

African Union

- **Africa:** Luxury brands are starting to take an interest in Africa, given the rise of the middle and upper class and higher disposable incomes. The African luxury market is currently worth an estimated \$4bn. Research shows that the typical consumer in Africa is brand loyal, which emphasizes the need for first mover strategies. Some of the luxury brands now eyeing Africa see the potential for sales growth in Africa as incredible. A population of over 1 billion, increased consumer spending, urbanisation, accessible consumers and the explosion of digital communication allowing connection and interaction, underpins this sales growth potential. According to the IMF, emerging and developing economies are expected to grow by 5.4% this year. As these emerging economies grow, so do the number of millionaires. Johannesburg had 23 400 dollar millionaires at the end of 2012, while Cairo counted 12 300, and Lagos 9800. Another source indicated that there are currently 140 000 millionaires in Africa, of which 49 000 live in South Africa. These numbers are expected to increase significantly over the next 20 years. (Anon. 2015. Luxury is big business in Africa. **Fin24** – www.fin24.com. 19 July.)
- **CAS View:** While it is true that Africa has a lot of poverty, it is equally true that there are extremely rich people in Africa as well. In addition to the growing middle class, these people also strive towards the brands that denote their status. The fact that this indicates a clear business opportunity is clear. Brands have to take into consideration that brand loyalty can count against them should they be tardy in their entry strategies. While the luxury market referred to here is clearly an attractive opportunity, the growing middle market should not be ignored, as they are also clamouring after the trappings of success, and are growing in even greater numbers.

East Africa

- **Ethiopia:** As President Obama is visiting East Africa, the Africa Growth Initiative (AGI) provided info on, amongst others, Ethiopia. Ethiopia can boast of a number of achievements. It is the 5th-fastest growing economy of the 188 IMF members, with an average GDP growth of over 10% in the past decade (compared to 5.4% in SSA), due to government policies emphasizing public investment, agri commercialization, and non-farm private sector development. Ethiopia is becoming a "climate resilient" economy, and has the 2nd-highest hydropower generating capacity in Africa and its biggest windfarm. It is power-positive, exporting power to Kenya, Djibouti, and Sudan. Ethiopia is also drawing interest from emerging economies, with India and China seeking investment opportunities in it. It has also made progress towards reaching most of the MDG's. Apart from the overall decline in poverty (reduced by 33% since 2000), positive gains have been made in education, health and reducing the prevalence of HIV and AIDS. Ethiopia has prioritized infrastructure development and regional integration, and is investing heavily in physical infrastructure as part of its development strategy. This includes the development and upgrading of the country's power, transport, and telecommunications facilities, with a brand new railway network and the construction of a number of hydroelectric power stations that will allow it to continue to export power to neighboring countries. Ethiopia opened the first space observatory in East Africa, and will launch its first satellite in the next few years to study meteorology and boost telecommunications. The following challenges could undermine this rapid economic expansion: a lagging structural transformation (agriculture accounts for about 45% of GDP, 60% of export earnings, and 75% of employment); a per capita GDP of \$505 is one of the world's lowest; widespread malnutrition continues to be a problem; dependency on agriculture—coffee in particular—leaves the large rural population vulnerable to droughts, natural disasters, and other economic shocks; a heavy reliance on aid to achieve its development goals; state control of key economic sectors; and one of the lowest rates of internet and mobile telephone penetration in the world. (Sy, A. and Goyal, R. 2015. Obama's trip to Ethiopia: Economic highlights. **Brookings: Africa in Focus** – www.brookings.edu. 17 July.)

