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# Africa Digest

## Trends and Issues in Business

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## 1. Developments in Aquaculture

The vast oceans surrounding the African continent, complemented by the many lakes across its interior, provide its people with the potential to exploit aquaculture. However, this path poses challenges despite the many opportunities. This report addresses some of the most recent developments in the aquaculture sector in Africa.

### TRANSFORMATION OF THE FISHERIES SECTOR

Tanzania recently tabled its new Deep Sea Fisheries Management and Development Act in May of 2020. This bill aims to improve the management and development of deep-sea fishing in its Indian Ocean waters. Its provisions also apply to the Zanzibar archipelago. The law also strengthens fisheries governance. Its new measures include providing for fisheries research in the exclusive economic zone, and the implementation of regional conservation and management measures.

This bill contains other measures, such as prohibiting the use of fishing vessels for transnational organized crime in Tanzania. The government also seeks to transform the Tanzania Fishing Corporation and the Zanzibar Fisheries Company, in a bid to revive its fisheries sector.<sup>1</sup>

### ENSURING SUSTAINABLE GROWTH IN KENYA

To deal with the challenges and exploit emerging opportunities in the aquaculture sector, commercial aquaculture fish farmers in Kenya recently established a Commercial Aquaculture Association.

According to Interim chairperson Dr William Nyakwada, Lake Victoria has a very high capacity, with plenty of space, excellent water quality and relatively stable water temperature. Since 2017, the number of tilapia producers on the Mfangano Island in Lake Victoria increased from two to five and he sees scope for substantial future growth. However, the industry needs to monitor its growing impact on water quality. He believes that despite its early stage of development, the time is right for joint action to ensure the sustainable future growth of the sector.

Nyakwada noted the growing importance of sharing best practices to ensure industry growth without negative impacts on fish health. This has until now fortunately not been an issue.<sup>2</sup>

### INCREASING SARDINE PRODUCTION IN RWANDA

Until recently, sardine fish in Rwanda was available only in Lake Kivu. Recently, the Rwandan government introduced a sardine fish species known as Isambaza into the two Northern Province lakes of Burera and Ruhondo. This could double Rwandan national fish production. The Isambaza species will soon be harvested for the first time from these two northern lakes, beginning this June.

According to Solange Uwituze, the Deputy Director General of Animal Research and Technology Transfer at Rwanda Agriculture and Animal Resources Development Board, the current production of sardine from Lake Kivu varies between 300 tons to 500 tons per week. If the species adapt well, the Burera and Ruhondo lakes could provide an additional 500 tons per week. This could lead to adding over 20,000 tons per year. Total national fish production in Rwanda last year was 31,465 tons.

According to Uwituze, illegal-fishing activity was one of the biggest threats to sardine production. To meet production targets, it would be important to control such illegal fishing across all three lakes.

Their combined potential production is 1000 tons per week. Rwandan fish production now falls short of demand, and the country imports more than 15,000 tons per year.

Rwanda needs to produce 112,000 tons per year by 2024 to match the average sub-Saharan annual per capita consumption of 6.6 kilograms, and 265,600 tons to reach the global average of 16.6 kilograms. This compares to Rwanda's current annual per capita fish consumption of 2.3 kilograms.<sup>3</sup>

## **BOOSTING THE AQUACULTURE SECTOR**

The Mombasa county government in Kenya intends to spend Sh250 million (~US\$2.35 million) to improve the fishing sector, giving it a major boost. The funds will go towards purchasing fishing boats, constructing a cold store facility and modern market, and securing landing sites. According to the county's current budget proposal, it will spend Sh120 million (~US\$1.128 million) to acquire the boats, Sh80 million (~US\$752,000) to build a 100-ton multi-cold storage, while Sh20 million (~US\$188,000) will construct a modern fish market. Sh12 million (~US\$113,000) will fund the construction of modern fish stalls and a meeting hall at landing sites in all sub counties. Sh6 million (~US\$56,400) will fund the construction of fishponds.

The Sh10 million budget, once approved, will fund the refurbishment of at least 44 landing sites. Apart from fishing gear and the construction of necessary facilities, the county government plans to spend Sh5 million (~US\$47,000) to coordinate all the county's "blue economy" activities. The funds will help identify various opportunities within the sector and attract potential investors.

The overall goal of the project is to increase fish production, boost food security and create more employment opportunities for women and youth.<sup>4</sup>

## **DEVELOPING THE SEA CUCUMBER SUB-SECTOR IN ZANZIBAR**

In Zanzibar, about 25,000 farmers, of whom 80% are women, depend on harvesting seaweed as their primary product. However, climate change threatens seaweed production as the basis of a flourishing subsector. Rising water temperatures inhibit the growth of seaweed and increase its susceptibility to bacteria that destroy the crop. Moves to counter this threat by moving into deeper waters failed, as the stronger currents damage seaweed and few farmers are able to swim. A drop in global seaweed prices also left farmers working six-hour days to earn just 1,000 Tanzanian shillings (US\$0.44) for the two kilograms many managed to collect.

The FAO introduced a replacement product to these women: sea cucumbers. This more lucrative product generates up to US\$100 per kilogram, once dried. They are in high demand in the Asian market, after increasing pollution in East Asia's shallow waters reduced sea cucumber harvests in that region. China seeks to import these delicacies.

