



Africa Digest

Trends and Issues in Business



Contents

| | |
|--|----|
| 1. Trends of China in Africa..... | 2 |
| 2. Trends in Fintech and Mobile Money in Africa | 5 |
| 3. Linking Africa to the World: Russia in Africa..... | 8 |
| 4. Trends for Start-ups and SMEs in Africa | 11 |
| 5. Southeast Asia in Africa - The Vietnam Experience | 14 |

1. Trends of China in Africa

This edition views Africa as an emerging battleground in China's economic war with the USA. China continues to play a major role in Africa's infrastructure development and project financing, focusing on support for the development of renewable energy, the digital economy, and manufacturing. The report also highlights resistance to the evolving Chinese approach to contract terms and debt governance.

CHINA INCREASES IMPORTS FROM AFRICA TO REDUCE RISK IN TRADE WAR AGAINST USA

Chinese imports from Kenya increased by 74% in the first six months of 2019, signalling economic dividends from the "diplomatic charm offensive" that Kenya initiated in late 2018. The purpose of this offensive is to grow and expand the Chinese market for Kenyan farm products. These include coffee, specialty tea, cut flowers and avocados. Kenyan authorities support their exporters by scaling up trade promotions and linking Kenya exporters to Chinese buyers. They are also intent on creating exporter-buyer frameworks to deliver more Kenyan goods and services to China. The Kenyan diplomatic corps in the Far East region had clear instructions to find new markets for Kenya's largely raw agricultural exports to China and India.¹

CHINA SUPPORT FOR RENEWABLE ENERGY IN AFRICA

China-backed investment management company Enara Capital positions itself as "the exclusive investment management and project development partner of Chinese renowned Utility and Power conglomerates across the emerging markets."

The company plans to launch 800 MW of renewable energy power plants in Africa over the next five years. Enara will set up a 40 MW solar power park in Kenya and larger solar plants in Kazakhstan, and Saudi Arabia. Enara has a pipeline of renewable energy projects under development in Egypt, Kenya, Uganda, Ethiopia, Guinea, and Nigeria. While the exact cost is not yet known, estimated investment is certainly in the billions.²

SUPPORT FOR THE DIGITAL ECONOMY

China's e-commerce powerhouse Alibaba and the Ethiopian Ministry of Innovation and Technology announced plans to cooperate in growing Ethiopia's digital economy.

The Ministry views investment in its digital sector as hugely important, and the government gives it very high priority. Alibaba founder Jack Ma confirmed that Ethiopia was now a strategic partner of the Alibaba group. Leading Chinese investors visited Ethiopia in November 2019 to promote financial inclusion and strengthen its digital economy.³

GROWING THE AUTOMOBILE SECTOR IN AFRICA

Chinese auto maker Guangzhou Automobile Group (GAC Motors) is considering setting up an assembly plant in Lagos, Nigeria. The announcement follows a visit by Lagos State Governor Babajide Sanwo-Olu to the company's headquarters in China.

The Group Chairman of GAC, Zeng Qihong, was reportedly optimistic about establishing a business in Lagos. GAC finds that the market size of the state and the significance of its economy to Africa fit well with its strategy of expanding its business in international markets.

According to the State Governor, operations of GAC Motors in Lagos would contribute to the development of the state's economy and encourage the transfer of technology between China and Lagos. It would also strengthen the existing relationship between China and Nigeria.⁴

CONTROVERSY SURROUNDING THE BAGAMOYO PORT IN TANZANIA

Tanzanian President John Magufuli in June 2019 suspended plans to construct East Africa's largest deep-water port in Bagamoyo, Tanzania. This move followed a disagreement with Chinese investors on the terms of the project. The US\$10 billion Bagamoyo project was launched in October 2015. However, when President Magufuli came into office in November 2015, the project took a backseat to the expansion of other Tanzanian ports such as Dar es Salaam, Tanga and Mtwara.

Magufuli refused to move ahead with the Bagamoyo project, citing 'tough' conditions and 'unfavourable' demands. The terms of the project included a 'guarantee of 30 years and a lease of 99 years' and stipulated that the Tanzanian Government should 'not question whoever comes to invest there once the port is operational.' Another demand by the Chinese developers, as cited by Magufuli, was that once the port was built, no other port could be built from Tanga to Mtwara. Also, as stated by Magufuli, "they want to take the land as their own but we have to compensate them for drilling construction on that port."

At the end of October 2019, the Tanzanian Government issued an ultimatum to Chinese investor China Merchants Holding International to either work with Tanzania Ports Authority's new terms and conditions or lose the project to another bidder.

Magufuli's administration added 5 revised clauses. "First, the Chinese investor was offered a lease of 33 years instead of the 99 years..... Second, the investors will have no tax holiday and will be subjected to all taxes raised by Tanzania's government. Third, the investors would need to obtain approval from the Tanzanian Government before starting and running any new business within the port facilities. Fourth, there will be no special status for the investor and it would have to pay market rates for water or electricity. Lastly, the Government of Tanzania can develop other ports in direct competition with Bagamoyo."⁵

CHINA'S NEW APPROACH TO DEBT APPROVAL

China's Ministry of Finance released a debt sustainability framework (DSF) for the BRI at the second Belt and Road Forum for International Cooperation. China recently stopped denying that problems existed with the BRI, and acknowledged risks associated with its lending practices, calling for more disciplined lending. The DSF is perceived as China's answer to the problem. Researchers Plant and Morris addressed this question as to whether the DSF was up to the task of dealing with the debt challenges presented by China's BRI. As the DSF is virtually identical to the World Bank's DSF, China's solution is seen as a step forward in preventing the debt problems associated with the BRI. However, Plant and Morris are of the opinion that depending on how the new DSF is used, it could represent a step backward when it comes to achieving debt sustainability in low income countries.

