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# Reality check as boom time ends

**The slowdown in China is affecting the whole continent, reports *Andrew England***

Up in the air: China's presence has been a core theme of Africa's recent growth — Simon Maina / AFP / Getty Images

The Chinese presence across Africa has become ever greater over the past decade. From Khartoum in Sudan to Lomé in Togo, ostentatious presidential palaces have been built with Chinese money and labour. Mine shafts have been sunk, oil pipelines laid, and countless roads, bridges and airports constructed.

Vast amounts of oil, coal, copper and iron ore have been shipped eastward to satisfy China's hunger for Africa's raw materials. A flood of Chinese manufactured goods, from dumper trucks to toys, has come in the opposite direction.

At times China's presence has been controversial, but it has been a core theme of Africa's recent growth.

Now the slowdown in China's economy and the global ripple effects, particularly the collapse in commodity prices, are combining to present many African nations with the toughest economic challenges they have faced in years.

Mines are being mothballed, projects delayed and jobs shed. And countries across the continent have seen their currencies tumble against the US dollar.

"In the short term, this is the perfect storm" says Miguel Azevedo, head of investment banking for Africa at Citigroup. "It's really hitting hard in terms of demand for extractive industries — it's hitting local companies, it's hitting the budgets, and it's hitting the currencies and the forex availability. Through that, it's affecting everybody."

The big decline in oil prices has already had a severe impact on Nigeria and Angola, the continent's top two oil exporters. The collapse in metals prices, meanwhile, is adding to the economic woes of mineral exporters, including South Africa, Africa's top mining destination, and Zambia, the continent's second largest copper producer.

Even countries less dependent on the export of raw materials are enduring the headwinds of the commodities price decline.

"The big new projects in east Africa, the avenues of future growth — they are all commodity-related. In Mozambique, it's coal and gas; in Tanzania, it's gas; and in Kenya it's oil and gas, and pipelines," Mr Azevedo says. "So everything that is new and sizeable that was helping these countries move forward is also oil- and commodity-related."

The depreciation of local currencies also offsets some of the cushion non-oil-producers could have expected from weak oil prices and raises the cost of imports, with most African states being import-dependent. Any US interest rate rise would add to the pressures on volatile currencies.

Meanwhile, access to finance is also expected to become more difficult. In the past, China has financed much needed investment in infrastructure. Governments have also taken advantage of global investors' search for yield and tapped international capital markets at unprecedented levels.

Zambia, Ethiopia, Rwanda, Kenya, Ghana, Senegal, and Ivory Coast have issued foreign currency-dominated

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## Inside



# Energy deficit poses the biggest threat to growth

**Interview** New head of the African Development Bank explains his flagship project to *Maggie Fick*

The new president of the African Development Bank plans to dedicate his tenure to solving what he sees as the biggest hindrance to economic growth and development on the continent: the energy deficit.

Akinwumi Adesina, who took over as president of Africa's lead development lender in September, has said that his flagship project aims to raise $55bn of investment to close the energy deficit in the next decade.

He says the bank will take a leadership role, coordinating with existing multinational initiatives and pushing member states to move faster to privatise and liberalise their energy sectors.

"Getting power right" must happen to unlock the continent's potential, he says. "I don't see why we cannot achieve universal energy access by 2025," he told the Financial Times in an interview shortly after he became president of the bank, whose mandate is to foster economic development and social progress in its 54 African member countries.

Mr Adesina says the fact that more than 600m sub-Saharan Africans live without access to electricity threatens the continent's industries, "beating up" on GDP in many nations and leaving would-be small businesses and entrepreneurs to "lie idle".

The former Nigerian agriculture minister also cites the impact of the energy shortfall on the education of children and on mortality. Some 600,000 people die every year from the secondary effects of smoke from cooking fires.

"So from an economic perspective, from a health perspective, from the jobs perspective and from a life perspective, Africa must power itself," he says.

Meanwhile, he notes, demand for power on the continent is growing and many investors wanting to expand their businesses see the cost of energy as a barrier to entry.

But when it comes to solving the continent's long-running power crisis there has been plenty of tough talk and many lofty promises with little change.

One example is US President Barack Obama's Power Africa effort, unveiled in 2013 to rally $7bn of investment with a view to doubling power generation in five years. Some insiders say progress is being held up partly by difficult regulatory environments in countries such as Ghana.

Developing bankable power projects that deploy private-sector capital in partnership with government resources requires much time and effort, says Oliver Andrews, chief investment officer of the Africa Finance Corporation, the Nigeria-based multilateral development fund.

Mr Andrews notes that last year the AFC initiated only two power projects on the continent — a 300MW wind power project in Kenya's Lake Turkana region and a 350MW thermal power plant in Ghana.

"The biggest constraint to deals being signed is we are actually doing these deals on a project basis," he says.

"If you want to cover all the risks you must understand that these take a lot of time and effort. It takes an average of seven years to develop one of these projects." The Ghana power plant took 11 years and involved 70 agreements, Mr Andrews points out.

Mr Adesina says the AfDB's initiative will be a step change from previous efforts. Though the details are not finalised, he says a key priority is to "address systemic issues that have held us back" — namely the energy policy environment in many of the bank's member states. "The biggest elephant in the room is the fundamental reforms needed in the energy sector," he says.

The limitation is not lack of financing. It is the policy environment, he says, adding that "we will be looking at things like how we price energy and the regulatory environment around the utilities".

He says the bank is prepared to push member states to raise efficiency and to introduce regulatory reforms, in order to attract the private sector investment needed to lift the Africa's grid-based electricity generating capacity.

It is about 90 gigawatts, according to a recent report by the Africa Progress Panel, a group chaired by former UN Secretary General Kofi Annan. Spain produces more electricity than all of sub-Saharan Africa, the report noted.

Mr Adesina points to the development of a functional regulatory framework for the telecoms industry as one of the big African success stories.

"Today Africa is leading the world in terms of rapid growth in the mobile sector," he says. He argues that the AfDB is in a good position to convince governments to follow a similar route with power.

New deal: AfDB head aims to sort out a power crisis — Issouf Sanogo/AFP/Getty Images

# US funds embrace local private equity

Pensions

State retirees are enjoying the dividends of appetite for foreign investment, reports *Katrina Manson*

That Missouri's 111,000 retired state workers receive some of their pensions thanks to Africa consumers may seem unlikely.

But while African pension funds still tend to err on the side of caution and, for the most part, avoid investing in domestic private equity funds, US pension funds are embracing private equity on the continent.

As pension funds the world over struggle to meet their responsibilities, many are considering a larger exposure to African economies to tap into growth of, on average, close to 5 per cent a year. Some sectors, particularly those serving the nascent middle classes, have been growing much faster, at up to 20 per cent a year.

The $9.3bn Missouri State Employee's Retirement System (Mosers) has for the past few years put money into private equity funds in Africa run by both Actis, which invests in Asia and Latin America as well as Africa, and Development Partners International (DPI), which focuses on Africa. Both private equity firms make investments that tap spending by the continent's consumer class, from companies that provide healthcare and education to expanding electricity supply and shopping malls.

Big US pension funds such as the $180bn New York State Common Retirement Fund and the $107bn Washington State Investment Board are also putting their money to work in Africa.

"We've seen a huge increase in interest in . . . Africa in the past 18-24 months," says US-based Adiba Ighodaro, partner for investor development at Actis, which has raised money from both Mosers and Washington State.

"In the US, people have been faster . . . to execute on that interest, whereas for others, the execution is still not at pace with the greater appetite."

Ms Ighodaro has taken US investors on a number of trips so they can see for themselves the growth on the ground.

"They come away with a . . . totally different perspective. Look at Nigeria, Nairobi and what's been going on — the growth in consumption, the investment opportunities are practically tangible. You just have to drive around and you can almost touch and feel it; it's a very important part of the process."

Mosers and a European corporate pension fund have also invested in both of DPI's Africa funds, the second of which closed this year at $724m, 45 per cent above target.

"In our second fund, the biggest set of investors is actually pension funds," says Runa Alam, DPI's chief executive and co-founder, saying it attracted six pension funds, only one of them from Africa. "Most would like to invest $25m-$75m at a minimum. If pension funds invest and reinvest [in the subsequent fund], it's a proxy for having done well; it creates confidence not only in the fund but in Africa in general."

| $3.1bn | 111,000 |
|---|---|
| Amount of African private equity raised in the first half of 2015 | Retired Missouri state workers with pension fund money in Africa |

For South African private equity managers such as Ethos, US pension money is old news. Nearly a third of its $800m Fund VI comes from pensions.

"We got support from US pension funds with our third venture close to 20 years ago; South Africa had just opened up," says Ngaalah Chuphi, partner at Ethos. But the rest of Africa has now moved up the agenda for US investors.

African private equity raised $3.1bn in the first half of this year, likely to surpass the most recent peak total of $4bn raised for the entirety of 2013, and not far off the record peak of $4.7bn raised in 2007 before the global financial crisis hit.

That might represent only 1 per cent of global funds raised for private equity, but managers are looking to the future.



# Reality check for continent as the boom time ends

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sovereign bonds. But with general investor risk aversion and the potential for a US rate rise, financing is likely to become more challenging and expensive.

