

## African Union

- **Africa:** China's move to devalue the yuan's exchange rate created a lot of uncertainty worldwide. For Africa, the fallout may be cause for longer-term concern, adding impetus to build intra-African trade. The immediate consequence for Africa is that investors will reduce their exposure to emerging markets, reducing the cash and opportunities available for investment in regional economies, while increasing their exposure to government debt in developed economies. Another near-term outcome is that China may essentially be exporting deflation, drying up money supply channels for developing countries, making it more costly for them to borrow. The yuan's depreciation will also boost Chinese exporters as their products become cheaper and more competitive globally. As the balance of trade between Africa and China has been firmly in China's favour, more Chinese goods will soon be making their way into African markets. This would further weaken Africa's ability to produce the same goods locally or compete. As lot of Africa's trade has been in exporting raw industrial materials and commodities to China, China's move could reduce demand for African imports as it looks to build its own capacity. Commodity-dependent countries like South Africa, Zambia, Liberia and Sierra Leone will have much cause for concern, as prices and key markets shrink. Oil exporters such as Nigeria, Angola and Algeria might welcome the news if crude prices maintain their rally, but the gain would have to be more to counter the reduced demand by China for energy. It could, however, be bad news for African oil importers. A weaker yuan would also hurt tourism-dependent African countries that have been aggressively courting Chinese tourists, such as Kenya, South Africa and Mauritius. Central banks in Africa can further expect a tough ride. Less external cash for development means governments look inwards, driving up interest rates, which are already on the higher side, and hurting the economic balancing acts many are on. Africa's long-term safe bet will be to develop intra-African trade and reduce its exogenous risk. (Mwiti, L. 2015. China, the continent's biggest trade partner, has freed its currency. Which African nations have the most to fear? **Mail&Guardian Africa** – [www.mgafrica.com](http://www.mgafrica.com). 13 August.)
- **CAS View:** The author identified intra-African trade as the solution to the vulnerable position Africa finds itself in. One cannot argue with that. Intra-African trade is at a very low 13% of Africa's trade. It also needs to deal with regional economic integration, which is easier said than done. Furthermore, beneficiation has become an urgent imperative and no longer a nice to have. Africa would also need to address its manufacturing capacity and industrialization process, and urgently address its business enabling policy frameworks. Having a trade partner such as China is nice when the going is good. However, when the going gets tough, your economy had better be diversified away from a strong dependence on commodity exports. CAS is also reminded of an old truth, "never put all your eggs in one basket." Yet, every cloud has a silver lining - countries borrowing from China could benefit by paying their debt in yuan instead of in US dollars.
- **Africa:** Over the past decade, South Africa, Kenya, and Seychelles have emerged as Africa's tech hubs. While Kenya and South Africa will probably hold onto their leads in the African tech industry in the near future, Africa is creating new tech hubs that are worthy of consideration by investors. Rwanda recently ranked fourth in networked readiness in Africa, behind only Mauritius, South Africa, and Morocco. Rwanda's blueprint for developing ICT identifies growth in 3 strategic sectors: financial services, education, and healthcare. Its hosting of 2 prestigious ICT summits (2007 and 2013) demonstrates its position in Africa's ICT landscape. An emergence of tech hubs in Rwanda has catalyzed innovation and enterprise. In the next 5 years, the Smart Rwanda Master Plan should consolidate gains made over the past decade. The creation of Business Parks of Mauritius in 2001 gave Mauritius a head start in Africa's tech race. Between 2004 and 2010, the ICT sector's annual growth averaged 15.4%, compared to Mauritius' average economic growth of 4.3%, making it a major engine of expansion. Mauritius' National ICT Strategic Plan also ended 2014 with bold targets for deploying ICT solutions in sectors like health

and education. Over the past decade, Ghana has carved out its niche in business process outsourcing. In 2005 and 2007, Ghana and South Africa were ranked as the only 2 economies in SSA competitive in BPO; in 2009 Ghana claimed the top spot as SSA's most preferred destination for BPO, many referring to it as "West Africa's Bangalore." Between 2000 and 2012, revenue generated through the global outsourced service industry doubled to just under US\$100-billion. Internet penetration shows there's great potential for growth in these developing regions, and all 3 countries are benefiting from incubation hubs that are increasing tech entrepreneurship. Three strategies to tap into potential opportunities: 1) Connect with tech entrepreneurs; 2) Target the host of socioeconomic challenges that present a profound opportunity for investment; 3) Engage in understanding the dynamics of the culture of Africa and its economy. With enough attention and focus, Rwanda, Mauritius and Ghana have the potential to provide a worthwhile reward for investors. (Makarov, K. 2015. 3 African countries that show investment promise as global tech hubs. [Ventureburn](http://www.ventureburn.com) – [www.ventureburn.com](http://www.ventureburn.com). 20 August.)

