AFRICA HOUSE

Insight & Access. Projects & Trade.
CHANGES IN THE AFRICAN LANDSCAPE Looking forward to 2017 and beyond!
Who are we?

• Africa House represents the merger between two companies recognised as leaders in their fields: Whitehouse & Associates and Africa Project Access. Working exclusively in sub-Saharan Africa, we offer insight and access into the African trade and project environment through the provision of intelligence on projects and bespoke research on expansion opportunities in growing markets.

• **Our Services:**

• Africa House provides:

• **Projects:** On-going research and intelligence on greenfield and brownfield projects to a dedicated subscriber base

• **Trade:** Market and partner identification, export strategy development and commercial feasibility

• **Access:** To the world’s fastest growing markets through a team that has worked in 30 countries across the continent over a period spanning 30 years

• **Insights:** What is driving the continent and targeting regions of high opportunity going forward.
Some of the ways we can help you

• Market Strategy development: Understanding where your markets are and how best to access these markets. This would include:
  • Market Identification and Analysis
  • Trade flow analysis — product and country specific
  • Ranking market attractiveness
  • Assessing competition
  • Understanding export market environments
  • Barriers to entry
  • Distribution and logistics

• Partner identification

• Independent and Lenders Market Assessments

• A basket of subscriber services including identification of project opportunities and supply of project intelligence

• Coordination (and inclusion if required) of in-market visits

• Group visits to Development ‘Hotspots’

• Sub-group Meetings on key topics for Africa House Subscribers
Key Market Opportunity Areas
Economic ‘Hotspots’

Nigeria:
- Officially now largest economy in Africa;
- Largest population, fast growth, urban growth;
- Growth away from oil and gas – infrastructure, solid minerals, agriculural, manufacturing;
- Growing regional trade and investment role – Nigerian companies expanding into region;

Angola:
- Despite China, still a huge amount of work to be done;
- Chinese are also opening up country at a pace World Bank, donors can’t;
- Linking Angola to Copperbelt

Cote d’Ivoire:
- Return of AfDB to spur development?
- Rehabilitation and expansion of infrastructure post-conflict;
- Possible new investment in key sectors

Ghana:
- Mining sector development spurred country through much of last decade,
- Oil now taking off – third large field reported positive;
- Part of a general growth pattern in West Africa – recovery of Cote d’Ivoire, Liberia, Sierra Leone etc;

Copperbelt:
- Both Zambian and Congolese sides developing, becoming an integrated trade, development and investment zone;
- DRC now largest copper producer in Africa – could double in three years with power;

Mozambique/Regional:
- Coal is spurring huge developments around Tete – Vale has bought SCDN, signalling intention to develop Nacala corridor;
- Nacala and Beira Corridors opening up trade and investment routes to Copperbelt, Zimbabwe, Malawi
- Developing coal corridor from Botswana

Uganda:
- Oil is spurring development, both directly and in allied sectors – growth of +10% expected for next few years;
- Regional hub for energy products – South Sudan, Rwanda gas, Eastern Congo oil;
- Regional trade hub for E-DRC, S Sudan etc;

Cameroon:
- Established market & Gateway to Central Africa;
- Iron ore Province and rail corridor developing around Cong Gabon Cameroon axis?

Ethiopia:
- Second largest population in SSA after Nigeria;
- 10% of gov revenues on infrastructure development;
- Growth of 7% to 10% over last decade expected to continue;
- Emerging manufacturing base;

Tanzania/Mozambique:
- Development of gas resources on either side of border:
  - US$50bn in Mozambique? Same in Tanzania
  - Possibly more gas than Saudi in two countries?
  - Estimates upwards of 300tcf – more than the Gulf of Mexico

West African Iron Ore Province
- Guinea, Liberia and Sierra Leone
- Possible integrated iron ore infrastructure development

Kinshasa/Congo-Brazzaville:
- Huge development plans in Kinshasa;
- Links with Brazzaville proposed over Congo River;
- Combined population of 10 million or more;
- Kinshasa to Bas-Congo Corridor has much promise

