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Africa Digest

Trends and Issues in Business

Vol. 2020 - 22

Contents

1. Developments in Aquaculture	2
2. Developments on China in Africa	6
3. Developments in the Financial Services Sector	10
4. Trends in Investment and Economics	14

1. Developments in Aquaculture

Food security is a serious global challenge. Despite Africa's agriculture potential, the continent imports immense amounts of food: between US\$35 and US\$41 billion annually. Aquaculture is one sub-sector that receives increasing attention. In addition to ocean fishing, inland fisheries and fish farming are increasingly important sources of protein. However, demand still outstrips supply by a significant margin. This report addresses some of the latest developments in this sub-sector.

GROWING AQUACULTURE IN EAST AFRICA

Larive International, coordinator of FoodTechAfrica, and IDH, the Sustainable Trade Initiative, joined forces to boost tilapia farming in East Africa. Local demand for fish is growing due to population growth and rising incomes. Currently, despite its ideal climate for fish farming, Tanzania's aquaculture sector contributes only 1% of Tanzanian fish consumption. In Kenya, aquaculture contributes only 10% (2016) of total fish consumption.

The aquaculture sector in Kenya and Tanzania has the potential to become a significant source of affordable, high-quality protein:

- To reduce poverty
- To provide employment
- To contribute to GDP

Larive and IDH seek to increase the number of profitable tilapia farmers in Kenya and Tanzania, and to make more efficient use of natural resources. They use data analytics to develop farming protocols and simple decision-making tools. Best practices are proactively shared through dissemination of guidance to a large audience.

In Tanzania, an estimated 70% of smallholder tilapia farmers currently make losses. Fish-farming expertise is limited, and fish farmers rarely keep track of farming metrics. Due to the high risks, banks and investors are hesitant to invest in aquaculture.

To show what is possible, Larive and IDH want to create a replicable example of successful tilapia farming in Tanzania. The following steps will be taken:

- Data is collected and combined with market analysis on the Tanzanian fish market.
- Farmers are trained on the importance of data collection and the use of farming protocols.
- Best practices are developed for implementation.

These steps will hopefully improve the feed conversion ratio, fish survival rates and ultimately, the profitability of the farmer.

In Kenya, the number of active tilapia farmers decreased significantly over the past years. While most fish farmers in Kenya adopted subsidized farming, many abandoned their ponds after the subsidy period ended.

Both Larive and IDH are convinced that aquaculture is part of the solution to improve food security in East Africa.¹

GROWING AQUACULTURE IN NORTH AFRICA

Egypt's government seeks to increase per capita fish consumption as a source of affordable protein for its growing population. Egypt is currently the world's sixth-largest aquaculture producer. The country has a number of fish farms along the Nile River. The government anticipates growth in this sector, as aquaculture is part of its strategy to achieve Egypt's Vision 2030.

The share of aquaculture in Egypt's total fish production rose from 47% to 78.8% between 2000 and 2015. This rise is mainly due to significant expansion in the application of new technologies such as the

use of extruded feed, water circulation systems, and improved farm management practices. However, this growth has led to a huge demand for fish feed, largely met by importing soybean meal.

The feed industry estimates that Egypt's aquaculture feed market demand will exceed 1.5 million MT annually by 2020. By 2020/2021, aquaculture will reportedly account for 67% of the total growth of soybean meal demand.

This growing demand for aquafeed created opportunities for companies such as Skretting and Aller Aqua, which have:

- Expanded their existing manufacturing facilities;
- Opened new feed plants; and
- Launched new products specifically tailored to Egypt's aquafeed market.

The future of Egypt's aquaculture market looks very bright, especially for production of Nile tilapia, the cornerstone of fish farming in Egypt.²

DIVERSIFYING INTO FISHPONDS

In Kenya, locals are no longer able to rely on their catch from Lake Victoria. Fortunately, they are finding success with new and sustainable agriculture methods. The fish population in Lake Victoria has been declining steadily, with quality falling as well. These trends jeopardise the livelihoods of millions. Causal factors include overfishing, pollution and the invasive water hyacinth plant. The situation is reportedly so bad that tilapia imported from China is now sold in the lake city of Kisumu at lower prices, edging out local fishmongers who find it difficult to compete.

Villagers subsequently turned to farming fish in ponds to address the shortages. Some use the nutrient-rich wastewater from their fishponds to irrigate other crops. There are also opportunities for women in the local community, once banned from owning a boat or entering the waters in the lake region, to participate in aquaculture. Women can now raise fish in a pond without breaking cultural taboos, and supplement their household incomes.

According to Chris Macoloo, the Africa regional director for World Neighbours, fishponds have advantages over open-water artisanal fishing, which provides no prior knowledge of the expected quantity of the catch.