Sea cucumbers have other benefits:

- They contain bioactive compounds that can be used for medicinal purposes.
- They are central to research on how the gastrointestinal microbiome of sea creatures can promote intestinal cell regeneration and benefit the immune system.
- If farmed sustainably, they boost biodiversity in the area, hoovering up dead and discarded matter from the sea floor and egesting it, a process that is vital to the continued health of seagrass meadows and coral reefs. This is important for ecotourism.
- Sea cucumbers are also relatively low maintenance, as long as the depth and location are right, the pens are secure, and predators are kept away.
- There is a strong market for sea cucumbers.
- They reduce reliance on declining coastal fisheries.
- They enable communities to adapt to the effects of climate change and add value to locally available biological resources.
- They contribute towards building strong local bio-economies and help to achieve the Sustainable Development Goals.

To help local communities, FAO provided technical support and a training course in aquaculture and cultivation technology through Zanzibar's Marine Hatchery. The FAO works closely with NGO Blue Ventures, which has vast experience in setting up sustainable sea cucumber farms. These measures will help communities diversify their farming and fishing activities to maintain a stable income.<sup>5</sup>



## EXPORTING NILE PERCH GLOBALLY

The Tanzanian government recently announced its intent to expand global exports of processed Nile perch to North America and Asia from Lake Victoria. Currently, processed Nile perch from Lake Victoria ship mainly to European markets in Belgium, Netherlands, Germany, France and Portugal.

Ethiopian Airlines transported a total of 147 tons of processed fish to European markets since resuming transport flights on 20 May. Ethiopia will invite other airlines from across the world to transport fish from Lake Victoria, plus shipping other commodities such as fresh fruit and vegetables.<sup>6</sup>

## POINTS OF INTEREST

- Given the growth of illegal fishing in the seawaters of Africa, Tanzania's attempts at regulating the industry is long overdue. All the governments of Africa should emulate this approach by the Tanzanian government. Due to the inability of African governments to adequately patrol their exclusive economic zones, there are cases of significant illegal fishing by some of the countries from afar, leading to concerns about overfishing and the depletion of Africa's fish resources. Africa is pushing back in some cases, with Senegal the latest in refusing to grant fishing licenses to foreign fishing companies. However, the challenge lies in policing the waters of the country, which at times make the non-issuing of licences irrelevant.
- Access to protein in Africa is frequently a challenge. Rwanda's steps to boost the growth of sardine production is to be welcomed, more so when it has up till now had to import 15,000 tons of sardine annually. With access to lakes in and surrounding the country, it does not make sense that the country only has an annual per capita fish consumption of 2.3 kilograms per year, compared to the Sub-Saharan average of 6.6 kilograms. When this average is compared with the global average of 16.6 kilograms, it is clear that Africa as a continent has a lot of work to do in this regard. This also reflects a significant investment opportunity on the continent of Africa. Countries such as Kenya recognise this opportunity, as noted above.
- Positioning sea cucumbers as a novelty export to countries where it is in high demand is a step in the right direction. Sea cucumber is a viable and far more lucrative alternative to other export products such as seaweed, with all its challenges. This move bodes well for those in Africa that depend on the sea for their livelihoods. Given the nature of the activities in this sub-sector, small-scale entrepreneurs can become involved. This provides jobs and revenue-generation opportunities to women and the youth.
- Tanzania seeks new export markets for its Nile perch. This is commendable, both from an economic and a commercial perspective. In tapping this opportunity, Ethiopian Airlines provides evidence of its entrepreneurial spirit relative to other airlines in Africa. African airlines are being radically restructured to ensure their survival, while others are being liquidated. However, Africa's per capita consumption of fish is far below global levels, and it might make more sense for fish producers to seek out local markets. One factor that may work against this idea is higher overseas price levels relative to Africa. It is sad when profit militates against the nutrition and food security of the population in Africa.

## 2. Developments of China in Africa

After the Covid-19 pandemic hit China in early 2020, outreach activities by this global giant slowed markedly. This phenomenon negatively impacted some economies in the African region. However, China did not disappear from the African scene. This report addresses some of the most recent developments of China's activities in Africa.

### DEBT RELIEF FOR AFRICA

China announced on 17 June 2020 that it intended to cancel interest-free debt payments for 2020 owed by specified African countries. This move reflects its strategy to help Africa survive the Covid-19 pandemic. President Xi Jin Ping stated he would work with other international lenders to cushion those African countries most affected by Covid-19. This support will help them to survive the crisis.

China's actions fall within the FOCAC (Forum on China-Africa Cooperation) framework. It undertook to cancel debt in the form of interest-free government loans due to mature by the end of 2020. South Africa's Cyril Ramaphosa, Kenya's Uhuru Kenyatta, Senegal's Macky Sall and Ethiopia's Abiy Ahmed, all vocal proponents of the need for debt relief amid the pandemic, were present.

President Xi also indicated China would work with the global community to provide greater support to struggling African countries by "extending the period of debt suspension, to help them tide over the current difficulty."

Currently the biggest lender to Africa, China is owed some US\$145 billion by African governments including some US\$5 billion by Kenya.<sup>7</sup>

China's measures are supplemented by another initiative by the G20 group of economies. This would suspend payments for low-income countries that are on the brink of insolvency due to the pandemic. President Xi urged creditors to do more and expressed China's wish that developed countries and multilateral financial institutions would act more forcefully on debt relief and suspension for Africa.<sup>8</sup>

### MEDICAL SUPPORT DURING COVID-19

Deputy Chairperson of the African Union (AU) Commission Kwesi Quartey observed that Africa sees China as a strategic partner that shares a similar historical background and common interests. He made these comments at a ceremony where China handed over donations of medical supplies, such as ventilators and masks, to the AU to support Africa's battle against Covid-19. The Chinese government and its companies support Africans in their battle against the pandemic through donations of badly needed medical equipment and supplies.

