



# Africa Digest

## Trends and Issues in Business

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## 1. Trends on China in Africa

### INTRODUCTION

China's presence in Africa is the topic of many papers, articles and arguments. Over the past few years, the Chinese government and its private sector became major players on the continent in trade, investments, and support for African governments.

### AFRICA

China has diversified its sources of energy to meet growing domestic demand. Three of its national oil companies (NOCs) increased their investment in Africa to secure oil supplies, which accounts for almost 30% of their combined international upstream capital spending (capex). Within the next five years, these NOCs are projected to become the fourth highest source of capex in Africa's upstream sector, after global counterparts BP, Shell and Eni SpA. They will invest US\$15 billion in Africa, with two-thirds of their investment going to Nigeria, Angola, Uganda and Mozambique.<sup>1</sup>

The opportunity for exports from Africa to China presents an interesting counterpoint to China's investments in Africa. Some commentators suggest that China can narrow its trade surplus with African countries and help them develop more economic growth by importing more value-added products from Africa. China's consumer market is the world's largest, and is growing at 16% compared to a US consumer market that is growing at only 2%. Unsurprisingly, private sector companies from Africa are increasingly interested in entering the Chinese market.

At the China-Africa Economic and Trade expo in Changsha, products from Africa included clothing, skin care products, tea and custom diamonds. African companies seek to change Africa's image in China by providing high-quality products to the Chinese market. China's imports from Africa rose 32% in 2018, while agricultural products imported from Africa increased by 22%.<sup>2</sup>

Uganda's President Museveni encouraged African companies to double their production to benefit from China's market. In his view, Africa's exports to China are mainly raw materials, especially oil and gas and minerals. He feels this trend must be reversed, and that African countries should work towards adding value to their raw materials before exporting them. According to Museveni, China is a big market for Africa's exports, absorbing 19.8% in 2018. He also said that cooperation with China was important in the struggle to address the issues of transport infrastructure, energy, and cost of financing and human capital development in Africa.<sup>3</sup>

### DEMOCRATIC REPUBLIC OF THE CONGO (DRC)

Beijing-based Power China will construct two hydroelectric dams on the Congo and Lufira rivers in the DRC. The plan is to build a 900 MW hydro power plant in Kinshasa, at a cost of US\$3 billion, and another on the Lufira River (in the locality of Lualaba), to provide 150 MW of electricity at a cost of \$400 million. These two power plants, to be operational within seven years, will partially fill the energy gap that impacts the DRC mining industry, where electricity shortages frequently force companies to turn to other sources such as diesel generators, which are costly and harmful to the environment.<sup>4</sup>

### ETHIOPIA

Investors from the Chinese city of Kunshan are planning to invest US\$500 million in a textile production complex in Dire Dawa, eastern Ethiopia. Work on the project will start in the next two years. According to the mayor of Kunshan, China is ready to share its manufacturing expertise with Ethiopians to increase the productivity and success of industrial parks in Ethiopia. Part of the project entails the training of about 30 Ethiopian professionals on industrial park management in Ethiopia. The investment from Kunshan will also create jobs and develop university–industry links.<sup>5</sup>

## MADAGASCAR

China Nonferrous Metal Mining Group (CNMC) recently signed a non-binding memorandum with ISR Capital, a loss-making Singapore-listed consultancy and investment management company, to join a rare earths project in Madagascar, with rights to purchase products. A unit of CNMC has obtained priority rights to act as the engineering, procurement and construction contractor to implement ISR's rare earths Tantalus project, with rights to purchase 3,000 tons of rare earth products from the project within three years following the start of production, plus the future opportunity to acquire an equity stake in the project. The Tantalus project is believed to contain 562,000 tons of rare earth oxides. As China is the world's dominant producer of rare earths, and may limit supply as a gambit in its trade war with the USA, the value of these reserves is potentially quite volatile.<sup>6</sup>

## MOZAMBIQUE

China financed and built a cross-sea suspension bridge and 187 kilometres of linking roads in a district in the Mozambican province of Maputo. This subsequently led to a tourism boom and doubling of government tax income in the region from US\$500,000 to US\$1 million in the first six months of 2019, compared to the same period of 2018. While many of the 162,000 tourists Mozambique received in the region were from South Africa, the number of local tourists increased significantly.<sup>7</sup>

CITIC Constructions, a construction company from China, signed an agreement with the Mozambican government to build 35,000 houses for the youth and public officials in Mozambique at a cost of US\$1.4 billion. The project will start in June 2020. An important factor during negotiations was the necessity to ensure that house prices were affordable to the target audience. The lack of housing is an acute problem for young people in Mozambique. According to the Economic and Commercial Counsellor of the Chinese Embassy in Mozambique, Chinese companies are a major source of investment in Mozambique and major funders and builders of infrastructure.<sup>8</sup>

## TANZANIA

The Port of Bagamoyo in Tanzania was introduced in 2014 as a 20 million TEU (20ft-equivalent unit) container port, making it the largest port in Africa on completion. Stakeholders expect the project to cost between US\$7 billion and US\$11 billion. Originally the port was scheduled to begin limited operations in 2017. The project is being developed by Hong Kong-based conglomerate Merchants Holdings International, with financing from China and Oman's OIF sovereign wealth fund.<sup>9</sup>

However, newly elected Tanzanian President John Magufuli reportedly decided to suspend the port project. His reasoning: "they want us to give them a guarantee of 33 years and a lease of 99 years, and we should not question whoever comes to invest there once the port is operational. They want to take the land as their own, but we have to compensate them for drilling construction of that port", which he described as "exploitative and awkward."<sup>10</sup> He expressed discomfort with what he saw as a lopsided deal with China.

