

African Union

- **Africa:** According to the author, Africa is finally starting to emerge; its situation is changing fast, and for the better. The most positive trend in Africa is the rise in education. Literacy rates have soared, doubling in many countries. Technologies such as mobile phones have become ubiquitous, requiring Africans to read in order to conduct business and communicate. Africa has also experienced dramatic economic growth, with a steep rise in GDP and a plunge in poverty. Accordingly, child mortality has fallen substantially, while famine is becoming a thing of the past: despite population growth, per capita food supply has increased drastically. Democracy is slowly replacing autocracy as the standard form of government. While many of Africa's economies are based on natural resources, African manufacturing is expanding, with 15% of China's direct investment in Africa going to factories. There is one big danger, however, i.e. overpopulation. Africa's high fertility rates are leading to increased urbanisation, which is good for growth. However, should population growth get out of hand, Africa's exploding population will become a liability. Unless overpopulation threatens, Africa's future looks bright. Perpetual Africa naysayers should wake up to this new reality. For more information, read: <http://mgafrica.com/article/2015-09-18-the-evidence-is-undeniable-africa-is-on-verge-of-becoming-an-emerging-market>
- **CAS View:** This article reflects a number of trends about Africa that CAS has been referring to over the past few months. Africa should no longer be seen as this dark pit of desolation and danger. Whilst these trends reflect a positive situation, care still needs to be taken when Africa is selected as an investment destination. It remains a volatile market, where the situation can change relatively quickly, such as in the political domain. This then places the onus on the investor to ensure that political expediency is not the criteria of investment, but that sound economic principles prevail. Partnerships with the right local partner can be rewarding. A number of companies (from within Africa and from abroad) have already ventured into Africa with great success. This does, however, require a proper and in-depth due diligence. Having said that, the underlying fundamentals are improving; on that there can be no denial. While the current China Effect will have a negative effect on the growth story of Africa, it will not undo these fundamentals. Another trend that will support this conclusion is the migration to Europe by thousands of Africans. It would be in Europe's best interest to help develop a prosperous Africa, with local jobs serving the aspirations of the African youth. Hopefully this will counter the possible negative impact of the China Effect. But hope is not a strategy, and Africa should actively pursue this objective.
- **Africa:** Sub-Saharan Africa is desperately short of electricity. Excluding South Africa, consumption averages around 162 kWh per capita per year, compared to a global average of 7,000 kWh. Four technological solutions have the capacity to improve access to energy. 1) Use of standalone devices such as solar lanterns, solar home systems and cook stoves. 2) Use of energy efficient products such as powersaving light bulbs, fridges and fans. 3) Extension of the national grid. 4) Mini-utilities/mini-grids – small power plants that can run on solar, wind, hydro, biomass or diesel power, and are able to reach 100- 250 or more households. Mini-grids are exciting for Africa because they decentralise energy, giving autonomy to underserved areas; and temper energy consumption, easing pressure on the national grid, therefore reducing capital expenditure and generating savings for both families and governments. Challenges: access to finance; business and technical expertise constraints; and regulatory challenges. Setting up requires high upfront and overhead costs for the developer; for the consumer: connection fees may be out of reach of poor households. Kenya has started on this development path, with a good measure of success. For more information, read: <http://mgafrica.com/article/2015-09-23-small-is-big-in-africas-electricity-story-mini-grids-plug-the-gap>.

- **CAS View:** One central theme that has become salient is the need for electricity for Africa. Kofi Annan, previous secretary general of the UN has identified the lack of energy as one of the priorities that have to be addressed for Africa to develop its economies and the living standards of its people. So has the new president of the African Development Bank, Akinwumi Adesina. The availability of Africa's renewable energy potential is well known. Here it seems is a mechanism with which to tap into these sources.

