

African Union

- **Africa:** Growth in Africa's mobile phone usage is set to slow sharply in the next 5 years. A report by GSM Association found subscriber growth was likely to slow to 6% between 2015 and 2020 compared with 13% growth in the first half of the decade, citing a lack of commercial logic in setting up network coverage in some rural areas, where more than half of the population lives. One reason for the slowing growth is that remote, rural communities, are not economically viable for mobile phone companies to deploy their network because of the low spending power of people living there. By 2020, a little more than 500-million people, or just under 50% of Africa's population, will have subscribed to a mobile service compared with the global average of almost 60%. While relatively low penetration rates suggested significant growth potential in most markets, the negative effect of increasing competition on profit margins was raising the prospect of more consolidation in the region. Smaller players do not have the economies of scale to drive their prices down and compete for long periods, so some consolidation in the market is possible. For more information, read: <http://www.cnbc.com/news/technology/2015/10/08/africa-mobile-telecoms-growth-slows/#>
- **CAS View:** Mobile phones have played a strong role in Africa's economy in various fields, i.e. finance and banking, health, agriculture, entertainment, etc. The slowing down of growth in Africa was inevitable. There were companies such as Psytech, a South African player that took mobile payphones into Africa in the first decade of this century, precisely because of the lack of infrastructure in the rural areas, and the inability of the poor to afford these services in their current guise. The irony is that Psytech did not make it. The issue of industry consolidation is also inevitable, and there are clear signs of this, as stated in the article. Mobile players are also beset by additional problems such as licensing issues, tax burdens, lack of available spectrum, and asymmetric mobile termination rates (MTR). This all adds up to make for a complex industry situation. The remaining players will now have to look at their value offering to remain viable. Voice as a service is mature, data is becoming cheap, and services (entertainment and other value-added products, such as M-Farm, etc) will/is the next area of competition. It will be interesting to see how this situation plays out. Some players are negotiating contracts with content providers to offer a more comprehensive service to their subscribers in the field of entertainment.
- **Africa:** Globalisation and urbanisation are pushing global investment in transport infrastructure to higher levels. The expected rate of global growth in this area is 5%, with that of SSA at 11%. Countries leading the way include Nigeria, Ghana, Kenya, and Tanzania. Their focus is dealing with massive growth in car ownership rates, freight transport rates, and investments in infrastructure, which is seen as a leading indicator of economic growth in Africa. There is a shortage of infrastructure in a lot of African cities and interregional areas. On the main corridors the infrastructure is often very poor. A lot of the rail systems are dilapidated, roads are overused in certain areas and cities are faced with enormous levels of congestion. Lagos is regarded as one of the most congested cities in the world. PPPs are used to finance infrastructure development in a number of countries. In South Africa, they must move closer to public transport and government needs to invest behind that. In Africa there is a move to focus on seaports, as they are the entry into the African continent, where a lot of the commodity exports are leaving from, and where the growth in the retail or commodity space is growing. The reason that road traffic is growing so much faster is that railways have not been that efficient. The road infrastructure is, however, struggling to keep up with the growth in road freight and in passenger transport use, which is mostly road-based. Rail does not feature as strongly in Africa as it should. For more information, read: http://www.bdlive.co.za/multimedia/2015/10/12/business-day-tv-africa-invests-in-public-transport?cx_tag=bcuf

- **CAS View:** Transportation infrastructure in Africa is both a problem and an opportunity. When one compares it with India and China, one would notice that both of the latter have a far better developed infrastructure than Africa. This places landlocked countries such as Rwanda and Burundi at a disadvantage than those with a seaboard. When one talks to companies invested in Africa and who have to move stock into their retail outlets, it is clear that logistics can be a challenge, whether it be via rail, road or sea. The opportunity lies in helping Africa to develop the infrastructure and then to manage the maintenance thereof. When this author recently visited his home country, he was asked how Singapore was. His response? It works! The road, rail, sea and air transport mechanisms work! Granted, Singapore is an island of about 740 km² while Africa is a massive continent. However, the principle that works for Singapore should work for Africa at city level, at the very least. For more information, read: http://www.bdlive.co.za/multimedia/2015/10/12/business-day-tv-africa-invests-in-public-transport?cx_tag=bcuf