Farmers are being trained in modern integrated farming techniques. Up to 20 farmers now have fishponds only 20km from the lake.³

GROWING THE AQUACULTURE MARKET IN WEST AFRICA

In Ghana, the Eastern Regional Secretariat of the Fisheries Commission announced in January 2020 it will boost fish production in the region this year. They intend to establish hatcheries and train fish farmers to set up nurseries for fingerlings in the region. This will ensure that fish farmers get their fingerlings and other fish inputs delivered at their premises. In 2019, the Commission provided 6,000 fingerlings of catfish for fish farmers. In 2020, the Commission intends to implement the following initiatives:

- Hatching 80,000 fingerlings to help promote aquaculture in the region and beyond.
- Implementing measures to acquire all male tilapia fingerlings and mixed sexes for interested farmers
- Obtaining feed for local farmers at affordable prices
- Rekindling interest in fish farming
- Improving the quality of grilled fish
- Assuring fish farmers in the region of a ready market⁴

GROWING THE AQUACULTURE INDUSTRY IN SOUTHERN AFRICA

South Africa has a large capacity to farm oysters. However, production is in decline, especially of the preferred Pacific oysters, partly due to increasing farm closures caused by a surge in biotoxins and other hazardous substances. In 2014, the government unveiled a new delivery program, dubbed “Operation Phakisa,” to catalyse implementation of a state-sponsored economic growth strategy based on aquaculture. This entailed the identification of 24 aquaculture projects for state support, including three oyster operations deemed as critical for achieving national aquaculture growth targets.

The overall initiative indicates Government’s commitment to expand the contribution of oyster farming, in its bid to boost the overall performance of the national aquaculture industry.

Despite the oyster sector’s decline, South Africa’s overall aquaculture production totals have increased. Oyster farming has been overtaken by mussel and abalone production in volume, though the larger sector of shellfish aquaculture remains a key driver in the fast growth of the marine aquaculture segment in South Africa.

The government considers aquaculture as critical to boosting the livelihoods of disadvantaged coastal and inland communities and in spurring national economic development. Operation Phakisa also hopes to lift freshwater fish aquaculture in South Africa, especially the farming of trout, catfish, freshwater crayfish, and tilapia species.⁵

DEALING WITH DISEASE IN AFRICAN AQUACULTURE

Africa currently contributes only 2% to the overall global farmed fish output. To increase aquaculture production in Sub-Saharan Africa, the University of Cape Town (UCT) in South Africa recently launched a collaborative research project focusing on disease prevention in farmed fish.

Disease is a major threat to fish production in many African countries. In order to deal with this threat, the “One Health” project entails research and the promotion of healthy feeds that boost the immune systems of fish raised in aquaculture. One Health aims to develop a new technology that will allow for the “rapid generation of antibodies specific to an uncharacterized pathogen that can be used as a therapeutic and diagnostic, and subsequently, develop vaccines that can prevent infections in healthy farmed fish.”

While the Tilapia Lake Virus is a disease affecting indigenous fish in Africa where at least 10 sub-Saharan African countries have reported outbreaks, numerous other health threats exist as well, e.g. protozoan parasites. There are currently no treatments for protozoan parasites, although many vaccines against viral pathogens are in the development phase.

Under the ‘One Health’ project, the researchers will develop a vaccine against common aquaculture fish diseases, and also come up with suitable aquafeed formulation that will be used by fish feed manufacturers. In addition, the project will also provide for the training of at least 15 young researchers, as well as enabling Africa’s aquaculture stakeholders to understand how rainbow trout reared in seawater are affected by seaweed and probiotic supplements.⁶

POINTS OF INTEREST

- Aquaculture is an important source of protein, employment and contribution to GDP. Some African countries use aquaculture as a source of revenue for entrepreneurs, focusing on women and the youth. These include Tanzania and Uganda.
- It appears that producing fish in ponds is not only risky due to disease, but it is also an expensive business, with high costs for fish feed. Despite this, this sector lends itself to interesting investment opportunities, as demand for fish in Africa far outstrips supply, and seemingly will do so for still quite a while. Africa also still imports vast amounts of food annually, of which fish is a sizeable portion.
- African imports of cheap fish from China may lead to a result similar to that of the textile industry in Africa, where cheap Chinese imports led to the decline of a number of textile industries on the continent. As elsewhere, traders in Africa tend to be cost-conscious. Their governments

seemingly do not have the political will to use tariffs to protect such critical industries. Thus, the practice of importing cheap goods/products from China will continue and pose a threat to the financial health of aquaculture and other fledgling industries in Africa.

- Covid-19 disrupted global supply chains, which in a weird way could lead to stimuli to boost local aquaculture ventures. Africa must look towards developing continental value chains to replace failing global value chains. Hopefully the African Continental Free Trade Area (AfCFTA) can make a significant contribution towards the development of its aquaculture sub-sectors, integrating value chains and sharing knowledge amongst fish farmers.

