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Africa Outlook 2016
Summary report

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Welcome and Context

Lwazi Bam, Chief Executive Officer, Deloitte Africa



Deloitte's Africa view is informed by a myriad of factors which range from its strategic positioning and century-long presence in 34 countries on the continent. In order to better understand and serve these markets, Deloitte optimises the mix of its highly qualified local talent and global teams.

The firm's presence on the continent is bullish, non-superficial and grounded on the belief in the long-term prospects of the region. With Sub-Saharan Africa's (SSA) growth rate forecast to be above that of the global average in 2016, the fundamentals for improved growth and sustained development are still in place for the continent, according to Lwazi Bam.

While difficulties such as corruption, poor infrastructure, currency volatility, terrorism, climate change and the commodity price plunge are evident in both local and global markets, the African continent still remains attractive. The young population, a growing middle class, investments in infrastructure projects, the use of mobile infrastructure and relative political stability (which should not be underestimated), all build the foundations of Africa's real growth story in 2016 and beyond.

In light of the current headwinds faced not only by South Africa but also other emerging markets, including China, Brazil but also resource-producing African economies, collaborative strategies that identify and position African economies to be more competitive should be the focus for both the private sector and governments. In order to survive and thrive in 2016 and beyond, it is essential for African economies to diversify, especially those that are highly resource-dependent. Global shocks such as the commodity price plunge and the sharp drop in the price of oil are clear signs to this end.

Beyond resource commodity exports, tourism and agriculture are some of the key sectors that African countries need to consider in restructuring their economies.

With the foundation in place for Africa's growth story, African governments and private sector in the continent's economies need to work to identify their various unique value propositions in order to be competitively positioned in the global arena. While cognisant of the fact that Africa's trade infrastructure is still underdeveloped and economies are fragmented along language lines, greater efforts in bilateral and regional integration, all in an effort to come up with an Africa story that is more optimistic and more pronounced, is an important step forward.

Keynote:

The Outlook for Africa 2016

Sim Tshabalala, Joint Chief Executive Officer, Standard Bank Group



In sharing his mix of Africa's outlook in 2016, Sim Tshabalala firstly highlighted that African countries have little room to drive growth through fiscal and monetary expansion and hence there is a need to have to foster an enabling environment for both local and foreign businesses. 34 out of the 45 countries in SSA are in a worse off fiscal position than they were in 2008.

Concerns include that several of the larger economies – South Africa being one of them – now have gross external financing needs in excess of 10% of their GDP. Similarly, for instance, Angola, Ghana, and Zambia were flagged as unlikely to attract much investment this year. For South Africa in particular, 2016 will be a 'tough' year as consumer and business confidence is low. Given this, government and the private sector will need to work together on developing progressive and practical policies that will focus on tackling these challenges.

Secondly, countries that identify and optimise their competitive advantage are those that will succeed in 2016. The rising star nations which include Ethiopia, Kenya, Tanzania and Uganda, compare favourably to non-African competitors on factors such as transportation and communication costs and on the quality of their institutions. These countries have made good progress with regional integration and on linking their economies into global value chains, thus increasing East Africa's competitive potential as an exporter of manufactured goods.

Kenya for instance has received major investment in infrastructure over recent years including the refurbishment of the port at Mombasa, the opening of industrial parks at Mombasa and the new railway which has reduced the cost of energy by about 30%. Kenya has also improved its position on the World Bank's Ease of Doing Business ranking due to its simplification of business regulations, access to credit information, and the availability of relatively reliable electricity which was attributed to private sector participation.

Thirdly, politics has a direct impact on a country's risk profile. There have been improvements in governance on the continent, but the levels of corruption are still high, with Ethiopia and Uganda referenced in this regard. In order to promote greater competition on the continent, there is a need to 'modernise' politics.

This would include a close and practical relationship between governments and the private sector. Improving labour relations, honest and efficient management in firms and state-owned enterprises would also be essential steps in this 'modernisation' process.

As a fourth point, the short-term trade picture is bleak. The value of China-Africa trade could be down by as much as 25% year on year. This, however, follows 15 years in which China-Africa trade boomed by about 2,000%. This trade explosion has changed both China and Africa. Africa still, however, possess opportunities that Chinese construction and manufacturing firms most vulnerable to China's rebalancing can leverage. A lot of Africa today looks like China at the beginning of its take-off – lots of potential, but far too little infrastructure. China's switch from an investment-led to a consumption-based growth model can be good news for Africa in the long term.

