INSIDE AFRICA

03 February 2017

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EAGLESTONE SECURITIES

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In-depth:
IMF Executive Board Concludes 2016 Article IV Consultation with Angola

On January 23, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] with Angola.

The oil price shock that started in mid-2014 has substantially reduced fiscal revenue and exports. Growth was estimated to come to a halt in 2016, with the non-oil sector contracting by ½ % dragged down by the industrial, construction, and services sectors; industrial production, despite the potential for import substitution, was constrained by shortages of imported inputs due to limited availability of foreign exchange. Annual inflation was estimated to reach 45 % by end 2016—the highest rate in over a decade—reflecting higher domestic fuel prices, a weaker kwanza, and the lagged effects of loose monetary conditions until the first half of the year. Non-oil primary balance in 2015-16 showed an improvement of 18 % of GDP mainly through spending rationalization. The current account deficit, which peaked at 10 % of GDP in 2015, is projected to be halved in 2016-17, as imports continue adjusting to limited availability of foreign exchange. International reserves are declining but remain relatively comfortable. Meanwhile, a wide spread between the parallel and primary market exchange rates remains, pointing to a significant imbalance in the foreign exchange market.

Executive Board Assessment [2]

Executive Directors noted that the oil price shock that started in 2014 has substantially reduced fiscal revenue and exports, while growth has stopped and inflation has accelerated. Directors commended the authorities for taking steps to mitigate the impact of the shock, but urged further measures to stabilize macroeconomic conditions and address more forcefully the dependence on oil and diversify the economy.

Directors welcomed the significant non-oil primary fiscal consolidation to date, but stressed that continued fiscal adjustment will be needed going forward to put public debt on a clear downward path while supporting economic growth over the medium term. Directors urged concerted efforts to contain the growth of the wage bill, improve the quality of public investment, continue streamlining subsidies while expanding well-targeted social assistance for the poor, and strengthen nonoil revenue, including by implementing a VAT in due course. They also emphasized the need to clear domestic payments arrears and welcomed plans to restructure state-owned enterprises. Directors noted that adopting a medium-term fiscal framework would help reduce the pro-cyclicality of public spending and improve investment planning.

Directors underscored that monetary and exchange rate policies should play a central role in rebalancing the foreign exchange market. They welcomed the recent measures taken by the central bank to tighten liquidity conditions, but saw a need to enhance the monetary policy framework to better anchor inflation expectations and facilitate a transition to greater exchange rate flexibility. Directors underscored that a more flexible exchange rate coupled with supportive monetary and fiscal policies will be crucial in addressing foreign exchange market imbalances while containing inflation. Directors urged the phased elimination of the exchange restrictions and multiple currency practices.

Directors emphasized the need to preserve the health of the banking sector. They supported the authorities' efforts to strengthen the bank supervision and resolution frameworks. Directors recommended conducting rigorous asset quality reviews, and welcomed the authorities' actions to ensure that weaker banks are recapitalized. They noted that the plan to restructure and recapitalize the systemically-important state-owned BPC bank is an important step.

Directors stressed the need to address the effects of the loss of U.S. dollar correspondent banking relationships (CBRs). They welcomed the high-level dialogue the authorities have been pursuing with the home authorities of global correspondent banks to better understand regulatory expectations around CBRs. At the same time, Directors noted that the central bank should step up its data collection and analysis; develop contingency plans to mitigate the risks from, and address the drivers of, the loss of CBRs; and further strengthen the prudential and AML/CFT frameworks.

Directors welcomed the authorities' reform agenda to tackle the constraints to economic diversification including through infrastructure and human capital development. They emphasized that these measures should be complemented by enhancing the business environment and strengthening governance, including efforts to address corruption-related risks, to foster private investment and inclusive growth.

Directors encouraged the authorities to address remaining gaps in the production of economic data.

Angola: Main Economic Indicators, 2010-17 (Baseline Scenario)

Angola: Main Economic Indicators, 2010-17 (Baseline Scenario)

	2010	2011	2012	2013	2014	2015	2016	2017
						Prel.		Proj.
Real economy (percent change, except where noted)								
Real gross domestic product	3.4	3.9	5.2	6.8	4.8	3.0	0.0	1.3
Oil sector	-3.0	-5.4	4.5	-1.1	-2.6	6.4	0.8	1.5
Non-oil sector	7.6	9.5	5.5	10.9	8.2	1.6	-0.4	1.3
Nominal gross domestic product	26.6	29.0	12.6	9.5	3.4	-1.1	27.7	27.6
Oil sector	27.6	36.7	8.4	-2.9	-10.7	-33.2	11.7	16.9
Non-oil sector	25.7	22.8	16.4	19.9	12.9	16.1	32.6	30.4
GDP deflator	22.4	24.2	7.1	2.5	-1.4	-4.0	27.7	25.9
Non-oil GDP deflator	16.8	12.2	10.3	8.2	4.4	14.3	33.1	28.8
Consumer prices (annual average)	14.5	13.5	10.3	8.8	7.3	10.3	33.0	29.2
Consumer prices (end of period)	15.3	11.4	9.0	7.7	7.5	14.3	45.0	20.0
Gross domestic product (billions of kwanzas)	7,58	9,78	11,011	12,056	12,462	12,321	15,729	20,072
Oil gross domestic product (billions of kwanzas)	3,396	4,641	5,03	4,882	4,36	2,914	3,254	3,805
Non-oil gross domestic product (billions of kwanzas)	4,184	5,139	5,982	7,175	8,102	9,408	12,475	16,267
Gross domestic product (billions of U.S. dollars)	82.5	104.1	115.3	124.9	126.8	103.0	96.2	121.0
Gross domestic product per capita (U.S. dollars)	3,599	4,412	4,745	4,989	4,916	3,876	3,514	4,294
Central government (percent of GDP)								
Total revenue	43.5	48.8	45.9	40.2	35.3	27.3	19.5	18.9
Of which: Oil-related	33.0	39.0	37.3	30.1	23.8	15.4	9.5	8.7
Of which: Non-oil tax	7.8	7.3	6.6	8.1	9.1	9.3	8.0	8.2
Total expenditure	40.0	40.2	41.3	40.5	41.9	30.6	23.6	25.6
Current expenditure	28.6	30.0	29.0	28.5	29.4	24.7	19.1	20.7
Capital spending	11.4	10.2	12.3	12.0	12.5	6.0	4.5	5.0
Overall fiscal balance	3.4	8.7	4.6	-0.3	-6.6	-3.3	-4.1	-6.7
Non-oil primary fiscal balance	-26.2	-26.9	-29.2	-28.2	-28.1	-15.9	-10.2	-11.5
Non-oil primary fiscal balance (Percent of non-oil GDP)	-47.4	-51.1	-53.7	-47.4	-43.2	-20.9	-12.9	-14.1
Money and credit (end of period, percent change)								
Broad money (M2)	11.0	35.7	7.9	14.2	16.1	11.8	12.0	15.0
Percent of GDP	35.3	37.6	35.0	36.5	41.0	46.4	40.6	36.6
Velocity (non-oil GDP/M2)	1.6	1.4	1.6	1.6	1.6	1.6	2.0	2.2
Credit to the private sector (12-month percent change)	19.2	28.8	24.2	15.0	1.1	17.6	12.4	19.1
Balance of payments								
Trade balance (percent of GDP)	41.1	45.2	41.1	33.5	24.1	12.1	14.0	11.6
Exports of goods, f.o.b. (percent of GDP)	61.3	64.6	61.6	54.6	46.7	32.2	28.6	26.1
Of which: Oil and gas exports (percent of GDP)	59.8	63.0	60.4	53.6	45.5	31.0	27.3	25.0
Imports of goods, f.o.b. (percent of GDP)	20.2	19.4	20.6	21.1	22.5	20.1	14.6	14.5
Terms of trade (percent change)	19.6	24.1	5.7	-1.8	-8.6	-41.6	-16.2	12.7
Current account balance (percent of GDP)	9.1	12.6	12.0	6.7	-3.0	-10.0	-4.3	-6.1
Gross international reserves (end of period, millions of U.S. dollars)	19,679	27,517	32,156	32,231	27,795	24,419	22,448	19,433
Gross international reserves (months of next year's imports)	5.4	7.2	7.8	7.2	8.8	11.0	8.1	6.8
Net international reserves (end of period, millions of U.S. dollars)	18,797	26,323	30,828	31,172	27,276	24,266	20,416	17,416
Exchange rate								
Official exchange rate (average, kwanzas per U.S. dollar)	91.9	93.9	95.5	96.5	98.3	119.7	...	...
Official exchange rate (end of period, kwanzas per U.S. dollar)	92.6	95.3	95.8	97.6	102.9	135.3	...	...
Debt (percent of GDP)								
Total public sector debt (gross) 1	44.3	33.8	29.5	32.9	40.7	65.4	71.6	62.8
Of which: Sonangol	9.1	9.5	7.8	10.9	12.5	14.2	18.9	13.7
Oil								
Oil production (millions of barrels per day)	1.758	1.660	1.730	1.716	1.672	1.780	1.789	1.821
Oil and gas exports (billions of U.S. dollars)	49.4	65.6	69.7	66.9	57.6	31.9	26.2	30.2
Angola oil price (average, U.S. dollars per barrel)	76.5	108.7	110.9	107.7	96.9	50.0	40.5	46.0
Brent oil price (average, U.S. dollars per barrel)2	79.6	111.0	112.0	108.8	98.9	52.4	42.7	49.4
Crude oil price (average three spot prices, U.S. dollars per barrel) 2	79.0	104.0	105.0	104.1	96.2	50.8	41.6	47.9

Sources: Angolan authorities and IMF staff estimates and projections.

1 Includes debt for the state-oil company, Sonangol, that is not directly guaranteed by the government.

2 Projected as of November 3, 2016.

South Africa: Country Outlook

POLITICAL STABILITY: The ruling African National Congress (ANC) will remain in power until the 2019 general election, although its chances of winning another (sixth) term have receded, based on the outcome of municipal elections last August. The party's voting share fell to a record low of 53.9%, while the centrist Democratic Alliance (DA), with the support of other parties, captured three major metropolitan areas--Tshwane and Johannesburg (in Gauteng) and Nelson Mandela Bay (in Eastern Cape)--to add to its existing control of Cape Town. The election outcome reflects growing public disenchantment with the party, and especially with the president, Jacob Zuma, whose reputation has been tarnished by myriad corruption investigations. In addition, he may now face a fresh judicial investigation into allegations of "state capture" (regarding outside influence in ministerial appointments and tender awards), and also faces the possible reinstatement of corruption charges against him that were controversially dropped in 2009. The Economist Intelligence Unit therefore believes that Mr Zuma will be obliged to stand down before his second (and final) term ends in 2019, although the precise timing of his departure remains uncertain.

ELECTION WATCH: The ANC's national majority is at risk in 2019, although it typically does better in national than municipal elections, helped by higher turnouts. The ANC will hope that new party leadership--to be chosen at a five-yearly electoral summit in December 2017--will revive the party's fortunes in 2019, especially given Mr Zuma's loss of popularity. However, leadership change alone may be insufficient to revitalise the ANC without fresh efforts to crack down on corruption, improve service delivery and spur job creation via much-needed structural reforms. The 2019 election outcome will also depend on the interim performance of the DA (and its coalition partners) in newly captured metropolitan councils. The challenges of expanding into new areas and running minority administrations will test the DA's reputation for stronger governance. We believe that the ANC will retain a small national majority in 2019 (with a similar voting share to 2016), although the opposition is well placed to capture Gauteng, to add to its control of Western Cape. The period of ANC hegemony is coming to an end, although the speed of the process and the resulting outcome are far from certain.

INTERNATIONAL RELATIONS: South Africa, with the most advanced economy in Africa, will play an important role in regional and world affairs. The country will remain deeply engaged with Africa, particularly Southern Africa, and will continue to support peacekeeping operations in the continent's conflict zones. Alongside fellow members of the Southern African Development Community, South Africa will also seek to build closer "South-South" ties, especially with fellow members of the BRICS grouping (Brazil, Russia, India and China) and with other African trade blocs. However, South Africa's prioritisation of ties with fellow African states--which may have played a part in the surprising announcement in October that it plans to withdraw from the International Criminal Court (which some argue unfairly targets the continent)--could hinder relations with the EU and the US, although shared commercial and diplomatic interests will be a mitigating factor.

POLICY TRENDS: Policymakers face the difficult task of facilitating economic growth within a context of global uncertainty, while avoiding macroeconomic imbalances. Adding to the challenge, monetary policy will become tighter, in response to a rise in US interest rates, while the pace of fiscal consolidation will be accelerated, to guard against the loss of South Africa's investment-grade credit rating. Spending curbs and possible tax increases have negative implications for growth, although targeted industrial incentives will remain in place and infrastructure investment will remain a priority. The main medium-term growth challenge is to overcome structural constraints such as infrastructure bottlenecks and skills shortages, without abandoning fiscal prudence. The completion of major infrastructure projects will facilitate business activity later in the forecast period, but labour market rigidities will persist and policies towards anti-competitive practices will become stricter.

ECONOMIC GROWTH: We forecast that real GDP growth will edge up to 1.2% in 2017, from an estimated 0.5% in 2016, when a severe drought damaged the farm sector. Early indications suggest

a return to more normal rainfall patterns in 2017, leading to a strong recovery in agriculture, although some parts of the country remain comparatively dry and water shortages may persist, given the time needed to refill important dams. Tourism, which recovered in 2016 following a two-year contraction, will also support overall growth in 2017. Electricity supply will improve, helped by new plant openings, although the benefits will be offset by a further real-term rise in power tariffs.

Nevertheless, the persistence of numerous constraints in 2017 will keep growth subdued and explains the downward revision in our forecast to 1.2% (from 1.4%). Negative factors include tighter monetary and fiscal policy, high unemployment, large household debts, and policy and political uncertainties, which are inhibiting private investment. Higher oil prices will weigh on activity, although South Africa may benefit from a mild upturn in mineral markets. Global risks will remain substantial in 2017, including those linked to the UK's decision to leave the EU (Brexit) and Donald Trump's US election victory, despite a modest improvement in world growth.

INFLATION: We expect inflation to ease to 5.6% in 2017, from an estimated seven-year high of 6.4% in 2016, when a serious drought, coupled with rand depreciation, led to a steep rise in food prices and a breach of the 3-6% target range of the South African Reserve Bank (SARB, the central bank). Assuming a return to near-normal rainfall levels, food price inflation will be subdued in 2017, although rising electricity tariffs and an upturn in oil prices will push energy costs higher. Rand weakness will also be inflationary, although the rate of depreciation will be slower in 2017 than in 2016. Inflation will average 5.6% a year in 2018-21, thereby meeting the SARB's target, despite temporary breaches. Factors keeping inflation in check include tight monetary policy, spare industrial capacity, a progressively slower pace of rand depreciation, stricter competition laws and efficiency gains arising from infrastructure investment. However, real-term rises in power tariffs and higher real wages for those in work will prevent inflation from falling more sharply. The loss of South Africa's investment-grade credit rating during the forecast period, by exacerbating rand weakness, would be inflationary.