This alleged development was somewhat a surprise as Tanzania's Foreign Minister had visited China a short while before the announcement, where his Chinese counterpart had praised their historical cooperation as an example for other Belt & Road Initiative (BRI) countries to follow.<sup>11</sup>

Some commentators believe that this development could create a domino effect that might negatively impact the prospects of expanding China's Standard Gauge Railroad (SGR) in Kenya into Uganda, Rwanda, the Congo, and beyond. In addition, it created space for India and Japan's Asia-Africa Growth Corridor (AAGC) to weaken China's role and curtail its influence in Africa. The suspension of the Bagamoyo port project could develop into a severe blow to China's regional influence in Africa.<sup>12</sup>

Since this development, according to statements by Tanzania's ambassador to China on 11 July 2019, Tanzania has initiated a number of actions to get the project back on track. There were reportedly still 29 issues for the parties to resolve.<sup>13</sup>

## UGANDA

Uganda's industrial sector received a boost when Chinese electronics firm ENGO Holdings entered the country to manufacture and assemble mobile phones and laptop computers locally in Namanve, Uganda's flagship industrial park. ENGO will unveil its first generation of products manufactured and assembled at the plant before the end of 2019. Initially the plant will import most of the component parts from China until local workers are trained to undertake these processes in Uganda. Temporarily, the company will use experienced Ethiopian workers until they can train Ugandans to do these jobs.

There is a substantial market for ENGO in Uganda with 22 million mobile phone subscribers, and the sector is growing at 27% annually. ENGO will invest US\$15 million over five years to increase its annual production capacity from an initial 1 million mobile phone and other digital devices to its maximum. The firm will produce both cheap analogue and smartphones. To stimulate use of these products in the rural areas facing the challenge of electricity blackouts, certain ENGO products will come with self-charging solar units.<sup>14</sup>

## POINTS OF INTEREST

- While China's participation in investment and construction projects in Africa is up and running, it appears that Africa is not a passive recipient of Chinese initiatives. The above-mentioned case of Magufuli objecting to the one-sided nature of the Bagamoyo project, is by no means the only one. Recently President Kenyatta of Kenya refused to sign an FTA with China, as he was concerned with its negative impact on the manufacturing sector in his country. Sierra Leone cancelled the building of a second airport by Chinese construction companies at the end of last year, as they saw it as both too costly and unnecessary.
- However, China's rising influence and participation in Africa's investment projects remain clear.
- One article referred to the Asia-Africa Growth Corridor (AAGC) as getting a foot in the door due to Magufuli's objections to the "exploitative" nature of the Bagamoyo project. The AAGC, despite its lofty ideals, is still very far from replacing the BRI. At best, it represents a vision, while the BRI continues to extend its reach. Japan, one of the leading AAGC proponents, has agreed to cooperate with the BRI, on the condition of private sector participation.
- While China's construction companies are quite active on the continent of Africa, and apparently generating significant margins, local construction companies struggle to survive. A number of such companies are from South Africa, i.e. Aveng, Basil Read, Group 5 and Murray & Roberts. China is using its clout as financier and investor to position its state-linked construction companies as preferred constructors.
- China cornered Namibian uranium reserves to enhance its access to this element. It is now cementing its position as the world's largest source of rare earths, by gaining access to reserves in Madagascar. This development could significantly hurt the USA, given the trade war between these economic giants. It was recently thought that the USA could replace China as a source of these minerals through access to Africa's reserves. However, China now seems to be pre-empting such moves by the USA by gaining control over the world's other significant sources.
- China is also entering the consumer markets of Africa through its development of Uganda's manufacturing capacity in the mobile phone sector. Africa has a massive market in this regard and has also seen its own development in this sector through the Mara Corporation in Rwanda, who is now manufacturing the Mara mobile phone in Africa. While the African market is huge, many Africans (probably most) cannot afford the expensive smartphones that are currently on the market. A cheap version is therefore bound to be successful as most Africans gain access to the Internet via their mobile phones.
- The development of initiatives where Africa can add value to basic commodities before exporting to the lucrative market of China, is a welcome one. President Xi Jinping is on record at the 2015 FOCAC meeting in Johannesburg, South Africa, stating China would support value addition at source in Africa to help stimulate the manufacturing sectors of the continent. Africa must tap into

this development as it cannot afford to just export raw commodities, as it would lose jobs and revenues in the process, whilst putting their trade balance and currencies under pressure.

## 2. Financial Services in Africa

### INTRODUCTION

Many of Africa's local financial services companies fail to adequately serve the needs of their clients, with obvious exceptions such as a number of banks in South Africa, Eco Bank with its head office in Ghana, and the Equity Bank Group in Kenya. Some African countries host a number of smaller banks that are under hard-pressed to survive, which tends to tarnish the image of the sector. Also, banks based in developed countries may hesitate to support efforts by their clients to expand into Africa. These gaps create opportunities for other banks to serve clients seeking to fund expansion, such as Singapore-based Standard Chartered. However, many foreign corporations still find funding a barrier to their ambitions to foray into Africa.