According to Plant & Morris, the content of China's DSF is virtually identical to the World Bank DSF as it has the same weighting mechanisms, thresholds, and stress tests. They identify the following differences:

- The two World Bank fiscal realism tools are condensed into one in China's DSF.
- China has a stress test on "new borrowing" and includes reverse stress tests.
- The World Bank DSF implementation guidance is much more detailed, including comparisons to past DSFs and justification for changes.⁶

POINTS OF INTEREST

- The increase in exports of Kenya to China is not only due to the "charm offensive" by the Kenyans since the FOCAC of 2018, but also due to China's strategy to reduce its risk in its trade war with the USA. It has subsequently decided to increase its imports from Africa, thereby lowering its exposure to the USA.

- Kenya's agricultural exports mainly consisted of raw agricultural products. This is a less optimal strategy, as it reduces the revenues generated and foregoes the opportunity to increase higher value products and create higher skilled jobs.
- China's portion of investment in renewable energy in 2018 within China was approximately 48% of its total global investment. It has also invested in several renewable energy projects across the spectrum in Africa. While the quality of its products is reportedly lower than from EU producers, the Chinese option is a very strong contender from a value for money perspective. With renewable energy increasingly becoming the dominant energy business model for Africa (globally, many would say), China's investments in renewable energy projects in Africa are forward-looking.
- China has supported Africa's digital networks for some time. From an infrastructure perspective, Huawei and ZTE (among others) have provided physical infrastructure, as well as broadband capacity. Huawei also recently partnered with South Africa's data-only network rain to roll out a 5G commercial offer. Alibaba partnered with various countries to help with listing of products from Africa, as well as hosting tourist services on Alibaba's platform. This should have the benefit of increasing demand for African's products in China, and stimulate tourism from China to Africa. China is also interested in establishing a "Digital Silk Road" as part of its Belt and Road Initiative (BRI) in Africa.
- China's automobile manufacturers in Africa and in Nigeria will be an alternative to the established and well-known brands of Toyota, Volkswagen, Hyundai, and GM, to name but a few. Unfortunately, they will also compete with attempts from Africa to create its own brands. However, their attempts to establish themselves in Africa has various benefits for the host countries, such as employment creation and the transfer of knowledge. Still, the question needs to be raised whether African needs more foreign brands on the continent, or rather investment support to develop and grow the local automobile manufacturing sector – a "developed by Africa for Africa" approach that may require massive capital investment.
- China's projects in Africa have frequently been accused of being forced upon the governments of Africa, as if the latter had no say on the matter. Magufuli's stance is a clear indication that this is not the case, and that should the political will exist, China's corporations could be made to toe the line. Magufuli is not the only country head where someone said no to China. Sierra Leone's president, after his election, also cancelled a project, in his case the building of a new airport, not long after the existing airport was extensively renovated. This is in line with President Xi Jinping's statement at the 2018 FOCAC meeting in Beijing, where he admonished Africa's leaders to stop adopting vanity projects and to start accepting projects that would add real value. It is doubtful whether the Bagamoyo project and the Sierra Leone project constitutes a rejection of China by Africa. China is still one of the largest investors in the African continent and Africa's largest trade partner. However, the trend does send a clear signal that Africa's governments are sovereign and will not accept projects that are not in their best interest. Hopefully more African governments will become more discerning as to the terms they will accept from Chinese corporations.
- China often receives criticism for its lending practices in Africa. Accusations of "debt trap diplomacy" are common. Questions arise regarding whether China should view itself a bank and adopt the responsibility to ensure the borrower country had the financial means to pay back the capital and service the interest payments. China's adoption of the DSF is a major step forward in this regard. President Xi Jinping at the end of 2018 admonished African governments to not borrow money for vanity projects. China has also refused funds to both Kenya and Uganda for their SGR from Naivasha to Kampala. Time will tell how meaningful China's implementation of this DSF will be. For Africa's sake, it might be kind to be cruel at times, and say no to requests from Africa.

2. Trends in Fintech and Mobile Money in Africa

Fintech and mobile money are not passing fads. They signal an increasingly strong trend that has raised the level of financial inclusion throughout the continent. Mobile technology itself is not only used extensively in the financial services industry, but also in industries such as agriculture and health, to name but two. However, foreign investors have recognised the investment potential for fintech and mobile money in Africa and are keen to tap into this massive opportunity.

MOBILE MONEY AS INVESTMENT TARGETS IN AFRICA

Investors funnelled nearly US\$400 million into Nigeria-based payments firms within one week in November 2019. This highlights how seriously the venture capital community takes the opportunity to build financial networks across Africa. China-backed OPay recently raised US\$120 million from a group of investors including Sequoia Capital China and SoftBank Ventures Asia, following its US\$50 million fundraising in June 2019. Visa also recently invested US\$200 million in Interswitch, based in Lagos. PalmPay raised US\$40 million in a round led by China's Transsion.

These three companies will use the funds for expansion across sub-Saharan Africa, where only a third of adults have bank accounts. Each intends to become the first pan-African payments company, a goal that is constrained by complicated foreign exchange controls, inefficient cross-border trade and complicated regulatory regimes. All three plan to use Nigeria as a launch pad for their expansion.

The growth of investments in the payments space is driven by the 20-30% growth of consumers entering the sector. The profits of these payments companies are huge, and act as major attractions to investors, local and foreign.