EXCHANGE RATES: The rand strengthened marginally in December, for the third successive month, to R13.84:US$1, and was 7.3% stronger than a year earlier, helped by South Africa's retention of an investment-grade credit rating. Despite the rebound, the currency slid by 15.1% on an annual basis in 2016 to R14.69:US$1, because of a particularly weak first half, when concerns about the future direction of fiscal policy intensified before easing. The retention of prudent fiscal and monetary policies will support the rand in 2017, but rising US interest rates (following an increase in December), uncertainties surrounding the Trump presidency, slower growth in China and Brexit are likely to put downward pressure on the local unit. Sentiment towards the rand may also become more fragile ahead of the next round of ratings reviews in mid-2017, because of the risk of a downgrade to junk status. Domestic variables such as GDP growth rates, the current-account deficit and policy developments will also influence trends in the rand. On balance, we expect the rand to weaken to R16.22:US$1 in 2017 and R18.35:US$1 in 2018, although depreciation would be slower if positive factors converged. A further (albeit slower) decline to R19.1:US$1 will follow in 2019 as weaker US and Chinese growth dents confidence. Depreciation will thereafter continue at a modest pace, with the rand softening to R21.1:US$1 in 2021.

EXTERNAL SECTOR: The current-account deficit will widen slightly in 2017, to 4.5% of GDP, from an estimated 4.1% of GDP in 2016. Export growth will remain fairly sluggish as the slowdown in China dents demand and prices for key mineral exports.

Non-mineral exports (such as cars) will benefit from rand depreciation and from South Africa's retention of trade preferences under the US African Growth and Opportunity Act. Import growth will quicken in 2017, underpinned by costlier oil and capital equipment for infrastructure projects--leading to a larger trade deficit--although consequent improvements in logistics capacity and power supply will facilitate exports in the medium term. Notably, the invisibles deficit (on services, income and current transfers) will remain far wider than the goods deficit and will account for most of the current-account shortfall throughout the forecast period. Income payments to foreign

investors and transfers to fellow members of the Southern African Customs Union will offset growth in tourism inflows and income earned by outward investors. Projections for 2018-21 show that the overall current account will remain in deficit, with the shortfall fluctuating within a range of 4.3-5.3% of GDP, and with the annual variation largely attributable to shifts in domestic and global growth trends. *(Economist Intelligence Unit)*

IMF, WORLD BANK & AFRICAN DEVELOPMENT BANK

AfDB approves US $90-million financial package to boost Commercial Bank of Africa's funding of SMEs in Kenya and grow trade finance in Africa

The Board of Directors of the African Development Bank has approved a US $90-million financial package comprising a US $50-million Line of Credit and US $40-million Trade Finance Line of Credit to Commercial Bank of Africa Limited (CBA), Kenya.

The funding will be channeled to SMEs and local corporates in infrastructure, tradable and other transformative sector transactions in Kenya. It will provide liquidity support to expand financing to local corporates involved in value-addition in the trading, manufacturing, agriculture, infrastructure, transport, and construction, among other sectors. In so doing, it will enhance job creation and facilitate financial access to businesses.

This intervention will contribute to CBA's efforts to broaden access to its services, thereby reducing financing constraints faced by SMEs and local corporates in Kenya whilst also reducing Africa's trade financing gap. The package will promote private sector development as well as support broad-based economic growth. It will also contribute to CBA's endeavors to complement the efforts of various partners such as the Government of Kenya's Long Term Development Strategic Agenda and Vision 2030, which seeks to revitalize the economy by developing infrastructure and improving access to affordable credit for SMEs that support the economic transformation of Kenya's economy to make it more resilient and diversified.

This transaction is well aligned with AfDB's Ten Year Strategy 2013-2022, as well as the Bank's High 5 strategic priorities, including Industrialize Africa, Integrate Africa, Feed Africa and Improve the quality of life for the people of Africa. It will help to increase enterprise development and competitiveness through expansion of the economic base. This will be made possible by enhancing access to financial services and expanding access to social and economic infrastructure, which will thus contribute to inclusive growth.

Established in 1962, CBA is the largest privately-owned Kenyan bank with operations in Kenya, Tanzania and Uganda. It is ranked as a Tier 1 bank by the Central Bank of Kenya and is the 6th largest of 43 banks in the country. The bank targets customers include corporates, institutions, SMEs and the quality end of the personal banking market. Outside its 19 million mobile platform customers, CBA offers a variety of conventional, as well as digital, banking products and services and has a broad client base spanning different sectors including telecommunications, manufacturing, agriculture and construction.

Guinea-Bissau's rice development project receives AfDB support

Guinea-Bissau's proposed Rice Value Chain Development Project to be implemented in the Bafata and Oio regions of the country has received the African Development Bank Group's support with a loan and a grant amounting to US $5.67 million approved by its Board on January 23, 2017 in Abidjan. The funding will be sourced from the African Development Fund (ADF), the concessional arm of the Group.

The Rice Value Chain Development Project (PDCV-Riz) is designed to ensure sustainable recovery of the rice value chain in the Bafata and Oio regions by improving productivity, strengthening infrastructure, ensuring resilience to climate change, managing natural agricultural resources in a sustainable manner and reducing gender inequality. The project is expected to help improve nutritional and food security and reduce poverty across the country, which has an annual deficit of more than 80,000 tonnes of rice, the country's staple food.

Designed to be implemented in four years, the project involves modernization and development of agricultural infrastructure and aims to ensure the sustainable recovery of the rice value chain in the Bafata and Oio regions with special emphasis on hydro-agricultural infrastructure and access to markets; food and nutrition security; value chain development; employment of young people and women; and adaptation to the impacts of climate change.

Located in two of Guinea-Bissau's nine regions, namely Bafata and Oio, which occupy 31.5% of the national territory and in 2015 had a population estimated at 494,000 (27% of the national population), the area is rich in water and land resources, owing in particular to the Corubal, Geba and Mansôa river basins.

In addition to basic structuring infrastructure resulting from the development of 470 hectares of lowlands, 7 km of roads, two rural markets, five processed food stores and shops, etc.; innovative techniques needed for quality assurance, conservation and processing of food products will also be developed and disseminated. "These activities will be accompanied by local and organizational capacity building, and specific focus will be placed on women's access to land and all project benefits," the AfDB says.

In keeping with the country's strategic orientations, the project will help to improve productivity and production in the flagship sector for food security. The project will also develop market gardening, the current production of which covers only 60% of needs, for certain sites and school canteens. This activity will help to improve the nutritional status of the beneficiaries, particularly women and children. The project will serve as a catalyst for agricultural development in the area by facilitating water control, strengthening agricultural infrastructure, promoting sustainable production, packaging and processing technologies, and facilitating access to markets by supporting the development of the strategic sectors of rice and market gardening.

About 1,720 farmers, 55% of whom are women, will directly benefit from the project, which will also have an indirect impact on approximately 60,000 people.

The project is estimated at US $6.13 million (about CFAF 3.8 billion). The ADF loan and grant represent 93% of the total cost. The government and beneficiaries are expected to provide the remaining seven percent.

AfDB approves US $69.6 million risk participation in infrastructure sector investments in Ghana, Malawi and Mozambique

The Board of Directors of the African Development Fund (ADF), the concessional arm of the African Development Bank Group (AfDB), has approved two transport sector investment risk participations amounting to US $69.6 million under its Private Sector Credit Enhancement Facility (PSF). These two transactions are risk participations in Private Sector projects of the Bank Group and cover investment projects in Ghana, Malawi and Mozambique. The two projects will contribute significantly to regional integration and trade. Launched in 2015, the PSF is the AfDB's risk-sharing initiative to increase private financing in low-income countries. With these approved risk participations, the cumulative amount of exposures approved since commencing operations has reached US $420 million (62% of total program amount).

These new transactions bring to 25 the number of approved projects under the PSF scheme, which covers a cross section of sectors including the transport, energy, industrial, agroindustry and financial sectors.

Sustainable and responsible tourism driving development in Africa

The United Nations has declared 2017 as "International Year of Sustainable Tourism for Development", with the official launch by the World Tourism Organization (UNWTO) on January 18 in Madrid. On this occasion, UNWTO Secretary-General Taleb Rifai put the continued growth of tourism into figures: "In 2016, more than 1.2 billion people travelled around the world for tourism purposes and another 6 billion people travelled domestically," he said, highlighting the need to promote more sustainable tourism.

“Tourism has become a pillar of economies, a passport to prosperity, and a transformative force for improving millions of lives. The world can and must harness the power of tourism as we strive to carry out the 2030 Agenda for Sustainable Development,” said UN Secretary-General, Antonio Guterres. “In parallel with the growth of the sector, there is also increased responsibility to advance towards greater sustainability, equity, inclusiveness and peace in our societies,” added Rifai.
This will consist of promoting tourism that is respectful of the environment – to preserve countries’ resources and natural wealth – and of the people, who stimulate the economy, creating jobs and income and, thus, the development of countries and their populations.

Tourism in Africa, a developing potential

With its wealth of exceptional flora and fauna, legendary landscapes and varied cultural heritage, Africa offers a still largely untapped tourism potential. Representing more than 15% of the world population, the continent only currently attracts a small share of the world's tourists. It welcomed 65.3 million tourists in 2014, or 5.8% of worldwide tourist travel. Compared to the 17.4 million international tourist arrivals on the continent in 1990, the performance of the sector has increased nearly fourfold in less than 15 years. In other words, tourism on the continent, especially in the hotel industry, is booming.
In terms of revenue, Africa earned US $43.6 billion in 2014, representing 3.5% of worldwide tourism revenue.

Tourism, engine of growth

Generating income and jobs, tourism can be an engine of growth. In 2014, the sector accounted for 8.7 million jobs in Africa, 500,000 more than in the previous year.
The African Development Bank has, for some years, been publishing an annual report on the sector in English, entitled Africa Tourism Monitor. Jointly produced by the AfDB, New York University Africa House and the Africa Travel Association (ATA), the third and latest edition, published in January 2016, had the theme of "Unlocking Africa's Tourism Potential". The 2016 edition is being finalized. The Bank has also set up a tourism data portal for Africa in collaboration with other partners, similar to the Africa Visa Openness Index, which measures the degree of visa openness on the continent – an important criterion particularly for the mobility of tourists.

Developing infrastructure and regional cooperation

Infrastructure and transport services remain the Achilles' heel of the growth of the tourism sector: "Journeys in the African continent are not always seamless", noted the 2015 edition of Africa Tourism Monitor. It proves more complicated – and more onerous – to travel across the continent than it does to get there from Europe, North America or Asia. Dedicated incentive policies are still to be put in place, beside strengthening regional cooperation.
On the ground, the work of the Bank also supports the interests of dynamic tourism, provider of income and growth. Not only when it funds and builds roads, airports and other infrastructure, but also when the AfDB makes every effort to ensure that neighbouring communities are involved in and associated with projects for them to better take ownership and benefit from them later.

Reconciling tourism and sustainable development

November 2016, at COP22 in Marrakech, saw the birth of an African Charter on Sustainable and Responsible Tourism under the auspices of Morocco and the World Tourism Organization (UNWTO) and signed by 20 countries of the continent. The objectives of responsible and sustainable tourism are fully aligned with the African Development Bank’s High 5s, for development on the continent.
Moreover, three of the Sustainable Development Goals (SDGs) for 2030, adopted in September 2015, target tourism: SDG 8, "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all", SDG 12, "Ensure sustainable consumption and production patterns" and SDG 14, "Conserve and sustainably use the oceans, seas and marine resources for sustainable development".

INVESTMENTS

American group General Electric continues to invest in Angola

US group General Electric will continue to invest in Angola, where it is involved in projects worth over US$1 billion, said CEO Jeffrey R. Immelt, at the end of an audience granted by the Angolan President. Jeffrey Immelt said that the group is involved in projects in the energy production sector, public lighting, transport and solutions for healthcare. Power production, he said, would eventually have an installed capacity of 1.5 gigawatts. He said that the meeting with the Angolan president served to update information about the projects that General Electric is developing in Angola, especially in the sectors of energy and transport.

This year a batch of locomotives of 100 ordered by Angola is due to be delivered, under a memorandum signed in February 2013 in Chicago, after the first 15 were delivered to the management companies of Luanda, Lobito and Moçâmedes railroads. The locomotives for Angola are being built in General Electric Transportation facilities in Erie, Pennsylvania. *(Macauhub)*

Nigeria: AfDB grants the Ministry of Trade and Investment $600, 000 for the expansion of MSMEs

The Ministry of Industry, Trade and Investment has secured over $600,000 as grant from the African Development Bank (AfDB) for the expansion of Micro, Small and Medium Enterprises (MSMEs) in the country. According to the Minister of State for Industry, Trade and Investment, Aisha Abubakar, the fund will be used to conduct a pre-development study for the conversion of six out of the 23 Industrial Development Centers (IDC) to industry clusters. "*The AfDB grant will resuscitate the IDCs and position them to be a catalyst for economic development. The findings of the study are expected to provide bankable centres to be converted into full blown economic clusters where private participation and investment will be sought*," she told the *Government and Business Journal. (By Anita Fatunji, Ecofin Agency)*

Chinese entrepreneurs increase investments in Angola

Chinese entrepreneurs plan to invest in Angola in the educational, health and agro-industrial sectors in the coming years, announced the president of the Angola-China Chamber of Commerce (CAC), adding that investment contracts would be signed soon. Arnaldo Calado said that the Chinese entrepreneurs are no focusing on those sectors considered critical to the development of the economy after previously focusing on the construction sector, trade and services. During the Annual General Balance Assembly of the CAC, the adviser and coordinator in the Agriculture and Fisheries sector, Nelson Dias dos Santos, said that in 2017 some partnerships are scheduled to be established in the agricultural sector, according to Angolan news agency Angop. "Chinese companies interested in investing in the agricultural sector to increase the amount of food have been identified, and there are also several indications by Angolan and Chinese companies interested in establishing partnerships to bring together synergies and develop projects," he said. The Angola-China Chamber of Commerce has 600 member companies, with 232 Chinese interested in investing in almost all sectors of economic activity in Angola and some of the Angolan companies want to invest in China.

The Annual General Meeting of the Angola-China Chamber of Commerce served to measure the performance of activities planned over the first ten months of its existence. *(Macauhub)*

BANKING

Banks

Kenya Banks Face New Row With Lawmakers Over Deposits Plan

A new row is brewing between Kenyan banks and parliament after a lawmaker proposed placing restrictions on deposits by state-owned companies, months after the state imposed a cap on lending rates.

Kimani Ichung'wah, vice chairman of the Public Investments Committee, drafted a bill seeking to bar state-owned corporations from investing or depositing public funds with lenders in which the government has a stake of less than 20 %. Ichung'wah declined to specify when the bill will be presented to legislators, though Parliament resumes. "The bill seeks to provide that a public body may only deposit funds and invest surplus funds in government-owned banks," he said. "The bill defines a government owned bank as a bank in which the government owns or holds at least 20 % of the shares."

