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COUNTRY ANALYSIS FROM THE EASTERN AFRICA ASSOCIATION

The East African Community (EAC)

Whilst many trade agreements in Africa are broad and shallow, the most successful consists of just five countries (now six, with South Sudan still to be fully integrated). The EAC members keep good data and a public scorecard holds them accountable for non-tariff barriers. Kenya, Uganda and Tanzania are among the top 16 richest countries on the continent in terms of per capita income and the region has seen impressive growth over the past few years, much better than most other African countries. Many people were expecting West Africa to have higher growth rates but low commodity prices and regional problems have damaged many economies there quite badly, so East Africa now tends to attract the most interest.

The main idea behind EAC integration is largely about the creation of a wider market base, joint infrastructure development and greater security within the region. The admission of South Sudan is to be welcomed, and hopefully Somalia in the not too distant future, as they will provide a further welcome push for a larger market (both have huge requirements and the potential to become significant export markets for other EAC members), as well as helping to tackle many of the security issues that continue to affect further regional integration. A recent report unveiled at an African Development Bank meeting indicated that “cross-border movements were easiest between Kenya, Uganda, Rwanda, Tanzania and Burundi” and that “the EAC’s leadership in integration is a major indicator towards achieving the dream of a united Africa by 2063”.

It said further that “deeper regional integration means larger markets and industrialisation and productivity as part of value chains”, adding “this means improved talent mobility thanks to greater visa openness”. Time and cost are two critical factors that affect regional trade and planned and ongoing infrastructure projects at Mombasa and Dar-es-Salaam ports are aimed at reducing transit times for goods from both. This is particularly important for inland land-locked countries, as it will help to reduce the current very high transport charges currently being incurred. For investors and traders in the region, this is encouraging news.

KENYA

THE ECONOMY

Collapse of two banks

Dominating all discussion on the economy at the moment is the totally unexpected collapse of two commercial banks, the National Bank of Kenya (NBK) and the Chase Bank. The hardship and grief caused to depositors and bond holders is heart-breaking, especially with Chase Bank being such a popular repository among tens of thousands of small and medium sized businesses.

The closures remove some Kshs 200 billion ($2 billion) in depositors’ money from circulation and this in itself will without doubt have a measurable impact, especially among retailers, who, as it happens, are already faced with illusive sales – aggravated by the collapse of Imperial Bank, with its Kshs 60 billion of deposits late last year, and of the far smaller Dubai Bank as well. That is four down in six months.

Kenya Central Bank (CBK) accusations are that both NBK and Chase Bank faced unacceptably high non-performing loans and excessive unsecured insider (related party) lending, in breach of CBK regulations and good banking practice. The two banks thus are in receivership, managed by the Kenya Deposit Insurance Corporation for the next twelve months, whilst decisions are taken on their future, or suitors are found to acquire them. In the case of NBK, a tentative plan on the table proposed by the Treasury is that the three state-owned banks, NBK, Consolidated Bank and the Development Bank of Kenya, should be consolidated into a single entity ultimately looking to add strength and stature to one and all. Apropos Chase, however, the future is less clear. Whilst the audit opinion on their financial statements at 31st December 2015 was qualified, the bank on the face of it remained solvent, despite the massive withdrawal of deposits, fuelled by uncertainty and spread by panic in the social media. Hence there are expressions of interest in its acquisition by a larger bank – Kenya Commercial Bank for example, or even a prospect of a form of bail-out by its major shareholders.

Either way, in the aftermath of the shocks created by these closures, a critical look is being given to the shortcomings in the CBK's internal supervision department for failing, as with Imperial Bank, to detect the causes of collapse before the event. Indeed, there is a strong belief that the Central Bank Governor has erred in his less than tactful handling with regard to three of the four troubled banks. The haste with which all were placed so publicly in receivership helped destroy remaining depositor confidence in the banks concerned and will undoubtedly prejudice the prospect of future recovery in any form.

