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- **Africa:** Africa could find itself on the brink of disaster if it continues to depend on its current economic fundamentals and does not usher in economic diversification.

  RMB has found that Africa could find itself on the brink of disaster if it continues to depend on its current economic fundamentals and does not usher in economic diversification. Unfortunately, there is no quick fix and traditional forms of revenue will remain a reality for many years to come. Notable omissions from the Top 10 rankings this year are Nigeria and Algeria, which have fallen from numbers 6 and 10 to numbers 13 and 15 respectively. Ethiopia and Rwanda have climbed 3 and 4 places respectively. SA has fallen from first place for the first time since the inception of the report, ceding its place to Egypt, which is now Africa's most attractive investment destination, largely because of its superior economic activity score and sluggish growth rates in SA, as well as concerns over issues of institutional strength and governance. In SA's favour are its currency, equity and capital markets, with many other African nations facing liquidity constraints. Morocco retained its third position. Ethiopia displaced Ghana to take fourth spot, mostly because of its rapid economic growth. Though Botswana, Mauritius and Namibia are widely rated as investment grade economies, they do not feature in the Top 10 mostly because of their relatively small markets. For more information, read: http://bit.ly/2xlLzOA.

  CAS View: The diversification of its economies has long been punted as the solution to the economic malaise that has characterised Africa for the past couple of years. Quite a number of commentators have suggested that the agriculture sector would be the sector to focus upon, notably people such as Olusegun Obasanjo, Akinwumi Adesina and Aliko Dangote, all of them from Nigeria, one of the hardest hit economies due to the oil price slump. RMB is suggesting that the situation in Africa could become worse before it gets better. It is interesting to note that 2 of the 5 North African economies have been included in the list of the most attractive investment destinations. Morocco is the only country there that escaped the Arab Spring in a meaningful way. Egypt has been bouncing back for quite a while. Again, interestingly, just before the onset of the Arab Spring, Egypt was identified as one of the best investment destinations, just to disappear from the list a few months later. South Africa could even fall to lower spots on the list if one looks at the reasons why it lost its first-place position to Egypt. It will all depend on what happens at the ANC elections in December 2017, and how the new leadership reacts to the sources of corruption and state capture that are currently prevalent in the country. One negative example that raises concern is that while the previous Public Protector was seen as fiercely independent, the current incumbent is perceived by many to be in the pocket of the president. The ranking's attitude towards size of the market makes sense. Many other ratings have ignored this element, but countries such as Nigeria, Ethiopia and South Africa have much more to offer investors, given the size of their markets, than a country such as Namibia or Botswana can.

East Africa

- **East Africa:** Kenya and Ethiopia might soon outshine Africa's economic giants, Nigeria, SA and Egypt, in the competition for investment.

  A report by Control Risks shows that Kenya and Ethiopia might soon outshine Africa's economic giants, Nigeria, SA and Egypt, in the competition for investment. They noted that while Nigeria and SA have recovered, there are still some risks. Ethiopia, one of the fastest growing countries in Africa, outperformed all African countries in the survey. It attracted US$3.2 billion of FDI in 2016. Kenya had an average economic growth of 6% between 2010-2016 and is expected to be at 5.4% this year. A well-educated workforce, an innovative service sector, the government's continued investments in upgrading critical national infrastructure, and deepening integration with its neighbours through the EAC allow it to act as a gateway into the larger East Africa region. While Nigeria's energy sector gives the country an appeal, risks include insurgent attacks on the Niger Delta and a fall in oil prices. Whilst SA enjoys a reputation as Africa's pre-eminent constitutional democracy, several of its key institutions have gradually weakened over the past decade. The forecasted real GDP growth of 0.5% for 2017 is insufficient to reduce SA's 27.7% unemployment rate. Egypt has a stable political position, but economic and security challenges remain. For more information, read: http://bit.ly/2jLOStZ.

