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Akon City: Dream or Reality?

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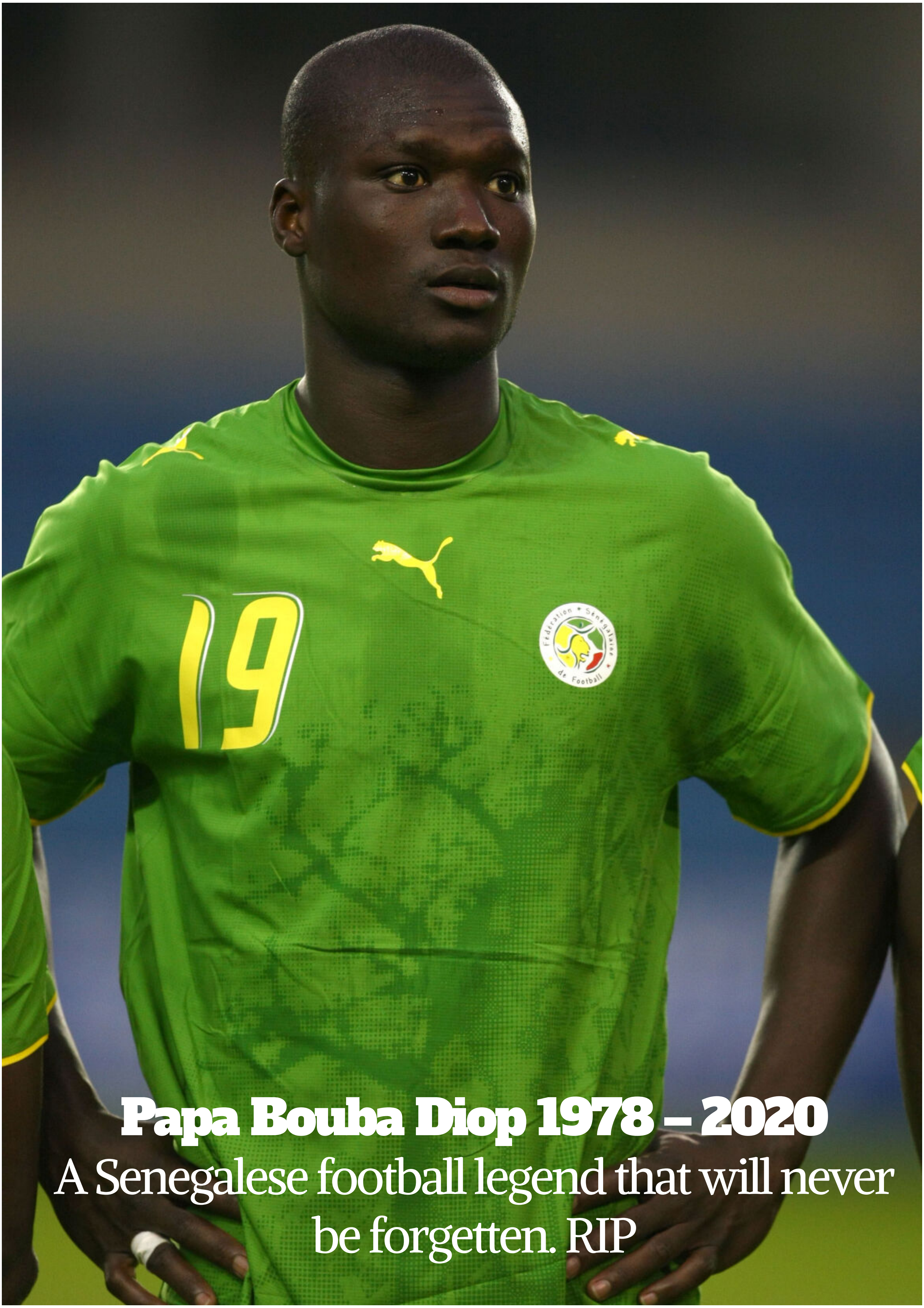
Dangote Oil Refinery

Africa's Economy: A victim of Dept-trap diplomacy or a willing participant

Issue 1 / January 2021


Papa Bouba Diop 1978 – 2020
A Senegalese football legend that will never be forgetten. RIP

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AKON CITY: DREAM OR REALITY?

Overview

Akon City is a $6 billion planned construction project in Senegal, to build a futuristic green city. The proposed city will trade solely with a cryptocurrency called Akoin. The city will be built on a 2000 acres piece of land located near Senegal's coastline, about 62 miles south of Dakar and 35 miles from Dakar's new $575 million international airport. It is being hailed as the Wakanda of Senegal in reference to the fictional futuristic city in the Black Panther movie. The city will feature luxury condos, a beachfront resort, office parks, a university and a hospital. The first phase of Akon City is expected to be completed by the end of 2023, this will include the construction of roads, a Hamptons Hospital campus, Hamptons Mall, a police station, a waste facility, a school, and a power plant. Phase 2 of Akon City will end in 2029 and will focus on integrating businesses to run on Akon's Akoin cryptocurrency. Looking at the designs of Akon City's, one would definitely draw the conclusion that it is aesthetically pleasing to the eye.

That said, we are not here to gloss over Akon's vivid imagination, we are here to review this project from an objective and expert point of view. More importantly, we want to understand the benefits and risks associated with it and how this could impact Senegal and Africa as a whole.
It is public knowledge that the budget for this project is $6 million, but where is this money coming from? Akon is told the Washington Post that he has raised $4 billion out of the $6 billion investment required. He is also quoted say "he could not name other business partners, who signed nondisclosure agreements.".

Overview Continues

Our research identified multiple sources, which included CNN, Reuters, Businessinsider.com and Africanintelligence.com, all confirming Kenyan Businessman Julius Mwale as the sole investor to date. Mwale's spokeman and Jon Karas, the President of Akoin Cryptocurrency both confirmed to Business Insider that Mwale was responsible for funding the bulk of the $4 million currently raised by Akon.

On the 4th of June 2020, Akon announced through a press release that KE International had been awarded the $6 Billion construction contract for Akon City. In a further twist, the same press release highlighted that KE International also helped secure the initial $4 billion investment for Akon city from "leaders in the healthcare and technology infrastructure industries," including Julius Mwale, the Kenyan technology entrepreneur behind MMTC. But who is Julius Mwale and what do we know about the construction company KE International?

The Kenyan businessman Julius Mwale

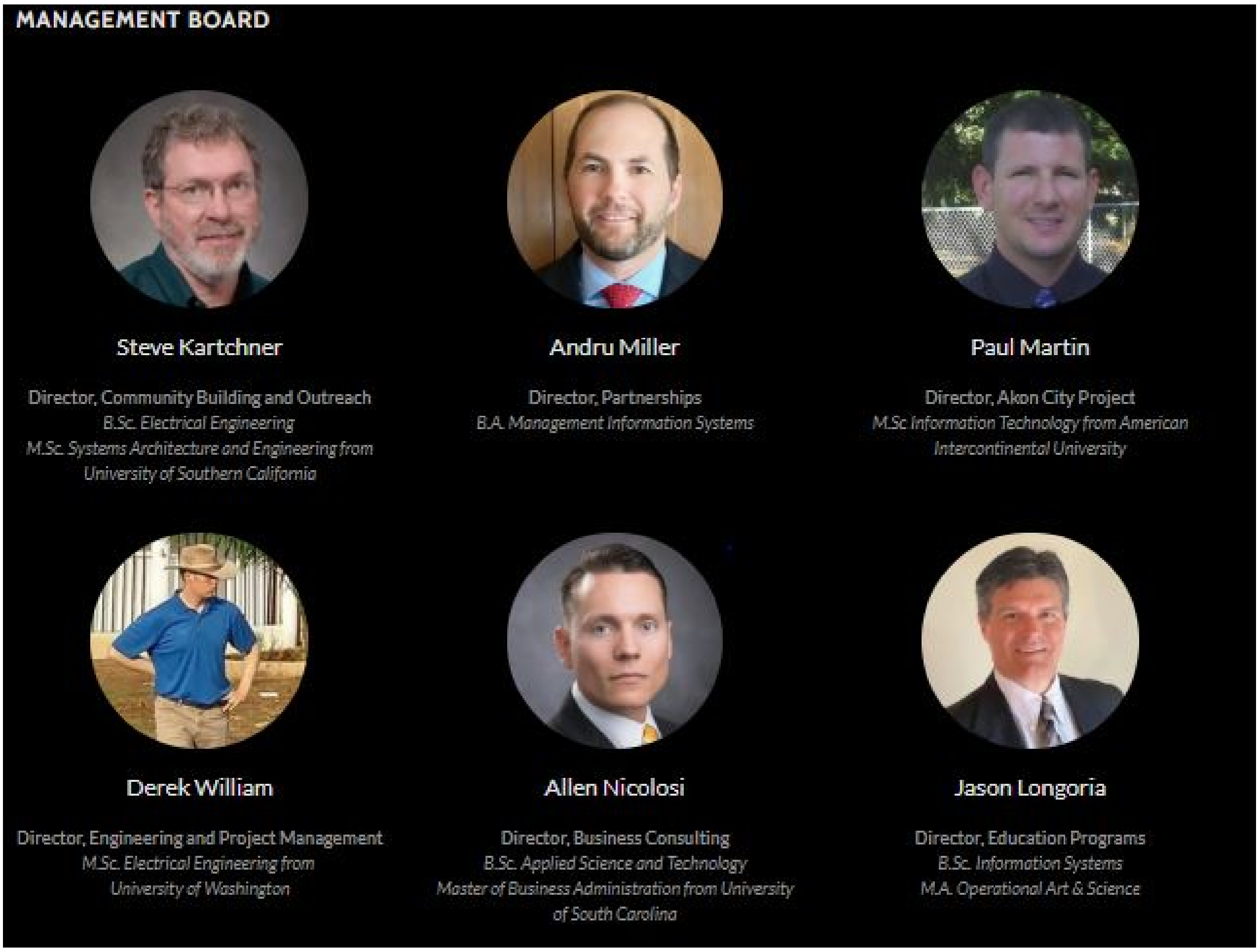
Julius Mwale is a former Kenya Air Force soldier who fled Kenya in 2000 unclear and sought asylum in the US, according to Capital FM Kenya. In an interview with Mwale, he told Capital FM that he was forced to flee the country after a disagreement with government authorities over the technology research he worked on in the military.
Since moving to New York, Mwale founded SBA Technologies, a company that provides a secure platforms for mobile banking and commerce. He has taken up the role of lead investor in a number of projects such as the $2 billion Mwale Medical and Technology City, the $6 billion Akon City project and the Fintech startup Akoin Currency.

