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# PANORAMA

JUNE 2016

## Sub-Saharan Africa: hit but not sinking

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By Coface Group Economists



**S**luggish global growth, characterised in particular by China's loss of momentum, shock to commodity prices... Sub-Saharan Africa has not been spared in the global tempest and seeks to maintain growth against wind and tide. The commodity producers are the most affected. The capacity to adapt to these shocks is crucial for these countries to be able to continue their journey, especially as financing conditions have deteriorated markedly. Some have taken rapid decisions and adjustments have been made via a more restrictive policy mix, but others have found it more difficult to recognise the unsustainability of their economic policies. Nigeria, for example, after unsuccessfully trying to resist the downward pressures on its currency, decided on 20 June to adopt a more flexible exchange-rate regime. But does Sub-Saharan Africa, this land of opportunity, still have wind in its sails? Are these cyclical shocks likely to

continue to hinder these economies' trajectory and jeopardise their growth potential?

These adverse winds will probably persist in the short term, despite the relative stabilisation of commodity prices since the start of the year. Even though the trajectory of the "continent of the future" has been disrupted, and without denying the existence of weaknesses (infrastructure, governance, political stability, etc.), the Sub-Saharan Africa ship is far from sinking. Even the countries that have been weakened the most in the past few years have strong structural points. They could recover in the medium term, thereby providing attractive prospects for companies seeking for opportunities and which are prepared to cast off for an adventurous journey.

The private consumption potential in particular, against a backdrop of demographic power, seems very encouraging

in Nigeria, Angola, Ghana and South Africa. Accordingly, it offers companies real possibilities for expansion, particularly in the retailing sectors, even though the product diversification and the move up the value chain could be quite slow. The increase in the number of shopping centres, built by African but also foreign groups, is also an indication of investor confidence. Moreover, the information and communication technology (ICT) sector, in full expansion, opens promising horizons in these very countries. Telephone networks are being developed, mobile phone penetration rates, which are on the rise but still low, point to a significant upside. The African ICT market is all the more attractive as many services are offered via mobiles (financial, trade, agricultural, etc.), thereby providing inhabitants in rural regions with the opportunity to have access to a number of services they otherwise would not be able to have. So Sub-Saharan Africa has been hit, but is not sinking!

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## RESEARCH PAPER

June 2016

# SUB-SAHARAN AFRICA: HIT BUT NOT SINKING



**Marie ALBERT**  
Economist,  
Head of Country Risk



**Anne-Sophie FEVRE**  
Economist

## 1

## STAYING THE COURSE OF GROWTH: A HARD CHALLENGE

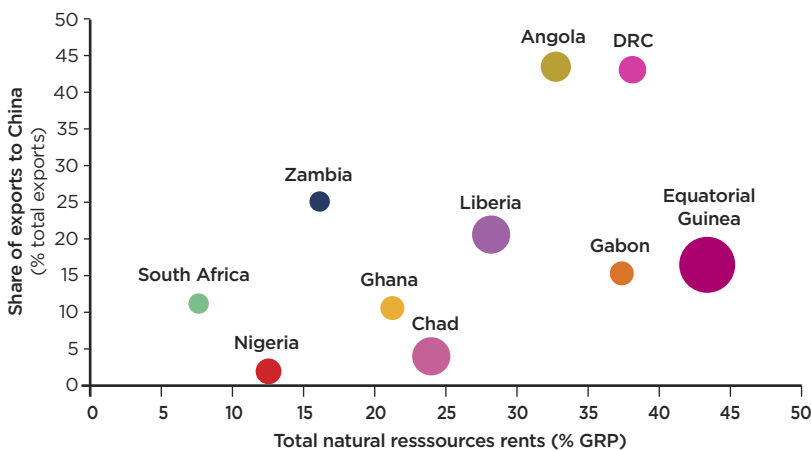
### 1 - Falling commodity prices and Chinese slowdown: adverse winds

**Growth has not been so weak in Sub-Saharan Africa (SSA) since the 2008 financial crisis.** It reached 3.4 % in 2015 according to the IMF *versus* 4.0 % in 2009, and we must go back to 1999 to find a rate below 2.8 %. The slowdown in activity is likely to continue this year (3.0 % according to the IMF, 2.6 % according to Coface). While commodity prices have plummeted 45 % in two years, the oil price <sup>(1)</sup> has fallen almost 60 %

to around USD 50 in mid-June. Commodity-exporting countries - and particularly oil exporters - are the most severely affected by this shock: in 2015, growth in these countries was on average only 2.6 % in SSA versus 4 % for importing countries, and is expected to reach 2.2 % in 2016 according to the IMF (*versus* 3.6 %). For some countries it is a twofold struggle. On top of the fall in commodity prices, there has been a slowdown in activity in China since 2010, while many countries export considerable quantities of commodities to this country.

Accordingly, by selecting the economies among which activity should slow down most between 2013 and 2016, we find 10 countries (*see chart n°1*), including oil exporters (Angola, Nigeria, Equatorial Guinea, Democratic Republic of the Congo (DRC), Chad, Gabon) and exporters of other commodities (South Africa, Liberia, Ghana, Zambia)<sup>(2)</sup>. Some countries like Angola or the DRC, whose growth declined by respectively 4.8 and 3.5 pp during the period under consideration, are clearly characterised by a strong dependence on China, as the share of exports to this country exceeds 40 % of total exports, as well as on commodities as the share of earnings generated by natural resources is between 30 and 40 %. Obviously, in addition to these common shocks there are domestic factors which explain the slowdown in activity, such as bottlenecks in South Africa (shortages of electricity), the impact of El Niño or governance problems, with for example significant security tensions in Nigeria.

**Chart n° 1**  
Declining growth: dependence on commodities and China



Size of the bubble = decrease of growth between 2013 and 2016 (% GDP)

Sources : IMF, World Bank, Coface

(1) Source IMF, average of three spot prices (Brent, WTI, Dubai).

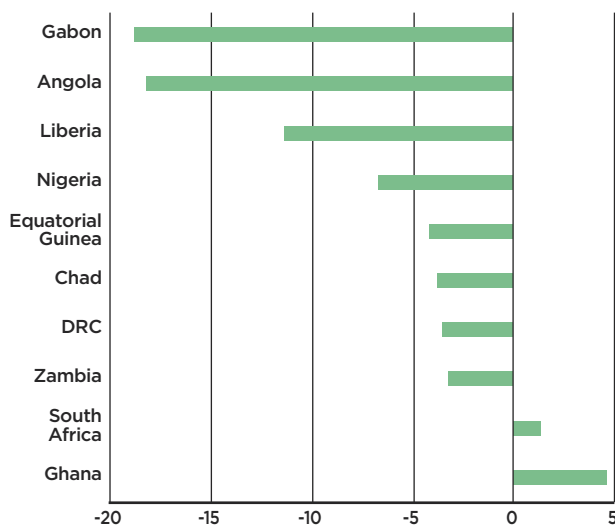
(2) Some countries have been excluded from the sample because of the lack of relevance or availability/reliability of the data for the remainder of the study, like Ethiopia (decline in growth in 2016 forecast because of the negative impact of El Niño), Sierra Leone (Ebola and data problem), etc.