CAS View: This article is based on another ranking. Ethiopia is generally viewed as the best investment destination, in spite of its political volatility. Its massive market (approximately 100 million people) and its progress on its industrialisation drive and growing its manufacturing sector are major contributing factors. Building industrial parks and providing all kinds of incentives are increasing its attractiveness. Companies from both China and the USA are manufacturing in Ethiopia or sourcing from there. To be fair towards the other giants in Africa (Nigeria, South Africa and Egypt), Ethiopia's growth, while outstripping theirs, is off a much lower base. And it also has risks that cannot and should not be swept under the carpet. Make no mistake, Ethiopia has a lot of potential to offer, but one cannot ignore the risks prevalent in the country when comparing it to countries such as South Africa and Nigeria. Having said that, the Institute for Security Studies did identify Ethiopia as one of its Big Five countries in Africa for the future. And the mastermind behind the industrialisation drive, Dr Arkebe Oqubay, is doing an excellent job, to such an extent that the country is being seen as the benchmark in Africa. Ethiopia did take up the fourth spot in the Top 10 rankings of the RMB list in the article above, way better than Nigeria, but lower than Egypt and South Africa, at this stage. Here we again find another ranking company that is concerned about South Africa's key institutions. South Africa's Chapter 9 institutions refer to a group of organisations established in terms of Chapter 9 of the South African Constitution to guard democracy. They include institutions such as the Public Protector, the Auditor-General, the Independent Electoral Commission (IEC), and an Independent Authority to Regulate Broadcasting. Serious questions are raised about the independence of some of these institutions, which apparently is not only a source of concern for South Africans, but of external institutions as well. To South Africa's benefit, it still has an excellent and independent judiciary, widely respected by most South Africans. However, the increasing rate of unemployment of the South Africans is still a source of concern, more so given that the youth form a sizable portion thereof. South Africa must address this issue!

- **East Africa:** Food retail corporations seem to be struggling in East Africa in general and Kenya specifically.

  Shoprite has become a dominant player in some African markets, including Mozambique. The story of successful supermarkets, however, have hit a wall in East Africa. Smaller countries, such as Mozambique and Namibia, provide bigger opportunities for expansion (and returns) compared to East African nations. One can better manage growth expectations and costs (and projected returns) in neighbouring southern African countries, including Zambia, than in the rising East African giants. Shoprite's absence, specifically in Kenya, surprises some observers. But there are a few challenges in East Africa. First, competition is skyrocketing in the region. Growth in the market is not matching larger economic numbers in the region. Lastly, supply chains have not worked well for neither the buyer nor the supplier. The quick decline of Nakumatt and Uchumi in the Kenyan market epitomizes the changing dynamics in East Africa. Tuskys and Botswana-based Choppies have found small niches in the market with smaller and more localized spenders. Bigger international brands Game and Carrefour have planted themselves in large shopping hubs to take advantage of significant foot traffic and bigger spenders. The local struggles by Nakumatt and Uchumi also further expose the supply chain challenges in the region. For more information, read: http://bit.ly/2xQ2HxB.

  CAS View: The East African market seems to be a very difficult market for large retail corporates. This is in spite of the fact that Kenya ranks as the second-highest formalised retail sector and the average value of consumer spending has risen as much as 67% in the past five years, making it Africa's fastest-growing retail market – an attractive market therefore. South African retailer Pick n Pay way back found it difficult to operate successfully in Tanzania and sold out to another South African retailer, Shoprite. Shoprite also withdrew from Tanzania a few years ago, unable to establish itself in a meaningful way. Shoprite for some reason never ventured into Kenya, in spite of establishing a foothold in various other African countries, to the extent that it is the largest African food retailer. The question that goes begging is why is this East African market in general, and Kenya specifically, such a difficult market to break into, or even to operate in. Even Kenyan corporate retailers such as Nakumatt have been struggling. As it is, the press has been publishing articles the past few months of Nakumatt's cash flow problems and inability to pay its personnel and suppliers. The Kenyan market is seen as quite dynamic and the range of products on offer is wide - not forgetting that the existing retailers have established brand loyalty among consumers over time. Therefore, incoming retailers need to offer a differentiation if they are to appeal to consumers. High rentals have made it difficult for retailers to gain traction in Kenya. A more formalised research effort is required

to ascertain why East Africa has not been kind to corporate food retailers. I do recall that during a visit in 2003, Mr Jimnah Mbaru, the first chairman of the Kenyan Securities Exchange, informed me that foreign retailers do not do their homework properly; they do not know who buys, when they buy, and how they buy. It would be interesting to see whether that is still true and whether there are other factors at play as well.

- **Kenya:** Safaricom's M-Pesa has been upgraded so that enhanced features such as mobile e-commerce payments can be added to the mobile money transfer platform. This is to support its e-commerce platform, Masoko.

