African Union

• **Africa:** The Continental Free Trade Area (CFTA) in Africa getting some impetus.

The Economic Commission for Africa's African Trade Policy Centre (ATPC) urged participants to act on conclusions reached in discussions this week as Africa seeks to meet its October 2017 deadline for the conclusion of the Continental Free Trade Area (CFTA) negotiations. The CFTA, which is expected to be in place by October 2017, will bring together 54 African countries with a combined population of more than one billion people and a combined GDP of more than US $3.4 trillion. With the CFTA, African leaders aim to create a single continental market for goods and services, free movement of business persons and investments and expand intra-African trade. The CFTA is also expected to enhance competitiveness at the industry and enterprise levels in Africa. The CFTA has the potential to boost intra-African trade by 52.3% between 2010 and 2022, which is crucial to accelerating structural transformation in Africa. Trade in industrial products is expected to receive the largest boost, with an additional increase of 53.3% over the same period. Supportive trade facilitation measures could more than double intra-African trade, stimulating industrial products the most and create jobs for the millions of Africa’s youth who are currently unemployed. For more information, read here.

• **CAS View:** From a macro perspective, the AfDB’s President, Akinwumi Adesina, has identified regional integration as one of his “High 5” priorities. One of the main benefits of regional integration is that it will increase intra-African trade from the current 12% to much higher levels. The TFTA, which needs to be ratified by the end of this year, has the potential to increase intra-African trade to 30%, with the CFTA increasing intra-African trade by 52.3% from the current levels. This is a massive jump. The problem with the TFTA is that it excludes ECOWAS and only addresses COMESA, EAC and SADC. However, to be fair, it was seen as an interim step towards the creation of the CFTA. Given the challenges of the TFTA, it is unlikely that it will be ratified by the end of this year, or that the benefits envisaged will start flowing shortly. That will put even greater pressure on the CFTA. The chances therefore that the CFTA will start delivering on its potential by the end of next year, are slim. The principles underlying regional integration, however, are laudable and both the TFTA (as the precursor to the CFTA) and the CFTA itself needs all the support they can get. One needs to be realistic and expect a longer time frame that what is currently envisaged. Africa needs the benefits of the intra-African trade, and all the other benefits associated with that. Putting too much time pressure on the process, can derail it and lead to non-delivery on all the associated benefits.

• **Africa:** Research shows that poor people will not spend grant money on alcohol and tobacco.

It is increasingly common for governments to give poor people money. Rather than grant services or particular goods to those in poverty, such as food or housing, governments have found that it is more effective and efficient to simply hand out cash. For decades, policymakers have been concerned that poor people will waste free money by using it on cigarettes and alcohol. A report on the perception of stakeholders in Kenya about such programs found a “widespread belief that cash transfers would either be abused or misdirected in alcohol consumption and other non-essential forms of consumption.” The opposite is true. Recent research by David Evans of the World Bank and Anna Popova of Stanford University shows that giving money to the poor has a negative effect on the consumption of tobacco and alcohol. One of the possible reasons identified, is that cash transfers are usually made to women. When women rule over household income, it’s more likely to be used on food and children’s health. For more information, read here.
CAS View: A very interesting piece of research contradicting what we generally thought to be true. This negative correlation is backed up with results from Latin America, Africa and Asia. The assumption that poor people will be incapable of dealing properly with cash, is a wee bit condescending, and probably based on the fact that we think poor people are poor precisely because they cannot work with cash, without considering other factors. One would be astonished to see how many poor people work miracles with the little money they do get access to. There will obviously always be those that will abuse the money they are provided by authorities, but we need to be careful before we make this a general rule, as this research shows.

West Africa

West Africa: Transport infrastructure in West Africa must be boosted to enhance regional integration and intra-regional trade. Financing is a major problem, and private sector participation must be boosted.

UNECA and the Senegalese Government recently sponsored a meeting in Senegal on "Transport infrastructure and trade in West Africa." The purpose was to take stock of the transport infrastructure in West Africa and assess their impact on intra-regional trade and the competitiveness of the sub-region and regional integration. Speakers underscored the importance of transport infrastructure in the production of goods and services and its active contribution to the improvement of competitiveness. Transport infrastructure supports the development of cross-border trade, substantially reduce the cost of certain inputs, promote the development of intra-Community trade and provide the economies with improved access to sub-regional, regional and global markets. West Africa lags way behind in terms of infrastructure in general and transport infrastructure, in particular. The construction and maintenance of transport infrastructure are expensive and therefore require innovative financing strategies, given the constraints of tax and a lack of private sector participation. Some countries have been promoting transport infrastructure financing through PPPs. For more information, read here.