"We are between a rock and a hard place," says Martin Kingston, head of Rothschild for sub-Saharan Africa. "Many African nations have fiscal deficits or are approaching deficits and it's going to be very difficult for them to borrow their way out of the problem."

That raises questions, Mr Kingston says, about how African governments will move ahead with much-needed infrastructure projects that have helped foster economic growth, development and job creation.

In July, before the latest spate of emerging market volatility, the International Monetary Fund forecast growth for sub-Saharan Africa of 4.4 per cent for this year, down from 5 per cent in 2014.

On the upside, economists point out that Africa's positive growth of the past decade was not simply driven by the commodities boom.

New technologies and the growth of consumer industries have altered the way Africans interconnect, shop and socialise.

Facebook, for example, says its active user population on the continent swelled by 20 per cent to 120m between September last year and June. More than 80 per cent of those users access the social network on their mobile phones.

The technology developments have coincided with the expansion of the middle class, with a youthful, aspirational, fast-growing population that is rapidly urbanising.

Corruption is still entrenched in many countries, but improved governance and better macroeconomic management are also cited as critical factors behind the continent's continued development.

"It might not be Africa is rising, but Africa is changing," says Steve Kayizzi-Mugerwa, chief economist at the African Development Bank.

'Policy makers are the first people that need to accept the reality'

There have been few bigger fillips for Africa's democratic credentials than Nigeria's election this year. Muhammadu Buhari became the first Nigerian opposition candidate to defeat an incumbent through the ballot box.

The question now is whether Nigeria and others are able to use the shock of the commodities collapse to focus more attention on other sectors.

Mr Kayizzi-Mugerwa says the experience should "bring some realism to what Africa needs. Maybe looking at the basic things like manufacturing and also agriculture".

Bismarck Rewane, chief executive of Lagos-based investment firm Financial Derivatives, says the confluence of events has provided African policymakers with a "reality check". "The policymakers are the first people that need to accept the reality," he says.

But even as clouds gather over the continent's economic outlook, bankers expect investors' appetite for the potential of the African consumer to remain healthy.

With Africa's population forecast to more than double to 2.4bn by 2050, multinationals have been eyeing the continent for opportunities in consumer-linked sectors.

The growth of the past decade has already helped remove the stigma investors had attached to investing in Africa. Gradually, intra-Africa trade is also picking up.

And in spite of the current volatility, Citigroup's Mr Azevedo says capital will still be available for the right projects — albeit more selectively.

"Ten years ago, I don't think capital was available even for the right projects," says Mr Azevedo.

"What we will not have now is available capital for crazy public spending."

Social networks: 120m Africans are now on Facebook — Simon Maina / AFP

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Hard to swallow: Action Aid revealed in 2010 that the brewing giant SABMiller had paid less tax in Ghana than a stallholder selling its beers — Ed Robinson / OneRedEye

# From slavers to accountants: looters in Africa

**Illicit financial flows**

## Arcane practices and abuse by multinational companies continue apace, writes *Tom Burgis*

First came the slave traders, then the colonisers carrying off rubber and diamonds, then the mercenaries of the cold war years. Today, those accused of plundering Africa belong to a more prosaic breed: accountants.

Of the estimated $50bn that illicitly departs Africa annually the bulk, according to the most widely used calculations, is neither the proceeds of corruption nor of organised crime. Instead, the biggest drain is via accounting fiddles by multinational companies. The data are inherently vague but the broad figures are vast — equal to the entire annual shortfall in African infrastructure investment.

In February, an African Union panel led by former South African president Thabo Mbeki delivered its report on illicit financial flows. It was the first time senior politicians had thrown their weight behind a campaign hitherto driven largely by tax-justice campaigners. The researchers, who arrived at the $50bn figure, concluded that illicit outflows had contributed to the continent missing the poverty-reduction targets set in the UN's Millennium Development Goals.

"We, as Africans, have an . . . obligation to act on this to ensure that the rest of the world (the destination of these illicit funds) . . . will help stop this drain of resources which belong to the continent that needs them so badly," Mr Mbeki said in a speech in September.

When it comes to the proceeds of corruption, some funds have started to come back. In May, Switzerland said it would return to Nigeria $380m stolen by Sani Abacha, the latest in a succession of seizures related to the late dictator's embezzled fortune.

That followed restitutions such as the one by arms-maker BAE Systems, which in 2010 settled a case brought by British prosecutors relating to its use of agents to win a deal to supply radar to Tanzania; BAE agreed to pay $29.5m to buy textbooks for Tanzanian schools.

In July, it was reported that US officials had promised to help incoming Nigerian president Muhammadu Buhari recover some of the billions that Africa's biggest economy — said to be the source of about a third of the continent's illicit outflows — has haemorrhaged, largely through its oil industry. But as far as accounting tricks designed to dodge tax are concerned, there is no such consensus that the riches flowing out of Africa by dubious means should be returned. Since 2010, when an investigation by the charity Action Aid into SABMiller's tax affairs revealed that the brewing giant had paid less tax in Ghana than a stallholder selling its beers, seemingly arcane accounting practices within multinationals have risen up the political agenda. "Lots of developing countries, including many in Africa, are stepping up the policing of transfer pricing," says Martin Hearson, author of that report.

Transfer pricing — and its abuse — are at the heart of the debate over how to quantify and thwart illicit financial flows. When one arm of a multinational transfers goods or services to another arm of the group in a different country, it must record a price for that transaction. Under the "arm's-length principle", the price should be the same as that which would have been paid had the transaction been with an unrelated company at market rates.

But trade statistics and increasingly frequent challenges by tax authorities suggest that these numbers can be manipulated to shift profits out of countries with normal tax rates and into tax havens such as Switzerland, Luxembourg or assorted Caribbean islands.

"Multinational corporations take an awful lot of advantage over the lack of capacity of African governments to police transfer pricing," says Raymond Baker, president of Global Financial Integrity, the US think-tank that coined and popularised the notion of illicit financial flows. "You have to go through all sorts of gymnastics to show that money was illegally taken out."

Some tax advisers complain that multinationals are being unfairly maligned. Transfer pricing is complicated, they say, and sometimes misunderstood from outside. But Nhlanhla Nene, South Africa's finance minister, told an audience in Johannesburg in April: "Tax regimes have failed to keep pace with an increasingly globalised economy."

In response, some governments seem to be pulling in two directions. After auditing dozens of multinationals, Kenya's tax authority demanded Ks25bn in tax it says was avoided mainly through abusive transfer pricing. But Kenya is seeking to establish itself as a financial centre, potentially creating new loopholes.

African governments are starting to devote more resources to verifying the value of exports. Multilateral initiatives such as the Common Reporting Standard — the automatic exchange of tax data between 94 countries, including the most secretive tax havens — kick in over coming years. But campaigners describe how, as one loophole is closed, another opens. There is no overarching system to police the tax affairs of transnational business. "Our view", wrote the authors of the Mbeki report, "is that the trend is an African problem with a global solution."

*Tom Burgis is author of The Looting Machine: Warlords, Tycoons, Smugglers and the Systematic Theft of Africa's Wealth*

# Oil price crash and US dollar spike are causing pain

**Capital markets**

## The continent's growing exposure to the global market has left it vulnerable, reports *Elaine Moore*

The credit boom in sub-Saharan Africa in recent years has been cause for almost as much consternation as celebration. While the emergence of Africa in capital markets is hailed as a significant development, the continent's growing exposure to the global market has left it increasingly vulnerable to precisely the sort of shocks that are upsetting investors' balance this year.

Across emerging markets, prices for assets are falling as investors consider not just the impact of a possible US interest rate rise but the particular attributes of the countries themselves, against a backdrop of low growth in developed markets and falling commodity prices. The prevailing mood, according to Kamakshya Trivedi, analyst at Goldman Sachs, is caution.

Yet the size of Africa and the variety of countries it holds mean that quick judgments should be avoided, says Yvonne Ike, head of sub-Saharan Africa coverage at Bank of America Merrill Lynch.

While the effect of globalisation has left Africa more exposed to external conditions, it has also made it more accessible.

As Jan Dehn, head of research at Ashmore, points out, the effects of global economic shifts on Africa are made opaque by the diversity of the economies encompassed. "The actual impact on any given country depends entirely on the precise mix of exposures to particular commodities," he says.

The slide in the price of oil that began in June 2014 has triggered suffering among oil exporters, while importers such as Ivory Coast are big beneficiaries.

Nevertheless, falling commodity prices and a strengthening US dollar have had a significant impact on Africa's economic development. Growth rates in sub-Saharan African have declined from an average of 5-7 per cent to 3-4 per cent in 2015, according to the International Monetary Fund, which notes that large fiscal deficits and domestic security-related risk have exacerbated the global financial adversity for some countries.

Commodities slide: demand for copper is drying up — Bloomberg

China, above all, is cause for some of the greatest concern. In 2014, it was Africa's largest bilateral trading partner, with more than $200bn worth of trade. Many economies in sub-Saharan Africa are commodity exporters reliant on China to buy their goods.

When taken together, the relative downturn in China, an oversupply of key commodities including oil, the strengthening of the US dollar and the uncertainty of the direction of US interest rates, are flashing warning signs.