Shares in Kenya's biggest banks have fallen as much as 27 % since the government introduced a law Aug. 24 capping commercial lending rates at 400 basis points above the official benchmark rate. The ceiling is likely to curb growth in East Africa's biggest economy this year, the International Monetary Fund said in November.

The proposed new law would result in government funds being channeled to various ministries, departments, agencies and counties through either the central bank or the five banks in which the government owns at least 20 %: KCB Group, National Bank of Kenya Ltd., Consolidated Bank of Kenya Ltd., Development Bank of Kenya Ltd. and the Kenya Post Office Savings Bank.

'Major Disruption'

Enactment of the bill would be a "major disruption" to Kenyan banks and could spark a liquidity crisis like one that erupted in neighboring Tanzania after that country introduced a similar law, ApexAfrica Capital Ltd., a Nairobi-based brokerage, said in an e-mailed research note. "Withdrawal of deposits, in essence, is estimated to dent the banks' deposit books, lowering the credit multiplier which may stifle the already sluggish private sector credit growth," it said. "In an electioneering period, the legislators may pass this law in a bid to entice the electorate."

Kenya is scheduled to hold presidential elections in August. President Uhuru Kenyatta's decision to cap interest rates fulfilled a pledge he made before the previous vote in 2013 to cut the cost of borrowing.

Kenya Bankers Association Chief Executive Officer Habil Olaka didn't answer three phone calls seeking comment.

Lending Criteria

Ichung'wah said the bill aims to ensure that interest on the deposits with commercial lenders is returned to the government instead of being paid to managers of state-owned corporations. "People have a motivation to hold money because of what they are getting in interest payments, and this slows down absorption of funds for development," he said. "This will ensure absorption of government funds for development is quicker."

Under the proposed law, Ichung'wah said public entities would only be allowed to place deposits with a commercial bank if they met certain criteria, including confirmation in writing that they would receive a higher return than the amount offered by government securities. The entities would also need approval from the cabinet to place deposits with lenders in which the government has less than a 20 % stake, he said.

Kenyan banks are the biggest creditors to the government, accounting for 52 % of total domestic debt, according to central bank data.

The industry's stock of non-performing debt jumped 54 % to 191 billion shillings ($1.8 billion) in the year through June 2016, compared with growth of 21.9 % in the previous 12 months, according to central bank statistics. Loans soured as the regulator tightened rules on how to classify and provision for bad credit. They also climbed with rising interest rates and due to delayed government payments for contracts. Profit before tax increased by 5.4 % to 81.2 billion shillings, slower than the 8.5 % expansion seen a year earlier. *(By Adelaide Changole, Bloomberg)*

South Africa's Post Office to register financial services unit as a bank

South Africa's Post Office Group plans to register its financial services unit as a bank by July 3, a document handed out in parliament showed, a move that would put the company in the middle of a fiercely competitive market. The restructuring of Postbank is part of the government strategy to provide a wider range of accessible, relevant and affordable financial services products to those without bank accounts and low-income earners.

But it also leads the organisation down a highly competitive path dominated by five established banks: Barclays Africa, Standard Bank, Nedbank, FirstRand and Capitec. Chief Executive Mark Barnes is pinning his hopes on the state-owned company's network of 2,500 branches that gives it a presence in almost every town and city in the country. Postbank has 1.4 billion rand ($104 million) in excess capital, enough to meet regulatory minimum requirements for a bank, the document showed. Barnes, who was appointed in 2015, told lawmakers the company's ability to reach the remotest areas also puts it an ideal position to start distributing government welfare grants. "We have the best footprint, we have the most points of presence and have some experience in that (social grant disbursements)," he said. ($1 = 13.5060 rand) *(By Wendell Roelf, Reuters)*

Funds

Angola Wealth Fund Planning to Manage More Assets Internally

Angola's $4.8 billion sovereign wealth signaled a shift towards managing more of its own investments, the latest in a string of institutional investors seeking to cut costs and reduce their reliance on external managers. Fundo Soberano de Angola, known by its Portuguese acronym FSDEA, plans to train staff to start managing more of its assets over the next four years and will inject more cash into the fund as oil prices improve, Chairman Jose Filomeno dos Santos said in an interview in London. "Right now the fund is very passive,"

Dos Santos said. "We want to expand capacity and be active." FSDEA is the latest in a line of wealth funds and institutional investors seeking to manage more of their own assets as management fees come under scrutiny. The California Public Employees' Retirement System, the largest U.S. pension, and the $592 billion Kuwait Investment Authority both this month said they are developing plans to shift more investment in-house. The Abu Dhabi Investment Authority, the world's second-biggest wealth fund, is using its own staff to invest in areas such as real estate and private equity.
FSDEA will initially take charge of securities such as stocks and bonds before taking over private equity investments, which are "more exclusive," Dos Santos said. The funds assets, $1.18 billion of which is invested in fixed-income securities, are currently managed by Zug, Switzerland-based Quantum Global Investment Management Ltd. *(By Franz Wild, Bloomberg)*

The power of pension funds for African infrastructure

Opening the elegant new six-lane toll bridge stretching cross Dar es Salaam's Kigamboni Creek in April, Tanzania's President John Magufuli called it "liberation" for citizens.
It represents a $135m investment by Tanzania's National Social Security Fund, the state-run pension fund, and government. China Railway Construction Engineering Group built the 680-metre bridge with China Railway Major Bridge Group and say it is the longest cable-stayed bridge in East Africa.
It is also Tanzania's first toll road – which residents say is worth paying for as it makes their lives easier. The development will lead to new residential housing and is hoped to boost tourism in the country.
The World Bank estimates Africa should spend $93bn – 5% of gross domestic product (GDP) – each year on infrastructure and the African Development Bank (AfDB) notes a $50bn financing gap to reach this. Local and international pension funds can help fill the gap.
The Bright Africa report by consultancy firm RisCura says that at the end of 2014 assets under management by pension funds across 16 major African markets amounted to $334bn. Some 90% of assets were concentrated in four countries: South Africa (with $258bn) Nigeria, Namibia and Botswana. Assets had grown more than 20% a year in East Africa and 25%–30% a year in Nigeria over the previous half decade.

Potential to drive growth

Pension funds mostly invest in local fixed-income bonds, with regulation a key driver of asset allocation. But as RisCura argues, pension funds are ideal to drive inclusive growth and social stability, including through investing in longer-term projects such as infrastructure: "Local institutional investors lend credibility and a measure of validation, and often serve as a catalyst for greater external interest. Local investors also allow global peers to leverage local knowledge and networks.
With longer investment horizons, pension funds can serve as anchor investors for infrastructure and social development projects," says the report. South African pension funds lead the way, partly spurred by rules that allow them to invest 10% of assets through private equity.
The Government Employees' Pension Fund (GEPF) with R1.6 trillion ($111bn) assets under management in March 2015 reported it had committed R62bn towards "unlisted and developmental assets" in the previous 12 months, including Touwsriver and Bokpoort solar power projects in South Africa; MainOne data and broadband telecommunications in West Africa; pan-African power generation through Aldwych Power; N3TC which operates and maintains 420km of South Africa's N3 highway; and two hospitals.
Other investments listed include $21.6m into private airport concession TAV Tunisia through the Pan-African Infrastructure Development Fund (PAIDF) managed by Harith General Partners. GEPF invested $2.6bn into the first PAIDF fund by March 2015 and pledged up to R4.2bn for the second by 2020. Five other pension funds also invested in the $630m PAIDF I fund, which will last 15 years and invested into more than 70 African projects. PAIDF 2 recently announced first close after raising $435m, again with pension funds as key investors.

South Africa's Eskom Pension and Provident Fund (EPPF) in 2014 invested $30m into infrastructure projects through private-equity house Abraaj, based in Dubai, as well as mobile-phone infrastructure through London's Helios. EPPF chief executive Sbu Luthuli says "We have to diversify" and wants to put more than $100m into infrastructure projects – 1.2% of its total R120bn assets (as of June 2015). GEPF said that it had invested 1% of its assets into African equities outside South Africa at March 2015, compared to a target of 5% (R80bn).

Financial institutions and multilateral lenders are looking to speed up the process. For instance, the AfDB created the Africa50 fund with target capitalisation up to $10bn and says it has secured $500m. For the second round to $1bn it is targeting institutional investors, including African and global pension funds. Kenya's government and parastatals such as Kengen are leading the way in selling local-currency bonds to finance infrastructure.

The network is growing. Harith works with Asset and Resource Management Company in Nigeria to invest in West African infrastructure and is setting up a $1bn COMESA Infrastructure Fund with PTA Bank for eastern and southern Africa.

In June Harith and its Aldwych arm announced links with Africa Finance Corporation (AFC) to create a $3.3bn power portfolio, supplying 30m people across 10 countries. Andrew Alli, president and chief executive of AFC, says: "By working together we can deliver tangible benefit for Africans, switching their lights on and stimulating positive economic growth on the continent."

But it's not always that straight-forward. In February, Nigeria's minister of power, works and housing, Babatunde Raji Fashola, called on the country's pension funds, which manage some N5.8 trillion ($18.4bn), to invest more in infrastructure and other development projects. However, later in the year, newspapers reported that no infrastructure projects had been put forward that met the legal requirements of the 2015 regulations on investment of pension fund assets, including a minimum value of N5bn for individual projects and award through competitive bidding to a concessionaire with a good track record. The Nigerian Labour Congress expressed members' fears: "The thought of using our pension fund for investment in public-sector infrastructure development is highly frightening given the well-known penchant for mismanagement inherent in public-sector institutions in Nigeria … It is therefore immoral and careless to subject such fund which is the life-blood of workers to the itchy fingers of politicians, no matter how well intentioned."

Despite the worries, confidence in governance is growing and attention is switching to building the supply of projects. As RisCura's report notes: "In many countries, assets are growing much faster than products are being brought to market, limiting investment opportunities."

Projects typically go through several stages, starting with feasibility studies to create a "bankable" project; then building or developing the project; and finally operating it once it is established, for instance collecting the tolls on a highway and fixing holes. The last stage is usually the least risky and most suited for pension-fund investors.

The Africa50 fund follows other initiatives in funding early-stage projects in order to boost the supply and mobilise more financing for later stages. Kigamboni bridge took more than two decades. Africa's fast-growing pension funds need a faster pipeline of investible and well-run projects. *(By Tom Minney, African Banker)*

Nigeria: USSD tech powers mobile banking revolution

Tobi Onaoluwa, a PhD student at Nigeria's University of Ibadan, has just finished designing DNA to be used for molecular analysis and is ready to order the models from a manufacturer based in South Africa. A few years ago, Onaoluwa would have had to make the long trip to the other side of the city to deposit cash at his bank to make the international payment and order the materials.

Today mobile banking, and the subsequent technology that comes along with it, makes the process a lot easier. But things haven't taken off quite as initially expected.

"It started with apps as many banks attempted to join the apps driven age by rolling out mobile applications for BlackBerry, Android and iOS devices. But the adoption rate was low, considering mobile penetration is high in Nigeria," says financial technology expert Tosin Ilori.

"Only a small proportion of mobile phone users in the country are using smartphones that support these apps. It wasn't surprising to note that after millions of dollars spent on promoting these apps, some had less than 5,000 active users. There were also concerns about the security status of those apps in the present age of advanced cybercrimes," he says.

For some bank customers, the low levels of security on banking apps is a turn-off, especially given experiences. One consumer, Kemi Ibukunoluwa, lost her phone at a friend's wedding only to find out that it

had been stolen, and that the thief had emptied her bank account through an app on the phone. “They even uninstalled the app and I couldn’t check my account balance until when I visited the bank. By then, it was too late. The bank traced the money into an account that was found to be opened with fake documents. It was a dead end and I gave up when I was told the bank was not liable for being careless with my phone,” she said. She no longer trusted technology with her money – until the introduction of Unstructured Supplementary Service Data (USSD)-powered banking.

The perfect tool

USSD is the technology that makes it possible for to send texts from a mobile phone to an application program running on the network. It has been adapted to serve numerous operator functions and value-added services. Its popularity and desirability stem from its ability to be accessed on all mobile phones.

Between January and August 2016, all major commercial banks in Nigeria rolled out USSD banking services, providing more options to customers outside the banking hall. By dialling specific short codes, it is now possible to transfer funds, buy airtime, pay for services, check account balances and perform other banking transactions, both large and small. “USSD seems to be the perfect tool and has proven to be more effective in the Nigerian market than any other previous or current tools because it puts banking in the hands of everyone and everywhere. You no longer have to go to the banking hall to perform most transactions; you can do them wherever you are and the process is usually faster than when you go to the banks. It comes with numerous verification and security features that make the service more secure and safer to use than previous ones,” says financial technology expert Wole Odetayo.

While some banks rely on a combination of the registered GSM line and ATM card’s PIN, others rely on the last four digits of the ATM card number instead. Furthermore, while some give responses to queries as an application function, others only give responses as text messages, thus raising the need for consistency across the platforms of the various banks.

Christopher Ihenacho, a former top banking executive stressed that the industry regulator, the Central Bank of Nigeria (CBN) needs to harmonise the USSD space in the industry in order to ensure that the various services offered by the different banks are uniform and conform with acceptable standards in order to ensure that the services are safe.

According to him, it is commendable that the CBN allowed the banks to be individually innovative but he said the time has come for the apex bank and the various banks to draw a USSD banking policy that will ensure that differences in services do not imply that some services are more secure than the rest, thus charting the course for the future of the banking service in Nigeria and across the continent. “While mobile money was the key in places like Kenya, Ghana, Zimbabwe and elsewhere, USSD banking seems to be the game changer for Nigeria and the well-built foundation needs to be reinforced with better policies in order to secure the future which I think would soon be characterised by the emergence of new generation banks that will solely be USSD-based,” Ihenacho says.

A solution across Africa?

Ihenacho adds that such banks would be able to cut high banking infrastructural, personnel and operational expenses – entirely focusing on innovating and delivering best services to their customers. “This is the future of banking in Nigeria and its success story will extend USSD banking across the continent,” Ihenacho concludes. *(By Paul Adepoju, African Banker)*

Markets

Africa Finance Corp issues $150 million debut sukuk

Africa Finance Corp (AFC) said it issued a three-year $150 million sukuk, becoming the first African government-backed entity to sell an Islamic bond. The announcement confirmed a Reuters report this month that the bank would raise a dollar sukuk through a private sale.

AFC, a pan-African institution based in Nigeria, said it received subscriptions of $230 million for a debut sukuk initially planned to raise $100 million. It did not disclose the yield. "This sukuk represents a milestone in our financing activities ... to build new relationships," its Chief Executive Andrew Alli said in a statement.

AFC was set up by African governments and the private sector in 2007 to mobilise investment for infrastructure across the continent. It has since invested more than $4 billion in 26 countries.