Corridor of Development – driven by energy, minerals, infrastructure and agriculture

EAC:
- Kenya, Uganda, Tanzania, Rwanda and Burundi pushing forward quickly;
- Infrastructure developments key to this – includes extensions into southern Sudan, eastern DRC and SADC region (Zambia);

Corridor of Development – driven by energy, minerals, infrastructure and agriculture

West African Power and Road links
- WAGP to stimulate power;
- Integrated roads developments to unlock trade;

Tanzania/Regional:
- Development of gas resources on either side of border:
  - US$50bn in Mozambique? Same in Tanzania
  - Possibly more gas than Saudi in two countries?
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- WAGP to stimulate power;
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AFRICA HOUSE
Africa’s Resource-Based H/W/B Spots

- **Hot Spots**
- **Warm Spots**
- **Bubbling Up Spots**
- **Cold Spots**
Key Sectors of Activity in 2017

• Commercial Property/Urban Expansions/Industrial Parks/Housing/Retail Developments/Hotels

• Last-mile Data from Undersea Cables/E-Commerce/ICT Parks

• Rail & Port Developments

• Agri-Industries/Agricultural Beneficiation

• Renewable Energies (although continuation of coal-fired projects)

• Gas-to-Power
Key Issues

• Elections – always need to be aware of timing and issues;

• Deteriorating Security Situation?

• Rand Volatility – Are we benefitting?

• Growing Threat from Mediterranean and Middle Eastern Exporters;

• Uncertain Commodity Prices: Risking Infrastructure and Development Dividend?
  • Drought and Food Security;
  • Trade Agreements – Angola, Tripartite etc;

• High-End Consumers: Impervious to Shocks?

• Bureaucracy – ‘Nuff said!
Elections in Africa in 2017

- Countries in Blue have either Presidential or Parliamentary and Local elections in 2017;

- July-August is a key election time!

- Key Countries for SA companies:
  - Angola and DRC in SADC;
  - Senegal, Sierra Leone and Liberia in West Africa;
  - Kenya and Rwanda in East Africa (possibly Burundi depending on events)

- Angola: Unlikely that the opposition will make large inroads, but potential for some unrest with the domestic economy under severe pressure;

- DRC – elections could make or break development in the country – delayed again, to April 2018:
  - Mining houses other investors awaiting the outcome – projects probably still 18 – 24 months from initiation?
  - Jockeying for position intensifying, Moises Katumbe looking for a shot;

- Central Africa, from Congo-B to Rwanda and Burundi could be explosive;

- Liberia and Sierra Leone important to keep stability in that sub-region and hopefully open opportunities for companies in mining, FMCG and infrastructure as they continue to recover;

- Djibouti (regional assemblies) and Somaliland elections key to keeping Horn of Africa stable – big oil play possible in Somaliland in 2017 as well;

- Kenya’s elections likely to be hard fought

Key SA markets largely election free in S&E, and West Africa
Unstable Areas – Little Changed from 2016

• Not definitive by any means, but some of the key conflict ‘hotspots’;

• Rise of Islamist groups and disaffected Tuaregs in West Africa, Islamists (and LRA) in East Africa, Sahel (and surrounds) and Nigeria (and region) poses threats at varying levels;

• Ethnic and ethno-religious conflict in Central Africa remains a major constraint to development in E-DRC, CAR, South Sudan and Darfur;

• Unlikely that any of the groups will be definitively beaten in 2017;
  • Possibility of more/splinter factions arising;

• In concert with elections, lower commodity prices and possibly rising food prices, could see some localised tensions spilling over as well;

• Tensions rising in Ethiopia over land in Oromia – foreign investors being targeted;
Commodity Prices: End of Decline in Sight?

