Friday@Noon

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African Union

- **Africa:** Renewable energy plants are being built throughout Africa. Roughly 620 million Africans live without a reliable source of electricity. Africa's population is expected to double by 2050 and the demand for clean energy has never been greater. Africa Progress Panel believes Africa could soon become a renewables superpower, and that it can leapfrog carbon-centred energy systems and go straight to renewables. As Africa does not have large legacy systems, it can proceed with speed and use the newest types of technology. They believe that soon other parts of the world will look to Africa for expertise when it comes to renewables and energy. There is a completely new way of designing cities, and it is also a question of public health. 600,000 people in SSA die every year from indoor pollution. Small solar power initiatives are also gaining ground. Renewables could help supply cheaper energy to regions where people have to set aside a large portion of their income to pay for power. The poorest people who live off grid are paying, relatively, very high prices for their power, with some paying 60-80 times more per energy unit than people in London or New York. For more information, read here.

- *CAS View:* Renewables, and more specifically solar, have now been punted for a while as the new business model for energy in Africa. Given that 620 million Africans do not have access to reliable electricity, and that 600 000 die every year from indoor pollution due to cooking fires, it is no wonder the president of the African Development Bank has identified the provision of electricity to Africa's people as one of his five priorities. The opportunity to leapfrog the traditional mega-systems of generation, transmission and distribution through massive on-grid lines, is a golden one. Africa cannot afford these systems, and using renewables is a sure way of providing electricity at a much lower cost, and yet with more efficiency. It also will help to keep Africa's carbon footprint relatively low, as Africa cannot afford the negative implications of global warming. Various countries are relooking the ways of energy provision, with Morocco having built the largest solar system in the world. Africa will need all the support it can get to assist in in its endeavour to electrify Africa. This support should not be seen as handouts, but as good investment opportunities, with public-private partnerships. Independent power producers must be roped in to draw on the business and management expertise of the private sector. We see too many instances where state-owned enterprises drive the provision of electricity, and making a hash-up of it.

- **Africa:** Figuring out how strong the middle class is in Africa, can be problematic. According to a study by Credit Suisse, using assets and wealth accumulation rather than just income, only 3.3% of the African population can be classified as middle class. Despite this pessimistic view of the growth and current size of the middle class in Africa, companies have managed to succeed in this segment. Aluzinc Asia in Singapore is optimistic about Africa's consumer potential. However, the challenges are real, e.g. customer creditworthiness, poor infrastructure, lack of defined product standards and high cost of financing. According to Mr Vikramm Chand (CEO of Vega Foods in Singapore), Africa's middle class exists, but it is struggling compared with other regions; it is just a threshold above the mass market. Current economic conditions (weak currencies, corruption, unstable governments) are not helping. New entrants will face a choppy and slow growth. According to Corne Nel, MD for Elizabeth Arden South Africa, the nascent nature of these markets presents the company with an opportunity as they see growth of up to 35%. MD Ramesh, Olam International's president for South and East Africa, feels there is certainly a growing middle class. "Consumption of packaged food, which is convenience-oriented, has grown. This is an indication of larger disposable income and an indication of social ascending." For more information, read here.

- *CAS View:* Africa's growing middle class is a source of contention as people and researchers differ as to the size and growth thereof. At the heart of the argument lies the definition of middle class. For the more optimistic amongst us, it is growing in leaps and bounds. These would be using the more inclusive definition of middle class, while others would state that this broad definition could at best be seen as a consumption class. Irrespective of these finer points, what is clear is that there is growth and this is to be welcomed. In South Africa, the growth in the middle and upper segments of the Living Standards Measure (LSM) clearly indicates a welcome growth in this consumption class. Africa needs the development of its middle class (or consumption class) as a buffer against radicals who use the poor at the bottom of the pyramid as cannon fodder for their political aspirations. Governments should therefore, in their own best interest, develop pro-poor policies to generate and support inclusive economic growth. The greater the growth in the middle class (or consumption class if you want), the greater the economic growth and the more stable society at large becomes.

- **Africa:** The number of unique mobile subscribers in Africa is forecast to reach 725-million by 2020, accounting for 54% of the expected population by that point. According to GSMA, African mobile subscribers are rapidly migrating to mobile broadband networks and services. Africa is the second-largest— but least penetrated — mobile market in the world. Africa's three largest markets — Egypt, Nigeria and SA — together accounted for about one-third of the total subscriber base. The rapid move to mobile broadband networks was unlocking new opportunities for consumers, businesses and governments, growing an ecosystem that added more than $150bn in value to Africa's economy in 2015. Mobile broadband (3G/4G) accounted for just more than 25% of total connections at the end of 2015, but is expected to account for almost 67% by 2020. Mobile technology is also playing a central role in addressing many of the social challenges in Africa, e.g. providing citizens with official identities, tackling the "digital divide" by enabling access to the mobile internet, and delivering financial inclusion via mobile money services. The number of mobile subscribers in Africa that access the mobile internet has tripled in the last five years, reaching 300 million by 2015. By 2020, this total will be 550 million. For more information, read here.

