

African Union

- **Africa:** The expansion of the Suez Canal was a mind-boggling construction project, but relatively small in comparison to major construction projects across Africa. The value of major construction projects in Africa in 2014 totaled over \$326 billion -- a 46% increase on 2013, and covered energy and power, transport, mining, water, oil and gas, real estate, health care, manufacturing and technology, media and telecommunications. Megaprojects had an average value of \$1.27 billion (up from \$689 million) – all key drivers behind Africa's economy projected to grow 5.7% in 2015. Energy will stay a big player, with transport and interconnectedness becoming more visible. Many projects were overlapping multiple sectors, while long-term megaprojects in rail will further open up Africa for business. Renewable energy is coming to the fore (65% of new projects are renewable). However, with a projected population doubling to 2.47 billion by 2050, a growing middle class and greater urbanization, there is the potential for a lack of water-based projects to become a future constraint for economies. Failing to invest in adequate water and sanitation upgrades is a cause for concern. For more information, read: <http://edition.cnn.com/2015/08/21/africa/africa-construction-boom/index.html?sr=cnnitw>
- **CAS View:** Africa's infrastructure is problematic with a stated need for an annual spend of US\$80 billion for the next 30 years. The above figures show a commitment to provide in Africa's needs. The rising population, urbanisation and growing middle class are indeed the drivers for construction projects. They provide a concentrated market for the large retail outlets of the world. They contribute to construction growth by demanding middle class type of consumer goods, which require adequate supply chains and retail outlets, to name but two factors stimulating growth. There are not enough housing (cities are too small and historically poorly planned), shops (malls), offices, etc. in Africa's cities. The road systems are highly problematic. Economic growth further requires sufficient energy to keep the fires of the manufacturing sector burning. Ports have also proven to be inadequate to deal with the large influx of goods, and should the export market of Africa pick up, their inadequacy would be more visible. Together with new port construction, as was the case with the Suez expansion, one finds economic zones being developed, which require further construction. All of this becomes a mutually reinforcing cycle, with new jobs bringing higher disposable income, which stimulates further economic growth, which requires more construction, etc.
- **Africa:** The window is now open for many African economies to accelerate economic growth as large cohorts of young people enter working age. The demographic dividend is increasingly recognised as key for countries to realise rapid economic growth and long-term development. As SSA countries outline their vision towards an integrated, prosperous and peaceful Africa by 2063, many leaders are rightly focused on empowering a healthy, educated and skilled population so they reap the greatest economic and social gains of the dividend, potentially adding as much as \$500 billion per year to the regional economy for as many as 30 years –equal to one-third of Africa's current GDP. World leaders have for the first time ever in UN history included a political declaration that specifically calls for investment in the full realisation of the rights and capabilities of children and young people so countries can reap the dividend. Young people need tangible investments to transform the economy, and the world is failing far too many, especially in developing countries. In spite of the above benefits, young workers have seen the weakest restoration of jobs since the economic downturn of 2008. And in many countries looking towards a demographic dividend, informal and vulnerable employment remains as high as 70%, and especially high for young people. For more information, read: <http://mgafrica.com/article/2015-09-28-unleashing-the-power-of-young-people-and-the-demographic-dividend>

- **CAS View:** A country is said to have the benefit of a demographic dividend in those years in which the proportion of children (0-14) in the total population is less than 30% and the proportion of seniors (65+) is less than 15%. Given this, Africa is said to have this benefit from 2050 onwards. The reality is that if countries do not educate its youth, the demographic dividend will at best bear no dividend, at worst it will create a disaster. At a recent seminar on leadership and economic growth in Africa hosted by CAS, the panel was clear that one important path to prevent corruption amongst its leaders, was to educate the youth, to develop their competence, and so create a large pool of talented and knowledgeable people. Without this education, not only will the economic growth be absent, but will rent-seeking behavior also be the norm. Africa cannot afford either. The main speaker at the seminar, Mr. Paulo Gomes, also mentioned that over the next 30 years, 650 million young people would be entering the workforce. That equates to approximately 2 million per month! If no provision is made for them, Africa will have a bleak future. The article also refers to the lack of developing young girls into competent contributors. Research has shown that involving women in the workforce has a significant economic multiplier effect. CAS has referred to the large numbers of African youth escaping poverty and desolation by migrating to Europe. Jobs and education in Africa will help to ensure a future for them in Africa. Should Africa deal with this properly, the future will be bright. The alternative is too ghastly to contemplate.
- **Africa:** Most people in SSA hold an optimistic outlook for Africa. Healthcare and education have been identified as top priorities. This survey focused on Burkina Faso, Ethiopia, Ghana, Kenya, Nigeria, Senegal, South Africa, Tanzania and Uganda. More than 80% say lack of jobs, poor health care, poor quality education, government corruption and crime are very big problems in their nations. A median of 68% still believe their countries need assistance from foreign aid, with South Africa being the exception. Most believe that a partnership between government, foreign aid and private sector could create a turnaround and solve key issues in the region. Many believe foreign companies involved in the extractive industry positively affect their countries, although more than 50% said the mines and oilrigs are unsafe for workers and 45% say these firms do not pay their share of taxes. Positive economic ratings are common in Ethiopia, Senegal, South Africa and Nigeria, where majorities believe their country is doing well economically. Nations that have enjoyed strong GDP growth since 2005 also tend to be more optimistic. For more information, read: http://www.cnbc africa.com/news/east-africa/2015/09/17/subsaharancitizens-economic-report/#at_pco=smlwn-1.0&at_si=560c702cecb18ae8&at_ab=per-2&at_pos=0&at_tot=1
- **CAS View:** The survey dealt with the major countries in East Africa (Kenya and Tanzania), West Africa (Nigeria and Ghana), and Southern Africa (South Africa). The new kid on the block, Ethiopia, was also included. It would have been good to see the effect of the inclusion of Rwanda, given the progress of the latter over the past decade or so. It is clear that Africa is clear about its priorities, and CAS cannot fault their focus on healthcare and education, both required for a prosperous future. The concerns regarding government corruption show the threat this poses to this prosperous future. What CAS does find interesting, is the strong focus on the necessity of foreign aid. Many leaders have been vocal about the fact that Africa does not need more foreign aid, but rather investment. The latter obviously requires a conducive environment, free of government corruption and crime, a concern of the population at large. A question can be asked as to why many of the countries where these concerns are raised, still vote for the leadership that perpetrate these crimes. Irrespective, it is good to see Africa being so positive about its future. Governments, should they not know this already, and CAS believes they do, should take note of the aspirations, hopes, fears, and views of their people and put in place the enabling policy frameworks for the benefit of education, health and business. The private sector can and should play a stronger role in Africa, amongst others pushing for honest governance. The Continental Business Network (CBN) that was launched at the last WEF meeting in Cape Town (1 June 2015) is one such an attempt to involve the private sector to provide advice for the benefit of Africa's governments.