• Most major commodities expected to show slight improvement in prices in 2017;
  
  • Coal Prices may rise slightly faster, with a spike already on lower Aus, Chinese output;
  
  • Good recovery in oil price, but still well down on 2013 highs – may not be quite good enough to kick-start projects yet;
  
• LNG and Copper both recover steadily, but slowly, but iron ore, gold and silver to decline in real terms;

• However: commodity prices appear to have bottomed out in most instances, bringing some projects back to the table;

• Good news for region, especially for associated infrastructure developments, government finances;

  • Not out of the woods yet, but 2017 could see a recovery in extractives activity, especially on stalled projects;

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<tbody>
<tr>
<td>Coal, Australia</td>
<td>$/mt</td>
<td>84.6</td>
<td>70.1</td>
<td>57.5</td>
<td>51.0</td>
<td>51.9</td>
<td>52.9</td>
<td>53.8</td>
<td>54.8</td>
<td>7.49</td>
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<tr>
<td>Crude oil, avg. spot</td>
<td>$/bbl</td>
<td>104.1</td>
<td>96.2</td>
<td>50.8</td>
<td>43.0</td>
<td>53.2</td>
<td>59.9</td>
<td>62.7</td>
<td>65.6</td>
<td>52.42</td>
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<tr>
<td>Natural gas LNG, Japan</td>
<td>$/mmbtu</td>
<td>16.0</td>
<td>16.0</td>
<td>10.4</td>
<td>7.0</td>
<td>7.3</td>
<td>7.6</td>
<td>7.9</td>
<td>8.2</td>
<td>17.18</td>
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<tr>
<td>Aluminium</td>
<td>$/mt</td>
<td>1,847</td>
<td>1,867</td>
<td>1,665</td>
<td>1,575</td>
<td>1,626</td>
<td>1,679</td>
<td>1,734</td>
<td>1,790</td>
<td>13.64</td>
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<tr>
<td>Copper</td>
<td>$/mt</td>
<td>7,332</td>
<td>6,863</td>
<td>5,510</td>
<td>4,650</td>
<td>4,866</td>
<td>5,092</td>
<td>5,329</td>
<td>5,577</td>
<td>19.94</td>
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<tr>
<td>Iron ore</td>
<td>$/dmt</td>
<td>135.4</td>
<td>96.9</td>
<td>55.8</td>
<td>50.0</td>
<td>45.0</td>
<td>47.1</td>
<td>49.3</td>
<td>51.7</td>
<td>3.31</td>
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<tr>
<td>Gold</td>
<td>$/toz</td>
<td>1,411</td>
<td>1,265</td>
<td>1,161</td>
<td>1,250</td>
<td>1,219</td>
<td>1,190</td>
<td>1,160</td>
<td>1,132</td>
<td>-9.44</td>
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<tr>
<td>Silver</td>
<td>$/toz</td>
<td>23.8</td>
<td>19.1</td>
<td>15.7</td>
<td>17.0</td>
<td>16.9</td>
<td>16.8</td>
<td>16.7</td>
<td>16.5</td>
<td>-2.66</td>
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<tr>
<td>Platinum</td>
<td>$/toz</td>
<td>1,487</td>
<td>1,384</td>
<td>1,053</td>
<td>1,000</td>
<td>1,046</td>
<td>1,094</td>
<td>1,145</td>
<td>1,197</td>
<td>19.75</td>
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</table>

Source: World Bank, July 2016
Commodity Price Recovery: Resumption of Development?

- Many of the development hotspots are aligned with key corridors;
- Key projects in many have stalled or slowed considerably – but a recovery in prices may unlock this again;
- Having a knock-on effect on some infrastructure development;
- Government revenues hard hit – Angola, Mozambique, Zambia, Nigeria, DRC, Uganda, Ghana and others in a tight spot;
- However: sectors such as commercial and retail property development are still moving forward in many countries, along with mid to upper-income housing;
  - Urbanisation and backlog of good property stocks driving much of this in both commodity and non-commodity economies;
- Impact of El Ninõ: Southern Africa, from Angola and Namibia through to SA, Zambia, Botswana, Zimbabwe, Moz and possibly parts of East Africa to be affected:
  - Lower outputs of cash crops and staples