"The combined impact of the current global market conditions, power, security and corruption is that the short-term outlook for Africa is challenging," says Ms Ike.

Rita Babihuga, analyst in the Africa sovereign ratings group at Moody's, says that these problems are putting more pressure on currencies across the region, which is likely to lead to tighter fiscal and monetary policies to preserve macroeconomic stability.

"Countries that didn't build up sufficient fiscal reserves, such as Angola and Nigeria, face the double threat of deteriorating external and domestic conditions, and are likely to face greater aversion from foreign investors," she says.

For a number of countries, including Ghana, Uganda and Zambia, the cycle of higher US interest rates — which is expected to encourage investors in developed countries to take money out of emerging markets — has come at a time when their economies are weakened and policymakers have limited capacity to adjust rates to counter this.

Falling prices for bonds issued by countries in sub-Saharan Africa illustrate this shift, with the yield on a 10-year bond issued by Ghana last year up from 7.71 per cent to 10.13 per cent.

Nigeria, which has struggled to adapt to falling oil prices, was removed from JPMorgan's index of emerging market government bonds this year, a decision that cannot be reversed for 12 months and has closed the door to billions of dollars of passive-investment money tracking the index.

"Macroeconomic trends have been driving emerging markets this year," says Emily Fletcher, co-manager of BlackRock's Frontiers Investment Trust, which has cut its position in Nigeria to just 5 per cent. "Nigeria is under pressure from external and internal problems. We're underweight. Nigeria has done very badly in the context of oil prices, which have been low and stayed low beyond expectations."

But not every country is experiencing heavy outflows of global capital. "The typical African country is less dependent on global capital markets and less beholden to the often irrational behaviour of investors towards emerging markets," says Mr Dehn.

Many obtain the bulk of their financing from bilateral and multilateral institutions, which can act as an alternative source of financing at times of market stress. Foreign investment, meanwhile, also tends to be the preserve of specialists who are less likely to pull out money during bouts of global volatility.

However, in spite of the breadth of funding and the recent development of a local pension and insurance sector in sub-Saharan Africa, the confluence of mounting external pressures is expected to be uppermost in investors' minds for the rest of this year.

# Ties with China are about more than just raw materials

Relations with Asia

## Trade and investment have been just as important as exporting resources, reports *David Pilling*

African nations that have been supplying oil, copper, iron ore and bauxite to feed China's supercharged growth have suddenly woken from a dream.

China is slowing and trying to shift to a consumer-driven model that will inevitably depend less on African raw materials, and commodity prices are tumbling as a result. Further, some international investors, spooked by the prospect of rising US interest rates, have lost their appetite for emerging markets.

"The past decade has been very benign for Africa," says Paul Collier, an Oxford economist, "but that's over." The period began, he says, with debt relief, before "commodity prices went through the roof". In the 10 years to 2014, trade between Africa and China increased 20-fold to more than $200bn.

The combination of low debt and high revenue allowed many African governments to tap capital markets for the first time. In some cases, that funded the discovery of more reserves of minerals and hydrocarbons.

"This was the biggest opportunity Africa ever had," says Mr Collier, "but it's broadly been a missed opportunity."

Countries that did not prepare in the good times by diversifying or building strong economic buffers are now likely to suffer a Chinese hangover.

Yet that does not mean the Chinese-African relationship has ended — far from it. For a start, China's economy may be slowing but, barring a catastrophe, it is unlikely to grind to a halt. Even at 5 per cent growth, China would add an Indian-sized economy to its already massive bulk in four years, implying a steady, albeit more moderate, demand for African raw materials.

Second, the China-Africa relationship goes much deeper than extracting raw materials. "Rwanda and Ethiopia are not commodity exporters," says Deborah Bräutigam, an expert on China-Africa relations at Johns Hopkins School of Advanced International Studies. Those two economies have close trade and investment ties with China, and have racked up years of impressive growth. "So something else is going on."

In the case of Ethiopia, the relationship has been built on trade, and investment in infrastructure and manufacturing, says Arkebe Oqubay, architect of the country's industrial policy. "I don't think Chinese investment in Africa is primarily driven by resources."

More than any other country in Africa, Ethiopia has made concerted efforts to build an industrial base.

"While Africa cannot copy Chinese stages of development, it may be able to learn more than from Europe," Xu


A Chinese shoe factory in Ethiopia

Weizhong of the Institute of African Studies told a Chatham House conference this year. "Ethiopia, for example, has studied Asian dragons and tigers, which have influenced its policies."

Chinese companies, many of them private, have been among the most enthusiastic investors. In the leather industry, Huajian, one of the world's biggest shoe manufacturers, employs 4,000 workers in an industrial park outside Addis Ababa. Its experience has been largely positive and it plans to increase its workforce to 40,000.

Howard French, an academic and author of *China's Second Continent*, says that rising labour costs at home and the Chinese public's growing awareness of environmental damage is driving some lower-end manufacturing out of China. These push factors, says Mr French, make Africa an interesting offshore destination. "It's already a big deal, and potentially it's a very big deal."

He describes Beijing's resource grab, lubricated sometimes by massive bribes, as mostly "pernicious". Yet Chinese individuals, and Chinese companies such as Haujian, he says, can have a potentially beneficial impact.

One of Africa's attractions is that it is largely uncontested territory. "Chinese companies can go and cut their teeth at [low] prices, because the top tier of western companies is not there. It's an ideal training ground."

Mr French remembers 18 months ago on the drive into Kampala from Uganda's Entebbe airport, seeing billboard after billboard for Chinese goods: "Mattresses, fridges, washer-driers, roof tiles — you name it."

Cheap Chinese products, such as textiles, have often been blamed for wiping out whole swaths of African industry. But Mr French argues that the death of inefficient industries selling overpriced goods to unfortunate African consumers is not necessarily to be mourned.

The trick is to harness the new opportunities provided by Chinese interest in the continent, he says. If governments respond with the right incentives, as Ethiopia has tried to do, by encouraging manufacturers to invest locally, transfer technology and employ local staff, China can be more a boon than a threat.

Ha-Joon Chang, a development economist at Cambridge university, says that even though the Chinese state has been every bit as exploitative as the west, Beijing's growing presence in Africa has been largely beneficial.

"The most important thing is that there's competition," he says. "For African countries, there used to be only one bank in town. It was called the World Bank." Ethiopia has found Chinese finance "smoother and faster", he adds. African nations, says Mr Chang, must wean themselves off simply "digging things out of the ground".

Instead, they need to move to an early industrial phase in the mould of now-wealthy South Korea, whose GDP per capita in 1960 was half that of Ghana's. One of South Korea's first successful industrial experiments was wig-making, he says, a labour-intensive operation that required workers to attach individual strands of hair.

Other countries such as Rwanda, Mauritius and Ghana, have set off in the right direction, says Mr Chang. On the other hand, "Zambia is still digging copper . . . and Angola doesn't appear to be doing much to prepare for the future."

The next decade or so, he predicts, will see a sharp divergence between countries with good policies and those without. China's interest in Africa, albeit tempered by its current slowdown, means that opportunity will continue to knock. But it will not knock equally.

# Deprivation fuels and sustains threat to continent

War machine: arms captured from militants in Nigeria
AP

## **Islamism** Marginalisation is partly to blame for pockets of extremism, says *Maggie Fick*

Jihadist groups controlling vast, poorly governed parts of sub-Saharan Africa may make fewer headlines than those active in the Middle East. But they remain a scourge to stability and a menace to security beyond the continent's borders.

In Kenya, five-star resorts overlooking the azure waters of the Indian Ocean have seen business dwindle as tourists heed foreign travel warnings. Local populations live in fear of attacks by al-Shabaab gunmen. Militants from the Somalia-based group massacred nearly 150 Kenyans at a university near the Somali border in April.

In Nigeria, Boko Haram insurgents are estimated to have killed more than 13,000 people and displaced another 2 million in the country's impoverished north-east. Last year, the organisation began terrorising the residents of three neighbouring countries, with suicide bombings and attacks on villages.

The economic cost of these insurgencies has been hard to gauge. In Kenya, the loss of visitors affects hundreds of thousands who depend on tourism for a livelihood and has caused a sharp depletion in foreign currency earnings.

In Nigeria, where Boko Haram militants at one point controlled a stretch of territory the size of Belgium, the war has been devastating; but, centred as it was in the country's poorest region, the effect has been less noticeable on the national economy.

The cost to the region's already poor infrastructure and agriculture sector is also difficult to quantify, but the governor of the hardest-hit state recently told Bloomberg it would take around $1bn to repair the damage so far.

Further west, in the remote sandy dunes of the Sahel region, Islamist groups calling themselves affiliates of al-Qaeda or Isis launch attacks in towns a few hours' drive from the Malian capital Bamako. Last month, an attack that left UN personnel dead at a hotel was claimed by the group led by Algerian jihadist Mokhtar Belmokhtar.

The common thread linking these groups is not just a shared religious ideology characterised by extreme violence and intolerance. The appeal of Islamist militancy to populations in the Sahel, northern Nigeria and the Horn of Africa is underpinned by a lack of inclusive political systems or credible attempts by central governments to address the needs of alienated minorities.