  Safaricom's M-Pesa has been upgraded so that enhanced features such as mobile e-commerce payments can be added to its functionalities. Some of its new capabilities will include platform enhancements in cooperation with partner companies and mobile e-commerce payments. This upgrade takes place 2 years after Safaricom deployed a new local platform that enhanced the system's capacity. With new customers added to the platform consistently, and around 26 million people now using M-Pesa to undertake around 10.5 million transactions per day, further capacity enhancements were necessary. Users can now accept M-Pesa for e-commerce payments in Kenya. At the end of August, Safaricom announced the launch of an e-commerce platform of their own that will be focused on supporting and enabling small businesses to sell their products online. The aim of Masoko is to give small and micro businesses access to markets that they would otherwise be unable to reach with their products. Initially launching in Kenya this October, it will become available in other parts of Africa, competing directly with the likes of Takealot, Jumia and Kilimall. For more information, read: http://bit.ly/2fyN7LN.

  CAS View: Safaricom recently announced that it would be launching Masoko, thereby creating the potential to transform it into the Amazon.com of Africa. I mentioned at the time that given the mature state of the voice market and the price war in data, that MNOs had no other option but to turn towards value-added options, such as entertainment, etc. Safaricom has taken an excellent decision way back to launch M-Pesa. It now has launched Masoko as a platform for small and micro businesses to gain access to markets. It remains to be seen whether this will become as successful as M-Pesa. Masoko's aim to also move to countries such as Nigeria is not unique. Kilimall, a competitor in Kenya, is already operating in Nigeria as well. Jumia is well entrenched in Nigeria, while Takealot, which recently merged with Kalahari.net to gain considerable economies of scale, is doing quite well in South Africa. However, M-Pesa's ability to make e-commerce payments could well be a factor in its favour. For the consumer, this kind of competition can only be good.

- **Kenya:** Kenya seems to be removing the interest rate cap of 4% above the central bank rate.

  It appears that the interest rate cap is likely to be removed because of its negative impact on the economy. The amendment is arguably a response to commercial banks' reluctance to extend credit to high-risk borrowers that include consumers and small and micro business enterprises. It is also possible that the other real reason for removing the interest rate cap could be the decline in the earnings of commercial banks. By legislating the interest rate cap, Parliament forgot that reconciliation could only be done through market forces, specifically the demand and supply for money. The worst effect of capping interest rates is when borrowers resort to borrow from loan sharks and unaccredited lenders at exorbitant rates. That meant that doing business became unaffordable for a section of citizens. Allowing financial institutions to charge whatever interest rates they want, will also harm loan consumers, thereby ultimately undermining economic growth. Removing the cap on interest rates should not inconvenience existing borrowers. It is predicted that removing the interest rate cap will push the interest rate up, thus increasing the cost of doing business. For more information, read: http://bit.ly/2wG8WyM.

  CAS View: Kenya's president initially legislated the interest rate cap at 4% above the central bank rate. This was due to the fact the Kenyan banks provided a return on assets and a return on equity way above the average for the region. It was seen as being exorbitantly high. One of his motivations for the cap was also that it would provide cheaper access to finance for SMEs, which would then grow the economy by growing their companies. This had the negative effect that banks became much more cautious to whom they lent money, becoming very risk averse and hence producing the exact opposite effect that Kenyatta

envisaged. At the time of the promulgation of the legislation, I commented that disallowing banks the ability to price for risk, would lead to them tightening up their credit policies, which is exactly what happened. The article states that it is predicted that removing the cap will push the interest rate up. This is not rocket science. Banks must price for risk; the higher the risk, the higher the rate. But in this way, riskier enterprises will get access to financing, albeit at a higher cost. Going to loan sharks would provide money at even higher rates, but with more danger for the borrower. Legislators should remember that you do not get bad risks; you only get badly priced risk. By disallowing banks to price according to the risk, you undermine an important banking principle, making it difficult or even impossible for banks to operate efficiently.

West Africa

- **West Africa:** Creating value in optimal places in the cocoa industry value chain is possible in West Africa.

