

African Union

- **Africa:** ISS Africa highlighted a few topics of Obama's speech to the AU this week. Failure to provide basic services: 'Still, even with Africa's impressive progress, we must acknowledge that these gains rest on a fragile foundation. Alongside new wealth, hundreds of millions of Africans still endure extreme poverty. Alongside high-tech hubs of innovation, many Africans are crowded into shanty towns without power or running water – a level of poverty that's an assault on human dignity.' On leaders wanting to hang onto power: 'I don't understand why people ... want to stay on. Especially when they've got a lot of money. When a leader tries to change the rules in the middle of the game just to stay in office, it risks instability and strife, like we've seen in Burundi. This is often just a first step down a perilous path. Sometimes you'll hear a leader say that I am the only person who can hold this nation together. If that's true that leader has failed to build that nation.' On Africa's relationship with China: 'African countries should want to do business with every country. But economic relationships can't simply be about building infrastructure or extracting resources. Real economic partnerships have to be a good deal for Africa. They have to build jobs and capacity for Africa.' On Ethiopia's poor human rights record: 'Ethiopians have much to be proud of. But as discussed with Prime Minister Hailemariam, it's only the start of democracy. I believe Ethiopia can't unleash the full potential of its people if it jails journalists or restricts legitimate opposition groups from participating in the campaign process. To his credit, the Prime Minister acknowledged that more work will need to be done if Ethiopia is to be a full-fledged and sustainable democracy.' Allison also highlighted the 5 steps Obama indicated were required to create progress and prosperity for all: Step 1: unleash economic growth by making Africa a more attractive destination for trade and investment; Step 2: end corruption; Step 3: get democracy right; Step 4: eliminate insecurity; and Step 5: protect human rights. (Allison, S. 2015. THINK AGAIN: Why Obama's AU speech matters. **Institute for Security Studies** – www.issafrica.org. 29 July; Allison, S. 2015. Obama at the African Union: Adoration, adulation, and a plan to fix Africa. **Daily Maverick** – www.dailymaverick.co.za. 28 July.)
- **CAS View:** Allison highlighted a number of issues that have been topics of discussion for quite a while in circles debating the future of Africa. It was good for someone of the stature of a Barak Obama to point them out on a public forum. Africa has indeed a lot of work ahead of it. However, let no one dispute the advances that have been made. The principle is that Africa is a work in progress. With the right support and investments in an approach of constructive engagement, Africa has the potential to deliver to its people. The above points by Obama could be summarized under leadership and people development.
- **Africa:** Supermarkets in Africa are a new trend (proving to be quite pervasive) and are changing the shopping habits of the growing middle-class. Where primarily the South African supermarkets have led, other international brands have followed, e.g. Barclays, KFC and Nando's. According to McKinsey, Africa's consumer industries will grow by more than \$400bn by 2020, all wanting to tap into the middle class. Shoppers move from street shopping to the malls: for entire shopping under one roof, and for the status thereof. Retailers need to keep pace with these aspirations. Shoprite has opened 22 supermarkets in Zambia since 1995, but South African peers, including Pick n Pay, Woolworths, Mr Price, Pepkor and Spar, have all moved into Africa as well. In recent years, 9 shopping malls have opened in Lusaka (2 million people), with another 3 under construction. Challenges include the very high cost of transporting goods on poorly maintained roads, ageing railways, and through border crossings plagued by bureaucracy and corruption. In spite of the vast majority of African shopping still taking place in the informal sector, retailers keep seeing the potential. Pick 'n Pay stated they were in a hurry to get it right, which did not mean getting into every country very quickly or overly expanding when all that was needed was to develop the supply chain. The metamorphosis across Africa the past decade has been remarkable — from an explosion in real estate development to the new consumerism. With a rapidly urbanizing youthful population, all forecasts

point to the trend continuing. (England, A. 2015. Spate of malls reflects an African metamorphosis. **Business Day BDLive** – www.bdlive.co.za. 29 July.)