**In this difficult context, the external risk has increased considerably in these economies.**

The current account balances have deteriorated under the effect of the fall in revenues from commodity exports (see chart n° 2), and the negative shocks to the terms of trade have been particularly pronounced. The current account balances of Gabon, Angola and Liberia have therefore fallen between 10 and 20 pp of GDP between 2013 and 2016. This phenomenon has been accompanied by a strong downward pressure on the exchange rates against the dollar, which itself has caused a marked increase in inflationary pressures (see chart n° 3). Angola, Ghana, South Africa, Nigeria and Zambia have had to cope with a massive depreciation of their exchange rates against the dollar and this phenomenon is unlikely to be corrected this year (this depreciation would reach between 30 and 52 % between 2013 and 2016 according to BMI) and these countries' consumer price levels is expected to post the largest increases (between 4 and 12 percentage according to BMI) and hit far higher levels than the targets set by the central bank. However, currencies and commodity prices have stabilised on the whole since the start of the year. Furthermore, concerning inflation, SSA has traditionally been the zone where oil price fluctuations in the international market have barely been transmitted to domestic prices. Actually, more than half of SSA countries adjust their gasoline prices in a discretionary manner while 40 % of them make these adjustments by using automatic formulas<sup>(3)</sup>. Distortions have nevertheless been reduced in some countries (Angola, Ghana), as domestic prices have been increased markedly as part of reforms that have reduced energy subsidies, as these countries have no other choice to restore some budgetary margin.

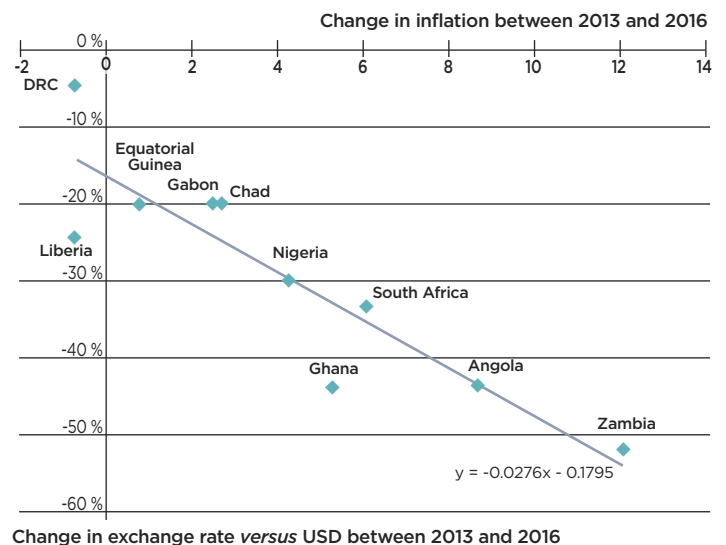
**As they are facing a depreciation of their exchange rates against the dollar, a number of countries have tried to maintain a certain exchange rate,** but this strategy has sometimes proved to be pointless given the persistent downward pressures, linked in particular to the fact that commodity prices are not picking up strongly again. The National Bank of Angola has taken restrictive measures on the allocation of foreign currencies, leading to a lengthening of payment periods for many companies, and has also on two occasions decided to devalue the kwanza (June and September 2015). Nigeria decided in mid-2015 to adopt restrictions on around 40 products in order to stabilise the exchange rate and made its exchange rate regime flexible on 20 June as maintaining the exchange rate was clearly unsustainable, particularly in view of the level prevailing in the parallel market (around 350 naira per dollar in early June 2016, versus 199 naira for the official rate). After a 30 % depreciation on 20 June, the new exchange rate was 260 nairas per dollar. Furthermore, foreign exchange market interventions also took place to contain the downward pressures on the exchange rate and stem capital flight (according to IIF<sup>(4)</sup>, in Nigeria, for example, capital inflows fell from more than USD 32bn in 2012 to USD 17 bn in 2014 and less than USD 7 bn in 2015). The fall in reserves is particularly worrying in countries that have limited leeway like Chad and the DRC, whose reserves apparently cover less than one month of imports this year according to IMF estimates, i.e. a critical situation. The fall has also been drastic in Nigeria where, according to the IMF, the reserves all in all cover no more than 3.7 months of imports *versus* six months in 2013.

Chart n° 2  
Trend in the current account balance between 2013 and 2016 (pp of GDP)



Sources: IMF, Coface calculation

Chart n° 3  
Trend in the exchange rate against the dollar and in inflation between 2013 and 2016



Sources: BMI, Coface calculation

(3) "Global implications of lower oil prices" Husain, International Institute of Finance, July 2015

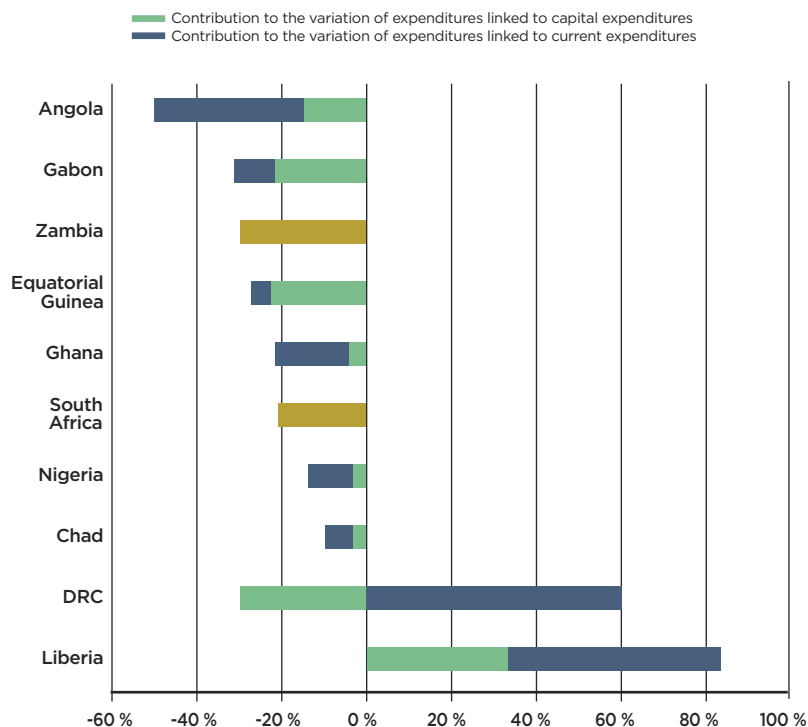
(4) Database April 2016, IIF site

## 2 - Attempt to stay afloat through an overall restrictive policy mix

The public finances of commodity-dependent countries have deteriorated markedly. For many countries, the share of oil revenues far exceeds 50 % of total revenues (Equatorial Guinea, Angola, DRC, Nigeria). Moreover, the oil price that balances the budget is far higher than the oil price prevailing in the spot market; it is, for example, close to USD 88 for Nigeria<sup>(5)</sup>. Most of the countries have also had to cope with a surging fiscal deficit, in particular Equatorial Guinea, Chad, Gabon and Angola. This led Moody's in April to downgrade Nigeria's sovereign rating from Ba3 to B1 with stable outlook, Zambia to B3 with negative outlook and Angola to Ba1 with negative outlook. Against this backdrop, it has become difficult for these countries to find new funding; the rise in funding costs is worrisome (especially in Ghana, Gabon and Nigeria) and governments are putting off returning to the capital market at these prohibitive costs.

