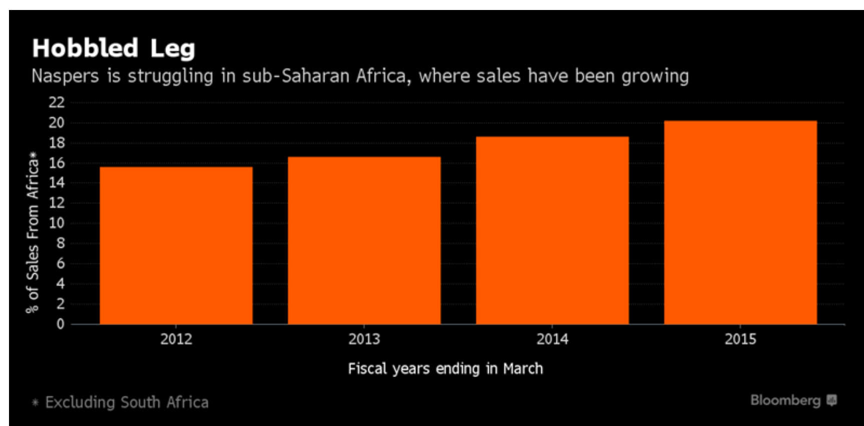
Africa Internet will use the investment to strengthen its existing businesses, including the non-Jumia ones, and to selectively expand to new countries, said Mr. Poignonnec. He said in an interview that he wanted all of Africa Internet "to be in a position of profitability" in two to three years, though the company might then opt to forgo profitability and instead invest in future growth, depending on what the market looks like. "I often take the example of Amazon, where it's not possible every quarter to be profitable," Mr. Poignonnec said. MTN Group Chief Digital Officer Herman Singh

said in an interview last week, before the announcement of the latest investment round, that Africa Internet was spending about €100 million to €200 million a year, largely to market to new customers. Prior to the latest cash injection, Africa Internet had been valued at €500 million. Africa Internet is the latest business from Rocket's portfolio to cross the $1 billion valuation threshold, following Delivery Hero, HelloFresh, Global Fashion Group, Lazada and Home24. *(Wall Street Journal)*

RETAIL

Naspers Sub-Saharan Africa Business Hit by Commodities Drop

Naspers Ltd., Africa's largest company by market value, said fiscal full-year profit growth will be held back by depressed sub-Saharan economies, where consumers are struggling to pay for extras like online movies and TV. Best known for its early investment in Chinese e-commerce site Tencent Holdings Ltd., Cape Town-based Naspers has expanded in the rest of Africa, where the company generates about one-fifth of its sales with cable-TV offerings and ShowMax, a Netflix-like service. With local economies slowed by a drop in commodities prices and weaker local currencies, Naspers has refrained from raising prices, absorbing the impact of higher costs so consumers will keep paying for its products, Chief Executive Officer Bob van Dijk said in an interview. That's held down profit, he said. "We are trying to help our customers in the region by not raising our prices, even though we buy our content from places like Hollywood and pay for it in dollars," Van Dijk said. Since June 2014, oil prices are down about 60 %. "This is devastating for economies like Nigeria, a country that also saw its currency weaken significantly."



Two years into the job, Van Dijk is expanding Naspers' online streaming service across Africa, the least-connected continent with a significant population, to counter Netflix Inc.'s domination plans. But consumers in Africa and Russia, another targeted market, have lost ground as commodity prices slumped. Nigeria's gross domestic product growth slowed to 2.8 % in 2015, the weakest level since 1999.

Naspers, which owns Africa's biggest pay TV business, spent $1.2 billion to gain control of Russian Craigslist copy Avito last year. Van Dijk plans to expand the online classifieds business in Africa and is considering Nigeria as the next country to introduce mobile online payments system PayU, he said.

Analysts project Naspers' revenue will rise 13 % to 82.3 billion rand ($5.4 billion) in the year ending March 31, the average of 14 estimates compiled by Bloomberg. Profit, excluding some items, is forecast to more than double to 16.8 billion rand.