Quartey commended China for its continued support to Africa, including during the pandemic. He stated China was an example as it had been able to pull billions of people out of poverty and created an industrial and progressive society.

In response, the head of the Chinese Mission to the AU, Liu Yuxi, stated that China appreciated that Africans supported China when it was hit hardest by and struggling with the virus. China also shared its experiences with the pandemic and has been sending medical teams to Africa.<sup>9</sup>

China is contributing to the world's battle against the Covid-19 pandemic, especially in Africa. This support ranges from video conferencing and sending experienced medical staff to hard-hit countries, to providing protective gear for medical personnel. China sent 5.4 million face masks and over a million test kits and thousands of protective suits to distribute to all countries in Africa as early as March. It has also dispatched a number of medical teams to some African countries to help in the battle against Covid-19.

Countries like Algeria, Nigeria, Zimbabwe, DRC, Ethiopia, Burkina Faso, Sudan, Djibouti and Cote d'Ivoire have received medical experts to help them fight the pandemic while nearly 1,000 Chinese medical personnel are working in Africa long-term.

According to Africa CDC, medical experts from more than 30 African countries have joined their Chinese counterparts in webinars on how to better handle the COVID-19 outbreak in the continent.

China's private sector provided Africa with medical supplies and donations. Jack Ma's Foundation donated millions of medical supplies to 54 African countries. The latest is his donation in April to Africa CDC. This gift included 4.6 million masks, 500,000 swabs and test kits, 300 ventilators, 200,000 sets of protective clothing, 200,000 face shields, 2,000 temperature guns, 100 body temperature scanners, and 500,000 pairs of gloves.

According to South African President Cyril Ramaphosa, following talks with President Xi Jinping, China will give Africa 30 million test kits per month, plus 10,000 ventilators and 80 million masks.<sup>10</sup>

Ugandan President Yoweri Museveni launched two production lines in late May 2020 at Lida Packaging Products Limited. This Chinese-owned factory started making facemasks to meet shortages as the country eased its lockdown restrictions. Ugandans can now buy locally made masks. Uganda will also export about 50,000 packages of masks to Kenya.

Zheng Zhuqiang, Chinese ambassador to Uganda, hailed the strong ties between Uganda and China. He noted that with solidarity and unity the battle against COVID-19 can be won. According to Lida Packaging Products chairman Li Shiqing, the company's goal is to provide high quality masks at the lowest cost possible.

Lida Packaging Products has a production capacity of 560,000 masks per day and employs 315 local people.<sup>11</sup>

## **MANUFACTURING MOBILE SMARTPHONES**

Chinese mobile phone producer SIMI Mobile will support the production of Uganda's first smartphones. A long battery life will be one of the key features of the phone. According to SIMI, it can produce 2,000 phones daily and will involve university students in the development of apps and software to enhance the handsets.

Uganda also intends to raise a new 10% tax on all internationally imported smartphones. The goal is to limit the importation of handsets and increase the purchase of smartphones being manufactured locally. Currently five million phones are imported annually into Uganda untaxed. However, it is unknown how many of these are smartphones. It has been reported that the tax may over time increase to 25%.

The Ugandan government reportedly intends to give incentives and priority to firms that produce digital products or components such as computers and smartphones.

SIMI began business in Ethiopia in 2013 and has since enjoyed steady growth in the Africa market.

SIMI's prices feature phone handsets between US\$10 and US\$20, while most of its smartphones sell below US\$50. These are already on sale in Ethiopia, Cameroon, and soon Uganda, with more African countries likely to follow.<sup>12</sup>

## **PUSHBACK AGAINST CHINESE COMPANIES**

The Kenya government declined a proposal by a Chinese contractor and a private financier to upgrade the old railway track from Naivasha to Malaba, deeming the project as too expensive. Kenya then sought new ways to link the old line to the standard gauge railway (SGR) line at Naivasha.

The quotation for the upgrade surpassed the envisaged budget by more than three times, sending the government back to the drawing board. The quotation from the Chinese contractor was in excess of Sh50 billion (~US\$470 million). The government decided to fund the revamp of the line to Malaba with an initial budget of Sh3.5 billion (~US\$32.9 million). The project was rescheduled to start in July 2020 and will take a year to complete.<sup>13</sup>

In Senegal, the Fisheries Ministry recently announced it would not proceed with license applications for 53 vessels, mostly with Chinese and Turkish ownership. This was despite China convening a summit with African leaders that same week.

Alassane Dieng, head of Groupement des Armateurs et Industriels de la Pêche au Senegal (GAIPES), which represents local fishing interests, wanted the Senegalese government to go even further and review all licenses issued under irregular circumstances. Thus far, the issue has not been reported on in the Chinese news media.

Many Chinese fishing companies reportedly interpret the Belt and Road Initiative as tacit approval for their expansion into African waters, with companies regularly announcing distant-water fleet expansions in the spirit of the BRI.<sup>14</sup>

## POINTS OF INTEREST

- The country that is the biggest lender to Africa is the most vocal about providing Africa with debt relief. Some African heads of government have for some time requested that the global lending community write off Africa's debt to enable it to combat the Covid-19 pandemic. Some headlines on this issue are a bit misleading, as they imply that the debt owed will be written off. On closer inspection it appears that scheduled debt repayment for 2020 will be cancelled, and only for interest-free debt. With a debt of US\$145 billion to China, it is improbable that the latter would cancel Africa's debt. With Africa reaching out for more debt to deal with the virus, the repayment of all these loans will be a serious post-Covid-19 challenge for the continent.
- Quite a few commentators view China's medical support to Africa to combat the Covid-19 pandemic as an attempt to make up for the spread of the Covid-19 virus due to poor initial management of the situation in China. Nevertheless, Africa's governments are in serious need of support for their efforts to safeguard their populations against the virus, and China's support is therefore quite welcome.
- We again see pushback against Chinese companies in Africa, this time in Kenya and Senegal. Over the past year or two, African governments appear to no longer bend backwards to accommodate Chinese companies. In some cases, the exorbitant rates quoted by Chinese contractors triggered the reaction. In the case of railway line development in Kenya, the country is now looking at a US\$32.9 million price tag compared to US\$470 million — 14.3 times the new quote.