- *CAS View:* It is well known that Africa has leapfrogged the landline technology, jumping directly into mobile communications. The fantastic growth indicated above, creates massive opportunities for ecommerce platforms. Advertisers will need to take heed of this phenomenon, as will many other players that currently use physical platforms. These include insurance companies, banks, governments (egovernment), music suppliers and the movie industry. Value-added has become the buzz-word in the Mobile Network Operator industry, as voice is mature and data has deteriorated into a price war. Mobile broadband is the major technology Africa uses to get access to the Internet. The potential in the rest of Africa is vast, as only 3 countries, SA, Egypt and Nigeria, currently accounts for more than 33% of the market. The other 51 countries collectively account for the rest of the 67%. This creates a huge opportunity for growth!

- **Africa:** The AfDB recently approved its Industrialisation Strategy for Africa 2016-2025. The Strategy addresses key issues such as: (i) Why we need to industrialize Africa; (ii) What it will take to industrialize Africa; and (iii) How AfDB will help to industrialize Africa. It catalyses productivity by introducing new equipment and new techniques, increases the capabilities of the workforce, and diffuses these improvements into the wider economy. It generates formal employment, which in turn creates social stability. It improves the balance of trade by creating goods for export and replacing imports. The Strategy aims to (i) Develop an industrial sector and policy framework, (ii) Enhance trade and integrate Africa into the regional and international value chains, and (iii) Boost competitiveness and value creation. The strategy will rely on five enablers which the Bank will mainstream into flagship programs. These are: (i) Supportive policy, legislation and institutions; (ii) Conducive economic environment and infrastructure; (iii) Access to capital; (iv) Access to markets; and (v) Competitive talents, capabilities, and entrepreneurship. The Bank will support countries by championing six flagship programs: (i) Foster successful industrial policies; (ii) Catalyse funding in infrastructure and industry projects; (iii) Grow liquid and effective capital markets; (iv) Promote and drive enterprise development; (v) Promote strategic partnerships; and (vi) Develop efficient industry clusters. For more information, read here.

- *CAS View:* The AfDB, through its president, Akinwumi Adesina, formulated its “High 5” priorities, one of which is “Industrialising Africa.” It is always easy to develop such catchy ideas. However, with this Industrialisation Strategy, the AfDB has given a major boost to the actual implementation of its industrialization strategy. Given the continent’s past (and present) focus on exporting commodities (minerals, oil, and agri products), and the subsequent economic decline due to falling commodity prices, various commentators have stressed the need for Africa to diversify its economy away from commodity exports. This document appears to provide direction and detail for Africa’s industrialisation drive. It also provides direction for financing this industrialisation drive. Parties such as the AfDB, and individuals such as Dr Arkebe Oqubay from Ethiopia, are providing much needed guidance to Africa’s economies to develop their own industrialisation strategies, as well as helping them gain the necessary resources to implement these strategies. This is what Africa needs to bring about all five the “High 5” principles! Should it progress in a meaningful manner in this journey, Africa will be a much better place. Given its size and the scale of its assets, what is good for Africa, will be good for the world!

East Africa

- **Kenya:** The furniture that comes out of Ciiru Waweru’s workshop in Nairobi isn’t hand painted or hand carved, and are similar to that at Ikea. Waweru started FunKidz in 2010 while she and her husband were expecting their first child and found it difficult to find quality children’s furniture in Nairobi. The company employs 23 people and sells in Kenya, Rwanda, and Uganda. The furniture is fun, colourful, and designed to foster creativity. Waweru is using the company to reshape several narratives about goods made in Africa, such as the idea that a country like Kenya can only produce small-scale items (pottery, crafts, accessories), but not products that can be manufactured en masse and sold globally. The manufacturing sector in Kenya struggled due to a series of foreign exchange crises, policies that focused less on exports and more on the domestic market, and poor macro-economic policies throughout the 1990s. Today, manufacturing accounts for just 10.6% of GDP. By contrast, agriculture contributes 30%. Most businesses in the manufacturing sector are small, funded by loans from family members and friends. They invest little in their businesses, having to spend much of their money on things like water, electricity, security, and transport. For more information, read here.