CAS View: The importance of transport infrastructure is self-evident. This is true of air, road and rail in Africa. The ideal of regional integration and improving the degree of intra-African trade is dependent on improving Africa’s transport infrastructure in a major way. Commercial entities expanding into Africa must ensure a viable market, as well as a viable supply chain, which is dependent on this transport infrastructure. Those that fail in their expansion endeavours, frequently do so due to supply problems. It is said it is cheaper for African companies to export abroad than to other African countries. Looking at a map showing the road and rail infrastructure of Africa, gives one a clear indication of the challenges facing companies moving stock in Africa. This is true not just for West Africa, but for most of Africa. Rail is frequently absent or woefully inadequate, and where roads do exist, they are often in a very poor condition. There are countries that have done a lot to address this issue. Cote d’Ivoire has addressed this issue as a priority and can boast of a great road infrastructure. Unfortunately, countries such as Nigeria cannot say the same. In East Africa, governments in Tanzania, Kenya, Ethiopia, Rwanda and Uganda are all in the process of developing a road and rail infrastructure to address this issue. It is also evident that China is playing a major role in building and financing these roads and railway lines.

Nigeria: Nigeria is supporting the Bank of Agriculture to boost its farming output and reduce food imports.

Nigeria plans to capitalise its state-owned Bank of Agriculture with $3.2bn and will allow the lender to take deposits, as it seeks to boost farming output and reduce food imports. Nigeria is looking at 25 million farmers as stakeholders or depositors. Farming accounts for more than 25% of GDP, and has expanded every quarter of 2016, while factory output and mining, which includes the oil industry, shrank. The Bank of Agriculture will start lending...
for farming projects at an interest rate of less than 10%, or less than half of commercial market rates. The government plans to distribute 110 rice mills across the country over the next two months at a subsidy of 40%. These measures will help boost production and reduce food imports, which were worth about $3.8bn in 2015. For more information, read here.

- **CAS View:** Nigeria really needs to pull out all stops to get its agricultural industry on track, and to save foreign currency by means of import substitution. Getting the agri sector going will also create more jobs. Before the discovery of oil, Nigeria was an exporter of food. Now, as the article shows, food imports cost Nigeria $3.8bn annually. Nigeria has great potential to grow rice, which will give its agricultural sector a much-needed boost. The same goes for cassava, which can be used as a basic foodstuff, as well as for cassava flour (gluten-free bread), starch, glucose and maltose. Supporting all the different parts of the total agricultural value chain will definitely play a role in boosting Nigeria’s economy. However, they will also need to look at increasing competencies, knowledge of modern farming practices, and modern marketing techniques.

### Southern Africa

- **South Africa:** Shoprite, largest food retailer in South Africa, has expanded quite successfully into various African countries. Understanding low cost retailing and the African consumer, as well as their centralised distribution chain, played a major role in their success.

Shoprite’s strategy to seek out Africa’s growing middle class consumers, has helped drive its rapid expansion in the last decade. In contrast, its competitors took too long to realize Africa’s retail potential, or just used the wrong strategy. Shoprite’s focus has been on low costs. It diversified its customer base by launching different brands for different segments. Outside of South Africa, Shoprite and its affiliate stores are not necessarily low-cost, but they do offer a variety and an aspirational sophistication that local retailers and informal street markets simply can’t compete with. Shoprite understands that consumer behaviour differs from state to state in each country and they’ve made sure their products, especially canned and packaged goods, match those tastes. Shoprite also sells to value-oriented consumers who want to get all their goods in one place with a longer shelf-life. Crucially, Shoprite has also exported South Africa’s fondness for malls, thereby overcoming infrastructural challenges in building its own centres. It often partners with local property developers and other elated food chains. Shoprite’s centralized distribution chain allows it greater control of logistics in working with both multinational suppliers and local farmers. For more information, read here.

- **CAS View:** Three factors explain Shoprite’s success in Africa: their understanding of low cost retailing, understanding the African consumer’s needs, and their centralised distribution system. They were of the first to move into Africa when they realised that South Africa’s retail environment was becoming mature and growth was slowing down, and that Africa was “empty”, in that there were 800 million people south of the Sahara with very few large companies serving this need. They made a few mistakes and there are cases of failure, such as in Egypt and Tanzania, but their successes are far more. They are also fast to develop a local supply of fresh food, in order to simplify their logistical requirements. This strategy would also help the local farmers and suppliers, positioning Shoprite in a very positive light. Other South African food retailers were soon to follow, such as Massmart, Pick n Pay and Woolworths. As stated, a centralised distribution chain is one of the success factors of Shoprite. It is somewhat ironic that they learnt this from the best in the industry, i.e. Walmart, long before Walmart decided to move into Africa by acquiring Massmart. I am not sure Walmart would have been so keen to help Shoprite way back had they known that Africa would become an important element in their expansion strategy. Access to con-
sumers is always going to be important in Africa, which explains the much-publicised acquisition of 50% of Multi-
pro, a subsidiary of Tolaram, by Kellogg. It also explains Shoprite’s strategy to support the development of malls in Africa.