### 3. Developments in Investment and Economics

The Covid-19 pandemic has been unkind to our world. We see many economies moving into recession, with their debt-to-GDP levels climbing alarmingly. Despite this, we also see cases of new investment and economic development on the continent of Africa. This report addresses some of the most recent developments in this area.

#### AFRICA OUTPERFORMS OTHER REGIONS GLOBALLY

Covid-19 devastated much of the global economy. However, the economic impact of the pandemic on African countries to date has been less destructive. Bloomberg recently identified three phenomena that put Africa in a positive light.

- Six African countries are among the top 10 fastest-growing economies in the world in 2020. A number of economists contributing to Bloomberg recently cut their 2020 forecasts for the world from a 3% growth rate to a decline of 3.7%. For Africa, the drop was less extreme, with a predicted decline from a 3% growth rate to a decline of 2.5%. This would position Africa among the 6 best-performing regions in 2020. Rwanda is projected to grow at 3.2%, Ethiopia and Ivory Coast at 3%, Uganda at 2.8% and Ghana at 1.9%.
- Africa also represents the best appreciating equity markets after Eastern Europe. While shares from North America, Western Europe and Asia Pacific reportedly contributed 3, 2 and 1%, respectively, to the world benchmark's 8% loss, Africa contributed only 0.24% to the deficit. It remains the best performing region, similar to Eastern Europe (0.2%).
- Africa also has one of the stock market's best-performing industries: communications. The communications sector in sub-Saharan Africa in 2020 is the leading industry in Africa, with a total return of 22%, compared to the 9% earned by global health-care companies, which is the No. 1 performing industry in the world. Africa's sovereign debt also gained 24% since the beginning of April, or more than double the entire market's 10%.

Bloomberg's conclusion is that Africa is the biggest economic and financial surprise in these tumultuous times. (The above statistics provided by Bloomberg)<sup>15</sup>

#### DIVERSIFICATION IN RESPONSE TO COVID-19

Nigeria's Minister of Communications and Digital Economy announced the government's intent to use digital technology to diversify the country's economy. Dr. Isa Ibrahim Pantami set forth the focus on digitalisation in response to the Covid-19 pandemic during a webinar organised by the Nigeria Economic Society Group (NESG). Pantami also noted that President Muhammadu Buhari directed that all Nigeria's security agencies would now take collective responsibility for the protection of the country's digital infrastructure.

Covid-19 severely impacted Nigeria's education sector, especially schools in its rural communities. Most schools in urban centres responded by conducting virtual classes. Due to insufficient broadband penetration and a lack of digital literacy, this solution is currently not practical across the rural areas. There is therefore an urgent need to uplift both digital literacy skills and broadband penetration.

New elements in the digital sector are to focus on content development, innovation and entrepreneurship. These will lead to digital solutions needed to support Nigeria's economic and social development. In parallel with this tactic, the country will need to address its serious infrastructure deficiencies.

Those companies that demonstrated resilience and thrived during Covid-19 were largely tech-enabled. Digital technology is increasingly viewed as a tool that can play an important role in growing the economy and helping to boost economic activities.

A successful digital economy in Nigeria will reportedly require a robust and reliable infrastructure, a thriving digital ecosystem, digital skills and government support for a strong enabling environment.

The digital economy is also seen as a potential driver of growth in other sectors, such as agriculture.<sup>16</sup>

### **DEREGULATION TO BOOST FOREIGN INVESTMENT**

Algeria reportedly attracted 24 greenfield project announcements in 2019, its highest in eight years. Many (seven) of these investments focused on the financial sector, more than over the previous seven years combined.

To attract international investors and provide a much-needed boost to its economy, the Algerian government scrapped the law that limited foreign ownership in local companies to no more than 49%. Foreign investors can now produce goods or services without the requirement to bring in local shareholders. The government excluded specific sectors it views as strategic from these new arrangements, including mining, energy, military, transportation and pharmaceuticals. Foreign investors will now be able to take strategic decisions without having to manoeuvre around the majority ownership of a local sponsor. In general, this step should improve the business climate of Algeria, which has lagged behind its neighbours during the last decade.<sup>17</sup>

### **LIMITED IMPACT OF JUNK BOND STATUS**

Bloomberg recently noted how global developments interacted to boost the South African economy. To many observers, it seems as if the recent downgrade of its bonds to junk never took place. South Africa now pays less to borrow in its local currency than at any time in the five years prior to Moody's downgrade in March 2020. Bloomberg reports the following outcomes:

- The rand rebounded
- Risk premiums returned to pre-downgrade levels
- Foreign investors are streaming back into the country's bond market after a record selloff in the first five months of the year

Bloomberg believes that global developments (such the emerging-market rally sparked by global monetary and fiscal stimulus and a weaker dollar) matter more than domestic risks. This is seen as good news for President Cyril Ramaphosa, "who has had to increase borrowing as an economic slump, worsened by the Covid-19 lockdown, curtails tax revenue."