<table>
<thead>
<tr>
<th>Development Driver</th>
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<tbody>
<tr>
<td>Oil and Gas</td>
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<tr>
<td>Mining</td>
</tr>
<tr>
<td>Urbanisation</td>
</tr>
<tr>
<td>Logistics &amp; Urbanisation</td>
</tr>
</tbody>
</table>
Continuation of Infrastructure-led Growth

• Infrastructure spend in Sub-Saharan Africa will grow by 10% a year over the next decade, exceeding US$180 billion by 2025;
  • Nigeria and South Africa dominate the infrastructure market, but countries including Ethiopia, Ghana, Kenya, Mozambique, and Tanzania also look good;
  • Overall infrastructure spending in Nigeria is expected to grow from $23 billion in 2013 to $77 billion in 2025. A more investor-friendly environment towards oil investment is also likely to boost this projection further. In SA, this figure may reach US$60bn;

• A major increase in spending in basic manufacturing is underway in Sub-Saharan Africa. Annual spending in the chemical, metals and fuels sector is forecast to increase across the seven major African economies to $16 billion, up from about $6 billion in 2012.
  • Evident in the cement sector, where currently in excess of 75 greenfields and brownfields projects are underway, under consideration or recently completed;

• The region will spend increasing amounts of money on utilities, where an annual rate of 10.4% between now and 2025 is forecast;
  • Rail spend is expected to need US$93bn in the foreseeable future, with power estimated at almost US$50bn a year required;

• Oil and gas extraction activity and infrastructure spending are expected to vary across countries and regions. Extraction spending in sub-Saharan Africa is projected to increase at 8% annually over the next decade. The bulk of spending is likely to take place in South Africa and Tanzania.

Source: PWC Infrastructure Analysis, Africa House
Opening of SADC Region through Corridors: Applicable to East Africa as well

**Copperbelt:***
- Development of NW Rail is direct competition to Mozambican routes;
- Eventually, Kolwezi-Angola route will open, possibly concessioned?
- Already seeing diversion of cement and other building materials away from Katanga from Zambia and into Angola;

**Walvis Bay: SADC Gateway**
- Positioning itself as gateway for Zim, Botswana, Copperbelt;
- Already seeing consumer goods from Brazil, EU routed from Walvis to Katanga, rather than supply from SA;
- ‘Namgola’ already supplied via this route

**Coalbelt**:  
- Northern RSA and Botswana through Zim and Tete – possibly Malawi and Southern Tanzania;
- Nacala Corridor is developing into a Harare-Tete-Malawi-Nacala integrated zone already;
- Iron ore and steel potential in both Tete and Southern Tanzania;
- Opening up Harare-Tete corridor as well as Tete-Zim-Zambia:
  - Potential to secure copper exports from ‘Copperbelt’?
Regional Growth: More Nuanced

• Headline growth for SSA at 2.1% to 2018 looks pretty gloomy;

• Remove Big 3 laggards – SA, Nigeria and Angola, and it’s far better;

• East Africa driving growth – reginal economy has not contracted at all, whereas every other region has;
  • Largely because it’s not an extractives dependent region, with mining and oil & gas only now starting to become of some importance;

• Southern Africa, even excluding SA, is the worst performing region:
  • Angola, Mozambique, Zambia, DRC all hit by commodity price declines;
  • Zimbabwe, Swaziland, Malawi a combination of commodity prices, drought and governance;

• West Africa, outside of Nigeria, looks relatively good, with the regional GDP growing from US$149bn in 2015, to reach US$190bn by 2018 – critical that stability is maintained in order for this progress to be consolidated;

• Central Africa is the smallest regional economy, but ticks along and is expected to maintain growth of around 5% a year – much of it driven by regional gateway Cameroon;