### KENYA

Moody's predicts that Kenya's banking sector will experience more mergers and acquisitions in the next two years, as smaller banks struggle to raise capital. Regulatory changes also place pressure on smaller banks and larger rivals have already taken over a number of smaller banks in recent years. The KCB Group is taking over the state-owned National Bank of Kenya (NBK) in a deal that is seen as essential in saving NBK from collapse. KCB is also taking over part of the assets of collapsed Imperial Bank. Other recent banking takeovers in Kenya include DTB's acquisition of Habib Bank in 2017, I&M Bank's buyout of Giro, and Mauritius-based SBM swallowing of both Fidelity Bank and Chase Bank. In Kenya, the top five banks account for 46% of the sector assets.<sup>15</sup>

A Kenya Bankers Association (KBA) report observes that the country's banking sector is on a growth trajectory, with rising outstanding loans and advances in the sector, although the pace has tapered off over the past three years. KBA predicts that Kenyan banks will increase their reliance on technology for efficiency, cost management and product design. However, KBA also reports that financial market distortions (such as an interest rate cap and stricter capital requirements) have led to reductions in fund allocation to SMEs. This is a source of concern, as SMEs are key to the economy's sustained growth.<sup>16</sup>

In another development, banks that acquired stockbrokerage firms at the height of the stock market boom more than a decade ago, are now struggling to sustain these loss-making business units. Banks hoping to rid themselves of these units include KCB, ABC Bank, Equity Bank, NIC Bank and Co-op Bank. These banks are reportedly unable to shut down or dispose of these entities in the interest of sustaining investor confidence in the market, as shutting down or selling off those loss-making subsidiaries sends the wrong signals in the market.<sup>17</sup>

Still in Kenya, Safaricom has been instructed to stop processing payments for sports betting companies, potentially shutting down a lucrative source of revenue for the company. According to Safaricom executives, the betting industry is a significant part of its revenue in recent years. Betting companies in Kenya have achieved a combined revenue of US\$2 billion last year. This has sparked concern in the government about the social impact of betting.

Kenyan gaming companies rely on Safaricom's market leading network to take bets, communicate with users and process payments on the company's M-Pesa mobile money platform. It appears that licence renewal for all 27 betting firms is suspended, pending the outcome of an ongoing inquiry about their suitability to operate in Kenya.<sup>18</sup>

In another development, Kenya's Equity Group will buy a 62% stake in Banque Populaire du Rwanda and take full ownership of BancABC Tanzania, BancABC Mozambique and Atlas Mara Zambia in a share swap deal valued at US\$105.4 million. To cut costs and enhance scale, Equity will merge its subsidiaries in Rwanda and Tanzania with Atlas Mara's units in those markets. The four banks that Equity will acquire have 822,000 customers, a loan book of Sh51.8 billion (~US\$502 million) and deposits of Sh96 billion (~US\$930.5 million). They reported their ROE as 2% in the review period.

Atlas Mara sees the transaction as an opportunity to take a 6.27% stake in Equity, one of the most profitable banks in East Africa. For Equity, the deal expands its reach to Zambia and Mozambique, adding to its current presence in Kenya, Tanzania, Uganda, South Sudan, Rwanda and the DRC.<sup>19</sup>

## **NIGERIA**

The Central Bank of Nigeria (CBN) is apparently intervening in the financial services sector by forcing banks in the country to grant more credit to businesses and consumers to give the economy a boost. Banks that fail to do so and who fall short of a target minimum loan-to-deposit ratio of 60% by September 2019, will have to maintain higher cash reserves. Banks currently prefer to invest in risk-free government securities rather than lend to businesses and consumers, which is left-over from the recession the country experienced quite recently. According to analysts, the new policy could lead to an increase in problematic loans, which in turn could give rise to a repricing of loans. As it is, the non-performing loan ratio in Nigeria has dropped to around 9% from double digits at the peak of the recession, but it is still above the CBN target of 5%. Some of the top tier banks may need to issue new loans of almost one trillion naira (~US\$2.8 billion) to comply with this policy.<sup>20</sup>

Nigeria's banks are some of the most reluctant lenders in major emerging markets, with an average loan-to-deposit ratio below 60%. That compares with 78% across Africa, above 90% in South Africa and about 76% in Kenya.<sup>21</sup> This clearly reveals a high risk aversion profile amongst Nigerian banks.

In an even more recent development, the CBN has adopted a policy that banks' daily deposits placement through CBN's Standing Deposit Facility shall no longer exceed N2 billion (~US\$5.535 million). This can also be seen as an attempt to stimulate lending to the real sector of the economy, which generates the production and distribution of goods and services necessary to meet demand. Daily deposits by any bank in excess of N2 billion will no longer attract interest payments. The new directive is in force from 11 July 2019. The previous limit of daily deposits by banks was at N7.5 billion (~US\$21 million). The aim of this policy is to encourage lending activities and stimulate economic growth. It could also facilitate the CBN's recent directive for banks to issue credit above 60% to the real sector.<sup>22</sup>

## **ZAMBIA**

In Zambia, Access Bank Zambia merged with Diamond Bank of Nigeria to become Africa's largest retail customer base, spanning three continents covering 12 countries, serving over 29 million account holders. The merger creates a pan-African bank with a new brand and visual identity.

