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Africa in 2018 Outlook

Summary Report

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AFRICA IN 2018

OUTLOOK

WELCOME AND CONTEXT

Lwazi Bam, Chief Executive: Deloitte Africa
Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Deloitte Africa

A new sense of hope is being felt in Africa. Recent political and economic developments in a number of countries across the continent saw somewhat progressive regime changes over the course of 2017. Going into 2018, this renewed optimism is further supported by an improving global economic outlook. Together with rising commodity prices, the changing political climate is anticipated to bode well for Africa's growth after several years of political and economic uncertainty.

Nevertheless, Africa has historically struggled to reduce income inequality and the challenge of ensuring that the benefits of anticipated positive macro-economic conditions are equally distributed across economies remains. Governments that can lead through these positive outlooks are needed now more than ever.

Before one of the most weakening economic shocks over the past decade, in May 2014, there was an incredible sense of optimism for West Africa. Nigeria had recently rebased its GDP and was the largest economy on the continent. Some consulting firms predicted Nigeria would become the first trillion-dollar African economy by 2020 with forecasts that the oil price would double to US$200 per barrel. However, no one asked the question, "what if oil became half the price?" A few weeks thereafter, the 2014 oil price collapse caused difficult times in oil-dependent economies such as Nigeria, eventually leading to various anticipated structural reforms across many of Africa's oil producers.

Fortunately, oil and commodity prices have since started to recover. Though sub-Saharan Africa's (SSA) key economies of Kenya, Nigeria and South Africa have suffered their share of political and economic turmoil, a slow turnaround is starting to materialise in these three economies and this is likely to be very positive for neighbouring countries over the course of 2018.

Fuelled by a moderate recovery in commodity prices and gradually strengthening domestic demand, the World Bank forecasts the overall growth in SSA to improve from an average of 2.4% in 2017 to 3.2% this year. Furthermore, according to the bank, the continent is expected to host six of the ten-fastest growing economies of the world in 2018 namely Ghana, Ethiopia, Côte d'Ivoire, Djibouti, Senegal and Tanzania.

These macro forecasts are good but a serious disconnection remains between the macro headline quantitative growth figures and African citizens' qualities of life. Growth remains resource driven and it is very difficult to have inclusive growth in a resource-driven economy. In almost every case, politically connected elites capture the bulk of returns from resources leading to diverged growth, which in turn results in negative economic, political, social and moral consequences.

There is more than enough evidence showing that income is more evenly distributed in countries with more diversified economies. Going forward, focus needs to be shifted towards quality of growth rather than quantity. The new commodity price scenario should give governments and businesses the impulse to start developing a wider variety of sectors and through diversification, help economies better confront future external shocks and combat inequality.


Lwazi Bam


Dr Martyn Davies

Inclusive growth is ever more imperative for socioeconomic stability on the continent and corporates and governments will be increasingly tasked with the challenge of coming up with meaningful solutions to achieve this in the years to come.

KEYNOTE PRESENTATION:

Building a business for the long-term in Africa

Rob Shuter, Group President and CEO, MTN Group

From MTN's perspective, several factors and core principles have contributed to the firm's success of building a customer base of more than 200 million subscribers across 22 markets. A number of principles that underpin the success of businesses in Africa include building a strong market position while maintaining a challenger mindset, a strong brand, modern technology and great people. These key factors allowed MTN to become a telecommunications giant in Africa and the Middle East.


Rob Shuter

The challenger mindset: A philosophy that has helped MTN stay ahead of the curve in its industry is operating with the mindset of a challenger firm. Evidence shows that in any given industry the largest firms sometimes become complacent to a point where they start to lose market share. On the other hand, firms holding a second position in the market are always striving to become number one and this keeps them innovative and ahead of the curve. "The enemy of great is good", and this is why adopting the challenger mindset, even as a leading player, is important. This approach has not only helped MTN maintain excellence and avoid complacency but also remain an active contestant in its markets.

A strong brand: It is of extreme importance to create an iconic and durable brand. This has been especially important for MTN in order to extend their brand across new categories and segments. It is vital to have a trustworthy brand, which corporates, consumers and governments can trust. A strong brand will not only increase the value of a company but it will also contribute to employee motivation and make customer acquisition easier through the company's enhanced identity.