So, to address the question on every depositor's lips – "will I receive anything back?" The answer is unclear, but probably yes, in time, though possibly not all. As a last word, the CBK, in recognising the challenges now faced by all smaller banks, have offered to them an unlimited, emergency bail-out fund to help restore public confidence in the banking sector as a whole. This, though, will not help Kenya's overall credit rating in the eyes of many overseas banks holding reciprocal arrangements with domestic banks large and small in Kenya.

The Chinese

On a fresh topic, there follow some thoughts on the rising influence of China on Kenya's economy as there are some 400 Chinese companies now established in Kenya, involved mainly in the construction and manufacturing sectors. The obvious and most visible construction project is the Standard Gauge Railway (SGR), which employs some 20,000 Kenyans together with 2,000 Chinese supervisory and technical staff. Kilimani and Kileleshwa suburbs of Nairobi also reflect much visible evidence of the Chinese, involved in the construction of high-rise, high-density apartment blocks, again offering significant employment to Kenyans.

They have also established themselves in the manufacturing sector in a measurable way; in particular in the electrical "white goods" area, electronics, communicating equipment, furniture and furnishings, foodstuffs and motor vehicle spare parts and even light assembly.

Add to all this, the nation's accumulated borrowing from China. The new Mombasa to Nairobi railway, for a start, involves borrowing of US$4 billion from Exim Bank of China; in addition to which a further US$1.5billion has been lined up for the extension of the SGR to Naivasha, and then the country signed up for a further US$5 billion for the final stretch from Naivasha to Malaba on the Uganda border. In total, around US$10 billion, or the equivalent of 20% of current GDP.

Then there is the Inland Container Terminal project, which is likely to cost US$125 million (from Exim Bank) and the "second runaway" project at Nairobi's international airport (JKIA) – despite the cancellation of a new "greenfield" terminal – which is likely to cost millions more.

It does not stop here; Kenya will receive a US$600 million loan from China to help fund the 2015/2016 budget deficit, and this is in addition to the US$200 million line of credit offered for development expenditure in 2014/2015 and a yet further US$120 million for geothermal energy development. Is it any wonder that the World Bank, who claim that Chinese loans to Kenya have risen by 54% a year in the years from 2010 to 2014, are warning that China's accumulating loans could bring the already heavily indebted nation to levels that are unsustainable.

Private sector wellbeing

Despite recent upsets, the banking and financial services sector is stable, even if insurance companies are having a torrid time following the downturn in Kenya's stock market. Petrol-supply companies are booming, despite a measurable drop in used vehicle sales. Tourism, put simply, is looking to better times ahead. Coffee export prices are well up for high quality beans but tea growers are facing tough times as leaf prices head for historic lows. Manufacturing needs a boost; holding its own but not expanding as it could. Retail is slow and likely to get slower. Agriculture in general is better than last year; good rains have helped and there are no obvious food shortages; agriculture is the backbone of the country's economy, contributing some 23% of GDP and employing around 80% of the country's workers. Its ultimate success will thus determine Kenya's future.

UGANDA

MPs and tax

The Uganda Revenue Authority continues to struggle to raise its tax take, which currently contributes no more than 15% to GDP. In a country with high unemployment, a stagnant economy and widespread poverty, one would expect that MPs would be willing to make their own contribution to the tax pot. In addition to their salary, they enjoy a variety of valuable perks, including car grants, food allowances, attendance allowances, housing allowances, a free ipad each and free medical insurance.

In an Income Tax Amendment Bill, MPs are seeking Presidential assent to have all their emoluments declared tax exempt and pay tax only on their basic salary. This would represent approximately US$12million in lost revenue. This proposal has caused predictable outrage among Civil Society organisations and the public at large. The MPs have been called hyenas for looking after themselves when money is so desperately needed for the health, education and agricultural budgets to provide the most basic services. Whatever the outcome of the Bill, its existence is a sad reflection on the integrity of Uganda's MPs and their concern for their fellow Ugandans.

TANZANIA

THE ECONOMY

The 2016/17 budget has been prepared and it involves large increases in government spending, mainly on infrastructure, health and education, all of which require radical improvement. Tax revenue collection has increased following the anti-corruption drive but foreign aid has decreased, largely due to what was perceived to be undemocratic elections in Zanzibar. Whether this will be permanent remains to be seen but attitudes towards Tanzania have hardened and government borrowing will have to increase to bridge the gap.