Other African-based issuers are likely to follow with sukuk of their own, analysts say, as Islamic bonds can be cheaper than conventional bonds, especially when interest from the market is high. Nigeria, which has the largest Islamic population in sub-Saharan Africa, is already looking for advisers to organise its first Islamic bond in the domestic market. AFC's sukuk is structured with a murabaha format, a popular structure in Islamic finance in which buyer and seller agree a price mark-up. Moody's Investors Service assigned it an A3

credit rating. Emirates NBD Capital, MUFG and Rand Merchant Bank acted as joint bookrunners on the transaction. *(By Chijioke Ohuocha, Reuters)*

Angola plans to issue US$28 billion of debt in 2017

Angola's Annual Debt Plan for 2017 outlines gross borrowing of 4.667 trillion kwanzas (US$28 billion), 75% of this total to be raised in the domestic market, said in Luanda the secretary of the Treasury to the Ministry of Finance. Mario Nascimento, who spoke at the meeting which to present The Annual Debt Plan (SAP), said that 3.5 trillion kwanzas of public debt will be placed on the domestic market, with the remaining portion to be raised on the external market.

At the meeting, which brought together representatives of the banking sector, the Securities Market Commission and the Angolan Stock and Debt Exchange, the Treasury Secretary said that the amount of public debt will represent 53.29% of gross domestic product at the end 2017.

The director of the Debt Management Unit (UGD), Osvaldo João pointed out that net financing for the state will be 1.087 trillion kwanzas (US$6.5 billion), with the remainder for debt repayments to be made during the year.

In the domestic market, from Treasury bills the Angolan State intends to issue debt in the amount of 1.568 trillion kwanzas (US$9.4 billion), while through Treasury Bonds it expects to raise 1.803 trillion kwanzas (10.8 billion euros) and mutual contracts with banks 122.7 billion kwanzas (690 million euros).

Angola's public debt (except debt incurred by state enterprises) should, according to the government's forecast, rise from 52.47% in 2016 to 53.29% of Gross Domestic Product (GDP) this year, a record high but below the legally defined ceiling of 60%. *(Macauhub)*

Angola Banks Appeal for Bailout as Oil Slump Cuts Liquidity

Angolan banks are appealing to the government to help put together a bailout package to protect account holders as lenders reel from low oil prices that make up almost all of the nation's foreign-exchange earnings.

Financial assistance could come from the administration of President Jose Eduardo dos Santos or be shared by all of the southwest African country's 28 operational lenders, Amilcar Silva, chairman of the Association of Angolan Banks, said in an interview in the capital, Luanda. He didn't specify whether lenders were calling for a liquidity boost that would improve the industry's ability to convert short-term assets into cash, or capital injections aimed at struggling banks.

"Banks must be helped because they have liquidity problems that can cause negative situations in the whole system, putting its credibility at stake," Silva said. "What we need to do is look at the matter in-depth and then decide the best way," he said, adding that any agreements between the industry and financial authorities would have to cover the future viability of banks, and "if they have to return the money and when."

The Angolan economy, sub-Saharan Africa's third-largest, has been crippled by oil prices that have halved since mid-2014, with the International Monetary Fund estimating zero growth for 2016. Those woes have knocked the banking industry, causing bad debts to soar and business to slow as the government cuts spending. Dollar supplies have also dried up as foreign banks pulled out of supplying greenbacks to the country that Transparency International ranks among the world's 20 most corrupt because of poor compliance with anti-money laundering rules.

Improve Compliance

Troubled loans more than tripled to 15 % of total credit in September when compared with levels in 2010, and were at their highest as a proportion of regulatory capital requirements since 2014, according to data compiled by the country's central bank and consultancy ***Eaglestone Advisory SA***, which has offices in Johannesburg, Lisbon and Luanda. Foreign exchange fell to about a third of bank deposits from more than half in 2012, the data show.

Some of the country's smaller lenders have been hit particularly hard, said Silva, whose group represents 24 of the country's banks. Most of the industry's profit in 2016 was split between foreign-exchange transactions and loans, he said. The association has set up a group of experts to improve member compliance with international rules and best practices, he said. A spokeswoman at Angola's central bank didn't answer calls to her mobile phone or respond to e-mailed and text-message requests for comment. Angola's kwanza weakened 20 % against the dollar in 2016.

Stress Test

Revenue at the country's banks might be "slightly" higher in 2016, Silva said, after the central bank raised the benchmark interest rate three times last year to a record 16 %. While the industry's return on equity is growing, it is still less than half of the 32 % earned in 2010, according to the central bank and ***Eaglestone***.

The central bank's 2015 financial stability report showed almost half of the country's banks would fail a stress test of holding 10 % capital reserves if their loan book was lowered by two notches out of the seven risk levels, according to a Jan. 13 report in Luanda-based Expansao newspaper. The risk adjustment would also cut the industry's 141.3 billion kwanzas ($848 million) net profit that year to a loss of 413.7 billion kwanzas and reduce the solvency ratio to 11.7 % from 19.8 %, the newspaper said. Three of the banks wouldn't meet liquidity requirements if clients withdrew half of their deposits, according to Expansao.

Bank Mergers

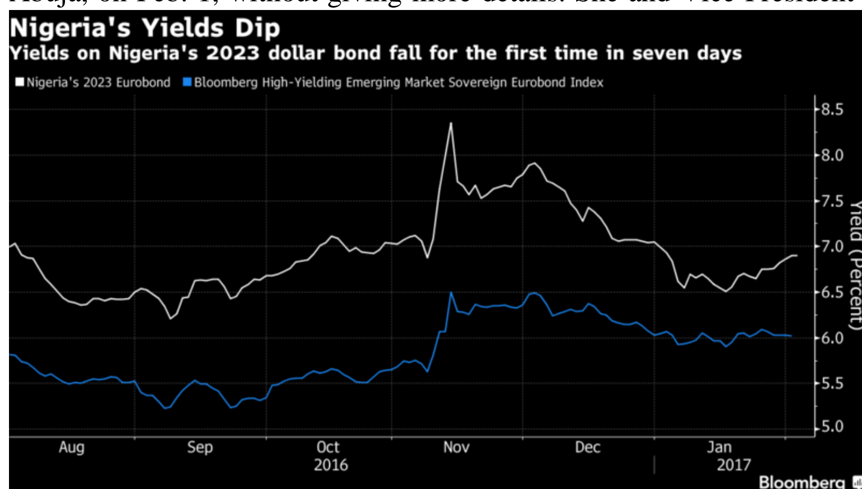
Lenders with liquidity or capital problems should consider combining with other banks, Banco BIC SA Chairman Fernando Teles told reporters in Luanda
. BIC will continue lending to the government in 2017 because it is a "good payer," he said, adding that about half of the $6.4 billion the company has extended in credit in Angola since starting operations there in 2006 has gone to the state.

"We don't have liquidity problems, otherwise we wouldn't be renewing" our pledge of increasing loans, Teles said. BIC's bad-loan ratios are "not significant," and adequately covered by provisions, he said, without being more specific. *(By Candido Mendes and Colin McClelland, Bloomberg)*

Nigeria to Start Bond Roadshow, Seek Loan From World Bank

Nigeria will soon meet investors before a Eurobond sale and plans to apply for a $1 billion loan from the World Bank once lawmakers approve this year's budget, Finance Minister Kemi Adeosun said.

"We are about to embark on the roadshow" for the dollar bond, Adeosun said by phone from the capital, Abuja, on Feb. 1, without giving more details. She and Vice President Yemi Osinbajo previously said they want to raise $1 billion in what would be Nigeria's first Eurobond since 2013.



The government hired Citigroup Inc. and Standard Chartered Bank Plc to organize the roadshow in the U.S. and London from Feb. 3, according to a person familiar with the matter. The notes and the World Bank loan will help plug a fiscal deficit forecast by the government to be 2.36 trillion naira ($7.5 billion) this year, Adeosun said separately to reporters. President Muhammadu Buhari presented a record 7.3 trillion naira spending plan to lawmakers in December in a bid to stimulate an economy experiencing its worst downturn in more than two decades thanks to oil prices crashing since 2014 and investors fleeing the country. Gross domestic product probably shrank 1.5 % in 2016, marking the first full-year recession since 1991, according to the International Monetary Fund.

While Nigeria sought about $4.5 billion of external funding last year, it only managed to borrow $600 million from the African Development Bank, which will be used for power generation, roads, railways and ports. The government has struggled to obtain more financing as foreign investors and the IMF have criticized its currency policies, which they say have left the naira overvalued and led to a severe shortage of the foreign-exchange businesses need to import raw materials and equipment. The naira trades around 315 per dollar on the official interbank market and fell to a record 500 on the black market this week as the dollar scarcity worsens. The yield on Nigeria's $500 million Eurobond due in July 2023 snapped six days of increases to decline by 1 basis point, to 6.89 %, by 8:41 a.m. in London. *(By David Malingha Doya , Paul Wallace and Elisha Bala-Gbogbo, Bloomberg)*

Zimbabwe: Can bond notes gamble revive the economy?

Zimbabwe's beleaguered economy is falling further into despair. Once thriving, the country's platinum and tobacco industries have faltered as commodity prices remain low. Out of date infrastructure and business policy has thwarted the development of the private sector, and a devastating drought threatens nearly a quarter of the population with starvation. Foreign exchange reserves are dwindling, limiting the government's ability to fund the budget. This has been exacerbated by huge illicit flows of dollars out of the

country. According to ratings agency Moody's, more than $2.1bn, about 15% of GDP, of illegal financial outflows left Zimbabwe in 2015 alone. Salaries haven't been paid, public services are crumbling and unemployment rates are estimated to be anything between 5% and 85%. Many of Zimbabwe's troubles have been blamed on the country's obstinate leader Robert Mugabe and mounting protests have been calling on him to step down.

In a last ditch attempt to encourage exports and to shore up much needed foreign exchange, the Reserve Bank of Zimbabwe (RBZ) announced plans to introduce a bond note programme – in effect, a package whereby the central bank prints a new quasi-currency to be used in-country only – to alleviate some of the pain caused by the cash crunch. It is hoped that the programme will encourage locals to move away from using dollars for domestic transactions, but the overarching reason is to encourage exports. "Exporters that earn US dollars or any other foreign currency in transactions going through the normal banking system have the benefit of making up to 5% on top of their export earnings. The 5% is an export incentive payable in bond notes," says William Manhimanzi, deputy financial director at the RBZ.

The main purpose of issuing bond notes as opposed to paying exporters in dollars directly is to prevent the bonus scheme leading to capital flight. One note is equal in value to $1 and the notes have been issued in $2 and $5 denominations.

Since 28th November, $17m worth of freshly printed bond notes have been released into circulation. The rest of the notes will be introduced gradually. "With a 5% bonus, exporters are incentivised to produce more and export more. Exports bring in foreign exchange and can help bolster central bank reserves," says Manhimanzi.

Mired in controversy

But the bond note programme is mired in controversy, with some analysts disputing whether it is backed by a $200m facility from the Cairo-based African Export-Import (Afrexim) Bank, thus bringing into question legitimacy around the move. "We understand that while Afreximbank is supporting trade within the gold industry, they have not committed to backing the bond note programme directly," said Gaimin Nonyane, head of the economics desk at Ecobank. A spokesperson for Cairo-headquartered Afreximbank declined to comment and referred all queries to the RBZ. Douglas Muranda, head of oversight and risk management at the RBZ, confirmed to African Business that the programme is backed by Afreximbank. Meanwhile, Manhimanzi would only confirm that the bond notes are, and have been, backed by a $200m offshore facility since their inception in May 2016. Alongside the confusion, the move has brought back traumatic memories for locals throughout the country. In 2009, Zimbabwe took the bold decision to abandon its domestic currency following a period of hyperinflation that essentially made the Zimbabwe dollar worthless. Locals lost their life savings and their trust in the government and central bank. Since then, the economy has run on a mix of rand, euros, pound sterling and, mainly, dollars to do business at home and across borders. Because the monetary regime is now dollarised, the central bank cannot act as a lender of last resort when liquidity is low or if there is a financial crisis.

For some, the bond notes mark a return to the defunct Zimbabwean dollar and a move to even tougher times. Reports abound that individuals, businesses and even some government personnel are unwilling to take bond notes in place of dollars. Allegedly, the parallel market has been bolstered as locals rush to change bond notes into other currencies. Trust in the government and central bank is depressingly low.

Fear of hyperinflation

"The experiences of the late 2000s are ingrained in people's minds and they do not want to go through anything like that again. We understand this. But what some people haven't been able to grasp is that this is not a move to introduce a new currency but a move to encourage exports," says Manhimanzi.

In that respect, the bond note programme has already been a success for the central bank: "We are confident that export volumes will increase as a result of these measures," he says.

But as Zuzana Brixiova, vice president and senior analyst at Moody's, says: "While in theory, a bond note programme could work, in the Zimbabwean context monetary policies alone will not be enough to fix the economy. "People do not trust the notes, which they perceive as an attempt to reintroduce the Zimbabwean dollar, a currency they associate with hyperinflation. Structural change is needed if Zimbabwe is going to turn itself around."

On 8th December when finance minister Patrick Chinamasa began his speech, it became apparent that long unaddressed structural issues are at the core of the country's economic woes. He began ominously, saying, "The fundamental challenge remains that of under-production, entirely across all sectors of the economy," later stating that "in the absence of a robust fiscal adjustment and structural reforms … the persistent deterioration in the macro-economic environment will continue to incapacitate the country's ability to

honour its obligations to all its creditors and to move forward." For real structural change, portfolio flows and foreign investment to boost the economy and liquidity is essential. But with huge arrears – $610m to the African Development Bank, $1.16bn to the World Bank and $240m to the European Investment Bank – Zimbabwe has essentially no access to concessional finance and international capital markets.
For now, investors are keeping their distance. Portfolio flows and foreign direct investment into Zimbabwe is at an all-time low. Capital inflows for 2016 are expected to reach $692m – just half of what the country attracted in 2015. A U-turn in investor sentiment and public opinion will be difficult to achieve with a bond note programme alone. *(By Kanika Saigal, African Business)*

Bidvest Can Tap $1 Billion for Deals Outside South Africa
Bidvest Group Ltd. is seeking deals outside its South African home market and could borrow as much as $1 billion for acquisitions after it spun off its food-services unit last year, its chief executive officer said. Lindsay Ralphs, the CEO, is plotting Bidvest's next phase of growth after the Johannesburg-based company listed Bid Corp Ltd., which is about 40 % larger by market capitalization at 80 billion rand ($6 billion). Now operating a mix of mostly South African businesses ranging from cleaning, security and freight-services to car rental and plumbing supplies, Bidvest sees its scope for local acquisitions as limited, the CEO said. There are a "couple of processes taking place" related to potential acquisitions, with expansion in the U.K. a possibility, Ralphs, 61, said in an interview at Bloomberg's Johannesburg office. Any deal would be in an industry in which Bidvest already operates and the company would want to be a major competitor in any new market, he said. "It probably reduces down to three, four or five significant industries that are simple and sometimes even below the radar," said Ralphs. Money would be borrowed outside South Africa, with overseas purchases serving to hedge against volatility in the rand, he said. The currency lost 45 % of its value against the dollar in the three years through 2015 before gaining 13 % last year. Other South African companies are expanding in international markets to counter an unpredictable local currency and 2016 economic growth that the central bank said was likely to have been the slowest in seven years. Clothing retailer The Foschini Group Ltd. and investment company Brait SE have bought firms in the U.K., while Bid Corp and auto-to-logistics firm Imperial Holdings Ltd. have substantial foreign operations.