Bloomberg subsequently quoted strategists at Societe Generale SA, who stated that the Rand is once again a "bellwether for global recovery." Also, "fiscal dynamics are likely to be less potent a rand driver than the path of the global recovery post-pandemic."

Foreign investors are now buying South African government bonds. Inflows in the first 10 days of June stood at R8.1 billion (~US\$467.6 million). The South African Treasury has also attracted orders for more than twice the amount on offer at its weekly debt auctions, even after increasing sales by 34% in May.<sup>18</sup>

### **DEVELOPMENT MODELS FOR ECONOMIC GROWTH**

Ethiopia recently unveiled a 10-year development plan, with the theme of "Ethiopia: An African Beacon of Prosperity." According to Prime Minister Dr. Abiy Ahmed, the 10-year plan has the following goals:

- To bring quality-based economic growth to the country
- To increase the production and competitiveness of Ethiopia
- To build a green and climate-resilient economy
- To bring about institutional transformation in Ethiopia
- To ensure fair and equitable opportunities for women and the youth of the country

- To guarantee private sector led growth

According to the Prime Minister, the plan “capitalises on Ethiopia’s existing strengths and abundant resources.” One sector that receives a lot of attention is energy, as many national development needs are heavily reliant on this sector.

Key success factors for implementation of the development plan include the following:

- Ensuring the impact of projects and investments undertaken add value to the country’s GDP;
- Focusing on the quality of projects to ensure that expenditures are effective; and
- Transforming attitudes from a ‘battling poverty’ narrative to “building multidimensional prosperity”.<sup>19</sup>

Kenya remains committed to implementing its on-going infrastructure projects, despite the 70% reduction by Treasury Cabinet Secretary Ukur Yatani in budget allocations to fund President Kenyatta’s Big Four Agenda. Yatani set aside only US\$1.28 billion for 2020/2021, compared to the 2019 allocation of US\$4.3 billion. With about two years remaining in office, President Kenyatta’s signature project had met less than 1% of its targets by January 2020. This includes the national affordable housing project; targeted to build at least 500,000 new homes over the next two years. Also, while Universal Health Coverage was to provide all 47 million citizens with affordable healthcare by 2022, high costs hampered the rollout of the programme.<sup>20</sup>

## POINTS OF INTEREST

- Africa has over the past decade frequently figured prominently in the Top 10 global performers in GDP growth. This attracted significant investments from abroad. Countries that frequently made it into the Global Top 10, include the likes of Ethiopia, Rwanda, Ghana, Cote d’Ivoire, Tanzania, Uganda, Kenya, Benin and Burkina Faso. To be truthful, these are all relatively small economies, so the growth is mostly off quite a low base. Still, it is evidence of economic activity that bodes well for the continent’s economies.
- Many people have been credited with the truism, “Africa is not poor; it is poorly managed.” Former Nigerian president Olusegun Obasanjo is one. This situation is one of the reasons that Africa presents an attractive investment opportunity only to investors with the required risk-appetite. A research report over the past three years indicated that Africa has close to US\$90 trillion of discovered resource reserves. This is another motive that attracts investors to Africa. Add to this a population that will double to 2.4 billion by 2050, then again to more than 4 billion by 2100, with a strongly growing consumer class. These come together to make a lot of sense to investors that are positioning themselves for the long-term. Covid-19 will eventually fade away and those that use the current window of opportunity to position themselves in the African economic environment will pick the fruits of their early investments.
- South Africa is an interesting case. When former President Thabo Mbeki was replaced in 2008, the country’s debt to GDP ratio was about 21%. It is now close to 81%, while Finance Minister Tito Mboweni recently stated that it is set to rise to 87% by 2024. About 21% of tax revenue is spent on servicing the interest payments on South Africa’s debt burden. When Moody’s also rerated South Africa’s bond status to junk earlier this year, the expectation was that the country’s currency would fall to R21 to the US\$. While it did briefly weaken to about R19.26/US\$, it has since strengthened to about R16.46/\$. Since the tabling of the country’s emergency budget on Wednesday 24 June, the Rand has weakened to R17.47, where after it again strengthened to about R17.14.
- Although few see the government as being pro-active and effective, investors seem to take global sentiment and the potential of the country into consideration. The country is doing not as poorly as it should despite the government and not because of it. A sad state of affairs. It also seems that the impact of Covid-19 masks some of the negative aspects of the economic situation South Africa found itself in before the outbreak of the pandemic. When the world starts



bouncing back from Covid-19, in all probability it will take South Africa a longer time to get back on its feet. Very recent media reports have announced that the South African economy contracted by 2% in Q1 of 2020, before the announcement of the lockdown on 26 March. It is estimated that the contraction could increase to over 7%, and this is on the optimistic side.

- Ethiopia is including itself in those East African countries that have developed a clear agenda for development and growth. Kenya's Big Four Agenda is well known. Uganda has its Vision 2040. It is interesting to see that these countries are also in the global Top 10 of GDP growth. They also tend to do quite well in Africa on the Ease of Doing Business rankings by the World Bank. One should expect, however, that Covid-19 would have a constraining impact on the growth plans of these countries. To be fair, the entire world will suffer this huge blow.

## 4. Developments in the Telecoms Industry

The telecommunications industry in Africa pursued an interesting development path over the past 20 years. Growing in leaps and bounds over the past two decades, many initiatives in the sector succeeded, for various reasons. This report addresses the most recent developments in this sector.

### FOCUS ON OPERATIONS

The French mobile telecoms operator Orange is likely to expand into Nigeria and South Africa. The company views expansion into the two largest economies in Africa as a logical step and intends doing so within the next few months.