- **CAS View:** The uninformed may be forgiven should they have had the view that Africa is tech illiterate. As the saying goes, necessity is the mother of invention. The author makes a clear case for the rise of ICT opportunities in these countries. Whereas Mobile Network Operators suffer from a mature voice segment, data has become price-driven. The new development field is value-added services such as mobile application to the fields of health and finance, as well as entertainment. Investors should take note that in Africa, first-mover advantage in the ICT field could be decisive and a major source of competitive advantage. E-commerce is also growing in leaps and bounds.
- **Africa:** On 13 August a second Angel Investor Bootcamp was hosted in Nairobi, Kenya. Takeaways: For early stage companies, benchmarking is a successful valuation tool and more relevant than more traditional methods better suited for later stage companies. Angel networks and angel syndicates tend to screen more deals and make more investments and will therefore also be in a better position to benchmark, compared to individual investors. Benchmarking should be three-dimensional: sector, country and stage of development. Three key drivers behind the value of an early stage company: Quality of Offer, Market Heat and Cash Situation of the company. In an African context, benchmarking is a challenge, but becomes easier as more deals get done and more data becomes available. In spite of universal rules to investing, what has worked in one country or ecosystem or industry should not just be applied in a different environment without understanding how and why something works. Investor education is as important as educating entrepreneurs when it comes to deal structuring, term sheets and angel investing in general. Besides the science and the analytics, early stage investing is still very much an art form: "As an Angel investor, when your gut feelings tells you walk from that deal, follow your gut as it will haunt you later." The relevance of teams was stressed versus lone-wolf entrepreneurs and the role angel investors play in discovering talent, coaching & developing entrepreneurs and opening doors. Serious angel investors become actively involved. A local entrepreneur confirmed some lessons: find the right investor locally who gives autonomy to execute; look for entrepreneurs "committed to the vision, but flexible enough to adapt." (Van Dijk, D. 2015. Lessons learned on building a pan-African network of angel investors. [Ventureburn](http://www.ventureburn.com) – [www.ventureburn.com](http://www.ventureburn.com). 18 August.)
- **CAS View:** Angel investors for Africa are sorely needed as access to financial resources is one of the most important challenges entrepreneurs in Africa face. ABAN – African Business Angels Network - does important work to address this need. It is interesting that networks of angel investors are deemed to be more efficient than lone investors, which is kind of self-evident, yet seemingly difficult to achieve in the African context. Angel investors from other parts of the world should take note of the point that the context of Africa should be understood and that lessons learnt elsewhere should not be applied without this understanding. This article therefore provides some sound advice for investors wanting to move into Africa.