Should we be concerned that Julius Mwale is the lead and possibly only investor backing the Akon City project?

Absolutely yes, i wouldn't jump to such a conclusion without reason. According to public records in the New york alone, Julius was sued for an alleged fraudulent loan, for failing to pay rent and for failing to repay a loan. On two of these occasions the New York court order him to pay the plaintiffs large sums of money. In the other case he agreed to settle with interest. You can find details of these cases below:

1. In March 2012, a New York court ordered Mwale and SBA Technologies — alongside another defendant, Fiona Graham — to pay more than $325,000 to two women who sued Mwale and Graham for what they alleged was a fraudulent loan.
2. In 2015, a New York court ordered Mwale to pay more than $209,000 to the former landlord of his Manhattan office after Mwale was accused of failing to pay rent and other bills for nearly a year.
3. In 2017, Arthur Ntozi, a Ugandan tech entrepreneur, sued Mwale, alleging he failed to repay a $50,000 loan.

The construction company KE International continues



At this point it might be clear or not but i will get to it now. All six board of directors are extremely qualified with their expertise ranging from Electrical engineering, to IT, to Information systems and Business administration. These are not easy qualification to get and it is further evidence of their competence and capability. I should know as i am a Chartered Engineer with a Bachelors degree in Civil Engineering, MSc in Structural Engineering, Diploma in Business Management, numerous Project management and Asset management qualification, lastly i am about to complete my MBA. I know it seems i am bragging but i think it is key you understand my education and knowledge base for what comes next.

Akon City is a massive project that will require detailed Architectural designs, Structural designs, environmental impact assessments, electrical and mechanical designs etc. Out of the six board of directors in KE International, not a single one of them has any qualification in Civil engineering, Structural engineering or Architecture. These three fields will probably take up 70 to 80% of the Akon City project, while other fields like Mechanical, Electrical and IT engineering would take up between 15 to 20% of project work. Yet not a single board of director in a company that is supposed to deliver $6 billion project has any relevant qualification in Civil engineering, Structural engineering or Architecture.

The construction company KE International continues

If the Akon City project was put out for tender, there is no way KE International would have won it. Three key reasons for this are:

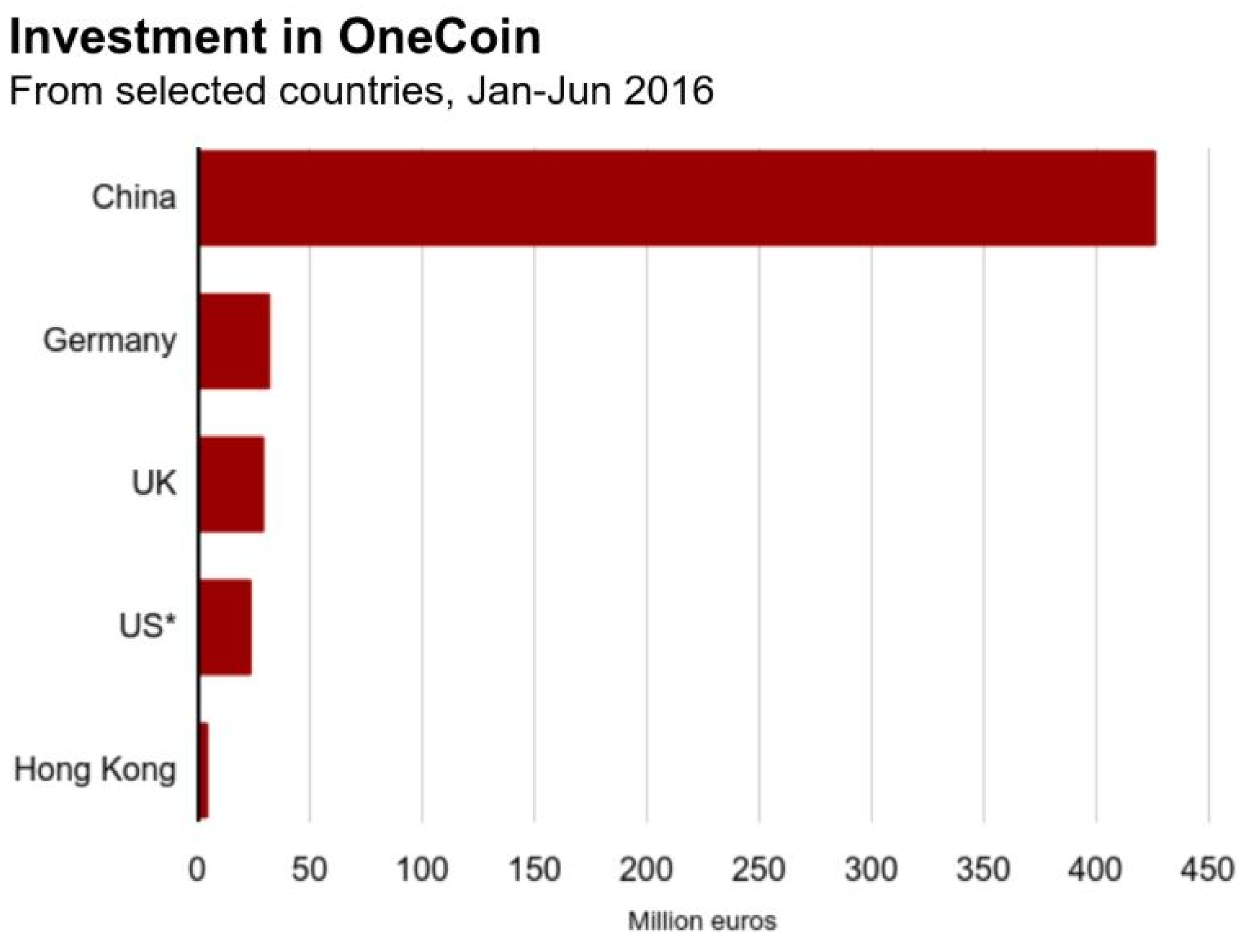
1. They don't have the experience - There are companies out there that have completed hundreds of projects similar in cost to Akon City. These guys have only completed one project and that project cannot be measured in the same calibre as the Akon City project. Just take alook at the photo of the Mwale Medical and Technology City project below. This is the only project in their portfolio they have completed. Tell me, do these structures look futuristic to you? They look like structures which could easily be built by an SME contractor not a $6 billion contractor.

2. They don't have the qualification - This is a key part of any big tendering process, you look at the team delivering the project and see what experience and qualifications they have. We have already shown they have never delivered a project in the calibre of Akon City. Now we are saying they don't have the necessary qualifications to deliver such a project. Like most projects, you can subcontract out to another company if you lack the skills in house to deliver a project or the resource requirement. In the press release where KE Internation were awarded this project, it was also stated that Dubai based Bakri & Associates Development Consultants would lead the architectural designs under KE International guidance. So it is clear they are going to subcontract most of the work out. Our concern is do they have the competence to guide their subcontractors? Everyone in Bakri & Associates Development Consultants would be more knowledgeable than every singe board of director in KE International when it comes to Architectural design. So what guidance or supervision can they provide on a subject matter they are not experts on.

3. There is a massive conflict of interest - It is clear they KE International most likely were awarded this project because they help secure the funding in the first place. That is a conflict of interest and quite frankly very unprofessional.

Akoin Cryptocurrency

I am not going to dwell on this area of Akon City because i am not blockchain or cryptocurrency expert. I do however understand the concept of creating value or adding value to a product, service or commodity. Cryptocurrency is the future of digital currency. Since the launch of Bitcoin in 2009, cryptocurrency has sowed as a secured form of payment and value exchange.
The cryptocurrency market was hit by one of the biggest scams in history when Ruja Ignatova, the CEO of Onecoin and self appointed Cryptoqueen defrauded the world of $4 billion. She told people she had invented a cryptocurrency to rival Bitcoin, and persuaded them to invest billions as shown in the bbc chart below.



This was a warning shot to the enthusiasts of cryptocurrency, that while blockchain technology makes it one of the most secured payment forms in the world, there are still people like Ruja Ignatova who will try and defraud investors.