The cost issues can, however, be somewhat daunting to the smaller communities and consumers. This does provide an opportunity for investors willing to contribute to the development of a continent, and make a return at the same time. It is clear that it would not just be capital that would be required, but also business experience and knowledge. Without electricity, the quality of life of hundreds of millions of Africans is sub-standard. Without electricity, the prospect of economic growth is under threat.

- **Africa:** The number of equity exchanges in Africa has grown to 26, but many of these bourses are still in a developmental stage and hope that increased regional integration will work to their advantage. Outside of South Africa, the largest exchanges in SSA are those of Nigeria and Kenya. In North Africa, the most prominent exchanges are those of Morocco and Egypt. Continued growth and capacity building in financial markets across Africa will be an important enabler for economic development, given the level of integration among economies that operate across the region. Challenges include the lack of liquidity, the sequencing of the steps that need to be taken, and implementing state of the art technology. Ingredients critical for success: the rule of law, rules of enforcement, and regulatory frameworks that create an enabling environment to mobilize and deploy savings through financial markets. Another major challenge is to balance the developmental needs of one's own exchange and building a better ecosystem that all exchanges in Africa will benefit from. For more information, read: <http://today.moneyweb.co.za/article?id=513423&acid=ELy88q8HZMUeZeuhd4cWQ%3D%3D&adid=c7XUe3RiCkA-eZeuhd4cWQ%3D%3D&date=2015-09-18#.VgQl2bTAqfS>
- **CAS View:** Stock exchanges exist to provide companies with access to capital. As such the JSE in South Africa is without its equal in Africa. But even it is too small to provide in the capital needs of some of its large players, such as SABMiller and Anglo, both of whom have their primary listing in London. The lack of liquidity and the small number of players on most of the other 26 bourses is problematic at this stage. Hopefully the growth of the bourses over time will provide sufficiently in the need of those who require equity capital. As stated, it will be imperative that governance of these bourses are seen to be squeaky clean, or else naught will come of any attempt to grow and develop them. This has been a hallmark of the JSE; hence the success thereof. The JSE could play a meaningful role in the growth of the other exchanges, which could have a beneficial impact on the economic development and growth of Africa by providing the stated access to capital. This issue, i.e. access to capital, has been a major challenge for Africa's development. It is perceivable that those who do venture into Africa's stock exchanges could make substantial returns. A problem for Africa is the speed with which such capital could leave the country; it is therefore less preferable than FDI. Having said that, a well-developed stock exchange serves as a sign of vitality and a market-friendly environment, which could attract foreign investors. There is therefore a mutually beneficial relationship between FDI and a well-developed ecosystem of stock exchanges in Africa.
- **Africa:** According to the latest FDI 2015 report, FDI into Africa has increased by 64% to \$87bn, while the number of FDI projects declined by 6% to 660 in 2014. Coal, Oil & Natural Gas was the top sector in the region by capital investment accounting for 38% of announced FDI. Manufacturing was the top business function in the region by capital investment accounting for 33% of announced FDI. FDI into Africa accounted for 13% of global FDI in 2014, with the number of projects accounting for 5%. Between 2010 and 2014, FDI peaked in 2014 at \$87bn following the announcement of a multitude of high value projects. In total, 464 companies invested in the

region in 2014. South Africa is the second largest African economy with an estimated GDP of US\$324 and has been the top destination for FDI. For more information, read: <http://forms.fdiintelligence.com/africainvestmentreport/?ref=TIA>.

- **CAS View:** These figures in the latest FDI Report (2015) reflect the reality for 2014. The prominent position of the Coal, Oil & Natural Gas sector is to be expected, given the historical role of this sector, and the need for oil and gas worldwide. South Africa's prominent position is also to be expected, given the level of sophistication and diversification of its economy. What is gladdening is the prominence of manufacturing as the top business function. Africa is in dire need of more manufacturing in order to improve its outputs other than commodity exports. Foreign investment in this function is to be actively encouraged, and could lead to import-substitution as well. It remains to be seen whether the 13% of total FDI of 2014 can be replicated in 2015, given the China Effect. Hopefully the stated Japanese intentions will translate into real investments into Africa. In addition, Dangote's willingness to invest outside of Nigeria could also convince foreign companies of the returns to be found in Africa. Another event that could have a beneficial impact for Africa, is Kellogg's intention to purchase 50% of Tolaram's subsidiary in Africa, i.e. Multipro. In the context of the whole, it is a relatively small amount, but conveys an important signal. Carrefour has also stated it intends to expand into Africa, while a number of South African companies are also looking toward Africa north of their borders as a growth area. This all could have the effect of encouraging others to also move into Africa.

