

Africa

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Mobile has driven the \$300 million monthly transactions in Africa from 7.2 million new people (up 250% from 2012) using digital financial services and 45,000 new banking agents due to a financial inclusion project. The Partnership for Financial Inclusion program has been operating since 2012 and has been working with 14 microfinance institutions, banks, mobile network operators, and payments service providers across Africa. Financial inclusion in Sub-Saharan Africa has increased from 23% in 2011 to 43% in 2017. Mobile money solutions and agent banking now offer affordable, instant, and reliable transactions, savings, credit, and even insurance opportunities in rural villages and urban neighbourhoods where no bank had ever established a branch. Cultural prejudices meant that farmers felt “socially excluded” by traditional banks, but they were more trusting of digital services. In the DRC, mobile money services have risen to 16% by 2017. This has pushed the overall financial inclusion rate from 3.7% to 26% from 2011 to 2017. While East Africa has long been the star performer in terms of the evolution of digital financial services, West Africa is the new growth market. For more information, read: <https://bit.ly/2lqPSLG>.

CAS Analysis: This case study, as many others, show that the mobile phone as a platform business model is gaining traction and scale on an unprecedented scale. Directly, it has vastly increased the percentage of people now formally included in the financial systems of many African countries. It is leapfrogging the traditional development of branch networks in rural areas. Growth in the adoption of mobile money applications is slower in East Africa for the simple reason it has been around for quite a number of years, being the birthplace of the ultimate application, i.e. M-Pesa. West Africa has not seen the same adoption rates as in East Africa, and therefore has a far greater growth potential. Mobile also serves as an e-commerce platform, as well as the platform for many sectors, such as agriculture, health, education, and even for paying for solar energy solutions. The pathway to Africa’s consumers in many instances leads through mobile. Companies, big and small, wanting access to these consumers, must keep this in mind.

East Africa

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East Africa is continuing its impressive performance, with an average annual growth rate in excess of 6% between 2012 and 2017. People in the region also generally live longer and healthier lives, receive better education and enjoy an improved quality of life compared with a generation ago. This is largely attributable to increased state capacity. Yet there are still serious challenges. The region is still one of the poorest in the world and is extremely vulnerable to climate change. Job creation and poverty reduction have not kept pace with a rapidly growing population and workforce. The region also has to deal with a large informal sector and some of the fastest rates of urbanisation globally. Several structural issues must be addressed to unlock the region’s full growth potential. Some policy action is required to address the relatively weak private sector. Increased public expenditure on infrastructure has started to stretch budgets, with a number of countries experiencing rising debt levels. A weak manufacturing sector has made the regional economy less resilient. East African trading relations have been complicated by controversies surrounding the EU’s EPA and the USA’s AGOA. The African Continental Free Trade Area agreement could make Africa’s economies more resilient. For more information, read: <https://bit.ly/2L2bzDH>.

CAS Analysis: East Africa is indeed an impressive case study. Countries that come to mind include Ethiopia, Kenya, Rwanda and Tanzania. They have been demonstrating impressive annual growth rates, and some of them regularly feature on the Top 10 list of fastest growing economies globally of both the IMF and the World Bank. This has had the effect of “Africa Tilting” from west to east. The challenges are realistic and relevant. However, some of them create opportunities in their own right. Boosting the current

low level of contribution to GDP of the manufacturing sector has the potential to create more jobs, generate export revenues, create import substitution, and support economic growth. Some of the challenges require better regional integration (and hopefully economic integration) and the willingness to subordinate national interest to regional interest. The trade battles between Tanzania and Kenya comes to mind. One source of serious concern is the high level of indebtedness of some of not only East African countries, but some of Africa's countries in general. Governments would do well to curb their willingness to take on more debt.

- **Ethiopia:** Prime minister Abiy Ahmed visited Djibouti, Sudan and Kenya, indicating Ethiopia's thirst for access to ports. These visits were aimed at creating a meaningful economic union, with joint investments and ownership of projects.

Prime minister Abiy Ahmed visited Djibouti, Sudan and Kenya, indicating Ethiopia's thirst for access to ports. These visits were aimed at creating a meaningful economic union, with joint investments and ownership of projects. Ethiopia struck a deal to take a stake in the Port of Djibouti, which currently handles up to 95% of inbound trade for landlocked Ethiopia. In return, Djibouti obtained the option to take shares in state-owned Ethiopian firms, including the profitable Ethiopian Airlines. Ethiopia also agreed to acquire a 19% stake in the Port of Berbera in Somaliland. In Sudan, Abiy struck a deal with president al-Bashir for Ethiopia to obtain a stake in Port Sudan. They also agreed to develop the border town of Assosa, including building a new railway line to facilitate the movement of goods and people between the two countries. Sudan would also back Ethiopia's \$4 billion dam on the Nile. In Kenya, Abiy revived a deal to set up a logistics facility at the Port of Lamu. Ethiopia and Kenya will work on joint projects, e.g. railways and roads, and including developing the border town of Moyale into a joint city and economic zone. For more information, read: <https://bit.ly/2Gpnact>.