The chairman of Access Bank, Caleb Mulenga, explained, "The new brand signifies the bank's global appeal and strategy to become Africa's gateway to the world." The Bank is also busy establishing a branch in China, and launched a new digital platform – Access Mobile App to support Zambia's financial inclusion strategy. Access Bank Group has 366 branches across major cities and commercial centres in Nigeria, Gambia, Ghana, Sierra Leone, Zambia, Rwanda and the DRC.<sup>23</sup>

## **POINTS OF INTEREST**

- Nigeria's attempts to increase credit to consumers and businesses are a noble gesture that could help stimulate the growth of SMEs. However, policymakers should take note of the challenges Kenya experienced when it placed a cap of 4% above the Central Bank Rate on loans to businesses and a maximum of 2% below the rate for deposits. This had exactly the opposite effect Parliament sought, as it led to far fewer loans to the business community as banks sought to protect themselves against non-performing loans. Forcing banks to grant loans to their clients increases the risk of bad debt, and banks will protect themselves by raising interest rates for riskier clients, in the process making credit unaffordable and driving demand downward. This leads to pressure to meet loan-to-deposit ratio requirements, generating a vicious cycle, and the entire sector will eventually be the loser. Government needs to rethink this approach and remember that banks have very little of their



own money (between 10-12%). When depositors lose faith in banks, they will turn away, which will only aggravate the situation.

- Kenya's drive to consolidate their banking sector by having the smaller banks merge with larger banks, has a lot of merit. As it is, the Kenyan banking sector has experienced a number of destabilising phenomena the past few years. A number of banks were investigated for fraud by the Kenya Revenue Authority, and the banking sector also had to deal with the capping of interest rates at 4% above the benchmark central bank rate. A factor of concern was the large number of small banks that were threatened by the interest rate cap. A period of industry consolidation was envisaged at the time of the signing of the law (capping of interest rates). We have seen some consolidation the past few years. With a 4% cap above the CBK bank rate, it is doubtful whether the smaller banks have the scale to survive. We will therefore see more mergers and acquisitions.
- The creation of pan-African banks, such as Eco Bank and the newly merged Access Bank and Diamond Bank, as well as the significant expansion of Equity Bank into the rest of East and Southern Africa, creates the scale and diversity necessary to survive unexpected shocks to the sector. The resulting lower propensity to go belly-up will move trust of the banking sector to a higher level. This will also lower barriers to the use of local banks by foreign investors to meet their banking and financing needs.
- It is also interesting to see the authorities in Kenya placing restrictions on mobile money players for sports betting. In addition to managing the social fallout from gambling activities, this is also an initiative to deal with money laundering. Sports betting goes back a long while in Kenya. Kenya has the highest number of gambling youth in Sub-Saharan Africa and sports betting is their most popular form of gambling. PwC forecasts that the annual turnover of the sports betting industry in Kenya will reach US\$50 million in 2020. This growth is supported by access to mobile phones and the Internet – hence the restrictions on mobile money players.

## 3. Western Companies in Africa

### INTRODUCTION

China is not the only player that taps the investment opportunities available in Africa. In sectors such as retail, global players based in the West are increasing their footprint. Other companies seek to fill gaps in attractive sectors on the continent where global players either are absent or have a low profile.

### EGYPT

Majid Al Futtaim Retail (MAF), operator of the Carrefour brand in several African countries, intends to open four new Carrefour branches in Egypt within the next two years. The plan includes two supermarkets and two hypermarkets, a total investment of ~US\$13.9 million (EGP230 million). MAF has an expansion plan to have 100 Carrefour locations in Egypt, in a joint initiative with the National Service Products Organisation and the Egyptian Ministry of Investment and International Cooperation.

Carrefour has set a sales growth target of 20% in 2019, and an increase from 46 to 60 operating stores in Egypt by the end of this year. A welcome spinoff of the MAF investment is the creation of 1,000 new opportunities for young job seekers.<sup>24</sup>

### MADAGASCAR

The Radisson Hotel Group will expand its presence in Africa into Madagascar with the signing of a portfolio of three hotels, consisting of two conversion projects and a third hotel under construction. The acquisition of the three hotels gives Radisson 254 new rooms in Madagascar. The hotels will open in 2020. Radisson is now present in 32 African countries, with 89 hotels and more than 17,000 rooms in total. Its target is to reach 130 hotels with 23,000 rooms in Africa by 2022. Its partner in Madagascar is the Talys Madagascar Group, which specialises in distribution, real estate and hospitality and leisure projects.<sup>25</sup>

### RWANDA

Many ordinary Africans currently face difficulty accessing cancer drugs, which tend to be quite expensive. To address this situation, LEAF Rwanda recently announced it had reached an agreement with the US Contract Manufacturing Organisation (CMO), through the firm's parent company, LEAF Pharmaceuticals LLC, based in the USA. The agreement provides for the manufacturing of the complex generic cancer medicine, LEAF-1404. The CMO will be responsible for both the clinical and large-scale commercial production of LEAF-1404. LEAF Rwanda plans to market LEAF-1404 in Africa and Europe. CMO will also train drug manufacturers from Rwanda and across Africa in the USA, as preparation for building the drug manufacturing plant in the Rwandan capital, Kigali.