"Each of these pockets of radical extremism have, for the most part, grown organically out of historical pockets of instability generated by political marginalisation and economic deprivation," says Johnnie Carson, a former US ambassador to several African countries and now based at the United States Institute of Peace in Washington.

The long-term failure of governments in Nairobi, Abuja and Bamako to address political problems mirrors the lax security response to the insurgencies. In Kenya, perceived targeting of the Muslim population may have worsened relations between the state and a population vulnerable to radicalisation.

In Nigeria, Boko Haram gathered momentum for years before the Nigerian army mounted a serious response.

> Militancy's appeal is propped up by a lack of inclusive politics and a neglect of the needs of minorities

The US response has been a limited strategy of supporting local partners and building drone bases, instead of troops on the ground. The US has, however, deployed 1,000 Special Operations Forces personnel to "quietly" work with local forces in countries such as Chad, Niger and Nigeria to counter extremists.

France deployed thousands of troops to Mali in 2013 to push back Islamist fighters as they marched towards Bamako, but subsequent UN-backed negotiations between the government and separatists have played into the Islamist group's hands as those left out of talks stepped up their attacks.

Dismissing fears of a united African "caliphate" loyal to Isis or al-Qaeda, Mr Carson says the interconnection between these groups and their links to Middle East-based militants is exaggerated.

"I think there is more copying of modus vivendi . . . than actual direct collaboration and exchange of money, technology and information," he says.

# Timbuktu leads resistance as heart of Islamic learning

Culture

## Musicians, film-makers and poets are using their art to protest at Islamic extremism in Mali, writes *Maya Jaggi*

In their rush to lay waste to cultural heritage, Islamist militants have destroyed irreplaceable treasures, from the Bamiyan Buddhas of Afghanistan to ancient Palmyra in Syria.

In sub-Saharan Africa, that destructive force has been most evident in the assault on Timbuktu, the centuries-old centre of Islamic learning in the west African state of Mali that is a symbolic heart of civilisation in the whole region.

Yet, while the militants have art and books in their sights, artists and bibliophiles have been fighting back.

When the jihadis over-ran the northern Malian city in 2012, they destroyed Sufi shrines and other mausoleums and mosques, and subsequently torched two libraries.

It later transpired that many of the treasured manuscripts, dating from the 13th century, had already been smuggled to safety in the southern capital, Bamako.

Last month, an alleged Islamist extremist, Ahmad al-Faqi al-Mahdi , became the first suspect to come before the International Criminal Court in The Hague for the war crime of destroying religious or historical monuments. His trial is due to begin in January.

After Tuareg separatists allied with the jihadis in 2012, sharia law in the breakaway north also brought an overnight ban on music.

This in a desert cradle of blues and rock 'n' roll, whose roll-call of world-famous musicians includes Salif Keita, Ali Farka Touré, Toumani Diabaté, Oumou Sangaré, Tinariwen, and Amadou and Mariam. Two recent films chart a powerful artistic response.

*Timbuktu*, a searingly ironic yet visually beautiful feature by Abderrahmane Sissako, one of the continent's greatest living filmmakers, opens with desert jihadis using sculptures for target practice and barking their bans on smoking and football from loudspeakers, patrolling the city for forbidden melody.

The film highlights its opposition with the poetry of its imagery. Thwarted soccer fans play a balletic game with an imaginary ball. A woman in a turquoise gown bars the passage of a jihadist truck with outstretched arms. Another sings as she is lashed.

Administration of "justice" through brutal punishments — hands amputated; men buried up to their heads in sand, and stoned — is set against the city's humanist heritage. A keeper of the mosque challenges a jihadi who enters with weapons, urging leniency, forgiveness, exchange.

Alluding to spiritual struggle, he says: "He who does jihad in Timbuktu does it with his head."

A family's dispute with a fishermen over a cow named GPS unleashes tragedy. Yet through the dignity and charm of the guitarist and his wife and daughter, the film exposes the hypocrisy of those who use religion as a cloak to take women as spoils.

It is clear the attack on art is not merely to curb pleasures deemed "un-Islamic", nor even to erase a pre-Islamic past, but to stamp out a rival power.

In a culture where musicians are revered and rappers challenge the mighty, song must be silenced.

Banning music in Mali is "like cutting off people's oxygen" says the singer Khaira Arby, Timbuktu's "nightingale of the north", in Johanna Schwartz's feature-length documentary *They Will Have To Kill Us First*. The title is taken from Arby's own defiant words.

Culminating in her comeback concert in Timbuktu, the documentary also follows other musicians, including Fadimata Walet Oumar (nicknamed Disco for her early emulation of Madonna), and Songhoy Blues, a band formed by refugees in Bamako, whose first album, *Music in Exile*, was released this year. The film will receive its European premiere at the London Film Festival on October 13.

The jihadis, though curbed by French intervention in 2013, are resurgent, and have extended their attacks to Mali's south. Musicians live in fear.

But Songhoy Blues bass guitarist Oumar Touré speaks for many when he says: "We can't go on being afraid. We have to resist, and our way of resisting is our instruments."

# Malawian schools teach malaria a lesson

Healthcare

## Pioneering response to endemic disease assists young sufferers speedy return to the classroom, reports *Andrew Jack*

In the Zomba district of Malawi, dozens of teachers have received training over the past four years in how to diagnose and treat malaria, as part of a pioneering response to a disease that has a high impact on the school attendance of young sufferers.

The Malaria Treatment Programme for Schoolchildren, which brings government officials from the ministries of health and education together with local and international partners, is a powerful example of a local solution that goes beyond the development of new drugs and diagnostics to focus on the need to deliver them effectively in order to improve health.

"Our observations show that children who are treated come back to school within two days, showing signs of improvement and smiling in class," says Austin Mtali, the local manager of Save the Children, which has supported the programme. "The teachers are very happy, their status in the community has risen and it has eased the workload on the health centres."

School-age children, who make up nearly a third of Malawi's population, are widely infected with malaria, but were traditionally not the primary group targeted by programmes to tackle the disease. Pregnant women and young children are typically given higher priority. Pupils often went undiagnosed.

An initial study in 2014 showed there were over 2m annual "attacks" of malaria in school-aged children each year in the country, with 60 per cent of children infected with malaria parasites and 32 per cent anaemic. Children carried the infection even if they showed no symptoms, contributing to its spread to others via mosquito bites.

The introduction of rapid diagnostic tests (RDTs) and powerful new combination drugs for treatment in Malawi in 2007 offered considerable scope to better tackle the disease.

But the tests — designed to identify cases and ensure that the medicines were used appropriately to prevent the development of drug resistance — required the intervention of over-stretched health workers.

While the ministry of health saw the value of reducing the workload on its staff and was keen to ease the burden of malaria, the ministry of education understood that involving teachers could help boost attendance and improve educational outcomes. Both benefited and both provided authorisation and resources to help.

Save the Children helped co-ordinate, supported a clinical trial by academics and funded some initial training for teachers in the use of RDTs and drugs, which were placed in "learner treatment kits" available in schools. Teachers themselves were expected to travel to the nearest health centre to restock.

"It was more a slow realisation than a lightbulb moment," says Matthew Pickard, Save the Children's Malawi country director. "We wanted to ensure that we worked within existing systems — not supplying drugs and taking them to school, which . . . prevent the project from going to scale in the future."

The detailed findings of the Malawi trial on health are being finalised by researchers at the London School of Hygiene and Tropical Medicine. But on

| 60% | One-third |
|---|---|
| Of school-aged children suffer from malarial parasites | Of the population is at school but not traditionally a treatment target |

the ground, the next challenge will be how to cope with such a high volume of demand.

That highlights the importance of better understanding how effective innovation is implemented. While other initiatives emphasise "technical fixes", the Malawi programme is being studied by the Inclusive Healthcare Innovation Initiative led by Cape Town University's Graduate Business School. This seeks to showcase good case studies, in conjunction with the World Health Organisation and the Skoll Centre for Social Entrepreneurship in Oxford.

Lindi van Niekerk, who leads the initiative, says: "There are lots of competitions looking for technological solutions. We wanted to examine processes and market mechanisms.

"Innovation is about finding new solutions that have actually made healthcare more inclusive, effective and affordable."

# More peaceful transfers of power are badly needed

**Democracy** Tentative breakthroughs are offset by false starts and backsliding, reports *David White*

The general was contrite: seizing power in the run-up to elections had proved to be a huge mistake. "We realised the people were not in favour of that," he said. "That's why we quite simply gave up."

Anyone looking for hope for African democracy might take encouragement from last month's shortlived military takeover in Burkina Faso. The country's seventh military coup in 50 years lasted just seven days. Staged by presidential guards loyal to deposed ex-president Blaise Compaoré, it collapsed under pressure from west African regional leaders, from the street and from the main body of the army.

Earlier this year, Nigeria reached an electoral milestone when Muhammadu Buhari became the first opposition candidate to defeat a sitting president through the ballot-box, adding to a select group of African countries that have seen democratic handovers.

