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INDUSTRY Outlook

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Consumer

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Introduction

Innovative Strategic Planning and Technology Adoption will Ease Reach to Mass Consumer Market in Africa

Total household spending in Africa is projected to expand by over 40% out to 2024. Greater numbers of consumer-facing companies are emerging, either domestically or international players expanding into the continent, in order to gain a foothold in this fast developing consumer growth story.

Each consumer company will face its own specific industry risks when operating in Africa, but there are a number of navigation strategies to be learned from other companies, ongoing government initiatives and technological advances that will support the development of the consumer sector. The FMCG sector in Africa, where many major international firms are already well established offer best practice case studies.

First, price point. While disposable incomes are increasing continent-wide and some African states already boast a middle income class, over 85% of households on the continent live under the USD1,000 per annum disposable income bracket. Brewery and personal care company strategies offer some guidance on how consumer companies can go after the mass market, by being innovative and introducing sourcing initiatives. In Ghana for example, both Guinness Ghana Breweries Limited and AB InBev have developed beer brands that utilise locally sourced cassava, thereby decreasing costs, shortening supply chains and creating a product that appeals to local tastes. Unilever meanwhile has utilised low cost packaging in order to bring the overall price point of its products down to levels, where the mass market can afford them.

Second, route to market. Retail formalisation is steadily developing within the continent. Domestic and international mass grocery retailers are present and the number of shopping malls on the continent has risen from 225 in 2010 to over 570 in 2020. This retail formalisation trend will be especially attractive to international companies seeking to expand within the region, as they will be more familiar with this route to market. However, this is not the only way to reach the African consumer and once again it is FMCG majors that have led the innovation. Unilever, for example, utilises a rural sales force to distribute its products to last mile rural areas and so reach a mass consumer base.

E-Commerce offers another route to market, with technology adoption steadily expanding across the continent and digital literacy improving partly on the back of the spread of mobile money (the World Bank estimates 21% of adults in Africa now have a mobile money account).

Third, supply chain. Consumer companies face delays and disruption that stem from lack of connectivity, but also specific final mile challenges. Transport infrastructure is receiving government investment across the continent, with over USD350 billion worth of transport infrastructure projects proposed or underway in Africa currently. Stronger links between the different segments of the supply chain are however required if disruption and delays are to be decreased.

The lack of logistics offerings within the final mile space, is such a challenge that some FMCG companies have branched into logistics, developing their own final mile offerings, due to a lack of third party vendors. Coca Cola is a good example, with its manual distribution centre model. Trucks take the product as close to the consumer as possible, with the final 2-3km covered by bicycle or pushcart. Not all consumer companies will be able to mimic this strategy and so their supply chains will need to be shorter and confined to only the most developed urban areas.

The African consumer will remain an attractive market for consumer companies and this report highlights markets with the strongest consumer fundamentals and growth opportunities in specific consumer sectors, from convenience and healthification demand side trends in South Africa, to a café culture emerging in Nigeria and the potential for Ethiopia's textile manufacturers to supply greater volumes of clothes within its regional market.

Africa Overview

As a region, Africa offers one of the fastest growing consumer markets in the world. The consumer market is currently valued at approximately USD1.8 trillion. By 2029, we project this to increase to nearly USD3.9 trillion. African consumers have historically relied on the informal sector for many of their basic goods and services, and as such, the African consumer market offer numerous, untapped opportunities for development and growth, as countries in the region embrace greater levels of retail formalisation and demand for FMCG products escalates.

The size and growth of the continent's urban population will be one of the most attractive features of the African consumer story over the next few years. Africa offers a huge consumer base, with a population across the whole continent of 1.4 billion, a figure that by 2030 should reach 1.7 billion. Historically, the African consumer has been hard to reach and while logistics issues will continue to be a risk to the development of consumer-facing supply chains, the rapid urbanisation of the population will increase the attractiveness of its market for consumer-facing companies, as greater numbers of consumers will be located in smaller areas and be easier to reach. Also, urbanisation traditionally indicates wealth development. In 2020, 47.1% of the African population reside in an urban environment but over the next 10 years, this will increase to 52.0%.

Over the next decade, the continent will boast some of the fastest growing economies in the world. With this comes increased employment, leading to higher disposable incomes. These households have historically had limited exposure to the formal-consumer market, meaning that for many consumer-facing sectors, the continent will offer a completely new and untapped market. The African Continental Free Trade Area offers the opportunity for a single continental market for goods and services.

The continent as a whole is growing at a rapid pace, but companies and investors will need to pinpoint the markets with the strongest growth opportunities and where retail formalisation will drive trade. While small pockets of high wealth do exist and will continue to grow, providing an opportunity for luxury goods, the key growth development across the continent will come from mass produced consumer goods.

The below table highlights key consumer indicators for each country across the African continent. South Africa offers the most established consumer markets on the continent. With a per capita real GDP of approximately USD8,100, the South African consumer market is developing similar trends seen in Western economies. However, several years of lacklustre economic growth has put pressure on the consumer and, as such, we only forecast real private consumption to grow by an average of 2.5% a year, over the next five years. Nigeria offers the largest consumer market on the continent. The population is young (in 2020, those between the ages of 20 and 39 numbered 57.6 million) and rapidly urbanising (52% of the population now live in urban environments). Kenya also offers a solid combination of relatively high income levels (per capita real GDP of USD1,260 in 2020) coupled with sound projected growth in consumer spending (real private consumption is forecast to grow by an average of 5.6% a year over the next five years). Finally, Egypt has seen a rapid improvement to its macroeconomic environment, with the stabilisation of inflation boosting consumer spending (private final consumption accounts for 80.2% of total GDP in 2020). A young population (31.7% of the population are between the ages of 20 and 39) will also support growth beyond the medium term.

Africa - Key Consumer Indicators

		Consumer			Incomes		Demographics		
Country	Sub-region	Real Private Final nsumption, 5Y CAGR	Private Final nsumption, USD per capita	Private Final Consumer, % of GDP	Real GDP, Per Capita	Minimum Wage, USD (2019)	Urbanisation, % of Total	Urbanisation, '000	Young Adults (20-39 yrs), '000
Ethiopia	East Africa	7.34			481.50	-			
Kenya	East Africa	5.56			1,255.80	288.10			
Rwanda	East Africa	7.38			915.80	-			
Somalia	East Africa	3.16			92.80	-			
South Sudan	East Africa	4.06			1,226.10	-			
Sudan	East Africa	0.4			1,503.10	30.00			
Tanzania	East Africa	5.96			952.90	50.60			
Uganda	East Africa	5.2			659.80	1.60			
Algeria	North Africa	3.08			4,841.90				
Egypt	North Africa	3.54			2,910.30	94.70			
Libya	North Africa	5.1			2,329.20	141.40			
Morocco	North Africa	3.3			3,541.60	244.40			
Tunisia	North Africa	1.16			4,377.00	93.70			
Angola	Southern Africa	3.64			3,010.70	130.80			
Botswana	Southern Africa	8			8,728.10	93.30			
Eswatini	Southern Africa	1.9			5,390.20	-			
Lesotho	Southern Africa	4.6			1,591.20	156.10			
Malawi	Southern Africa	5.04			539.10	31.50			
Mozambique	Southern Africa	5			594.40	97.60			
Namibia	Southern Africa	2.9			5,942.50	-			
South Africa	Southern Africa	2.52			8,112.50	290.80			
Zambia	Southern Africa	3.46			1,657.90	217.20			
Zimbabwe	Southern Africa	1.62			956.90	312.00			
Benin	West & Central Africa	4			950.20	70.20			
Burkina Faso	West & Central Africa	5.38			658.70	89.20			
Burundi	West & Central Africa				220.70	2.30			
Cameroon	West & Central Africa	4.9			1,385.90	62.80			
Cape Verde	West & Central Africa	3			3,959.90	134.20			

Africa - Key Consumer Indicators

Central African Republic	West & Central Africa			78.80
Chad	West & Central Africa	2.1	815.10	101.60
Congo	West & Central Africa			101.60
Congo Democratic Republic	West & Central Africa			101.60
Côte d'Ivoire	West & Central Africa			152.50
Equatorial Guinea	West & Central Africa	0.4	10,015.30	604.20
Gabon	West & Central Africa	3.8	9,322.20	246.90
Gambia	West & Central Africa	3.64	809.30	-
Ghana	West & Central Africa	5	2,515.30	45.10
Guinea	West & Central Africa	3.8	896.50	48.50
Guinea-Bissau	West & Central Africa	3.1	642.20	-
Liberia	West & Central Africa	4.4	351.30	141.40
Mali	West & Central Africa	0.12	1,076.00	68.80
Mauritania	West & Central Africa	4	1,877.20	82.30
Niger	West & Central Africa	5.12	565.20	51.40
Nigeria	West & Central Africa		2,360.80	56.20
Senegal	West & Central Africa	5.32	1,681.60	545.50
Sierra Leone	West & Central Africa	4.8	463.50	63.10
Togo	West & Central Africa	4.46	702.30	93.70

Source: National Statistics, Fitch Solutions

Southern Africa

Regional Overview

Southern Africa offers a more developed consumer and retail market than some of the other sub-regions. Household income levels are much higher when compared with the wider continent and, as such, the region has witnessed a greater level of retail formalisation and has attracted several international consumer-facing companies. South Africa, Namibia and Botswana offer a good mix of higher income consumer bases, developed logistics networks and rapidly urbanising populations. Meanwhile, Angola, Zambia, Malawi and Mozambique have greater operational risks to navigate, but their consumer base is also developing and, as such, all offer some growth opportunities.