The success of Akoin cryptocurrency would be great for Africa and young African entrepreneurs. Our concern is with Akon's business motive behind this cryptocurrency and how it impacts Akon City. Its clear that the value of Akoin cryptocurrency is tied to the Akon City project and Mwale Medical and Technology City project. Both of which are coincidentally being built by KE international and both of which have been invested in by Julius Mwale. Without the publicity and promise of Akon City, Akoin cryptocurrency won't have much value and would be like any other cryptocurrency. All we are saying is that investors should be cautious and do their homework. We don't need another OneCoin incident.

Snapshot of Senegal's economy and tourism sector

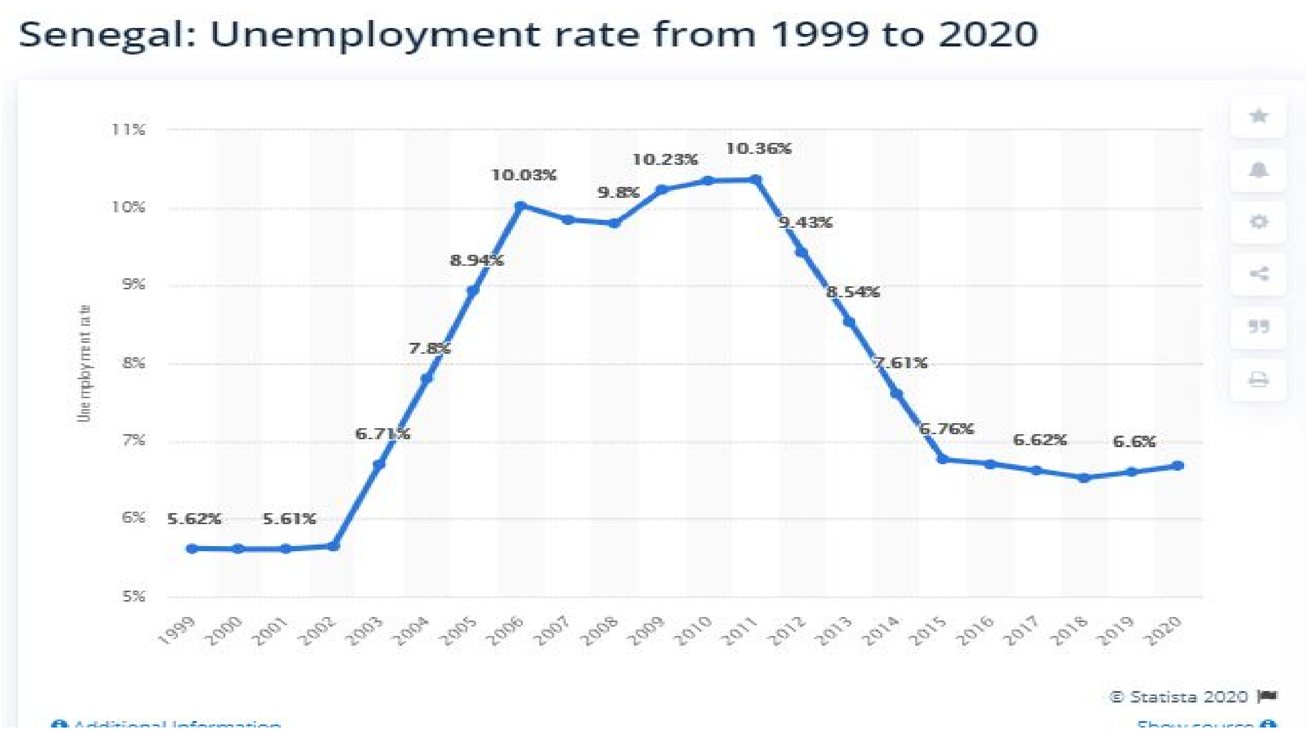
Benefits of Akon City project to Senegal and Africa in a whole

1. Boost to Senegal's and Africa's tourism sector

If Akon City is successfully built, it will bring an influx of revenue into senegal's tourism sector. Tourism accounted for 10% of Senegal's GDP in 2019 and accounted for 7.1% of Africa's overall GDP to a tone of $168 billion as shown in the screenshot below.

2. Creation of employment in Senegal

Another benefit would be the creation of jobs in Senegal. Unemployment is currently 6.6% of Senegal's 18.84 million population. When compared to Nigeria's unemployment rate of 27.1% (of 200 million people), UK's unemployment rate of 4.8% (of 66.65 million people) and US unemployment rate of 6.7% (of 328 million people), one would be inclined to say that Senegal doesn't have an unemployment problem. This stats show otherwise, unemployment has been on an upward trend in Senegal since 2018 as shown in Statista's graph below.



Risks associated with Akon City project

1. Under utilisation of Senegal's natural resources

Although Senegal's economy is driven by mining, construction, tourism, fishing and agriculture, Senegal is also rich in natural resources such as iron, zircon, gas, gold, phosphates, and recently discovered oil deposits. Senegal is currently under utilising their natural resources and most of their revenue is still generated from agriculture and tourism. Currently Senegal spends more money importing goods and services than they export. In 2019, Senegal spent $8.892 billion on importation of goods and services but made only $5.374 billion from export. This left them with a negative current account that further devalued their currency in relation to dollars. In order for Senegal to generate more revenue from export than expenditure from import, they have to diversify their economy beyond tourism and agriculture. Taking into account the negative impact of COVID 19 on Senegal's tourism sector and the forecasted impact this pandemic will have on tourism worldwide, is it still wise for Akon to invest $6 billion on Akon City?

The Organisation for Economic Co-operation and Development (OECD) forecast that international tourism will fall by around 80% in 2020 worldwide. Furthermore, the UN World Tourism Organization (UNWTO) now foresees a decline in international arrivals close to 70%, with recovery to pre-crisis levels not expected before 2023.
The question remains, with the uncertainty surrounding the tourism sector, would it be wise for anyone to invest $6 billion into a futuristic city? If i was to do an investment appraisal right now, the answer would be no. Is there really a business case for this investment or is it just a plot to drive the value of Akon's cryptocurrency startup?

2. Lack of transparency poses a risk to investor and future end users

This it is the most publicised project that lacks any form of transparency. Like we have pointed out, Julius Mwale has a history of defaulting on loans and has been taken to court on three different occassions in New York. In all of these cases he was made to pay back money, if he was an innocent man the court wouldn't have order him to payback anything. He is the lead investor on this project and no one knows where or how he raised $4 billion to invest in Akon City or where he raised $2 billion to build Mwale Medical and Technology City. Is this his personal capital or is it a loan? If it is a loan, what happens to Akon City if he defaults on it and why should any potential investor trust him?

There is then the issue of KE International who where awarded the contract to build Akon City. They lack the experience or qualifications to undertake a project of this calibre. Just because they built Mwale Medical and Technology City for $2 billion doesn't automatically mean they have the capability to build a Wakanda like futuristic city. That begs the question, are the concept designs on Akoncity.com buildable or will the architectural designs be more conservative like Mwale Medical and Technology City ,which is anything but a futuristic city.

The last problem is the promise that Akon City will trade only in a cryptocurrency called Akoin which is by the way owned by Akon. Hypothetically speaking, what's to stop anyone from saying that Akon City is just a ploy to boost the value of Akoin cryptocurrency, because that is what it looks like without relevant information to dispute this hypothesis.

Risks associated with Akon City project continue

3. Lack of funds to complete project

We already mentioned the risk of the lead investor Julius Mwale defaulting on the $4 billion loan invested in Akon City, assuming it is a loan and not his personal cash. Now we are drawing on a more obvious risk to the completion of this project and that is lack of funds. Can $6 billion build a futuristic city of the size proposed by Akon? I severely doubt that, not unless KE International builds a substandard version of Akon City that will be nothing like the concept designs on Akoncity.com. No need for assumptions, check out the top ten most expensive structures in the world below.

Building	Type	Country	Value (Billion USD)
The Great Mosque of Mecca	Mosque	Saudi Arabia	100
ITER	Civil Nuclear Fusion Research Reactor	France	25
Marina Bay Sands	Resort	Singapore	5
Resort Word Sentosa	Hotel	Singapore	4.4
Apple Park	Apple Headquarters	USA	4.17
One World Trade Center	Building	United States	3.9
Emirates Palace	Hotel	UAE	3.6
The Cosmopolitan of Las Vegas	Hotel	USA	3.3
The Shard	Offices and luxury homes skyscraper	UK	3.3
The Wynn	Hotel	USA	2.6

These are not cities, they are buildings and two of them are worth more than 4 times of Akon City. That's without even taking into consideration what these buildings are worth now as $1 now will not have the same value as $1 ten years ago or $1 in two years time. The value of money goes up and down, has Akon taken this into consideration? Again i ask, where is the investment appriasal for this project and why isn't it made public if Akon has nothing to hide? If he is really looking for investors, the investment appraisal should be made public for potential investor to review. They would want to know what the net present value of the project is and how much value their investment would get them.

Conclusion

The benefits of Akon City being built are clear, it will boost the tourism sector in Senegal, it will create jobs and provide a much needed boost to the country's revenue. While it is easy to gloss over the great things Akon City will bring to Africa, our research identified too many issues which also need to be taken into consideration. Below are three issues concern parties need to consider about this project:

1. The company appointed by Akon to design and build Akon City lacks the experience and qualifications to deliver a project of this calibre. KE International is a relatively new company and would never have won a tender competition with the big players in the construction industry like VINCI, Actividades de Construcción y Servicios, Bechtel and my favorite China Communications Construction Company who have delivered numerous projects in Africa.