East Africa

- **Kenya:** Kenya's mega infrastructure projects could boost annual growth by more than 3%. It contributed the bulk of the \$60-billion worth of large capital infrastructure projects implemented in East Africa in 2014. 1) Kenya and Uganda are in talks on financing and constructing an oil pipeline linking them and ferrying crude along a 1,500 kilometers pipeline to the Indian Ocean. Cost: \$3.9 billion. 2) Kenya is building a \$3.8-billion railway project—the Standard Gauge Railway Project (609 km), which has been part of the reason for the country's robust growth projections. 3) The Lamu Port Southern Sudan-Ethiopia Transport Corridor, which envisages the construction of a port, power plant, railway and other facilities, will become Kenya's biggest infrastructure project costing \$26 billion. 4) In July, Kenya contracted with Canadian solar energy firm SkyPower to develop 1 GW of solar power in Kenya, costing \$2.2 billion. Kenya also unveiled a \$900 million, 310 MW wind farm in Lake Turkana, and received a \$109 million loan from German development bank KfW for the drilling of 20 new geothermal wells. 5) Kenya is also tarmacking 10,000 km of new road at a cost of \$3.2 billion, while the African Development Bank is considering lending the Kenya Airports Authority \$100 million to construct a new terminal and runway in Nairobi. Total cost of project: \$770 million, including debt of about \$425 million. For more information, read: <http://mgafrica.com/article/2015-09-03-kenya-home-to-mega-infrastructureprojectshere-are-three-of-the-big-ones>
- **CAS View:** Kenya's infrastructure projects are making a significant contribution to its economic growth, boosting employment, and positioning it to an even greater extent as the major player in the EAC. The projects mentioned address transportation and energy – mutually reinforcing sectors of the economy. As previously stated, Africa as a whole requires an annual investment of \$80 billion for the next 30 years. Kenya is providing leadership in this regard. A well-functioning transportation system is crucial to attract long-term foreign investments. However, driving economic growth through infrastructure projects itself is not a sustainable strategy. Kenya needs to use that infrastructure to stimulate economic activity that could be sustainable and less dependent on the export of commodities.
- **Kenya:** Kenyans will soon be able to buy fixed-income government bonds from their mobile phones (a world-first), a move that will deepen access to financial services in Kenya while also giving Treasury a cheaper source of funding. Residents will be able to open central bank depository accounts from their phones without visiting a bank or broker, and can then buy government paper for as little as \$28. The product named M-Akiba, derived from the Swahili word for savings, will run on Safaricom's mobilemoney platform. M-Pesa enabled cash transfers of \$39.8 billion in the year through to end March 2015. A 5-billion shilling (\$48 million) infrastructure bond to be opened on 21 Oct will be the inaugural M-Akiba offer. Interest will be paid directly to their mobile wallets semi-annually and secondary trading can take place at the Nairobi Securities Exchange. This initiative will increase liquidity and deepen the secondary bond market. For more information, read: <http://mgafrica.com/article/2015-09-28-in-a-world-firstunbanked-kenyans-to-trade-government-bonds-from-their-mobile-phones>
- **CAS View:** Africa, and more specifically Kenya, has once again shown how innovative it can be. MPesa took Africa by storm and has astonished people in the developed countries of the world. This new product (M-Akiba) will give people at the bottom of the pyramid access to the bond market and increase the level of financial inclusivity. Indeed, what we are seeing here is a form of crowd-funding. There is a saying that necessity is the mother of invention. While that may be true, and while Kenya has been demonstrating the validity thereof, what is remarkable is the attitude of the authorities towards mobile money applications. Elsewhere in Africa there are authorities that are putting constraints in the way of mobile money. Kenya, however, has seen the benefits and potential thereof and is actively embracing the value that can be unlocked. In Nigeria calls have been made for

liberalizing the financial sector to empower the unbanked. They should take a page from the Kenyan government's manual on mobile money.