Most of the countries are reducing their spending to try to stem the deterioration in their public finances (see chart n° 4). In Angola, for example, the fall in government spending, which reached 28 % between 2013 and 2015, is expected to be around 50 % between 2013 and 2016 according to BMI. For Zambia, the DRC, Equatorial Guinea and Gabon, this reduction is expected to be close to 30 % in three years. These countries have taken measures to reduce both their operating expenditure and their capital expenditure. Equatorial Guinea and Gabon have preferred to mainly reduce their capital expenditure while Angola, Chad and Ghana have opted for a relatively larger reduction in their current expenditure. These countries have had to readjust their finance bills considerably. Nigeria, for example, has now based its draft budget for 2016 on the assumption of an oil price of USD 38 (the oil price hit a low in mid-February at below USD 30, but the assumption of USD 38 now seems conservative), and in April 2016 announced a reduction in subsidies, driving fuel price up by 67 %. Nevertheless, the country in May also announced a more expansionary policy, with a USD 1.7 bn injection in the economy each quarter (i.e. a little less than 2 % of GDP), probably earmarked for the financing of infrastructure requirements<sup>(6)</sup>. Angola, on the other hand, has built its budget on an oil price of USD 45. It has also borrowed USD 6 bn from China to finance a wide range of projects (education, healthcare, water, roads). In April 2016, the country asked for financial assistance to the IMF, which announced on 14 June its agreement in principle to grant a new loan whose amount could reach USD 4.5 billion. The DRC, conversely, has adopted a rather expansionary policy, but this is explained in particular by an increase in exceptional spending (mainly security), while revenues have grown only marginally and the amount of grants has decreased. Moreover, election spending may be increased at the expense of spending on welfare and priority infrastructure. Regarding Liberia, the country receives aid from some governments (United States, China) given that the budget receipts have been sharply reduced by the low level of growth linked to the Ebola virus and the fall in the commodity prices, but spending could all in all be lower than expected: the president has announced a 11 % budget spending cut, particularly by reducing public investment projects.

Chart n° 4  
Government spending cuts between 2013 and 2016



Sources: BMI, (details not provided for South Africa and Zambia), nationals, Coface calculation

Furthermore, in this deteriorating economic environment, concerns about the sustainability of public finances are resurfacing. While the public debt has seemed to be a less worrying subject in

(5) "The U.S. Oil Supply Revolution and the Global Economy", IMF, December 2015

(6) The forecast reduction in spending shown in chart 5 according to BMI could therefore be smaller than expected.

the last few years given the results of the HIPC (High Indebted Poor Countries) initiative that is coming to an end, concern has resurfaced given the sharp increase in the public debt recently, which could cast doubts on these countries' debt sustainability<sup>(7)</sup>.

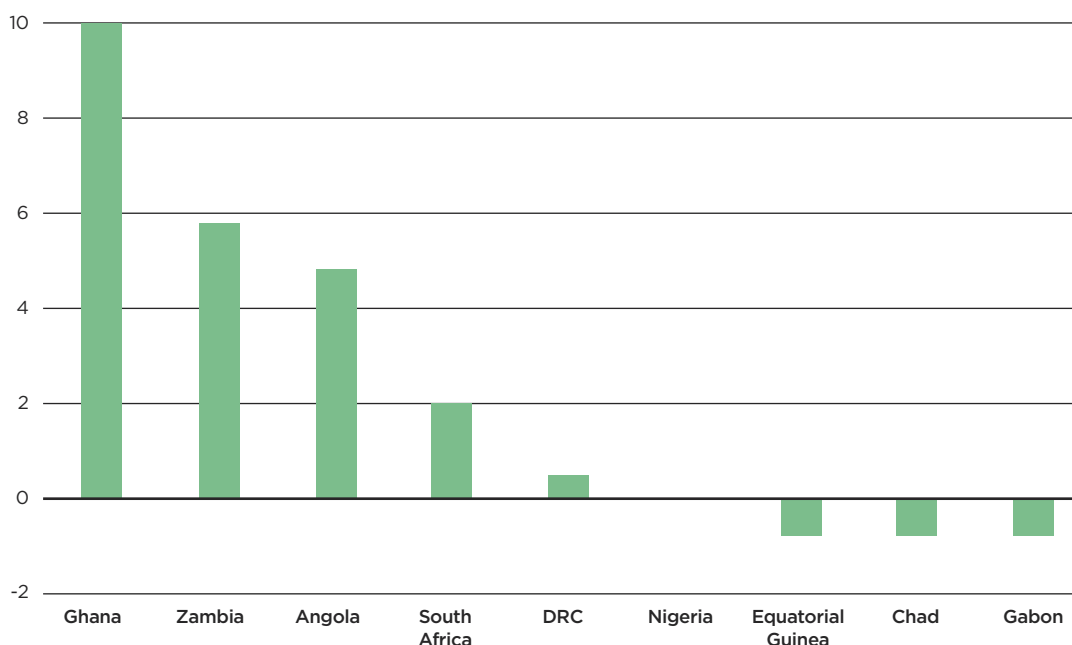
Furthermore, many countries that have faced a pronounced exchange-rate depreciation and rising inflationary pressures have, accordingly, had to tighten their monetary policy (see chart n° 5). Angola and Ghana have raised their key interest rate massively since 2013, by respectively 4.8 and 10 pp to new highs (14 % for Angola, 26 % for Ghana). Conversely, the countries in the Franc zone (Chad, Gabon and Equatorial Guinea), whose exchange fell 20 % against the dollar between 2013 and 2016 - i.e. a relatively smaller depreciation than some of their neighbours - have preferred to ease their monetary policy by giving priority to preserving their growth (or at least trying to limit the losses), and key interest rates have decreased slightly to 2.45 % currently (rate fixed by the BEAC for CEMAC countries).

### 3 - A temporary shock?

These shocks of falling commodity prices and slowdown in Chinese activity now seem to be not only cyclical shocks, but structural shocks given their persistence, which are having a negative, enduring impact on activity in the commodity-exporting countries in SSA.

The drop in commodity prices reportedly worsened the terms of trade by around 16 % for the exporting countries in 2016, according to the World Bank<sup>(8)</sup>. The institution estimates the impact of this shock to around 0.5 pp on growth in SSA compared with the reference scenario, and a weakening of the current account and budget balances by respectively 4 and 2 pp compared with the initial forecasts. However, commodity prices are rising only gradually and their low level should, accordingly, continue to hamper activity for an extended period<sup>(9)</sup>. The case of Angola is significant: the oil price plays a key role in the development of activity and its growth will probably be only around 2.2 % this year (see box page 6) Moreover, it is not only the commodity-related activities that are affected but also non-commodity related activity that often depends on the good health of the exposed sector.

Chart n° 5  
Change in the key interest rate since 2013 (% points)



Sources: BMI, Central Banks, nationals, Coface calculation

(7) Tresor Economics n° 164, "Will Africa need a new "Heavily Indebted Poor Countries" initiative? ", March 2016

(8) "Africa's pulse", World Bank, April 2016

(9) According to Coface, the oil price is likely to reach only 52 USD on average in 2017 (versus 45 in 2016).

## BOX

## Impact of the oil price on activity in Angola

Angola is particularly affected by the changes in the oil price. Indeed, Oil accounts for 40 % of GDP, 95 % of exports and 75 % of government revenues. The country's growth is mainly explained by the change in the oil price and the predominant role of oil exports in activity, but also by change in global activity.