KE International has only delivered one project since its inception and that was Mwale Medical and Technology City. We know that KE International helped secure the $4 billion investment from Julius Mwale, which is why they were most likely awarded the design and build contract. As pointed out earlier, none of the six board of directors in KE International possess a single qualification in Civil Engineering, Structural Engineering or Architecture. Even if they were to subcontract this project to another company, how can they provide guidance on a subject they are not experts in.

2. In the current climate marred by a pandemic, tourism is not the best sector to invest in and the UN World Tourism Organization (UNWTO) has already forecasted a 70% decline in international arrivals with recovery to pre-crisis levels not expected before 2023. So we would recommend that Akon re-evaluates his proposal to build the $6 billion Akon City and release an updated investment proposal to promote transparency with stakeholders.
The risk of funds being depleted before Akon City is built is quite high. This can happen two ways:

Firstly, the lead investor Julius Mwale could default on the $4 billion loan he invested into Akon City. He already has a history of defaulting on loans and on all three occasions he was taken to court he was order to pay his creditors twice and on the third he settled. If this investor was innocent why would a judge rule against him on three occasions. If he doesn't default on the loan for Akon City, it is most like that Akon City will be liquidated to pay of his creditors.

Secondly, as shown earlier the scale of the Akon City project would most likely cost more than $6 billon. The Shard cost $3.3 billion and was built in 2009, The emirate palace cost $3.6 billion and was built in 2001, Marine Bay Sand was built in 2010 and cost $5 billion. These are not futuristic cities, they are large buildings that cost billions of dollars. Akon City on the other hand has alot of high rise buildings with futuristic designs and yet Akon claims $6 billion is enough to build this cities.

Conclusion continues

We hope our readers find this article informative. While we believe it to be objective we would like to remind our readers that these are our views of the Akon City project. Our views should not be used for any malicious purposes and we do not take liability for how you interpreted them. Thank you

Dangote Oil Refinery Project

Dangote Oil Refinery Project

Overview

Dangote Oil Refinery is a 650,000 barrels per day (BPD) integrated refinery project under construction in the Lekki Free Zone near Lagos, Nigeria. It is expected to be Africa's biggest oil refinery and the world's biggest single-train facility. It is estimated the refinery will cost $15 bilion and have the capacity to meet all of Nigeria's demaind for refined products of crude oil.

The Pipeline Infrastructure at the Dangote Petroleum Refinery is the largest anywhere in the world, with 1,100 kilometers to handle 3 Billion Standard Cubic Foot of gas per day. The Refinery alone has a 400MW Power Plant that is able to meet the total power requirement of Ibadan DisCo.

The Refinery will meet 100% of the Nigerian requirement of all refined products and also have a surplus of each of these products for export. Dangote Industries Limited invested about $12 Billion. Dangote Petroleum Refinery will create a market for $11 Billion per annum of Nigerian Crude. It is designed to process Nigerian crude with the ability to also process other crudes.

Job creation

Reuters reports that unemployment in Nigeria jumped to 27.1% in the second quarter of 2020. Working on the assumption there are approximately 200 million people in Nigeria, that would mean there are approximately 54 million people without jobs in Nigeria.

Our research found conflicting estimates of how many jobs Dangote's refinery and fertilizer plant would create. According to the Punch the COO of Dangote Industries Limited estimated that the refinery will produce 300,000 direct and indirect jobs in the first quarter of 2019.

Whether this milestone has been met is currently unconfirmed, being that construction is still ongoing. Hydrocarbon Technology reported that the project is expected to generate 4,000 direct and 145,000 indirect jobs. NS Energy reported that the integrated refinery and petrochemical project is expected to generate 9,500 direct and 25,000 indirect jobs. Whatever the number of jobs stipulated, one thing is for sure, jobs are being created.

Dangote Oil Refinery continues on next page

Environmental impact of Dangote Oil Refinery

Dangote's oil refinery solves Nigeria's problem of dirty fuel imported from europe. A report from the Guardian showed that international dealers export to Nigeria around 900,000 tonnes a year of low-grade, “dirty” fuel, made in Dutch, Belgian and other European refineries. They also found that hundreds of small-scale artisanal refineries produce large quantities of illegal fuel from oil stolen from the network of oil pipelines that criss-cross the Niger delta.

What's worst is that the international resource watchdog group Stakeholder Democracy Network (SDN) undertook a laboratory analysis which showed that the black market fuel in Nigeria was highly polluting but of a higher quality than the imported diesel and gasoline from Europe. The average “unofficial” diesel tested exceeded the level of EU sulphur standards 152 times, and 40 times the level for gasoline. Dangote's oil refinery will remove the need for Nigeria to import fuel. It is also reported that the fuel being produced by this refinery will meet Euro V regulation.

Nigeria's commitment to reducing carbon emissions

Nigeria joined the Paris climate agreement in 2015 which was signed by 198 countries that agreed to prevent global temperatures from rising above 2 degrees celsius as from 2020. Carbonbrief.org reports that Nigeria pledged to reduce its greenhouse gas emissions by 20% by 2030, when compared to “business-as-usual” levels. This pledge rises to 45% on the condition of international support.

Logically you would expect that such a commitment would mean that Nigeria would gradually shift away from using fossil fuel and embrace a more greener and sustainable source of energy. That simply hasn't happened. Nigeria already has four oil refineries that are either not working or partially working. Over the last 60 years the Nigerian government has failed to maintain and keep these refineries operational.

If Nigeria can maintain and operate more than 20 power stations since the early 60's such as Kainji, Jebba and Shiroro Power stations, why can't they maintain their existing oil refineries?

BBC's answer to this was that, previous efforts to repair Nigeria's dilapidated refineries and build new ones had been scuppered to protect the interests of powerful fuel importers, some of whom have been linked to a subsidy scam costing the country billions of dollars a year, correspondents say.

It should be noted that although Dangote's refinery will undoubtedly create jobs in Nigeria and boost the economy, it will definitely increase carbon emissions in the country. More importantly it requires a large carbon footprint to build such a refinery.

Dangote Oil Refinery continues on next page

Dangote Oil Refinery Cont.

Market competition in Nigeria's oil refinery sector

From an economic point of view, the benefits of job creation, cleaner fuel and a stop petrol importation, might be outweighed by a lack of competition and wide spread monopoly of the oil refining sector in Nigeria. While Dangote Oil Refinery is a public private partnership, Dangote Industry Limited owns controlling shares in the refinery, not the Nigerian government. This could mean that Dangote Industries have the power to drive the prices of fuel up or down. It is unconfirmed if the Nigerian government have put control measures in place and retain the power to regulate fuel prices in Nigeria.

Oilprice.com reports that Nigeria's four other oil refineries are old, in dire need of refurbishment and utilise below 30% of its capacity. This means that on completion of Dangote's oil refinery, it will have little or no market competition. In September 2020 Reuter reported that Nigerian conglomerate BUA Group had selected France's Axens to build its 200,000 barrel per day (bpd) refinery and petrochemicals plant in Akwa Ibom. Barring any complications, Dangote's 650,000 barrels per day oil refinery will be competing against BAU's 200,000 barrel per day oil refinery. Yet having two functional oil refineries is Nigeria does exactly scream market competition. Plus, with Nigeria's history of corruption and recent civil unrest, there most likely won't be a long list of investors lining up to u all build new oil refineries in Nigeria.