The Tencent stake is worth more than $60 billion, more than Naspers' own market capitalization, indicating that investors affix no value to Naspers' other businesses. Van Dijk is still investing, making bets where he sees opportunities even if the market disagrees. "We try not to second guess the market," said Van Dijk, a former head of eBay Inc.'s German operations. "In time the market will start to understand these other businesses and see the value. We want to stay in business in the region and see a lot of potential and opportunities in sub-Saharan Africa still." *(Bloomberg)*

Economic headwinds cast shadows over Ghana's retail sector

The start of commercial oil production in 2011 in Ghana and favourable commodity prices at the time triggered strong economic growth in the West African country between 2010 and 2013, peaking at a stellar 14% in 2011.

Due to rapid economic growth, rising disposable income as well as the broadening of the middle class, which included, according to Standard Bank, about 1.3 million households (including lower and upper-middle class) in 2014, Ghana has in recent years moved into the focus of pan-African retailers such as Massmart, Shoprite, Edcon and Woolworths.

In addition to these multi-brand retailers, international fashion brands such as Bata, Nike, Puma and Mango have entered the market to service Ghana's nascent middle class and the narrow band of affluent elite.

Yet, despite the entry of large international retailers and fashion brands as well as the development of new shopping malls such as Westhills Mall and Marina Mall in Accra, the market share of the formal sector remains small. Arguably some retail players have overestimated the size and perhaps even near-term potential of the market.

According to Deloitte's African Powers of Retailing 2015 report, 96% of all retail transactions in Ghana are carried out in the informal sector. The informal sector is characterised by small market stalls and street-side vendors or independent family-owned grocers or clothing stores and is the retail format of choice for the majority of Ghanaians.

Although shopping malls offer a more convenient and comfortable shopping experience, it has been an uphill battle for retailers to attract shoppers – not only window-shoppers – into air-conditioned malls.
A large share of Ghanaian consumers associate malls with 'expensive products' and malls are hence perceived to cater only for the rich. In addition, the personal interaction with market women, and the possibility to bargain, provides the informal sector with a key advantage over formal retail.
Both formal and informal retailers still struggle to access efficient and uninterrupted supply chains. A large share of consumer goods is imported from South Africa, China, Turkey and Europe. Yet, due to the relatively small size of retailers, Ghana remains dependent on small to medium-size multi-brand importers that often rely on shipments from third-party countries. Even for the large international retailers, the lack of an extensive network of outlets remains a challenge as they are not able to benefit from the economies of scale that they can achieve from established markets such as South Africa.
In addition to the supply chain related difficulties, some of the South African clothing retailers – especially the mono-brand retailers – face additional challenges as their less recognisable brands are competing with branded second-hand clothing imported from Europe or the US, as well as local fashion.
Beyond misjudging market size, and compounding the challenges of retailers in Ghana, is the poor financial state of the country. Ghana is almost in the unique position of having spent the oil windfall before the windfall actually arrived. This is particularly true for the ballooning public sector wage bill that has contributed to the recent IMF intervention in the economy.
According to Forbes magazine, government salaries increased by almost 50% between 2010 and 2012, boosting disposable income among civil servants – equivalent to 70% and 53% of the country's tax revenues in 2012 and 2014 respectively. The bloated government wage bill and overruns in current expenditure combined with declining government revenues have led to a serious deterioration of the fiscal balance of the country. Falling commodity prices, rising inflation and the rapid drop of the currency (one of the worst performing on the continent in 2015) has forced the Ghanaian government to request a three-year extended credit facility in excess of US$900m from the IMF. As part of the deal, the Ghanaian government has agreed to reduce the budget deficit from 9.5% of GDP in 2014 to 7% in 2015 and 3.5% by 2017 by cutting the government's wage bill.
Furthermore, high inflation (17.7% y-o-y increase in December 2015), electricity shortages and lower spending present additional challenges for the retail industry. Given the high dependency on imported products, the weak cedi has pushed up the prices of products in local currency terms and has strained retail investors that have financed retail developments in foreign currency, yet generate their revenues in local currency.
In an attempt to curb inflation and prop up the cedi, the central bank increased interest rates to 26% further crimping the economy. The IMF expects Ghana's GDP growth to have remained subdued at 3.5% in 2015.
As a response to the difficult trading environment and a slump in sales, rents for retail property have been slashed by up to one third at Accra's Oxford Mall. Rent increases at the Marina Mall have been put on hold in order to cushion retailers from the adverse impact of imported inflation and low sales.