In order to explain these changes in activity we use two variables and we obtain the following estimation by using a linear regression model <sup>(10)</sup> :

$$GDP\_total_t = 12.86 + 0,27 Shock_{t-2} + 2.45 World\_growth_t + 2.87 World\_growth_{t-1} + \epsilon$$

With  $GDP\_total_t$  the change in Angolan total real GDP in the reference year  $t$ ,  $Shock_{t-2}$  the change in the oil price multiplied by the share of oil exports in GDP (average over the last three years) in year  $t-2$  and  $World\_growth_t$  the change in global activity in year  $t$ .  $\epsilon$  is the residual of the estimation.

Based on this regression we can therefore predict the trend in activity in Angola (see chart n° 6) in 2016 under the hypothesis of a stabilisation of world growth of around 3 % <sup>(11)</sup> i.e. growth of around 2.2 % for this year, in line with the Coface estimate.

Chart n° 6  
Angolan GDP growth (% , yoy)



Sources: IMF, Coface calculation

We carry out the same exercise to understand the changes in the Angolan GDP excluding oil. The reason is that the changes in the oil price also markedly affect the sector that is not dependent on hydrocarbons (the shock variable also appears significant), and we obtain the following estimate:

$$GDP\_excl.\_oil_t = 0.66 + 0.18 Shock_{t-2} + 2.39 World\_growth_{t-1} + \epsilon$$

Note: the quality of estimates is limited by the small number of observations.

(10) Methodology based on "Selected issues" on Gabon, IMF, March 2016.

(11) As a reminder, in 2016 the value of the shock variable in  $t-2$  (2014 value) is already known.

**Furthermore, the expected lack of vigour in Chinese activity also dampens growth prospects in SSA.** Coface believes Chinese growth will come in at 6.5 % this year and 6.1 % in 2017, and this situation should also help keep commodity prices low. Investment in China is expected to gradually play a less important role in growth and this does not bode well for in the short term for SSA countries: according to Drummond and Liu (2013)<sup>(12)</sup> a decline in domestic investment growth of 1 pp in China goes hand in hand with a 0.6 pp export growth loss for SSA, with a greater impact for exporting countries. If investment shrinks this year at the same pace as in the past two years (i.e. 3.4 % per year), the growth in SSA exports should then shrink by around 2 pp. If we take the particular case of South Africa, 1 pp lower growth in China has an impact of 0.37 pp on the country's growth at a 2-year horizon, according to the World Bank<sup>(13)</sup>. Accordingly, in 2016, the impact of the Chinese slowdown on the country should be around 0.1 to 0.2 pp of GDP. Nevertheless, the rebalancing towards consumption is slow in the short term, and even though it will hurt commodity-producing countries because of less vigorous investment, some SSA countries could be able to seize opportunities by diversifying and/or by focusing more on products that Chinese consumers are interested in, like Ethiopia, Uganda and Kenya have done<sup>(14)</sup>. Moreover, while trade has been surging for more than 10 years, China also plays a key role in terms of investments (FDI has been multiplied by six since 2000), particularly in natural resources and financial aid. According to the World Bank, the FDI provided by China between 2003 and 2009 contributed, for example, 2 pp of growth in Zambia and 1 pp in the DRC and Nigeria. This role of investor and lender could be called into question in sectors linked to

natural resources, but the Chinese logic is also part of a long-term strategy. The country will therefore probably remain involved in many projects, and could turn to more dynamic, domestic demand-oriented sectors in SSA. In December 2015, the Forum on China-Africa Cooperation in Johannesburg was also the occasion for the Chinese president to announce ten cooperation plans to promote projects aimed at developing industry, infrastructures, financial services, investment facilities, public healthcare etc. China could therefore finance a power plant in Abuja, and is involved in the development of railway transport. The country has also multiplied the number of bilateral agreements, particularly in South Africa where it has signed 26 agreements totalling EUR 6.2 bn, concerning the industrial and agricultural sectors, infrastructures and economic cooperation.

**Accordingly, all in all we should not expect a significant improvement in growth in the short term:** the rise in inflation (effect of the reduction in subsidies and the depreciation of the exchange rate) is likely to curb household demand. Investment should also slow down and a substantial increase in FDI seems unlikely. Besides, FDI fell almost 50 % in the first quarter in year-on-year terms in Nigeria. And above all, the financing problems (cost and access) will in all likelihood continue.

**Nevertheless, these shocks should not fundamentally call into question the developments in the African model, but only slow them down.** The disparity within the continent is significant, but several countries are focusing on diversification and are seeking to improve their competitiveness. Furthermore, structurally, the continent's consumption potential remains huge.

(12) "Africa's rising exposure to China : how large are spillovers through trade?", IMF WP November 2013

(13) "Global economic prospects", World Bank, June 2015, "Global Country Risk Outlook" Coface June 2015, study "Sub-Saharan Africa: sunny in the east, cloudy in the centre".

(14) "Global Country Risk Outlook", study "Sub-Saharan Africa: sunny in the east, cloudy in the centre", Coface June 2015

## 2

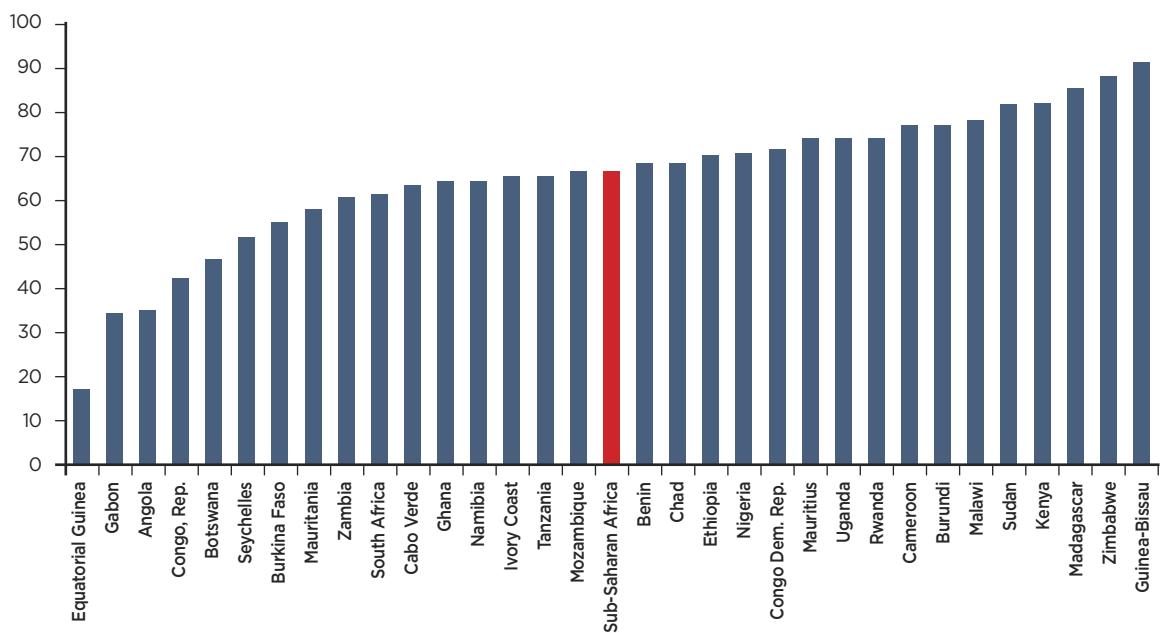
## HOUSEHOLD CONSUMPTION: ALL SAILS SET?