South Africa will continue to dominate the Southern Africa region, with a consumer market valued at USD216 million. In absolute terms, this accounts for more than 70% of the total consumer market in the Southern Africa region. The country has significantly higher income levels than its peers, and as such, is able to support demand for a wider variety of consumer goods.

The formal retail market is well developed, stretching into Tier 2 and 3 cities. South Africa is traditionally viewed by consumer-facing investors, not only as a market for expansion in its own right, but also as a base from where companies can expand into the Southern Africa region and wider continent.

Botswana and Namibia are both witnessing growth in consumer disposable income levels. This is creating retail opportunities, and consumers in these markets are becoming more accustomed to formal retail offerings. Solid logistics networks connect the major urban centres in these countries, and are facilitating the transport of fast-moving consumer goods. Both countries offer a high concentration of urbanised consumers, but they are smaller consumer bases when compared to other nations in the region.

The remaining markets in the region including Angola, Eswatini, Lesotho, Malawi, Mozambique, Zambia and Zimbabwe offer some growth opportunities but price point will be key and the development of formal retail will be slower. Household income levels are significantly lower and so consumer spend focus will for the time being remain on essential items. The greatest consumer opportunities are in the major cities of Luanda and Maputo, with the operating environments outside of these areas limiting the growth outlook.

The table below lists the top performing consumer indicators in a number of countries across the Southern African region.

Selected consumer indicators - Southern Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Botswana	Private Final Consumption	Real growth % chg y-o-y	7.37	8.05	8.47	7.85	7.85	7.85
Botswana	Urban Population	% of total population	70.13	70.88	71.52	72.16	72.81	73.45
Malawi	Disposable Income Per Household	USD % chg y-o-y	8.98	11.02	11.39	10.98	11.16	11.48
Mozambique	Food and non-alcoholic drinks spending	USD % chg y-o-y	7.42	6.29	6.86	11.74	17.90	18.05
Namibia	Households Net Income USD5,000-10,000	% of total households	34.02	36.72	38.91	42.58	46.44	51.01
South Africa	Households Net Income USD5,000-10,000	% of total households	25.90	26.13	26.54	26.87	27.14	27.32
South Africa	Young Adults (20-39 yrs)	% of total population	34.45	34.22	33.91	33.55	33.17	32.81
Eswatini	Private Final Consumption	% of GDP	93.77	93.57	93.72	93.65	93.50	93.35

f= Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

This table offers a more in-depth look at top performing sub-categories for particular countries in this region. South Africa, Namibia and Botswana perform well on alcoholic drinks spending and consumption, while the remaining countries will post strong growth in more essential items.

Selected consumption patterns - Southern Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Angola	Fruit and Vegetable Juice Spending	USD % chg y-o-y	-16.80	-16.10	8.50	16.40	18.60	18.00
Botswana	Alcoholic Drinks Spending	USD per Capita	47.24	45.84	45.35	48.14	49.65	50.89
Botswana	Wine Consumption	Litres Per Adult	11.55	11.49	11.56	11.72	11.92	12.18
Malawi	Alcoholic drinks and tobacco spending	USD % chg y-o-y	10.93	9.86	10.16	9.53	9.53	9.41
Mozambique	Carbonated Drinks Spending	USD % chg y-o-y	6.10	4.70	5.20	9.60	15.10	14.90
Mozambique	Clothing and footwear spending	USD % chg y-o-y	7.07	5.96	6.54	11.41	17.55	17.73
Mozambique	Food and non-alcoholic drinks spending	USD % chg y-o-y	7.42	6.29	6.86	11.74	17.90	18.05
Namibia	Alcoholic Drinks Spending	USD per Capita	40.67	42.15	43.09	45.48	47.63	50.34
Namibia	Beer Consumption	Litres Per Adult	95.65	97.37	98.91	100.36	101.69	102.88
Namibia	Dairy Spending	USD % chg y-o-y	-4.70	6.20	4.60	7.70	6.70	7.50
South Africa	Beer Consumption	Litres Per Adult	76.40	75.63	75.02	74.50	74.06	73.70
South Africa	Pasta Products Spending	USD % chg y-o-y	2.10	4.50	6.40	15.40	10.90	10.10
South Africa	Wine Consumption	Litres Per Adult	11.39	11.55	11.74	11.96	12.20	12.47
Zambia	Fish and Fish Product Spending	USD % chg y-o-y	-6.30	7.30	10.80	11.60	11.40	11.90
Zambia	Mineral or Spring Water Spending	USD % chg y-o-y	-7.20	6.50	10.40	11.60	11.70	12.60

f= Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

Southern Africa - Latest Developments

Country	Sub-sector	Development	Impact
South Africa	Mass Grocery Retail	Competition Commission releases market inquiry report into the South Africa MGR sector.	The Commission ruled that long-term exclusive lease agreements were unfavourable, that FMCG suppliers must make terms of trade available to all retailers, municipalities must make regulatory environment more SMME friendly. The ruling will make letting out of retail space more competitive.
South Africa	Consumer & Retail	23 large retail companies operating in South Africa sign the first plastics pact in Africa. Pact was developed by the World Wide Fund for Nature (WWF-SA) in partnership with the South African Plastics Recycling Organisation (SAPRO) and the UK's WRAP.	The founding members commit to a serious of targets for 2025 to prevent plastics from becoming waste or pollution. In addition, they aim for 100% of plastic packaging to be reusable, recyclable or compostable with 70% of plastic packaging effectively recycled and 30% average recycled content across all plastic packaging.
Botswana	Mass Grocery Retail	Through its fruit and vegetable procurement arm, the South African retailer Shoprite opened its first distribution center in Botswana in 2019.	The center will allow Shoprite to source local products, reducing the need to import from South Africa. The move establishes Shoprite as the dominant company, with the potential of expanding its operations further.
Zimbabwe	Non-alcoholic Drinks	In December 2019, Varun Beverages Zimbabwe, the franchise bottler of Pepsico commissioned the second phase of its manufacturing plant.	The second phase is being developed via an investment of USD20mn and includes three production lines. The plant will produce brands that include Pepsi, Mirinda, Mountain Dew, Sting and Seven-Up, among others. Producing in the country allows the manufacturer to get around the lack of Forex for importing, which pushes up prices.
Angola	Consumer & Retail	Angola introduced a flat Value Added Tax (VAT) rate of 14% in September 2019, becoming the last of the Southern African Development Community states to implement the tax. It replaces the previous 10% consumption tax.	The VAT will reduce the incidence of compound tax created for businesses unable to recover Consumption Tax suffered. VAT can be reclaimed on purchases and imports made by taxpayers, making it neutral for business. Basic foodstuffs are exempted, including rice, beans, sugar, cooking oil and school materials.
Mozambique	Non-alcoholic Drinks	Nespresso announced in January 2020 that it would begin investing in reviving Mozambique's coffee industry. The company announced the signing of a Memorandum of Understanding with the Mozambique's Gorongosa National Park.	Spending on coffee, teas and other hot drinks in Mozambique is projected to grow by double digits over the medium term. Nespresso's entry into the market is an attempt to gain a foothold before launching its products for retail in the country.

Key Drivers

Spread of Shopping Malls Increases Accessibility to Mass Grocery Retail and Clothing Brands

Southern Africa is witnessing a proliferation of "strip malls" in small towns and informal settlements. These malls typically cater to the basic needs of the surrounding community, offering a central location to buy essential items. They are anchored by a low price mass grocery retailer and then often surrounded by affordable clothing retailers, building supply stores and fast food restaurants. This trend began in South Africa, but has spread to Botswana, Namibia, Mozambique and Zambia. South African companies like Shoprite, Spar and Pick 'n Pay are the main anchor tenants, using their low cost model to remain competitive.

South Africa's retail space is already considerably saturated, while in Namibia and Botswana, these malls exist, but there is still further scope for growth. We foresee the spread of smaller strip mall offerings in other Southern Africa markets of Zambia, Malawi and Mozambique.

Sustainability Agenda Being Pushed by Consumers & Retailers

Consumers globally are becoming more aware of their impact on the environment, and retailers and consumer goods manufacturers are adapting their working practices and products to become more sustainable. Across Africa, we have witnessed a move against plastic bags, with bans already implemented in some states. In Southern Africa we believe that the sustainability focus will remain on the use/ overuse of plastics and so the mass grocery retail and FMCG sectors will remain in the sustainability spotlight. In other consumer-facing sectors, such as fashion and homeware goods, there is a greater development within sustainable sourcing. The current focus on the sustainability of meat consumption and the potential risks that red meat poses to health and the environment also has the potential to filter into consumer awareness and purchasing habits in Southern Africa in the longer term.

South African companies dominate the retail environment of other Southern African countries, so their sustainability agendas are being spread across the region. Local companies will replicate and innovate on top of this, making sustainability in the region more prominent.