West Africa

- **Nigeria**: While Nigeria needs to spend at least US\$ 839 billion by 2030 to address its massive infrastructure deficit, progress has been less optimal. A remodeling of the airports has slowed down. A steady lift must be provided to the transport sector through PPP initiatives, as Nigeria needs an integrated transport policy and it needs to focus on trying to provide different modes of transport. The report states that Nigeria's Railway Act needs to be changed to allow the private sector to run railway networks. Once these stringent rules are more relaxed, the private sector can be included in building infrastructure. A progression to the privatisation of airports was also deemed critical to succeed. Healthy PPP relationships must be maintained. The current state of the Nigerian transport system needs reforms to attract foreign investment. Nigeria has had a fairly successful port privatization, and that has attracted significant investment. The key lesson is for PPPs to be structured correctly to ensure that the private sector is taking risks that it can best manage. For more information, read: <http://www.cnbcfrica.com/news/western-africa/2015/09/29/nigeria-transport-sector-infrastructure/>
- **CAS View**: Another example of the massive investment needs to upgrade Africa's infrastructure. The need for adequate infrastructure to attract foreign investment is clearly stated. Involving the private sector in the provisioning of such infrastructure can also be a strategy with potential. However, it is interesting to note that two of the more successfully run airlines are not privatized. The one is Singapore Airlines, and the other is Ethiopian Airlines. The latter is the only government-owned airline in Africa that has made a profit in its last financial year. It is therefore not ownership per se that is important, but the business principles upon which such entities are run. Well-educated and experienced management is a pre-requisite for success, and governments should refrain from getting involved other than in an oversight role. Managing such an integrated transportation system as envisaged, is something Singapore can teach Africa a lot about. Why? Because Singapore's system works! And works well!

Southern Africa

- **South Africa**: South African companies have for some time had difficulty being successful in Africa - most surprisingly of all, in Kenya, a gateway to the 140 million-strong EAC market. Initial strategies into Kenya were quite aggressive, and failed. Subsequent entry strategies took local sensitivities into consideration, and were much more successful. A partnership approach was successful for Sanlam, and became the norm, with a few exceptions. Massmart's entry was a greenfield investment, while others include property services provider Broll, seafood diner Ocean Basket, and Kentucky Fried Chicken (KFC). Other franchises such as Mr Price, Steers, and Debonairs Pizza have had mixed success. Kenyan companies tend to invest less outside their immediate East African region, while South Africa has been aggressively investing across the continent as its home market becomes saturated. This partly explains why there are over 60 successful South African companies in Kenya, but very few Kenyan companies in South Africa. A reason is South Africa's high tariff barriers dating from earlier years. Access to the South African market has, however, accelerated this year, with diplomatic tiffs over visa regulations and trade agreements sparking bilateral activity to resolve them. While South Africa's huge market remains out of reach for Kenyan exporters and investors, Kenya's market is still a working experiment for South African companies and a solid market for exporters. For more information, read: <http://mgafrica.com/article/2015-09-09-sa-companies-are-finally-figuring-out-the-secret-to-kenya>.

- **CAS View:** South African companies have long realised that the South African market was becoming saturated with low growth prospects. Growth had mostly become a zero-sum game, where growth for one player meant a loss for the others. Price became important as the primary basis for competition, which was not optimal. The East African Community is generally viewed as quite an attractive grouping, and being very efficient. Kenya is perceived to be the jewel in East Africa. What the South African companies experienced at their own expense, was that the Kenyan market, and for that matter, the African market, was not an extension of the South African market. Indeed, each African market has its own idiosyncrasies, all of which need to be understood in detail. Various players in South Africa have taken on Kenya. Shoprite, for instance, has been quite successful in Africa, but much less so in Kenya, nor in Tanzania! The same strategy that works in Nigeria, did not work for them in Kenya and Tanzania. Lesson? Know your market and tailor your strategy and business model to suite the market, not yourself. Or stay out of the market should you not be prepared to do so. Woolworths has twice entered the Nigerian market, and have twice had to exit again. This does not create a good impression of the brand in the African market. Do your homework in advance and avoid paying unnecessary school fees. The Tripartite Free Trade Area (TFTA) that was recently signed in Egypt will create a large free trade area that will include the EAC, SADC and COMESA. This new entity will, once ratified (expected to be in 2017), create the opportunity for all participants to target markets in the TFTA. At best, South African companies therefore have 2 years to get their act together and position themselves to ward off any competitive threats from companies further north in Africa. Those companies outside of South Africa interested in targeting South Africa, would do well to understand the South African market, as well as why South African companies are targeting Africa.