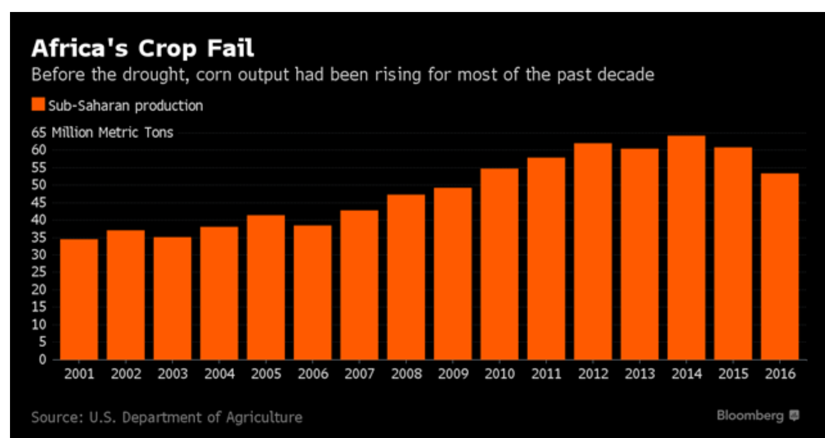
Key takeaway

The economic tailwinds in recent years that supported Ghana's emergence as an attractive investment destination for retail have now become headwinds. Rising inflation, interest rates, an overestimation of the country's emerging middle class and the sharp depreciation of the local currency are making life more difficult for retailers who have set up shop in Ghana. *(How we made it in Africa)*

AGRIBUSINESS

Food Costs Soar for Africa's Poor Amid Worst Drought in Decades

The corn that is a food staple for much of southern Africa is now so expensive it has become a luxury many can't afford, after the worst drought in three decades damaged crops from Ethiopia to South Africa.



In Malawi, one of a dozen nations affected by the dry spell, Meleniya Mateyu says she has to forage for wild water-lily roots called nyika from streams and swamps to feed her two orphaned grandchildren. The small amount of grain she gets from an aid agency is barely enough for them to eat during one meal a day. "We are surviving on nyika," Mateyu said in an interview at her village in the southern district of Chikwawa, about 50

kilometers (31 miles) south of the capital, Blantyre. "This year's hunger is the worst I've seen in 10 years." The drought -- a symptom of the global El Nino weather pattern -- is shrinking grain production across southern and eastern Africa and increasing the risk of widening hunger for some of the poorest populations in the world. Of the 34 countries that will require food aid this year, 27 are on the continent, United Nations' Food & Agriculture Organization data show. And the need is growing even as the rest of the planet enjoys a grain glut and shrinking food costs.

Dire Situation

The situation may be the worst since southern Africa's last major food crisis in 2002-2003, with 28 million people already contending with hunger, according to January figures provided by the UN's humanitarian affairs agency. The World Food Programme says that as many as 50 million people may eventually be affected in the region. Another 10 million people are at risk in Ethiopia because of drought, along with millions more in conflict-ridden countries including South Sudan and Central African Republic.

While the UN says the region is having its worst drought in 35 years, it's been a century since fields were this dry in South Africa, the biggest grower on the continent, and five decades for Ethiopia. That's compounding the strain on a part of the world where more than 40 % of the people live at or below the international poverty line of $1.90 a day, according to the World Bank.

Even with global food costs tracked by the UN dropping to a seven-year low, few in southern Africa are benefiting. The logistics of getting supplies from sea ports to landlocked markets in Malawi and Zimbabwe increases the cost. Like many other countries in the region, South Africa's buying power is eroded by its weakening currency. And the economies of Angola and Zambia have been hit by struggling oil and mining industries. "Importing food for many of these countries is going to be much more costly now than it was a year ago," said Debbie Hillier, a humanitarian policy officer at Oxfam International in Oxford, England. "Countries have suffered very seriously from the decline in commodity prices."