LEAF-1404 is a generic version of Caelyx/Doxil, a chemotherapy treatment available in the West for the treatment of ovarian cancer, breast cancer, and Kaposi Sarcoma for over 20 years. There is currently no generic version of Caelyx/Doxil approved in Europe or Africa and the drug has been inaccessible in Africa despite the fact that 90% of the world's Kaposi Sarcoma cases occur in Africa.<sup>26</sup>

### SENEGAL

Workz Group, a mobile and IoT solutions provider with its head office in Dublin, Ireland, opened its office in Dakar, Senegal to serve the West African telecoms market. This is their second office in Africa, after opening its Johannesburg office in June 2018. Workz is the world's largest scratch card manufacturer and a top ten SIM card producer. It is also the only manufacturer in the Middle East and Africa certified by the GSMA to produce next-gen embedded SIM technology. The West African market will contribute over US\$70 billion to its GDP by 2023.<sup>27</sup>

## SOUTH AFRICA

Taste Holdings, the owner of the South African licence for Starbucks and Domino's Pizza, is rethinking its strategy for establishing the US coffee brand in South Africa. According to the CEO, in the future one can expect smaller stores and franchise openings in the country.

The South African food and retail sector is currently a difficult sector. As consumers tighten their belts, the economy contracted 3.2% in the first quarter of 2019, impacting business confidence. According to Old Mutual, while lower-income households are under the most pressure, the middle- to upper-income segments are also experiencing higher levels of financial stress.

While Starbucks is a destination of choice for a specific consumer segment in South Africa, its CEO Dylan Pienaar views its initial rollout as a failure. Future rollouts will be characterised by a lower capex model and greater selectivity regarding store locations. Starbucks will be quite cautious about entering new developments, and seek footprints in established developments with proven foot traffic.

Given the tough South African economic environment, the success of this new strategy is not a given. However, should it succeed, it may indicate that the South African economy is finally picking up.<sup>28</sup>

Ford announced the introduction of a third shift at its vehicle assembly plant in Pretoria, adding 1,200 jobs. This will be done to meet growing international and local demand for the New Ranger, Ranger Raptor and Everest. Ford will then have ~5,500 employees. Ford's suppliers will leverage the added shift by adding 10,000 jobs to the sector. According to Ford, the third shift demonstrates that its R3 billion (~US\$215.2 million) investment in South African plants, announced in 2017, was "now coming to fruition". This investment has enabled Ford to expand its production capacity from 124,000 vehicles per annum to 168,000. Approximately 67% of Ford's production in South Africa is exported to 148 global markets, with the balance sold in South Africa and other countries in Sub-Saharan Africa.<sup>29</sup>

In another development, PepsiCo and Pioneer Foods from South Africa announced plans for a deal worth around R24 billion (~US\$1.72 billion), in which PepsiCo will be buying Pioneer Foods. This is the biggest ever deal for PepsiCo outside the USA. According to Pioneer, the deal is indicative of PepsiCo's belief in South Africa's potential and its long-term commitment to the country. PepsiCo will be paying a considerable premium of 56% for Pioneer shares, as it believes it can generate a lot of revenue with Pioneer brands in Africa. While most of Pioneer's operations are in South Africa, it does export to Sub-Saharan countries.

PepsiCo's acquisition of Pioneer Foods will provide a beachhead for its expansion into Sub-Saharan Africa by "boosting the company's manufacturing and go-to-market capabilities, enabling scale and distribution." The transaction has already been approved by the boards of both companies.<sup>30</sup>

Political commentators in South Africa see the initiatives from Ford and PepsiCo as a vote of confidence in President Ramaphosa's government. He took over from former president Zuma, whose administration brought the country's economy near collapse. Ramaphosa hosted an investment summit in October 2018 to support his objective of attracting US\$100 billion of investment into the country over five years. An economist for the South African Chamber of Commerce and Industry is of the opinion that the two initiatives show he has credibility with his efforts to stimulate South Africa's economy, in South Africa and abroad.<sup>31</sup>

## ZAMBIA

US agriculture company Corteva Agriscience supplies crop protection and seeds to farmers. It recently launched its business in Zambia to support the country's drive to become a regional hub for agricultural innovation, and confirmed its commitment to support the Zambian government's efforts to ensure national food security in Zambia, as well as across eastern and southern Africa. As part of this initiative, Corteva Agriscience will train Zambian farmers on agricultural best practices and provide access to high-quality hybrid seeds, crop protection products and digital farming solutions.

Corteva Agriscience East Africa confirmed its point of view that a productive, high-performance agricultural sector would deliver significant improvements to Zambia's GDP, as well as contributing to

employment and broadening the tax base. As Zambia is a key food production hub in East Africa, and a strategically important market for the company, this is viewed as a significant contribution to the food security of the region.