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</thead>
<tbody>
<tr>
<td>GDP, SSA</td>
<td>1,764</td>
<td>1,592</td>
<td>1,495</td>
<td>1,576</td>
<td>1,693</td>
<td>2.1%</td>
</tr>
<tr>
<td>GDP, Excl SA, Nigeria, Angola</td>
<td>717</td>
<td>681</td>
<td>707</td>
<td>772</td>
<td>842</td>
<td>7.3%</td>
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<tr>
<td>Central Africa</td>
<td>101</td>
<td>78</td>
<td>78</td>
<td>84</td>
<td>90</td>
<td>4.9%</td>
</tr>
<tr>
<td>East Africa</td>
<td>295</td>
<td>304</td>
<td>327</td>
<td>366</td>
<td>406</td>
<td>10.1%</td>
</tr>
<tr>
<td>Southern Africa (Excl. SA)</td>
<td>287</td>
<td>253</td>
<td>233</td>
<td>249</td>
<td>265</td>
<td>1.5%</td>
</tr>
<tr>
<td>West Africa (Excl Nigeria)</td>
<td>161</td>
<td>149</td>
<td>161</td>
<td>175</td>
<td>190</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Source: IMF, WEO Report, October 2016
Africa House Group Visits: Provisional Dates

• In 2017, Africa House will be taking group visits to the following ‘Hotspots’:
  • Oct 2016 – Cameroon/RoC (Ports and Rail)
  • Nov 2016 – Pemba/Palma (oil and gas) in Northern Mozambique;
  • Jan/Feb 2017 – Mtwara-Lindi (oil and gas and industrial) in Southern Tanzania;
  • March 2017 – Angola Retail (Luanda)
  • March/April 2017 – San Pedro, Cote d’Ivoire (with a visit to the AfDB as well);

• Unconfirmed dates:
  • Kazungula Bridge/Northern Botswana;
  • Ethiopia – Agri-industrial
South Africa's 2015 Export Basket by Broad Economic Zone (ZAR Bn)