- **CAS View:** CAS is on record about its positive view towards Ethiopia and the abundance of opportunities presented. It is, however, essential that Ethiopia deals with its challenges should it want to continue on this growth to prosperity. Readers would do well to read the report referred to in the African Insight section of CAS about the power relationships in Africa, and the potential of Ethiopia in this regard (<https://ntusbfcas.com/power-and-influence-in-africa-algeria-egypt-ethiopia-nigeria-and-south-africa>).
- **Kenya:** Why Kenya? Kenya boasts of a number of achievements. It enjoys middle-income status as Africa's 9th-biggest economy, accounting for over 2% of its GDP. Its market-friendly policies attract private sector investment and grow its strong private sector. FDI is expected to play a role in growth acceleration, should the newly discovered oil deposits be commercially viable. Large-scale infrastructure projects, e.g. the Mombasa-Kigali railway, also incentivize private sector engagement. Kenya built Africa's first geothermal energy sources, providing 51% of its energy and reducing costs by 30% since 2014. As the hub for regional integration and the EAC, Kenya is the regional export and financial hub, but also the commercial and transportation hub of East Africa. Kenya's market-based economy enjoys some of the strongest service-sector industries, including the financial and the ICT sectors. Travel and tourism made up 12.1% of Kenya's GDP in 2013, and it is frequently cited as one of the best tourist destinations in Africa. More than 67% of the adult population engages in mobile commerce, making Kenya the world leader in mobile payments. At 86% mobile payments penetration, M-Pesa is redefining the way Kenyans perform transactions and has drawn in the previously unbanked into the system. Nearly 50% of women in Kenya are members of a women's voluntary saving group (called chamas), designed to help women overcome barriers to financial participation. Kenya has a thriving manufacturing sector, and is diversifying exports away from agricultural commodities and increasing value-added processing. In 2014, 70% percent of Kenya's exports to the U.S. were textile- and garment-based. The following key challenges could undermine economic development: Kenyan youth are experiencing much higher unemployment rates (25%) than the rest of the Kenyan population (12.7%); spatially unbalanced growth in the Kenyan economy continues to be evident; in spite of substantial progress, Kenya still has a long way to reach the set MDG targets (over 40% of the population live on less than \$1.25 a day); implementation challenges of fiscal decentralization remain (equitable access to resources in all parts of the country is crucial); and Kenya's infrastructure remains insufficiently developed in spite of the allocation of 27% of the national budget over the last 5 years to transport, energy, water and sanitation, and environment-related infrastructure. (Sy, A. and Goyal, R. 2015. Obama's trip to Kenya: Economic highlights. **Brookings: Africa in Focus** – www.brookings.edu. 17 July.)
- **CAS View:** Kenya's president has stated it is positioning itself for high growth. It can already boast of a number of achievements, as is clearly indicated above. A more balanced view of its challenges would include the security risk of Al-Shabab on its northern borders. However, Kenya is rightly portrayed as the regional hub of East Africa and the EAC, with the latter being one of the more efficient economic communities within Africa.

West Africa

- **Nigeria:** Dangote Group, one of Africa's leading industrial conglomerates, has interests in everything from cement to food. Its founder, Aliko Dangote, has specific views on the development of Nigeria's natural-gas sector into an export industry. Nigeria is very dependent on oil—38% of the country's imports are petroleum products. Dangote states a refinery is needed to meet the domestic demand and to export to West Africa. Such a refinery, costing \$12 billion, with a daily output of 650,000 barrels, would be the biggest petrochemical complex in the world in one single location, and would generate an annual turnover of \$24 billion. Dangote is bullish on value-added: exporting raw materials does not make much money, and countries should be goods exporters. Africa for him, despite risks, is the best-kept secret as it has been growing sustainably by 5.5% a year for the past 12 years, without power.

With power, growth could have been double-digit. Political transformation by various governments in Africa is making life easier than before. Frequent changes of the rules by governments have stopped, providing certainty to investors. Banks, in spite of some shortcomings, are now more inclined to fund projects. Dangote is of the opinion that strong partnerships are imperative for success. Before going to the capital market, key investors are first brought on board, where after capital is sought on the stock exchange. Innovation of operating models and main processes are equally key for success. To grow the business, it has become important to digitize the business. In order to make the right decisions, information is crucial. Lastly, Dangote stated it was important to have strong leadership and a robust team on board, with people smarter than you, and a succession plan that is clear. (Anon. 2015. Dangote Group on the Africa opportunity. **McKinsey & Company** – www.mckinsey.com. July.)

- **CAS View:** When the richest man in Africa, according to Forbes, makes a few points of achieving success in Africa, it probably makes good sense to pay attention. The irony is that for the student of business, none of his points are new. What then is the difference? CAS is of the view that it is about first having a vision that can be and is shared. It is about leadership. Secondly it is about the how. And thirdly it is about the what. Without the first 2 factors, knowing the “what” is only about keeping busy, which is meaningless and unsustainable. Dangote is also clear that Africa is the place for investors to be.