Nigeria has the largest population in Africa and remains a massive opportunity. Although the country is pushing towards a more cashless society, approximately 95% of transactions in Nigeria are still done in cash, and about 60 million adults do not have bank accounts.⁷

As stated above, PalmPay's funding round was led by Transsion's subsidiary, TECNO, with participation from China's NetEase and wireless communications hardware firm MediaTek. PalmPay has now established a strategic partnership with mobile companies TECNO, Infinix and Itel, with its app being pre-installed on 20 million phones next year. PalmPay received its approval from the Nigerian Central Bank in July, as well as registered 100,000 users and processed 1 million transactions during its pilot phase.

PalmPay believes it can thrive because of several advantages, most notably its support from Transsion and partnership with TECNO. The company has also formed a partnership with Visa, which enables it to link Visa products to their wallet and give access to the unbanked population to the entire Visa network.⁸

INCREASE IN MOBILE MONEY ADOPTION IN NIGERIA

The Nigeria Interbank Settlement System (NIBSS) reported massive growth (344%) in mobile money transfers over the first ten months of 2019 (26.2 million) relative to 2018 (5.9 million). This reveals significant growth in interest in mobile money technology in Nigeria. Transaction value increased 137.3% (from N238.2 billion to N565.4 billion). According to NIBSS, cheque transaction volume declined by 13.2% (from 7.6 million to 6.6 million) over the same period. This result is to be expected.

As Nigerians embrace mobile money technology, their level of financial inclusion rises. The increase in the use of mobile phones for financial transactions led to an increase in the development of the network infrastructure needed to enable this momentum and support the banks' payment systems.⁹

THE STATUS QUO IN GHANA

Ghana is another West African country where fintech is active. An early player is the Sika Card, introduced in 1997 by the then Social Security Bank (SSB). Its purpose was to eliminate the use of large

sums of money for transactions. The E-zwich smart card was launched in 2008 as a national smart payment system. The interoperability of the E-zwich system offered banks, savings and loans companies, as well as other deposit taking institutions a platform within which to operate. In 2009, MTN introduced Mobile Money into Ghana.

At the end of December 2018, the number of mobile money accounts was 32 million, representing a 17.43% increase from 23.9 million registered accounts in 2017. Of the 32 million accounts, only 13 million were active as at December 2018.

Thereafter other telecom operators, such as Airtel (Airtel Money) and Tigo (Tigo Cash), also acquired market share for themselves. Vodafone in 2015 launched the M-Pesa service in Ghana, under the Vodafone Cash brand name.

In addition to the banks and telcos, a number of indigenous firms are also providing services in this sector. These include expressPay, Slydepay, Hubtel, ALEXpay, PalmPay, FlexiPay, Mazzuma, ZeePay and Impact.

A number of growth opportunities remain. Transport, which now operates mostly on a cash basis, is one such sector.¹⁰

LENDING TO SMALL BUSINESS OWNERS

Vodacom now offers small businesses loans of up to R1.5 million (~US\$102,000) over 12 months through its new service offering, Vodaland. Lulalend, a five-year-old South African fintech company, does the actual lending. Vodacom's role is that of an "originator" for Lulalend. Access is crucial, so origination and distribution are key success factors in the sector. In this regard, Vodacom, with its large number of small and medium-sized business customers, provides Lulalend with market access.

Interest rates are individualised, but in general the cost of the facility is a very high 34% a year. As clients build up a payment history, second or third loans will be cheaper. As it is, around 80% of its customers come back for another loan.¹¹

DISRUPTION IN SOUTH AFRICA

The rapid growth of fintech in Africa is disrupting legacy systems and driving the leapfrogging trend. It is also accelerating the digital transformation of financial services. In South Africa, major banks are collaborating with new players to drive efficiencies, make digital finance profitable, and capture new markets.

According to EY's Global Fintech Adoption Index 2019, South Africa ranks third (together with Russia) on its future fintech adoption rate (currently at 82%). South Africa fell behind only China and India. According to this article, South Africa hosts more technology hubs than any other country on the continent, and received a significant amount of national and international investment in the sector.

New technologies drive the rapidly shifting financial services paradigm. These include blockchain, AI, payments innovation, mobile money and digital wallets. Once clear distinctions among telecom services providers, payments services providers and financial institutions are breaking down. Innovative companies deploy blockchain technology and crypto-currencies to resolve fundamental problems such as lack of access to electricity and lack of access to global financial markets.¹²

RESTRICTIONS ON MOBILE MONEY

Zimbabwe is facing the challenge of its monetary system, which is falling apart. The Reserve Bank of Zimbabwe subsequently stopped mobile money operators, the dominant way in which money is moved in the country, from paying out cash. It also reduced the spread at which dealers and bureaux de change can exchange the Zimbabwe dollar to between 3% and 5% from the official rate, down from a 7% spread recently. At the end of September, the Reserve Bank banned the quoting of prices in foreign currency altogether. Mobile money transactions created an implied exchange rate because some agents charged premiums of as much as 60%.¹³