- **South Africa**: South Africa is moving towards a cashless society.

  Cash is no longer king. It’s expensive to produce and manage. It facilitates crime. And it enables tax evasion. As
digital payment technologies continue to improve, more and more economies are adopting a post-cash mindset.
In SA, a highly cash-oriented market, a race is underway to build the mobile payment infrastructure for tomorrow.
One of the leading contenders in South Africa is Masterpass, a global digital payment service from Mastercard.
SA payment startup SnapScan, which has a network of more than 30,000 merchants across the country, has just
integrated Masterpass acceptance throughout its system. Wider cooperation helps make the case to consumers
to ditch cash. Some of the specific use cases that are already finding traction in SA, include topping up mobile
phone data, and paying monthly utility bills. By building Masterpass directly into bank and partner apps, it can be
adapted to unexpected and novel uses. This change can already be seen in action in SA’s small townships, where
entrepreneurs are using Masterpass smartphone payments to serve their local communities. The bank branch of
the future is the smart phone in your hands. For more information, read [here](#).

- **CAS View**: I have frequently stated that banks need to deal with mobile fintech should they wish to avoid disinter-
mediation. With cash being sidelined, the need consumers would have of banks, will be changing drastically. As
Michael Jordaan stated, the bank branch of the future is the smart phone in your hands. This will definitely lead
to a redesign of the value proposition banks would need to develop to serve their customers’ needs. And they
should be pro-active! It is not a forgone conclusion that the future of the banking industry lies with banks, in spite
of what the COO of Equity Bank in Kenya has to say. Mobile fintech, block chain technology, cashless societies,
mobile phone technology, etc. are all playing a role in redefining the banking industry. They are major drivers of
change, and are converging to cause disruption in the banking industry. With Africa being poor on bricks and
mortar banking infrastructure, there is a good business case to be made for going cashless, with all the concom-
itant effects on the current banking processes and practices. But as always, there is a fine line to be drawn be-
tween jumping the gun risk by being too early, and sinking the boat risk, by being a too late adopter. Interesting
times await us!

- **South Africa**: Land reform in South Africa is a serious issue. Government is focusing on land acquisition, but is
neglecting to support the new farmers. The latter can be seen as being set up for failure. This has serious conse-
quences for the future political stability of South Africa.

  Land reform is a major issue in SA. Concerted efforts from the ANC to get land reform programmes and concom-
itant post-handover support on track at this stage are unlikely, given that the most senior ANC ministers are tied
up in a high-stakes game of state capture. There is a general agreement that land reform has been a failure and
needs to be sped up. Between 70% to 90% of the projects (including land restitution projects) have failed. The
chorus for land acquisition has drowned out the plea by land beneficiaries for state support. Most researchers
have concluded that land acquisition has contributed little to helping beneficiaries earn a livelihood from the land.
The reasons for this include inadequate post-settlement support, lack of skills, poor planning, infighting within
communities, and because post-restitution projects are designed in a way that favours capital intensive commer-
cial farming unsuitable to the beneficiaries’ circumstances. But the most common cause of failure is a lack of
support for farmers once they become landowners. The government needs to re-look its policy of simply acquiring
land for redistribution. It needs to take measures to make sure that redistributed land is used productively. For more information, read [here](#).

- **CAS View**: Land reform in Zimbabwe was somewhat of a train smash, and has contributed significantly towards the need to import food, as well as the implosion of the tobacco industry, amongst others. The damage to the Zimbabwean economy is self-evident. In South Africa, the same outcome is possible, should the government not support the “new” farmers – new farmers referring to previously disadvantaged individuals, i.e. people who are not white. Just giving them land, without the other support, is setting them up for failure. Unfortunately, it does seem government is dragging its feet. Some companies have realised that should they wait for government to support the new farmers, failure would be the inevitable outcome. Also, it does seem that frequently land is transferred to politically-linked individuals, instead of to local people. As such, companies in the apple and pear industry (i.e. Two-A-Day) have taken it upon themselves to support new farmers in tangible ways to ensure success, as far as this is possible. Companies and farmer associations in other branches of the agri sector should take a leaf from this book and do the same. South Africa needs an agri sector where black farmers are seen to be successful. It does not help anybody when land is transferred to black people and they are allowed to fail. Land is an emotive issue, and currently populist politicians such as Julius Malema are using it as a tactic to garner support amongst the radicalised youth. For the future wellbeing of South Africa, this must be stopped. As the saying goes, either South Africans stick together, or they will hang separately!