East Africa

- **Tanzania:** Linking organic agriculture and tourism can help reduce poverty in Tanzania (UNCTAD report). Tourism is a notable source of income for Tanzania (lodging, food and beverage sectors together account for about 20% of tourism-related income). This represents a large opportunity for pro-poor businesses because organic agricultural products are in high demand by tourists and provide price premiums to producers. The report found that price, quality, supply predictability and reliability of delivery played a key role in the horticultural sector, and that there were no direct supply channels bridging buyers and sellers. A lack of direct communication channels and inefficiencies in the supply chain were identified as the main constraints holding back the development of the horticultural sector and preventing it from reaching the local tourism industry. Key recommendations to harness the joint potential of tourism and organic agriculture include: 1) Raise awareness and build capacity to better understand linkages between tourism & agriculture. 2) Establish PPPs with destination stakeholders as key components in the implementation of pro-poor tourism practices. 3) Promote pro-poor tourism and branding, focusing on the need to promote tourism products, experiences and destinations in Tanzania that benefit local people through effective and robust marketing plans and branding. For further information, read: <http://africa-newsroom.com/press/organic-agriculture-and-tourism-can-help-tackle-poverty-new-unctadreport-says?lang=en>.
- **CAS View:** Africa's tourism potential is well known. In Tanzania, the Serengeti is legendary. However, the poor people of Africa, and there are hundreds of millions of them (more than 600 million, for example, do not have access to electricity), seldom participate in the returns involved. This is one of the reasons why poaching of Africa's wild life has become a major problem, ranging from rhinoceros to elephant to antelope. Linking up tourists with other sectors in the respective countries create wonderful opportunities for the entire stakeholder community to benefit from tourism. A systemic solution, where the entire country is viewed as one integrated, interrelated and holistic entity, will be required. This specific opportunity addressed by UNCTAD will, in addition to reducing the circumstances that aggravate poaching, provide more job opportunities for the locals, more impetus to economic growth and development, more export potential, and more import-substitution. It will require government directed business-enabling policy frameworks, and mechanisms to facilitate PPP's. Initially SOEs,

properly mandated and managed, could lead the initiatives, where after the projects could be transferred to private ownership.

West Africa

- **Nigeria:** Dangote plans to launch new cement and sugar plants and mines across Africa, accelerating an expansion outside Nigeria and shrugging off a downturn in Africa. A slump in commodity prices, lower demand from China and investor flight from risky emerging markets has hit African economies and state budgets hard, raising borrowing costs and the prospect of instability. Dangote is expanding his cement production in several countries, betting on a future construction boom, as he believes the future has to do with infrastructure, of which there is a large deficit. Cement plants will be built in Cameroon, Cote d'Ivoire, DRC, Ethiopia, Kenya, Mali, Niger, Nigeria, Senegal and Zambia. Dangote, whose conglomerate also has oil, gas, telecommunications and real estate interests, will also expand its sugar business by launching production in Zambia, which would be an ideal regional hub as it has borders with 8 countries. Dangote is also planning potash mining sites in the Congo and Ethiopia. For more information read: <http://www.bdlive.co.za/africa/africanbusiness/2015/09/16/dangote-pumps-up-africandrive>.
- **CAS View:** Dangote's expansion into Africa on infrastructure and mines is a clear indication of his bullishness on Africa's future, in spite of the China Effect. Africa needs the infrastructure he is referring to. A figure mentioned is that Africa needs US\$80 billion per annum in infrastructure projects. CAS has referred to Africa's urbanization trend. Less than a decade ago, about 36% of Africa's population was urbanized. Currently this figure is approximately 40%, while in the next decade, this figure will rise to 50%. In addition, the middle class of Africa is growing strongly. These people will need housing, shopping complexes, offices, roads, etc. The NIC of the USA has hinted that the world will see more construction projects in the next 40 years than it has seen in the history of mankind so far. Dangote understands Africa and he is clearly putting his money where his beliefs lie. Construction companies are also betting on him being right. Group 5, amongst others, have already referred to the move from mining and energy projects to projects such as housing complexes, malls, office blocks, roads, etc. Dangote's positioning of his regional hub in Zambia, given the latter's central position, makes sense and can only be to the advantage of Zambia, a poor country that needs all the investment it can get. Jobs will be created, and hopefully the level of education will be raised as a complementary development.