Corteva also invested R100 million (~US\$7.2 million) in its lab at South Africa's Delmas research hub.<sup>32</sup>

## POINTS OF INTEREST

- As stated earlier, Western companies are increasing their exposure in Africa. Where they are involved in the agriculture sector, they are increasing the level of knowledge and technology of local farmers and businesses. This pattern holds not only in primary sectors such as agriculture, but also for sophisticated sectors such as pharmaceuticals and ICT. Such transfer of knowledge and technology is exactly what Africa needs! Africa's food security and economic growth relies on technology transfer by global corporations, which policymakers should encourage.
- The increased involvement of Ford and PepsiCo in South Africa indicates the trust these companies place in the Ramaphosa administration. Although many in South Africa, across the political spectrum, root for Ramaphosa, it is not sure he will prevail in his endeavours to cleanse his administration and the ANC of corruption. Should Ramaphosa succeed, Ford and PepsiCo could be leading edge investors, and if not, they could become bleeding edge corporations. These investments by companies such as Ford and PepsiCo will strengthen Ramaphosa's hand in implementing his strategy to put South Africa's economy back on track. While the smart money is on Ramaphosa, he still has a hill or two to climb.
- The Starbucks case clearly shows that developed country firms must rethink their entry and business strategies when moving into the developing world. Consumer profiles, routes to market, and value propositions are different than in home markets. For example, the South African market will not necessarily accept a pricing strategy that works in Singapore.
- Carrefour is probably the EU food retail company with the greatest exposure in Africa. In addition to its stores in Kenya, it has also opened stores in Uganda. This is in addition to the large number of stores in Egypt. Other global corporations such as Walmart have also invested in Africa, albeit through a local brand such as Massmart, its South African subsidiary. The primary competitors to these global brands are currently mainly from South Africa, i.e. companies such as Shoprite, Pick n Pay and Spar. Choppies, another African retail player, is from Botswana, but is apparently struggling in the market, despite initial success on its African expansion journey. The demise of African players will pave the way for greater penetration by global players such as Carrefour. The drivers of this situation are African population growth, increasing levels of urbanisation, and the growing African consumer class.

## 4. Fintech and Mobile Money

### INTRODUCTION

Africa's fintech and mobile money subsector shows at least two decades of consistent growth, increasing the level of financial inclusion in many African countries, with Kenya the leading example of this phenomenon. Fintech's success also disrupts the market for many retail banks in a number of African countries, raising the spectre of disintermediation.

### AFRICA

According to a new study conducted by GSMA, the telecoms sector will add more than 160 million new mobile subscribers in Sub-Saharan Africa by 2025, bringing the total to 623 million. Most of these additions will be in high-growth markets such as Nigeria and Ethiopia. As mobile technology is central to Sub-Saharan Africa's digital journey, policymakers and operators must formulate policies and implement best practices that ensure sustainable growth in the mobile industry and enable the transition to next-generation mobile networks.

According to the study, the mobile ecosystem in Sub-Saharan Africa generated almost US\$150 billion in economic value last year. This is forecast to reach almost \$185 billion (9.1% of GDP) by 2023. The study reported other trends, such as 3G overtaking 2G to become the leading mobile technology in Sub-Saharan Africa this year, with 4G accounting for almost 25% of mobile connections by 2025.<sup>33</sup>

### BOTSWANA

In Botswana, the Botswana Telecommunications Corporation (BTC) recently launched its mobile money service, SMEGA, after revamping it to work on Comviva's mobiquity Money platform. The mobiquity Money platform is one of the world's largest white-labelled mobile money platforms, with 100 million registered customers worldwide. Users can execute financial transactions such as purchasing airtime and data, paying water bills, buying pre-paid electricity, paying salaries, and for P2P payments. Businesses can use SMEGA's bulk payment feature to pay allowances and salaries to their employees, reducing the cost and paperwork associated with cheque and cash payments. SMEGA has a unique feature called Motshelo Club, an innovation inspired by the group savings culture in Botswana. Motshelo Club allows a group of people to contribute to a shared savings wallet and use the money on a rotational system, depending on the immediate needs of a member of the group. BTC is the first mobile operator in Botswana to offer a digital service like Motshelo Club.<sup>34</sup>

### GHANA

In Ghana, the new Phlenu product is a mobile platform that provides a new avenue for sales, and supports business owners. The Phlenu smartphone app enables shoppers to browse every merchant for the best deals, from the comfort of home. Phlenu Business offers access to a global market where businesses can sell their products or services, and access to data on the industry and their consumer segments. Merchants have access to extensive data relating to consumer behaviour on the platform, plus analytical services. Using the app, merchants can see what, where, and when customers buy a product or service, and then align their marketing efforts to consumer behaviour.<sup>35</sup>

From a regulatory perspective, the Bank of Ghana is looking at imposing minimum cash requirements for companies supplying mobile money services to the Ghanaian public. This is to ensure businesses are secure for the good of stakeholders and the public. The central bank could introduce this capital requirement by the end of 2019. Companies already offering services will probably be given time to meet the minimum requirements, where needed. Any new entrants would need to meet new regulations at launch.<sup>36</sup>

## KENYA

Kenya's Vision 2030 has enabled astounding results using ICT. The addition of four fibre-optic sea cables between 2009 and 2016 improved the quality of its connectivity, and reduced the cost of this connectivity for consumers and businesses. Kenya has become a global leader in addressing financial inclusion through fintech.