Economic growth continues at around 7% annualised and both inflation and the shilling exchange rate remain steady. Export revenues have declined, however, as have import tax and duty collections, due in part to stricter regulations which have had the effect of reducing the amount of goods coming into the country.

There are as yet no major new foreign investments and many private sector investors are suffering from harassment by the Revenue Authority, particularly in the mining sector, but also some telecommunication companies. There have also been some concerns about visas and work permits, both for investors and foreign employees, in an apparent crackdown but hopefully the recently-introduced new immigration procedures and regulations will be reviewed in the near future.

There has been a significant decline in transit traffic through Dar-es-Salaam port, in part because corrupt behaviour has been curtailed by the stricter imposition of duties and taxes. Most of the current large investment initiatives are government-related, usually adopting a Public – Private – Partnership (PPP) approach.

The proposed new oil pipeline to export Uganda's crude, if finally approved and financed, could generate short-term employment (although local skills will still be an issue), as well as port handling changes and transit fees.

There have been some public housing projects set up with Chinese contractors and there are plans underway to improve and expand the railway network, all still to be finalised. The construction of the first flyover in Dar-es-Salaam is about to begin but the new Dar Rapid Transport system has been impeded by "managerial misbehaviour", which should surprise no-one familiar with the country, although "it should commence operations shortly". Blame has been placed at the door of the privatised UDA (Dar-es-Salaam Urban Bus Transport Company).

The major constraint on business and almost all economic activity has been electricity supply, with distribution the main problem now as generation capacity should improve soon from a new gas-fired source. However, all power generating companies face payment issues as the state company, TANESCO, tends to delay the settling of invoices, which causes severe cash flow difficulties and a huge tax burden for the services supplied. This is developing into a potentially major crisis.

The new Government has still not defined its longer term approach to the mining sector, with talk but little action about promoting small-scale artisanal activities in gemstones and gold. Other mining activities are usually affected by infrastructure issues, as well as concerns about the current low global prices for many commodities. This also applies to offshore deep-well exploration and production, with the commercial exploitation of the country's very substantial reserves still some way off.

Agriculture remains the backbone of the economy and is considered to have enormous potential for improvement and expansion, as does Agro-Processing. Productivity continues to be a major problem, as does marketing. Land ownership issues, a rapid increase in various crop diseases and poor water management, against a background of changing weather patterns, also continue to have a negative impact on the sector.

ETHIOPIA

POLITICS

The country is facing a very serious humanitarian crisis caused by El-Nino induced drought, an extreme weather phenomenon, amongst the worst on record. It is characterised by floods and droughts across the globe but is particularly affecting large regions of Africa, with Ethiopia especially badly hit. Well over 10 million people are reported to be requiring assistance and various international donors are being mobilised to help the government. The extreme weather is wreaking havoc on livelihoods, food and water systems across the country and a US disaster response team has indicated there is only “a critical window of time” to avert the worst of the crisis.

The current drought is considered to be worse than that which contributed to the devastating 1984 famine which, together with human rights abuses, is estimated to have caused over half a million people to perish. Actions are now being taken “to prevent a major humanitarian crisis and to protect Ethiopia’s hard-earned development progress”. The inadequate response to the original appeal for assistance means there is a shortage of food and the number of farmers urgently requiring seeds to plant during the next rainy season has also risen alarmingly.

However, there is some light at the end of the tunnel as the next rainy season is projected to be “fair, if not good” and, assuming seeds are distributed successfully, “the next harvest cycle should be good enough for farmers to start reversing some of the downward trends”.

Meanwhile, on the domestic political front, months of public protests are beginning to rattle a fragile political federation, with parties in the EPRDF coalition becoming increasingly concerned by the unprecedented current civil unrest. The demonstrations began in November last year, mainly by members of the Oromo ethnic group, which accounts for around about a third of the country’s 90 million plus population, primarily over government plans to expand the city limits of Addis Ababa. This plan has now been dropped but the protests have billowed into a much wider expression of complaint, with people publicly challenging issues surrounding land ownership, corruption, political repression and poverty. Such feelings go beyond one ethnic group, hence the ruling party’s growing concern.