- 29% of all SA exports go to Southern and East Africa by value;
- 37% of all value-added exports from SA go to S&E Africa;
- Underlines the importance of Africa to SA exporters;
- Reinforces the fact that our products meet the needs of the market -
  but also that there is potential to expand beyond these 'comfort markets'.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Tripartite Countries</th>
<th>Other Africa</th>
<th>EU</th>
<th>Other Europe</th>
<th>NAFTA</th>
<th>LatAM &amp; Carib</th>
<th>South Asia</th>
<th>East Asia</th>
<th>ME &amp; CA</th>
<th>Oceania</th>
<th>Total</th>
<th>Tripartite Share (%)</th>
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<tbody>
<tr>
<td>Total</td>
<td>274.89</td>
<td>27.53</td>
<td>214.91</td>
<td>24.19</td>
<td>85.39</td>
<td>15.52</td>
<td>47.62</td>
<td>214.42</td>
<td>39.66</td>
<td>12.47</td>
<td>956.6</td>
<td>28.7</td>
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<tr>
<td>Machinery</td>
<td>48.60</td>
<td>4.40</td>
<td>23.27</td>
<td>0.42</td>
<td>9.88</td>
<td>1.62</td>
<td>2.25</td>
<td>4.34</td>
<td>4.41</td>
<td>1.17</td>
<td>100.4</td>
<td>48.4</td>
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<td>Mineral Products</td>
<td>36.78</td>
<td>5.34</td>
<td>24.40</td>
<td>6.25</td>
<td>8.04</td>
<td>2.73</td>
<td>31.68</td>
<td>77.88</td>
<td>8.15</td>
<td>0.83</td>
<td>202.1</td>
<td>18.2</td>
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<td>Chemicals</td>
<td>30.01</td>
<td>2.69</td>
<td>11.23</td>
<td>0.23</td>
<td>7.95</td>
<td>2.29</td>
<td>1.88</td>
<td>6.95</td>
<td>2.44</td>
<td>1.33</td>
<td>67.0</td>
<td>44.8</td>
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<td>Vehicles aircraft &amp; vessels</td>
<td>29.59</td>
<td>4.16</td>
<td>52.56</td>
<td>0.63</td>
<td>18.65</td>
<td>4.39</td>
<td>0.50</td>
<td>10.39</td>
<td>3.79</td>
<td>5.63</td>
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<td>Products Iron &amp; Steel</td>
<td>26.31</td>
<td>2.38</td>
<td>20.26</td>
<td>4.14</td>
<td>11.80</td>
<td>2.33</td>
<td>6.34</td>
<td>46.40</td>
<td>3.42</td>
<td>0.95</td>
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<td>Prepared foodstuffs</td>
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<td>8.05</td>
<td>0.64</td>
<td>1.94</td>
<td>0.43</td>
<td>0.11</td>
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<td>0.71</td>
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<td>56.4</td>
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<td>Plastics &amp; Rubber</td>
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<td>2.23</td>
<td>0.04</td>
<td>0.53</td>
<td>0.41</td>
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<td>1.20</td>
<td>0.44</td>
<td>0.22</td>
<td>21.8</td>
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<td>Vegetables</td>
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<td>2.93</td>
<td>0.10</td>
<td>0.76</td>
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<td>5.09</td>
<td>0.25</td>
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<td>2.10</td>
<td>0.03</td>
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<td>0.08</td>
<td>0.20</td>
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<td>0.30</td>
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<td>Live animals</td>
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<td>0.40</td>
<td>0.03</td>
<td>0.04</td>
<td>2.04</td>
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<td>0.17</td>
<td>1.80</td>
<td>7.09</td>
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<td>0.22</td>
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<td>0.01</td>
<td>0.10</td>
<td>0.08</td>
<td>0.10</td>
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<td>0.52</td>
<td>2.03</td>
<td>0.09</td>
<td>0.46</td>
<td>0.12</td>
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<td>0.15</td>
<td>0.00</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
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<td>0.00</td>
<td>3.3</td>
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<td>Wood Products</td>
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<td>0.33</td>
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<td>0.00</td>
<td>0.07</td>
<td>0.02</td>
<td>0.00</td>
<td>0.04</td>
<td>0.04</td>
<td>0.02</td>
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<td>89.1</td>
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<td>Raw hides &amp; leather</td>
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<td>1.97</td>
<td>0.02</td>
<td>0.45</td>
<td>0.17</td>
<td>0.04</td>
<td>1.38</td>
<td>0.08</td>
<td>0.04</td>
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<td>Other unclassified goods</td>
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<td>4.1</td>
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<td>0.01</td>
<td>0.02</td>
<td>0.2</td>
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<td>Equipment Components</td>
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<td>0.01</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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<td>0.00</td>
<td>0.00</td>
<td>4.0</td>
<td>56.3</td>
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</table>
Trade Agreements & Export Instruments

- SA market share peaked in 2010 and has declined since then;
  - Some can be explained by drop in value of Rand, but this should be compensated for by higher volumes (in theory);

- Global exports showed good growth from 2010 to 2014, but 2015 saw a sharp drop — from US$312bn to US$245bn;

- Much of the drop in total exports to SSA was to Nigeria and Angola — down by US$25bn between them, but most countries saw a decline in imports;
  - Ethiopia and Congo-B saw a small increase in exports, whilst Ghana, Kenya, Namibia and Cameroon saw comparatively smaller declines;

- In US dollar terms, SA exports stagnated at between US$26bn and US$27bn a year from 2011 to 2015;
  - Given that many competitor currencies have also declined, market share remains a concern;

- In Rand terms, exports have performed well — up from roughly R170bn in 2010 to R302bn in 2015 — R1bn up on 2014,
  - Going forward, we need to protect our key markets and grow our peripheral markets — which is most of them!

- Angola has committed to SADC FTA in January 2017 — it is a market ripe for lower-priced, good quality products;
  - Decline in value of the Rand could well see importers there looking to SA — but payment is an issue;

- Tripartite FTA still a way off, but 2017 is a good time to prepare for better access
• Includes North African Countries, plus Italy, Turkey, UAE, Greece, Portugal, Pakistan and Spain;

• All countries that exported heavily into N Africa and Med Basin – problems there forcing them to look to SSA;

• Exports grown from US$21bn in 2010 to US$35bn in 2014 – several countries had weakening currencies like SA;