Consumers Drive Need for Convenient Food Options

Over the past twenty years, Botswana and Namibia have seen their labour force participation grow significantly. While in 2000, Botswana had a labour force participation rate of 59.0%, and Namibia had a rate of 56.4%, by 2019, these rates had increased to 72.6% and 61.3% respectively (in South Africa, this rate has remained constant, at around 56.0%). This rapid growth in labour force participation has mostly been driven by more women entering the labour force. Over the past decade, female labour force participation in Botswana, Namibia and South Africa has grown from 53.5%, 52.9% and 44.7% respectively in 2010, to 66.5%, 56.7% and 48.8% respectively in 2019.

Along with rising female labour force participation, the size of the average household in these countries have also been decreasing. In 2000, the 29.1% of households in Botswana had six or more people but by 2020, this had fallen to 17.0%. At the same time households with one person has grown from 21.0% in 2000, to 29.5% in 2020. Similar trends are being seen in Namibia and South Africa.

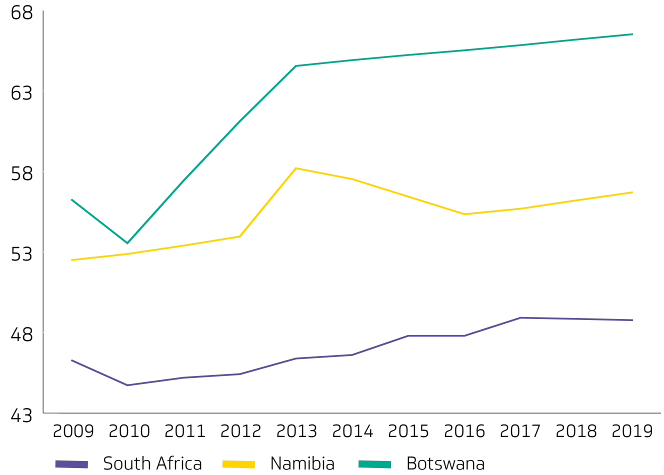
South African Retailer's Sustainability Strategies (2020)

Company	Food offering		Packaging			
	Own Range Of Health Food	Plant-Based Alternative	Reusable Bags	Zero Waste-To-Landfill	Plans To Phase Out Single-Use Plastic	Plastic Free Packaging Option
Woolworths	✔	✔	✔	✔	✔	✔
Pick 'n Pay	✔	✔	✔	X	✔	✔
Checkers	✔	✔	✔	✔	X	X
Shoprite	X	✔	✔	✔	X	X
Spar	X	✔	✔	X	✔	✔

Source: Company reports, Fitch Solutions

This rise in female labour force participation, as well as the increased number of smaller households, has driven the demand for convenient food products for time-poor consumers and households that no longer need to cook for large families. All of South Africa's large retailers (Woolworths, Shoprite, Pick 'n Pay and Spar) offer several ranges of ready-made meals. These retailers all have a presence in Namibia and Botswana. Fast-food options (the South African Famous Brands, operates restaurant chains such as Steers, Wimpy, Debonairs Pizza and Mugg & Bean) have also aggressively expanded across all three countries. As more people enter the labour force in this region, the need for convenient food options will see the start-up of many companies trying to cater to this demand.

Female Labour Force Participation (2009-2019)



Source: The World Bank, Fitch Solutions

Supply Chain Opportunities

Proliferation of Strip Malls

The spread of the formal retail sector will be facilitated by the proliferation of strip malls throughout the region. The South African retail market is already considerably saturated, encouraging Real Estate Investment Trusts (REITs) into neighbouring countries to seek new growth opportunities. PrimeTime is a Botswana Stock Exchange listed property firm that has nine retail properties in Botswana and three in Zambia. In 2019, it acquired its first retail property in South Africa, and in 2020 the company announced plans to build a BWP116 million (USD10 million) mall in the Botswana town of Lobatse.

Potential Beneficiaries:

Engineering, procurement and construction firms involved in mall construction. Warehousing/storage. Logistics and distribution. Affordable clothing firms. Mass Grocery Retail. Fast Food Chains.

South Africa: Convenience Trend Merging with Healthification

As South African consumers work longer and more members of the household join the workforce, consumers are looking to MGR for time-saving alternatives to home cooked meals. The two highest growth sectors within food spending in South Africa over the next five years are pasta products and packet foods (two key convenience food groups). Most major MGR players have now introduced their own brands of convenience foods, while several companies have food boxes, which contain ingredients pre-prepared for specific recipes and can be delivered to consumers. This trend is merging with consumers seeking more healthy alternatives to fast food. This opportunity, for affordable and healthy convenience food, primarily exists in South Africa, but has the potential to develop in Namibia and Botswana.Ethiopia Industrial Parks

In September 2018, it was reported that Ethiopia plans to commission four Chinese-built industrial parks at Jimma, Adama, Arerti and Dire Dawa by end-2018. The CCECC would build the Dire Dawa and Adama Industrial Parks, while China Communications Construction Company is responsible for the Jimma and Arerti Industrial Parks. The Arerti Industrial Park would have facilities for manufacturing building materials, while Adama would contain textile factories using woollen fleeces as raw materials. The Adama project has attracted investment finance worth USD1 billion.

Potential Beneficiaries:

Agribusiness. Health food. MGR. Food manufacturers. Food delivery companies. Packaging companies. Health stores. Health-food fast food.

Mozambique: Consumer Spending Shift from Seafood to Meat

Consumers in Mozambique are gradually shifting away from seafood as their major dietary source of protein, towards meats and poultry. Higher incomes and more accessibility of meats and poultry (through the spread of MGR) has seen demand grow. Nearly half of all meat is imported from South Africa, at relatively low price points compared to local meat.

Potential Beneficiaries:

Meat and poultry rearing and production sectors. Cold storage distribution services. Logistics. Packaging firms. Mass Grocery Retail.

West & Central Africa

Regional Overview

Although each market offers significant structural challenges, there are numerous opportunities for foreign investors across the West and Central Africa region. Nigeria offers a large consumer base, while Ghana offers both economic and political stability.

A recurring theme across many West and Central African markets is their positive demographic outlook. The vast majority of countries in the region are expected to see their populations grow rapidly over the coming decade. A key challenge for companies seeking to expand or enter the region's consumer-facing segments will be how to navigate the income inequality that is prevalent.

As the most populous country in Africa, Nigeria offers significant potential as a consumer market. Growth is supported by rising household income (household disposable incomes are projected to grow by an average of 7.3% per year, over the next five years) and the formalisation of the retail space. However, structural issues, such as high unemployment and rising inflation, do constrain the Nigerian consumer outlook.

Ghana offers an economic and politically stable market, making it among the region's most investment-friendly countries. High rates of urbanisation and rising incomes make Ghanaian cities attractive destinations for consumer-facing investors and retailers and the rapid expansion of retail space will continue to foster the development of this market.

Smaller emerging markets in the region, such as Cameroon, Gabon, Senegal and Côte d'Ivoire are gradually attracting greater investment (both domestic and foreign), with growth supported by rapidly expanding economies, strengthening middle classes and the development of modern and convenient retail formats in urban centers. A key hindrance to the development of consumer sectors in these countries to date has been the availability of modern retail space, although this is gradually being addressed and the number of consumer-facing brands operating in these countries is expanding.

Beyond these states, the remaining countries in the region are frontier markets. These countries' consumer segments are dominated by a large informal sector, which accounts for between 70% and 90% of total retail. Political and economic instability, combined with poor logistics makes these markets less attractive for consumer-facing firms.

The table below highlights some of the best consumer indicators for the region in the medium term.

Selected consumer indicators - Western & Central Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Burkina Faso	Food and Non-Alcoholic Drinks Spending	USD % chg y-o-y	4.64	11.05	13.02	10.57	11.37	10.00
Burkina Faso	Disposable Income Per Household	USD % chg y-o-y	-3.24	4.93	6.45	6.91	7.68	7.18
Burundi	Real Private Consumption	% of GDP	90.03	89.89	89.95	89.90	89.74	89.56
Central Africa Republic	Real Private Consumption	% of GDP	91.35	90.40	89.81	89.27	88.60	87.91
Côte d'Ivoire	Real Private Consumption	% chg y-o-y	5.00	8.00	7.60	7.60	7.00	7.00
Gabon	Young Adult Population	% of Total Population	32.69	32.24	31.72	31.23	30.77	30.31
Gabon	Urban Population	% of Total Population	89.70	90.09	90.39	90.68	90.98	91.27
Ghana	Non-Essential Spending	USD % chg y-o-y	7.45	5.72	12.75	12.63	12.18	14.48
Ghana	Disposable Income Per Household	USD % chg y-o-y	-5.55	2.02	7.49	9.94	9.72	9.21

Selected consumer indicators - Western & Central Africa								
Ghana	Urban Population	% of Total Population	56.70	57.30	58.00	58.60	59.30	59.80
Ghana	Households Net Income USD5,000-10,000	% of Total Households	23.95	24.51	26.56	29.36	32.15	34.44
Niger	Real Private Consumption	% chg y-o-y	5.70	5.60	5.00	5.00	5.00	5.00
Nigeria	Essential Spending	USD % chg y-o-y	15.53	15.14	12.43	11.63	10.37	6.83
Nigeria	Disposable Income Per Household	USD % chg y-o-y	8.76	10.96	6.48	9.48	7.04	2.41
Nigeria	Households Net Income USD5,000-10,000	% of Total Households	15.78	19.70	22.44	26.72	30.23	31.69

f= Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

Several countries in the West and Central Africa region will post strong growth rates across a number of important consumer and food and drinks indicators over the medium term. Nigeria and Ghana will record good growth across several staple food categories, while spending on non-alcoholic drinks will do well in Cameroon. The table below highlights these key indicators and growth projections for the medium term.