Orange's operations in Africa and the Middle East generate significant revenues, and earning total revenue of US\$6 billion in the last financial year, are now major growth drivers for the group.

Orange grew its 4G customers in Africa and the Middle East by 43% in the 2019 financial year to reach a total approaching 24 million. It also grew Orange Money customers by 20%, to 18.2 million.

The telco operates in 18 countries in Africa and the Middle East, but is not yet in the continent's major economies of South Africa and Nigeria. South African operator Cell C, currently struggling to survive, could be a possible acquisition target for Orange.<sup>21</sup>

In Senegal, telecoms company Sonatel is raising debt of US\$171 million on the regional market to exploit the higher demand for digital services amid the coronavirus pandemic. Orange owns 42% of Sonatel, which operates in Senegal, Guinea, Guinea-Bissau, Mali and Sierra Leone. Orange Ivory Coast covers three other countries in the sub-region. In addition to its intention to expand into Nigeria and South Africa, Orange is considering an expansion into Ethiopia to grow further in Africa in the wake of the Covid-19 pandemic.

Sonatel will use the debt to expand its 4G and 4G+ networks and develop its energy, banking and Orange Money businesses, which the telco sees as the areas of future growth. Sonatel is driven by the expectation that mobile-money penetration for most Sonatel companies should grow significantly from the current 35-40% due to the Covid-19 pandemic.

Sonatel is reportedly the market leader in all but one of its five markets.<sup>22</sup>

### PIVOTS TO FINANCIAL SERVICES

South African-based Vodacom's financial services division is becoming a major revenue driver of the group, with a contribution to revenues of US\$1 billion, an increase of 22%. Vodacom now intends to expand some of its successful products, such as its nano-loan product for individuals and its micro-lending platform for SMEs, into new markets. Vodacom now has over 53 million customers using one of its financial services products. The company is differentiating its products to the various markets it serves.

The most successful fintech product in Vodacom's portfolio is M-Pesa. Its business financing product for SMEs, VodaLend, is also gaining traction in South Africa. Vodacom plans to take the new product to its other African markets. VodaLend offers loans to SMEs from between US\$555 to US\$83,400, repayable over 6-12 months.

Vodacom's VodaPay app, launched in July 2019, is gaining traction and now has more than 100,000 users in South Africa.

According Vodacom Group CEO Shameel Joosub, the group will focus on payments, insurance, investment and lending.<sup>23</sup>



## TERRORISM CHARGES

South African-based MTN faces new allegations that it aided al-Qaeda and the Taliban in Afghanistan, including paying protection money. This reflects an amended lawsuit filed on behalf of the families of hundreds of U.S. soldiers.

The original lawsuit targeted at least eight multinational companies that operated in Afghanistan and Iran between 2009 and 2017. These included MTN, security firm G4S, U.S. infrastructure group Louis Berger and consultancy Janus Global. The charge is that these companies violated the U.S. Anti-Terrorism Act by paying protection money to al-Qaeda and the Taliban.

The recently amended complaint alleges MTN's "conduct targeted the United States" by executing a strategy reliant on dominating markets in unstable countries not allied with Washington. MTN allegedly violated the Anti-Terrorism Act by paying al-Qaeda and the Taliban protection money of more than US\$100 million to avoid destruction of its cellular towers. MTN allegedly deactivated those towers at night, thus inhibiting U.S. intelligence operations.

MTN denied the allegations and was considering its legal recourse to counter the new allegations.<sup>24</sup>

## DOMINATION IN EAST AFRICA

*African Business Magazine* ranked Kenyan telecommunication giant Safaricom as the 10th most valuable firm in Africa in a list dominated by South African companies. Safaricom improved from 14th position in 2019 to 10th in this ranking of the top 250 companies based in Africa. Four other Kenyan-based firms, including East African Breweries Limited (EABL) (90th), Equity (82nd) and KCB Group (92nd), rank among the top 100 most valuable companies on the continent.

Safaricom's market value came in at US\$9.96 billion compared to US\$119.7 billion for South Africa's technology firm Prosus — currently Africa's most valuable firm. Safaricom and Morocco's telecom giant, Maroc Telecom, were the only firms outside South Africa ranked in the Top 10.

Based on capital gains, East Africa reportedly remains Africa's most attractive investment destination.

Safaricom's dominance of the Nairobi Securities Exchange (NSE) hit a new peak after the telecommunication firm's market valuation exceeded 50% of the Sh2.06 billion NSE. Safaricom's valuation of Sh1.1 trillion at close of trading Monday 18 May is now 53.3% of total investors' wealth on the NSE. This has largely been attributed to the bear market that has led a sharp drop in the market capitalisation of other listed firms. Safaricom's market worth is therefore now more than the combined valuation of all the other 62 listed companies.

Safaricom succeeded in avoiding the deep erosion of value that other companies have suffered in the wake of coronavirus-driven losses. Its share price gained 1.3% over the past month to hit Sh27.65. Safaricom, EABL, Equity and KCB Group together account for 80% of the NSE firms' valuation.<sup>25</sup>

## GLOBAL INTEREST IN AFRICA

Global financial services company Visa will partner with Safaricom to cooperate on payments and fintech. The partnership provides Visa's global merchant and card network with access to M-Pesa's own extensive financial services network in East Africa, and vice versa. Visa and Safaricom will also collaborate on the development of products that will support digital payments for M-Pesa customers. The two parties announced they will strive to facilitate online commerce.<sup>26</sup>

## TARGETING THE MOBILE TELECOMS MARKET IN ETHIOPIA

The Ethiopian government invited companies to express their interest in two Ethiopian telecoms licenses. Safaricom announced in February 2020 that it was engaged in talks with undisclosed investors to form a consortium that will bid for one of two licenses. This move reflects the high entry costs, which are likely to breach the US\$1 billion mark.