Kenya made the African continent a leader in mobile banking through innovations such as M-Pesa. These transaction platforms have opened the door to formal financial services for Kenya's poor. African nations now appreciate the role of fintech and financial inclusion in economic development. Kenya has brought about fintech-positive practical experiences, which have contributed to inclusive economic development, making Kenya the most financially inclusive country in Africa. Access to M-Pesa increased per capita consumption levels and helped lift 194,000 households, 2% of Kenyan households, out of poverty.

Global development institutions focusing on the development potential of financial technology frequently cite M-Pesa as a major success story. It is time for all of Africa to copy the commitment of Kenya's ICT policies and regulatory framework that allows growth and development of all agents in the economy, which has a sustainable effect on inequality and facilitates the deepening and outreach of financial systems.<sup>37</sup>

Kenya now seeks to increase its regulation of the mobile money/fintech sector. The Kenya Information and Communications (Amendment) Bill 2019 – yet to be approved by Parliament - contains rules that would force Kenya's telecoms operators to legally separate all business units acting outside the communications sector, while all their services falling outside of the remit of the nation's communications regulator must obtain new business licences.. Companies would have six months to conform to these requirements. In practical terms, mobile money services will be licensed as banks, and telecommunications firms will be licensed to only offer voice, data and text services.

While the pending legislation will cover all Kenya's providers, it will hit Safaricom the hardest. Safaricom's M-Pesa is the dominant mobile money player in Kenya, and is set to provide more than half of Safaricom's revenue within four years.

This is not the first time attempts have been made to force Safaricom to spin off M-Pesa from its telecoms business. Such an attempt was made in 2017, but was rejected by Kenyan ministers on the advice of experts linked to Safaricom.<sup>38</sup>

The telecoms players in Kenya, the Ministry of ICT, the Central Bank of Kenya (CBK) and Communications Authority of Kenya (CA) have cautioned Parliament in their attempts to de-link mobile money services such as M-Pesa, Airtel Money and T-Kash from their mobile telecommunications parent companies. These regulators requested serious research into the pros and cons of the pending legislation. While Parliament's argument is that money services should be treated as banking services, the above-mentioned stakeholders worry that the legislation could stifle innovation in the telecoms sector.<sup>39</sup>

Despite the reservations of regulators regarding splitting M-Pesa and other mobile money providers from their parent companies, there is a gap in regulations to govern mobile-based online lending firms that enables money laundering services to use them as channels. The CBK governor singled out Tala, Branch and Okash - three digital money lenders - as credit-only mobile lending institutions that could easily launder illicit cash. There is no specific law targeting such service providers. The key concern for regulators is the source of funds they lend to the public. Currently, online lenders pose a serious problem for regulators.<sup>40</sup>

## NIGERIA

OPay, an Africa-focused mobile payments start-up founded by Opera, a Norwegian browser company, recently raised US\$50 million in funding. OPay will use the funds to grow its digital finance business in Nigeria. OPay will also support Opera's growing commercial network in Nigeria, which includes motorcycle ride-hail app ORide and OFood delivery service. OPay in Nigeria has scaled to 40,000 active agents and US\$5 million in daily transaction volumes.

The US\$50 million investment in OPay is more than just another big funding exercise in Africa. First, the majority of funding for OPay originates in China-linked funds and sources.

Next, after OPay's capitalisation, Nigeria could potentially overtake Kenya as Africa's digital payments leader. Nigeria's subordinate position to Kenya is partly due to Central Bank of Nigeria policy limiting the ability of non-banks (including telcos) to offer mobile payment services, although the CBN eased many of those restrictions earlier this year. In addition, Paga, currently Nigeria's leading digital payment company, raised US\$10 million in 2018 to expand its customer base. Together with OPay's US\$50 million, the above trends could boost the adoption of digital finance in Nigeria.

Finally, OPay's funding stimulates Opera's move to become a significant e-commerce platform in Africa. This could position OPay to compete with other similar start-ups in Africa, including other e-commerce platforms, such as Jumia, currently Africa's largest e-commerce platform.<sup>41</sup>

## UGANDA

A World Bank study in Uganda found that the availability of mobile money for subsistence farmers could raise the level of 'non-farm' employment, which is crucial to raise household incomes above the poverty of subsistence farming. However, this did not translate into increased savings. The study found that rolling out mobile money agents saved costs on remittance transfers. It also "almost doubled the non-farm self-employment rate, from 3.4 to 6.4%, and reduced the fraction of households with very low food security from 62.9 to 47.2%, in areas far from a bank branch."

According to the study, households used their increased peer-to-peer (P2P) transfer receipts and cost savings from remittance transactions to invest in self-employment, which in turn generated income that raised food security. Mobile transfers also make it easier to pay for wages or services rendered, which could also give non-farm employment a boost.