Such gains, however, have been at best uneven. Multi-party elections became standard from the 1990s — others are scheduled in the next few weeks in Guinea, the Central African Republic, Ivory Coast and Tanzania — but elected government in many cases lacks the underpinning of strong institutions such as independent judiciaries and robust, free media.

A brighter view of Africa's economic opportunities and a more can-do spirit are not matched by any consistent trend towards more open and responsive politics. Democracy remains, in most cases, a shallow construct.

"The kind of political culture . . . we have on the continent is really anti-democratic," says William Gumede, a South African writer and academic who has launched a not-for-profit initiative, Democracy Works Foundation.

Notionally democratic countries are frequently prone to human rights abuses, entrenched authoritarianism, patronage and political exploitation of ethnic divisions.

US-based NGO Freedom House categorises 10 sub-Saharan countries (South Africa, Botswana, Namibia, Lesotho, Mauritius, Ghana, Senegal, Benin, Cape Verde and São Tomé) as "free", 18 as "partly free" and 21 as "not free". This score is hugely more favourable than in the 1970s or 1980s, but rather less so than 10 years ago. In north Africa only Tunisia, cradle of the Arab spring, is classified as "free".

A question often arises, especially when Africans look at the Chinese model, of whether democracy matters for development, or whether the two necessarily go together. Elected government is not a guaranteed recipe for peace and disputed results have in some cases caused upheavals.

Mr Gumede argues that the blame lies not with democracy, however, but with democratic shortcomings.

The quest for stability is often the pretext for dominant parties to sit on power. Nine African presidents have each been ruling for more than 20 years. While a majority of African countries have presidential term limits, a succession of leaders have sought to overturn them. Sometimes these plans have backfired. In Burkina Faso, a popular uprising forced Mr Compaoré out last year when he tried to extend his 27-year rule. In neighbouring Niger, a twice-elected president, Mamadou Tandja, was overthrown in 2010 after insisting on staying put.

Previous attempts to undo term limits failed in Zambia, Malawi and Nigeria. But these examples are outnumbered by those that have scrapped such limits, with Uganda setting the tone in 2005.

A process is under way to amend Rwanda's constitution so Paul Kagame can continue, and other countries may follow. Whatever these leaders' achievements, the danger is that by perpetuating personal rule they store up serious problems further down the road.

A survey across 28 countries published in September by the Afrobarometer research network found that fewer than half of respondents were satisfied with the way democracy was working.

One clear trend has been a growth in political awareness, fuelled by the spread of the internet and social media.

Expectations for democracy have increased over time, Mr Gumede says. Technology has enabled a flow of alternative information.

Alex Vines, head of the Africa programme at Chatham House in London, sees increased scope for exposing misdemeanours, making it harder, for instance, to rig elections: "One of the fundamental crises that hasn't changed is the quality of leadership in Africa and the need to hold elites accountable."

Overall, he believes democratic institutions have been getting better. But in spite of growing political engagement by young people, civil society organisations have been in decline as the foreign aid they rely on has dried up.

In the Central African Republic, far from the media spotlight, elections present a symptomatic dilemma in a chronically volatile country, with hundreds of thousands of displaced people.

Western countries have pressed for the process to go ahead but many observers fear that botched elections could reignite sectarian fighting.

As is often the case in Africa, the contest is about faction rather than policy. The legitimacy of whatever leadership emerges may be questionable.

**Electoral milestone: this year, Goodluck Jonathan (left) handed power to Muhammadu Buhari through the ballot box, not a coup** — Ben Curtis / AP

# Militancy and infighting lead to fears of instability

Labour relations

Industrial unrest is an increasing concern for companies in South Africa, writes *Andrew England*

When tens of thousands of platinum miners in South Africa downed tools last year in a wage dispute, the industry expected a protracted strike.

But what was not anticipated was that the miners, the majority of whom live in impoverished conditions, would stick to their guns for five months, making it the longest strike in South African history.

The industrial action — which affected Anglo American Platinum, Impala and Lonmin, the world's top three platinum producers — was led by an upstart union, the Association of Mineworkers and Construction Union (Amcu).

It symbolised the shifting dynamics of labour relations in Africa's most industrialised nation: fragmentation of the traditionally dominant and powerful union federation and increased militancy by workers.

The result is that labour unrest has become an increasing concern for companies in South Africa. All eyes are on the struggling gold sector, where companies are locked in pay talks with unions, including Amcu and the National Union of Mineworkers (NUM). Both are demanding big pay increases.

"The probability of a strike has just risen and, unfortunately, in sectors that are very visible in exports," says Gina Schoeman, economist at Citigroup.

In South Africa, unions have long enjoyed a central seat in politics, as well as in the workplace. Unions played a critical role in the struggle against apartheid, and formation of the Congress of South African Trade Unions (Cosatu) in 1985 brought more than 30 unions together in one structure. In the democratic era, Cosatu, with nearly 2m members, has been a powerful and influential member of the tripartite alliance led by the ruling African National Congress.

But Cosatu's dominance has been threatened and its influence weakened by internal battles and splits. The rise of Amcu in the platinum sector to become the majority union is a prime example.

It is not the only threat Cosatu faces. Last year, the National Union of Metalworkers of South Africa (Numsa) was expelled as a result of internal battles. It led a weeks-long wage strike that involved more than 200,000 metalworkers and engineers last year.

Numsa enjoys sympathy from other affiliates in its battle with Cosatu, raising the spectre of rival federations being created. Andrew Levy, a labour consultant, says: "The past 20 years were dominated by . . . a discipline, by a focus that Cosatu brought, and in the absence of that, it's going to be unstable for a long time. It is exacerbated by the shambles within Cosatu, and that has increased union competition."

Amcu's elevation came in the wake of the 2012 Marikana massacre, when police shot and killed 34 striking Lonmin workers. Fed up with the NUM, traditionally the heavyweight in mining, Lonmin workers staged a wildcat strike after forming "workers' committees".

| 34 | 30,000 |
| --- | --- |
| Striking workers killed by police on 14 August 2012 at Marikana mine | The number of jobs shed in South African mining since 2012 |

For the first time, Amcu has a seat at the gold sector negotiations, where its representation has risen to 31 per cent. Its bitter rivalry with the NUM, whose representation in the sector has slipped to 53 per cent, is seen as a complicating factor in the talks. There are concerns they will become more radical in their demands as they compete for members.

Union officials argue that workers have been exploited from the days of colonialism and apartheid, and that pay increases need to be substantive.

But gold companies, struggling with low prices and rising costs, warn that increases will accelerate shaft closures and job losses. Last year's platinum strike is blamed for exacerbating the woes of the mining industry, which has shed more than 30,000 jobs since 2012.

# Dollar crisis sees flagship investment lose its fizz

Foreign exchange

**South Sudan's hard currency shortage means stocks have run dry as food insecurity rages, says *Katrina Manson***

There can be no surer sign of an economy in meltdown than the absence of that most ubiquitous of products, Coca-Cola. Like many other companies operating in South Sudan, the local franchise of the US group has run out of dollars for imports.

The hard currency shortage — so acute that some banks have stopped not only foreign exchange transactions but also payouts on local dollar accounts — reveals more about the consequences of civil war and economic mismanagement in the world's newest nation than the lack of market potential in the country of 12m people.

"The demand is there and we could sell much faster, but we just can't get our hands on the dollars," says Ben Kalkman, finance director at the local Coca-Cola plant, which consists of containers and large warehousing whose stocks have run dry.

It is a sorry result for an oil-exporting country that in 2011 carried huge hopes for growth and development when it seceded from the predominantly Muslim north. But within three years of hard-won independence — decades in the making — South Sudan has collapsed into its own civil war which has sent more than 2m people fleeing since fighting broke out in the capital Juba in December 2013. According to some estimates, today 4.6m people — more than a third of the population — are "severely food insecure".

It underlines the spectre of political risk in fragile postwar countries. For investors who backed one of the world's most frontier destinations, where growth rates and returns once promised to be high, their calculations are now being sorely tested.

When SABMiller established its subsidiary Southern Sudan Beverages Ltd (SSBL) on the dusty outskirts of Juba in 2009, it was touted as the country-in-waiting's flagship investment outside the oil economy, and one likely to draw more large-scale foreign ventures if successful. But today, SSBL is $95m in debt to its South African parent company, and at risk of closure.

"Our raw materials cost $7.5m a quarter, but we can't get access to any foreign exchange for the imports," says country managing director Carlos Gomes. He says sales (in South Sudanese pounds) had been rising this year, but since the dollar shortage started in May, suppliers have run out of patience, and can no longer extend any more credit.

The company had been paying taxes worth $1m a month to the government, as the largest tax contributor outside the oil industry.

Mr Gomes has just reduced his 405-strong workforce by 150 people, and is eking out what few input materials remain on the sprawling site by running at a sorry 10 per cent of production capacity. "We think with this reduction we can last until maybe next March, April," he says.

The dollar crisis is a result of both the fighting, which shut down some oil production, and the global oil price fall. These have reduced the value of exports to a trickle, contributing to the dollar shortages.

On top of that, a black market for South Sudanese pounds, running at five times the official rate, has also sucked dollars out of the system and raised inflation for local buyers. Prices for basics such as flour and sugar have doubled. Many can no longer afford a White Bull, SABMiller's flagship local beer, named after the prized cattle of the country. Nor indeed a Coke.