Technological innovation: Keeping technology updated is critical to building a long-term and competitive business in Africa. Technology does not look after itself and companies need to constantly update and upgrade their systems to ensure they are not just using the best technology but also the most efficient solutions. For example, in January 2018 MTN tested 5G connectivity in Johannesburg, marking the first official 5G trial on the entire continent. While it is still early days (estimated to be another four years) before 5G launches in Africa, MTN is already conducting trials now. MTN's experience shows that keeping abreast with technology not only keeps firms ahead of the curve, but coupled with a technologically innovative mindset can help firms maintain long-term competitiveness by enabling them to react quickly when faced with new customer needs.

Great people: Great people build great companies and great people deserve great managers. This is the only way to attract and retain promising employees. If a business has great employees but poor managers, there will be low retention and therefore poor succession.

The biggest contributor to employee dissatisfaction is a poor relationship with their line managers. It is necessary to encourage managers to be good leaders by teaching them. In some cases, a successful employee is not a natural leader, and therefore it is important to identify the environment where each respective employee will be able to contribute the most value.

MTN believes Africa's population growth in the coming years will present numerous business opportunities, as it will entail a great expansion of Africa's "born-digital" generation. This is a generation with full grasp of the digital world, social networks and the internet; and investors looking at building a long-term business on the continent need to ensure their business model caters for a technologically-savvy population. Digitalisation should also be contemplated in business strategy in order to simplify processes, systems and customer service, among other things.

MTN's fast adoption of technology together with an attitude of boldness, ensuring relevance, resilience and relationship building have been instrumental to the firm's success in Africa. Building a long-term business in developing markets means being bold when others are cautious. Companies need to be relevant and responsive to stakeholders in their given market and resilience ensures dealing with obstacles and recovering from setbacks. Finally, as rules and regulations are often not clear or consistent in emerging markets, to minimise regulatory risks, it is vital to build strong relationships with distributors, customers, business partners, government and other key local stakeholders rather than rely on personal interpretations of how business should work.

KEYNOTE PRESENTATION:

How do economies develop inclusively?

Raghu Malhotra, President, Middle East and Africa, Mastercard

Modern globalisation has resulted in a new era for humanity, lifting billions of people out of poverty and into the middle class. However, over the last 40 years there has been a widening in the rift between the have and have-nots. Recent political and economic developments have shown that people have forgotten that a stable society cannot be created without inclusive growth.


Raghu Malhotra

The good news is that there are fundamental economic reasons for firms to pursue the goals of inclusive growth. Mastercard believes that firms can "do well by doing good". Inclusive growth results in more customers with extra disposable income to spend on a firm's products; i.e. the pie gets bigger for everyone. It is estimated that by achieving inclusive growth there is a US$7 trillion opportunity for firms to capture.

However, the benefits of inclusive growth also positively affect the rest of society, as economies pay for poverty and inequality. Economies pay for this through higher taxes to fund social safety nets, higher crime rates, and social instability, which has in some instances flared into uprisings.

A vital step on the path to achieving inclusive growth is firms shifting towards digital business models. By using technology as an enabler, the poorest in the world can tap into the benefits of developments made globally. Additionally, digital developments allow for the collection of data that results in better analysis of how to achieve inclusive growth.

In Jordan, for example, Mastercard partnered with the UN's World Food Program to roll out a revolutionary new way to deliver food aid, giving refugees a debit card to buy food locally rather than suffer the indignity of standing in line for food handouts. Not only does this create social cohesion between the refugees and locals in the area, but also consumption data can be used to understand financial flows, allowing better policy decisions to be made for refugees globally.

To achieve inclusive growth African governments and businesses must challenge the norms of today. Whether at Mastercard, or in another sphere, there are countless opportunities for firms to build targets for inclusive growth into their business models. Such an approach creates a symbiotic relationship between firms and the public, since it makes business sense to be part of building more inclusive societies of tomorrow.

PANEL DISCUSSION:

Africa's new winning companies

MD Ramesh, President and Regional Head – South and East Africa, Olam International
Sola David-Borha, Chief Executive, Africa Regions, Standard Bank Group
Hardy Pemhiwa, Group CEO and MD, Econet South Africa (Pty) Ltd
Sabine Dall'Omo, CEO, Siemens Southern and Eastern Africa
Moderator: Alishia Seckam, Anchor, BusinessDay TV

Alishia Seckam Hardy Pemhiwa Sola David-Borha MD Ramesh Sabine Dall'Omo

Africa is now at a stage whereby it is continuously seeing new and existing winning companies, and this can be attributed largely to disruptive and innovative business models, and forward thinking methods. New companies in this era have adapted through diversifying product offerings and revenue streams. Some of the key elements that have led to companies across the continent realising sustainable and winning businesses include the technology revolution, intentional disruption and private-public partnerships (PPPs).