There have been reports of demonstrators being killed since the protests began but the government denies this, instead blaming “terrorists and secessionist threats to the country’s stability” for their actions. Despite some outbreaks of violence and looting, most of the protests have so far been peaceful. The decision to shelve the expansion plan is viewed as being a step in the right direction but many demonstrators argue that the government must allow Ethiopians to exercise dissent, otherwise the protests could escalate.

The army has been deployed and is regularly accused of being heavy-handed and are generally deemed able to operate with impunity. Shooting at protestors and arbitrarily arresting them has a long tradition in Ethiopia, going back to the military dictatorship that ran the country between 1974 and 1991, and the Government continues to be particularly suspicious of the diaspora, especially its representation in America. Many of these people fled the country during this period and the foreign-based opposition, bolstered by social media campaigners, is stirring things up “for its own malign purposes”, according to the Government.

The ruling party, which adopts a Chinese top-down style of authoritarian government as a model, is loath to loosen controls at the centre, so tensions are likely to persist, despite the federal constitution. For their part, critics cannot escape from the fact that this form of government has until now succeeded in holding together a diverse collection of ethnic groups, whilst also achieving quite remarkable economic growth over the past two decades. Poverty has fallen sharply despite the problems caused by the current drought, so neither the government nor the federal system is under immediate threat.

Ethiopia continues to receive considerable amounts of international financial assistance as, in a region battered by terrorism and violence in nearby countries such as Somalia, South Sudan and Yemen, it remains an important bulwark against these threats, The recent turmoil has therefore attracted little attention or overt criticism but the government will have to keep a careful watch on the situation to ensure it does not escalate much further.

BUSINESS AND INVESTMENT

Ethiopia is attracting significant foreign investment from China and India and perhaps surprisingly, has become Turkey’s top investment destination in Africa. The two countries also have a strong commercial relationship with their trade volume seeing substantial growth each year.

Currently, Turkish investors are mainly engaged in the textile and construction sectors, as well as power generation, installing transmission lines and supplying transformers, creating an estimated 33,000 job opportunities. In terms of diplomatic ties, the two countries enjoy a longstanding relationship, with the oldest Turkish embassy in sub-Saharan Africa being located in Addis Ababa.

In other business sectors, Ethiopia is set to sell its first potash shipments in the global market within the next four years, from the Dalol region in Afar state, where studies have shown the existence of a more than 100 million ton deposit. Three international companies have sought licenses to engage in potash development and the Government is currently building the necessary infrastructure in the area to service the production sites. Investors are also expressing an interest in establishing a potash fertiliser factory within the country.

As with all reports on Ethiopia, the country is developing at breakneck speed in all sorts of directions and hopefully the impressive growth will prove to be sustainable.

SOMALIA

The country continues to be driven by civil unrest and insecurity as a result of the terrorist group Al-Shabaab carrying out a deadly campaign of violence targeting government officials and international troops, as well as hotels and restaurants in the capital Mogadishu.

A recent US airstrike reportedly killed a number of militants “who posed an imminent threat to US personnel who were assisting the Somali government forces” but the fight continues.

The UN recently extended the mandate of the United Nations Assistance Mission in Somalia (UNSOM) to try to ensure the reconciliation process is implemented, including “preparation for an inclusive, free, fair and transparent electoral process in 2016 and universal suffrage by 2020”. UNSOM was also asked to conduct a review of the UN presence in Somalia after the elections, to ensure that it is properly configured “to support the next phase of state-building”.

There was at the same time strong condemnation of recent Al-Shabaab terrorist attacks and support for “a comprehensive approach to reduce the group’s threat”. Seizures of arms shipments, mostly from Iran and Pakistan, on fishing boats bound for Somalia are continuing using international patrol boats as part of what is known as Task Force 150.

Progress is being made, albeit slowly.

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