The Bid Corp spinoff has been a success for the new Bidvest, Ralphs said. Previously, cash generated by the company was largely put toward growing the food-services unit. The split frees up funds for growing the remaining businesses. Bidvest may also tap cash through the disposal of non-core assets, such as its Namibian fishing unit. Ralphs replaced Brian Joffe, who founded the company in 1988 and retired as CEO when Bid Corp was separated in May. Joffe remains a non-executive director of Bidvest and is chairman of Bid Corp.
After adjusting historical pricing to reflect the spinoff, Bidvest has gained 63 % in the past 12 months, according to data compiled by Bloomberg, making it the third-best performer on the FTSE/JSE Top40 Index and the top non-mining stock. Without the historical adjustment, Bidvest has declined 49 %.
Ralphs sees a potential upturn in a few of Bidvest's markets, including prospects for improved demand for cars and of commodities such as corn. The shares fell 0.3 % to 168.99 rand as of 11:54 a.m. in Johannesburg, valuing the company at 56.7 billion rand.
Some non-core assets, such as its properties, are strategic to the company and Bidvest wouldn't readily sell those. It also probably makes sense for Bidvest to hold onto Adcock Ingram Holdings Ltd. for now, Ralphs said. Bidvest thwarted a takeover attempt of Adcock by CFR Pharmaceuticals SA of Chile in 2014 when it built a 34.5 % stake in South Africa's biggest maker of hospital products. It has since increased that to 37.5 %. While Bidvest "paid a lot" for Adcock, it doesn't yet need money from a sale of the stake, Ralphs said.

"Adcock used to be a gem many, many years ago and has the potential to become a gem again."*(by Janice Kew and Liezel Hill, Bloomberg)*

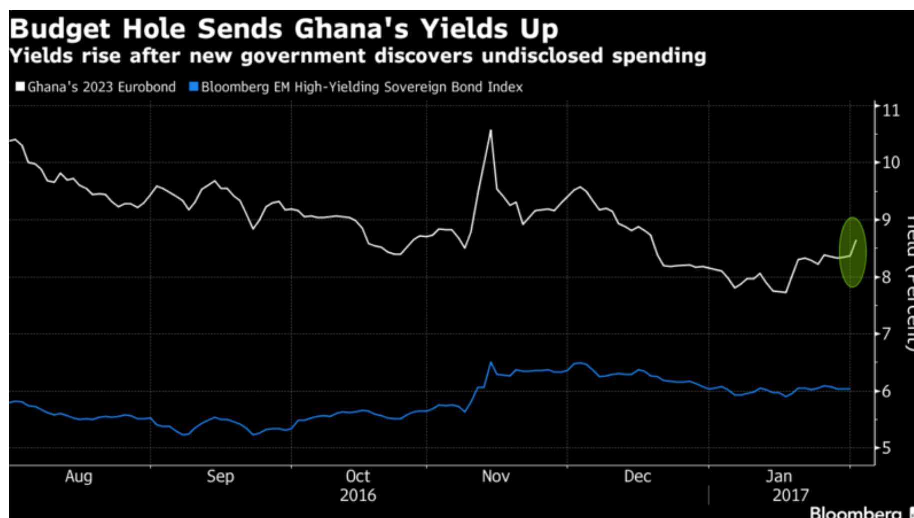
Tunisia to start roadshow for 1 bln Eurobond on Feb. 5 - gov't source

Tunisia will start a roadshow for a Eurobond worth one billion euros on Feb. 5 with pricing set for Feb. 14 at 5-6 %, a government source told Reuters. Tunisia had announced in late November plans to issue a Eurobond worth 1 billion euros as it seeks funding to cover its deficit after the economy was hard hit following militant attacks against its tourism industry. Since its 2011 uprising brought democratic transition, Tunisia has been backed by international partners and multilateral lenders keen to see its transition succeed. But economic reforms to address joblessness and high public spending have lagged Tunisia's political progress. *(By Patrick Markey, Reuters)*

Been-Here-Before Feeling Saps Ghana Bonds Amid $1.6 Billion Hole

Ghana investors are getting that deja-vu feeling.

The West African nation's ballooning budget gap has dismayed investors betting the combination of a new government and an International Monetary Fund program would bring the country's finances under control. The discovery of a 7-billion cedi ($1.6 billion) hole is reviving memories of 2015 when Ghana's economy was in tatters amid a slowdown in commodity prices and excessive spending. "There were some hopes that finally, under the previous government, and with the IMF's watch, fiscal slippage wouldn't have been that bad," said Nicolas Jaquier, a London-based emerging-markets economist at Standard Life Investments Ltd., which oversees $1.3 billion worth of developing-nation assets including Ghana's 2023 Eurobonds. "It's more of a disappointment that it actually hasn't changed."



Finance Minister Ken Ofori-Atta dashed those hopes when he admitted the 2016 deficit may be close to "double digits". An earlier forecast envisaged a maximum shortfall of 7.3 % of gross domestic product. His comments pummeled Ghana's August 2023 Eurobond, driving the yield up as much as 34 basis points and eroding the bond's advance the previous year.

Investor expectations are high for the new administration under President Nana Akufo-Addo, who came to power in December with pledges of fiscal discipline to rein in inflation, currency depreciation and high interest rates. With budget deficits entrenched above 10 % of gross domestic product and the currency sliding, the country was forced to turn to the IMF for a $918 million aid program in April 2015. Ghana's August 2023 Eurobond traded down for a fourth day, leaving the yield four basis points higher at 8.48 % as of 1:32 p.m. in the capital, Accra. Forward contracts suggest that Ghana's cedi will weaken 3.4 % to 4.452 per dollar in a month's time.

Square the Circle

Jaquier said he had expected the budget deficit to come in lower than 7.3 %. "The risk is that the new government will struggle to square the circle on all its objectives: reduce taxes, stay current on the IMF program, consolidate the fiscal and reduce interest rates." he said by phone. A spokesperson for the IMF said it was informed about the previously undisclosed spending and would discuss the matter during its visit to Ghana next week. "It's alarming," said Karl Ocran, head of investments at Frontline Capital Advisors Ltd. in Accra, who correctly predicted the stock market's performance last year and oversees 275 million cedis of assets including local bonds. "We could see a reversal of all the gains we made over the last couple of months. We thought the government didn't overspend." *(By Moses Mozart Dzawu, Bloomberg)*

ENERGY

Zambia economy: Government looks to solar to plug power deficit

The EU has given the Zambian government a grant of US$69m to develop the country's solar potential.
Zambia's installed electricity capacity stands at 2,337 mw, but actual production lags at 1,329 mw, largely a consequence of dilapidated infrastructure, insufficient investment by the state-owned power provider, ZESCO, and the country's overreliance on hydropower (the shortcomings of which were made clear in 2015-16 as drought severely affected generation, triggering a programme of load-shedding). The situation, which has impeded economic growth, is impelling the government to take a more proactive stance on boosting supply. In late December an official from the state-run Zambia Development Agency announced a target to produce 6,000 mw of electricity by 2019, with a special emphasis on solar to diversify the country's energy mix.
In support of this the EU provided the grant to facilitate projects delivering solar energy to households and small businesses. Around the same time, the government also announced the installation of some 250 mini-solar grain mills, and plans to construct some 1,750 more. But financial strains mean that the authorities will struggle to afford larger-scale solar projects (as it is an expensive form of energy to develop). In light of this, public-private partnerships (PPPs) are being promoted to attract much-needed capital investment into the sector, with some positive results having already emerged. Notably, in 2016 a solar project designed to generate 200 mw was launched as a PPP between the government and two foreign developers, one of which, France's Neoen, will run the plant.
Despite some successes, a PPP take-off in Zambia is still some years off. Electricity tariffs are heavily subsidised and will need to be raised to reflect costs, although this will probably happen soon; Zambia's fiscal account is under too much pressure to continue with them indefinitely, and the country is also looking towards an IMF loan in the near term, which will undoubtedly insist on a commitment to liberalise electricity prices. But being politically toxic, the changes will probably only happen by gradation-with some subsidy cuts in 2017 and further rounds in 2018. In the meantime private investment into solar will be held back, making 6,000 mw by 2019 appear overoptimistic. *(Economist Intelligence Unit)*

Going nuclear: Africa’s energy future?

At the height of the Second World War, as scientists from the United States and Germany desperately competed to develop a super weapon with which to administer the knockout blow, the US army gained access to a remote mine in the Belgian Congo’s Katanga region.
Near the backwater town of Shinkolobwe, its name erased from maps under strict military orders, miners had uncovered what one engineer called “a freak occurrence in nature” – a uranium deposit capable of changing the outcome of the war. This super-rich find, exported in secrecy to the United States, comprised the raw material for the Manhattan Project, the classified weapons programme whose devices brought annihilation to Japan’s Hiroshima and Nagasaki, ending the war and pitching the world into the nuclear age.
Since those pivotal days, Africa’s role as one of the world’s leading exporters of uranium, a raw material that enables both atomic destruction and peaceful nuclear power generation, has been much more widely known. According to the World Nuclear Association, over 15 African nations may have deposits, while the three largest – South Africa, Namibia and Niger – account for some 18% of world production today.
As with so many of Africa’s valuable raw materials, uranium left the continent’s shores for wealthier nations where, enriched, it acquired enhanced value. While the rest of the world used Africa’s resources to embrace nuclear technology in war and peace, South Africa was the only country on the continent to develop domestic nuclear energy generation.
Yet if ambitious policymakers have their way, all that could be set to change. For the first time, many African countries have expressed an interest in developing nuclear power for peaceful generation. At the general conference of the International Atomic Energy Agency (IAEA) in 2015, director general Yukiya Amano revealed that more than 30 member states were considering or preparing nuclear power programmes for the first time, a third of them in Africa.
In January, the IAEA conducted an eight-day review of Ghana’s nuclear programme, following similar reviews in South Africa, Nigeria and Kenya, in which it offered words of encouragement and a roadmap to the nuclear future. The rest of the continent is enthusiastic – some 150 officials from 35 African countries gathered under the IAEA in Mombasa, Kenya, in April 2015 to chart a way forward.

Need for power

For African countries, the driving factor is obvious. Africa’s inability to generate enough electricity continues to hobble economic growth, shaving 2 to 4% off GDP every year, according to the Africa Progress

Panel. The panel estimates that some 600m people on the continent do not have access to electricity, a figure that will require $55bn per year in investment by 2030 to fix.
Against this grim backdrop, nuclear technology has acquired a reputation among policymakers as a cost-effective and environmentally friendly fix. “Nuclear power is considered a prominent alternative and a more environmentally beneficial solution since it emits far less greenhouse gases during electricity generation than coal or other traditional power plants,” Ogbonnaya Onu, Nigeria’s minister of science and technology, told local media in December. “It is a manageable source of generating electricity and has large power-generating capacity that can meet industrial and city needs.”
Yet not all are so enamoured with Africa’s rush to nuclear. Critics point to the vast upfront costs of nuclear power stations, the security and safety issues of hosting plants in volatile countries, and the technological and political improvement that will be required to bring legislative and regulatory systems up to date. They point to Africa’s underutilisation of renewable energy, and suggest that the plans are a timewasting exercise dreamed up by a declining industry desperate to prove its relevance.
“I don’t think there will be new-build nuclear programmes in any of the African counties where they are currently being discussed – whether in Ghana, Nigeria, or South Africa,” says Mycle Schneider, an independent expert at the World Nuclear Industry Status Report. “You can’t build a new nuclear plant under market economy conditions anymore. It’s over.”

The price of investment

Less than an hour’s drive north of Cape Town, Africa’s only nuclear power station continues the work that it embarked upon in 1984. A cluster of grey buildings, topped with twin white domes, Koeberg reflects the dour design sensibilities of the engineers who planned the site on behalf of the 1970s apartheid government.
The plant continuously draws in water from the Atlantic Ocean, cooling two French-designed reactors that provide around 5% of South Africa’s total electricity needs. While the 2000MW Koeberg is touted as a domestic success story, plans to expand South Africa’s nuclear industry by an additional 9,600MW have proved more controversial.
From debates around the upfront costs of three new plants to media claims of foreign influence over the bidding process, the battle to expand South Africa’s industry is likely to offer lessons for countries across the continent. Perhaps the most enduring criticism of the scheme has focused on constructions costs. An analysis by EE Publishers, a South African publisher specialising in energy, places the capital costs of the new plants at around $50bn, excluding interest.
That has sparked fierce debate, particularly within the cash-strapped Treasury, about affordability. Yet industry champions claim that these short-term costs are vastly outweighed by future savings.
“Nuclear in the long term has low costs as you amortise the plant,” Phumzile Tshelane, chief executive of the government-owned South African Nuclear Energy Corporation (NECSA), tells *African Business*. “If African countries are going to leapfrog to much more profitable economic development, they will have to choose sources of energy that are relatively cheap in the long term. I believe that when you look at the lifecycle costs, nuclear is cheaper.”

Fierce contention

The issue remains one of fierce contention. A 2017 economic study commissioned by the World Nuclear Association says that the unit operating costs of nuclear are currently low relative to alternative sources of energy, but that the economics of new plants are ever more influenced by construction costs.
Schneider argues that controlling those costs is becoming almost impossible, the result of fragmentation and skills loss in an industry that has lain almost dormant for decades. “Nuclear power technology has become more and more expensive […] one issue all around the planet is that the industry has lost competence because of the gap in construction. “There was no continuously ongoing construction in the Western world. An industry which was very concentrated on the national level has turned into a huge chain of globalised subcontractors.”
As a result, the costs of new plants in the developed world have spiralled. The French national audit body, the Cour des comptes, reported in 2012 that the overnight capital costs of building new plants increased from €1,070/kWe for a plant commissioned in 1978 to a projected €3,700/kWe at Flamanville, due online in 2018.
Meanwhile, the costs of solar panels have fallen some 80% since 2009, offering a viable alternative for sunshine-rich African states. Against this backdrop, prospective African countries need to weigh the costs of construction against projected long-term savings, renewable energy alternatives and the economic cost of electricity shortages. “Generically we can say nuclear can compete economically, but it’s really dependent on each country,” says Anthony Stott, a senior nuclear engineer with the IAEA’s nuclear infrastructure

development section. "Countries have to weigh up the costs of not having energy and electricity … they need to start looking at costs over a 60 to 80 year period."

Grid capacity

Costs are just one of the many serious issues that African countries will have to get to grips with when weighing up the viability of their nuclear programmes, many of which are highlighted by the IAEA's 19-point "Milestones" plan for interested countries. While South Africa's Koeberg experience means that Pretoria can be relatively confident of checking the boxes in future projects, other African countries will have a much tougher road to approval. Legal and regulatory systems need updating, issues of safety and security must be addressed, and there are ongoing concerns around the lack of existing grids.