East Africa

- **Rwanda:** Proposals have been made to set up cargo drone routes capable of delivering urgent and precious supplies to remote areas on a massive scale in Rwanda. Specialist drones can carry blood and life-saving supplies over 100km at minimal cost, providing an affordable alternative that can complement road-based deliveries. In Rwanda, physical access to some areas can be challenging. The proposal hopes to see drones to carry deliveries weighing 10kg. Drones capable of carrying payloads of 100kg, are planned to follow by 2025. In Africa the gap between the population and infrastructural growth is increasing exponentially. The dearth of terrestrial infrastructure has a direct impact on the ability to deliver life-giving supplies. The pilot project is slated to begin next year, with three “drone-port” buildings due for completion by 2020. The drones will be able to cover almost half of Rwanda’s countryside. Rwanda, with modern infrastructure only in key hubs, offers the chance to test case cargo drones before possible expansion into less developed countries in Africa. The project developers say that in many parts of Africa, too remote to establish telephone landlines, mobile technology leapfrogged that step, with mobiles now common across the continent even in remote places. Drones, it is argued, could do the same where a lack of roads has made access tough. For more information, read: <http://www.theguardian.com/technology/2015/sep/30/rwanda-chosen-for-worlds-first-drone-port-to-deliver-medical-supplies>
- **CAS View:** This is the second reference CAS has come across that mentions drones in a peaceful application in Africa. The first was when the African Centre for Economic Transformation published an article (see <https://ntusbfcas.com/can-drones-defeat-africa-s-most-hated-crop-pest>) in which they advocated the use of drones to get rid of a bird pest (quelea bird) that was seriously damaging harvests (millet and sorghum) in Africa. Now we have this potential use of drones to deliver cargo in the more inhospitable areas of Africa. Given that Africa’s road and rail infrastructure is in serious disrepair in many areas, and even non-existent in others, it makes a lot of sense to use this kind of technology. As the saying goes, necessity is the mother of invention. Africa, and those working with Africa, is quick to note the potential of technology to address its challenges. It is this kind of mindset that will help Africa in general to deal with the problems it faces. It is not always necessary to reinvent the wheel. In this instance the technology is available, it is practical, relatively inexpensive, and will provide cargo much faster than would otherwise be the case.
- **Kenya:** Kenya will stop new investments in its Export Processing Zones (EPZ) before the end of 2015, after years of official frustration that their operations have failed to add value to the economy. The EPZ will be replaced by Special Economic Zones (SEZs), which have been created to attract foreign direct investments in Kenya’s key urban centres, and are currently undergoing a pilot programme in Mombasa, Lamu and Kisumu. At the expiry of their contractual period, existing investors in the EPZs will be required to start paying taxes in line

with Kenya's taxation laws. They will also have a choice to either relocate or reapply afresh to be considered for investments in the SEZs under stringent conditions. Tax exemptions will be allowed at SEZs, but under controlled conditions to not lose out like with the EPZs. EPZ investors are currently enjoying a 10-year corporate tax holiday and 25% tax thereafter, a 10-year withholding tax holiday and stamp duty exemption. They also get 100% investment deduction on initial investment applied over 20 years and VAT exemption on industrial inputs. The impact of SEZs on government revenues will be evaluated each financial year and if found below expectations, a decision will be made on whether to continue. Kenya believes tax incentives are integral in ensuring the competitiveness of SEZ and EPZ investors on a global scale, and that it was more important to address systemic issues in the investment environment that have hindered the attraction, facilitation and retention of investments in Kenya. For more information, read: <https://www.trademarka.com/news/kenyas-special-economic-zones-to-attract-more-fdis/>

- **CAS View:** Countries worldwide have to invite foreign investments to grow their economies. They cannot afford to do so should it be harmful to its economic health. Kenya therefore had to restructure its mechanisms to ensure it got a fair deal. Whether it was necessary to create a new SPV like the SEZ, instead of reforming the EPZ, is a point to be debated. Be that as it may, Kenya introduced the SEZ Bill on 15 February 2015 to create a new incentive for foreign investment, whilst protecting its tax revenues from this incentive. Time will tell whether Kenya's SEZ will be successful on both these issues.

West Africa

- **Nigeria:** Currently very few Nigerian companies have invested in South Africa, a situation that vexes diplomats as they feel it reflects badly on the bilateral relationship. Except for Dangote Cement and oil and gas company Oando, there is little else. In comparison, the majority of SA's top listed companies have a presence in Nigeria. Its relative underdevelopment, large market size and reasonable growth rates mean the opportunities in Nigeria are just so much greater than in SA. In SA, low growth, a difficult competitive market to penetrate, exchange controls, and SA's regulatory environment make investments in SA more difficult. In spite of this, Nigerian metal-cann manufacturer GZ Industries is building a factory in SA and in Kenya. Should they succeed, more Nigerian companies will look beyond their domestic market in search of new opportunities elsewhere. SA firms have been able to build critical mass domestically over years and test their cross-border strategies with neighbouring markets before venturing further afield. Growing companies in other regions are using the same model.
- **CAS View:** South Africa represents a more mature market, which is one of the more important reasons South African companies are targeting Africa. It is a much more sophisticated market than the rest of Africa. Given the maturity and competitive rivalry, it definitely is more difficult to penetrate than other African markets. Although Nigerian companies will do well to move beyond their borders to seek new markets in other African countries, the Nigerian market is large enough (approximately 170 million) to accommodate a lot of competition. However, a sizeable portion of this market is poor, and will only attract companies who very specifically target this segment. Its infrastructure is also not as sound as that of South Africa. CAS is not so sure that South Africa should necessarily be the target, as there are many other countries where there are more realistic opportunities for Nigerian companies to target. Also, they should ensure that their home base is safe and sound. An old military principle states that you attack off a firm base. Trying to compete against South African companies in their home base whilst you have them in your own backyard, could be counterproductive.