• Exports dropped in 2015 to an estimated US$29bn, but they maintained market share at 12%, to SA’s weakening 8.6%

• Increasingly moving south as well;

• **Need to use our instruments to protect this:**
  - ECIC, Preferential Trade Agreements, DTI incentives etc;
Rand Woes: What’s in it for us?
SA Share of Global Exports: 2010 vs 2015 (US$)

- In 2010 SA has over 80% share of Lesotho, Swaziland, Namibia markets; 60% to 80% share of Bots, Zim and Zam;

- 40% to 50% of Moz and Malawi, good share in DRC, Madagascar, Tanzania and Uganda;

- Decent Footprint in Kenya, Ghana, Angola, Rwanda

- By 2015, loss of market share in Namibia, Zam, Zim, Moz, Malawi, DRC, Tanz, Kenya, Uganda, Rwanda, Madagascar, Ghana, Nigeria, Angola, Cameroon, most of West Africa;

- No increase in market share at all, in US$ terms;

- Are we passing on benefits of lower Rand to cross-border clients?

- Are local inputs costs outstripping benefits of weak Rand?
High End Consumers

• Evidence from in-market assignments in Angola, Nigeria, Kenya, Mozambique, Tanzania, Uganda in last three months shows resilience at the upper end:

• Sales of luxury products remain relatively buoyant, although super-luxuries under forex pressures in some cases;
  
  • Luxury car dealerships in Luanda still upbeat about future, as are clothing companies in Nairobi and hotel/restaurants in Lagos and Douala;

  • Increasing numbers of boutique wine bars, pet stores, gyms etc across region;

• Famous Brands deal with Paul International to bring high-end bakery-café to SA and region a sign of this;

• Development of mid to high-end housing and retail outlets is continuing, especially in some of the more affluent East African areas;

• Angola, Nigeria, Kenya, and others still seeing the spread of formal retail stores outside of the major cities and into new towns and smaller cities;
Urban ‘Middle Class’

- Not a stable entity yet – large ‘floating class’ that hovers just above the poverty line;
- Lower-middle consumer group added 2 million people a year in last decade;
- Upper-middle group relatively small, but growing;

Not a stable entity yet – large ‘floating class’ that hovers just above the poverty line;

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<table>
<thead>
<tr>
<th>Year</th>
<th>Float. class (US$2-US$4)</th>
<th>Lower-Middle (US$4-US$10)</th>
<th>Upper-Middle (US$10-US$20)</th>
<th>Middle Class without floating class</th>
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<tbody>
<tr>
<td></td>
<td>Millions</td>
<td>Millions</td>
<td>Millions</td>
<td>Millions</td>
<td>% of Pop</td>
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<td>51</td>
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<td>23</td>
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<td>1990</td>
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<td>53</td>
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<td>2010</td>
<td>199</td>
<td>83</td>
<td>45</td>
<td>128</td>
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</tbody>
</table>

Source: AfDB

Poverty levels dropping – but actual number of people living in poverty is increasing;

Number of Lower-middle to Rich consumers in Africa has risen from 114 million in 1990 to 184 million in 2010 – with 48% being in the top two categories;

Wealthier Africans largely urban and these are driving consumption of consumer goods and building materials;

Source: AfDB
Bureaucracy

• Still an issue at many levels, expect a mixed performance next year:
  
  • Lower growth rates and increased competition driving governments to look for improvements;
  
  • Many still see tariffs as easy revenue – especially on luxury goods;
  
  • Insistence on local procurement creating barriers, but also longer-term opportunities;

• Borders still an issue, but some are improving:
  
  • Route from Mombasa to Kampala has seen number of roadblocks reduced from 48 to 16 in last year – similar reductions in Tanzania;
  
  • SMS system for drivers to report corruption/inefficiencies/blockages;
  
  • Ports are generally getting better, with fewer delays and quicker turnaround, but still expensive and frustrating at many levels;

• Government attitudes and interference:
  
  • MTN at sharp end of Nigerian govt;
  
  • Zambian mining taxes creating uncertainty;
  