2. Developments on China in Africa

The outbreak of Covid-19 impacted the increasingly uneasy partnership between China and Africa. The pandemic severely negatively impacted those dependent on China as a source and market of goods and services. China remains Africa's largest trade partner and is a major investor on the continent. This report addresses some of the latest developments on China in Africa.

AFRICA PUSHES BACK

Several African governments accepted loans from China with punitive terms and conditions. Their leaders reportedly signed loan agreements they knew they would not be able to repay within the agreed time frame. Individual politicians reportedly proceeded so as to benefit from the kickbacks and benefits on offer, often to the detriment of the development agenda of their respective countries.

In contrast to this trend, Tanzania's President John Magufuli recently cancelled a US\$10 billion agreement with Chinese investors to construct a port in Bagamoyo. His predecessor, President Kikwete, signed the deal. The terms and conditions of the agreement were heavily skewed in favour of the Chinese investors. The agreement granted a 30-years guarantee, a 99-years uninterrupted lease, and barred the Tanzanian government from raising concerns regarding investors in the port over its term. According to President Magufuli, only mad people could accept these terms and conditions. He observed that the conditions set by the investor were as good as selling Tanzania to China.

Magufuli subsequently suggested reducing the lease term to 33 years, from the 99 years agreed. He also stated there would be no tax or utility exemption for the investors. They would need government approval to operate any new business at the port. The Tanzanian government also issued a time frame that would suspend the agreement should the investors fail to meet specific terms.

This is not the first time an Africa government has moved against a Chinese project. In 2018 the government in Sierra Leon suspended a US\$400 million airport construction agreement on the grounds that the existing airport was "grossly underutilized." Cancellation of a US\$2 billion coal plant contract in Kenya provides another example of growing awareness of the lopsided nature of some Chinese projects in Africa.⁷

COAL-FIRED POWER PLANTS

In April 2020 the China Gezhouba Group Corp (CGGC) announced that it will partner with Zimbabwe's Rio Energy to build a 2,800 MW thermal power plant in northern Zimbabwe. According to Rio Energy, CGGC will develop the project and assist with the funding of the project, expected to cost US\$3 billion.

Construction of the power plant will take place in four phases of about 700 MW each. Rio Energy stated it has sufficient coal reserves to support a 10,000 MW plant at Sengwa. A 250-kilometre pipeline will provide water from Lake Kariba to the Sengwa site. PowerChina will construct the pipeline and a 420 KVA power line.

Zimbabwe currently generates and imports only about 1,300 MW of electricity, significantly short of its demand for 2,200 MW. Daily power outages have hampered industrial capacity for nearly two decades.⁸

GROWING 5G FOOTPRINT IN AFRICA

According to Safaricom acting CEO of in Kenya Michael Joseph, the company may award a contract to China's Huawei to roll out its 5G network in 2020. This is despite a request from the US government to its European allies and others not to use Huawei, citing security concerns. Joseph stated that Safaricom would use Huawei for its 5G project, as it had no security concerns with Huawei in Africa.

This approach from Safaricom had the potential to disrupt talks on a free trade agreement between the USA and Kenya, which were announced in February 2020. Analysts believed that the two countries would have to deal with this issue in a satisfactory manner for the agreement to succeed.

According to Joseph, Safaricom would follow guidelines from its two main shareholders, South Africa's Vodacom and Britain's Vodafone. The 5G service is a central part of Safaricom's attempts to grow its

data business to counter slower growth in revenue from voice.⁹

CHINA AND INDIA COMPETE FOR INFLUENCE IN AFRICA

China and India have both seemingly embarked on new humanitarian aid strategies to obtain global power and influence. The Indian navy sent a relief operation and a health team to Madagascar in January 2020 to provide medical aid. This was followed in March 2020 by an Indian warship that delivered 600 tons of rice to Madagascar, making India the first country to respond to the recent flood disaster in Madagascar.

India reportedly views the Western Indian Ocean region as a strategic priority and the key to challenging China for influence in the region, which includes Africa. Modi's government also began offering disaster relief in addition to traditional trade and investment.

However, the coronavirus pandemic threatens to hamper the initiative as India focuses on preventing its spread throughout its population of more than 1.3 billion people. Despite this crisis, the government announced in April it would supply essential medicine to some badly hit nations, citing "humanitarian aspects of the pandemic."

Having overcome the worst of COVID-19, China is already offering help to a host of countries around the world in their fight against the pandemic. It reportedly continues to aggressively woo Africa, a pillar of its global diplomatic and commercial strategy, aiming to accelerate momentum on the continent.

Africa's oil and other natural resources and a market of 1.2 billion people attracts the two countries, both of which can claim affinities going back many decades. India sees its model of cooperation with Africa as demand driven, consultative, and participative, based on local resources, capacity building and Africa's own prioritization of its needs.

On the other hand, analysts have described China's strategy as more extractive and transactional, with no strings attached. They see China's attempt to help countries hit by the outbreak, including in Africa, as an attempt to foster goodwill after it was accused of concealing the initial COVID-19 outbreak in Wuhan.