Another point made was that Africa leads the world in mobile payments and the continent's digital revolution is set to continue. By 2021, it is expected that the continent will have over one billion feature and smartphones in use. The economic and social effects of a fully digital Africa will be enormous and more positive than negative. In the financial sector, Africa's lead in electronic payments is being rapidly supplemented by mobile-based insurance, savings and micro-credit services.

Overall growth in SSA has been largely due to capital accumulation driven by the inflow of FDI particularly into resource-rich countries. In addition, the reduced political instability on the continent, improvements in health and education and an increase in economic diversification from agriculture to other sectors in a number of African countries has contributed to SSA growth over the past two decades. Looking ahead, as the African population becomes steadily healthier, better educated and more urbanised, African economies will increasingly be able to generate their own internal growth.

Panel Discussion: Africa's Economic Outlook



Sheila M'Mbijjewe, Deputy Governor, Central Bank of Kenya

Dr Axel Schimmelpfennig, Senior Resident Representative in South Africa, International Monetary Fund (IMF)

Konrad Reuss, Managing Director & Regional Manager, Sub-Saharan Africa, Standard & Poor's Ratings Services

Letsebe Sejoe, Chief Executive Officer, Botswana Investment & Trade Centre (BITC)

Moderated by **Dr Martyn Davies**, Managing Director: Emerging Markets & Africa, Frontier Advisory Deloitte

This year, countries that were previously "looking good" now need to adjust to the "new normal" in light of the commodity and oil price reality that the global economy faces. The impact of the changing weather patterns in 2016 should also not be overlooked especially in countries reliant on the agricultural sector, according to Dr Axel Schimmelpfennig. A balance between internal and external revenue sourcing should be made by working towards economic diversification.

Originating from a resource-dependent economy that is working towards greater economic diversification, Letsebe Sejoe highlighted that there are a myriad of opportunities for further value addition on the continent. Botswana for instance, has already begun moving up the value chain through its policy for domestic sorting and processing of diamonds. This needs to be coupled with the ability of governments to create inciting ways to engage private sector players.

With the East African Community (EAC) and Kenya in particular being put on the global stage through Obama's state visit and a number of business and entrepreneurial events taking place in the region for instance, this is both a challenge and an opportunity to showcase the region's economic potential, according to Sheila M'Mbijjewe. While Africa's growth projection for 2016 exceeds the global average, a generalisation of growth rates on the continent would not do economies much justice as each country has different dynamics.

The youth population on the continent is one of the underlying factors to the 'Africa rising' narrative, but both a risk and an opportunity. African governments, together with the private sector need to be very assertive in how they create enabling environments for Africa's future. An example of this is how, despite the evolution of the Kenyan banking sector, the debt accumulated in the country was necessary in order for the government to afford infrastructure projects.

Social development programmes on the continent are also a key focus in 2016. Given that 60% of Kenya's population is under 30, a trend observed in many economies in Africa, this is the time to take risk and optimise investments flowing into the continent and establish self-sustaining social development programmes.

In reflecting on economic performance and investment environments, Brazil and Argentina were cited by Konrad Reuss as examples of how things can go sour. Standard & Poor's has 18 sovereign ratings on the continent. Two of these, namely Botswana (A-) and South Africa (BBB with negative outcome), are ranked relatively higher than the rest of the SSA countries which are in the single B category.

Looking ahead, tough economic times will push ratings negatively in countries such as Angola, Gabon and Mozambique for instance. Clear policy action and reaction are key to helping the rating of any given economy.

In conclusion, having the best team deliver on responding to the challenges the continent currently is exposed to, is an important strategy action in 2016 for both government and the private sector in Africa.

Panel Discussion: Africa's New Winning Companies



Morne Wilken, Chief Executive Officer, Attacq

Rodger George, Senior Strategy Director, Deloitte

Mike Whitfield, Managing Director, Nissan South Africa

Dale Sutton-Pryce, General Manager: Corporate & Specialist Lines, Hollard International

Colin Coleman, Managing Director, Head of the South African Office and Investment Banking Division, Sub-Saharan Africa, Goldman Sachs International

Moderated by **Dr Martyn Davies**, Managing Director: Emerging Markets & Africa, Frontier Advisory Deloitte

In theory, high economic growth should be accompanied by an incursion of winning companies in a given region. Consequently, the question arises whether an agile private sector has emerged across the continent in pursuit of economic growth hotspots.

Colin Coleman noted that Africa's New Winning Companies indeed follow growth but due to recent slowing growth in many parts of the continent expectations are that the private sector will be more defensive in the coming years.