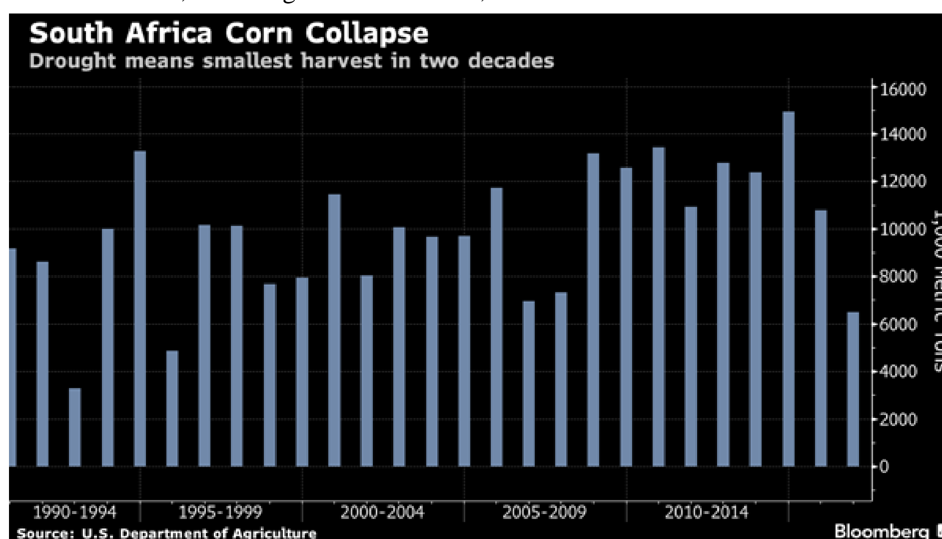
Food costs may double in Zimbabwe, which will need to import as much as 1 million metric tons of grain, said Steve Wiggins, a research fellow at the U.K.'s Overseas Development Institute. While ocean freight costs are low, the country has to import through South Africa and Mozambique. In a normal production year, local wholesale corn in Zimbabwe would cost about $120 to $150 a ton, but prices will probably be at least $100 higher this year with the added transportation costs, he said. "The country in the region that is just looking down the barrel is Zimbabwe," Wiggins said. "The bottom 10 to 20 % of Zimbabweans will be in terrible straits in terms of sorting out their food during 2016."

To make matters worse, regional stockpiles are already depleted. Grain production fell 21 % last year across southern and eastern Africa, and prospects for the next harvest, which begins in April and May, are "acutely unfavorable," the FAO said March 9. South Africa predicts the harvest will be half what it produced two years ago and that the country will have to import corn to feed itself.

Improved Supply

Even with the drought, southern Africa is producing more grain than two decades ago, doubling corn output since 1998, U.S. Department of Agriculture data show. Countries and international organizations have already started to prepare for a crisis by stepping up imports and calling on donors for aid. Ethiopia, Africa's second-most populous nation, has

appealed for $1.4 billion from international donors. The government has been buying up wheat in global markets since at least October, including a tender for 500,000 tons this week. The USDA forecasts the country's wheat imports will nearly triple this year. Zimbabwe declared a national disaster last month and asked for $1.6 billion in aid. The government says it's secured about half of the corn it needs so far after agreeing to import from Zambia and Ukraine.



Every Meal

All that aid still may not be enough to prevent shortages, especially for white corn, the variety used to make thick porridges known as nsima or pap, which some people in southern Africa eat for almost every meal.

Most corn harvested around the world is the yellow variety used primarily as livestock feed or to make ethanol. Outside of southern Africa, only Mexico is a major producer of white maize, and it doesn't have a lot to export, according to Oxfam. In addition, many southern African countries have laws prohibiting imports of genetically modified corn, which rules out much of the supply from the U.S., the world's top exporter.

The effects of El Nino are expected to weaken over the next few months, according to the U.S. Climate Prediction Center. But it will be too late to save crops across southern Africa. Tendai Mhishi, a 50-year-old corn farmer in Runhanga Village, Zimbabwe, said his crop this year was a total write off. He and his six children have been skipping meals in order to ration food. "There are days one of my kids refuses to go to school all because of hunger," Mhishi said in an interview. "This year, things have been really tough." *(Bloomberg)*

Can agricultural development boost Africa's economy?