POINTS OF INTEREST

- As stated in the introduction, the presence of payment platforms has had a positive impact on the level of financial inclusion in Africa's population. They have also boosted the growth of Africa's e-commerce sector. In addition, some industries have embraced mobile money as the method of payment, for example, M-Kopa in Kenya where consumers use M-Pesa to pay their monthly charges for the electricity generated by solar mini-grids.
- One driving force behind the massive expansion of mobile money and fintech, as well as e-commerce activities, is the large (and growing) number of mobile phones in virtually all African countries. These phones (which may not all be smartphones), combined with the growing availability of broadband, are enablers for the previously unbanked to obtain access to high-quality financial services at low cost.
- The availability of smart phones is gaining momentum by the development and manufacturing of African smart phones, such as those made by the Mara Corporation of Rwanda. Transsion is another manufacturer that is manufacturing smart phones for Africa at a very low cost. This is in addition to its investments in fintech companies in Africa as well.
- Vodacom's new offering of providing loans to small businesses in South Africa of up to R1.5 million, is comparable with Safaricom's strategy in Kenya of extending loans and providing overdrafts to clients. It seems that many of the consumers trust their telecoms providers sufficiently to borrow money from them. For the telecoms providers, this is an additional value added product, which they are continuously on the lookout for. As it is, voice is mature, while data is on a race to zero in most countries. In South Africa, the telecoms regulator recently instructed both Vodacom and MTN to lower their data prices or face sanction. Value added products, such as mobile money and entertainment, are lucrative sources of revenue for them.
- Till recently, the dominant growth of mobile money and fintech occurred in East Africa. We are now, however, seeing a strong growth in West Africa, in both the two largest economies in the region, i.e. Nigeria and Ghana. With Nigeria's large population (at 200 million approximately four times the size of Kenya) and with the active support and encouragement of the Central Bank of Nigeria, the growth potential in this country (as well as in Ghana) is phenomenal.
- Zimbabwe's action to constrain mobile money in the country seems a pity. Precisely as the article states, mobile money is the dominant way money is moved in the country. This is a sure sign of the dire circumstance in which the country finds itself.

3. Linking Africa to the World: Russia in Africa

High-ranking Russian officials, including Foreign Minister Lavrov, visited African countries all over the continent over the past few years. Russia is staging a comeback after having withdrawn from Africa after the shutdown of the former Soviet Union. Russia's interests cover a number of sectors, such as nuclear energy, platinum, nickel, and even arms manufacturing. The sections below address some of the recent activities by Russia in Africa, demonstrating a clear trend of Russia's return to Africa.

ESTABLISHING THE FIRST RUSSIA-AFRICA ECONOMIC FORUM

Russia and Egypt co-hosted the first Russia-Africa Economic Forum in Sochi to foster political, economic and cultural cooperation. The late October 2019 event increased Russia's influence in Africa, and facilitated business and investment deals. According to Russia's President Putin, deals worth US\$12.5 billion were signed during the Forum. These deals include a number of defence contracts for equipment and aircraft.

Weapons, including armoured vehicles, military equipment and anti-tank missile systems, worth US\$14 billion, will be delivered to African countries in 2019. Russia also sent two Tupolev Tu-160 bombers to South Africa as part of a defence cooperation agreement. Nigeria agreed to buy 12 helicopter gunships to support their war against Boko Haram.

According to Russia's President Putin, his country is currently exporting food worth US\$25 billion to Africa, which is more than what they export in arms, at US\$15 billion. These figures should double in the next four to five years. He also intended to expand Russia's network of trade missions on the African continent. Russia's trade with Africa is about 10% of China's, which exceeded US\$200 billion in 2018. However, Russia has traditionally dominated certain sectors such as weapons exports. Agriculture, mining and civilian nuclear power were also a focus during the summit.¹⁴

NJ Ayuk, CEO of Centurion Law Group and executive chairman of the African Energy Chamber, feels that Russia's focus on Africa gained impetus after the West imposed sanctions on Russia as punishment for its annexation of Crimea. As Russia has fewer funds than China or the United States to invest in Africa, it relies on strategic investments to gain economic returns and help Africans, as well as boost its image as a re-emerging power. Russia also offers African leaders an alternative to long-term Chinese loans.¹⁵

RUSSIAN SUPPORT FOR ECONOMIC DEVELOPMENT IN NIGERIA

In northwest Nigeria, the Zamfara State Government will develop critical sectors of the state's economy in partnership with the Russian government. The partnership will concentrate on sectors in which State governor Bello Matawalle declared a need for foreign investors. These include agriculture, solid minerals development and exploration, education and health. The Russian government views the partnership as an opportunity to harness the potential of the state. As guest of the Russian ambassador to Nigeria, the governor also attended the first Russian/African Union Summit in October 2019. The event focused on fostering economic, political and cultural cooperation.¹⁶

SETTING UP ECONOMIC DEVELOPMENT IN KENYA

In late October 2019, Russia and Kenya resolved to create a Russia-Kenya business council that would govern the implementation of joint trade and investment programmes. The purpose of the business council is to pursue partnerships in trade, investment and development. According to the Kenyan president, Kenya is Russia's second largest trading partner. To date, the full potential of their economic cooperation remains untapped. Kenya currently has a negative trade balance of US\$2.3 billion with Russia. President Kenyatta favoured establishing direct cargo flights between Nairobi and Moscow to boost commerce between the two countries. He also identified economic activities such as helicopter assembly, housing development, tourist charter flights and space technology as opportunities for

Russian investors. While Kenya mainly imports cereals, iron and steel, fertilisers and paper from Russia, its main exports to Russia include cut flowers, coffee, tea, fruits and vegetables.¹⁷

SUPPORTING TANZANIA'S RAILWAYS AND AGRICULTURE

Tanzanian Prime Minister Kassim Majaliwa recently invited Russian Railways to invest in its railway sector. Tanzania needs to upgrade railway transport in its major cities and revamp the old railway lines that connect the country's regions. According Mr. Majaliwa, Russia's involvement will contribute towards the government's plans to revive "the Tanzania-Zambia Railway Authority, support the development of the central line and open up the northern railway that connects Dar es Salaam to Tanga, Kilimanjaro and Arusha regions."

Russian Railways was reportedly ready to cooperate with Tanzania's business community to set up joint venture firms to transfer technology and skills in the rail industry.