Selected consumption patterns - Western & Central Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Cameroon	Fruit & Vegetable Juices Spending	USD % chg y-o-y	3.40	10.40	11.90	11.50	11.50	10.70
Cameroon	Carbonated Drinks Spending	USD % chg y-o-y	2.00	9.00	10.50	10.30	10.30	9.70
Cameroon	Household Goods Spending	USD % chg y-o-y	3.15	9.99	12.17	9.33	8.93	7.54
Côte d'Ivoire	Wine Consumption	Litres Per Adult	2.20	2.22	2.23	2.24	2.24	2.24
Gabon	Beer Consumption	Litres Per Adult	149.31	149.61	149.69	150.11	150.86	151.99
Gabon	Personal Care & Effects Spending	USD % chg y-o-y	-0.31	10.87	16.42	11.82	10.96	8.47
Gabon	Baked Goods Spending	USD % chg y-o-y	1.00	6.30	9.40	9.90	10.00	9.50
Ghana	Dairy Spending	USD % chg y-o-y	-0.30	3.90	11.60	11.70	13.90	15.70
Ghana	Fish & Fish Products Spending	USD % chg y-o-y	7.00	4.80	11.60	11.60	10.90	13.40
Nigeria	Oil & Fats Spending	USD % chg y-o-y	23.90	22.90	19.10	17.60	15.10	10.50
Nigeria	Meat & Poultry Spending	USD % chg y-o-y	22.20	21.40	17.80	16.50	14.20	9.80
Nigeria	Carbonated Drinks Spending	USD % chg y-o-y	18.40	17.30	13.90	12.50	11.00	7.60
Nigeria	Household Goods Spending	USD % chg y-o-y	15.72	15.31	12.57	11.76	10.47	6.90
Nigeria	Coffee, Tea and Other Hot Drinks	USD % chg y-o-y	15.52	15.13	12.42	11.62	10.37	6.83
Nigeria	Clothing & Footwear Spending	USD % chg y-o-y	15.46	15.07	12.37	11.58	10.34	6.80

f= Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

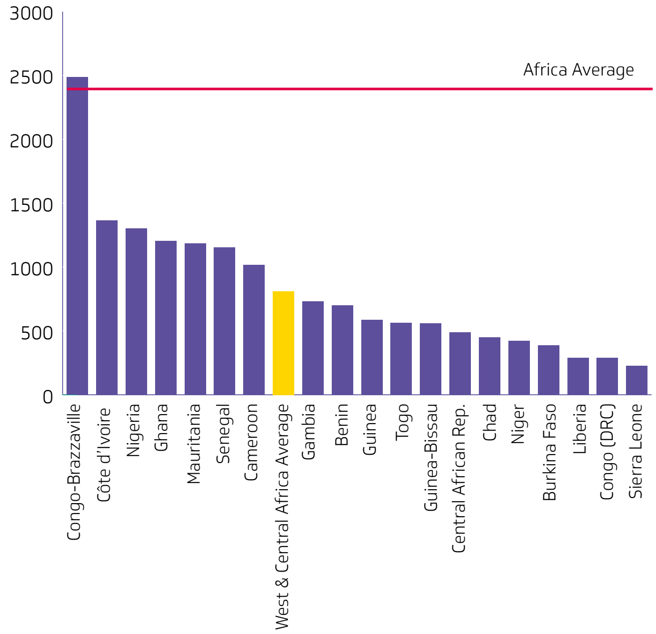
Western Africa - Latest Developments			
Country	**Sub-sector**	**Development**	**Impact**
Nigeria	Food & Drink	The Nigerian Government closed its land borders and restricted foreign exchange provision for certain food imports since August 2019.	The food items that fall under the restrictions are mainly staples, including rice, noodles and cooking oils. This will continue to exacerbate food price inflation in Nigeria over the coming quarters, putting significant pressure on consumer purchasing power. Porous borders and corruption make this policy harder to enforce, but it is likely that there will be an ongoing impact on consumer spending patterns.
Nigeria	Beer	AB InBev injected NGN123bn (USD339mn) into International Breweries (its brewing operations in the country) in November 2019. Nigerian Breweries (Heineken controlled) announced in February 2020 that it would set up retail labs to boost earnings.	The Nigerian beer market has become increasingly competitive over the past year. Margins have been squeezed in the beer space, due to the higher excise duties, and intense competition, which has made it difficult to raise prices. Alcohol majors are now looking a unique offerings to boost their earnings in the country.
Nigeria	E-Commerce	The Kenya-based e-commerce start-up AfricaSokoni announced its expansion into Nigeria, through the acquisition of Bolorims in February 2020.	Nigeria's large population makes it an attractive destination for e-commerce start-ups. However, many e-commerce start-ups in the country have found the market extremely challenging, with several shutting down. AfricaSokoni will mainly compete with Jumia and Konga, which are already established in the Nigerian e-Commerce market.
Ghana	Retail	In September 2019, department store MINISO opened its first store in Ghana. The store is located at the Marina Mall, near Airport City in Accra.	The entry of Miniso into the Ghana highlights the demand for the lower end of the retail market in the country. Most items available via Miniso will be new to the Ghanaian consumer, with the company moving into a consumer sector that has historically been catered for by the informal market.
Cameroon	Mass Grocery Retail	The Carrefour-CFAO collaboration opened its second store in Cameroon in October 2019. This is part of a USD134mn investment project. The company wants to open at least two new supermarkets over 2020, as well as a Cash & Carry concept store.	Carrefour and Casino are the two main players in Cameroon's mass grocery retail sector. Carrefour offers more traditional supermarkets, while Casino offers the Cash & Carry warehouse format. Carrefour is investing heavily in Tier 1 cities, looking to dominate these markets. Carrefour's launch of its Cash & Carry concept will bring it into direct competition with Casino.

Key Drivers

Low Income Groups Offer Scope for Low Margin, High Volume Goods

More so than the other African regions, West and Central African households suffer from relatively low income levels. As such, consumers in the region are very price sensitive, often purchasing their essential items from the informal market. The region's low income consumers are largely concentrated in townships surrounding major cities. While these areas are poorer, the population sizes that reside in these areas mean they offer a large consumer base for retailers and consumer-facing companies to seek ways to reach them.

Real GDP Per Capita, USD (2020)



Source: United Nations, Fitch Solutions

These consumers have been driving demand growth for cheap, mass produced goods, which are marketed specifically to lower income consumers; for example the South African discount retailer Pep Clothing. The company has been successful at offering low margin, high volume products throughout the region. For low-income consumers, value for money is the main motivator for purchasing brands. Companies are navigating these challenges by implementing value for money strategies, such as two-for-one specials, loyalty cards and selling packaged deals, all of which seek to attract consumers and then encourage them to maintain brand loyalty. Consumer-facing companies that operate in the region are also diversifying in their product offerings, in order to capture more of a particular market, such as Pep, which successfully moved into cellular and financial products. Fast-moving consumer goods companies, such as Mr Price Clothing, source raw materials locally, in order to reduce costs and navigate the underdeveloped logistics networks that would hamper longer supply chains. These strategies are enabling a greater number of consumer-facing companies to be more price competitive and appeal to these low income consumers.

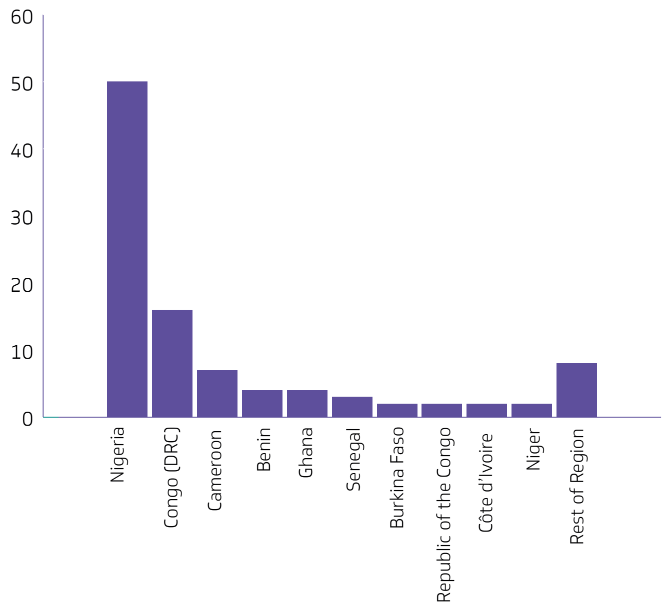
E-commerce to Expand Citywide, But Not Yet Countrywide

In line with the global growth of e-commerce, numerous e-commerce start-ups and international companies (Amazon and Alibaba now offer direct delivery to Nigeria) are expanding into West Africa. The large and growing youth population, that are earning higher incomes, make the region an attractive market for e-commerce focused investors.