"The IAEA has a ballpark figure that 10% of your capacity could be nuclear. Which means that if you want 1000MW [from nuclear power] your grid should have a capacity of 10,000MW as a rough figure. Many African countries don't have that size grid at this point in time," says Stott.

A 2015 report from McKinsey estimated that just seven African countries have a grid access rate of over 50%, with the remainder of countries stuck at an average of 20%. Schneider argues that the global trend for micro-grids – small networks with local supply sources – means that most African countries will have no need to pursue the centralised grids required to host a nuclear plant. The industry points to developing regional power pools as a potential saviour.

"Unfortunately in many African countries there is not sufficient grid infrastructure to handle these reactors. There are, however, plans underway for power pools in Africa, such as SAPP, WAPP, EAPP, which would change this dynamic," says Viktor Polikarpov, vice-president of sub-Saharan Africa at Rosatom, the Russian state-owned nuclear firm that is heavily involved in Africa.

Could there be an African solution to this problem? One alternative could emerge from the South African nuclear industry, which sees a chance to export its domestic expertise to the continent. Kelvin Kemm, CEO of consultancy Nuclear Africa, says that the South African industry is pioneering pebble-bed (PB) reactors – cheaper, smaller reactors of around 100MW that he says can operate independently of a centralised grid and away from large sources of water.

He argues that such technologies offer Africa an emissions-free future in line with the Paris Climate Agreement, and an alternative to unreliable hydro energy in drought stricken parts of Africa. "As far as other African countries go, we can imagine that in about three years we'd be in a position to build PB reactors. We've already had people calling and talking about them."

A nuclear future?

Despite the vast challenges ahead, African countries appear undeterred from their quest for nuclear. In December, South Africa's Eskom issued a request for information from interested companies, the next step towards a tendering process for its new generation of plants.

In January, the IAEA concluded that Ghana had made "considerable progress in the development of its nuclear power infrastructure," but that more government studies and work on a legal framework would be required going forwards. Meanwhile, other African countries have ploughed ahead with agreements with foreign firms to develop their industries – in September, Kenya signed a deal with the Korea Electricity Corp and plans its first plant by 2027 at a cost of $5bn, while Nigeria plans to build plants with Rosatom, the Russian firm that will bid on South Africa's new-build programme.

The involvement of foreign firms has inflated already sky-high expectations about Africa's nuclear future, but raised eyebrows among sceptics worried about foreign influence and geopolitical intrigue. While some see the dark hand of great power politics, Schneider believes that foreign firms may be engaging Africa out of weakness rather than strength, using tenuous African projects unlikely to amount to anything as a showcase to keep their struggling domestic industry alive. "If it was recognised that there is hardly any chance of any more plants being exported to other countries, it would become obvious that the chance for rebuilding the domestic nuclear industry is close to zero. In other words, if you don't retain the phantom of future projects, you are not dead tomorrow, you are dead today." He points to only three new nuclear plants in the world last year, comprising just 3000MW out of an annual world generating capacity of up to 200,000MW. "From a realistic view, none of these projects will go ahead. There is no market for nuclear power plants," he concludes.

Yet still the work goes on. African countries continue to work with foreign partners, ministers hold meetings, and the IAEA presides over regular reviews. NECSA's Tshelane says that countries must think big – from hundred-year partnerships to dynamic connections with neighbours and the establishment of supply industries.

After decades of lacking ambition when it comes to power projects, is Africa in danger of overreaching? The IAEA's Stott believes not. Far from being a mirage, he believes a viable industry looms on the horizon. For now, the sceptics have been sidelined. "I think there's about four, not including South Africa, that are making good progress, but it's at least 10 years away, more likely 15, before they could have a plant. It's not something that will happen quickly but there could be four or five that have built their first nuclear plant." *(By David Thomas, African Business)*

Nigeria: FG to issue N20 billion Green Bond for renewable energy projects
The Ministry of Environment has revealed plans by the Federal Government of Nigeria to raise N20 billion ($65.6 million) by March 2017 through the sale of a Green Bond, to help finance renewable energy projects in the country. According to the Minister of Environment, Amina Mohammed (photo), the government wishes to achieve this goal with the call made to Nigerians to support the issuing of what she terms as the first sovereign Green Bond by an emerging market. "*It is about leveraging external resources to support the renewable energy projects in the sector. We are on track to sell the bond in the first quarter, and could have another by the end of the year*," she told *Punch news*. The Minister added that bond will also help fund an electric commuter vehicle project and tree-planting in the North. *(By Anita Fatunji, Ecofin Agency)*

INFRASTRUCTURE

Home-grown African wealth funds seeking foreign partners to fix infrastructure gap
Africa, famously short of new roads, ports and power stations, is increasingly leaning on its own sovereign investment funds to help fix its infrastructure gap. The funds - which have around $150 billion between them, according to research firm Preqin - are digging in themselves and offering co-investment opportunities and guarantees to attract foreign capital. The scale of the problem is huge - some 600 million Africans, or half the continent's population, still lack reliable power, according to a panel discussion at last week's World Economic Forum in Davos. Meanwhile, consultancy McKinsey has estimated that investment in African infrastructure is so poor it needs to double to $150 billion a year. But while investors worldwide are queuing up to finance planned overhauls of transport and energy infrastructure in the West - part of a global search for returns - they have largely bypassed Africa, still considered the preserve of development agencies or specialist funds.
Africa is still viewed in some circles as a difficult investment, hampered by corruption, war and political risk. Now home-grown sovereign wealth funds are seeking to change this perception and kickstart projects themselves.
Morocco's $1.8 billion Ithmar Capital state fund, for example, is seeking to raise $1 billion-$2 billion from infrastructure specialists and other sovereign funds for its Africa green infrastructure fund. This will focus on clean energy and water projects and is co-sponsored by the World Bank. "Energy is probably the biggest impediment to the development of the continent," said Tarik Senhaji, Ithmar's chief executive, said. "The energy cost is so high you can't develop anything else."A lot of the sovereign funds and pension funds we are speaking to are extremely interested in infrastructure - the question is how do you bring the risk perception of Africa down so they can co-invest with us?" Senhaji said. It is early days. Last year three Africa-focused infrastructure funds raised $665 million, according to Preqin – just one % of the total $61.2 billion raised by 54 infrastructure funds globally. Yet the 15-20 % returns on offer in Africa are higher than the 8-12 % offered in developed markets. "If people haven't invested in the region before, they probably perceive more risk than there actually is," said Adrian Mucalov, a director in the energy business at Actis, an emerging markets investor that has invested over $3.5 billion in Africa.
Biggest Challenge
Fund managers say the biggest challenge may not in fact be raising capital, but finding investable projects. Public-private partnerships between government agencies and private companies are under-used, accounting for only 4.5 % of African infrastructure projects by value between 2000 and 2014, McKinsey estimates. That compares with 8.6 % for a group of emerging markets. But there are examples of sovereign funds stepping in. Angola's sovereign fund, FSDEA, has just committed $180 million to a new deep sea port project using a PPP structure. "PPPs are very difficult to carry out because you're talking about two different parties with two different views," FSDEA chairman Jose Filomeno dos Santos told Reuters.
In early 2015, another sovereign fund, Senegal's FONSIS partnered with Meridiam, an infrastructure fund manager with some 5 billion euros ($5.37 billion) under management, to develop a solar farm. Meridiam, which raised 300 million euros for its Infrastructure Africa Fund in 2015, targets greenfield investments in

transport, power generation and public buildings such as hospitals and universities via PPPs. Meridiam's Mathieu Peller, director, West Africa said governments needed to focus on a limited number of essential projects: "There is a huge pipeline of projects that are difficult for foreign investors to assess."
Sovereign funds, meanwhile, are also trying to tap local pension fund capital. The long-term nature of infrastructure investments tends to be a good fit for pension funds which a steady income need stream to fund payments to retirees. Canada's pension funds provide a guide, having invested in everything from the Port of Melbourne to British high speed rail lines. And African pension pools are growing quickly - Nigeria's local pension market for instance is expanding by $5 billion a year - but they can be prevented from investing in domestic infrastructure bonds because of the issuer's weak credit rating. To address this, Nigeria's Sovereign Investment Authority (NSIA), has announced a tie-up with local currency guarantee firm GuarantCo to enhance the credit quality of Nigerian infrastructure bonds. ($1 = 0.9305 euros) *(By Claire Milhench, Reuters)*

Angola Sovereign Fund invests US$180 million in deepwater port
The Angola Sovereign Fund plans to invest US$180 million in building the first deep water port in the country, a project to be developed in Caio, Cabinda province, according to a statement issued in London. Construction of the port will be in two stages, the first of which will build a 630-metre long terminal, connected to shore by a 2-kilometre bridge.
The statement said that the access channel will be 15 metres deep and the terminal will have a depth of 14 metres, and the port will feature a modern shipyard, dry dock, an industrial zone and a duty free zone. Saying that this investment will create 20 000 jobs and add value, the President of the Fund, José Filomeno dos Santos recalled that, “investment in the industrial sector and trade support infrastructure in the sub-Saharan region has shown high rates of return and resistance to risks associated with countries in Africa.” Dos Santos stressed that investing in maritime infrastructure and logistics and industrial support in Angola makes it possible to diversify other investments in international financial markets in the portfolio of the Angola Sovereign Fund.
Financial news agency Bloomberg reported that the Export-Import Bank of China will provide a loan of up to US$600 million to be invested in the construction of this port, whose works are being developed by a Chinese construction company.
In the same statement, which shows the status of its portfolio of investments in the second and third quarters of 2016, the Fund said that on 30 September 2016 its assets were valued at US$4.755 billion. Of that amount, US$1.833 billion was invested in securities and currency, US$1.179 billion in income assets and the rest in various funds, including infrastructure, forestry and agriculture. *(Macauhub)*

Tanzania Said to Pick Mota, Yapi to Build $1.1 Billion Rail
Tanzania chose Turkish construction company Yapi Merkezi Insaat VE Sanayi As and Portuguese building firm Mota-Engil SGPS SA to build a railway at a cost of more than 1 billion euros ($1.1 billion) to connect the East African country with landlocked neighbors, people familiar with the matter said. **The contract is to build about 400 kilometers (249 miles) of track that will link Tanzania with Burundi and Rwanda. Mota-Engil and Yapi Merkezi hold a 50 % stake each in the winning group, the two people said, asking not to be identified because the details are private.** Mota-Engil is Portugal’s biggest construction company and depends on Africa for almost a third of its revenue, according to the company’s website. Officials at Yapi Merkezi didn’t immediately respond to an e-mail requesting comment. Yapi Merkezi has asked the Turkish government to provide guarantees for financing the project, one person said, without providing details. Turkish President Recep Tayyip Erdogan made a two-day visit to Tanzania last month to strengthen ties between the two nations.
Tanzania plans a 2,200-kilometer project known as the Central Railway Line from Dar es Salaam to the Rwandan capital Kigali, with two other lines branching off to Musongati in Burundi and to Mwanza port on the shores of Lake Victoria to service Ugandan shippers. It estimates that project will cost 16.7 trillion shillings ($7.5 billion). It also intends to build another line in the south linking the port town of Mtwara to coal projects in Liganga and Mchuchuma for about 16.1 trillion shillings. *(By Henrique Almeida and Ercan Ersoy, Bloomberg)*

Uganda negotiating $2.3 bln loan with China to fund rail line
Uganda is negotiating a $2.3 billion loan with China's Exim Bank to fund an initial 273 km stretch of rail line the east African country is planning to build for faster and cheaper transportation, an official said.

Landlocked Uganda eventually wants to construct a 1,700 km standard gauge railway network to connect with similar lines being built in neighbouring Kenya. The rail links are expected to help to boost the volume and efficiency of trade between Kenya's Indian Ocean seaport of Mombasa and its vast hinterland stretching to South Sudan, eastern Democratic Republic of Congo (DRC), Rwanda and Burundi. "The construction of the eastern route ... will cost $2.3 billion," Standard Gauge Railway project head Kasingye Kyamugambi told Reuters, referring to the 273 km stretch between the capital Kampala and Malaba on the border with Kenya. "Uganda is negotiating with Exim Bank of China to secure financing for the project and begin construction." Kyamugambi did not say when a deal is expected to be finalised but said that construction -- slated to start once funds are secured -- will take 42 months.
Once fully completed, the railway will have several arms connecting it to Congo, Rwanda and South Sudan.
Both Uganda and Kenya have been using a decrepit, narrow-gauge railway line built about a century ago by the British. That old line in both countries is being operated by a private investor under a concession that runs until 2032.
In recent years officials in the east African region have been eager to invest in modern transportation and communications links such as railways, expressways and internet cables. Once complete, the new electric rail network is expected to save Uganda an estimated $2 billion a year through lower freight costs and shorter shipment times. Kyamugambi said the Ugandan government will contribute 15 % to the cost of the Malaba-Kampala stretch and also pay for land for the railway corridor.
Last month a Kenyan official said that work on the country's Mombasa-Nairobi stretch of the new railway link, also financed by China, was 98 % complete and that it would begin commercial operations in January 2018. *(By Elias Biryabarema, Reuters)*

Tanzania says to receive $305 million World Bank loan for Dar es Salaam port expansion
Tanzania will receive a $305 million loan from the World Bank to expand its main port in it main commercial city Dar es Salaam, where congestion and inefficiencies are hampering ambitions to transform the east African nation into a regional transport hub. The port, whose main rival is the bigger but also congested port of Mombasa in Kenya, acts as a trade gateway for landlocked African states such as Zambia, Rwanda, Malawi, Burundi and Uganda, as well as the eastern region of the Democratic Republic of the Congo. "The World Bank has agreed to give Tanzania loans for various development projects, including a credit of $305 million for an expansion project at the Dar es Salaam port," Finance and Planning Minister Philip Mpango said in a statement.
The World Bank said in a 2014 report that inefficiencies at Dar es Salaam port was costing Tanzania and its neighbours up to $2.6 billion a year. Tanzania wants to lift capacity at the port to 28 million tonnes a year by 2020 from 15 million tonnes currently.
The loan deal was announced following talks in the capital between Tanzanian President John Magufuli and Makhtar Diop, the World Bank's vice president for Africa. Officials said Tanzania was also in talks with the World Bank for a $425 million additional funding to expand a new public transport system in its commercial capital.
The Dar es Salaam Rapid Transit System inaugurated by Magufuli was built by a $290 million loan from the World Bank. The project, aimed at easing congestion in Dar es Salaam's gridlocked streets, is expected to benefit around 500,000 people in the city of 4 million. *(By Fumbuka Ng'wanakilala, Reuters)*

AfDB says gives Comoros $20 mln for road network
The African Development Bank is giving Comoros a $20.4 million grant to help it improve and expand its road networks, a move that will boost its agriculture and tourism sectors. The islands have few natural resources and largely rely on exports such as cloves and vanilla, remittances from citizens working abroad and foreign aid to finance development projects.
AfDB said the money will be disbursed over five years. "The project will focus on improving the quality of key roads infrastructure on the National Road-2 and Road-23 to boost trade and spur economic growth," it said in a statement. "The poor quality of infrastructure, especially road infrastructure and related services has been identified as is one of the major constraints to economic diversification in the country." The International Monetary Fund said in December it forecast Comoros' economy to grow by 3.3 % this year, up from an estimated 2.2 % in 2016.
The islands, with a population of just below 800,000 and a gross domestic product of $566 million, have been rocked by some 20 coups and attempted coups since independence from France in 1975. The country has an 800-km long road network and says very little maintenance has been done on it over that last 20 years.