- **CAS View:** Africa is changing and the early movers will benefit from this the most. As mentioned, the growing middle class, urbanisation, higher disposable incomes, and greater political stability all lead to aspirational type of trends. The reason South African retailers have moved into Africa was due to the mature retail market in SA. Walmart is using South Africa and Massmart's African footprint as a beachhead into Africa. Carrefour, Aldi, Tesco and Sainsbury all have no meaningful presence in SSA. By waiting they are enabling the existing South African players to entrench their market position. With 1 billion consumers Africa is waiting. The situation reminds CAS of an old saying: "he who hesitates is lost!" One would, though, have to track the impact of the trend on the small entrepreneur in Africa making a living from street vending. The mall trend will be devastating for them. Is this the price of progress?
- **Africa:** Africa is in desperate need of investments for, amongst others, \$90 billion annually for infrastructure alone. It has been difficult to obtain this funding from banks as capital flight and illiquid capital markets make money inaccessible and high interest rates discourage borrowing. A solution is available in Private Equity (PE) investors. PE raised \$4 billion for Africa in 2014, and has proven to be an important economic growth catalyst. It provides the growth capital that Africa needs at its current stage of development. They also have the benefit of a multiplier effect: creating profits for investors, and economic and social benefits for consumers. The African PE landscape (e.g. the Abraaj Group, Helios Investment Partners, and Actis Capital) has recorded good success since 2005. Abraaj (managing \$9 billion in assets) recently closed a \$990 million fund, its third in the region, and has its hand in almost every sector in Nigeria, Africa's largest economy. To find the immense PE opportunities in Africa, PE firms need to be on the ground and look to partner with others. The PE space in Africa is expanding, creating jobs and fostering economic growth. There is still a long way to go, though, as only about 1% of the \$3.8 trillion of PE in the world goes to Africa, where several sectors remain underserved. To address this, more venture capital funding is needed to grow smaller companies into the PE deal size companies of tomorrow. While Africa does pose some risk (which could be reduced by means of due diligence), high rewards await those brave enough to invest. However, PE is not enough to meet all the investment needs of Africa. The short-term nature of PE deals (typically 5 years) is not sufficient for Africa, as it needs longer-term investors to fund infrastructure. It also needs lenders that can finance its growing SME space. While Africa's economic growth successes and the growing middle class are creating awareness of Africa's opportunities, investment barriers and capital market weakness must be addressed to brighten Africa's chances of tapping into the investments required. (Aderibigbe, N. 2015. Private Equity Is Reshaping Africa's Investment Space. **Ventures Africa** – www.venturesafrica.com. 23 July.)
- **CAS View:** Whether one looks at energy infrastructure development or shopping complexes, Africa needs access to funding. There is no denying this. Annual FDI at present is not sufficient to address Africa's developmental and growth requirements. The author makes an eloquent point that PE funding could make a contribution. This also poses opportunities for private individuals wanting to tap into the opportunities presented in arguably the last investment frontier in the world. There is no doubt that there is risk, but the returns are sweet, and the risks can be mitigated. Common sense and good management processes will go a long way to ensure a reduced risk environment.

West Africa

- **Nigeria:** SA's automotive industry faces increasing competition from countries in Africa, with former trade and industry minister Alec Erwin among those promoting Nigeria as a destination for manufacturing or the assembly

of knock-down kits. In spite of concerns over the sustainability of the industry in SA, it has shown strong export growth this year (up 88.4% at the end of June from June 2014. According to Erwin, Nigeria was not promoted as an alternate to SA, but as part of an African auto partnership, in which the South African government was also participating. Many of the other automotive plants in Africa are purely for assembly rather than full manufacturing. The latest automotive company to assemble its products in Nigeria is Volkswagen (VW), joining Nissan, Hyundai, Ashok Leyland and Iveco in using an assembly plant owned by the Dubai-based Stallion Group to bypass the high import duties. Nigerians currently spend more than \$3bn annually on imported new vehicles and \$3.2bn on imported preowned vehicles. The Nigerian government has not banned the import of used vehicles, but has placed a 70% import duty on them. At the same time it has imposed a 70% import duty on new vehicles. Manufacturers that assemble complete knock-down or semi knock-down vehicles, however, will only have to pay a maximum of 35% duty. The decision to assemble vehicles in Nigeria is currently not seen as a major threat to SA's motor manufacturing sector. Some companies are even looking at investing in SA. According to Nico Vermeulen, director of the National Association of Automobile Manufacturers SA, Nigeria offers opportunities for South African automotive companies to facilitate bilateral agreements for SA-based automotive companies to supply components to the Nigerian automotive industry. Either they do it, or someone else, like India, would. (Smyth, M. 2015. SA car makers eye Nigeria despite tariffs. **Business Day BDLive** – www.bdlive.co.za. 28 July.)

- **CAS View:** High import duties are aimed at protecting local manufacturing entities. In addition, the Nigerian market is huge, albeit in a somewhat tardy state given the severe drop in the oil price. Nigeria is heavily dependent on its oil exports, and with the oil price at approximately \$53 per barrel, Nigeria's economy is under heavy pressure. Diversifying its economy away from oil-based exports to local manufacturing is part of the medicine the doctor ordered. It will put Nigeria's economy on a far more sustainable route than hitherto.