Southern Africa

- **South Africa:** The South Africa Wine Industry Information & Systems (SAWIS) earlier this year reported that while the country's income from grape production rose by 38% between 2008 and 2013, the same period saw wine production costs increase by 52%. Industry body Vinpro stated that around 33% of wine producers were operating at a loss, although many exhibitors at last week's Cape Wine were offering estimates of over double that. In the UK, South Africa's largest export market, Nielsen data to June 2015 showed an average price for South African wine of just £4.78 per bottle. Some winemakers warned that if producers do not take a stand to increase prices, the industry would go bust in 20 years. For a growing number of producers, raising the image and therefore prices of South African wine requires a commitment to holding back library stock to show off its ability to mature. The struggle to command a higher on-shelf price for its wines means that farmers are better off switching to alternative crops. There's a lot of pressure from other crops that are five times more profitable. For more information, read: <http://www.thedrinksbusiness.com/2015/09/south-africa-faces-up-to-profit-warning/>.

- **CAS View:** The South African wine industry contributed R36 billion to the SA economy in 2012, and provided 300 000 jobs, most of them in the Western Cape. It is therefore clearly an important sector. Another statistic that is of importance is that in 1990 there were about 200 wineries. This figure rose to more than 605 in 2012, but it subsequently declined to about 560 a year of 2 later. A further statistic that is of importance is that with a bottle of wine sold by the producer for R33.95, he retains between 85c and R1.05. A last statistic that was provided earlier in 2015, is that on average, returns in the wine industry are around 2%. Some commentators jokingly refer to ROE in the wine industry as Return on Ego. All of this paints a picture that is clearly not an attractive one. However, there are various wine producers that are very successful. Brands such as Backsberg, La Motte, Plaisir de Merle, Spier, Beyerskloof, Rickety Bridge, De Wetshof, Graham Beck, Springfield, and Kanonkop, to name but a few, are well known and command good premiums. Quite a number of wine producers have also innovated their business models to adopt a platform as business model. Using the wine estate itself, they have included wine tastings, restaurants, accommodation, event venues, and conference facilities. Given that most have embarked on this route, the industry is bound to become saturated. Some players have innovated further and have started producing other crops with high entry barriers and high returns, such as blueberries, in addition to their grapes. Backsberg is a very good example, where the innovative owner is always questioning the status quo. Some estates have succeeded in developing a high-end brand (Kanonkop, De Wetshof and Springfield) and have not embraced any of the mentioned innovations. This kind of player is far in the minority, however. The wine industry in South Africa boasts excellent wines, but is characterized by a perception that its wine is cheap. The struggle to reposition South African wine towards the upper end, is therefore a legitimate struggle and a necessary one. What is further needed is a consolidation of the wine industry. The growth in demand is clearly not sufficient to accommodate the growth in supply. The chances for some or other disruptive innovation in the wine industry are slim, but could be what the industry needs.