Whereas the IMF forecasts 4% growth for SSA in 2016, South Africa is likely to barely reach 1.5% growth with the weak Rand forcing the South African Reserve Bank (SARB) to hike interest rates. A similar trend will be seen across other commodity-dependent countries. Companies that initially planned their capital expenditure based on high growth expectations are likely to cut back their investments.

Morne Wilken revealed that the impact of the poor macro environment is especially felt in the retail and real estate industry. Given widespread currency depreciations, the cost of occupancy is increasing in the commercial property industry due to dollar-indexed leases. This has a negative knock-on effect on retailers' margins and consumer disposable income. Nonetheless, companies within the food, health care, and construction materials sector should still be able to perform provided they take a defensive strategy. In the current market environment winning companies will be consolidating rather than expanding operations.

On the other hand Nissan still believes in the 'Africa rising' narrative noted Mike Whitfield. Businesses however need focus and resilience to succeed across the continent. Companies that are doing well in Africa know the facts and are able to access data in a market with no formal consumer statistics.

Furthermore, firms succeeding in Africa have strong local relationships in the markets they operate in and have the flexibility to cope with fast-changing environments. Undeniably, low oil and commodity prices have had a negative impact on economic activity, however, winning companies are those that are flexible enough to adapt to the situation instead of taking a defensive approach.

Dale Sutton-Pryce recommended that companies should try to form low-ego partnerships with local businesses. Companies also need to seek creative ways to distribute products beyond traditional channels. Winning companies have achieved this by partnering with local firms that have strong local market knowledge and either a strong local client base or an established distribution network.

Rodger George noted that he sees a more bullish economic environment and business attitude in the EAC especially. With Kenya reporting the region's lowest growth rate at 5.7% in 2015, growth is not dependent on commodity prices in these countries but rather driven by factors such as urbanisation, population growth, and increasing infrastructure expenditure. Winning firms in the EAC region are focused on growing rather than cutting back operations. However, the fundamental challenges for winning companies remain similar between low and high growth regions of the continent. The degree of these challenges vary in different markets but generally include, amongst others, skills shortages, bureaucracy, power shortages, a lack of understanding of consumers and costly logistics. Considering the current macro trends, investors also need to watch out for repricing of market capitalisations and shrinking margins in dollar terms.

In efforts to overcome many of these challenges the recommended strategy for successful companies on the continent is building strong long-term domestic partnerships.

Interactive Dialogue: Africa's Trade Outlook



Tsidiso Disenyana, Senior Economist, Export Credit Insurance Corporation of South Africa

Peter Draper, Managing Director, Tutwa Consulting

Ambassador Darlington Mwape, Senior Fellow, International Centre for Trade & Sustainable Development (ICTSD)

Moderated by **Dr Martyn Davies**, Managing Director: Emerging Markets & Africa, Frontier Advisory Deloitte

The dire state of intra-African trade is common knowledge with figures as low as 12% of trade happening between African states. This trend is further seen in cross-border capital flows which stands at a mere 3% of global GDP. In light of these statistics and falling commodity export revenues, the future of Africa's trade seems increasingly uncertain. Peter Draper felt that there is some renewed focus for intra-regional trade with ongoing negotiations for various intra-regional trade agreements, mostly the Tripartite Free Trade Agreement (TFTA) as it looks more possible that it will be implemented.

A lot has been done by African economies in terms of policies and agreements to improve trade but the biggest challenge is the lack of implementation from the member states of these agreements. With the exception of the EAC region, Tsidiso Disenyana, noted that this is a major reason why general trade trends between African states have remained relatively static over the past five years. However, and as added by Darlington Mwape, these agreements, even when implemented, may not necessarily yield expected increases in intra-African trade flows due to various existing non-tariff trade barriers (NTBs) to trade.

The opportunity exists for some African states with favourable demographics such as Ethiopia and Nigeria to improve their trade prospects by capitalising on the broad shift of labour intensive production away from China. The long-run prospects of this shift are however threatened by the emerging fourth industrial revolution. This revolution is based on production driven by connectivity and automation with innovations such as 3D printing which could see transferring of jobs back to developed and more tech-savvy nations rather than relocation of Chinese production to low wage economies, some of which could be in Africa.

Given Africa's current trade challenges, businesses operating in the region need to understand that the continent's major markets still reside in Europe, followed by China and the US. Companies also need to realise that international agreements such as the African Growth and Opportunities Act (AGOA) are not sustainable. The Southern African Customs Union (SACU) recently agreed to liberalise up to 80% of tariff lines over a period of 12 years and in the long-term 80% of the region's tariff lines will be in direct competition with European products. In the long-run as international trade agreements expire, competition with European firms will become fiercer and African firms need to prepare for this scenario by improving their competitiveness.