After being out of fashion for a long period, agriculture has been coming back into the spotlight again as part of development policy. Amid rising concerns about food insecurity and high expectations from agribusiness, policymakers have started to emphasise the importance of agriculture as a source of employment.

Across Africa interest in agricultural investment as a source of employment growth and profit is growing. In South Africa, the National Development Plan identifies agriculture as the potential basis of one million new jobs.

But how realistic are these hopes? In our globalised and competitive world, agricultural development is not a great direct generator of jobs. In fact, increases in the intensity, efficiency or competitiveness of agriculture often push large numbers of people off the land. Farm workers, less efficient small farmers, and women often get the short end of the stick.

Policymakers often assume that this is an inevitable part of progress. In the past, displaced rural labour has often found alternative employment in the cities. But in many parts of the world, including sub-Saharan Africa, the prospects for this are slender. Agricultural development may enrich a few – but it can also swell the numbers of the urban poor.

Agricultural development can only serve inclusive growth if it contributes to an inclusive and diverse rural non-farm economy. Unfortunately, policymakers tend to ignore this issue. Agricultural policy is not much concerned with labour markets, while industry and trade ministers tend to concentrate on urban issues.

This is an important gap. Policymakers need to ask how different pathways of agricultural development affect non-farm employment.

A different approach

A recent multi-country research project funded by DfID and the ESRC suggests that the right kind agricultural development can indeed stimulate rural non-farm job creation. But the links are neither simple nor direct.

The study by the Institute for Poverty, Land and Agrarian Studies (PLAAS) at the University of the Western Cape investigated linkages between agriculture and the non-farm economy. It focused on three rural districts: Weenen in South Africa, Mchinji in Malawi, and Mazowe and Masvingo in Zimbabwe.

Rather than the social accounting matrices usually used for this kind of research, PLAAS and its partners took a qualitative approach. They carefully mapped the flows of money and resources that connect local agricultural enterprises to upstream and downstream markets.

What has emerged is a complex picture. What is good for the farmer is not necessarily good for the non-farm economy. Farmers with deeper pockets may not always spend their gains in ways that benefit their neighbours. Rather, beneficial effects depend on the local political economy.

Three factors are particularly important:
- the scale and ownership of agriculture itself.
- the pattern and design of upstream and downstream linkages between farmers and the rest of the economy.
- the nature of local social dynamics and power relations.

Different landscapes

Each case study revealed a very different scenario. In Mchinji small-scale farmers on communal land accessed local fresh produce markets by venturing into horticulture. Many new local livelihood opportunities were created – but these were small and vulnerable.

In Mazowe, small-scale tobacco growers who benefited from Fast-Track Land Reform made good money from distant markets, particularly China. This in turn created many opportunities for specialised local entrepreneurs.

In Weenen, large-scale agriculture turned out to be disconnected from the local economy. It had upstream and downstream links to distant markets but contributed little to employment in the area.

What works?

An analysis of the spatial patterns revealed by these case studies suggested some important insights. Simply being connected to distant markets is not enough to guarantee that agricultural development benefits the local non-farm economy.

Access to distant markets can support local employment. But this only happens if such farms are located in dense local networks that are socially embedded and not characterised by highly unequal power relations.

Where there are such networks, the local economy can benefit from trade and income flows. These benefits accrue through the purchase of intermediate inputs, and from local consumption and investment expenditure. They also come about through local retail, processing and transport of agricultural produce.

The scale of agriculture is an important factor too. In the South African case study, large-scale commercial farmers gained good incomes from highly efficient farms that served distant markets. But they also bought their inputs from distant suppliers. They provided little employment locally, and most of their spending on goods and services took place elsewhere. In Malawi, the same tended to be true of large estate farms.

This contrasted strongly with Zimbabwe where, for instance, the opportunities linked to small livestock farming and to small tobacco farmers' windfalls from trade with China circulated in the local economy.

In all these cases, a common pattern emerges. Where large-scale agriculture is owned by distant players or by a farming elite with few local political or social commitments, the economic networks they create are unlikely to stimulate local opportunities.