> Fighting has shut down some oil production, while the oil price fall has slashed the value of exports

Some have hope in a peace deal signed between the warring sides in August, which stipulates the return of rebel leader Riek Machar to Juba as first vice-president by November 24 as part of a transitional government of unity.

While some diplomats and parties to the deal expect deadlines to slide, many believe it represents genuine progress and will hold in some form or other.

Some businesses have, in any case, never stopped betting that prosperity will ultimately prevail. Ali Hodroj's family business continued building a $1.8m apartment block throughout intense fighting in Juba in December 2013. The same Lebanese family built and runs Phenicia, one of Juba's two main supermarkets, and is also building the city's first shopping mall, complete with plans for a four-star hotel, with on-site bakery, swimming pool and rooftop gym.

"I give it all two years to settle down," says Mr Hodroj. The family business has yet to make a profit, but a decade into his investment, he remains confident:

"We will make our first profit in three years."

# Commodities rout puts continent's economies into reverse gear

**Oil** Low prices have hit exporters and not brought the gains that importers expected, says *Anjli Raval*

Cycle of crises: a Niger Delta refinery
Pius Utomi Ekpei/AFP/Getty Images

Commodity prices have dictated Africa's fortunes for decades. With oil crashing to levels last seen during the financial crisis, industry watchers are keen to assess the impact of the rout on the continent's growth.

It was assumed that the exporters, from Nigeria and Angola to Algeria and Gabon, would take a hit, while importers such as Kenya and South Africa would benefit. Although true to some extent, the picture is more nuanced.

The plunge in internationally traded Brent crude, from $115 a barrel in June last year to about $48 today, has coincided with a host of factors wreaking havoc in Africa.

A slowdown in China; a drop in prices of resources from copper to platinum; a sharper-than-expected tightening of global financing conditions; a stronger dollar and mounting domestic security threats. All are piling on the pressure.

"Africa has been one of the fastest-growing regions in the world in recent years," says Ravi Bhatia, Standard & Poor's director of sovereign and international public finance. It has benefited from a strong Chinese economy, high commodity prices, low interest rates in the west and an appetite to invest in emerging markets. "All these factors are beginning to reverse," he says.

The continent's oil exporters are less resilient than their counterparts elsewhere. Unlike countries such as Saudi Arabia that have financial buffers, many racked up sizeable fiscal and current account deficits in the good times.

Sub-Saharan exporters, which derive up to 90 per cent of their state revenues from oil and which account for nearly half of the region's gross domestic product, face challenging times. Their growth in 2015-16 is expected to average 4.75 per cent. Although still solid, it is markedly lower than the 7 per cent the International Monetary Fund (IMF) expected in October 2014.

The price crash "will pose a formidable challenge and, with limited buffers, will require them to undertake significant fiscal adjustment", the IMF said this year. Dwindling foreign reserves will trigger the implementation of austerity measures, ensnaring producer countries in new debt.

Officials in Nigeria have cut spending and adjusted monetary and exchange-rate policies to relieve pressure on public finances and the currency.

Jan Stuart, global energy economist at Credit Suisse, says: "There is a whole range of issues outside the lower oil price that the country is dealing with, from problems with the national oil industry to the army. A rational economist would suggest that with less money there are going to be more problems, but maybe there will be a greater urgency to resolve deeply entrenched issues."

The IMF downgraded Nigeria's real GDP growth forecast for 2015-16 to a 5 per cent average and lowered the estimate for Angola, the continent's second-largest oil producer, to 4.25 per cent.

The oil sector itself faces threats. Costly offshore oil and gas drilling as well as onshore projects that require expensive pipelines to deliver oil to ports — as in east Africa — will take a hit.

"Development of the oil industry in exporter countries . . . is more difficult now. With a lower price, these places are not as attractive to invest in," says Mr Stuart. "We should expect certain regions to go through an industry recession as in other parts of the world."

For north African net importers, cheaper oil has been a boon, say analysts at BMI Research. It has eased pressure on "fiscal and current accounts, helped bolster consumers' purchasing power, and smoothed the path of much-needed subsidy reform".

Even so, the analysts add, citing the regional security situation: "It has by no means proven a panacea to the importers' macroeconomic or social woes."

In sub-Saharan Africa, net oil importers Mozambique, Rwanda, and Senegal were expected to see pressure ease. Countries such as Ivory Coast, Seychelles and Ethiopia spend more than 20 per cent of their import bill on oil.

Razia Khan, chief Africa economist at Standard Chartered bank, says: "Even those countries that we thought would be benefiting from lower oil prices haven't been as positive as one would have thought." Although South Africa is expected to be one of the main beneficiaries of low oil prices, its growth is held back by energy shortages, weak investor confidence, and by the expected gradual tightening of monetary and fiscal policy, according to the World Bank.

The economies of Guinea, Liberia and Sierra Leone, the countries most affected by the Ebola outbreak, remain weak, as mining, services, and agriculture activity contract. Some gains made by oil importers have been partly offset by lower prices of other commodities that they export. The drop in copper prices has affected Zambia, while the drop in coal prices has hit Mozambique.

"The stronger dollar has had a surprising impact on African currencies," says Ms Khan. "It's hard to point to one that has performed well."

## East Africa The region is set to grow, despite endemic problems

In the past year, more than $200m has been wiped off the value of one of Kenya's top manufacturing businesses, equivalent to nearly half its market capitalisation. Pradeep Paunrana, chief executive of ARM Cement, sees it as part of a wider malaise.

Mr Paunrana is also chair of the Kenya Association of Manufacturers. He says, "It's not a good time to be a manufacturer . . . in east Africa. Overheads . . . are huge; borrowing is expensive; devaluation has wiped out any gains."

It is not only the region's small manufacturing sector that has suffered. The top 20 blue-chips on the Nairobi Stock Exchange are down about 20 per cent as a whole this year.

East Africa has been the continent's fastest growing region and is forecast by the African Development Bank and others to grow 5.6 per cent this year compared with 4.5 per cent for the continent. Now, its future is in doubt.

While Africa's oil exporters are the most obvious losers from the slowdown in China and the oil price collapse, east Africa's largely commodity-less, consumer-dependent region will also have to work hard to avoid becoming further unstuck.

Several governments in the region have developed assertive growth-chasing policies. These include efforts by Kenya and Ethiopia to invest in large infrastructure projects and deliver roads, rail and cheap power.

But the buoyant growth rates often seem to have more to do with good rains delivering strong output for tea and coffee exports than investment or the spending rates of its nascent middle class.

While the African Development Bank this year predicted growth in east Africa would accelerate in 2016 — to 6.7 per cent against, for example, a fall in west Africa to 3.5 per cent — business people in the region also complain of the worst six months they have experienced. Some argue it may be part of a long-term structural shift.

"After the spectacular growth of the Noughties, Africa has hit some bumps in the road in the past few years," wrote veteran Africa investor Miles Morland in a note published this year.

"The easy decade, the 'nifty Noughties', is over. That was a decade when few believed in Africa, opportunities abounded at reasonable prices for the handful of people who cared, and we all made lots of money. The teenage years are turning out to be more difficult."

In the short term, east African currencies are depreciating, while businesses struggle with high lending rates and consumers with inflation.

David Cowan, Africa economist at Citi, says: "If you believe in an African middle class, then a lower oil price would translate into greater consumption. But it doesn't seem to have happened, first because there's kind of a mythical middle class, and second because, as a result of currency weakness, domestic petrol prices increased again."

Even so, east Africa has long laid claim to more diverse, consumer-driven economies than elsewhere in the continent, and these may ultimately deliver.

Governments are also chasing growth — Kenya launched an industrial policy in September that Mr Paunrana hopes may ease some constraints.

"The drivers of growth in east Africa are diverse," says Gabriel Negatu, African Development Bank regional director for east Africa. "Even with the slowdown in Chinese investment and [Chinese] uptake of products, there's enough diversity, from flowers to the financial sector, from information technology to tourism."

Mr Negatu also attributes decent growth prospects to governments pursuing infrastructure investment and improving macroeconomic management, though in some cases politics is letting them down. Several east African countries are decidedly unstable or in conflict, Burundi, Somalia and South Sudan among them.

Others, such as DR Congo, Uganda and Rwanda, face complicated and controversial leadership successions, as presidents who are due to retire appear keen to stay on.

Tanzania will probably manage a smooth transition and is eyeing gas exports, but the sclerotic economy is hampered by corruption. Ethiopia, the most populous country in the region, is reforming and liberalising parts of its economy, based on light manufacturing, but it is not clear how far it can go. Kenya, despite plans for an infrastructure turnround, is a perennial underperformer.

Mr Cowan says elections tend to see growth slow: "I think you're getting C+ or B, not A* economies. East Africa chugs along."
**Katrina Manson**

**Pradeep Paunrana, founder of ARM Cement**

# Innovative solutions required to meet rising electricity demand

Energy

**Quick changes in thinking are called for if sector is to address its shortcomings, reports *John Aglionby***

Drivers parking on the roof of Nairobi's newly opened Garden City mall may notice that their vehicles are shaded by unusual structures: 3,364 solar panels. These will generate 1,450MWh of electricity a year, or 40 per cent of the mall's daily power needs.