Directors of Russian company BTP also indicated their willingness to invest in Tanzania's agriculture by bringing in various machines like tractors and road construction equipment.¹⁸

NUCLEAR ENERGY FOR RWANDA

Rwanda's cabinet recently approved an agreement with Russia to set up a nuclear plant by 2024. This project will be one of the largest in Africa. According to the Rwandan government, the nuclear project will support the advancement of technology in agriculture, energy production and environmental protection. The project will be implemented by Russia's nuclear parastatal Rosatom Global. Russian scientists will now set up a Centre for Nuclear Science and Technology in Kigali. Rosatom has signed similar co-operation agreements with Kenya, Uganda and Tanzania.

The signing of the agreement comes amidst the growth of the trade and political relationship between Rwanda and Russia over the years. Rwanda has been importing goods such as cereals, machinery, fertilisers, iron, and steel from Russia. The quantum increased from US\$20 million in 2017 to US\$31 million in 2018. The country's exports to Russia, mainly agricultural products, increased from US\$2.4 million in 2017 to US\$3.6 million in 2018.¹⁹

INFRASTRUCTURE INVESTMENT IN ANGOLA

Russia intends to invest US\$10 billion in infrastructure projects in Angola. Target sectors include energy (construction of hydroelectric dams, wind power generation, solar panels, and power transmission lines), and financing of roads, houses and other infrastructure. Amongst others, the Russian government and its private sector will invest in the projects.²⁰

COOPERATION WITH SOUTH AFRICA'S DENEL ON ARMS PRODUCTION

Russia is interested in jointly producing military equipment with South Africa. Dmitry Shugaev, head of the Russian Federal Service of Military-Technical Cooperation, has reportedly identified promising cooperation projects related to joint development and manufacture of weapons and military equipment.

The Russian Air Force recently sent two Tu-160 strategic bombers to a military air force base in South Africa, perceived as a strong signal of its willingness to engage with South Africa,

Various African countries have recently indicated their willingness to buy Russian military systems, such as Cameroon, Egypt and Ethiopia. Many more have placed orders for Russian arms, as 20 African countries account for about a third of Rosoboronexport's order book at more than US\$14 billion, and this figure shows a growing trend.²¹

ENHANCING DEFENCE COLLABORATION AND ECONOMIC DEVELOPMENT IN MOZAMBIQUE

Russian Ambassador to Mozambique, Alexander Surikov noted that the nature and amount of Russia's assistance to Mozambique is dependent on the situation. Russia will maintain its defence cooperation with Mozambique at levels with which the Mozambican government is comfortable. This includes

facilitating visits by Russian warships to Mozambique's ports. Russia is ultimately guided only by Mozambique's requests, "without threatening their neighbours and rattling the sabre."

The potential also existed for Russia to participate in upgrading Mozambique's transport infrastructure. Mozambique's ports and railways were in need of new equipment and means of transport. Russian companies were also in talks with Mozambique on the exploration and production of hydrocarbons and the construction of energy facilities. It included gas-fuelled power generating facilities and power transmission lines. Ambassador Surikov assured Russians that the country was safe for tourists. In addition, Mozambique could also cooperate in growing tropical farm products and provide transit opportunities.

As Mozambique was a member of the Southern African Development Community, Russian companies will find it easy to distribute all goods delivered in its ports throughout the entire region.²²

CENTRAL AFRICAN REPUBLIC – A POTENTIAL MILITARY BASE FOR RUSSIA

According to the president of the Central African Republic (CAR), Faustin-Archange Touadéra, his country would consider hosting a Russian military base. Should it happen, the base would be Russia's first in Africa. He had also requested Russia for new weapons shipments as the CAR has been fighting a civil war against rebel forces since 2012.²³

POINTS OF INTEREST

- Russia seems to be following a similar model to that of China, India, Japan and the USA of hosting high-level forums to expose African leaders of governments and commerce to the potential of trading and cooperating with Russia. To quote the president of the African Development Bank, Akinwumi Adesina, "Africa is like a royal bride in the world today." Russia has apparently decided to expand its area of influence to include Africa after the sanctions imposed on it by the EU as a result of the Ukraine crisis.
- From an energy sector angle, Russia seriously markets its nuclear energy technology to African governments. Russia even targeted Rwanda, which has a small economy of US\$9.51 billion (US\$826 per capita GDP) and a relative high government debt to GDP ratio of 41.1%. While the availability of reliable and cost-efficient electricity is a driver for a growing economy, the costs involved in nuclear energy make it a doubtful starter in such a small economy. Interestingly, Russia is also involved in the provision of renewable energy infrastructure in Angola. Rwanda has a lot of renewable energy potential, and this would have made more sense rather than the nuclear energy Russia signed up to sell to Rwanda.
- South Africa's government-owned arms manufacturer Denel is on the verge of bankruptcy, if not bankrupt. Collaboration with Russia would hopefully provide it with additional markets to help the company crawl out of the precarious financial position it finds itself in.
- Russia is, contrary to popular expectations, not just interested in selling weapons and nuclear energy to Africa, but is presenting an alternative to China, the EU, Japan and the USA as far as the development of infrastructure and economic development in general is concerned. It is also positioning itself as a supplier with "no strings attached and no questions asked," the China approach to dealing with Africa. As far as trade is concerned, Russia has reported a 350% increase of trade with African countries over the past decade. Yet, Russian trade with sub-Saharan Africa is still relatively low, amounting to US\$20 billion in 2018, compared with US\$61 billion between the USA and Africa, US\$200 billion between China and Africa, and trade of more than US\$300 billion between the EU and Africa.²⁴

4. Trends for Start-ups and SMEs in Africa

Start-ups and SMEs in Africa drive economic growth and job creation. With a large population, set to double by 2050 to 2.4 billion, and a growing middle (or consumption) class, there are many emergent business opportunities throughout African economies. Even cursory investigation indicates that the continent is largely “empty” of large MNC presence. This report addresses the growing visibility of start-ups and SME’s in Africa, with some taking up the slack caused by MNC-absence.