AfDB said the grant would go towards rehabilitating a 47 km stretch and will also involve putting up protection against sea erosion. *(By George Obulutsa, Reuters)*

World Bank and UK finance reconstruction of roads in Mozambique
The World Bank and the United Kingdom's Department for International Development (DFID) will support the second phase of reconstruction of roads in the southern province of Gaza, Mozambique, a project with an estimated cost of US$170.5 million, announced the Mozambican Minister of Public Works, Housing and Water Resources.
The reconstruction works cover 190 kilometres of roads damaged during the floods that ravaged the country between 2012 and 2013. The government of Mozambique will contribute US$42.5 million and the World Bank and DFID will provide US$113 million and US$15 million, respectively.
The funds in question will allow the second phase of reconstruction of roads to begin next February, and the work is expected to take 18 months. Mozambican news agency AIM reported that the first stage involved emergency repairs between 2014 and 2015.
After the Director General of the National Roads Administration, Marco dos Anjos and contractors signed the contracts, Minister Carlos Bonete Martinho recalled that the first phase cost US$15 million.
The minister said he expected the work carried out in the second phase to have the necessary quality to withstand the weather and the World Bank representative, Kulwinder Singh Rao, said the funding is intended to improve roads and bridges, and strengthen the management and administration skills of the road sector. The four contractors selected to carry out the work are Chinese companies Zhongmei Engineering Group, Ltd, China Henan International Cooperation Group Co., Ltd. (CHICO), Portugal's Mota-Engil and the Swiss company SBI International Holdings. *(Macauhub)*

MINING

South Africa: Sibanye acquisition of US platinum mine passes antitrust conditions
The $2.2bn prospective acquisition of US firm Stillwater Mining by South African mining company Sibanye Gold has edged after both companies passed antitrust conditions. The antitrust conditions fall under the US's Hart-Scott-Rodino legislation.
Stillwater's board accepted Sibanye's $18-a-share offer in December and the deal is expected to be completed in the second quarter of 2017, subject to approvals by shareholders and South African authorities. If completed, the acquisition would further dilute Sibanye's portfolio. It was entirely a South African gold producer until September 2015 but it will now become the world's fourth-biggest platinum and third largest palladium producer as well.
Sibanye, which was created in 2013 out of former Gold Fields' assets, began its expansion in the second half of last year with the purchase of two platinum mines. It paid R4.5bn ($291m) for a mine in Rustenburg, which it bought from Amplats; and almost exactly the same price again for platinum mines in South Africa and Zimbabwe that were owned by Aquarius Platinum.
However, the Stillwater deal is in an entirely different league: it is so much more valuable and also involves mines far from Sibanye's home country. The Stillwater deal will also represent a much bigger move towards diversification, as the US firm generates more income from its platinum recycling business than mining. Palladium, which is a platinum group metal, is mainly used in the automotive industry.
Sibanye CEO Neal Froneman said: "The transaction is consistent with Sibanye's strategy of creating superior value for all of our stakeholders by enhancing the cash flow generation…The transaction represents a transformational opportunity for Sibanye to acquire high quality, low-cost assets at a favourable point in the cycle."
Calculated gamble
The strategy seems a clear gamble either that platinum will gain value faster than gold; against mining sector uncertainty in South Africa; or both. It has been a difficult couple of years for the South African mining industry. Lower than expected demand has seen output fall and revenues fall further. Although coal and iron ore prices have begun to recover, the downfall has taken its toll on the fortunes of many of the biggest mining companies operating in the country, whether South African or not.
Sibanye, which has been listed on the FTSE/JSE Top 40 index since September, denies that it is considering exiting South Africa but the Stillwater investment in particular suggests that it may be reducing its exposure to the country. The weak and unstable Rand makes trading difficult, the South African mining industry has

been plagued by poor industrial relations over the past decade and mining firms have complained about the government's new industry regulations.

Black empowerment

Through the Chamber of Mines, mining firms oppose the new Mining Charter, which will impose higher royalties and greater black economic empowerment (BEE) requirements on mining companies. BEE strategies were originally introduced for each sector when South Africa embraced democracy in 1994.

They laid down minimum proportions of non-white workers to be employed at each level, as well as the minimum equity to be held by black South Africans. Under the new Charter, mining firms will have to be at least 26% owned by black investors, while procurement prorportions from South African black-majority owned companies will have to rise to as much as 70% for some materials and services.

Roger Baxter, the CEO of the Chamber of Mines, commented: "Constructive engagement has been our traditional route but we're not going to take this particular issue lying down…The industry made a combined loss of R37bn last year and R10bn the year before, after impairments. Now we're faced with a whole bunch of extra levies which are going to add extra to the cost profile."

It is too early to tell whether Sibanye's overseas expansion will become a trend but it is possible that mining companies may look to international assets if they perceive – rightly or wrongly – that they are coming under excessive pressure at home. *(By Neil Ford, African Business)*

OIL & GAS

Mozambique Selects Shell Unit Among Cos. for Gas Development

Shell Mozambique BV, GL Energy Africa, Yara International selected to implement projects in utilizing domestic gas, Ministry of Mineral Resources and Energy says in statement on its website.

- Tender opened on Aug. 26
- Shell unit requested the award of natural gas to produce

38,000 barrels/day of liquid fuels and 50MW-80MW of power

- GL Energy Africa requested 41.8m cubic feet/day of natural gas to produce 250MW of power
- Yara International applied for 80-90m cubic feet/day to produce 1.2-1.3m metric tons of fertilizers and 30MW-50MW of power

Nigeria Sees Oil Hitting Mid-$60s in Coming Months as OPEC Bites

Crude oil prices, hovering around $55 a barrel since early December, will climb by about $10 in the coming months as OPEC-led measures to curb a glut take hold, Nigeria's oil minister said.

"Ultimately, the effects over the next few months will get us to where we want to be, which is in the mid-$60s," Minister of State for Petroleum Emmanuel Kachikwu said in a Bloomberg Television interview from Rome. Oil surged at the end of November and in early December after the Organization of Petroleum Exporting Countries surprised the market with output cuts and enlisted the help of non-member suppliers to eliminate a surplus. While militant attacks on its energy infrastructure meant Nigeria itself was spared from having to pump less, OPEC could ask for its participation, Kachikwu said. Nigeria is now seeking to boost production as it recovers from the attacks, which targeted pipelines and other infrastructure. The nation is now pumping about 1.5 million barrels a day and the government is improving its engagement with communities in the Niger Delta as it seeks to build on that increase, said Kachikwu, who's in Italy meeting the nation's energy minister as well as the chief executive officer of Eni SpA.

Once crude oil production returns to about 1.8 million barrels a day, "then we'll begin to look at OPEC asking us to do some cuts," he said. Kachikwu said that while Nigeria "probably will struggle" to reach that output level, the country would eventually join the cuts if production rises high enough. "There's a willingness of every OPEC member to contribute," he said. When oil prices reach the mid $60s a barrel, they will struggle to go higher, he said. *(By Francine Lacqua and Brian Wingfield, Bloomberg)*

GE proposes investing in Nigeria's ailing oil refineries

General Electric Co has proposed investing in Nigeria's oil refineries, potentially convening a consortium of companies to improve capacity at the run-down facilities. GE's plan and similar promises from companies like Italy's Eni to work with Nigeria to rehabilitate the country's three oil refineries could help the government as it tries to reduce costly imported oil products.

The work was raised during a meeting with the Nigerian National Petroleum Corporation (NNPC), a GE spokeswoman said. "We propose that work commences either with the Warri or Port Harcourt refinery as a

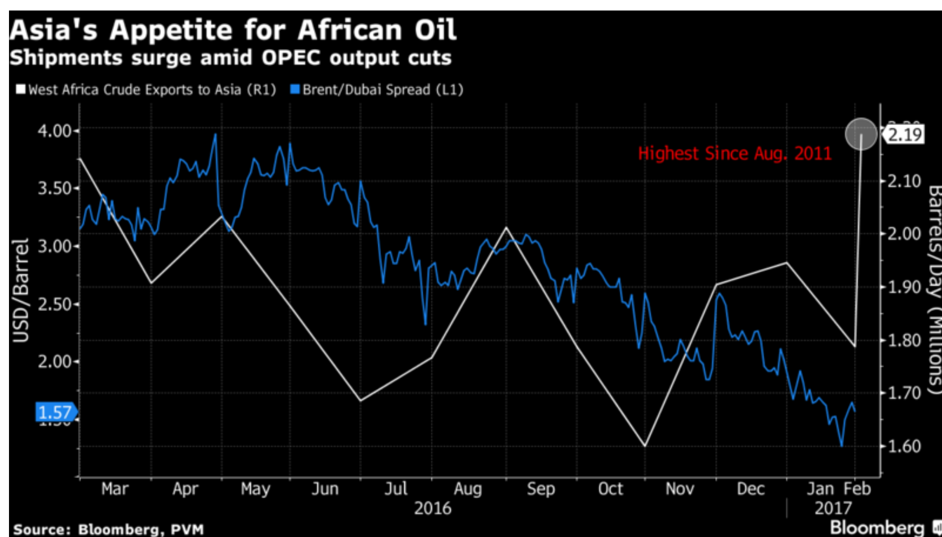
pilot, as we set a target to improve the refinery capacity before the end of 2017," GE told the NNPC, according to a statement from the state oil firm.
Imports are consuming a large portion of the nation's scarce foreign currency, but the run-down state of the refineries themselves, which are also subject to frequent pipeline attacks, has hampered progress. Nigeria's Minister of State for Petroleum Resources, Emmanuel Ibe Kachikwu has said that Chevron and Total were also interested in working on the refineries. GE and NNPC could also cooperate on national power projects, said the Nigerian firm, as the country remains plagued by cuts and shortages and a creaking power grid. *(By Paul Carsten, Reutrers)*

Egypt committed to repaying $3.5 bln to foreign oil firms: petroleum minister
Egypt is committed to repaying the $3.5 billion it owes in arrears to foreign oil companies but a foreign currency shortage has made the drawing down of those debts more difficult, Petroleum Minister Tarek El Molla said. "We are committed and we will continue decreasing the numbers as we have done over the last three years," El Molla told Reuters. Insufficient foreign currency reserves mean that the repayment schedule was taking time, he said. He said, however, Cairo was making monthly payments to foreign operators, enabling it to prevent overall debts from growing further. El Molla said Egypt would resort to the spot market and to inter-governmental deals to close the gap between its gas production and consumption through imports of liquefied natural gas.
State-run EGAS issued an import tender in late October for 96 LNG cargoes for delivery in 2017 and 2018, with an option to buy 12 additional cargoes in 2017. "As we go during the course of the year, we will see what are the remaining quantities that we need to close the balance of the month and the balance of the season," he said. "Therefore, we'll go on as we need and as it may require on smaller tenders or we might have some direct [inter-governmental] deals." Once a net gas exporter, Egypt turned into a major importer of LNG as growing demand outstripped production. The country is currently producing 4.45 billion ft3 of gas a day, El Molla said. But the discovery by Eni of the giant 850 billion cubic meters Zohr oilfield in 2015 is likely to transform its fortunes. The field is expected to come into production at the end of the year and will save Egypt billions of dollars in hard currency that would otherwise be spent on imports. Egypt scrapped plans for a third floating and storage regasification unit (FSRU) due to plans to increase its natural gas production. "We were able to squeeze the time, accelerate development then bringing into stream more gas, hence there's no need for a third FSRU," El Molla said. El Molla said Egypt was still on track to conclude a contract with Iraq to import 1 million to 2 million barrels per day of crude from Iraq through an inter-governmental deal by the end of the first quarter. The country will continue to go to the spot market to import oil products, however. The move follows Saudi Arabia informing Egypt in November that shipments of oil products expected under a $23 billion aid deal had been halted indefinitely.
Egypt has long-term contract with Kuwait's KPC to import diesel and crude oil, he said. *(By Ahmad Ghaddar and Julia Payne, Reuters)*

Tanzania hopes for LNG plant agreement with oil majors by 2018
Tanzania hopes to reach an agreement with international oil companies in 2018 paving the way for the construction of a liquefied natural gas (LNG) plant, part of a bigger plan for a new export terminal, a senior official said.
The planned new infrastructure will enable Tanzania to export some of the huge offshore gas reserves discovered in recent years in a region that has turned into a hydrocarbon exploration hotspot. BG Group - recently acquired by Royal Dutch Shell -, together with Statoil, Exxon Mobil and Ophir Energy, plan to build a $30 billion onshore LNG export terminal in partnership with the state-run Tanzania Petroleum Development Corporation (TPDC). But a final investment decision has been held up by government delays in finalising issues relating to the acquisition of land at the site and establishing a legal framework for the nascent hydrocarbon industry.
As a first step, the Tanzanian government and oil companies must work out a "host government agreement" setting out terms on which the foreign investors will build and run the project. "Discussions for a host government agreement started in September 2016 and we expect the negotiations to last for about one and a half years," Kapuulya Musomba, acting managing director of TPDC, told Reuters in an interview. "Conclusion of these talks will determine when the international oil companies will actually put in money for construction of the LNG."
Oil majors are expected to push for government guarantees of stable fiscal, regulatory and commercial terms before they invest, analysts said. Oystein Michelsen, Statoil's Tanzania country manager, said in November a

final investment decision on the LNG export terminal will not be made for at least five years and possibly much longer. It would take another five years after that decision to build the plant, he said. The government has said it is keen to promote the LNG project but has said little about the timeline. Tanzanian President John Magufuli ordered officials in August to speed up work on the planned LNG plant, saying it had taken too long to start the project.
The government said it has acquired more than 2,000 hectares (5,000 acres) of land for the construction of the planned two-train LNG terminal at Likong'o village in the southern Tanzanian town of Lindi close to large offshore natural gas discoveries. The country's central bank believes just starting work on the plant would add another 2 percentage points to annual economic growth of around 7 %. Tanzania discovered an additional 2.17 trillion cubic feet of gas deposits in February, according to local media, raising its total estimated recoverable reserves to more than 57 trillion cubic feet. It already uses some of the gas to generate electricity and to power firms in sectors such as cement manufacture, steel and textile mills and beer brewing. East Africa has become a focus for hydrocarbon exploration after the discovery of substantial deposits of crude oil in Uganda and major gas reserves in Mozambique. *(By Fumbuka Ng'wanakilala, Reuters)*

West African Oil Floods to Asia in Latest Sign of OPEC's Impact
West African oil producers will next month send the crudest to Asia in at least five years, the latest sign of how refineries in the world's biggest demand region are scouring the world to replace supplies cut by OPEC's Middle East producers.