While the region does offer all the key indicators that makes a market attractive to e-commerce companies, they must be aware of the risks. The vast majority of wealthier households are located in the main urban cities in each country. Households also have to have a certain level of tech savviness to operate these new platforms. As such, the number of households that have high enough income levels as well as the right level of tech savviness, is relatively small in each country.

E-commerce companies looking to enter and expand across the region, will have to expand by city, rather than by country. As mentioned, the urban centres are where the young and wealthier households will increasingly be concentrated. These households are more connected globally, and thus, will be more prone to take up e-commerce activities. While Nigeria does have the advantage in the number of cities with a population greater than 300,000, only a few of these will have the household income levels to support e-commerce. Ghana, for example, only has four cities with a population greater than 300,000, but offers e-commerce companies relatively higher household income levels in 2020, 8.9% of households had incomes higher than USD10,000 compared to the 4.3% in Nigeria).

Number of Cities with a Population of More Than 300,000 (2018)



Source: United Nations, Fitch Solutions

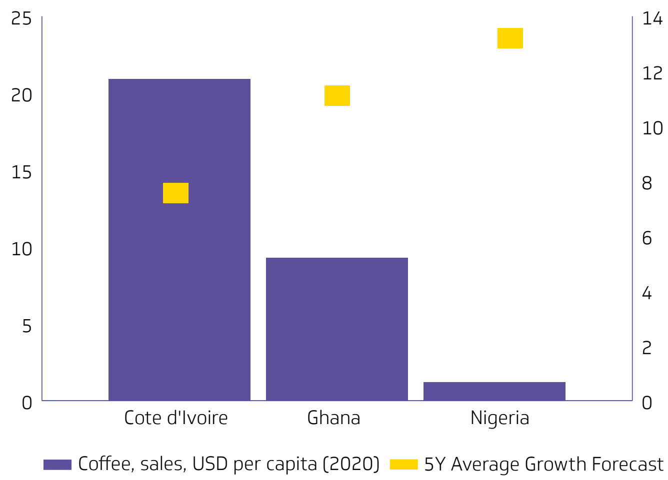
Western Coffee Culture Beginning in Nigeria, Will Spread, as Purchasing Power Improves

The Spread of Western coffee trends is steadily spreading into West Africa. Nigeria is developing as a regional entry/ development point and then a springboard for these players into other nations in the region, with consumer spending on hot drinks forecast to grow rapidly. In Nigeria, for example, household spending on coffee is projected to expand by an average of 12% a year.

The roots of a café culture are in place in the country and multinational brands are starting to penetrate, but they will be a feature only in major cities. Coffee carts or pop-ups offer a lower overhead option for companies seeking to enter Nigeria and have been used by Nescafé to introduce its brand and then build brand loyalty. This strategy can also be used to expand into Tier 2 and 3 cities, as coffee carts and pop–ups traditionally provide lower price point offerings.

FMCG majors, with coffee brands within their product portfolios, will be the major beneficiaries of the Nigerian coffee growth story.

Select Countries - Coffee Sales (2020-2024)



Source: National Sources, Fitch Solutions

Both Côte d'Ivoire and Ghana already have high levels of per capita spending on coffee, but will still experience record strong growth over the next five years. The use of local coffee beans, both in cafe chains and the wider hospitality sector, are already being utilised (for example, the Nigerian based coffee producer Kladi Africa only sources beans from Nigeria and other African states). Local sourced beans should be a unique selling point for producers and will appeal to consumers where localised products appeal as well as offering companies shorter supply chain options.

Supply Chain Opportunities

Growing Demand for Household Goods from New Homeowners

In Nigeria, household goods spending is projected to grow by an average of 11.4% a year, over the medium term (2020-2024). Gabon, Ghana and Cameroon will all see average growth of around 9.5% a year. The key driver of this strong growth in spending on household goods stems from the country's real estate growth outlook, especially the projected demand among first time buyers, who will be furnishing their new properties for the first time. Household appliances, furniture and furnishing spending will all be strong performers over the medium term. The Japanese discount retailer Miniso has been aggressively expanding rapidly across Nigeria and Ghana after entering these markets in 2018 and 2019 respectively.

Potential Beneficiaries:

Timber and material suppliers. Furniture manufacturers. Import companies. Logistics and distribution. Packaging. Warehousing. Household goods companies. Final mile delivery.

Young Female Population Growing Nascent Personal Care Sector

The region's nascent personal care sector holds significant long-term growth potential and spending on personal care will post impressive growth rates over the next five years (personal care and effects spending in Nigeria, Cameroon and Ghana will grow by an average of 11.3%, 9.6% and 5.0% respectively, over the next five years). This market will benefit from a large, rapidly-expanding female working population (female labour force participation in Nigeria grew from 47.5% in 2000, to 50.6% in 2019), particularly in the young adult demographic - the key target demographic for personal care retailers.

Potential Beneficiaries:

Aloe Vera farmers. Corn & sugar beet farmers. Palm oil farmers. Personal care manufacturers. Import companies. Logistics and distribution. Packaging companies. Warehousing. Consultancies, marketing, labelling and advertising. Final mile delivery.

Large Informal Market for Non-alcoholic Drinks Primed for Formalisation

Carbonated drinks sales will be driven by rising disposable incomes and the youth demographic throughout the region. As more consumers access the formal retail market through the spread of mass grocery retail, their exposure to more brands will increase. Fruit and vegetable juice is already popular in the informal sector, so any formalisation of this market will see rapid growth. As these countries suffer with supplying potable water to their populations, bottled water demand will remain high.

Potential Beneficiaries:

Sugar cane farmers. Fruit & vegetable farmers. Importers. Wholesale distributors. Warehousing & Storage. Packaging. Logistics and delivery services. Bottling & Labelling companies. Mass grocery retail. Independent retail. Final mile delivery service. Marketing consultancies.

East Africa

Regional Overview

The East Africa region offers retailers both significant growth potential and enormous structural challenges. In some markets, such as Kenya, Tanzania and Uganda, a rapidly expanding middle class consumer base is attracting investment into the retail market, with numerous international brands investing in new and modern retail spaces, as highlighted by the opening of a new mall in the Kenyan city of Eastleigh, Phase Three of the City Mall in Nyali and construction starting on a large market in the Kyotera district of Uganda. In other markets such as Ethiopia, Sudan and South Sudan, more widespread poverty, underdeveloped transport and storage infrastructure will continue to hamper growth for consumer-facing companies.

Kenya is home to one of the most formalised retail markets in East Africa, which makes it an extremely attractive entry point for international retailers. The country has a relatively young population (in 2020, 31.7% of the population is between the age of 19 and 39) and is a well-established hub within the East African region, which we expect to outperform the wider continent in terms of economic growth in the next decade. As a result, the retail market is highly competitive and is also undergoing rapid growth, driven by large local firms and new international entrants. Both Shoprite and Carrefour have been expanding across the region as households gradually become more accustomed to formal retail and the low cost clothing retailer LC Waikiki is already established in Kenya, and is now expanding into Uganda.

Tanzania and Uganda offer entry opportunities for retailers seeking to expand beyond Kenya with private consumption in each country set to grow by an average of 6.0% and 5.2% respectively, over the next five years. Tanzania has one of the largest populations in the region and is expected to be a regional economic outperformer over the coming years, boosting the spending power of its growing middle consumer class and resulting in rising disposable incomes, which will drive spending beyond essential items. Uganda's retail sector is dominated by small local retailers, but is witnessing increasing investment from international retailers, especially within its mass grocery retail sector. Shoprite is already established, while Carrefour entered the market in January 2020.

The remaining markets in the region offer only limited short-term opportunities. The restrictions on foreign investment in Ethiopia means that the retail sector is characterised by small, locally owned stores or kiosks in open-air markets. Both Sudan and South Sudan are grappling with a spectrum of challenges ranging from poor economic performance, civil discord and a weak security environment. As such, the two countries offer very tough operating environments.

Below are two tables highlighting the top growth sub-categories for each country in East Africa. It is interesting to note that Ethiopia and Uganda will post strong growth rates across many of the more essential consumer items, while Kenyan adults spend the most on alcoholic drinks in the region.