Some Indian analysts observed that should India compete against China, it may run the danger of overstretching itself. However, India entered into these strategic alliances in a bid to check China's increasing influence. Several African nations are reportedly "fearful of the Chinese debt trap, making it a little easier for India to forge trilateral alliances." India also has close business ties in Africa with the USA and Japan.¹⁰

COVID IMPACT ON CHINESE STRATEGIC POSITIONING IN AFRICA

According to US-based professor in government Minxin Pei, China's commercial activities in Africa, including investments, infrastructure projects and bank lending, have attracted scrutiny and criticism. To support his opinion that China's move into Africa has failed, Pei notes the following factors:

- The drastic fall in commodity prices, such as oil, copper and minerals found in Africa, make the prospects for China-funded projects look bleak.
- China faces growing pressure to forgive the billions of dollars of its loans to African countries since the early 2000s.
- The mistreatment of African residents in China during the corona virus outbreak has fuelled cries of racism and prompted diplomatic protests against China.
- The Belt and Road Initiative infrastructure program is also at risk. With the coronavirus dealing China's economy a severe blow, it is doubtful that China will have the resources to fund the BRI in the future.

Pei views China's strategy as based on flawed assumptions and executed at the wrong moment.

- To access Africa's natural resources, the Chinese government believed that it could ensure better secure access to critical raw materials there as an equity holder and creditor. It subsequently became the most active non-traditional lender in Africa.
- In addition to lending money to Africa, China also made huge direct investments, mainly through its state-owned enterprises. Between 2008 and 2018, Chinese FDI in Africa rose from US\$7.8 billion to US\$46 billion.
- China would probably not have paid more for the same raw materials had it chosen to purchase them on the open market.
- Once China lent the funds to Africa or made the direct investment, it was at the mercy of Africa's national governments and political elites. China has no power to prevent the nationalization of its investments or defaults on its loans.
- China lacks the military capabilities to protect its mines and railways in Africa or escort its merchant ships on a sustainable basis.
- Bad timing played a role as China's move into Africa coincided with the peak of the most recent commodity super-cycle, with prices of raw materials skyrocketing, ironically driven by Chinese demand. Chinese companies subsequently paid top prices for assets that most probably have lost huge value after the collapse in commodity prices.
- With the Covid-19 pandemic on the verge of destroying Africa's fragile economies, China is in need of a pragmatic exit strategy.

Based on the above factors, Professor Pei believes the only sensible policy is for China to write off its loans as a humanitarian gesture. This step will be a bargain since it will earn Beijing goodwill, using debt that it has no realistic hope of recouping.¹¹

POINTS OF INTEREST

- China has frequently been accused of practising debt diplomacy, i.e. the practice of tying African countries to them by granting them loans at levels that are not sustainable. We are, however, seeing some African governments pushing back, such as Tanzania, Sierra Leone and Kenya. Africa needs more of this rational and logical approaches to borrowing money. At the most recent FOCAC meeting in Beijing, President Xi Jinping cautioned Africa's leaders to not borrow money for cosmetic projects.
- India's competitive moves against China involved, amongst others, the launch of the Asia-Africa Growth Corridor (AAGC), in which it partnered with Japan. While the AAGC was launched in May 2017, it has since then seen no visible projects of the same nature of those associated with the Belt and Road Initiative (BRI) of China. Also, while China is on the road to recovering its economy after the ravages of the Covid-19 pandemic, India has still not reached the peak of the pandemic in that country. It will therefore not be able to reach out to Africa for the foreseeable future. China, on the other hand, is already engaging in projects in Zimbabwe, where it will build a coal-fired power plant.
- Africa is apparently not prepared to act against Huawei, despite requests from the US State Department. Initially, the UK was moving to use Huawei as a provider of 5G services and equipment. The UK now appears to have second thoughts about this decision. Should Africa proceed to use Huawei for 5G, the potential for backlash from the USA is uncertain. Also, Safaricom in Kenya is a subsidiary of UK-based Vodafone. If the UK decides against Huawei, the holding company may or may not force Safaricom's hand. To add to the complexity of this interesting situation, many African countries are heavily dependent on the US-sponsored African Growth Opportunity Act (AGOA) for tariff-free trade with the USA. The USA has shown in the past it will not hesitate to use the leverage it has through the AGOA to force African states to toe the line. On the other hand, China is Africa's largest trade partner. Should the continent's governments decide against Huawei, China may retaliate. Africa therefore finds itself between a rock and a hard place.



- China has billions of dollars invested in Africa, much of it structured as loans. It remains to be seen whether China will write these loans off, or use them as leverage to gain more influence. President John Magufuli requested cancellation of Africa's debts, versus postponement of repayments. With Covid-19 wrecking African economies, it is doubtful that African governments will be able to repay China, or for that matter its other creditors. As noted, China continues to engage in new projects, Africa's inability to pay notwithstanding.