Shipments on the trade route, among the longest for supertankers, are set to soar to 2.19 million barrels a day in February, the highest level since at least August 2011, according to data compiled by Bloomberg from traders. China and India will be the biggest buyers. In recent weeks, a similar picture emerged from both the North Sea, where unprecedented eastbound flows have been observed, and also the U.S.
"Production cuts have led to the shortage of Middle Eastern oil in Asia," said Ehsan Ul-Haq, principal consultant at KBC Advanced Technologies. "As a result, regional refiners have been forced to buy crude from the West."
Since the beginning of the year, the Organization of Petroleum Exporting Countries and 11 other nations have curbed supplies in an effort to prop up the price of oil, which has lost about half its value since mid-2014 due to a global oversupply. Of the OPEC nations that participated in cuts, about four-fifths of supply came from the group's Middle East members. The effect has been a re-drawing of oil-trade routes because Asia's crude consumption accounts for about one-third of the global total, exceeding that of any other region. Oil from the Middle East has become relatively expensive as supplies have been cut. West Texas Intermediate crude, the U.S. benchmark, is now trading at a discount to the Dubai grade, compared with a $1.45 premium on Dec. 1, the day after OPEC announced its output curbs. The comparable premium for Brent crude has shrunk by about $1 a barrel during the same period.
Shipments Surge
The 2.19 million barrels a day that West African nations, led by by Nigeria and Angola, will send to Asia in February compares with about 1.79 million barrels a day this month, the data compiled by Bloomberg show. Next month's figures may still increase, since Trafigura Group and Vitol Group still hold cargoes totaling 3.74 million barrels, which are likely to be shipped to Asia, according to three traders with knowledge of the matter.

China's monthly crude imports from across the globe surged to a record 36.4 million tons, or 8.6 million barrels a day, in December, the latest customs data show. Oil refining in the country also rose to a record that month, and a blast of cold weather in recent weeks has boosted fuel demand in North Asia. China is set to import 1.3 million barrels a day in crude oil from West Africa in February, a 14 % increase from January, the data show. Buyers include Sinochem Group, PetroChina Co. and Unipec, the trading arm of China Petroleum & Chemical Corp. India's monthly imports from West Africa are poised to increase by 39 %, to about 692,000 barrels a day, the most since August, loading programs show. Crude imports in India, the world's fastest-growing oil market, rose by 10 % to about 18 million tons a month last year. *(By Sherry Su and Brian Wingfield, Bloomberg)*

AGRIBUSINESS

Gabon: The battle over palm oil

The controversy surrounding palm oil cultivation has intensified over the last two months.

Firstly, the new Gabonese operations of agricultural trading company Olam International was heavily criticised by US environmental NGO Mighty Earth in December. Then Dimensional Fund Advisors, a big US investment firm that had previously been criticised for continuing to invest in palm oil companies, decided to divest two of its portfolios of all such assets, including equity in Wilmar International and Olam.

The campaign against palm oil could have profound implications for the sector's development in Africa. Palm oil cultivation has become controversial because ecologically diverse areas of rainforest are often cut down to allow cultivation to take place. Huge areas of forest have been felled in Indonesia and Malaysia, affecting flora and fauna, and producing air pollution caused by forest fires when land is being cleared for palm oil plantation. According to Friends of the Earth and numerous other environmental NGOs, palm oil plantations are the fastest growing cause of rainforest destruction and an increasingly important cause of climate change.

Palm oil produces almost quadruple oil yeild compared to sunflower or rapeseed oil, and the majority of the palm oil is produced in Indonesia and Malaysia. However, African countries have also been targeted for cultivation more recently. Olam is a major player in the global palm oil sector and a big investor in African agri-business. The company currently sources more than 99% of its palm oil from third-party suppliers. In 2011, it set up a palm oil and rubber cultivation joint venture with the government of Gabon, with equity shared 60:40 in favour of the Singaporean firm.

The concessions in question cover 300,000 hectares, of which palm oil is being planted on 58,000 hectares covering four parcels of land: three of these are in the southwest of the country and the other in the northwest. Under a separate agreement, concluded last year, Olam has also taken a 49% stake in managing 70,000 hectares of smallholder plantations in Gabon. The two ventures involve total investment of $1.7bn.

Logging activity

Mighty Earth's 'Palm oil's black box' report claims that environmentally important forest areas have been cleared and the report is accompanied by video footage of tall trees being felled. A spokesperson for Mighty argued: "These forests are the last place any company should be looking to develop plantation agriculture."

For its part, Olam argues that it promotes sustainable development, denies the allegations and states that its Gabonese plantations have created 5,400 jobs. It argues that it avoids primary rainforest and claims that 59% of the planted area comprises degraded secondary forests and the remainder savannah. Degraded land is where the primary forest has previously been cleared. Olam chief executive Sunny Verghese said: "I want to say very categorically, we believe both these projects in Gabon in the upstream plantations are both environmentally sustainable and socially responsible."

Olam says that it has reduced the number of third party palm oil suppliers from 48 in 2014 to 14 today as many did not conform to its sustainable practice code. However, the firm has refused to sign up to no-deforestation commitments, insisting that while this approach may be possible in Southeast Asia, there is insufficient available land in Africa to avoid forest clearance.

The government of Gabon is keen to reduce its dependence on oil exports because of falling production and lower than anticipated prices. It has responded to criticism by arguing that it has the right to exploit a proportion of its territory for farming and that it has chosen the most appropriate land for palm oil.

Fund managers

Whatever the rights and wrongs of Olam's activities in Gabon, it is clear that the African continent as a whole must become more aware of the undoubted problems associated with palm oil cultivation. Governments may have to bring legislation in line with changing international opinion on the issue.

Dimensional Fund Advisors, which has $445bn of assets under management, has announced that it now excludes palm oil from its US Sustainability Core 1 Portfolio and International Sustainability Core 1 Portfolio funds, making it the first of the top ten US fund managers to do so.
A spokesperson for the company said: "Dimensional is always looking for ways to improve the sustainability considerations for those two funds." Apart from fund managers, pressure is also being put on the big buyers of palm oil, such as Unilever, to only purchase sustainably produced palm oil. *(By Neil Ford, African Business)*

South Africa Seeks Agriculture Boost in Post-Brexit Trade Deal
South Africa sees opportunities to sell more of its agricultural produce to the U.K. under a post-Brexit trade agreement, Trade and Industry Minister Rob Davies said. "The U.K. doesn't have the sensitivities of some of the countries from southern Europe that see us as competitors," Davies said, referring to wine and fruit. "In the longer and medium term it may well be that we can improve our access into the U.K. market for those products."
Davies is in the U.K. for talks to ensure that trade isn't interrupted when the country leaves the European Union. The Economic Partnership Agreement, signed last year between the EU and the five-nation Southern African Customs Union, will form a template for new U.K.-South Africa trading rules, Davies said.
Exports of South African citrus to the EU have been periodically blocked in recent years due to objections from farm groups in Spain, which competes with South Africa as a producer of the fruits, who said they were concerned about the possibility of black-spot disease from South Africa infecting their trees. South Africa and Spain are major suppliers of oranges and other citrus fruit globally and the African country is the world's seventh-biggest wine producer.
The bulk of the EPA will remain in place but the countries will have to renegotiate quotas for some products before the Brexit process is complete, Davies said. "There's nothing that's going to require a huge amount of negotiating effort on both sides." The Southern African Customs Union consists of South Africa, Botswana, Namibia, Lesotho and Swaziland. *(By Kevin Crowley, Bloomberg)*

Mozambican company prepares to export lemons to Dubai
Mozambican company Jacarandá Agricultura Norte, Lda. will start planting lemon trees with a view to exporting lemons to Dubai, the United Arab Emirates, said the company's manager, Abílio João Chipupure.
The company will initially prepare 10 hectares of land it has in Erati, Nampula province, to plant lemon trees, an area which may be expanded if the lemon export business proves to be profitable. Chipupure said that the contract to be signed with the importer from Dubai is almost complete, with only technical details yet to be established, such as arrangements for packaging and shipping the product. Jacarandá Agrícola Norte, Lda. is a company established with capital from South America, since 2010, and is focused on banana production in the Eráti district, in an area of 50 hectares.
In 2016, the district government provided the company with an area of over 100 hectares to produce maize and soy for animal feed and livestock and where it plans, in time, to build a meat processing unit. In 2010 the company started planting bananas in the district, which are exported to the Middle East, Europe and some African countries. *(Macauhub)*

Insufficient processing causes Nigeria to lose $1.4billion in 2016 on cashew exports
Nigeria's inability to process cashew nuts in significant quantities for export resulted in the loss of $1.4 billion in 2016. Data from the National Cashew Association of Nigeria (NCAN) showed that the country exported a total of 160,000 metic tons of cashew valued at $300 million in 2016.
According to the Vice president, Nigeria Agribusiness Group, Emmanuel Ijewere, about 90% ($270 million) of cashew exports in 2016 were unprocessed. "*The cashew industry is a massive industry that is waiting to be tapped. Processing is where the money really is but we process very little for export. A ton of processed cashew, as we speak, is sold for $12,000 while a ton of raw cashew is $1,200. You can see the difference is massive*," Anga Sotonye, an executive member of the National Cashew Association and the chief executive officer, Universal Quest Limited, told *Business Day*.
Sotonye urged the government to learn from Ivory Coast and put in place incentives to attract investment and promote processing in the cashew industry. "*With processing of cashew nuts, the government will create massive jobs for the unemployed youths and generate a lot of revenue*," he added.
Nigeria is the fourth largest producer of cashew in Africa and the sixth in the world with an output of 160,000 metric tons per year. A production which is expected to reach 500,000 metric tons by 2020. The

main export destinations for the crop are Europe, India and the United States. *(By Anita Fatunji, Ecofin Agency)*

IFAD supports small farmers in Mozambique

The International Fund for Agricultural Development (IFAD) will grant US$25 million to Mozambique in 2017 to support small farmers, announced in Maputo the Director-General of the institution, Kanayo Nwanze, at the end of an audience granted by the Mozambican Prime Minister Carlos Agostinho do Rosario. The Director-General of IFAD said the Prime Minister of Mozabique hwas committed to agricultural development in Mozambique, especially in aquaculture, promotion of rural markets, artisanal fisheries, as well as promoting the value chain in the Maputo and Limpopo corridors, the latter in the southern province of Gaza. IFAD began operations in Mozambique in 1983 and so far has provided more than US$400 million to fund 12 programmes. The main objective of these programmes is to increase access by small-scale farmers and artisanal fishermen to technologies and production resources, to markets and to appropriate and sustainable financial services in rural areas. Before leaving Maputo, the Director-General of IFAD, inaugurated an IFAD office in Mozambique, according to Mozambican news agency AIM. *(Macauhub)*

UPCOMING EVENTS

Investing in African Mining Indaba 6-9 Feb 2017 – Cape Town South Africa
https://www.miningindaba.com/ehome/index.php?eventid=174097&

Powering Africa Summit Washington, DC 08-10 March 2017
http://www.energynet.co.uk/event/powering-africa-summit-2016

Business Council for Africa - The Annual Debate 22 March 2017 - The Law Society London
The Annual Debate will focus on how Africa can respond to the challenges posed by global macroeconomic trends.
https://www.eventbrite.co.uk/e/the-annual-debate-2017-tickets-29044764673

FT African Infrastructure Financing and Development 2017 - London 23 March 2017
https://live.ft.com/Events/2016/FT-African-Infrastructure-Financing-and-Development-2017

The Africa CEO Forum 2-21 March 2017 in Geneva, Switzerland
http://www.theafricaceoforum.com/en/

Bonds, Loans & Sukuk Africa 5th & 6th April 2017, at the Cape Town International Convention Centre
http://www.gfcmediagroup.com/africa

5th Africa Financial Services Investment Conference 3-5 May 2015 Park Plaza Riverbank London
http://www.afsic.net/

AIX (Africa Investment Exchange): Gas 2017 Developing partners along the gas value chain 5-6 April 2017, London
https://africa-investment-exchange.com/aix-gas-2017/

19th annual Africa Energy Forum (AEF) from 7-9 June - Bella Center, Copenhagen, Denmark
http://africa-energy-forum.com/

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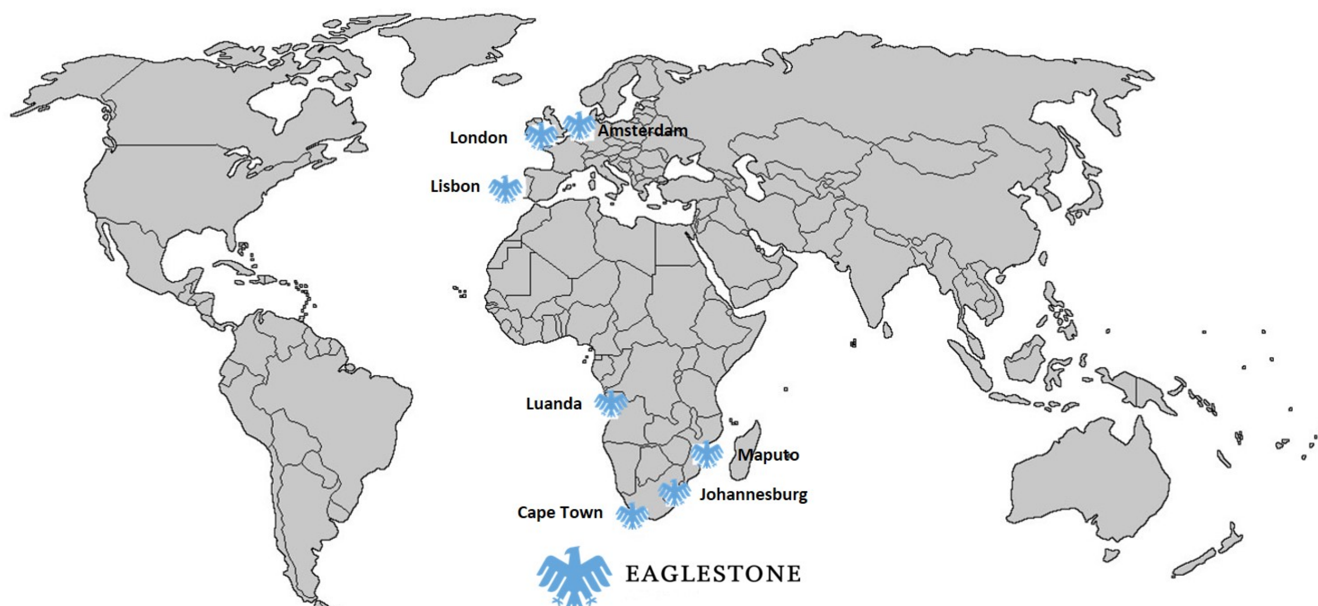

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Disclosures

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

Eaglestone is committed to operating and behaving according to the highest standards of corporate governance. Its subsidiary in the United Kingdom is authorized and regulated by the Financial Services Authority. The first of its six Luxembourg based funds has received approval from la Commission de Surveillance du Secteur Financier.

Eaglestone operates with a clear vision and mission to act on behalf of and in the best interests of all its stakeholders, whether they are investors, employees or users of its services.

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