- *CAS View:* Much has been written about Africa that has to diversify its economies away from commodity exports, and that industrialisation is the name of the game. Developing manufacturing sectors have been held up as a cure for the ills of Africa’s economies. This approach would certainly contribute towards growing economies, creating jobs, import substitution, and even exports as indicated above. It would require the development of the skills of the population. Africa has been punted as the world’s next factory as soon as China’s labour costs become too high. Once again, the development of training courses to upskill Africa’s workers, especially its youth, will be a requirement for this to happen. Support for entrepreneurs such as Ciiru Waweru is also required. This would entail support in the form of financial support, tax breaks, supply chain support, and business knowledge, to name but a few. Here we see in the case study above, an entrepreneurial couple who have leveraged their skills to create jobs for 23 people! This is what Africa needs on a massive scale. Read also the article on the Industrialisation Strategy of the AfDB in the section on Africa.

- **Ethiopia:** Ethiopia recently hosted the 14th Ethio-Djibouti Joint Ministerial Commission Meeting. They addressed issues in three clusters: Political, Security and Social Affairs; Economic and Commercial issues; and the Port and Transport Sector Cluster. They agreed to raise the bilateral relations between them to new heights to realise economic integration and peaceful coexistence in the region. Economic and political relations between them could serve as a model for other countries in the region. The economic development of the two countries is inseparably tied with the peace and security of the region. Ethiopia shares common economic interests with Djibouti that makes the bilateral relations of utmost importance to both countries. About 95% of the regional export of Djibouti goes to Ethiopia. Ethiopian exports, on the other hand, constitute 76% of total Djiboutian import. Existing strong economic links include the railway project, and road, electricity and other infrastructure developments. The Ethio-Djibouti Joint Ministerial Commission must expedite the process of economic integration, not only between the two countries, but also in realizing the vision of the sub-region. It is in their best interest to work towards the effective implementation of the bilateral cooperation agreements. For more information, read here.

- *CAS View:* These two countries form part of a very troubled region, i.e. the Horn of Africa. Eritrea and Somalia, their neighbours in the Horn of Africa, are both unstable, to put it lightly. On the other hand, Ethiopia has become one of the darlings of Africa as far as economic growth is concerned, and in spite of accusations to the contrary, appears to be mostly politically stable. Djibouti is also quite stable, and houses military bases of a number of the large powers of the world, including the USA, China and France. Djibouti also serves as the export venue for the landlocked Ethiopia, and the transport links between these two countries are excellent. Together they serve as the "anchor tenants" of the region, providing stability and prosperity to the region. Ethiopia has grand designs as far as its role is concerned, not only in the sub-region, but in both East Africa and Africa at large. The prosperity and stability, as well as the expectations thereof, of these two countries, are therefore of cardinal importance for the troubled region they find themselves in.

West Africa

- **Ghana:** Due to rapid economic growth, rising disposable income and the broadening of the middle class, Ghana has moved into the focus of pan-African retailers such as Massmart, Shoprite, Edcon and Woolworths. In addition, international fashion brands such as Bata, Nike, Puma and Mango have entered the market to serve Ghana's middle class and its affluent elite. Yet, the market share of the formal sector remains small. Deloitte indicated that 96% of all retail transactions in Ghana are carried out in the informal sector. Although shopping malls offer a more convenient and comfortable shopping experience, it has been an uphill battle for retailers to attract shoppers into air-conditioned malls. The personal interaction with market women and the chance to bargain gives the informal sector a key advantage over formal retail. In addition to supply chain difficulties, some of the South African clothing retailers face additional challenges as their less recognisable brands are competing with branded second-hand clothing imported from Europe or the US, as well as local fashion. High inflation, electricity shortages, lower spending, rising interest rates, an overestimation of Ghana's emerging middle class and the sharp depreciation of the local currency are making life more difficult for retailers who have set up shop in Ghana. For more information, read here.

- *CAS View:* Retail in Africa can be quite complicated. Some of these companies use a green-fields approach to expand into a country, such as Shoprite. In some countries this works; in others it does not. Other companies grow by means of acquisitions, while others acquire local agents or joint venture partners. It is also clear that the informal market is still very popular in Africa, in spite of the much vaunted growth of the middle class in Africa. In South Africa, this is not the case. North of its borders, however, up to now malls have been a scarcity. This does complicate matters for retailers wishing to expand into Africa. One would be inclined to think that a city strategy would work better, given that the rural population are generally speaking poorer than their urban counter-parts, and that infrastructure in the rural areas are much less developed as well. SA's Shoprite, adopted a strategy in August 2014 to open 14 new stores in Nigeria alone. This is an indication that their approach is working for them in Nigeria. However, they struggled in Kenya and Tanzania. One also needs to differentiate between food retail and clothing retail. The dynamics in each are different and it would be dangerous to directly compare an Edcon (clothing retail) with a Shoprite (food retail). As for the popularity (or not) of malls, anecdotal evidence shows that they are becoming more popular as the size of the middle class grows. It might take some time, but eventually a sizeable chunk of Africa's population will migrate from informal markets to malls. This will probably have a negative impact on the livelihood of the "mom-and-pop stores" that currently prevail in many parts of Africa.