Southern Africa

- **South Africa:** According to South Africa's National Treasury, South Africa's weak economic growth, the public sector wage bill and financial support for state-owned companies beyond what is currently budgeted for, are the 3 main risks to the fiscal outlook. Increased debt levels in a low-growth environment would only add to debt-service costs and raise the risk of sovereign credit rating downgrades to subinvestment grade. In August, Finance Minister Nene stated government was concerned that an economic downturn would make it harder to raise revenue and that it would have to look at spending curbs. In a different article, the National Union of Metalworkers of South Africa (Numsa) says Wednesday's (14 Oct) protected march against corruption is meant to harm both the public and private sectors where it hurts most. Numsa plans to lead thousands of workers through the streets of Johannesburg to capture the attention of both business and government. The strike has been consciously designed to hit the economy hard, during a sensitive period when every second of production counts towards the survival of struggling companies. For more information, read: <http://beta.iol.co.za/business/markets/south-af-rica/weak-growth-a-risk-to-sa-outlook-1929163> and <http://beta.iol.co.za/business/news/numsa-threatens-to-hurt-economy-1929260>
- **CAS View:** One of South Africa's saving graces since the advent of democracy has been the performance of the Finance ministry and the National Treasury. Its ministers of Finance have never been afraid to call a spade a spade, and have a lot of legitimacy in the eyes of South African businesses and society at large. One therefore can take serious note of the 3 issues they have identified as serious risks to the fiscal wellbeing of South Africa. Given these risks, what is not so clear, is why Numsa would want to hurt the economy in their struggle against corruption? The end result could be a loss of productivity, a loss of jobs, and a loss of trust by international investors in South Africa as an investment destination. And South Africa can hardly afford it. Anything hurting South Africa's economic growth potential at this junction in time must be condemned. There are other avenues to address corruption than hurting the economy, and hurting the image of the South African worker, portraying him/her as a volatile militant individual. South Africa cannot afford this stereotype to become entrenched in the mindset of the world, as it needs to project itself as a credible environment to take over from China as a manufacturing hub when the latter's labour costs become too high. There are many other African countries doing their utmost to position themselves to tap into this opportunity. South Africa cannot afford to lose out on this.
- **South Africa:** AB InBev has agreed to buy SABMiller for about £68bn, raising its bid after several rejections to clinch a record industry deal that will bring 33% of beers sold worldwide under a single company. That gives AB InBev brands such as Peroni and Grolsch, as well as control of about half the industry's profit. The deal has been hastened by the impact of slowing economies in the emerging markets of China and Brazil. A 20% drop in SABMiller shares in the months preceding AB InBev's approach and the prospect of an end to cheap credit also served as a catalyst to a takeover. The new company will be incorporated in Belgium. The deal could hit regulatory hurdles in SA even though AB InBev has no local presence, as SA's competition commission has increasingly been looking at broader public interest concerns in terms of the competition legislation. That includes employment, corporate social investment, and black empowerment. There is very little overlap between the two groups except in the US and China, where SABMiller operates joint ventures with local partners. Analysts expect that AB InBev will need to sell more than \$16bn of assets to win approval. Regulators could also demand assurances from AB InBev that it would not retrench employees in SA, as well as commitments that the merged entity would not cut SABMiller's support for farmers or its corporate social investments. For more information, read: <http://www.bdlive.co.za/business/retail/2015/10/13/ab-inbev-wins-sabmiller-over-with-r1.4-trillion-of-fer> and <http://www.bdlive.co.za/business/retail/2015/10/14/sabmillerab-inbev-stage-set-for-third-largesttakeover-deal>

- **CAS View:** This is the largest acquisition to date in the beer industry. Both of these companies have grown by means of acquisitions. SABMiller started as a South African beer company that went global with the onset of democracy in South Africa. It is the largest player in Africa, and has considerable scale of business in other emerging markets such as South America. This would be an important rationale behind the bid from AB InBev. Although it started its international growth story in Eastern Europe (Hungary), the world started taking real notice when they acquired Millers in the USA in 2002. Their two sources of competitive advantage lie in the quality of their people and the fact that they are the world's lowest cost producer. AB InBev obtained its scale when InBev (Belgian company) acquired Anheuser-Busch (USA). This acquisition will create an entity that will dwarf the now second largest company, Heineken, to an even greater extent. The two players in the acquisition have different approaches to beer. SABMiller believes beer is a local product, although they maintain a small portfolio of international brands, such as Peroni, Pilsener Urquell, Grolsch, and Millers GDB. AB InBev, in contrast, does not believe this and drives global brands. It will be interesting to see how the decision makers resolve this difference in approach. Hopefully the decision makers will also resolve the possibility of differences in culture. The failed experiment of Daimler and Chrysler comes to mind, where differences between the German and USA cultures were ignored, to the detriment of the entity created. Having identified this concern, the fact that SABMiller recalled the former retired HR Director, Johann Nel, is an indication that the takeover bid was not unexpected, and that they wanted the A-team on board to bed down the deal in all its dimensions. The highly experienced and charismatic Nel was intimately involved in all the successful deals SABMiller was involved in. In the end, whether this deal goes through or not, now lies in the hands of the competition authorities, not only in South Africa, but also in the USA.