  • Chadian government trying to impose a US$74bn fine on the oil operators!
Looking Forward

- Opening up of Southern and East Africa, away from SA-axis, will see shift away from SA supply:
  - You have to ‘fly the flag’ – if your product doesn’t have a presence, it won’t sell;
  - ‘Local’ Supply – increasing investment in local manufacture of basic building inputs as well as other products – this is increasingly happening in key markets;
    - Not only goods, but services as well – architects, designers, contractors;
    - Means procurement channels are changing as well – more focus on Middle East and Asia as suppliers of goods and services;
  - Influence of China:
    - Very strong in most industries:
    - From construction of infrastructure to building materials and FMCG products, Chinese goods becoming dominant;
Looking Forward

- Other suppliers have tapped into this:
  - Asian rivals are also developing markets that did not exist before;
  - Indian companies growing their influence in sectors such as power, automotive, clothing, FMCG and household goods;
- Brazilian influence growing outside of Lusophone Africa – especially West Africa;
  - Increasing number of Turkish, Moroccan, Pakistani, Kenyan, Nigerian, Egyptian etc companies investing in and exporting to Sub-Saharan Africa in all sectors;
  - Expanded Suez Canal – increased competition in East Africa?
Can we Export our Way out of Trouble?

• In short? Probably not, if we’re simply looking at traditional method of ex-SA into markets;

• The landscape – from projects to trade has matured in recent years and will continue to evolve;
  • Growing insistence of government on local procurement, local skills is forcing the hand of many project developers;

• Increasingly, global players making direct entry into key markets:
  • This has slowed slightly with lower growth projections for the region, but remains a long-term trend;
  • This is across many industries, from basic building materials, to other construction and industrial products, to food and beverages, luxury goods and other products;
  • Also happening in the services sector, with increasing numbers of architects, designers, engineering companies, law firms and others either investing directly or looking for strategic partnerships in key markets;

• SA companies (in our experience) are slow off the mark, but getting there:
  • This applies to both local companies as well as SA-based MNCs;
  • Increasingly, a presence will be needed in key markets to sustain exports, or even local assembly/manufacture operations;
  • Increasing domestic capacity in many basic industries is reducing import dependency;
  • Bear in mind the growing long-term prospects offered by key growth nodes, the rapid pace of change, as well as the increasing in dependence from SA-focus as countries evolve and integrate into the global economy;
How to Approach SSA in Uncertain Times

• Recent announcements by global majors of scaling back in emerging markets offers some respite:
  • Nestle, Barclays, Chevron etc all relooking Emerging Market strategies and have reduced African exposure as they prioritise spend – could create some room for domestic and South African companies to establish themselves in key markets before a return to global interest;

• In key countries in distress (Nigeria, Angola, Zambia, Mozambique, etc), riding out the storm, rather than divesting, is the better long-term approach;
  • Portuguese companies did this for 40 years in Angola – no prospect of needing to do this again!
  • Assumes that good traction has been established;
  • Possibly use funds that can’t be repatriated to deepen and strengthen presence in markets?
    • Invest in the downturn to benefit from the upturn;
    • Despite current headwinds in many markets, there is domestic mid-term and long-term optimism that is driving continued investment in agri-industrial processing, hotels, shopping centres etc;
    • Need to take cognisance of this in order to retain and grow markets;
Questions:

• Does your company:

  • Understand the markets that you’re targeting – from a supply, competitor, sizing, trends and regulatory perspective?

  • *Have a visible presence in key markets – nobody will come looking for you!*  

  • Understand the logistics of operating in markets outside of SACU/Southern Africa?

  • Have a defined strategy for the region for the future?

  • Have staff in key positions that understand trade agreements, the export process and the time and costs required to successfully develop exports?

  • Interact regularly with other suppliers in your field/supply chain to harmonise efforts and ‘hunt in packs’?

  • Understand the support mechanisms offered by DTI, ECIC, CGIC, DFIs, Commercial Banks, Insurance companies etc for South African exporters and project developers;

• Your global competitors use these instruments from their home markets, so should we.
Thank You!

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