CAS Analysis: Ethiopia is doing its best to ensure it reduces its dependence on Djibouti as a single entrepôt for its imports and exports. Developing access to Port Sudan in Sudan, Djibouti, Port of Berbera in Somalia, and Lamu Port in Kenya will reduce its vulnerability significantly. It is clear that President Ahmed is not just creating new port access, but is also growing Ethiopia's influence amongst its neighbours, thereby positioning itself as a regional power. It has succeeded in gaining Sudanese support for its dam in the Nile, something which has disturbed its relationship with Egypt. Co-developing towns, roads and railways are long-term projects and have the potential to deepen relationships between the countries involved. In this way, Ethiopia can reduce the negative factor of being landlocked. President Ahmed, being a member of the Oromo tribe, has the potential to settle the internal political instability that has been plaguing Ethiopia for quite a few years. Should he be able to do this, and boost the country's economic growth to an even greater extent due to improved ties with its neighbours and better transport systems, he would have done his country a massive favour!

- **Kenya:** Kenya will not sign an FTA that China has been negotiating with the EAC states since 2016. The decision, which could trigger diplomatic unease between Kenya and China, is intended to protect Kenya's fledgling manufacturing sector from being over-run by China's cheaper and more efficient producers.

Kenya will not sign an FTA that China has been negotiating with the EAC states since 2016. The decision, which could trigger diplomatic unease between Kenya and China, is intended to protect Kenya's fledgling manufacturing sector from being over-run by China's cheaper and more efficient producers. The trade balance is skewed heavily in favour of China, and the proposed comprehensive FTA would see Chinese goods access the EAC market at even more favourable tariffs. China accounts for less than 2% of Kenya's exports currently. An FTA with China might improve Kenya's export share, but not significantly. Kenya prefers a preferential trade agreement with China, such as the USA's AGOA. Kenya signed a double taxation agreement (DTA) with China in October to incentivize Chinese firms setting up base in Kenya. Kenya is ready to agree on certain commodities that China would want to import so that local exporters can focus on them for the Chinese market. High imports from China are attributed to an increase in infrastructure projects currently going on in Kenya, such as the construction of the standard gauge rail. Other imports from China include electronics, household goods and steel materials. For more information, read: <https://bit.ly/2rSU155>.

CAS Analysis: A few points come to mind. Firstly, Kenya is one of the few African countries directly mentioned as a participant in China's Belt and Road Initiative. One does think how the hesitance to sign the FTA will affect this relationship. Secondly, Kenya's manufacturing sector contributes slightly less than 10% to its GDP, which is less than optimal, to put it mildly. Many clothing retailers also prefer to buy cheap textile products in China and then import them into Kenya, rather than supporting local manufacturers. Kenya must address this issue, which could be a contributing factor to its unwillingness to sign the FTA. Thirdly, we again see the negative trade balance between China and an African country, mostly heavily skewed towards China's favour. Not only Kenya, but Africa in general must address this issue. It is also not just with China, but many other powers outside of Africa have a positive trade balance with their African trade partners. This will require African countries to boost the value-adding sectors of their economies, instead of just exporting raw commodities and later import the higher value-added product.

Southern Africa

- **Angola:** Angola plans to privatise 74 state companies over the next few years, predominantly those in the industrial sector.

Angola plans to privatise 74 state companies over the next few years, predominantly those in the industrial sector. The country has been the victim of the oil price slump over the past 4 years. President Lourenço has pledged to reduce state interference in the economy, which remains centrally controlled. The Angolan government intends to sell its entire interest in these companies, the majority of which operate in the industrial sector. Although the prospectus does not list the companies or provide their value, a source indicated that Angola's ports, national carrier TAAG, BCI bank, and insurer Ensa were all being considered for full or partial privatisation. The government's long-term policy is that companies not required to remain under public ownership as a matter of policy, should eventually be privatised. Lourenço aims to revive growth by opening the economy to foreign investors and diversifying away from oil, which currently accounts for 95% of exports. Angola is in the process of raising \$3 billion through two Eurobond issues. Angola said it saw its total debt – excluding that held by state oil firm Sonangol – reaching \$77.3 billion, or 70.8% of GDP, by the end of 2018. For more information, read: <https://bit.ly/2loQMfU>.