In SSA commodity-exporting countries, household consumption fell sharply in 2015, for example by more than 20 % in Nigeria and Zambia, particularly under the effect of the marked rise in inflation (close to 10 % in Nigeria and more than 20 % in Zambia).

However, consumption still plays a leading role : household spending accounts for two-thirds of GDP on average in SSA. But this contribution is higher in many countries such as Nigeria (71 %), the DRC (71.5 %) and Cameroon (77 %). Private consumption also accounts for more than 60 % of GDP in South Africa, Ghana and Ivory Coast.

Chart n° 7

Poids des dépenses des ménages dans le PIB (% , 2014)



Source: World Bank

Against this backdrop, it seems interesting to **identify the countries with strong points to determine whether they are markets where private consumption will be buoyant in the medium term (within 10 years), but also what sectors show particularly attractive growth potential.**

### 1 - Private consumption capable of setting sail

Several criteria are taken into account to determine the countries in which household consumption shows the most positive prospects in the medium term: on the one hand, market size indicators and, on the other hand, economic criteria, to identify trends in the population's income and consumer spending.

A score is assigned to each country for each of the indicators, with 100 representing the best performance for the relevant indicator. An average score is then calculated per country for each group of indicators (demographic and economic).

Lastly, the two scores are combined (average), giving a ranking of the countries according to their potential to present opportunities for private consumption-related activities (out to 2025).

#### A - Demographics is a key advantage for many African countries

Three demographic criteria have been chosen for this study:

- The number of inhabitants and the forecasts for population growth between 2015 and 2025;
- The dependence ratio, i.e. the relative weight of economically dependent inhabitants (aged less than 15 and more than 65<sup>(15)</sup>) relative to the working-age population (aged 15 to 64), as well as the forecasts of the weight of the latter category in 2025;
- The trend in the urban population out to 2025.

(15) The life cycle theory according to which the average propensity to consume declines when the income increases and, in particular, that consumption increases for retirees is difficult to apply in Africa



The most populous countries are interesting because of the size of their market, and Africa has indisputable demographic strengths. According to United Nations forecasts<sup>(16)</sup>, the SSA population, which was 962 million in 2015, should continue to increase rapidly over the next 15 years and could exceed 1.2 billion in 2025.

In 2015, the five most populous SSA countries were Nigeria (182.2 million inhabitants), Ethiopia (99.4 million), the DRC ( 77.3 million), South Africa (54.5 million) and Tanzania (53.5 million). But South Africa's population will grow far less rapidly over the next 10 years. On the other hand, the Nigerian population should increase by nearly 30 % and the number of inhabitants in 2025 should be at least 35 % higher than in 2015 in several countries, in particular Angola, Chad, and the DRC.

About 20 countries will have more than 20 million inhabitants within 10 years (see chart n° 8), with Nigeria being the most populous country by far with more than 230 million inhabitants in 2025.

The population structure by age is an important indicator as it makes it possible to distinguish the countries in which the working-age population, which therefore receives an income and consumes, is large enough to ensure that the financial burden of economically dependent persons (children and elderly) is not too heavy.

The dependence ratio makes it possible to measure this weight. In 2015, out of 50 SSA countries, 43 had a ratio higher than 60 %, and this ratio was lower than 50 % only on Mauritius. Over the next decade, it will remain particularly high in Angola (90 %) but also in Chad, Tanzania and Zambia (higher than 85 %).

The rapid growth in the working-age population is a major advantage in many African countries. According to the United Nations, the number of 15 to 64-year-olds in SSA should increase by nearly 35 % between 2015 and 2025, i.e. faster than the African population as a whole (around 30 %). The growth in this age bracket is even expected to exceed 40 % in Chad, Zambia, Angola and the DRC. So although the dependence ratio high, it should decline in the majority of SSA countries.

The urban population is increasing rapidly in Africa. It will exceed 50 % of the total population in around ten countries by 2025. Inhabitants in cities generally have a higher income than in rural areas as there are more jobs. Moreover, cities have better infrastructures, transport, energy distribution and a better offering of products that favour consumption.

Chart n° 8  
Countries whose population will exceed 20 million inhabitants in 2025

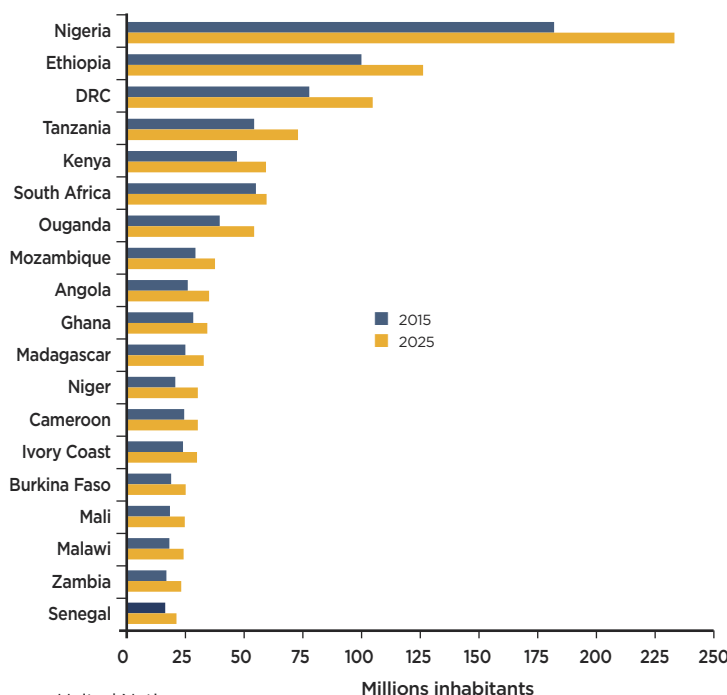
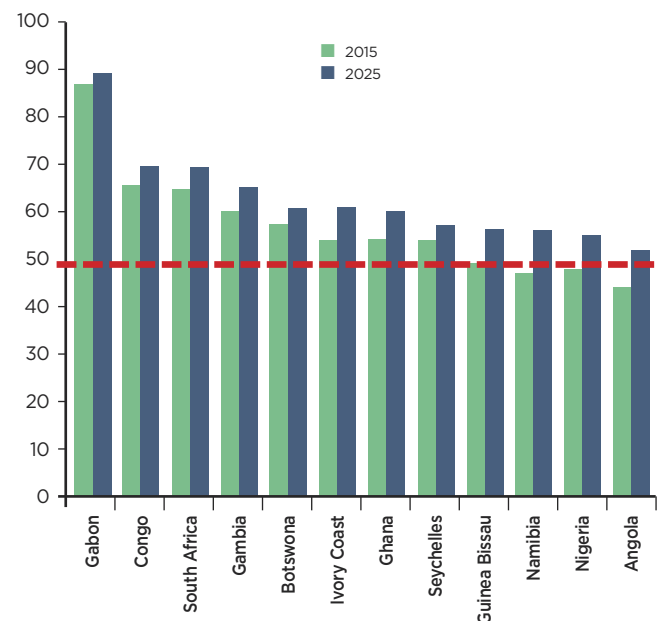


Chart n° 9  
Share of urban population (% total)



Source: United Nations

Sources: BMI, World Bank, United Nations

(16) United Nations (2015). Probabilistic Population Projections based on the World Population Prospects: The 2015 Revision. Population Division, DESA.