3. Developments in the Financial Services Sector

The financial services sector in Africa is increasingly active. Restructuring is on the rise. A small number of larger banks recently announced pan-African aspirations. A number of small banks are disappearing, while mobile money presents a real and rising threat to conventional retail banks. Global financial services companies have identified Africa as a growing and lucrative market, and are now targeting Africa. This report covers a number of the most recent developments in this sector.

IMPACT OF COVID-19 ON FINANCIAL SERVICES

According to the CEO of Ecobank, Ade Ayeyemi, the Covid-19 pandemic is likely to accelerate the shift to digital financial services in Africa, which should enable the adoption of new technology on the continent. He sees it as an opportunity for Africa, with the potential to create new business models.

According to Ayeyemi, the use of digital channels instead of building branches raises fears that financial services may become harder to obtain for those who cannot afford access to digital tools. However, he noted that mature digital technology was decreasing in cost, while financial services required only the ability to securely move information about money from one party to another. He referred to M-Pesa as an example of an entity that gained widespread acceptance in Kenya from 2007 with a much less sophisticated technological environment than exists today.¹²

Bank Zero, a South African digital bank that in 2019 postponed its plans to launch in South Africa until mid 2020, recently announced that it still intends to become operational despite COVID 19. According to its co-founder and executive director Lezanne Human, one key benefit of being a digital bank is that it is possible to work remotely very easily.

The lockdown may work in favour of new players like Bank Zero. Research by BrandsEye has indicated that Covid-19 will force organisations to revise the ways they serve their customers and to place a greater emphasis on digital channels.¹³

According to Victor Mupunga, research analyst at Old Mutual Wealth Private Client Securities, the Covid-19 pandemic could lead to a race in which legacy and challenger financial institutions compete to use tech innovation to gain a competitive advantage in 2020/2021. This will see an intensification of the competition amongst banks, with a sharp focus on managing costs.

Interest rate drops and declining business and consumer economic prospects will negatively impact banks. Banks that can innovatively use technology to reduce costs and meet customers' changing needs are likely to better navigate the current crisis. Banks already spend more than most industries on technology.

Legacy banks with deep pockets and more substantial cash reserves to invest in technology may find themselves in a more favourable position. The average IT-spend amongst the Big Four in South Africa (FirstRand, Standard Bank, Absa and Nedbank) now make up an average of 21% of total expenses (global average = 18%). A growing share of this IT-spend is to better position them against the fierce competition that has emerged from challenger banks, whose lean business models and agility to respond to customer needs is a hallmark of their strategy.

The main challenge of legacy banks is often their out-dated core banking technology infrastructure, built decades ago. System overhauls are often too risky, too expensive and almost impossible without any downtime. Most legacy banks therefore have to be content with gradual improvements to their clients' digital experience.

According to Mupunga, the sheer number of challenger banks in the market also presents a problem for the sector, as there is not enough space for all of them, even before the start of the pandemic. He states clearly that "innovative banks that strategically position their business models to compete with both legacy and challenger banks will be the winners over the next decade."¹⁴

FINANCIAL SERVICES EXPAND INTO RURAL AFRICA

Zoona is an Africa-based fintech that specializes in the development of technological payment solutions. Their platform enables entrepreneurs to provide financial services to underserved communities in Malawi and elsewhere. South Africa's Mukuru, one of the continent's largest international money and remittance companies, acquired Zoona's operational assets in Malawi. These include all technology systems supporting its operations.

According to Mukuru, the acquisition will extend its African footprint into urban and rural areas across Malawi. Mukuru Malawi will provide consumers with better options and secure mechanisms to remit money to others, in the process uplifting their communities.

Zoona Malawi's agents will operate as Mukuru agents. They will benefit from a wider product range, a better-known brand name and being part of the SADC regional network. These potentially increase their regional exposure and boost their earnings over time. The acquisition price was not disclosed.¹⁵

INTER-AFRICAN BANK EXPANSION

The Commercial International Bank (CIB), Egypt's largest private sector bank by assets (in excess of US\$24 billion), is targeting more buyouts in East Africa after completing its acquisition of a 51% stake in Kenya's Mayfair Bank Ltd (MBL) through a US\$35 million capital injection.

MBL is classified by the Central Bank of Kenya (CBK) as a small bank with a market share of 0.17%. It mainly serves high net worth individuals and corporate customers. CIB in turn focuses on individuals, small and medium enterprises (SMEs), institutions and corporates.

The new partnership is expected to broaden trade between Kenya and Egypt. CIB is reportedly attracted by East Africa's openness to trade, increased adoption of digital banking, increased level of financial inclusion and the relatively stable political environment. They see East African countries as a natural geographic extension to Egypt, with lucrative growth opportunities for CIB.