Similarly, some kinds of economic integration can actually worsen marginalisation and unemployment. The positive spin-offs of agricultural development in Zimbabwe and Malawi, for instance, seem to be strongly linked to the absence of powerful, vertically integrated and internationally owned corporate food retail chains and supermarkets.

When big supermarkets enter, they create some formal sector jobs. But they also marginalise local farmers, compete with local traders, and suck money out of the local economy. In contrast, small and locally owned retail enterprises and markets are a key element of the agrarian structure. While often modest and not very glamorous, they are crucial for circulating money and economic opportunities.

In all three countries, the research suggests that ensuring an inclusive rural economy is about much more than growth in agricultural trade. Aside from exporting agricultural produce, rural economies tap into national and urban economies via social grants and public service salaries.

Links are also developed through the expansion of the non-agricultural urban economy into rural areas. The existence of migrant networks and "stretched" households that straddle the urban-rural divide also helps.

Additionally, many agricultural entrepreneurs also depend on other, non-agricultural service industries. These include tourism, hospitality, the building trade and small town services.

So, while agriculture can contribute to local employment, it is better able to do so when there is a diverse, rural non-agricultural economy. This diverse economy can ensure that more money is circulating in the local markets, benefiting farmers and other entrepreneurs dependent on agriculture.

Implications

These findings have important implications for agricultural and economic policy.

First, they suggest that agricultural policy should promote smallholder agriculture – not simply as a contribution to food security, but also as a source of employment, and as a powerful hub for forward and backward linkages into the local economy.

In South Africa, while there has been lots of pro-small farmer rhetoric, agricultural and land reform policy is in practice still biased towards large scale farming. The time is overdue for genuine pro-small farmer land reform.

Where rainfall and markets allow, this kind of land reform can make an important contribution to the rural economy and the survival and welfare strategies of poor South Africans. Such a policy would also enable beleaguered medium-scale white farmers – who contribute little to food security anyway – to exit the market.

Elsewhere in Africa, land and investment deals that create large-scale farming enterprises, externally owned and plugged into distant export markets, are unlikely to contribute to local employment. They should not be supported in the mistaken belief that they do.

Maximising the economic benefit from agricultural development and smallholder farming requires better support for local retail and informal markets often disregarded by urban planners. These markets include those for livestock and fresh produce.
Finally, local planning, land use, zoning and anti-trust law and policy should be geared to protecting small informal growers, markets and retailers from being swamped by large-scale agriculture and the intrusion of powerful corporate retailers into rural markets.
The study, done by PLAAS, on which this article is based was part of the Growth Research Programme funded by the British Department for International Development and Economic and Social Research Council. *(World Economic Forum)*

UPCOMING EVENTS

The Africa CEO Forum: 21–22 March 2016, Abidjan – Côte d'Ivoire (Ivory Coast) Hotel Sofitel Ivoire
www.theafricaceoforum.com

Africa Digital Banking Summit: 13–14 April 2016 at the Julius Nyerere International Convention Centre, Dar es Salaam, Tanzania
www.africadbs.com

World Economic Forum on Africa 2016 Kigali, Rwanda 11 - 13 May 2016
http://www.weforum.org/events/world-economic-forum-africa-2016

2016 AfDB Annual Meetings to focus on energy and climate change will take place from Monday, May 23 to Friday, May 27, 2016 at the Mulungushi International Conference Centre in Lusaka, Zambia.
Full details on registration will be announced shortly, and a dedicated website will follow.

FT Oil & Gas Transformation Strategies - Beyond Fossil Fuels? Surviving and Thriving in a New Energy Order London 01 June 2016
https://live.ft.com/Events/FT-Oil-Gas-Transformation-Strategies

West African Mining and Power Exhibition (WAMPEX) 2016 1 to 3 June 2016 at the Accra International Conference Centre in Accra, Ghana
www.exhibitionsafrica.com

18th annual Africa Energy Forum (AEF) 21-24 June 2016 2016 - The Intercontinental 02 London
http://africa-energy-forum.com/

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Disclosures

Eaglestone was founded in December 2011 with the aim to be a committed partner for the development of businesses located primarily in Sub-Saharan Africa and to support the development of renewable energy projects on a global basis.

The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

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