Presentation:

After Ouagadougou? After Bamako? – Africa's Security Outlook



Herbert Tinsley, Staff Researcher, Unconventional Weapons and Technologies (UWT) and the Empirical Assessment of Domestic Radicalization (EADR), National Consortium for the Study of Terrorism and Responses to Terrorism (START)

2016 is starting with a new set of challenges. Economically, the US will only see 1% growth, Brazil is in a crisis, and Europe seems stuck in its sovereign debt crisis, while China is decelerating. Nevertheless, The Economist magazine predicts Africa will be the engine of growth despite commodity prices being low. What may also be pertinent for African states is global geopolitical and security issues. As China builds military presence in the South China Sea, African economies dependent on China should be wary of China's assertive expansion in the South China Sea. China's continued interest in Taiwanese politics and its ambiguous relationship with North Korea should also be a cause for concern as these issues can reprioritise China's focus on Africa, should they flare up.

Another challenge is the continuing rivalry in the Middle East between the Sunni and Shia Arabs. As both parties have interests across Africa some African states may be forced to take sides in the tensions. Furthermore, the refugee crisis in Europe cannot go unnoticed when discussing Middle East and North Africa security issues. The current refugee crisis puts Africa at risk of facing increasing economic insulation from Europe.

Looking at US foreign policy, a Republican victory at the next polls may almost guarantee less US interest in SSA except where hotspots of Islamic terrorist activity remain. On the other hand, Democrats may continue Obama's legacy making well-intentioned promises to Africa but with limited ability to see them through.

One of the most implacable security threats for businesses in Africa is climate change. It will alter the way resource availability is viewed and continue to drive Saharan desertification, water shortages and extreme weather across the continent. Climate change will drive security concerns based wholly on basic needs. As South Africa and other African states try to tap into offshore oil reserves climate change may create cost prohibition or frustrate attempts to profit from the resource.

Besides climate change, technology advancements of the 21st century are increasingly presenting existential quandaries that no global region can readily address at present. For example, the repercussions of 3D printing, microprocessors, quantum

cryptography, bio synthetics, and genetic engineering have not been explored in detail by anyone. These technologies may become readily available to the general population within the next ten years but African governments are unlikely to be able to regulate these well. More importantly, businesses may have to take the initiative to safeguard against new technologies falling into unethical hands.

Finally terrorism has become an extremely mundane and commonplace issue globally. Since the year 2000 France experienced 331 coordinated non-lethal terrorist attacks. The more worrying trend is the increasing lethality of terrorism. Between 1974 and 2014 there have been 176 terrorist attacks in which more than 100 people died. 83 of these attacks have occurred since the year 2000. In 2014 mass fatality attacks almost tripled. The trend is substantiated in 2015 and does not seem to be subsiding in 2016. These attacks are usually heavily concentrated in areas where heavy geopolitical contestation, sectarian violence, strained government capacity, economic malaise, resource distribution problems, ideological extremism or outright civil conflict are continual burdens.

The two most prolific culprits of mass casualty attacks in the world are the Islamic State (IS) and Boko Haram. IS particularly operates by recruiting and deploying a network of foreign militants to carry out its attacks. South African journalists recently claimed that about 140 South African citizens were involved with IS. It is also thought that there is an active Islamic underground network in South Africa. Moreover, there is widespread fear of IS fighters returning to their home countries with military experience and carrying out attacks.

It is critical to understand terrorism trends across the world as businesses, especially in the hospitality industry, are soft targets for these sort of attacks. African businesses can however mitigate against such security threats through internal intra-business cooperation and low-ego relationships. Businesses should also focus on adopting innovations and technology to fight against climate change and the quickly changing digital space. Ultimately, the economies and societies that take first advantage of change will be the ones that succeed.

Summary Session and Close



Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Frontier Advisory Deloitte

African businesses need to be aware of how to evaluate and mitigate risk not only from an economic, politics and trade perspective but also from a security perspective. Almost overnight an unpredicted security situation flared up in Libya and today the country can be compared to Somalia and Afghanistan.

Looking at Africa's economic landscape the current commodity price shock has had dramatic negative effects across the continent. With a soft China and hard US, the next few years are going to be challenging for most countries in Africa. Businesses therefore need to be a lot smarter with how they engage in the continent over the next few years.

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