CIB foresees rapid economic growth across Africa and is positioned to tap the most promising markets. It sees the English-speaking region as a key market for Egypt-based products in several sectors. CIB currently has representative offices in the UAE and Ethiopia. The firm sees its growth into Africa as part of a story of Africans reclaiming control of their financial apparatus.

CIB is the first Egyptian bank to establish a presence in Kenya. It intends Kenya to serve as the base from which it can expand into the rest of East Africa.¹⁶

MASTERCARD PARTNERSHIP LAUNCHES FREE PLATFORM

Digital payments company DPO Group recently partnered with MasterCard to launch a free-of-charge e-commerce platform. This has the potential to boost SMEs. Supermarkets, food stores, pharmacies and other essential service providers will now be able to "own" branded webpages on the DPO Store platform. This is where buyers can shop and pay via mobile phone money or pay-cards.

According to the chief executive of DPO Group, Eran Feinstein, the platform enhances visibility for SMEs, and will fuel growth in African economies. This approach is highly relevant during the Covid-19 pandemic, and consistent with countermeasures that discourage crowding within malls and markets.

Adam Jones, business head of MasterCard East Africa, stated that online shopping and cashless payment modes support ongoing efforts to curb new infections while enabling SMEs to continue operating. Mastercard leverages their network, insights, technology and partnerships to deliver the resources small business owners need to help them sustain their business and quickly adapt to a new way of serving the ever-changing customer needs through ecommerce.

DPO Store will be available to merchants in Kenya and 18 other African countries, and enable SMEs to post products on their branded webpages on the DPO Store platform.¹⁷

INSURANCE PENETRATION IN EAST AFRICA

Geofray Masige, CFO of Sanlam General Insurance Tanzania, envisions great potential in the Tanzanian market. However, he believes it needs bancassurance allies and better communication to increase its insurance penetration rate. At 0.5%, Tanzania's insurance penetration rate is among the lowest in Africa, GCR Ratings in Johannesburg sees a "moderately healthy" growth outlook, with gross premiums forecast to increase at a compound annual rate of 4% over the next five years.

In the life insurance subsector, the communication message and channels need to change. Masige is of the opinion that the challenge lies in converting informal community arrangements into modern insurance services, which will require finding the right partners. Increasing access to the Internet in rural areas will support spreading the message and increase the level of understanding among locals.

A number of factors encourage market growth:

- Tanzanian banks are now able to use their branch networks for insurance distribution.
- The top tier banks in the country indicate a keen interest.
- The government's efforts to increase industrialization in the country will increase the size of the potential market.

Sanlam seeks to expand into areas such as Arusha, and is open to partnership proposals from banks.

According to McKinsey, "African insurance is expected to grow by 7% to 8% in local currency terms in the coming five years. South Africa is likely to be an exception to that rule, owing to subdued local economic conditions, coupled with the maturity of the South African market. Faster-growing markets such as Kenya, Uganda and Tanzania could help mitigate challenging growth prospects in South Africa."¹⁸

POINTS OF INTEREST

- Covid-19 appears to boost adoption of mobile money platforms in Africa. An earlier report noted that the Egyptian government was limiting the amount of cash its citizens could draw from banks and ATMs. This was to safeguard the cash reserves of the country, and to restrict opportunities for infection through contact with infected money. Contactless payment platforms are an increasingly important countermeasure in the fight against the pandemic.
- Another reason for the growing popularity of mobile money in Africa is growing dependence on e-commerce in the face of movement restrictions. This also explains the recent positioning of the credit card giants Visa and MasterCard in Africa. The growth of Africa's population and the growth of the consumer class in Africa are additional factors that attract adoption.
- As stated in the introduction, some banks aspire towards pan-African status. One of these is Ecobank from Ghana. Equity Bank from Kenya is another that positions itself to reach this target. Some South African banks already have a continental footprint. Egypt's CIB is not a unique example of an institution that seeks to expand throughout the continent. The bank CIB acquired in Kenya has strategic synergy with CIB, and expands the market segments CIB can now target. Kenya has quite a number of small banks that are struggling. This has led to the Central Bank of Kenya suggesting to small banks with tiny market share to consider consolidation. CIB's acquisition can therefore be seen as fitting into the CBK's strategy to restructure these small and unprofitable banks.
- Sanlam targets emerging markets for expansion purposes while staying away from developed markets. It acquired Saham Finances in Morocco, which provided it with a huge footprint in Africa. In addition to the fact that South Africa has a high insurance penetration rate, which acts as a push factor for expansion, Africa generally has a low penetration rate. Tanzania's insurance penetration is 0.5%, which is very low relative to South Africa's 17% in 2017. Sanlam is currently in all probability the African financial services company with the largest footprint on the continent.



- Overall, it is unlikely that the march of Africa towards a digital future in the financial services sector is a short-term journey. Also, banks in Africa will have to make peace with competition from non-banks such as telecommunications companies. Banks must start disintermediating themselves to defend against these telecommunications players.