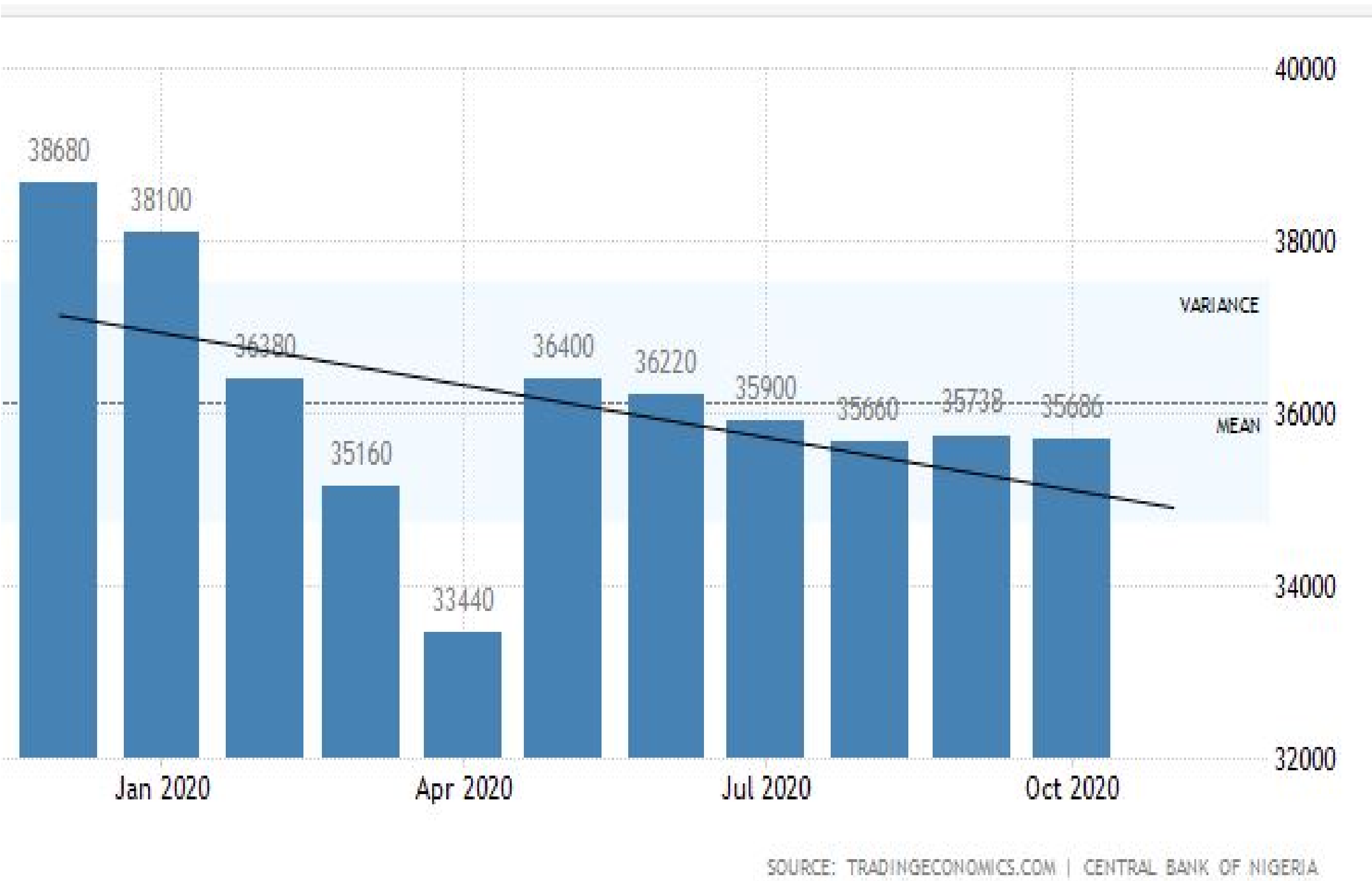
Market competition is what drives prices down for customers, ensuring they get better value for money. Imagine if MTN was the only mobile network in Nigeria. Mobile tariffs would be higher because customers don't have any other alternatives. Nigeria needs more than one or two privately funded oil refineries to promote market competition and protect the end user's interest.

Dangote Oil Refinery continues on next page

Dangote Oil Refinery Cont.

Increase in Nigeria's FOREX reserves

Nigeria is currently suffering from scarcity in FOREX, which is one of the reasons the foreign exchange rate for Naira is low when compared to other African countries with a lower GDP than Nigeria. The Central bank of Nigeria reports that FOREX reserves have slowly reduced over the last 5 years as shown in the chart below. Overall the value of Nigeria's export has fallen by $38 billion over the last five years, going from $97.6 billion to $59.5 billion. While importation fell by only by $4.05 billion over . This means Nigeria is importing commodity in dollars more than it is selling commodity in dollars, hence the reason their FOREX reserves are depleting. Once Dangote's oil refinery starts operating, there will be no need to import fuel into Nigeria. This means there will be less demand on Nigeria's FOREX reserves and hopefully over time an increase in the value of Naira.



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Dangote Oil Refinery Cont.

Conclusion

Dangote's Oil Refinery is a plus to Nigeria's economy both in terms of job creation and boosting the countries GDP. Whatever money was spent on importing fuel will now be recycled within Nigeria and that is a boost to their economy. The environmental benefits are also a plus for Nigeria as the fuel imported from Europe has been found to be dirty. This is bad for Nigeria's air quality and the health of its people.

In terms of disbenefits, this oil refinery will definitely increase carbon emissions in Nigeria as this is unavoidable. The key question for the Nigerian government is how does this oil refinery fall within factor into Nigeria's commitment to reduce carbon as per the Paris climate change agreement. There doesn't seem to be any strategy in place and it is clear that the demand for crude oil world wide is reducing as most countries try to adopt a renewable and green energy sources to reduce carbon emissions which are damaging their environment. Nigeria's economy is largely dependant on crude oil exportation, what happens in 20 years when the demand for crude oil is zero or nothing.

The question about market competition has to be addressed to ensure consumers get fair prices. The government needs to create competition for Dangote's oil refinery, by either fixing their existing four oil refineries or encouraging other investors to build something similar. Although we will advise against more oil refineries as they simply are not sustainable for Nigeria's future economy.

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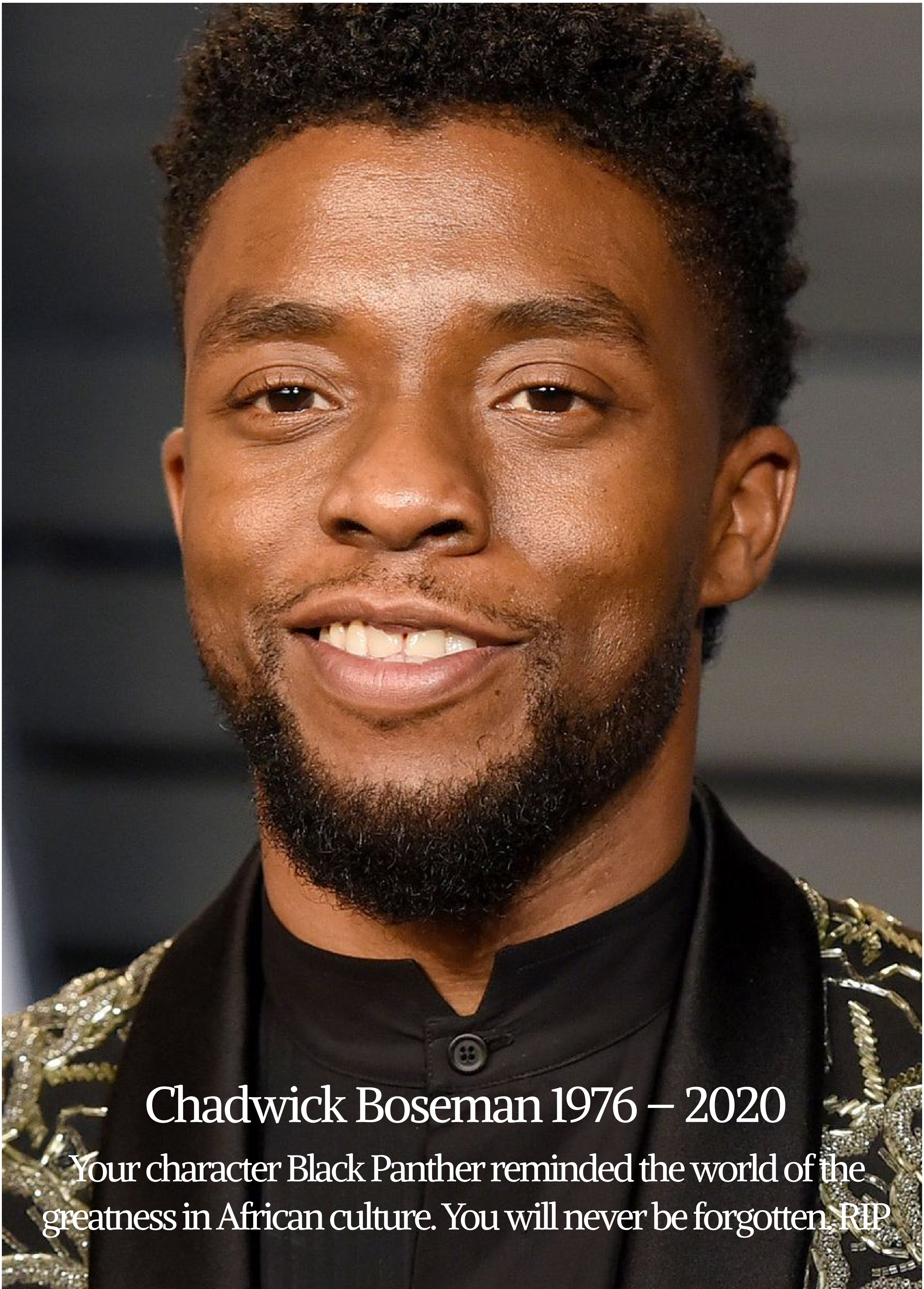
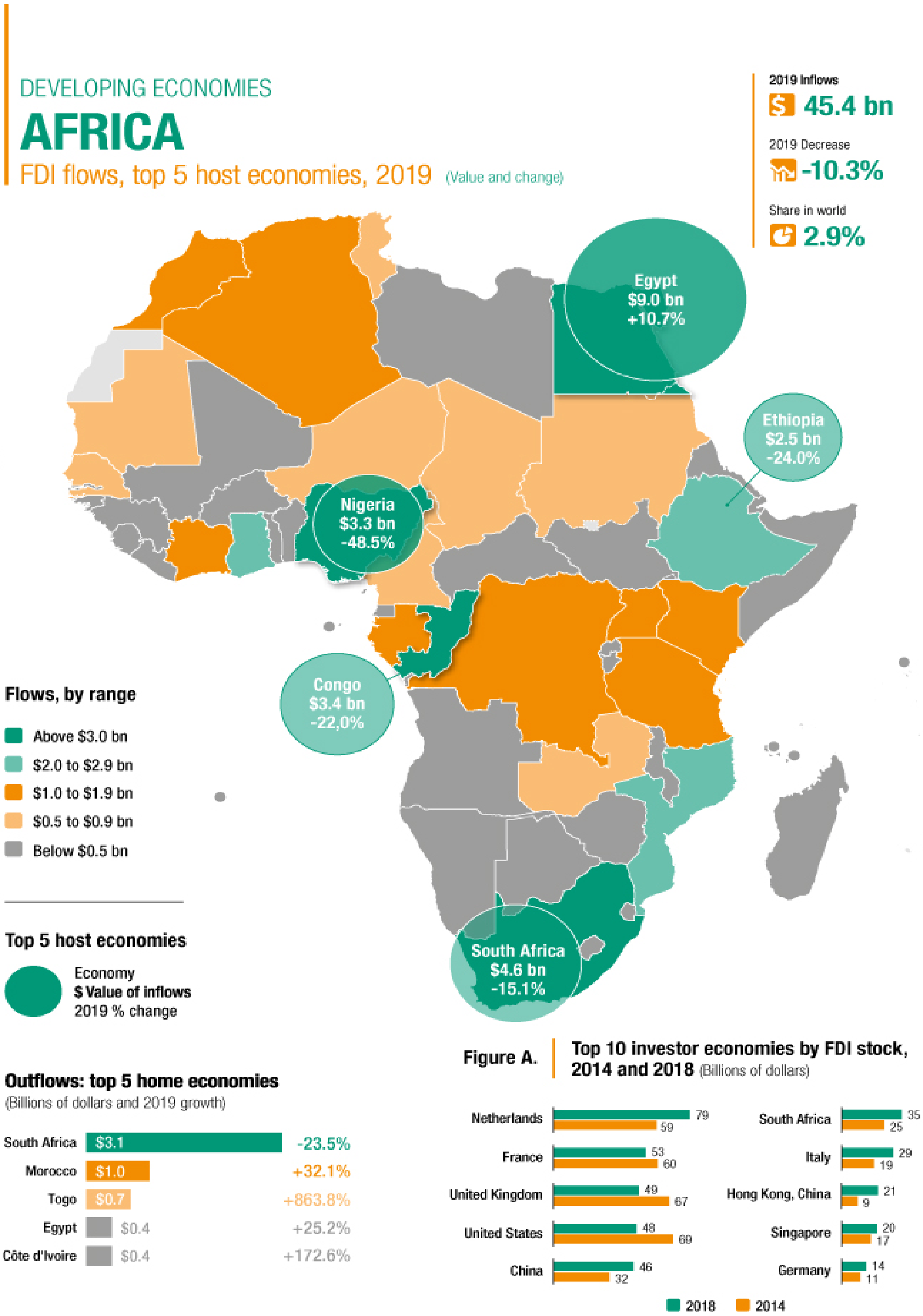