The countries that obtain the highest scores according to these three demographic indicators are: Nigeria, South Africa and Gabon (see chart n° 10). Among the top 15 we also find other exporters of oil (Congo, Cameroon, Angola) or mineral commodities (DRC in particular).

Apart from the demographic criteria, which in particular will determine the size of the markets, economic indicators must also be taken into account insofar as they will have an impact on income trends and therefore on household consumption capacity.

#### B - Economic criteria representative of household consumption capacity.

##### Three economic indicators have been chosen:

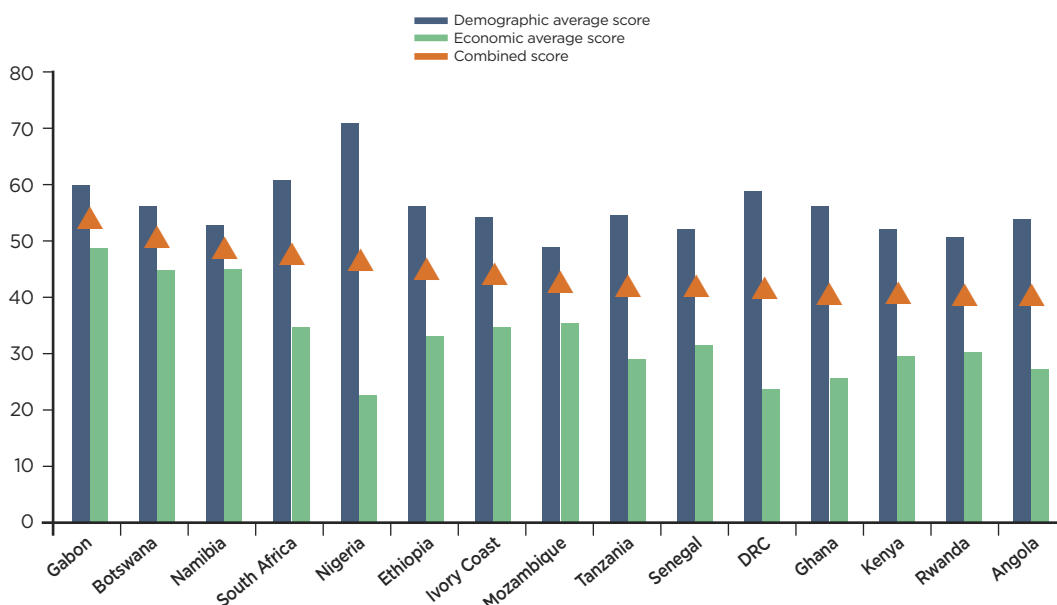
- Per capita household final consumption (2014, USD constant 2005; sources: World Bank and BMI) enabling to measure the average per capita consumption capacity;
- The average annual GDP growth of the country in the period 2015-2025 (estimated on the basis of forecasts established by the IMF until 2021), the economic growth rate being decisive for the trends in the inhabitants' employment and income;

- The level of per capita GDP forecast for 2025<sup>(17)</sup>, an indicator of the country's forecast wealth in the medium term.

Among the top 30 countries according to these economic criteria, five are oil exporters (Gabon, Angola, Cameroon, Nigeria, Equatorial Guinea) and 12 economies are dependent on mineral commodity exports<sup>(18)</sup> (notably Botswana, Mozambique, South Africa, Rwanda, Tanzania and the DRC).

By combining the two scores (demographic and economic), around 30 countries are identified as representing a potential in terms of household consumption market. After reprocessing to eliminate countries deemed to be non-representative (Seychelles and Mauritius, for example, whose economic structure is atypical) and/or for which data are not available for the remainder of the study (Burundi, Togo, Liberia, Zimbabwe, etc.) and by keeping economies whose combined demographic/ economic score is higher than or equal to 40/100, 15 potential markets stand out (see chart 10). We find the main oil exporters (Gabon, Nigeria, Angola) and several mineral commodity-exporting countries (Botswana, Namibia, South Africa, etc.).

Chart n° 10  
Ranking of countries according to their scores (/100)



Source: Coface calculation

(17) Estimated on the basis of IMF forecasts for 2020, by considering that the order of magnitude and the ranking of countries is unlikely to change significantly between 2020 and 2025.

(18) Countries for which exports of ores and mineral commodities account for at least 30 % of total exports.

## 2 - Sectors on the rise: retailing and Information and Communication Technologies (ICT)

### A - Retail sector

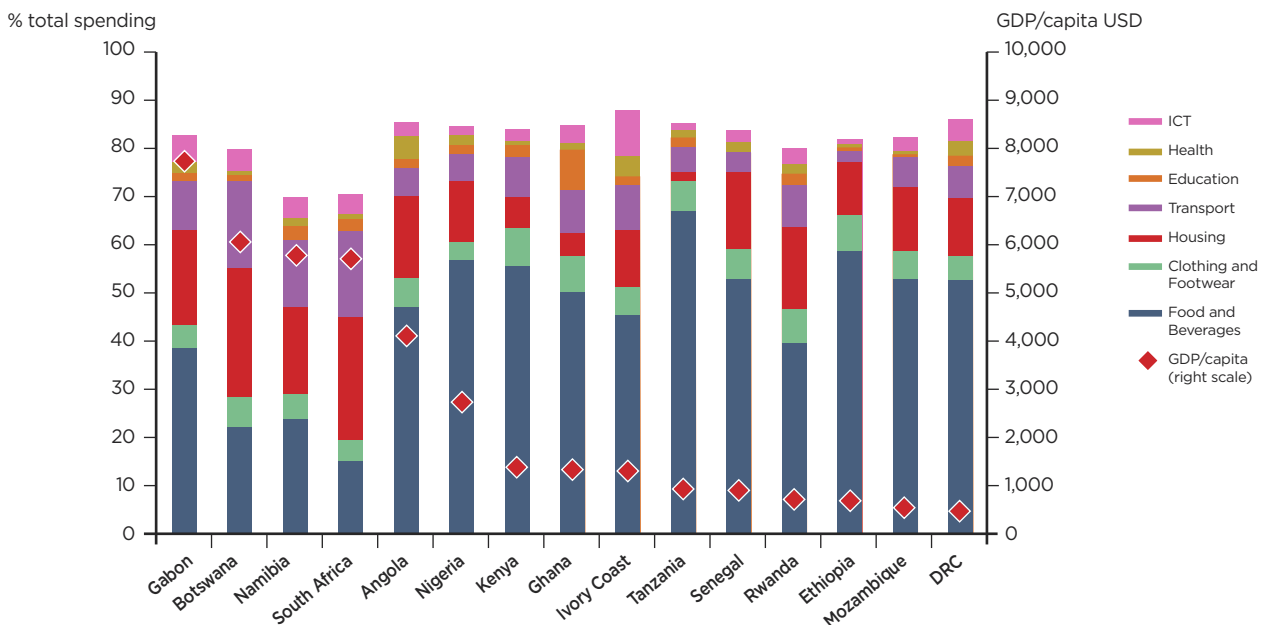
Household consumption is a decisive factor for the retail sector: the countries where household demand will be strongest will also be those that will provide the greatest potential in this area.