4. Trends in Investment and Economics

The Covid-19 impact on the economies and societies of Africa is disastrous. Many countries have moved into recession. South Africa expects its economy to contract at a 7% rate. This report addresses some recent developments in the field of investments and economics in Africa.

COVID-19 KILLING OFF STRATEGIC INITIATIVES

In Kenya, Covid-19 severely constrained two important strategic initiatives. The first is the Big Four Agenda, launched by President Kenyatta's after resuming office at the end of 2018. Second is the Building Bridges Initiative (BBI) that was moving toward a referendum. Due to the lack of resources and the impracticality of holding nation-wide rallies in the wake of the coronavirus outbreak, both are now on ice. The Kenyan Parliament recently voted to freeze spending on Big Four projects to secure resources needed to fight the virus.

Approximately 80% of the unspent balance of Sh122.1 billion (~US\$1.14 billion) of the Government's development budget has been frozen. In the recent budget announcement, no money was allocated for a referendum, and there will consequently be no referendum this year.¹⁹

TOURISM & HOSPITALITY BUCKLING UNDER

In South Africa, according to BDO's director for tourism and travel Lee-Anne Bac, the pandemic has very nearly decimated the country's hotel industry. Before the onset of the pandemic and subsequent lockdown, tourism accounted for over 1.2 million jobs in South Africa and contributed more than 8% to the country's GDP. As it was designated as a non-essential service in the lockdown, travel restrictions and consumer concerns over physical distancing dealt heavy blows to the industry. Public health agencies categorize tourism and hospitality services as having a high risk of transmission, and restrictions will remain in place for restaurants, hotels, and conference and convention centres.

Some hotels remained open to service existing guests and those that were quarantined. Bac believes that even after lockdown restrictions are lifted, people will not immediately resume taking business and leisure trips. Business travellers usually make up the bulk of central city hotel occupancy.

Should the lockdown extend much longer, she foresees a bloodbath in the tourism industry, with establishments closing and employees losing their jobs. Each country will attempt to rebuild its own tourism industry. Few will travel beyond their country's borders. People will wait for airlines to fly again and for the development of a vaccine.

It was announced in early April that the Department of Tourism had established a R200 million (~US\$11.1 million) fund to help keep qualifying tourism-related businesses operational. The grants have been capped at R50 000 (~US\$2800) per business.²⁰

TANZANIA BUCKS THE TREND

In contrast to the lockdown process in South Africa and Kenya, Tanzania has opted for a different approach. President John Magufuli has invited the world to enjoy a normal holiday or vacation in Tanzania, while warnings and information about COVID-19 has vanished from the official travel and tourism portal for Tanzania.

According to President Magufuli, Covid-19 infections in Tanzania are falling tremendously, and he looked to welcome tourists and business executives to visit Tanzania unconditionally. He subsequently directed the "Ministry of Tourism to attract airline companies to fly their tourist and passenger scheduled planes to Tanzania with immediate effect."

Foreign visitors would not be subjected to 14 days quarantine when landing in Tanzania. However, full protective measures against Covid-19 spread will be observed by tourists scheduled to visit the country. This includes wearing a mask, washing hands with flowing water and soap, hand sanitizing and distancing by one meter plus a bit more in gatherings, and in public passenger vehicles.

A number of airlines had already made full bookings until August for tourists waiting to travel to Tanzania for holidays and wildlife safaris. These flights will be allowed into the country.

Magufuli had vowed not to place Tanzania on lockdown in the wake of the coronavirus, saying such a move would be disastrous to the economy and the people.

Tanzania has left its borders open to its eight neighbouring regional states, where most of the exports, imports, and other commodities pass through the Port of Dar es Salaam on the Indian Ocean.²¹

UNINTENDED POSITIVE CONSEQUENCES OF COVID-19

According to author Eric Osiakwan, COVID19 generated the unintended consequence of speeding up digital innovation in Africa, led by the youthful population with the common market as their target and the returning diaspora is the icing on the cake. He sees this as the “new normal.”

Osiakwan states that Africa’s recovery could be fast tracked by four mega trends that were already in motion before COVID19 invaded the continent. The first trend, i.e. digitisation, gained speed on the back of the virus. Digital innovative ventures have been boosted by huge investment in telecom infrastructure like submarine and terrestrial fibre cables, satellite stations and mobile/wireless networks all over the continent. The private sector has predominantly led these investments, with public private partnerships (PPPs) getting involved in some cases. These innovations are visible in all sectors of the economy, e.g. financial services, education, agriculture, health and energy, creating “new” sectors like Fintech, Edtech, Agritech, Healthtech and Cleantech.

Africa’s youth have been the drivers of many of these entrepreneurial ventures and are expressing themselves through the availability of mobile web technology. They believe in themselves and their ability to create the next unicorn out of Africa. This is powering the digital renaissance that is changing the narrative led by the youth of Africa.