Selected consumer indicators - East Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Ethiopia	Real Private Consumption	% chg y-o-y	9.80	6.10	7.70	7.70	7.70	7.50
Ethiopia	Food and Non-alcoholic Drinks Spending	USD % chg y-o-y	15.85	10.22	10.09	10.41	11.30	11.37
Ethiopia	Essential Spending	USD % chg y-o-y	15.78	10.32	10.18	10.49	11.37	11.43
Kenya	Household Net Income USD5,000-10,000	% of Total Households	6.18	6.87	7.29	7.76	8.34	8.92
Kenya	Alcoholic Drinks and Tobacco Spending	USD % chg y-o-y	11.64	9.34	6.98	7.14	7.93	7.83
Kenya	Private Final Consumption	% of GDP	77.61	77.79	78.46	78.93	79.32	79.67
Kenya	Young Adult Population	% of Total Population	31.60	31.74	31.86	31.96	32.05	32.16
Rwanda	Young Adult Population	% of Total Population	31.10	31.06	30.97	30.89	30.81	30.74

Selected consumer indicators - East Africa

Rwanda	Private Final Consumption	Real % chg y-o-y	5.60	5.00	5.00	5.00	5.50	5.50
Somalia	Urban Population	% of Total Population	45.56	46.14	46.74	47.33	47.93	48.52
South Sudan	Private Final Consumption	% of GDP	78.70	78.25	79.15	79.22	80.55	82.48
Sudan	Urban Population	% of Total Population	34.98	35.25	35.64	36.03	36.41	36.80
Tanzania	Private Final Consumption	Real % chg y-o-y	6.00	5.80	6.00	6.00	6.00	6.00
Tanzania	Urban Population	% of Total Population	34.50	35.23	35.95	36.68	37.41	38.14

f= Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

Selected consumption patterns - East Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Ethiopia	Beer Consumption	Litres per Adult	19.11	19.13	19.18	19.24	19.31	19.39
Ethiopia	Fish and Fish Spending	USD % chg y-o-y	22.80	15.60	15.80	16.50	17.80	18.10
Ethiopia	Dairy Spending	USD % chg y-o-y	21.40	15.30	15.30	15.70	16.60	16.70
Ethiopia	Clothing and Footwear Spending	USD % chg y-o-y	14.42	9.37	9.33	9.74	10.70	10.84
Ethiopia	Personal Care and Effects	USD % chg y-o-y	12.64	10.80	9.55	9.09	9.97	9.36
Ethiopia	Household Goods Spending	USD % chg y-o-y	-1.49	8.38	8.45	8.94	9.98	10.20
Kenya	Alcoholic Drinks Spending	USD per Capita	39.17	41.88	43.81	45.91	48.48	51.16
Kenya	Oils and Fats Spending	USD % chg y-o-y	9.20	17.30	16.40	14.80	15.30	14.70
Tanzania	Bread, Rice and Cereal Spending	USD % chg y-o-y	12.50	13.10	12.80	13.70	13.00	12.90
Uganda	Beer Consumption	Litres per Adult	17.89	18.31	18.86	19.33	19.87	20.84
Uganda	Bread, Rice and Cereal Spending	USD % chg y-o-y	13.80	13.90	13.30	12.60	12.70	12.40
Uganda	Baked Goods Spending	USD % chg y-o-y	12.10	12.00	11.20	10.60	10.80	10.50
Uganda	Carbonated Drinks Spending	USD % chg y-o-y	12.50	11.80	10.00	9.20	9.70	9.40
Uganda	Household Goods Spending	USD % chg y-o-y	15.87	8.36	7.04	6.63	6.76	6.58

f= Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

Eastern Africa - Latest Developments

Country	Sub-sector	Development	Impact
Kenya	Alcoholic Drinks	After acquiring the distribution rights to Carlsberg and Tuborg beers in Kenya in August 2019, Danish Brewing East Africa announced it was setting up of a USD45mn manufacturing plant in Kenya in December 2019.	The Kenyan alcoholic drinks market is getting increasingly more competitive. Historically dominated by the Diageo majority owned East Africa Breweries, numerous alcoholic drinks majors have entered the country over the past few years. Rising incomes and a favourable demographics profile is making Kenya an attractive market for growth.
Uganda	Mass Grocery Retail	Through its regional franchise holder Majid Al Futtaim Group, the French retailer Carrefour opened its first hypermarket store in Uganda, following its success in Kenya.	Uganda offers an attractive market for mass grocery retailers. The country boasts a growing young adult population, which is rapidly urbanising and earning higher incomes. Carrefour joins Shoprite and Tuskys in the relatively underdeveloped retail market in the country.
Rwanda	Consumer	In October 2019, Rwanda became the first African country to issue a complete ban on all single-use plastics.	Retailers had three months to clear their stocks and find alternatives, while industrial users and producers of single-use plastics have a two-year deadline. Failure to adhere to the law leads to hefty penalties or even revocation of trade licences.
Rwanda	Alcoholic Drinks	Rwanda approved a tax break on alcohol brewed using locally sourced materials in August 2019.	Brewers in the country, such as SKOL and Bralirwa will be further encouraged to use locally sourced cereal agricultural products. By doing so, they stand to gain from this tax break and so can lower their price points. This would better enable them to compete with the lower priced informal brewing sector that, with alcohol majors, tries to entice consumers away from the informal alcohol market.
Kenya	Consumer	In February 2020, Kenya enacted new guidelines for mergers and acquisitions to improve efficiencies.	The competition authority said the new regulations address dual notification to CAK and CCC, thus eliminating red tape and bureaucracy.
Ethiopia	Non-alcoholic drinks	In January 2020, Coca-Cola Beverages Africa secured USD50mn in funding for its Ethiopia expansion project.	Ethiopia boasts the second-largest population on the African continent. While consumption of soft drinks is low compared to major markets, demand is expected to swell as the middle class expands. The bottling company, East Africa Bottling, has already invested USD70mn in a new plant that is set to become its largest in Ethiopia with a manufacturing capability of 70,000 cases per day. Meta Abo Brewery, the Ethiopian subsidiary of Diageo, completed the expansion of its USD14mn non-alcoholic beverage factory in February 2020.

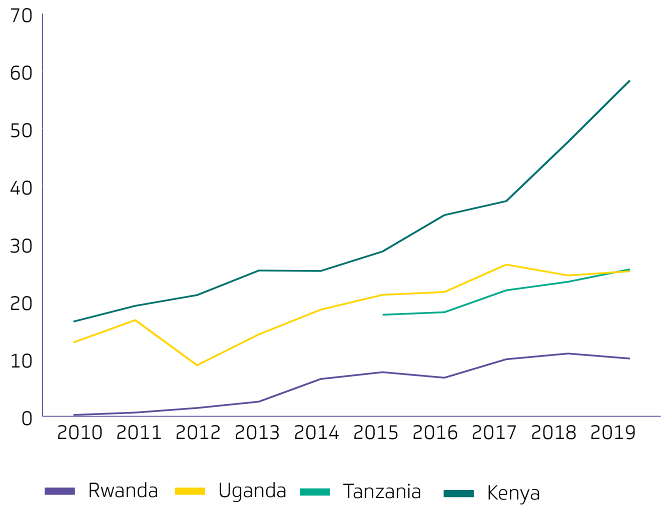
Key Drivers

Rapid Adoption of Mobile Money Promoting E-Commerce

The East African region offers significant market growth for e-Commerce. A large youth population, earning higher incomes, is driving this potential organic growth, which will be aided by high rates of mobile penetration (average of 70% penetration) and 3G/4G penetration of 52%.

The rapid adoption of mobile money, as a tool for domestic and international money transfers, has led to greater financial inclusion across the region. Using data for Rwanda, Uganda, Tanzania and Kenya as an example, we highlight that there were approximately 120 million mobile money accounts across these nations at the end of 2019. As greater numbers of consumers gain access to an account to a mobile money account, we are now witnessing a shift into mobile money, as a medium of account for consumer transactions.

East Africa -Number of mobile money accounts (million)



Source: Company Reports, Fitch Solutions

Mobile money is fast becoming a key enabler for e-commerce payments in these markets, with a greater number of companies allowing for the payment of goods and services using mobile money. For example, in 2019, Alibaba's AliExpress signed a deal with Safaricom's M-Pesa for online shopping. Mobile money operators are also uniquely positioned to use their large agent network to become partners with vendors. These agent networks have an extensive reach meaning they can be used to effectively target Tier 2 cities, as well as rural areas, which serves to improve final mile delivery rates.

Shift to Formalisation Well Underway in Mass Grocery Retail, Alcohol to Follow

Over the last decade, the region's strong economic growth has fed through into improving income levels. As disposable incomes have expanded and continue to do so, a greater volume of consumers have been able to move from informal shopping channels (markets) to being able to afford goods via the formal retail channel (MGR).

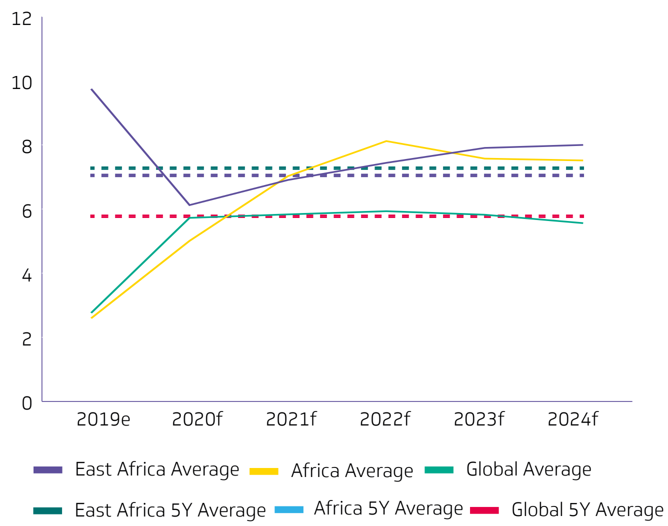
Mass grocery retail is now rapidly spreading across the region. The South African retailer Shoprite has been in expansive mood, offering low cost products that can compete with price points in the informal shopping sector. Mujid Al Futtaim (which holds the franchise for Carrefour) has been expanding across the region, now boasting stores in Kenya (opened in 2016), Tanzania (2019) and Uganda (2020).