  West Africa, the world's leading cocoa producer, is grappling with the aftermath of a disastrous 2016/17 cocoa season. The drastic drop in prices reflects a softening chocolate demand and a historically large cocoa crop from West Africa. Despite controlling over 75% of the world's supply, West Africa is a price taker, making it vulnerable to the volatility of commodity markets. The lion's share of value, 80%, is unlocked at the chocolate manufacturing and retail levels. However, West Africa is not *ipso facto* well positioned to produce and export chocolate. One key reason for the absence of a thriving local chocolate industry is high manufacturing costs. Moreover, chocolate is costly to ship. Another factor is weak local consumption. Given low consumption of chocolate and its high cost and infrastructure requirements, it is not commercially viable for the region to manufacture chocolate for the world market. However, the region can extract more value from its cocoa production by continuing to invest in grinding lines, especially in cocoa butter and powder, which command a higher price than block cocoa liquor. An expansion in cocoa processing capacity, coupled with a control of its cocoa crop so that output stays in tandem with global demand, are critical in helping West Africa extract more value from its abundant cocoa production. For more information, read: http://bit.ly/2jQAMqX.

  CAS View: Value added activities in the elements up and down the value chain of an industry is frequently held up as an important way of creating more value. I have previously commented on the need for caution, referring to the steel industry as an example. South Africa created steel from its iron ore in Saldanha, the port from where it ships its iron ore globally. The problem with that is that this steel now competes against much cheaper steel from Asia, a situation that is now forcing ArcelorMittal to rethink its operations in South Africa. Victoria Crandall is cautioning against a quick and easy approach to value addition in the cocoa industry. She clearly shows that chocolate manufacturing for global distribution will not work; as a matter of fact, even chocolate production for Africa has severe limitations. Understanding the respective elements of the industry value chain is crucial to identify the areas where value can be added in a meaningful manner. While this may seem to be stating the obvious, the South African example shows it may not be so obvious. The lack of progress in the cocoa industry in West Africa is also a reflection that there is an uncertainty as to where the West African producers should be concentrating its efforts. They would do well to read Crandall's article.

- **Nigeria:** Nigeria needs $3 trillion in the next 30 years to plug its infrastructure gap and achieve rapid sustainable development. This is more than the current US$93 billion annual investment envisaged for the whole continent, raising concerns about the actual infrastructure investment required.

  Nigeria needs $3 trillion in the next 30 years to plug its infrastructure gap and achieve rapid sustainable development. Federal and state governments' fiscal inflows are grossly inadequate to finance this. The power sector is still significantly government-driven, with challenges of transmission, gas supply, tariffs, payment security, and operational limits, which have left the industry in a critical state regarding suitability for long-term investment. Nigeria therefore still struggles to provide an adequate supply of reliable power to its population of 170 million people. Similarly, the transport sector is largely public financed and hence limited by annual fiscal constraints. Roads and rail therefore typically get the most attention, but funding is "poor and opaque". Other challenges to be addressed, include bad procurement processes, structural problems that make it difficult for investors to get value for money, funding structure, maintenance and

tolling, among others. Commentators highlighted the inadequate attention Nigeria pays to meeting the needs of specific investors and projects already in progress, or to creating policy incentives that will spur investment. However, the federal government was commended for the decentralisation of Nigerian ports via private sector concessions. For more information, read: http://bit.ly/2yd8GZg.

CAS View: Two years ago it was stated that Africa needed a US$93 billion annual investment to deal with its infrastructure gap. This article states that Nigeria on its own needs a US$100 billion annual investment for the next 30 years to deal with its infrastructure shortcomings. This has upped the challenge for Africa to deal with its infrastructure requirements significantly! The article rightly states that the federal and state governments in Nigeria do not have the financial muscle to deal with this requirement. No government in Africa has this ability! If Nigeria on its own has this massive requirement, the question is, to what extent have the needs of other countries been understated? And if governments cannot provide the requisite funding, where will Africa get its funding from? A valuable source currently is that of foreign countries, e.g. China, Japan, India, USA, Germany, etc. But this comes at a price, frequently not only in the form of interest payments. Africa has no option but to address its infrastructure requirements. Transport infrastructure upgrades is a must for Africa to increase its internal trade flows. Housing infrastructure upgrades is a must for Africa to deal with its urbanisation trend. Energy and water infrastructure is a must for Africa to deal with its challenges: more than 600 million people do not have access to electricity and hundreds of millions do not have access to potable water. Upgrades in the infrastructure of the agriculture and manufacturing sectors are a must for Africa to diversify its economies away from a preponderance on resource exports and to escape the resource curse, while creating meaningful jobs at the same time. As it does not have the funding, this situation provides a large number of investment opportunities for investors with the required risk appetite.