Chadwick Boseman 1976 – 2020
Your character Black Panther reminded the world of the greatness in African culture. You will never be forgotten. RIP

Africa's Economy: A victim of Dept-trap diplomacy or a willing participant

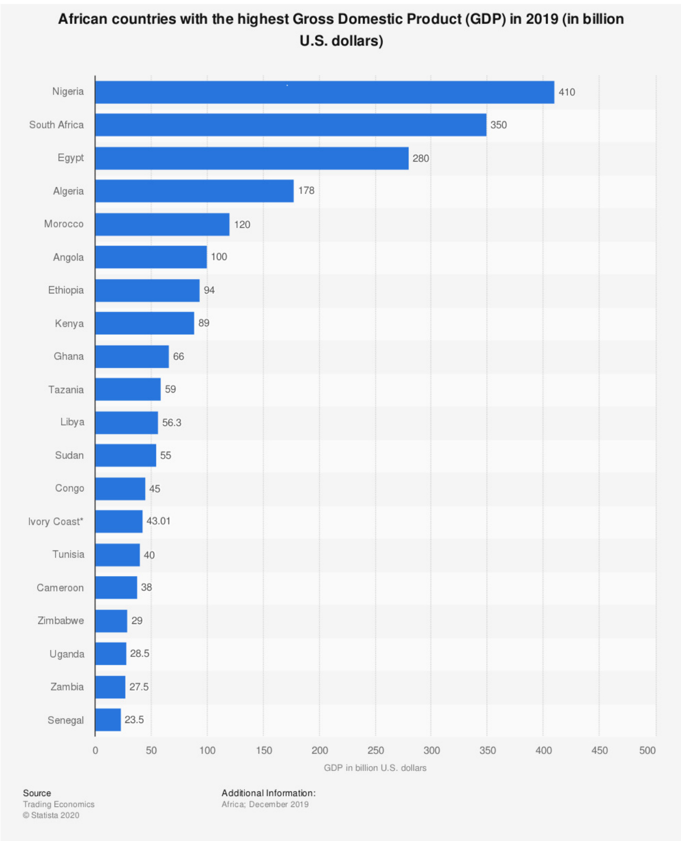


Source: UNCTAD.
Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Sudan and South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

Africa's Economy: A victim of Dept-trap diplomacy or a willing participant

Overview

As a continent Africa has one of the largest growing economies in the world. In 2019 Africa had a nominal GDP of $2.6 trillion with a growth rate of 3.7%. Nigeria, South Africa and Egypt top the list of countries in Africa with the largest economies as shown by the 2019 GDP bar chart below. Nigeria had a GDP of $410 billion in 2019, which amounts to roughly 16% of Africa's total GDP, making it the highest gross domestic product in Africa. South Africa's GDP was worth $350 billion and ranked as the second highest on the continent. Thereafter, three North African countries - Egypt, Algeria, and Morocco followed in the list as shown in the chart below.

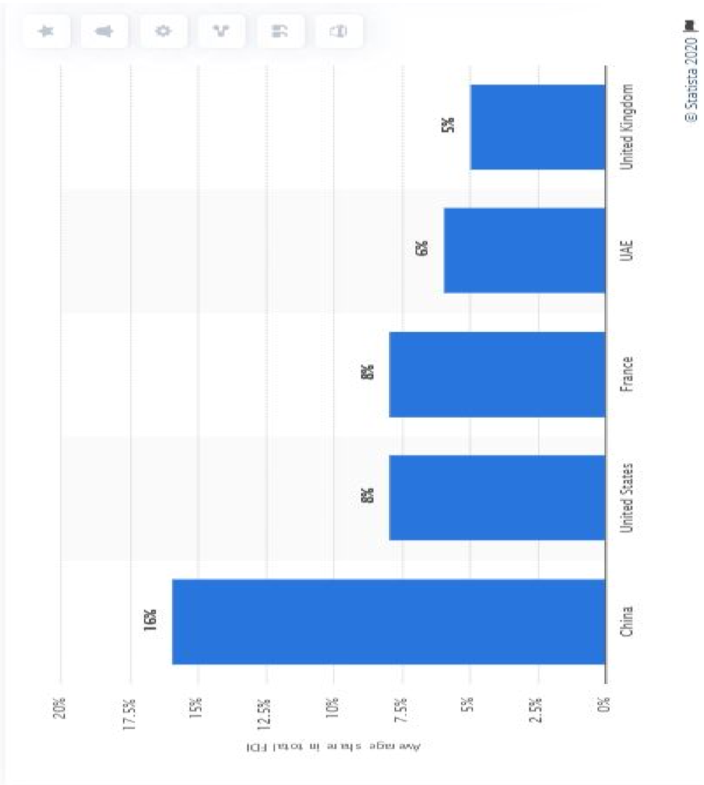


Cause of economic growth in Africa

Economic growth can be brought on by different factors but the three key ones in Africa are:

1. Foreign Direct Investment

Between 2014 and 2018, Statista.com reported that 16 percent of Africa's Foreign Direct Investments (FDI) originated from China. Chinese direct investment on the African continent represented the main source of FDI, whereas the United States and France held eight percent of the total FDI, respectively.