The African Continental Free Trade Area, which came into effect last year, creates a common market estimated at US\$4 trillion. This is certainly large enough to host these entrepreneurial ventures. The first generation of these ventures have begun to scale into multiple markets, and are already leveraging this huge common market. The doubling of Africa’s population by 2050 is likely to double the size of this market to US\$8 trillion. This could entice more global businesses to enter Africa to benefit from this phenomenon, creating jobs while benefitting from cheap resources and labour.

Africa’s diaspora is also returning. An example of a successful initiative to bring the diaspora home is Ghana’s Year of Return initiative. Returnees bring back ideas, energy and skills.²²

Reduced environmental impacts are another positive, even if temporary, outcome of the pandemic. With planes grounded, events canceled, and factories shut down, industrial countries see falling greenhouse gas emissions. Our planet gets a long break. Research also shows significant associations among contingency measures and improvement in air quality, clean beaches and environmental noise reduction. However, there are some negative aspects due to reduced recycling and the resulting increase in waste, while many of the benefits noted above are likely to disappear as economies open up again.²³

CALLS FOR CANCELLING AFRICA’S DEBT

President John Magufuli from Tanzania recently urged the World Bank and other international lenders to write off debts to African countries, instead of giving loans for fighting the coronavirus outbreak. According to him, Tanzania pays approximately US\$300.9 million to international lenders annually, which otherwise could be used to battle against the coronavirus. Approximately US\$128.9 million of this goes to the World Bank. He called upon Africa to unite to push for debt write-off instead of taking loans.²⁴

This call by President Magufuli was followed by an announcement that East African countries had borrowed nearly US\$2.3 billion in the less than three months since reporting the first Covid-19 positive case. This added to the region’s mounting debts at a time of shrinking tax revenues. The largest portion of the loans are from the IMF. The borrower countries include Kenya (US\$1.5 billion), Uganda (US\$540.2 million) and Rwanda (US\$223.65 million). Tanzania, Burundi and South Sudan have not announced any new loans during this period.

The estimated US\$2.26 billion new debt adds to the more than US\$110 billion loans that EAC countries were holding at the start of the pandemic.

The impact of this new debt on the East African economies is likely to be huge. Export earnings and diaspora remittances are significantly down. Local currencies will be under a lot of pressure and when local currency depreciate, debts denominated in foreign currency become increasingly expensive.

The growing public debt-to-GDP ratios have left Burundi, Kenya, Rwanda, Tanzania and Uganda highly exposed to greater rollover and exchange rate risks, according to IMF analysis.

Kenyan President Uhuru Kenyatta and his Ugandan and Rwandan counterparts have called for a foreign debt repayment holiday to save on finances that will be required for the reconstruction of economies already battered by the deadly disease.²⁵

POINTS OF INTEREST

- Kenya was banking on the Big Four Agenda to raise its economic profile and the standard of living of its population. The various legs, i.e. food security, universal healthcare, housing and growing the manufacturing sector, are important tenets to achieve the Sustainable Development Goals punted by the United Nations. These initiatives have now all come to a halt as Covid-19 disrupts the African landscape.
- In addition to sectors such as construction, mining and manufacturing that have come to a standstill, a sector that has been hurt tremendously, for obvious reasons, is that of the hospitality and tourism sector. With no traveling allowed and long periods of quarantine prescribed by all African countries upon entry, with one exception, tourism has ground to a halt. Tanzania's stance has been severely criticised as being dangerous. However, its president is adamant to keep the country's economy going. It has been reported that planeloads of tourists will arrive in the country in the next week. This could have disastrous consequences should tourists become infected, then spread the virus in their home countries.
- The Tanzanian experience with new tourists might indicate that fears about it taking months for the tourism industry to bounce back as far as numbers are concerned (as mentioned by the South African tourism industry), might not be as bad as all that. People globally are seemingly keen to escape from the boring routines enforced by lockdown regulations. On the other hand, they might be escaping to an Africa, which has seemingly been affected by Covid-19 to a much lesser extent than Europe.
- The growth and development of Africa's digital sector is indeed a positive spinoff of Covid-19. This will permeate various sectors, such as banking, health, communications, education, agriculture and commerce, to name but a few. With the expansion of broadband capacity, the potential introduction of 5G, the large and growing youth population, the introduction of e-commerce, etc., Africa seems ready for the adoption of the digital world in a big way. Much has been said about the inability of Africa to benefit from the Fourth Industrial Revolution. This might now change; more so when the benefits of the AfCFTA start manifesting, which, admittedly, will probably not happen soon.
- The reality is that the counter-measures against Covid-19 will be felt for years. Unemployment will skyrocket. In many places, it already has. A major challenge is the unfulfilled expectations and aspirations of Africa's youth. This must be managed. Another challenge is the corruption that still raises its ugly head, with political elites using the pandemic to enrich themselves and their cronies. Hunger and starvation are other factors that need urgent attention.

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