In the alcoholic drinks sector, the informal market still dominates. The wide availability of homebrew distributed through a network of local taverns, makes competition for formal alcohol providers harder. Alcohol majors are however adapting to this, copying the success seen in the South African market. These strategies include offering mass produced, low cost beers that are delivered to taverns. Diageo is using motorbikes in order to navigate supply challenges to more remote communities. Alcoholic majors are also adapting to use locally sourced raw ingredients to keep costs low, while also appealing to local preferences. For example, White Cap and Tusker lager are both products of East African Breweries Limited brewed from locally source barley and Orijin RTD is made by mixing neutral spirits with extracts of herbs (sweet koala nuts, ginger, clovers) and sweet tropical fruits.

Increased Investment in Textile Manufacturing will Boost Local Clothing & Footwear Sector

Due to the region's competitive labour market, East Africa is developing into a key textile and garment manufacturing hub globally. Apparel brands such as H&M, Calvin Klein, Tommy Hilfiger all manufacture their goods in Ethiopia. The development of regional textile manufacturing should stimulate the growth of clothing and fashion retail in East Africa. Free trade via the regional trade bloc EAC, will potentially offer fashion retailers access to regionally produced textiles rather than importing from the more traditional textile manufacturing hubs in Asia.

Growth in Spending on Clothing & Footwear, % chg y-o-y (2020-2024)



e/f = Fitch Solutions estimate/forecasts. Source: National statistics, Fitch Solutions

Aiding the growth of the fashion retail sector will be expanding incomes, the formalisation of the clothing and footwear market and regulatory changes. A key regulatory change that will aid this sector's development is the move to phase out the import of second hand clothing and shoes. Rwanda, Kenya, Uganda, Tanzania, South Sudan and Burundi have been trying to phase out the import of these products, and the East African Community is seeking an outright ban on the import of such products.

Supply Chain Opportunities

Growing Demand for Clothing & Retail

Growth in spending on clothing and footwear in the region is projected to outpace the global average over the medium term. As incomes rise and government regulation works to decrease the second-hand clothes import market, more East African consumers will purchase new clothing and footwear, leading to greater demand for strategically placed retail units and malls. While spending levels remain relatively low by international standards, domestic and regional retailers will be well placed to expand. Players in the international fashion sector, which offer lower price point fashion brands, should be investigating the East African retail landscape for potential entry.

Potential Beneficiaries:

Engineering, procurement and construction firms involved in mall construction. Retail real estate operators. Raw material farmers & suppliers. Local textile and garment manufacturers. Logistics and distribution. Low price point clothing companies.

Growth & Formalisation of the Alcohol Market

The alcoholic drinks market in East Africa is relatively small and much of it is dominated by the informal market, but formalisation in the beer segment will be a near term trend. Growth in the regional beer market will stem from major alcohol players enticing drinkers away from homebrew. This will be achieved through alcoholic drinks manufacturers offering low cost alternatives that compete on price point with the informal sector's offerings and through the use of local ingredients to cater for local tastes. In the wine category, growth in cheaper, sweet wines will drive organic growth in East Africa. Ready-to-drink products will drive a rise in the spirits segment, offering a trendy alcoholic option for younger, urban consumers. Finally, to get the product to consumer markets outside urban areas, companies will need to think beyond traditional supply chain options; different forms of final mile delivery (like motorbikes) will need to be utilised.

Potential Beneficiaries:

Barley & hop farmers. Tropical fruit farms. Importers. Wholesale distributors. Warehousing & Storage. Packaging manufacturers. Logistics and delivery services. Bottling & Labelling. Final mile delivery services. Off-site retailers. Restaurants, Hotels & Bars.

Growth of Dairy Consumption from Low Base

Dairy companies will continue to pursue acquisitions in Africa on the back of strong dairy consumption growth potential. Consumption growth for dairy in the region has historically been hampered by poor infrastructure, with refrigeration systems preventing distribution and so capping supply in the region. The growth in modern food retail spaces and storage facilities is now making it easier for dairy brands to distribute their products, and a number of international players such as Danone are ramping up investment in the continent, with the acquisition of 40% of Kenyan dairy company Brookside. In early 2018, Netherlands-based FrieslandCampina and Veris Investments injected funds in dairy processing company Holland Dairy Ethiopia, seeking to strengthen the supply chain, production and market development activities.

Potential Beneficiaries:

Dairy farmers & suppliers. Wholesale distributors. Warehousing & Storage. Refrigeration system providers. Packaging. Logistics and delivery services. Marketing & consultancy firms.

North Africa

Regional Overview

The North African region offers a large youth population and a fast developing formal retail sector, which will attract great interest and investment from consumer-facing companies.

Egypt remains the key market attraction for investors to the region, offering retailers and consumer-facing companies a growing young and urban population (in 2020, 31% of the population are between the age of 20 and 39, while 42.8% of the population lives in urban areas). The country has successfully navigated IMF austerity measures, leading to greater levels of political and economic stability. On the back of this, disposable incomes are rising and consumer purchasing power is growing. Foreign investors, such as the Majid Al Futtaim franchise Carrefour are taking advantage of the country's economic growth and political stability, and are entering the market via franchise agreements with regional firms. The large and growing young population is driving much of this spending growth and the shift towards retail formalisation, while also pushing the demand growth for foreign brands, particularly within the electronics and fashion sectors.

The consumer markets in Tunisia, Algeria and Morocco are less developed. The retail landscapes are still dominated by informal outlets with less retail formalisation currently evident. Logistics and the lack of formal retail space are the key challenges for consumer-facing investors in these markets. These markets do offer some potential, however. All are increasingly urban markets and both Morocco and Tunisia have relatively large proportions of their population earning above USD5,000 (as shown in the table below).

Selected consumer indicators - North Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Algeria	Urban Population	% of Total Population	73.16	73.73	74.23	74.72	75.22	75.72
Algeria	Households Disposable Income USD5,000-10,000	% of Total Households	45.18	45.19	45.13	44.96	44.69	44.23
Egypt	Real Private Consumption	% of GDP	82.94	80.24	78.36	77.10	76.08	75.17
Egypt	Disposable Income Per Household	USD % chg y-o-y	23.36	19.96	12.09	7.01	7.12	7.08
Egypt	Non-essential Spending	USD % chg y-o-y	24.10	19.37	12.41	7.90	8.20	8.18
Egypt	Food and Non-Alcoholic Drinks Spending	USD % chg y-o-y	21.72	18.11	11.30	7.04	7.38	7.43
Egypt	Real Private Consumption	% chg y-o-y	0.78	3.50	4.00	3.20	3.50	3.50
Libya	Real Private Consumption	% chg y-o-y	8.49	3.01	4.51	6.00	6.50	5.51
Tunisia	Households Disposable Income USD5,000-10,000	% of Total Households	45.56	44.68	45.34	46.62	47.22	48.73

f = Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

In order to understand the specific consumer markets of each country, the below table highlights key subcategories we believe will perform well over the medium term. For example, Algerian spending on household goods will grow by an average of 6.8% a year (in US dollar terms), over the next five years. Egyptian households will increasingly spend more on coffee, tea and hot drinks, as well as meat and poultry, with spending on both projected to grow by an annual average of 12.5% and 12.0% respectively over the medium term.

Selected consumption patterns - North Africa

Country	Performing Consumer Indicator	Unit of Measurement	2019	2020f	2021f	2022f	2023f	2024f
Algeria	Pasta Products Spending	USD % chg y-o-y	0.30	3.90	6.80	7.30	7.20	7.20
Algeria	Household Goods Spending	USD % chg y-o-y	-0.12	3.24	5.91	6.47	6.50	6.76
Egypt	Coffee, Teas and Other Hot Drinks Spending	USD % chg y-o-y	31.86	28.82	14.05	6.13	6.69	6.92
Egypt	Clothing and Footwear Spending	USD % chg y-o-y	22.06	18.29	11.46	7.16	7.50	7.54
Egypt	Meat & Poultry Spending	USD % chg y-o-y	23.10	16.50	9.80	10.10	12.30	11.40
Egypt	Fish & Fish Products Spending	USD % chg y-o-y	23.10	16.50	9.80	10.10	12.30	11.40
Morocco	Sugar and Sugar Product Spending	USD % chg y-o-y	1.60	2.30	0.40	2.40	4.10	4.30
Tunisia	Total Alcoholic Drinks Consumption	Litres Per Adult	24.39	24.95	25.50	26.09	26.70	27.31
Tunisia	Beer Consumption	Litres Per Adult	21.25	21.74	22.22	22.73	23.26	23.79
Egypt	Household Goods Spending	USD % chg y-o-y	23.32	18.97	12.06	7.63	7.94	7.94