One potential partner was Vodacom, which owns a 35% stake in Safaricom. Other firms, however, may become involved.

The government initially sought to close the deal in April. Ethiopia now plans to award permits later this year, opening the country's telecoms market to foreign investment for the first time. Ethio Telecom, the State monopoly, has also taken steps towards offering a minority stake to a strategic investor.

For Safaricom, acquisition would be an easier solution compared to setting up its own shop, which would involve heavy fixed costs for buying land and putting up buildings, plus hiring staff, recruiting subscribers and growing market share against the dominant player Ethio Telecom.

A number of other global telecom firms including MTN, Orange, Etisalat and Zain, expressed interest in gaining access to Ethiopia's fast-growing mobile market. The growth potential of the Ethiopian market, whose 100 million population has a penetration rate of only 44%, attracts these competitors. In comparison, Kenya's 52.2 million mobile phone subscribers provide a penetration of 109.2%.<sup>27</sup>

## POINTS OF INTEREST

- It will be interesting to see to what extent Orange will succeed in Nigeria and South Africa. In Nigeria, MTN dominates the market with about 44% of the mobile phone market share, followed by Globacom with 21%, Airtel with 20% and Etisalat with 15%. This will not be an easy market to break into, despite the large population.
- In South Africa, the two dominant players are Vodacom and MTN, with 42.39% and 29.44% market share respectively. As noted above, Cell C is struggling with 16.88% market share, while Telkom has 9.52% market share. For Orange to have a reasonable chance of success in a very competitive market, it would have no other option but to attempt to acquire Cell C. This strategy will provide Orange an immediate footprint in the country, and the ability to rebrand over time to Orange. Given its massive resources, this step should provide Orange with a reasonable to strong chance of success.
- MTN has a serious concern regarding the terrorism charges brought against it. Should it be found guilty, it could have an impact on the countries to which they could expand, and even lead to closing down its operations in some countries. The company has had a few run-ins with the legal side of the business. In Nigeria it has been on the wrong side of the law a number of times, ranging from failing to cut off unregistered sim cards to unlawfully expatriating large sums of money. It is also alleged that MTN was involved in corruption with its investment in Iran, which it denied. Given the stance of the USA towards Iran, the USA government is no fan of MTN's investment in that country.
- Safaricom's dominant position on the Nairobi Stock Exchange is a source of concern for the regulators. With more than 50% of total market capitalisation concentrated in one company, leaves the whole bourse quite vulnerable to the good fortune of Safaricom. One wonders how this influences decisions that could potentially impact the company.
- Given the size of Safaricom and the number of financial transactions taking place on a daily basis, the Central Bank of Kenya no doubt is taking careful notice of the governance of the financial platform. Huge amounts of money are moved around in a daily basis, creating strong money laundering potential.

## 5. Developments in the Tourism Sector

Tourism in Africa suffers hugely from the pandemic. Many flights are grounded, airlines are scrambling to find places to park their redundant planes, borders are closed, and businesses locked down. Many businesses with high fixed costs are on the verge of collapse. However, a number of countries recently began to open up. This report addresses some recent developments in this sector.

### TOURISM IN AFRICA

At the start of 2020, observers expected Africa's tourism industry to grow strongly. However, the Covid-19 pandemic shut down tourism around the world. Many African governments imposed lockdowns, shutting down hotels, tour companies, event centres and public transportation services.

According to the UN, Africa's complete value chain in the tourism industry, ranging from entertainment, accommodation, food and beverage and operating tours, employs more than 1 million people each in Nigeria, Ethiopia, Kenya, Tanzania and South Africa. The sector also accounts for more than 20% of employment in Seychelles, Cape Verde, Sao Tome, and Principe and Mauritius.

The spread of Covid-19 caused many of its sectors to lose revenue and cut jobs. According to the UN, Covid-19 will cost up to 2 million direct and indirect jobs in the tourism sector in Africa.

In Kenya, some hotels and guesthouses on the coast reported occupancy rates below 7% in March. Nuli, a chain of health food restaurants in Lagos, Nigeria, was forced to close down 9 of its 10 stores following the outbreak of the coronavirus pandemic in April.<sup>28</sup>

### OPENING UP IN TANZANIA

Ethiopian, KLM and Turkish airlines reportedly expected to transport tourists to Tanzania in June 2020. This is a step toward the ongoing re-opening of the country's economy after a lockdown of close to two months. President John Magufuli directed industry and government leaders to re-open the entire economy following the significant decline in cases of coronavirus patients in the country. He no longer saw a need to curtail economic activity.

As such, Tanzania became the first East African nation to reopen its economy and its borders to tourists. Entrants will now have only their temperatures checked on arrival.

Tourism is an important sector of Tanzania's economy. The sector contributes approximately 17% to the country's GDP and employs about 623,000 workers. At least 1.9 million tourists visited the country's parks and beaches in the previous year, and they injected US\$2.5 billion into its economy.

A continued shutdown of the country's borders would have reduced earnings from tourism by an estimated 75%. Due to the pandemic, jobs in the tourism sector fell from 623,000 to 146,000. The number of tourists visiting Tanzania dropped from 1.9 million to 437,000.