An analysis of the structure of household spending enables us to better apprehend how their consumption is evolving. A World Bank study <sup>(19)</sup>, which is relatively old but which gives a structural indication, shows that the item "food and non-

alcoholic beverages" is the one that depends most on the inhabitants' level of wealth. The weight of this item was around 44 % of total household spending in 2010 in SSA, while it was only 38 % in the East Asia/Pacific region and 27 % in Latin America/Caribbean.

In the 15 countries selected on the basis of demographic and economic criteria chosen previously, consumer spending is on the whole largely dominated by food (46 %), housing (14 %) and transport (9 %). Per country data confirm that the weight of spending on food is relatively higher for the least rich countries (on the basis of a per capita GDP criterion) (see chart n° 11).

Chart n° 11  
Structure per country of household spending and per capita GDP (2015)



Sources: World Bank, BMI

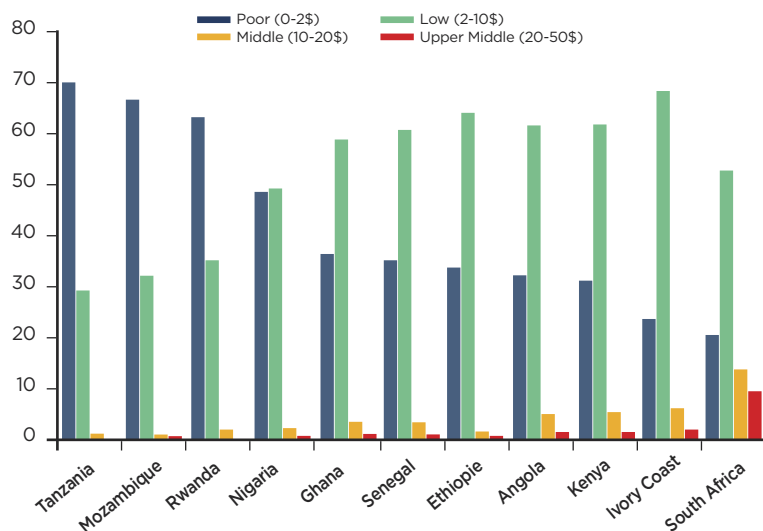
Given the forecasts on trends in African countries' per capita GDP, which is expected to grow but remain at a relatively low level, we can therefore predict that **spending on food and non-alcoholic beverages should remain high in Africa**, especially in the countries identified in the first section because of their demographic and economic growth potential.

For low-margin products, for which competition is strong and prices therefore low, **the size of the markets will be crucial**. In this respect, the forecast of the number of inhabitants in Nigeria in 10 years (233 million according to the United Nations) makes it a key market in terms of business activity and outlets.

**Beyond the number of consumers, their capacity to spend will influence the vigour of private demand** and therefore the retail sector. However, incomes are low on the whole in SSA, with a high proportion of the inhabitants living under the poverty threshold (set at USD 1.9 per day by the World Bank). A breakdown of the population by income brackets (available for 11 countries out of the 15 chosen, see chart n° 12) shows that only South Africa has a population whose income exceeds USD 10 per day. In the majority of the other countries, the inhabitants are divided into only two categories: those who live below the poverty threshold and those with a low income (USD 2-10 per day).

(19) Global consumption data- World Bank/ IFC

Chart n° 12  
Breakdown of population by income brackets as % of total population (2011)



Source: Pew research

The higher the proportion of low-income inhabitants and above all, the higher the growth rate for this category (as the expense of the poorest), the better the outlook for the development of the retail sector.

It appears that the weight of population with a revenue of less than USD 2 per day has fallen to a level of less than 50 % of the population in several countries, particularly in Nigeria and Angola, but also in South Africa and Ghana, which therefore represent potentially attractive markets for retailing.

There could be a rebound in growth from 2017-2018 in a number of commodity-exporting countries, under the effect of an upswing in the prices of certain export products and/or a greater diversification of their economy. The inhabitants' incomes and their level of consumption should then benefit from this growth. The increase in incomes beyond the "low" category could then not only lead to an increase the volumes consumed, but also to a diversification of the range of products sold, in favour of higher value added goods.

**The development of distribution infrastructures** is a prerequisite for boosting the trade sector. It is unquestionably in South Africa that the distribution network is most developed. The country is ranked number six in the world for the number of shopping centres (2,000) and has since April 2016 had the largest shopping centre on the African continent, the Mall of Africa (more than 100,000 m<sup>2</sup> of stores and restaurants, 6,500

parking places). The South-African urban population will be one of the highest in the Sub-Saharan region (69 % of the total population according to World Bank estimates), just after Gabon (88 %). The store networks are gradually developing in other countries where urbanisation is gathering pace: in Nigeria (mainly in Lagos and Abuja) and in Angola (Luanda), where the urban population is expected to increase by more than 15 % by 2025, or in Ghana (Accra) whose population is expected to be 60 % urban in 10 years.

Admittedly, the majority of the African population, including in these countries where the number of shopping centres has multiplied, still uses far more informal distribution systems, particularly local markets. But consumption patterns will continue to change in the medium term, at least in the larger cities. In these cities, the supply of products is larger, more diversified and more regular and buying is more practical and goes faster. Moreover, some large complexes, such as the South-African "Mall of Africa" offer leisure activities, Wi-Fi access, etc. Development will probably remain quite slow and concentrated in the largest urban centres, and will therefore not concern the whole population at first, but it nevertheless seems inevitable.

**Lastly, access to credit favours consumption.** In this respect, 85 % of the South-African population aged over 15 had borrowed from a financial institution in 2013, while the figures were close to 70 % in Ghana and 55 % in Tanzania. The commercial bank network is in fact relatively well developed in these countries (about 30 banks). The situation is less positive in Angola, where the use of credit is more limited (less than 30 % of the population aged over 15 took up a loan in 2013) and the number of banks more limited (about 20).

**Beyond their fragile economic situation, several commodity-producing countries that have suffered from the drop in prices therefore structurally provide prospects for growth in private demand, which is likely to contribute to the development of their distribution sector.** Besides, there are still many projects in this area, which reflects investor confidence in these markets' potential in the medium term. African groups are very active on the continent (the Nigerian companies RMB Westport, Actis, Persianas and Novare, the Ivory Coast groups Prosuma and CDCI) and foreign investors are also very present. The retailer Tati is planning to open stores in the first half of 2017 in Senegal, Ivory Coast and Cameroon. The Franco-Japanese group CFAO Retail opened a complex in Abidjan in December 2015 and is planning to open 80 to 100 shopping centres in the WAEMU zone<sup>(20)</sup>, in association with Carrefour, over the next 10 years.

(20) West African Economic and Monetary Union

In spite of these positive prospects we should not forget that **there are still potential hurdles to developments in the retail sector, in particular:**

- the consequences of the fall in incomes resulting from the fall in commodity prices and the measures governments have taken to deal with this problem;
- a high unemployment level in many countries on the continent;
- difficulties in access to credit;
- the shortfall in road infrastructure, while 80 % of goods and 90 % of persons are transported by road on the continent;
- the shortfall in terms of institutional environment and political instability, which may weigh on foreign investments.