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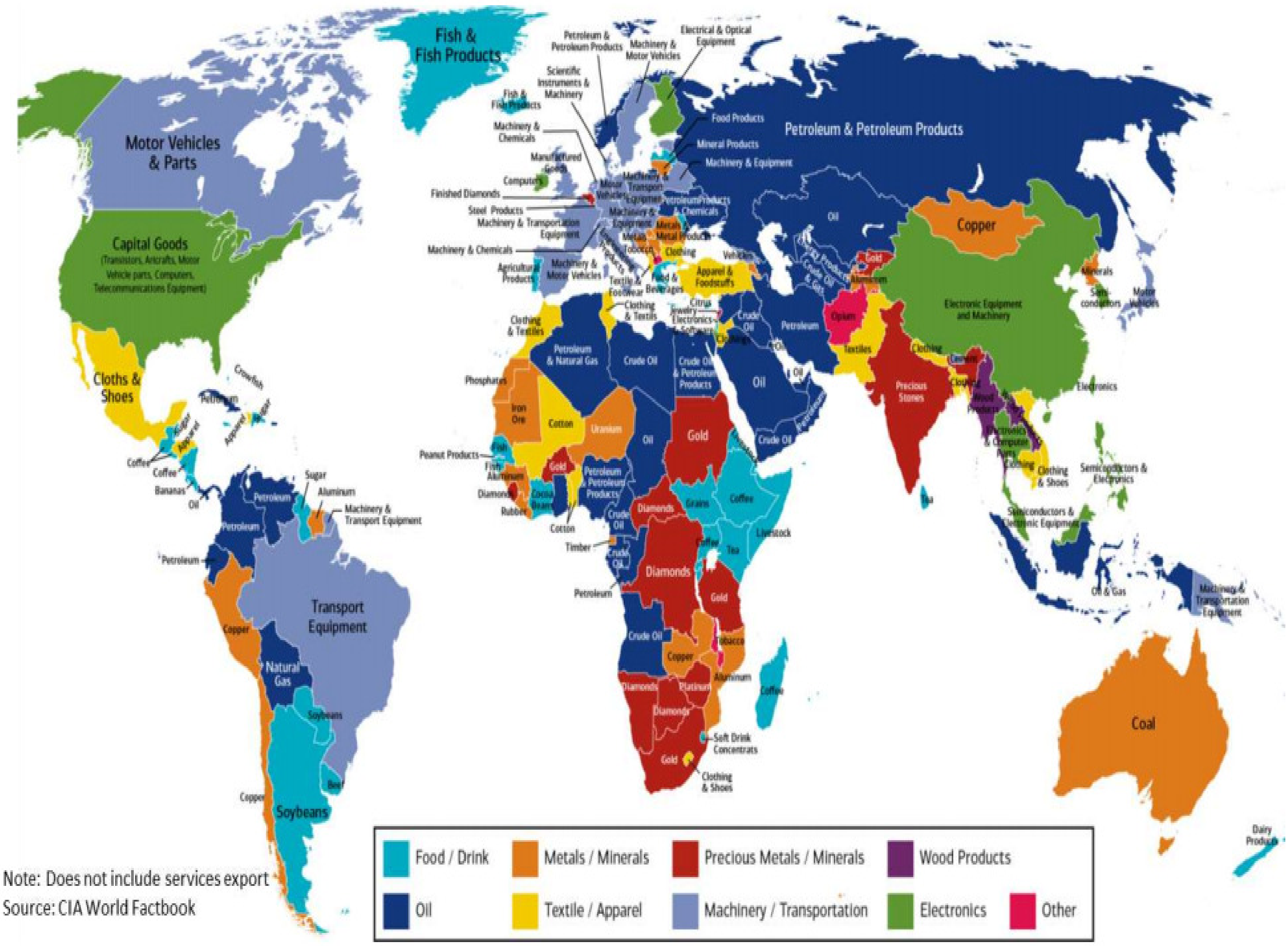
Africa's Economy: A victim of Dept-trap diplomacy or a willing participant

2. Trade in terms of import and export, which could be domestic or foreign.
For example a large part of Nigeria's GDP is generated from exportation of crude oil. Nearly 95 percent of all export value in Nigeria comes from mineral fuels, oils, and distillation products. While in South Africa industries and services make up the largest part of GDP and they also export a large amount of valuable metal and minerals. Statistics show that in Africa crude oil and precious metal are the most export commodities as shown in the map below. Exporting of goods and services within Africa and outside Africa is a big boost to Africa’s economy as it brings in much needed cash flow.



3. Growth in population

Recent forecast by The economist shows that by 2050 Africa's population will double from 1.2 billion to 2.5 billion, with Nigeria's population growing from 200 million to 400 million by 2050.

From a Macroeconomics point of view, a growth in African population will lead to an increase in demand for goods and services. This could be a plus or minus to Africa's economy. It's a plus if Africa has adequate supply to meet the increase in demand. This would mean an increase in trade of goods and services within Africa, causing the economy to expand. On the other hand, if Africa doesn't have the capacity to meet the growing demand caused by an increase in population, this will lead to commodities becoming scarce, prices will go up for goods and service, and eventually inflation will set in. According to the author of the book called "The fastest billion" Africa's GDP is forecasted to grow from $2 trillion today to $29 trillion in today's money by 2050.

In the next section we are going to examine how realistic it is to assume Africa's economy will grow in 15 folds. More specifically, who will own the economy.

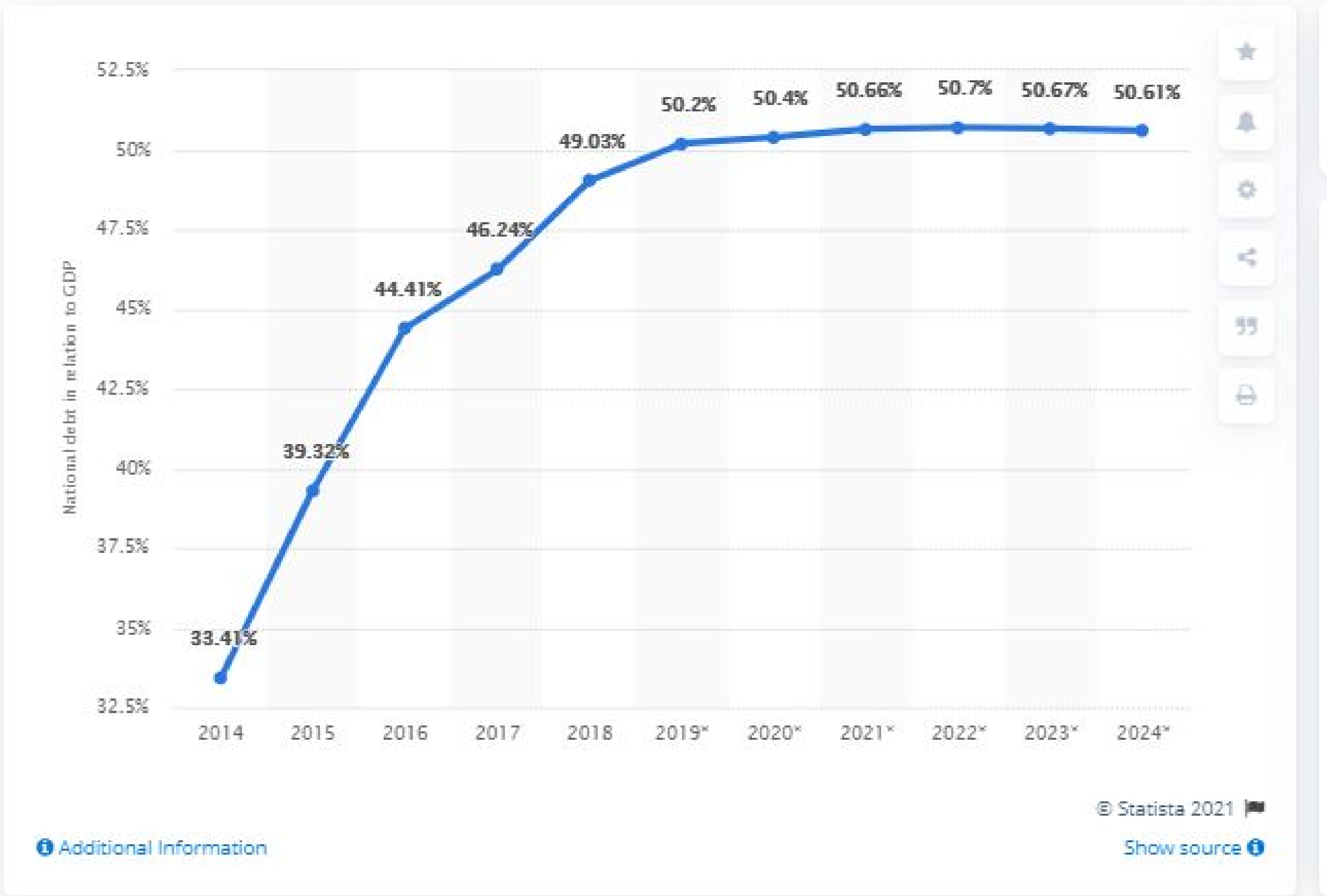
The impact of decarbonisation on Africa's economy

For Africa's economy to grow from $2 trillion today to $29 trillion in 2050, alot of conditions will have to be fulfilled. For instance, Africa would have to export more than they import to ensure they have a positive cashflow. This could largely be impacted by the reliance of Africa on crude oil exportation. Africa's largest economy is Nigeria, and 90% of their revenue is generated from exportation of crude oil. With most western countries commited to decarbonisation, demand for crude oil will definitely fall by 2050, while demand for renewable and green energy will increase. If Nigeria's economy doesn't divest away from crude oil exportation by 2050 their GDP will definitely strink and we won't be surprised if they end up in long term recession. This will significantly impact the growth of Africa's economy because Nigeria is its largest contributor to GDP.

On the contrary, South Africa, which has Africa's second largest economy has a more diverse economy when compared to Nigeria. They are the world's largest producer of precious metals such as gold, chromium and platinium. They are also involved with automobile manufacturing, metalworking, technology, machinery, textiles, iron and steel, IT, chemicals, fertiliser, foodstuffs, manufacturing and commercial ship repair. What's more impressive is that Nigeria was only $60 billion in GDP ahead of South Africa in 2019, yet South Africa don't export crude oil. We forecast that by 2050 South Africa will be Africa's largest economy because a the reduction in crude oil demand won't impact South Africa the way it would impact Nigeria's economy. Still, even if South Africa becomes Africa's largest economy, it still will not be able to cover the deficit left by Nigeria's contribution to Africa's GDP. The only solution is for Nigeria to diversify its economy and grow other sectors such as manufacturing, farming and Fintech. The demand is clearly there but most of it is being addressed through importation. Nigeria needs to stop importing goods/services and instead focus on creating production capability and capacity at home.