CAS Analysis: Africa seems to be struggling with the management of its state-owned enterprises (SOEs). Poor management skills, inadequate business acumen, and, unfortunately frequently, high levels of corruption are challenges these SOEs face. Angola's willingness to privatise 74 SOEs is an indication that their new president is serious about turning around the country's economy. This is obviously only true should these SOEs be sold off to competent people in a transparent process. President Lourenço has given signs that he is serious about constraining the previous high levels of perceived corruption of the country. Getting back to privatising the SOEs, governments are seldom, if ever, good business managers. The privatisation route is therefore a good option, and creates opportunities for corporations to enter into mutual value-adding agreements. Another country that has gone this route, to name but one example, is Tanzania in the mid-1990's, when it privatised its state-owned breweries to South African Breweries at the time. Speaking about South Africa, they have quite a number of SOEs that are characterised by rampant corruption and inefficiencies. The very competent and newly-appointed Minister of Public Enterprises, Minister Pravin Gordhan, will have his hands full to get the likes of SAA, Eskom and Transnet back onto the straight and narrow. Now could be a good time to privatise these entities. However, it is most likely that opposition from the labour unions, and the upcoming election of 2019, will shift this unpopular strategy onto the backburner, at least for the next 18 months.

- **Mozambique:** The Mozambique-based agribusiness firm, Al Bustan Farms, is investing \$50 million in the production, processing and export of beef to foreign markets. The company is focused on the production and export of meat to the European Union, the United States and Asia.

The Mozambique-based agribusiness firm, Al Bustan Farms, is investing \$50 million in the production, processing and export of beef to foreign markets. The company is focused on the production and export of meat to the European Union, the United States and Asia. The company will produce 10,000 head of cattle in the next 5 years. In addition to cattle breeding, the company is also committed to the production of corn, soybeans and alfalfa. In the context of corporate social responsibility, a drugstore will be built within the village and employ many workers as the venture is producing tangible financial results. At the

same time, a meat processing plant, an agricultural technical school and the rehabilitation of the Chimuara-Mopeia road will be built, in addition to the rehabilitation of the Caia aerodrome in Sofala province. Mozambique has been dependent on its exports to the EU, a region that remains the core of the country's international trade policy. For more information, read: <https://bit.ly/2wTiuMy>.

CAS Analysis: The beef subsector in the agriculture industry has a lot of potential to create value for Mozambique. Agriculture must be industrialised and given a boost to encourage the diversification process in this country. Currently gas and coal are important revenue earners, but a fixation on these two sources could create a vulnerability for the government. Many Asian economies import beef, while Africa itself provides a sizeable market. From the case study it is clear that the development of infrastructure in various sectors are an additional challenge for large corporates wanting to do business in Africa. In Guinea, for example, Winning International built a port, roads, homes and even small-grid solar energy systems. While it might seem an expensive exercise, the lucrative nature of many operations in Africa seems to make it worthwhile for these corporations. Also, as the saying goes, "doing good is good for business."

- **South Africa:** Trade officials from Japan believe that relations with SA have entered a new chapter after a keynote address by President Ramaphosa at the launch of the Japan-Africa Public-Private Economic Forum in Sandton.

Trade officials from Japan believe that relations with SA have entered a new chapter after a keynote address by President Ramaphosa at the launch of the Japan-Africa Public-Private Economic Forum in Sandton. Japan felt side-lined during the Zuma presidency when SA's political, trading and investment focus turned to the BRICS countries, especially China. Ramaphosa reiterated that SA had embarked on a \$100 billion investment drive over the next 5 years, and would be holding an international investment conference later in 2018. Japan, among the top 10 investors in SA, is also in Ramaphosa's sights. Ramaphosa emphasised the need to align government and private sector objectives, which meant attracting capital, technology, expertise and best practice from advanced economies in respect of Africa's abundant natural resources. In 2017, Africa's exports to Japan accounted for \$8.3 billion, a fraction of the trade of Africa's top trading partners — China, the US and the EU. Japan had earlier pledged to invest \$30 billion in Africa from 2016 to 2019. This contrasts with China's pledge in December 2015 to invest \$60 billion in Africa over 3 years. Japanese investment is through private companies and not state-owned enterprises, as is mostly the case with China. For more information, read: <https://bit.ly/2rO6qXH>.

CAS Analysis: At an Ethiopia-Japan conference in Addis Ababa in September 2015, Japan made the point that they take their time to enter a continent or country, but once they had made that decision, they were in for the long haul. Given that South Africa is the most sophisticated economy in Africa, with 56 million people, it does present a great opportunity for Japan to target with its high quality and technologically advanced products. President Ramaphosa's strategy of creating a team of 4 investment envoys to lure investments of US\$100 billion into South Africa over the next 5 years, was a clever move. These 4 people are all high-profile South Africans with impeccable records and good standing, internationally. Japan will no doubt be on their itinerary! With a new president that understands business and with a clear anti-corruption stance, South Africa will demonstrate its resilience by snapping back from the gutter in which it found itself during the disastrous Zuma-administration period. There are plenty investment opportunities waiting to be snapped up. Currently, it seems that China is the dominant player!