**All these constraints are not likely to jeopardise the growth in retailing, but could curb its development.** Moreover, these barriers could give a boost to a consumption pattern that is rather appearing in mature markets, but seems to be developing rapidly in some African markets: e-commerce. This development is closely linked to the rapid expansion of another very promising sector in Africa: information and communication technologies (ICT).

### B - Information and Communication Technologies sector (ICT)

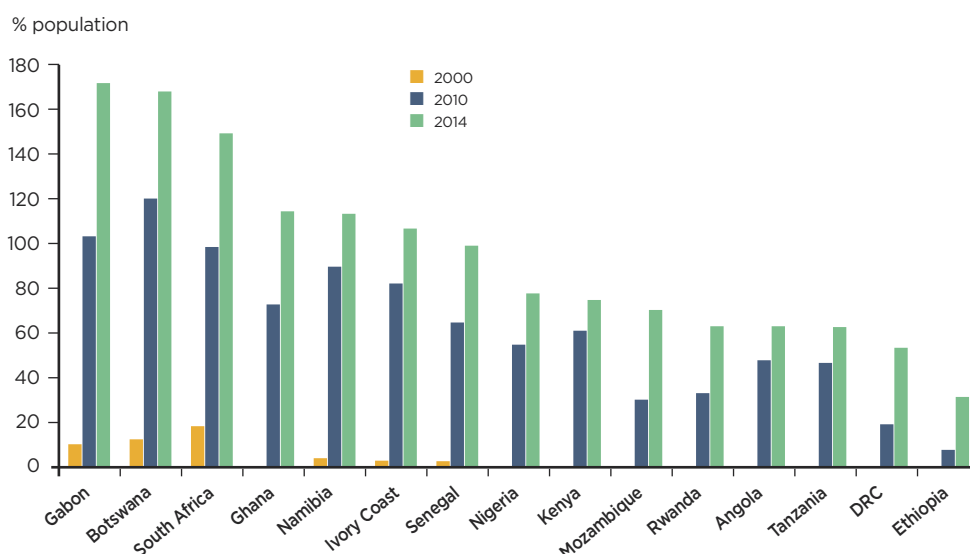
In a report published in February 2016 by Pew research<sup>(21)</sup>, **inhabitants in SSA countries on the whole seem to be less well equipped in mobile telephony than in other emerging countries:**

more than 20 % of them declare that they have no mobile phone, *versus* 17 % in Latin America and 13 % in Asia Pacific. While 90 % of the persons questioned in South Africa and Nigeria declared that they owned a mobile phone, the penetration rates are lower in Tanzania (73 %) and Ethiopia (less than 50 %).

**But the trend is clearly positive.** According to data published in a recent report from GSMA<sup>(22)</sup>, the number of persons with a mobile subscription in ASS has grown by more than 90 % in only five years and reached 386 million in 2015 (i.e. a penetration rate slightly in excess of 40 %) and is expected to reach 518 million in 2020 (i.e. a penetration rate of 49 %). In the 15 countries identified in this study because of their potential in terms of consumption, an increasingly large proportion of the population has a mobile phone subscription - or even several (*see chart n° 13*).

**The supply of online services accessible by mobile phone is also steadily increasing.** Banking services via mobile was launched in Kenya, where in 2014, around 60 % of the mobile phone owners declared that they used their phone to transfer money. The percentage of Kenyans aged over 15 having a mobile account (58 %) therefore exceeds the percentage holding an account at a financial institution (55 %). Mobile banking is particularly developed in East Africa, but is rapidly spreading to other regions of the African continent where transactions via the mobile network are not replacing the traditional channels, but are giving new users access to banking transactions (*see chart n° 14*).

Chart n° 13  
Mobile phone subscriptions  
(% population)



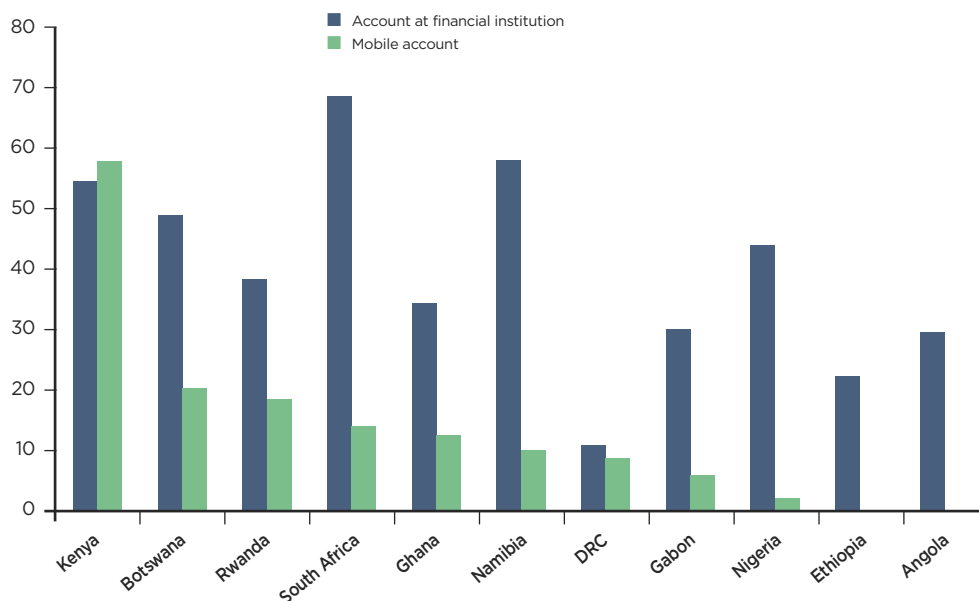
Source : World Bank

(21) "Smartphone Ownership and Internet Usage Continues to Climb in Emerging Economies", Pew Research Center, Feb 2016.

(22) The mobile Economy Sub-Saharan Africa 2015. GSMA, regrouping 800 operators and more than 250 global companies in the mobile telephony sector.

Chart n° 14

Mobile accounts and accounts at a financial institution (% of over 15-year-olds in 2014)



Sources: World Bank, Global Financial Inclusion

Other online services are also offered by the operators and by some public administrations in the area of corporate management, administrative procedures, education, healthcare and even agriculture (in order to improve crop management and agricultural transactions). Lastly, e-commerce is gradually expanding. It is only a small number of users who order online, but it is set to grow.

**In ICT activities, commodity-exporting countries can find a source and a tool to diversify their economies,** and this is therefore an interesting potential in this area. However, they will have challenges to overcome to ensure that these services are distributed on a large scale. Coverage still

remains extremely limited in rural areas. Many initiatives have been launched in this area: the company Africa Mobile Network has for example equipped Benin with solar-powered mobile stations and is planning to extend this to Angola, Ivory Coast, Ghana, Nigeria, etc. But the extension of the coverage remains slow. Furthermore, the operators are waiting for better transparency in terms of taxes and regulations, and the fact that the number of operators is still limited in SSA helps keep prices high.

**Like for the retail sector, these obstacles could slow down the growth rate in ICT activities, but they are unlikely to jeopardise their expansion.**

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**COFACE SA**

1, place Costes et Bellonte  
92270 Bois-Colombes  
France  
[www.coface.com](http://www.coface.com)