f = Fitch Solutions Forecast. Source: National Statistics, Fitch Solutions

Northern Africa - Latest Developments

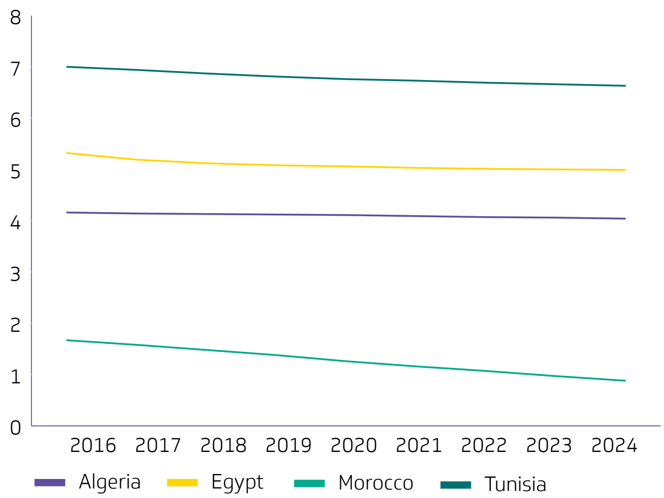
Country	Sub-sector	Development	Impact
Egypt	E-Commerce	In November 2019, H&M launched its online store in Egypt. The online store will give Egyptian consumers access to an extended product range, with exclusive "online-only" items. In the same month, Majid Al Futtaim signed an agreement with Jumia to extend the number of Carrefour products it offers on the e-commerce platform	While still accounting for a small fraction of Egypt's total retail sales, numerous retailers are now beginning to offer their products online. As such, the e-commerce sector is rapidly developing and we expect current players in Egypt's retail sector to explore this option as well as the potential for companies to break into the market via the online shopping route.
Egypt	Retail Real Estate	In December 2019, Majid Al Futtaim stated it will invest EGP16bn in Egypt over the next two to three years, of which EGP14bn will be for the development of a new mall in Egypt. Also in that month, UAE-based developer Al-Futtaim announced in that it is investing EGP2bn in the Cairo Festival City Mall.	Malls are becoming increasingly prevalent in Egypt, especially in the largest cities such as Cairo, Alexandra and Giza. Because of the population density in Cairo, space is at a premium, and finding suitable land is a significant challenge. The ongoing investment in malls will provide new and modern units for retailers and the potential for new retail entrants into the Egyptian market, who might have held off until greater formalisation of the sector took place.
Egypt, Morocco, Algeria	Dairy	In August 2019, the dairy farm Dina Farms announced a EGP400mn (USD24.4mn) investment in its dairy farm and associated segments over the next three years to expand its production capacity. In July 2019, Arla Foods received a license to use the Kraft brand in the Middle East after acquiring the cheese business from Mondelēz International in 2018.	Dairy is a key diet staple in North Africa. A large percentage of the regions consumer base resides in impoverished or rural areas, where electricity cuts continue to be a challenge and so long life dairy products are the only viable option for these consumers. Further investment in the dairy sector offers the potential for larger product offerings to the regions consumers
Egypt	Non-alcoholic Drinks	In May 2019, Coca-Cola revealed plans to add new beverage products to its Egyptian portfolio including, tea, coffee and juice offerings.	Egypt already boasts a large non-alcoholic drinks market. A wider non-alcoholic drinks offering in Egypt will see increased demand for raw materials used in the manufacturing of these products. Sugar farmers, fruit and vegetable farmers as well as tea and coffee farmers will be positively impacted. All of these ingredients can be sourced around the African region.

Key Drivers

Low-End Fashion Retailers Drive Competition in the Clothing & Footwear Sector.

Across the region, clothing and footwear currently account for a relatively modest portion of overall household spending. Many states in North Africa will witness this percentage decline further as fast fashion retailers gain greater prominence in the market and with lower price points consumers are able to buy more for less. The attraction of North Africa for fast fashion players is the large young adult age bracket, a key target audience for this retail segment, and an expanding middle income class.

Clothing & Footwear Spending, % of Total Household Spending



Source: National Statistics, Fitch Solutions

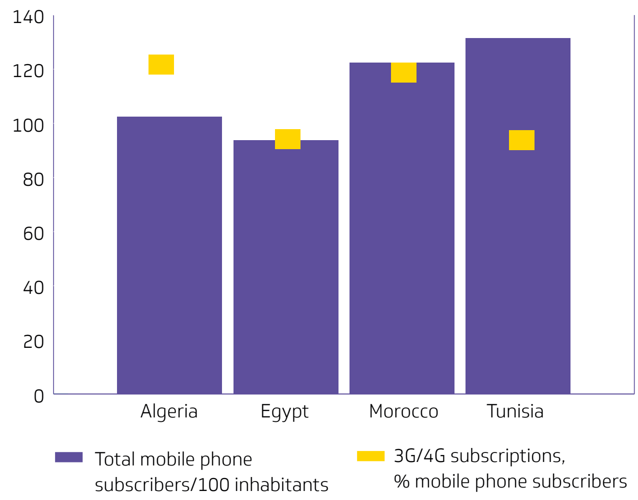
In Egypt, major fast-fashion retailers such as H&M and Zara are already established in the country. The development of modern shopping malls will be a key driver in attracting more international fast fashion players. The Turkish fashion retailer LC Waikiki has 26 outlets in Egypt, and is rapidly gaining in popularity due to its relatively competitive price points.

In Morocco, Turkish clothing and footwear brands have been investing heavily in the country. In 2019, Turkish retailer DeFacto doubled its store count in the country, with new stores opening in tier-two cities, including Oujda, Tétouan, and Settat (the retailer previously only had presence in large cities such as Rabat, Casablanca and Marrakech). LC Waikiki also expanded its presence in Morocco in 2019, increasing its store count to 34. Turkish fashion players have been able to quickly gain market share in Morocco due to their very low price points, aided by the previous 0% tariff rate on imported Turkish textiles. This allowed Turkish apparel retailers to gain a competitive advantage over other international players such as Spain's Zara and Sweden's H&M. This will be somewhat constrained by the recently (January 2020) imposed 27% import tariff on Turkish clothing imports, which will impact the price competitiveness of Turkish retailers.

Mobile Penetration Driving Food Delivery Development

Egypt's food delivery market is the most developed on the African continent, with a number of international and domestic players, including UberEats, Carriage, Otlob and Elmenus already operating. Food delivery companies' strategies identify two distinct target markets within the Egyptian consumer base. The first market is consumers looking for good quality and well-priced food options. Here, Elmenus has taken it a step further and can offer personalised food recommendations to users at the dish-level, through digitized restaurant menus and reviews. The second market is smaller and contains consumers who are less affected by inflation and prefer finer food. Gourmet Egypt targets this market by offering a wide array of premium products, all of which can be delivered.

North Africa - Total Mobile Phone Subscribers



Source: National Statistics, Fitch Solutions

Online food delivery growth is being driven on the supply side by the increase in internet (in 2020, 60% of mobile phone subscribers have either 3G or 4G subscriptions) and smartphone penetration. On the demand side increasing employment levels are driving disposable incomes (and so a wider consumer base is able to afford the higher price point of food delivery), but is also fuelling the demand for convenience as consumers are becoming more time poor.

The wider North African region offers pockets of similar characteristics and so this trend has the potential to evolve beyond Egypt and into the major cities of the remaining countries in the region.

Unstable Electricity Supply Means Long Life Dairy Options are Key

The average household in the region spends USD275 on dairy products in a year. This is more than double what the average household across Sub-Saharan Africa spends (USD122). Cheese and milk products are the most popular.

With a large number (195 million in 2020) of consumers in North Africa residing in rural areas that face unstable electricity supplies, long life dairy options are a key product offering. Shelf life dairy products are therefore an important driver in demand across the dairy sector.

Supply Chain Opportunities

Consumers Demanding Wider Cheese Product Offerings

Spending on dairy products is projected to grow across most North African markets, and especially for cheese. In Egypt, spending on cheese and curd per capita is projected to expand by an average of 8.1% a year, over the medium term (2020-2024). This will take per capita spending from USD17.9 in 2020 to a forecast USD23.4 in 2024. In Algeria spending levels on cheese and curd per capita is projected to expand by an average of 4.6% per year, over the next five years.

Throughout the region, the taste, convenience and affordability of cheese products will be the defining features for dairy companies to capture market share.

Potential Beneficiaries:

Dairy Farmers. Logistics and Transport. Cold storage companies. Processing facilities. Packaging. Mass grocery retailers. Marketing and consulting agencies.

Increase in Spend on Modern Household Appliances

Over the next five years, household goods spending is forecast to grow by an average of 12.4% a year in Egypt, and an average of 5.8% a year in Algeria. As disposable incomes expand and greater levels of the young adult consumer base in these nations purchase their first homes, households are increasingly spending more on household goods, especially modern appliances. This presents significant growth opportunities for retailers in this segment. IKEA for example has already entered Egypt and Morocco.

Potential Beneficiaries:

Timber producers, Household goods and appliances manufacturing and assembly. Warehousing and distribution. Transport and logistics. Electronic retailers. Last mile delivery companies.

A Modern Café Culture Will Drive Demand for Hot Drinks

Increasing affluence and changing lifestyles, including the appearance of a modern café culture, are stimulating the development of the coffee industry. Tea continues to be consumed by all socio-economic groups via a variety of retail and food services channels and population growth will contribute to the rise in overall volumes of loose and packaged tea consumed across North Africa. Powdered hot drinks have a high uptake in North Africa, compared with other developing markets. Egypt's fast growing hot drinks industry is already attracting investment from Nestlé, which acquired the domestic instant coffee company Caravan Marketing in 2018. In 2019, Nestlé inaugurated a new coffee factory in Egypt for its Bonjorno brand.

Potential Beneficiaries:

Coffee and tea farmers. Transport and Logistics. Warehousing and distribution. Packaging. Coffee Roasters. Corner cafés. Mass Grocery Retailers. Instant coffee. Home appliance retailers (coffee machines).

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