POLICY SUPPORT SHOULD FOCUS ON AGRICULTURE SMEs

The drastic increase in Africa’s population over the next decades will place pressure on the production of food on the continent. With perhaps 250 million people currently undernourished, supporting the food and agriculture sector is an increasingly important strategy. The substantial gap between supply and demand is a source of concern for those involved in policy formulation and execution. It is generally accepted that to meet massive demand, which is expected to continue to rise, African governments will have the greatest impact through support for local producers.

According to the author of this article, the following requires investment: businesses and projects that are implementing advanced, proven technologies across the value chain, from field and production technologies, through irrigation systems and fertilization, to smart and cost-effective energy solutions.

The author was also clear that African governments should not focus on large companies and corporations, as they are not the real growth engines for the sector. They only contribute 16% to food production in Africa. The focus should be on SMEs, which are directly responsible for 64% of Africa’s food production. Farmers who grow for their family’s personal use, produce the remaining 20%.

Governments currently assist agricultural SMEs through various subsidies, such as for fertilizers and advanced irrigation systems, and invest in different projects to attract investors and support more local SMEs. They can and should do more to help those businesses grow and prosper.²⁵

The need for this focus on SMEs as the main drivers of the food economy in Africa is substantiated by the authors of the *Africa Agriculture Status Report (AASR)* released on 3 September 2019. According to the authors, there has been a “quiet revolution” in agrifood private sector value chains that link small farmers to fast-growing urban markets and growing towns in Africa. This has boosted farmers’ participation in food and farm input markets.

These SMEs, often women-led, include food processors, wholesalers, and retailers, and provide a range of services, from transport and logistics to the sale of inputs such as fertilisers and seed to farmers.

Dr. Agnes Kalibata, President of AGRA, stated: “SMEs are the biggest investors in building markets for farmers in Africa today, and will likely remain so for the next 10 to 20 years.”²⁶

ADDRESSING THE TRANSPORT NEEDS OF UGANDA

In Uganda, founder of on-demand transport service RideLink Daniel Mukisa, grew the company’s revenues by converting his firm from a business-to-consumer (B2C) to a business-to-business (B2B) model. RideLink was created in 2017, when Uganda’s transport system was an inefficient, “unsafe, inconvenient and generally defunct structure.” This created the entrepreneurial opportunity for creation of RideLink.

RideLink’s initial B2C model serviced the general public. Their customer acquisition costs were high. Intense competitive rivalry aggravated this challenge, as RideLink competed against established ride-hailing platforms.

RideLink morphed into its new B2B model by partnering with firms willing to pay for their service, a market almost void of competition. RideLink, by creating a USP based on their reliability and professionalism, and focusing on small and medium enterprises, acquired many customers quickly,

According to Mukisa, at the end of 2017, RideLink had generated over US\$37,000 in revenue. By the end of 2018, this figure had grown to over US\$140,000. The company currently employs 25 people (both full-time and part-time). In addition, it has a driver pool of over 60 drivers.

To date, RideLink has raised US\$20,000 in funding since launch. Mukisa intends raising an additional US\$5 million in the next three years to finance a premium taxi service for the mass market.²⁷

LAST-MILE SERVICE IN LAGOS, NIGERIA

In Nigeria, the Kwik app was launched at the end of June 2019 to quickly become the Number 1 app for last-mile delivery service in the country. The company's aim was to become the first platform for last-mile delivery in Nigeria's urban areas before expanding into neighbouring countries. It set itself the target of 100,000 deliveries per day in three cities before 2021.

The purpose of Kwik is to connect independent delivery partners with customers (especially B2B clients) who need reliable, affordable and flexible delivery solutions. The app comes with an integrated geolocation system and offers an efficient transportation service for small packages (up to 25kg) or documents.

Kwik's value proposition is to ensure fast, reliable and efficient delivery of a package or envelope in Lagos, Nigeria's business capital. While Kwik's competitors offer a service that takes 12 hours and costs between 2,000 and 3,000 naira (US\$5.50 to US\$8.30), Kwik offers delivery within 2 hours for a far lower price.²⁸

CRAFT BEER IN TANZANIA

Tanzanian Chintu Patel in 2016 created a craft beer company, Crafty Dee's Brewing Company in Dar es Salaam, which is the first small-scale brewery producing mostly ales and Pilsner. The beers are served on draught at selected locations. The company's slogan is 'In pursuit of happiness', a playful take on hops, the key bittering and stability agent to impart floral, fruity, or citrus flavours and aromas.

Chintu hopes to have his beer stand out through the differentiation of flavour and aroma. His focus has been on maintaining quality while strategically growing distribution. Also, his beer uses no sugar, no preservatives and no additives. His ales are known for their broader flavour range and fruitier taste compared with the widely consumed lagers made by the big beer companies.

While Crafty Dee's produces less than 1,000 litres per month, he has targeted upper-end restaurants in Dar es Salaam. In 2018, his Pilsner won silver category of the Craft Brewers Award in Tanzania. It has also won accolades from Tanzania's Small Industries Development Organisation for its contribution to the country's economic development.

Typical challenges for Crafty Dee's, as one of the first to introduce small scale craft brewing, include challenges from regulators, tax authorities, business licensing issues, the scale of production, cost reduction, increasing distribution footprint, etc.²⁹

BOOSTING COMPETITIVENESS OF SMEs

The Kenya Association of Manufacturers (KAM) in July 2019 launched a hub to support SME growth by providing access to finance, markets and capacity development. Kenyan government officials and corporate executives expect the Manufacturing SME Hub to help address regulatory, capacity and financing bottlenecks. These measures are intended to address obstacles to the growth of indigenous start-ups. The government committed itself to this "through regulatory reforms and investment in supportive infrastructure like roads, electricity, water and storage facilities." Currently, formal SMEs contribute about 30% to Kenya's GDP and employ more than 16 million people.