A number of European countries have started to re-open their economies, including partially re-opening their airspaces. Turkish Airlines resumed international flights on 1 June. Flights from Ethiopia and Turkey were fully booked. Flight operators are given instructions on how to clean and disinfect their aircraft before and after landing in the country. Tanzania actively encourages local tourism to reduce its dependency on foreign tourists.<sup>29 30</sup>

Zanzibar's authorities also announced on 6 June that it was reopening its tourism activities. This was true for both charter flights and scheduled flights. All tourist hotels, restaurants and bars in Zanzibar opened on 6 June.

However, all travellers to Zanzibar must have medical health insurance and follow strict guidelines to prevent the spread of COVID-19. This includes undergoing screening at entry points.

Tourism is Zanzibar's largest economic sector and is essential for local socioeconomic stability.<sup>31</sup>

## **BOOSTING LOCAL TOURISM IN UGANDA**

Uganda's tourism authorities believe that tourism will recover faster than other sectors. Recovery is expected to begin in the final quarter of 2020, and ramp up in 2021. Domestic demand is expected to recover faster than international demand.

According to the Uganda Wildlife Authority (UWA), in early June 2020, Uganda reopened all the savannah national parks for tourism. Standard operating procedures are in place to avoid the spread of COVID-19 in these areas. Primate parks, however, remain closed to the public until further notice. Mandatory temperature screenings of tourists would take place at all key gates of the protected areas.

Groups are restricted to 25 tourists in the parks at the same time for the same activity. Although the parks are open, the country's borders, including Entebbe International Airport, remain closed as one of the government measures to avoid importing COVID-19 cases.

Tour operators in the country focused on increasing domestic tourism after international travel was interrupted by the pandemic. International markets may remain a bit sceptical of international travel.

Tourism is one of Uganda's leading foreign exchange earners. The country could lose over US\$1.6 billion in tourism revenue because of COVID-19. Tourism accounts for over 600,000 direct jobs. However, due to its varied value chain and huge multiplier effect, millions more risk losing their livelihood. These jobs range from cab drivers to farmers supplying hotels and lodges.<sup>32 33</sup>

## **EGYPT BOOSTING ITS TOURISM SECTOR**

Egypt took a number of steps to promote tourism to the country post Covid-19. The country reduced the cost of tourist visas in June, July and August. Tourists arriving at the airports of Luxor and Aswan in the north of Egypt will now pay US\$15, which is US\$10 less than the usual US\$25.

In addition, entry fees to all archaeological sites and museums were reduced as a further incentive and rent fees for all bazaars and cafes based at these sites have been waived.

The capacity utilization of hotels in Egypt, which have been operating at 25% capacity in May, has been increased to 50% from 1 June.

All properties have had to undergo mandatory sterilisation before being allowed to reopen. Casinos have also been limited to 50% capacity. In addition, more incentives are being considered as a much-needed boost for the tourist sector.<sup>34</sup>

More recently, Egypt announced it would reopen all its airports for scheduled international traffic on 1 July 2020. Foreign tourism would be limited to resorts in three coastal provinces. Travellers from countries with high rates of coronavirus infections will need to be tested before coming to Egypt.<sup>35</sup>

## **BOOSTING DOMESTIC TOURISM IN SOUTH AFRICA**

South Africa also reopened its domestic tourism sector on Monday 8 June, allowing self-drive game drives at national parks. More than 40,000 jobs have already been lost by the sector, one of the industries hardest-hit by the Covid-19 pandemic.

The Kruger National Park, South Africa's biggest nature reserve, will reopen. Namaqua National Park and some sections of Table Mountain National Park will remain closed until further notice. Interestingly, "inter-provincial travel within parks that stretch between two provinces will not be permitted."

Private players in the tourism sector continue to lobby for opening the country up to international tourists by September. The expectation is that borders will remain closed for non-essential travel as the pandemic continues to spread in South Africa.

The tourism body in South Africa hopes not to miss the September to March peak tourist season and has committed to the Tourism Recovery Strategy currently being formulated by South African Tourism. This is the high season and represents 60% of the annual business for tourism.

Tourism is an important element of South Africa's economy, contributing 1.5 million jobs and US\$25 billion annually (2019 figures).<sup>36</sup>

### POINTS OF INTEREST

- Tourism's leverage factor is very high. As can be seen above, millions in Africa are involved in the extended value chain of the industry. According to the WEF's Travel and Tourism Competitiveness Report 2019, the Top 10 countries in Sub-Saharan Africa with the best natural resources are Tanzania, South Africa, Kenya, DRC, Uganda, Zambia, Zimbabwe, Namibia, Botswana and Cote d'Ivoire, in this sequence. It is interesting to see many of these in the media as cases where tourism is opening up.
- It is interesting to note that the countries with the best natural resources are not necessarily the highest ranked on the overall Travel and Tourism Competitiveness rankings. Here the top players are Mauritius, South Africa, Seychelles, Namibia, Kenya, Cape Verde, Botswana, Tanzania, Senegal and Rwanda.
- With millions of jobs at stake on the continent, many countries, as indicated above, have decided they have no other option but to open up their tourism sectors, if not in totality, then for domestic tourists. According to Reuters, countries where tourism constitutes a large part of GDP will see their economies contract by an average of 3.3% this year. However, Africa's major tourism spots Seychelles, Cape Verde, Mauritius and Gambia will shrink at least 7%.
- President John Magufuli was initially criticized for his decision to open up his country. It seems a number of other leaders have since decided to follow his example. Many of the critics of government action against the pandemic express the opinion that the lockdown implemented in many countries will create more harm than the virus itself. This probably depends largely on the success of national and local leaders in encouraging safe behaviours. A failure in leadership has the potential to make an already bad situation much, much worse.

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