Solar power is nothing new in Kenya or Africa. But while it still accounts for only a tiny fraction of the electricity generated across the continent, James Irons, chief executive of SolarAfrica, believes his company's success is indicative of a rapid change under way.

"You've got fairly under-developed grids in Africa, so there's this great opportunity to develop . . . innovative solutions," he says, citing as drivers of change the falling cost of technology, creative financing options and rapidly escalating demand.

Innovative projects such as Garden City are barely meeting that demand. The International Energy Agency (IEA) estimates energy use in sub-Saharan Africa has risen 45 per cent since 2000 but fewer than 300m of its 920m inhabitants have access to electricity.

The region accounts for 13 per cent of the world's population but only 4 per cent of usage, with some 80 per cent of the population still relying on solid biomass, mostly wood, for cooking.

Solving the problem involves overcoming many challenges. In a recent report, Deloitte, the advisory firm, presented the following list: inadequate generation capacity; poor transmission infrastructure; low numbers of skilled workers; poor maintenance of existing power stations and poor metering and billing systems.

Kartik Jayaram, director of the Nairobi office of McKinsey, the consultancy, says a change in mindset is needed "in every country to address the two big challenges for the sector — financing and delivery capability".

He believes that much potential could be unlocked if all sides were more flexible: "Governments will have to ensure they have a fair tariff; the private sector will have to say 'We'll take a lower rate of return'; and the development funding . . . will have to move to longer-term financing."

| **920m** | **80%** |
|---|---|
| Inhabitants of sub-Saharan Africa; only 300m have electricity | of sub-Saharans largely rely on biomass, mostly wood, for cooking |

"It is a binary game," he adds. "Either things get fully financed and built, or nothing happens."

The picture is changing. Growth, development and expansion are tangible — barely a day passes without newspapers reporting on deals to expand national grids, build off-grid networks and mini-grids.

McKinsey estimates that commercial and industrial electricity demand will grow at an average of 4.1 per cent a year until 2040, while residential demand will increase fivefold in the same period.

Investment and development come in many shapes. At one end are big state projects like the $4.1bn Great Ethiopian Renaissance Dam, the largest hydro project in Africa.

It will generate 6GW of power, more than 2.5 times the country's current capacity. Addis Ababa expects to export a significant amount of electricity to Egypt when the dam is completed in 2017 and hopes to expand its generation capacity by another 20,000MW over the next few decades. In a sign of the times, the government recently signed its first private power agreement to generate 500MW from a geothermal project.

Exporting power, and improving links between countries' grids, are on the increase. South Africa is among the nations supplying power overseas, despite shortfalls in power supply at home. While a pan-African grid is not on the horizon, analysts say that multi-nation grids will be a key part of meeting Africa's power demand.

Several countries are considering building nuclear power stations, although analysts say realisation is decades away. The only one on the continent at present is near Cape Town.

At the other end of the spectrum are mini-grids designed to provide power to people in remote regions. The IEA estimates that "70 per cent of people getting connected in the next 25 years in rural areas will be via either these or off-grid projects."

It is in the middle ground that much of the investment is taking place, particularly in the renewable sources of solar, wind, hydro and geothermal.

Mr Jayaram believes that, for an African country to get ahead in the power race, it should dare to think in original ways. "What Africa would really benefit from would be a test lab in many dimensions, off-grid at scale, renewables at scale and financing at scale."

He adds: "The way to do this is to bring the best minds in the world to the table, from tech companies, government, suppliers and financing."

# Tweets and crowdsourcing transform lives

**Social media** The internet is playing an increasing role in politics on national and local levels, says *John Aglionby*

**Connections: young Kenyans webcasting Barack Obama's speech during his visit**
Saul Loeb/AFP/Getty Images

When running street battles erupted in central Nairobi in September between stone-throwing students and riot police who responded with tear gas, news of the unrest spread so rapidly that the usually congested roads in the area emptied within minutes.

This was in large part because of platforms such as Ma3Route, which crowdsources information about disruption in the city from its 300,000 followers through social media, text messages and its website, then disseminates the news via all its channels.

"We're able to spread the news so fast, because we're not just text messages, a website or on social media," said Stéphane Eboko, one of the directors. "We differentiate ourselves because [our channels] are all intertwined and related."

In Africa the transformative impact of the internet, and social media in particular, is going far beyond helping people avoid demonstrations. Many analysts believe it played a significant role in ensuring Nigeria experienced a peaceful transition of power this year.

Both sides adopted active social media strategies and, through the use of locally developed voter monitoring apps such as Revoda and Nigeria Elections, unofficial results were available long — in some cases days — before the official returns. So when the Nigerian election commission did declare Muhammadu Buhari the winner, the result was difficult to contest.

"You can say that social media won the Nigerian presidential election," says Charles Robertson, chief economist at Renaissance Capital. "The trickle of results as early as the Sunday [after the Saturday vote] made it near to impossible to publish very different official results on the Monday and Tuesday."

Social media and the internet are also being used to transform Africans' livelihoods and wellbeing. Myriad apps are being made to help farmers, health workers and teachers keep up-to-date with trends, prices and theories while cutting out middlemen, thereby increasing profits (*see article below*).

Individuals are also using social media creatively. Kenyan village chief Francis Kariuki (@Chiefkariuki) in Lanet Umoja uses Twitter to fight crime, alert residents to upcoming events and dispense his own brand of pop psychology. Recent posts have covered a lost black goat, a school fundraising event and the following: "Your time is too valuable to go through life letting people control you and put you on a guilt trip. Take control of your happiness." The chief has 52,800 followers and is a finalist in the Twitter personality of the Year category in Kenya's 2015 Social Media Awards.

Kenyans also used Twitter to secure a grovelling apology from CNN after the American cable news network branded the country a "hotbed of terror" ahead of the July visit of US President Barack Obama. Using the hashtag #SomeoneTellCNN, Kenyans retaliated until CNN sent a senior executive to Kenya to apologise to President Uhuru Kenyatta in person. With tourism one of Kenya's top-three foreign exchange earners, this was more important than point-scoring.

Kenyan political activists then tweaked the CNN hashtag to #SomeoneTellPaul after Paul Kagame, the Rwandan president, took umbrage at a Kenyan tweeter who suggested he should not seek to change the constitution to allow him a third term in office.

And on a continent-wide scale, Africans used the hashtag #TheAfricaTheMediaNeverShowsYou earlier this year to promote their favourite destinations.

However, trouble for African social media users can be a lot more serious than a Twitter spat with a head of state. Amnesty International has been active in defending economist Carlos Nuno Castel-Branco, who is on trial in Mozambique charged with crimes against the security of the state for publishing a comment on Facebook in 2013 questioning the governance of the then president, Armando Guebuza.

Fernando Mbanze, editor of the MediaFax newspaper, is charged with abusing the freedom of the press by publishing the post in an open letter. The verdict in the case was due last month, but delayed.

> Village chief Francis Kariuki uses Twitter to fight crime; posts have covered a lost goat

WhatsApp and Facebook appear to be the most popular social platforms in Africa, followed by Google+ and Twitter, based on surveys in the larger countries.

Solomon Komen is the founder and editor of the prizewinning Baringo County News website and Facebook page in Kenya. When explaining Facebook's popularity, he says: "Most of our readers don't understand redirecting [to other sites] and with the internet being slow, it's a bit of a hassle. So our readers are not really present on Twitter."

And because social media have become ubiquitous, the difference between the internet and social media has become blurred, according to Rimini Makama, who works for the Africa Practice consultancy in Nigeria.

She says: "A certain percentage of Nigerians said in a survey recently that they like using Facebook, but don't use the internet."

Google's apps are also being used in creative ways. In Kenya, two projects have recently grabbed attention. Researchers from Columbia University, MIT and the University of Nairobi, along with the design firm Groupshot, have not only developed a map of Nairobi's once seemingly unfathomable public bus routes but launched it on Google Maps and developed an app for it. Commuters can now plot their way across the capital easily and city authorities and bus drivers can plan new routes.

And hundreds of miles north of the city Google Street View, in conjunction with the charity Save the Elephants, has launched maps of Samburu National Reserve to give users a virtual tour of the park and promote conservation.

As David Daballen of Save the Elephants writes, technology is enabling people around the world to "to see these magnificent creatures [and] also discover a uniquely beautiful landscape".

One downside of the explosion of social media in Africa is that some sites are paying a price for their own success. Giditraffic was set up in 2011 to help commuters in Lagos; posts on its feed, which has more than 400,000 followers, now include everything from job adverts to English football results.

# Homegrown solutions will help continent thrive online

**Technology**

Entrepreneurs say there is no point in waiting for global groups to take an interest, writes *Maggie Fick*

When Ebola hit Lagos, sub-Saharan Africa's most populous city, Nigerian tech entrepreneurs Seyi Taylor and Bankole Oluwafemi were, just like everyone else, terrified.

As rumours spread in the streets and on social media about the disease that was killing hundreds in nearby nations, the two sat in the office of their start-up in the Surulere district and decided to put a tech solution on to the internet.