The SME Hub will leverage on a robust local innovation ecosystem to stimulate growth of start-ups across key economic sectors like manufacturing and agriculture in Kenya. It will support the operations of local start-ups and enhance their competitiveness in the regional and global markets by boosting

their production capacity, enabling them to add value on their products to make them competitive in the international supply chains.

According to Sachin Gudka, chairman of KAM, the hub will support the development of an inclusive, innovative and globally competitive SME sector in Kenya. It will ensure the SMEs have institutional sustainability and understand the regulatory environment, property rights and compliance.³⁰

In Ghana, the Youth Inclusive Entrepreneurial Development Initiative for Employment (YIEDIE), recently supported 55 young entrepreneurs with funds and tools needed to start their own businesses. So far, the project has supported 279 businesses in the project cities Accra, Kumasi, Takoradi and Ashiaman. The beneficiaries include draughtsmen, electrical technicians, tilers, painters, fibreglass and aluminium fabricators, metal fabricators, and carpenters. The Mastercard Foundation supports the project, with the lead partner Global Communities. Other partners are Opportunities Industrialisation Centre Ghana, Aurora Business Network, Republic Bofo Limited, and Artisans Association of Ghana. Ghana has imported artisans from neighbouring countries, despite the fact that many young Ghanaians were unemployed. This indicated that the country lacked people with skills and tools to meet local demand.³¹

POINTS OF INTEREST

- Various sectors experienced a strong growth in the number of start-ups and SMEs in Africa. In addition to providing much-needed services and goods, they are currently the dominant creators of employment opportunities. This job creation function is an important contribution, especially since Africa's youth are struggling to find work. This is not only a social and economic problem for communities, but a security risk. Due to population growth, the number of youths entering the job market annually is growing strongly. This places more pressure on job creation. This is why the role of SMEs and start-ups is so important one.
- These SMEs and start-ups have serious financing challenges. According to the World Bank, access to finance is a key constraint to SME growth; it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries. Therefore, government-supported and private sector initiatives, such as the Hub in Kenya, play a crucial role in the survival and development of SMEs.
- The World Bank also announced that formal SMEs contribute up to 40% of GDP in emerging economies. These numbers are significantly higher when informal SMEs are included. Africa, where SMEs produce 64% of all food production, is aligned with World Bank statistics.

5. Southeast Asia in Africa - The Vietnam Experience

ASEAN countries are reaching out to Africa. The more prominent players include Indonesia, Malaysia, Singapore, Thailand and Vietnam. The economic activities between the countries on the African continent and ASEAN members span a wide spectrum of sectors. Vietnam, although not a new entrant, has steadily upgraded its footprint on the continent.

VIETNAMESE BUSINESSES ENCOURAGED TO DO BUSINESS WITH AFRICA

Vietnam's Ministry of Industry and Trade encouraged businesses in the country to trade with African countries, which had a large demand for products for which Vietnam had a strong comparative advantage. African countries, where production capability needed development, had a high demand for consumer goods and foodstuff.

Africa also supplies raw materials to Vietnam's production and processing enterprises. These firms import cashew, cotton, wood and minerals from Africa. Vietnam exports mainly rice, phones, seafood, electronic goods and coffee to Africa. According to the Ministry, Africa's greatest demand would be for rice, coffee and cassava powder.

Despite a long history of co-operation and partnership, various challenges constrain the entry of Vietnamese businesses into Africa. These include differences in culture and business practices, great geographical distances, lack of knowledge and contacts, high transportation costs and the lack of adequate infrastructure in Africa.

The Ministry encouraged Vietnamese businesses to open representative offices in African countries to promote exports.³²

BOOSTING TRADE WITH COTE D'IVOIRE

During his recent visit at the end of October to Cote d'Ivoire, the Deputy Prime Minister of Vietnam, Vuong Dinh Hue, stated that there is a huge potential to boost collaboration between Vietnam and Cote d'Ivoire, particularly in the fields of trade. He confirmed that Vietnam was interested in importing more products from Cote d'Ivoire, such as raw cashew nuts and cotton. According to the Vice President of Cote d'Ivoire, Daniel Duncan, as agricultural processing is a major source of income for Cote d'Ivoire, the country was keen to enhance cooperation with Vietnam in this sector. During this trip, to facilitate trade between the two countries, they signed various agreements, such as an agreement on the encouragement and protection of investment and the double taxation avoidance agreement.³³

BOOSTING COLLABORATION WITH CAMEROON

During his visit to Cameroon in early November 2019, Vietnam's Deputy Prime Minister Vuong Dinh Hue met with Cameroon Prime Minister Joseph Dion Ngute and other parties. The Vietnamese official confirmed Vietnam's policy to promote multi-faceted cooperation, particularly in economics and trade. He expressed Vietnam's interest in working with African countries, including Cameroon and in creating a legal framework for trade and cooperation in other fields. Cameroon's prime minister expressed his country's interest in learning from Vietnam's development model.

Cameroon was also interested in setting up cooperative ties with Vietnam, focusing on the agriculture sector, amongst others, and the processing of cashew nuts, wood and coffee. It was also interested in boosting the bilateral partnership in telecommunications, which had already started with the operation of Nextel, a joint venture between Vietnam's Viettel group and its Cameroon partner.