North Africa

- **Egypt:** Egypt will formally open a new 72-km section of the Suez Canal (called the Suez Canal Axis) on 6 August. It will nearly double the speed of traffic in the canal and is expected to bring investor trust and foreign capital back to Egypt after the turmoil since 2010. It runs along the existing 146-year-old canal connecting the Mediterranean Sea with the Red Sea. All types of vessels can use the new canal. The \$8-billion project was launched in August 2014 and supervised by the military after President el-Sisi ordered the construction to be completed within one year. In addition to reducing the waiting period for ships from about 20 to 11 hours, the new 2-way route promises to nearly triple revenue from the Suez Canal to over \$13 billion per year by 2023. Moreover, plans for a large international industrial and logistics hub near the new canal will help boost the Egyptian economy, eventually accounting for up to one third of GDP. As part of the project, the creation of a Russian industrial zone has also been agreed upon by Egypt and Russia. (Anon. 2015. Egypt ready to open 'New Suez Canal'. **RT** – www.rt.com. 30 July.)
- **CAS View:** In previous issues, CAS has referred to the resurgence of Egypt's economic success. It has not only succeeded in obtaining massive FDI, but has also discovered a large gas deposit. The latest in its "good news for investors", is the formal opening of the new Suez Canal. This will increase Egypt's attractiveness for investors, give its economy a further boost, and present numerous other downstream benefits. The effect of this development on other harbours down the West and Southern Coast of Africa needs to be investigated. In a separate article, CAS has picked up that the USA will be delivering 8 F-16 fighter jets to Egypt to beef up its security "during times of regional instability". Let us hope that the political environment (both in Egypt and in the region) remains conducive for growth and prosperity for Egypt.

Southern Africa

- **Southern Africa:** The Southern African Development Community (SADC), a group of 15 countries with 277 million people, said there are enough power generation projects currently underway to end electricity shortages by 2019. SADC members have completed building almost 2 000 MW of generation since 2014, and will finish a further 2 763 MW in 2015. The power deficit in the region is 8 247 MW, it said. In SSA, projects beginning in the next 3 to 4 years will bring the amount of capacity under construction to 24 000 MW (3 times the current power shortfall). According to US Aid, about 600 million people in Africa lack access to electricity, whilst the World Bank stated that the power deficit and poor reliability of supply reduce annual economic growth by 2.1% on average. Consumers also pay more for power, with average tariffs at R1.64 a kwh, compared with R0.51 to R1 on average in most parts of the developing world.
- **CAS View:** Affordable and reliable energy is a prerequisite for sustainable economic growth. Should the above projects indeed deal with the power shortfalls countries such as South Africa is experiencing, it will bode well for their economies. It will stimulate the manufacturing industry and bring down the costs of their products, making exports more competitive. It could also help to diversify the economies of countries away from commodity exports to value-added exports and import-substitution. This all adds up to the attractiveness of Africa, and it surely will create opportunities for FDI.
- **South Africa:** According to the CSIR of South Africa, SA's water treatment works are in a poor to critical state and monitoring water quality was increasingly becoming a problem. The CSIR have shown that although the Department of Water Affairs are responsible for registering 8000 different pesticide products in SA, it does not look at how it will impact the quality of water. Logistically the monitoring of SA's water was a very difficult task as there was only 1 laboratory for testing. Only 41% of the samples collected as part of the programme were of an acceptable quality. In addition, about half of the wastewater treatment works were in a poor to critical state, due to infrastructure, capacity, and governance issues. Due to urbanisation, the treatment plants could not handle the volume of effluent, and large amounts of money were needed to sort out this problem. The management of water was creating problems and was dealt with in a fragmented manner. In spite of pockets of success, problem areas remained. Management inefficiencies at local government level were not addressed. One commentator stated that it seemed as though government was caught in a "short term spin", where problems were dealt with, but there were no long-term solutions. An example of the fragmented nature of the management of water was the lack of integration between the departments of Water Affairs and Agriculture in dealing with the pollution of water. (Hartleb, T. 2015. SA's water treatment works in critical state. **News24**– www.news24.com. 29 July.)
- **CAS View:** South Africa's electricity woes are well known, with Eskom having to deal with a lot of negative publicity. It now seems that in addition to its energy problems, South Africa is facing serious water problems as well. Whilst energy problems are a major hassle and have been costing the South African economy billions, cutting the water supply (water-shedding) cannot solve the country's water problems. CAS is certain there is the political will to deal with this problem. It would like to recommend to the South African government to investigate the unique ways the Singaporean government have managed to solve its water problems in a sustainable manner. After visiting entities such as the Singapore Cooperation Enterprise, it is clear the Singaporeans have no problem sharing their expertise and their experience. It is an offer waiting to be taken up. (CAS needs to state categorically that the water out of the tap in South Africa is quite safe to drink.)