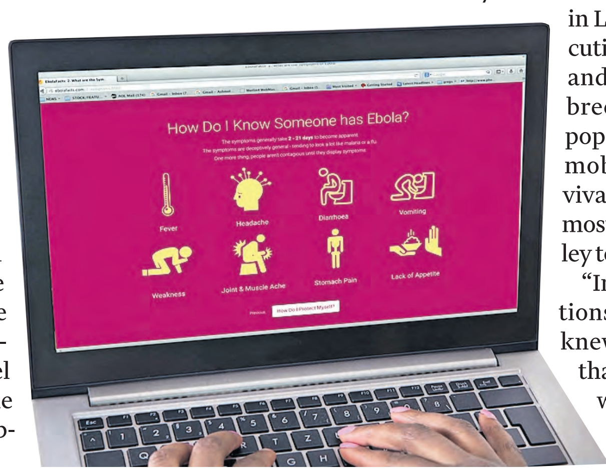
"We were concerned that it would take the government and health authorities ages to get info out to the people, so we wanted to contribute something quickly," says Mr Taylor, 35.

The first website that he and his 28-year-old business partner launched, Tech Cabal, has in three years become a go-to forum for Nigeria's growing community of tech entrepreneurs. They say the site, with original blog posts produced by just four core staff, has 1m page views a month.

So, using their coding skills and lessons learned from running their first website, the duo patched together EbolaFacts.com in 24 hours. The site's colourful but simple graphics displayed basic facts about what the disease is and how to avoid exposure to it.

Clicking through led to emergency phone numbers, and — crucially — a PDF flyer that could be printed off to bridge the gap between Nigeria's digital community and the millions who do not yet use smartphones.

The site received 1.5m hits in two weeks — the volume was so high that it crashed briefly in the early days before the two moved it to a different server. Perhaps the most useful part of the site was its application offline. Companies printed the flyer and hung it in offices to inform staff, while some members of Nigeria's Youth Service Corps distributed the flyer in markets. Mobile phone carriers Airtel and Etisalat sent out texts with the link to their site, allowing subscribers to click and access it free.




Mr Oluwafemi called the reaction to the site an "epiphanic moment" that taught them lessons about how to reach web and smartphone users in a country of 170m.

This example shows how African entrepreneurs are finding solutions to local problems with apps and websites that fill gaps, solve practical problems — and often generate income — without any help or thought from governments which tend to be some steps behind.

From the well-established tech hubs of Nairobi and Cape Town to an emerging and rapidly growing scene in Lagos, African tech entrepreneurs say their start-ups resonate with locals because they are made at home, not conceived in Silicon Valley and "cut and pasted" into an African market.

Less than two months ago, Messrs Taylor and Oluwafemi launched another site, Zikoko, best described as Nigeria's version of BuzzFeed. In the first month, the site had 100,000 page views. With exclusively Nigeria-focused clickbait, listicles and quizzes, the site is doing what BuzzFeed cannot do for Nigerians: "Telling you what's happening here in Nigeria," says Mr Taylor.

Nigerian web users have enthusiastically been tweeting the results of Zikoko's quizzes and clicking through listicles on topics such as "Thirteen of the most awkward moments in every Nigerian's life". The site has drawn the interest of local companies, including banks, which are signing up to advertise on the site with short embedded videos.

"We think there's a huge opportunity to make a digital-first community a profitable business model," says Mr Taylor.

Across town in the financial district of Victoria Island, Nigerian Tunde Kehinde and his Turkish partner Ercin Eksin feel the same. The two broke away from Jumia, a pioneer in the increasingly crowded e-commerce space of "African Amazons", to found Africa Courier Express (ACE), a consumer delivery system.

"We built our logistics platform from scratch . . . We designed it with the Nigerian market in mind," says Mr Ercin. He says that though the online payment process is reliable, "trust is not there" — for now, payment on delivery is the model.

He says the ACE platform is designed to capture what they see as a huge opportunity in the next decade — "taking large offline players online", or what they like to call "brick and click". The duo recently built the online delivery system for Chicken Republic, one of the most popular fast food outlets in Lagos.

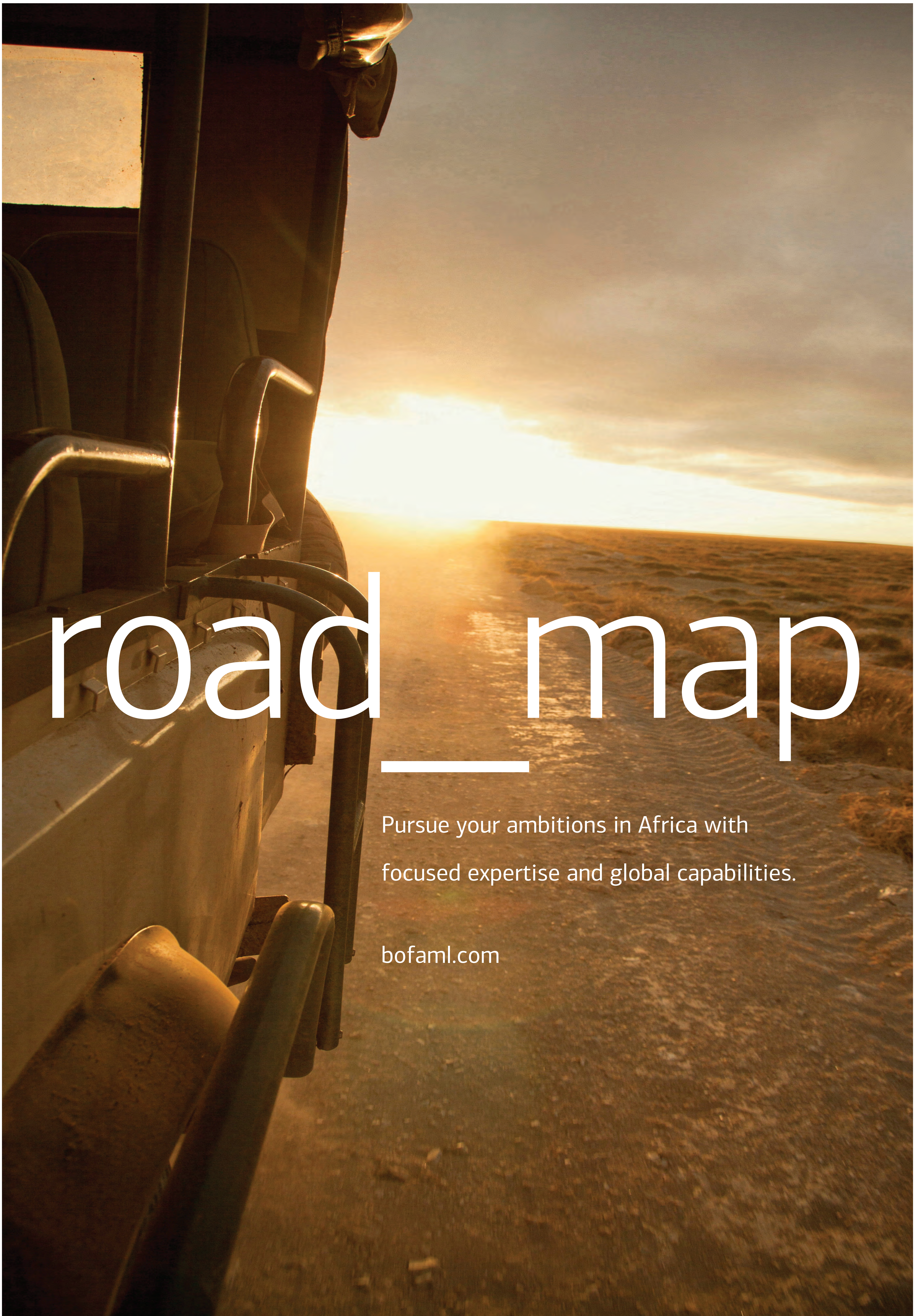
"We are getting more confident but we are still in the early stages of our research and development. There's still not a lot of emphasis on creating, and this relegates us in Nigeria to relying on software built by others," says Oo Nwoye, founder of the start-up Callbase, which makes it easier for SMEs to set up call centres cheaply and quickly.

He says that if Nigeria's tech entrepreneurs are going to succeed in "using tech to solve our problems", local developers cannot wait for models developed in the west to be adapted by outsiders. Mr Nwoye cites the example of China: "The lazy way would have been to wait for the Google search engine to work with Chinese characters." Instead, developers built Baidu, now a behemoth in its own right.

He argues that waiting for a foreign company such as Amazon to replicate itself locally means Nigeria will miss out. "Because . . . those that create are the ones who control the world. It's important to create that culture of creating and adapting our own solutions," he says.

Ebi Atawodi, general manager of Uber in Lagos, adds: "In Nigeria, it is execution over ideation. Ideas are great and indeed you have the perfect breeding ground with a growing population, a fairly connected and mobile consumer and the sheer vivacity that is innately Nigerian for most ideas straight out of Silicon Valley to work in theory.

"In reality, however, Nigeria questions everything you thought you knew. The key is how you unpack that idea, execute . . . and make it work in Nigeria at exactly the same global standards," he says. "Now that is real ingenuity."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