The technology revolution: Growth opportunities of the future lie in being able to deliver solutions digitally. Revolutionising traditional methods of offering products and services assists in reducing costs, provides the opportunity of acquiring new customers at reduced rates and offers companies wider reach. Winning companies across all sectors need to learn to adapt to compete within the digital realm, and create and maintain technology strategies.

First-movers versus disrupters: Although maintaining a strong position in the market is key to getting ahead as an organisation, making the distinction as to whether a company is operating as a first-mover or a disrupter is vital. Today's generation is looking for more entrepreneurial opportunities than past generations, giving birth to disrupters. Unlike first-movers, winning companies do not try to disrupt existing businesses but instead cause disruption by exploiting the non-existence of businesses in key sectors providing high demand goods or services.

Infrastructure and partnerships: Basic infrastructure is critical – both for businesses and citizens. When building this infrastructure, African businesses need to take responsibility of building solutions within communities without relying on governments to take sole responsibility. PPPs are essential to scale the potential of projects. Winning companies in Africa think of different business models to better realise PPPs by focusing on and creating solutions that are relevant to the needs of the end-customer. However, PPPs are difficult to realise and at times not viable in Africa. Common factors underlying many successful PPPs include collaborating with businesses on the ground with the capabilities to execute as well as creating local partnerships with a long-term view in mind.

Underlying some of the key challenges are past injustices and inequalities faced by Africans. These challenges include finding good and reliable local partners across the continent, involving local suppliers across value chains and promoting empowerment by supporting SMEs. Although new winning businesses driven by innovation are emerging in Africa, it is evident that it takes more than mere innovation and disruptive activities for companies to adapt and succeed in Africa.

PANEL DISCUSSION:

Can Africa industrialise?

Philippa Rodseth, Executive Director, Manufacturing Circle
Thabo Molekoa, CEO Regional Office: Sub-Saharan Africa, thyssenkrupp
Jim Dando, Director of Sales and Operations, Nissan, Sub-Saharan Africa
Ken Osei, Principal Investment Officer – Equity Investments, IFC
Yvonne Mhango, Head of Research, SSA; Director – SSA Economist, Renaissance Capital
Moderator: Alishia Seckam, Anchor, BusinessDayTV

The 4th Industrial Revolution, also known as the Digital Revolution, is occurring at an exponential rate across the globe, acting as a disrupter in almost every country, and as a result transforming systems of production, management structures, as well as governance models alike. The question remains, however, whether or not Africa can leverage off this opportunity and industrialise. And if so, how will African economies ensure that they build the requisite base needed to industrialise in a sustainable, inclusive, as well as competitive manner.

Industrialisation can be best understood as the process of moving away from a commodity and agrarian-based economy towards one focused on value creation through manufacturing activities. This shift is characterised by a decrease in agricultural contributions to gross domestic product (GDP), as well as a commensurate increase in contributions from production-related activities.

In Africa, however, increases in GDP contributions are occurring mostly in the services and related industries as opposed to the manufacturing sector, causing industrialisation efforts to lag behind. Despite this fact, the continent has seen some growth in value addition across industries linked to commodity processing and import substitution, indicating a change in the African industrial landscape.

This change can be attributed to policy changes at the national level, as well as a number of countries repositioning themselves to attract industrial and manufacturing-related investments. One such example is Ethiopia, which has enjoyed an increase in pro-industrialisation activities such as investments in Special Economic Zones supported by enabling policies at the national level.

What the Ethiopian story demonstrates is the importance of an integrated and comprehensive response from all stakeholders – government, private sector, academia, and civil society – in efforts to industrialise. Government in particular plays a significant role by setting the guiding vision, as well as creating the enabling ecosystem ripe for execution through private-public collaboration.

In this regard, it is imperative that the vision be contextually appropriate, set at the national level, inclusive, and coupled with a degree of focus to avoid industrial over-reach. The vision should translate into an inclusive framework outlining the actionable details of the vision. One of the most common criticisms of industrialisation is the potential displacement of workers as production shifts towards mechanisation and automation. Managing this risk requires an industrialisation framework designed to protect those most vulnerable in this regard.