Africa's Growing Debt

I like comparing economies with businesses because it makes more sense when you are explaining stuff to your audience. Africa's economy is like a business and in business you finance operations either through taxation, borrowing or other sources of cashflow. A healthy economy is one that maintains a good balance between cash inflow (such as corporate tax, export revenue, returns on foreign investment) and cash outflow (such as debt and interest paid on borrowing). If your cash outflow exceeds yours cash inflow, then your economy is effectively in recession and owing more money than it is receiving. Africa's growing debt/borrowing when compared to the value of their economy in GDP is alarming and a cause for concern as shown on Statista’s bar chart below.



National debt of Sub-Saharan Africa in relation to gross domestic product (GDP) 2024

Published by H. Plecher, Jun 2, 2020

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Africa's Growing Debt continues

Below are a few facts and forecasts our research dug up from the public domain:

1. Brookings reported that as of 2017, 19 African countries had exceeded the 60% debt-to-GDP threshold set by the African Monetary Co-operation Program (AMCP) for developing economies, while 24 countries have surpassed the 55 percent debt-to-GDP ratio suggested by the International Monetary Fund. Their report also point out that surpassing this threshold means that these African countries are highly vulnerable to economic changes and their governments have a reduced ability to provide support to the economy in the event of a recession. In a nutshell, Africa's debt is growing at a very high rate and the risk of countries defaulting on their debt is also growing across Africa.

2. Between 2010 and 2018, the public debt of sub-Saharan African countries increased by half from 40 to 59% of their GDP. This made sub-Saharan Africa one of the fastest growing debt accumulationg continents in the world when compared to other developing regions. Almost all sub-Saharan African countries have contributed actively to the increase in the debt-to-GDP ratio. More alarming, public debt as a percent of GDP has at least doubled in more than a quarter of sub-Saharan African countries, among which Angola, Cameroon, Equatorial Guinea, and Nigeria.

3. Oil exporting countries and Heavily Indebted Poor Countries (HIPC) have been the main culprits for the rapid accumulation of public debt in sub-Saharan Africa. In two-quarters of HIPC countries, public debt as a percentage of their GDP had increased by at least 50%. This seemed to occur less than 10 years after these countries benefitted from debt relief under the HIPC initiative. This initiative was designed to protect the poorest countries in the world and ensure they were not overwhelmed by unmanageable or unsustainable debt. The world bank reported rapid accumulation of public debt in oil exporting countries such as Angola, Cameroon, Chad, Gabon, Equatorial Guinea. In these countries, the debt-to-GDP ratio has more than doubled in 2018 compared to its 2010 level. The fiscal deficits of these countries also widened after the end of the commodity price boom in 2014. When we say fiscal deficit this means that a government is spending more than it's receiving. This is one of the key drivers of borrowing in Africa. With exception of Angola and the Republic of Congo, the level of debt in oil exporting countries remains below the average level of other SSA countries.

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Depth Trap Diplomacy

We have established that Africa's debt, especially in Sub Sahara African countries, is growing at an alarming rate when compared to their GDP. We would now like to examine the creditors instead of the debtors. Using the country-business analogy, let's briefly look at a typical creditor debtor relationship.

In business creditors loan money to people based their capability to afford debt and their history of paying back debt. This is usually referred to has the credit worthiness of a person or business. A lot of factors are considered when loaning a person or business money. Two important ones are Cashflow and income stream. If a person or business doesn't have a constant source of income then no creditor will loan them money. More importantly if their cash outflow is more than their cash inflow, no business will loan them money even if they have a constant source of income. How does this relate to China's foreign direct investment in Africa? Well China is the creditor in this story, loaning money to African countries that already have growing debt but more importantly they are loaning money to African countries with a negative cashflow. These countries spend more money than they generate from local trade and export. To sustain their economy they end up borrowing to cover their budget deficit.

The term used to describe what China is doing to Africa is called Debt-trap diplomacy. The creditor country intentionally extends excessive credit to a debtor country already struggling with debt or on the brink of becoming cashflow negative. This induces the debtor into a debt trap because any surplus cashflow goes towards paying interest and since these countries still need cashflow they borrow more. This is done with the intention of extracting economic and political concessions from the debtor country when it becomes unable to meet its debt repayment obligations. The conditions of the loans are kept secret and the borrowed money commonly paid to contractors from the creditor country.

Over the last decade China has increased its investment in Africa. According to the Jubilee Debt Campaign, a charity that calls for the debts of developing nations to be written off, as much as 20 percent of African governments' external debt is owed to China. Between 2012 to 2017, Chinese loans to Sub Sahara Africa grew tenfold to more than $10bn per year, according to the ratings agency Moody's. In 2001, Chinese loans totalled under $1bn.
Moody rating agency did note that China's loans to African countries will help to address the persistent financing gap but also highlighted the lack of transparency over the conditions attached to Chinese lending, and a lack of reform and governance requirements compared with those required by multilateral official creditors, may limit the long-term benefits to Sub Sahara Africa.

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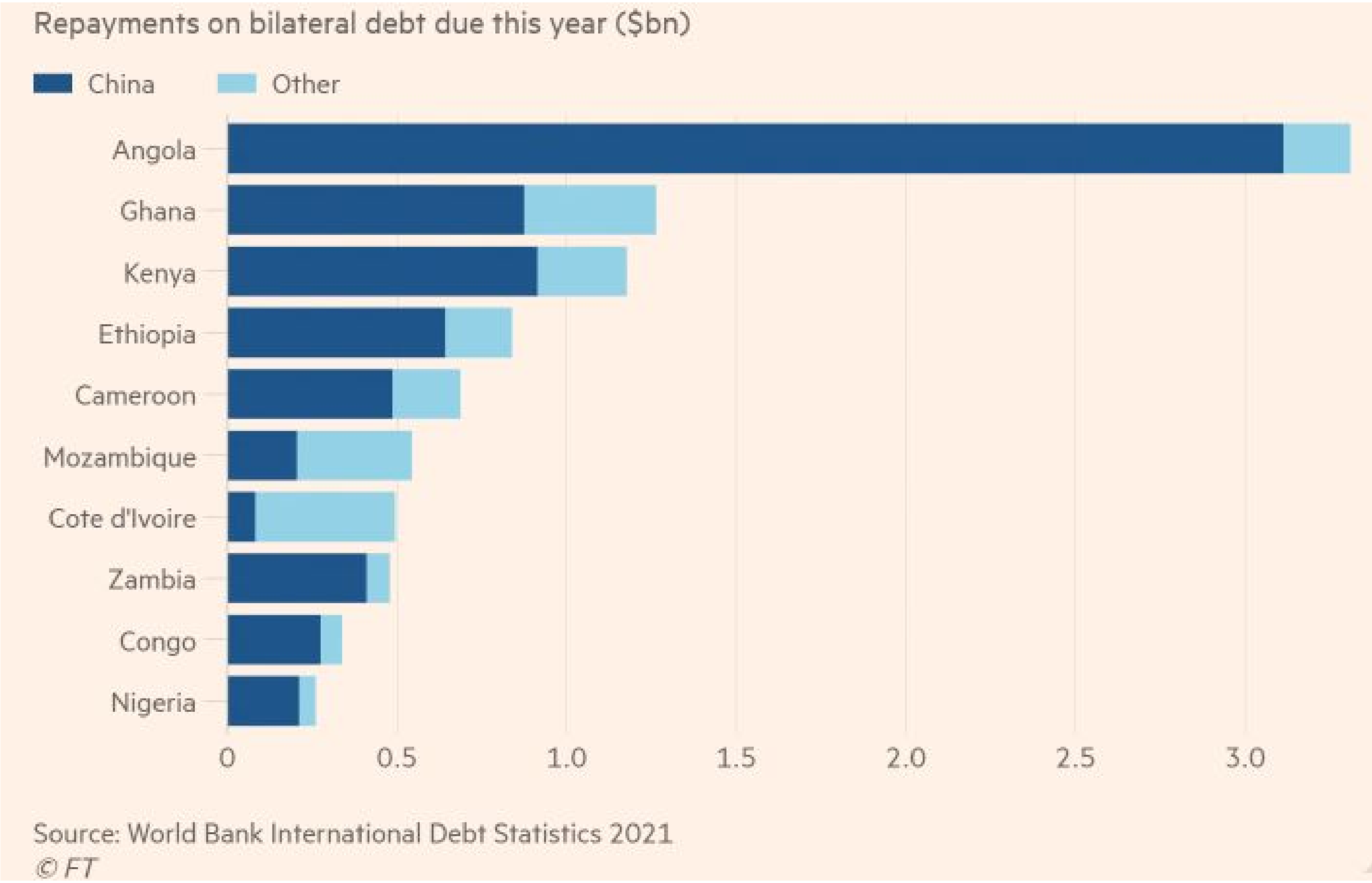
Conclusion

It is clear Africa's GDP is growing especially in Sub Sahara Africa, but there are risks to this economic growth forecast that need to be addressed now. One them is the over reliance of Nigeria (Africa's biggest economy) on Crude oil exportation, which accounts for 95% of their revenue. The second and most important one is the growing amount of debt as a percentage of Africa's GDP. This leads us the most important point, that China using Dept trap diplomacy to leverage Africa into economic and political concession which could see us going back to an era of colonisation where the western world exploited us for our resources. Our African leaders need to act now to reduce and control the debt we have accrued from China and ensure we don't fall into a debt trap that would see our economy grow but leave us without a controling interest in our own economy. Unfortunately the statistics do show that Africa is a willing participant in China's Dept trap diplomacy. We leave you with a chart from Financial Times showing the outstanding debt different African countries have with China. Angola currently owes China about $3 billion while Nigeria owes China about $0.25 billion.



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