Northern Africa

- **Egypt:** According to the Egyptian oil ministry, Eni from Italy has discovered gas of up to 15 billion cubic metres of natural gas and natural gas condensate in Egypt's Nile Delta region, with production set to start in 2 months. The discovery was made in Western Abu Madi, 120 km northeast of Alexandria, at a depth of 3 600 metres. In June, the Egyptian oil ministry signed a \$2bn energy exploration deal with Eni, where after Egypt raised the prices it pays Eni and Edison for the natural gas they produce in the country in July. This is seen as an attempt by Egypt to improve terms for foreign oil and gas businesses, hoping that more competitive pricing would encourage investment in Egypt. (Anon. 2015. Eni discovers 15bn cubic metres of gas in Egypt. **Fin24** – www.fin24.com. 20 July.)
- **CAS View:** CAS reported last week on the bullish sentiments of Ashburton Investments towards Egypt, and the commitments of the GCC states and certain MNC's. The announcement this week of the gas find mentioned above, no doubt adds impetus to the Egyptian economic growth. As the availability of cheap and abundant energy sources are traditionally seen as a major driver of economic growth, this discovery will enhance Egypt's prospects, and create opportunities both upstream and downstream in the industry value chain. Currently Egypt has the second largest economy in Africa, based on PPP GNI. This will make it more difficult for other aspiring economies in Africa to overtake Egypt on the rankings list. It will also increase the attraction of Egypt for FDI investors, all hopefully to the benefit of the Egyptian consumer. Increases in lifestyle inevitably follow the prudent management of these processes. As stated last week as well, a stable political scene is now crucial for the unfolding of these benefits.

Southern Africa

- **South Africa:** Retail sales data for May 2015 have been disappointing due to a lacklustre consumption trend, higher fuel prices and rising inflation. Retail sales grew by a disappointing 2.4% year on year in May after expanding by 3.4% in April. This was below market expectations of 2.5%. With the exception of dealers in food, beverages and tobacco, growth in sales of dealers in other industries declined. According to Laura Campbell from Econometrix, rising inflation will have contributed towards an erosion in the growth of disposable income of households

and therefore retail sales. Foreign tourists from the rest of the African may have been hesitant to travel to South Africa in May, given the spate of xenophobic attacks in April. Investec stated that the weak nature of retail sales growth this year was symptomatic of a weak, constrained economy, which was not seeing the promotion of ease of doing business or tripling the size of the private sector. This can only be achieved by a reduction in state control in the economy and a marked reduction in the size of the state. They also stated that the privatisation of the supply of electricity in South Africa was crucial to free up finances, human capital and resources. Campbell said the decline in retail sales in May added to a list of other real economic indicators, suggesting the domestic economy was too weak to withstand a rise in interest rates at the conclusion of the monetary policy committee (MPC) meeting on 23 July. (Khuzwayo, W. 2015. SA retail sales hit by consumer gloom. **Business Report**– www.iol.co.za. 16 July.)

- **CAS View:** Retailers in South Africa have long realized that the retail space in South Africa was a mature area, with low growth prospects. Subsequently, companies such as Shoprite, Woolworths, Pick 'n Pay, The Foschini Group, etc, have all moved into Africa. Here factors such as the growth in the middle class, the trend towards urbanization, and higher disposable incomes, have delivered good returns for most of these companies. Some have had to disengage and re-engage at a later stage after having learnt some expensive lessons. Some seem to be having a difficult time, such as Edcon. The latter is under pressure in its home base, which serves to show that it is difficult to outmaneuver a weak position at home by moving into foreign areas. This reinforces an old military principle, i.e. you must have a firm base from which to attack. Africa presents opportunities for those who understand the potential it presents, as well as the risks involved. South African consumers, and therefore also retailers, will experience a bit more pressure given the 0.25% increase in the repo rate of South Africa, announced yesterday afternoon.
- **South Africa:** According to the latest SA Tourism Business Index (TBI), the SA tourism industry is being threatened by a number of factors such as new legislation on unabridged birth certificates and visa restrictions. The TBI for the second quarter of 2015 showed a newly pessimistic outlook, according to the Tourism Business Council of SA (TBCSA). The negative contribution factors cited by respondents in the accommodation and other tourism sectors were: new legislation with regard to biometrics and unabridged birth certificates; visa restrictions; the general state of the economy; labour unrest (strikes); poor service delivery in terms of electricity and water shortages; the impact of the Ebola virus; reduced demand from government officials; high utility costs; high cost of flights, accommodation and car hire; xenophobia; and an increase in the cost of fuel. (Smith, C. 2015. SA tourism pounded on all fronts, index shows. **Fin24** – www.fin24.com. 20 July.)
- **CAS View:** Sometimes an industry can be its own worst enemy. While a factor such as the new legislation is no doubt a negative factor and appears to have several unintended consequences, a number of the other factors appear to be either irrelevant or beneficial for foreign tourists. Tourists from a strong currency area (read strong economy) have a field day in countries with a weaker economy. South Africa has had labour issues for the last 40 years, and tourism has done well in spite of this. There is no doubt that the tragedy at Marikana had negative vibes, but whether it actually impacted negatively on tourism in a meaningful way, needs to be proven. CAS could continue in this vein. Suffice it to say that publishing a bullet list of gripes hardly does the South African tourism industry any good, as it creates a negative image abroad with the very people they would like to attract in the first place. But then, bad news sells better, doesn't it?