In his discussions with other Cameroonian stakeholders, Deputy Prime Minister Hue identified the need to increase the exchange of delegations between the two countries' governments, economic sectors, trade associations and people, as well as to promote cooperation in culture, education, sports and people-to-people exchange.³⁴

COLLABORATION BETWEEN VIETNAM AND SOUTH AFRICA

South African companies view Vietnam as a strategic market with huge potential for business promotion and exports. Valentine Naidoo, a representative from South Africa's Department of Trade and Industry, conveyed this message to the Vietnamese government and private sector in October 2019.

Vietnam is a large and important trade partner to South Africa. South African companies also consider Vietnam a market with potential to boost trade and investment opportunities. As Vietnam has a growing manufacturing industry and high demand for industrial supporting products, many South African enterprises are keen to establish partnerships with Vietnamese counterparts.

Vietnam was also seen as an important gateway for goods from South Africa into ASEAN markets.

South Africa is Vietnam's largest trade partner in Africa. Bilateral trade revenue between Vietnam and South Africa reached over US\$1.1 billion in 2018, with Vietnam exporting over US\$724 million worth of goods, mainly phones, agricultural products, coffee and spices, to South Africa. South Africa mainly exports wood and steel products to Vietnam, with an estimated value of US\$386 million.

There is huge potential to increase the volume of trade between Vietnam and South Africa and to increase the level of investment and business cooperation between the two countries.³⁵

At another higher level meeting, Vietnamese Deputy Minister of Industry and Trade Cao Quoc Hung requested that South Africa open its markets for agriculture products from Vietnam, such as processed chicken, honey, dairy products, dragon fruit, lychees, longan, rambutan and star apples. He also sought distribution of Vietnamese agricultural and aquatic products through South African supermarket chains like Checkers, Makro, Metro, Spar and Woolworths.

Vietnam requested South Africa to assist it in organising a Vietnamese goods week in Johannesburg in the near future. It also announced that a delegation of Vietnamese enterprises will attend the SAITEX and Africa's Big 7 trade show in South Africa in June 2020.

Regarding industrial cooperation, Vietnam hoped to reinforce ties in tanning, automobile component and spare part manufacturing, and participate in international industrial expos in South Africa such as Source Africa, Automechanika Expo and Futuroad Expo.

Vietnam also asked South Africa to boost cooperation in wind turbine equipment manufacturing. In addition, the delegation expressed its intent to supply medical equipment to South Africa, the biggest importer of medical equipment in Africa.

South African Deputy Minister of Trade and Industry Fikile Majola expressed the hope that Vietnam would open its markets to some agricultural products from South Africa, which is also ready to supply coal to thermal power plants in Vietnam.³⁶

COLLABORATION BETWEEN VIETNAM AND TANZANIA

Tanzania's president John Magufuli created the Ministry of Investment in the prime minister's office to ensure Tanzania was safe for both investors and their investors. Tanzania's prime minister, Kassim Majaliwa, invited Vietnamese investors to invest in Tanzania. He noted that Tanzania viewed Vietnam's textile industries as advanced, and would welcome their establishment in Tanzania. The prime minister also invited traders from Vietnam to engage in the cashew business in Tanzania.³⁷ Tanzania was willing to open its market to Vietnamese investors in the fields of agriculture, fisheries, tourism and telecommunications.

The countries agreed to expand trade activities to textiles, machinery, electronic devices, autos and motorbikes, major export products for Vietnam.

Vietnam's Deputy Prime Minister Dung said his country would serve as the gateway for Tanzanian goods and products to access the ASEAN market. He expected Tanzania to repay the compliment and allow itself to serve as a beach head for Vietnamese goods to penetrate the East African region.

Given the high level of success of Halotel, the Tanzanian subsidiary of Vietnam telecommunication company Viettel, Majiliwa expected Halotel to lay a strong foundation for other Vietnamese companies to invest in Tanzanian market. He also expected more direct investment from Vietnam in the fields of fisheries and rice paddy cultivation.

Both Dung and Majiliwa were in favour of cooperation agreements, especially in investment protection and avoidance of double taxation.³⁸

POINTS OF INTEREST

- Vietnam did not target one specific African region, but created relationships in East, Southern and West Africa. It has relatively good trade relations with a number of North African countries, such as Egypt, Algeria and Morocco. The country actively encourages its enterprises to invest in Africa. Vietnam and its ASEAN neighbours present Africa with investor alternatives to the large players, such as China, the USA and Russia.
- It is interesting to see Vietnam positioning itself as a gateway for African countries into ASEAN. Given its relative low-cost business environment (relative to Singapore), it may attract African countries interested in tapping the 600 million population of ASEAN. Other variables count in Singapore's favour, such as ease of doing business (World Bank) and global competitiveness rankings (World Economic Forum).
- Africa, however, plays a very small role in Vietnam's export plans. Only 1.1% of Vietnam's 2017 exports went to Africa, whereas only 2% of Vietnam's 2017 imports came from Africa. Considering that Africa constitutes 54 countries, these percentages are insignificant. The Top 5 Africa countries from where Vietnam imported in 2017, include Cote d'Ivoire (US\$904.7 million), Nigeria (US\$371.63 million), Tanzania (US\$347.27 million), Ghana (US\$322.84 million) and South Africa (US\$242.31 million). The Top 5 export targets in Africa for Vietnam, include South Africa (US\$750.6 million), Egypt (US\$320.99 million), Algeria (US\$280.66 million), Ghana (US\$266.83 million) and Morocco (US\$155.56 million). Africa also needs to look at the trade balances. South Africa, for one, has, given the small numbers involved, a significant negative trade balance of approximately US\$500 million with Vietnam.
- The focus on expanding trade relations by African heads of state and the Vietnamese government across a broad spectrum of industries are therefore quite understandable.

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