Also, an enabling policy and business environment is key in creating a sustainable base over the long run. This includes incentive schemes such as the Automotive Investment Scheme (AIS) under the Automotive Production and Development Programme (APDP) implemented in the South African automotive sector; capital investment schemes particularly those allowing for ease of entry and exit of capital; and skills development schemes to ensure that human capital transitions from lower skilled, low-paying jobs to higher skilled, high-paying jobs.

The African story will increasingly need to become one of migrating economic activities from farming to manufacturing. As such, value-adding activities to agri commodities, such as agro-processing should not be discounted as they too offer benefit in increasing employment opportunities across the continent.

Overall, industrialisation is a complex process that requires co-ordination and collaboration. African economies should adopt industrialisation policies for the right reasons, not just in response to cyclical shocks in commodity prices. If the African story is to be a successful one, it is imperative that all relevant actors treat industrialisation not as a once-off event, but rather as an ongoing, well-thought-out plan marked with checks, balances, and reviews throughout the process.

INTERACTIVE DIALOGUE:

The S&P view on South Africa

Konrad Reuss, Managing Director: South Africa & Sub-Saharan Africa, Standard & Poor's
Moderator: Dr Martyn Davies, Managing Director: Emerging Markets & Africa, Deloitte Africa

Looking back at S&P's review of South Africa's credit rating in November 2017, the country's long-term local and foreign sovereign ratings were downgraded to non-investment grade (junk status) with a stable outlook as opposed to a negative outlook in previous ratings; mainly due to politics overshadowing policymaking and implementation, and poor growth performance relative to other emerging markets. Additional contributors were a lack of growth in per capita consumption and persistently high inequality and unemployment levels. However, December 2017 brought forth somewhat more optimistic political news after a change in leadership of the governing party. This raises the question whether S&P's view of the South African economy is likely to improve.

According to S&P, post the downgrade in November the agency now has a more stable outlook of the country but the risks of further downgrades still persist. South Africa has been in a downgrade cycle since 2012 and throughout the cycle, there have been three prominent problems. As these have not been addressed to date, they will continue to affect the country's sovereign ratings negatively going forward.

The first of these problems is weak economic growth. A key concern for S&P is that South Africa's growth has been dismal year-on-year for over five years with no clear signs of where improvements are likely to come from. Secondly, the country's public finances are weakening continuously and this is starting to curtail fiscal flexibility. Lastly, the contingent liabilities of parastatals continue to grow at alarming levels. To address these issues, South Africa needs to relook its policy framework, specifically concerning much-needed structural reforms. Over the past decade, policy focus has been on income redistribution, whereas for the South African economy to grow, supply-side structural reforms are essential. While the focus on income redistribution is important, growing the size of income to be redistributed is more critical, and this can be achieved through supply-side policies. Key areas for reform should include labour market regulation and legislation, education policies and the reform of parastatals. Reforms in these areas are the most likely to move the economy back onto a growth trajectory.

Comparing South Africa to other non-investment grade emerging markets such as Turkey, Russia and Brazil, despite their ratings outlooks being negative they have still managed to outperform South Africa when it comes to income distribution. Furthermore, if South Africa's fiscal and external balances are compared to Turkey and Russia's it becomes clear that South Africa is not performing well. South Africa has serious challenges in terms of competitiveness and this is further highlighted by the failure of the country's exports to pick up after the drastic depreciation in its currency over the past few years.

Nevertheless, South Africa has not yet reached an unsustainable fiscal situation and a correction with minor austerity measures is still attainable though the speed at which the country can return to investment grade remains uncertain. On average, it takes about seven years for a country to come out of junk status. Faster recoveries to investment grade have been seen historically, like South Korea's 13-month turnaround in the late 1990s; but recoveries can also take much longer as seen in Indonesia, which took about 20 years. It all comes down to the pace authorities set in implementing reforms and to some extent how supportive the external environment is. With the external environment now favourable for countries undertaking structural reforms it is up to South Africa to act fast to take advantage of this.

Dr Martyn Davies Konrad Reuss


DAVID-BORHA
RAMESH


Deloitte.
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SECKAM
PEMHEWA
DAVID-BORHA


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MOLEKOA
DANDO

Contacts

Lwazi Bam
Chief Executive
Deloitte Africa

Dr Martyn Davies
Managing Director, Emerging Markets & Africa
mdavies@deloitte.com
+27 (0)11 209 8290

Hannah Edinger
Associate Director: Africa Services Group
hedinger@deloitte.com
+27 (0)11 304 5463

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