## West Africa

- **Nigeria:** According to McKinsey, the retail and wholesale trade are the biggest drivers of economic growth in Nigeria. The Nigerian consumer market is worth almost \$400bn and could be worth as much as \$1.4-trillion a year by 2030. Four major trends will shape Nigeria's consumer market in the next 5 years. 1) An emerging middle class, with favourable size and youthfulness, is attracting increasing levels of FDI, bringing higher rates of employment and improved levels of income, which in turn drive further consumer behaviour. An increase in Nigerians returning from abroad, together with improved global communications, is accelerating the development of a branded consumerism in Nigeria, with links to Western products and services. 2) Only half of the Nigerian population is urbanized; as urbanization increases, so will consumption and the need for convenience purchases. 3) Nigeria's large population is characterized by "Generation Y", the majority younger than 25, sophisticated, tech-savvy, media-literate and demanding of quality and comparative pricing. 4) The growing relevance of women as consumers in Nigeria. Increasing female empowerment, with rising employment and financial independence for women, has seen a significant increase in income and a growing female market. Challenges taking advantage of this consumer market: the highly regulated and taxed market; the poor state of infrastructure in Nigeria, especially rail, road, water and power supply; problems with governance and corruption; limited access to potentially lucrative markets in the so-called Muslim north due to insecurity; inequality - residents of Lagos, 12% of the population, earn on average twice as much as the rest of Nigeria; 36 federal states, each with its own rules and taxes; complications due to language and culture - more than 500 local languages spoken by 250 ethnic groups, present a challenge to access the broad Nigerian market. With a GDP of \$568bn, a population of 180-million and favourable economic growth over the past decade, Nigeria is one of the most exciting retail prospects in Africa. (White, L. and Rees, L. 2015. Nigeria's tricky retail terrain is lucrative. **BDLive** – [www.bdlive.co.za](http://www.bdlive.co.za). 7 August.)
- **CAS View:** Nigeria is positioning itself as the darling of Africa. CAS reported last week on the opportunities in Nigeria, which have been corroborated this week by this report by McKinsey. The driving factors for the retail environment are by no means unknown, but bear repeating: the emerging middle class, urbanisation, tech-savvy Generation Y, and the growing relevance of women as consumers. The challenges are by no means trivial, but the point remains that they can be mitigated and managed. President Buhari must deal with corruption and security, which will go a long way to provide the space for the positive factors to become prominent. Singapore companies such as Tolaram, Wilmar, Indorama and Olam have shown what can be done in this giant of Africa.
- **Nigeria:** Ford said it plans to assemble its Ford Ranger pickup truck in Nigeria by the fourth quarter, as it expands in Africa and the Middle East. The Nigerian assembly plant, in partnership with Ford dealer Coscharis Motors Ltd., is the first outside South Africa, where Ford produces the Ranger for 148 markets. According to Jeff Nemeth, CEO of Ford in SSA, Nigeria is a priority market for Ford. He stated that depending on how Nigeria developed over time, they were potentially looking at using the Nigerian plant to service West Africa. The auto market in Nigeria has huge potential, but retails only a small amount of new vehicles annually. While the sector was dominated by imported used vehicles, limited financing for consumers to buy new vehicles and the absence of an industrial policy that would encourage suppliers to set up in Nigeria, have stunted growth. The Ikeja plant near Lagos will assemble the Ford Ranger using parts and components imported from South Africa. The plant will have the capacity to assemble up to 5,000 units annually, which will be sold in Nigeria. Ford produces 85,000 units each year in South Africa, which are sold across 24 African countries. Nemeth noted that the benefit of the Nigerian plant was being close to its customers. Rival automakers, Renault-Nissan, Kia Motors and Volkswagen have also announced plans to assemble vehicles in Nigeria. (Reuters. 2015. Ford to build Rangers in Nigeria as it eyes West Africa. **Automotive News** – [www.autonews.com](http://www.autonews.com). 11 August.)

- **CAS View:** In addition to serving a potentially lucrative market, Ford's move into Nigeria will stimulate the job market, create employment opportunities and grow the consumer market. This will obviously grow the Nigerian economy, making it even more attractive for FDI, and thereby create a positive reinforcing cycle. Although the plant is currently only for assembly of vehicles, building factories in future for the component parts are not a far-fetched idea. For this scenario to be sustainable, however, the sine qua non remains Buhari dealing with corruption and security. The fruits are so impressive should this become a reality, that one can scarcely imagine it not being dealt with.

## Southern Africa

- **South Africa:** According to Elias Masilela, chairman of DNA Economics and part-time commissioner of the National Planning Commission, the "trust gap" between the public and private sector has a detrimental impact on the success of PPPs and has to be addressed for SA to overcome its challenges. Addressing the constraints in the SA economy has become critical as economic growth continuously lags forecasts and electricity supply and labour issues add to SA's problems. Due to the trust gap, progress on boosting growth, eliminating poverty and reducing inequality has been lacklustre. Either the private sector will hold back on investment due to concerns about regulatory changes, or the government will hold back on incentives because it argues the private sector is too greedy and short-term in its thinking. Rian le Roux, chief economist at the Old Mutual Investment Group, said although the relationship between government and the private sector is "pretty good" at a high level, in recent years government and the private sector have been at loggerheads about what SA needs. The private sector wants to operate in a free environment, while government wants to impose more controls. Both government and the private sector should take responsibility for its role in the trust gap. Issues like tax evasion may also play a role. On where to start to get the economy going, the World Bank this week highlighted 3 areas where SA can make an immediate improvement: 1) The relationship between government, business and labour; 2) fixing the country's problematic labour relations; and 3) policy certainty, which also pressurized the relationship between the private sector and government, as the private sector cannot operate in an uncertain policy environment. (Lamprecht, I. 2015. How SA can change its fortunes. **Moneyweb Today** – [www.today.moneyweb.co.za](http://www.today.moneyweb.co.za). 19 August.)
- **CAS View:** It is imperative that government, business and labour "find" each other to make SA work. There is an old saying that goes, "either you stick together, or you will hang separately!" Every South African has a role to play holding their politicians up to their election promises, and compelling the organisations they either work for or shop at to be responsible corporate citizens. South Africa has come a long way since 1994, and needs to apply itself to ensure the future unfolds in the ways envisaged by the architects of its democracy. Leadership, hard work, excellence, and integrity is now required. It is doable. Just look at Singapore! And South Africa has the people. It just needs to be done.