According to the World Bank study, mobile money can improve livelihoods, even in extremely poor, rural and remote regions. In addition, the private sector can make a difference and take the lead.<sup>42</sup>

## POINTS OF INTEREST

- As stated in the introduction, Africa enthusiastically embraces fintech and mobile money. One simple reason is the absence of formal banking infrastructure, especially in remote rural areas of many African countries. Many at the bottom of the pyramid have never had access to the banking sector and do not trust them. Few banks have branches in remote areas and, given the costs involved, are not motivated to spend on bricks and mortar to serve these areas.
- With the advent of digital banking, some formal banks are actually reducing their physical footprints in the rural areas, and even in a number of cities. Standard Bank of South Africa recently reported it was in the process of closing down 104 branches. In some areas of the country, clients of the bank must travel close to 270 kilometres to reach a branch. It is this kind of situation that will accelerate impetus to the growth and development of mobile money even in relative sophisticated countries in Africa such as South Africa.
- As in Uganda, mobile money brings about unintended consequences, mostly with a positive outcome. The trend has ramped up the development of e-commerce companies in Africa, as many Africans are comfortable working with fintech and now have access to funds and banking services, which previously was not the case.
- Given the growing scale of mobile money in Africa, increasing regulatory oversight in the sector is far from strange. In countries such as Kenya, mobile money has achieved such a scale that should the sub-sector fail, it could have serious consequences for the national economy. Regulators thus see a need for closer governance of the industry. The trick is not to put in place so many restrictions so that the sector will lose its agility and drive for innovation.
- While Kenya has been the driver of mobile money in Africa until now, the size of Nigeria's population and regulatory trends in the country could push Nigeria to a dominant position on the continent as

regards mobile money. Trends in regulatory development of and competition in mobile money services between these two leading economies in Africa will be interesting.



## 5. Linking Africa to the World

### INTRODUCTION

Africa must increase its exposure to the world at large, if it wants to grow its economies and deal with challenges in the industrialisation of its agriculture and manufacturing sectors, to name but two. Developments in ICT, developing food security, building out its infrastructure (transport, energy, water, housing, hospitality, etc.) and increasing the sophistication of technology use will require Africa to reach out and partner with foreign countries and corporations. This paper looks at potential partners, including both Western and non-Western governments, but excluding China (government and private sector companies, which is dealt with in a separate section) and private sector corporations based in the traditional colonial powers (which is also dealt with in a separate section). It does address companies in non-Western countries.

### AFRICA

Singapore's theAsianparent has raised funding of "double digit millions" in a series C round to expand its operations in Africa. This funding round was backed by Chinese conglomerate Fosun, JD.com and asset managers Redbadge Pacific and WHG Capital. It launched earlier this year on the African continent, with Nigeria, Kenya and South Africa as priority markets. The funding will also help theAsianparent make its foray into commerce. Part of the funds will be used to launch both ecommerce and a direct-to-consumer business model.<sup>43</sup>

### EGYPT

Egypt has launched a new project with Belgium's Port of Antwerp to develop the country's bunkering business. The Port of Antwerp, one of the European largest ports and with a favourable reputation for trading in oil and liquefied natural gas bunkering, will help develop Egypt's vision to implement an oil and gas hub strategy.

Egypt and the EU also recently discussed speeding up of the implementation of the MoU on strategic cooperation in energy signed between the EU and Egypt in April 2018. They are also preparing a number of initiatives, including distribution and grid reinforcement projects, the upgrade of a refinery, and an energy efficiency programme in a gas transmission project.<sup>44</sup>

Still in Egypt, according to the Minister Counsellor for Economic Affairs at the US embassy in Cairo, James Boughner, the governments of Egypt and the USA are exploring ways to promote a greater reciprocal market access for agricultural and industrial goods. The trade between the two countries reached US\$2.2 billion in the first quarter of 2019. Egyptian exports to the USA increased from US\$465.6 million to US\$692.9 million, with a 39% increase in non-petroleum exports. The products include textiles, ready-made garments, salt, sulphur, stones, iron and steel, aluminium, wood, vegetables, and fruits.

While over 1,200 US firms currently operate in Egypt, ranging from large petroleum firms to small service companies, a growing number of new US firms explore doing business in Egypt. The stock of US direct investment in Egypt is over US\$22 billion. These new potential partners show interest in several sectors, including energy, ICT, infrastructure, defence, healthcare, and agriculture.

According to Boughner, the USA views Egypt's economic reforms as a positive step to "macroeconomic stability, building up the private sector, and putting the economy on a path to sustainable higher growth." In addition, Egypt's large and growing market size, its educated workforce, and its strategic location, makes Egypt an ideal site for basing both local and regional operations. The Egyptian government is also working hard to attract FDIs through legal and regulatory reforms and a general willingness to make it easier to do business in the country.<sup>45</sup>

## **ETHIOPIA**

Ethiopia and the United Arab Emirates (UAE) recently signed an agreement worth US\$100 million to support the Ethiopian government's efforts in the innovation and technology sectors. The funds will mainly be used to boost the capacity of micro, small and medium enterprises within innovation and technology sectors. The financial support was provided through the UAE's Khalifa Fund for Enterprise Development and will engage enterprises in agribusiness, agro-processing, information and technology services, and companies in the energy and manufacturing sectors.<sup>46</sup>

## **KENYA**

According to the Turkish ambassador to Kenya, Kenya and Turkey are set to sign a double taxation avoidance agreement by the end of 2019. Both countries are keen to improve the environment for investment and trade. As officials of the two countries have already exchanged the draft of the double taxation avoidance agreement, the treaty should be signed by end of 2019. According to the ambassador, the current level of bilateral trade is below the potential of the two countries.

As for products involved in trade between the two countries, Turkey exported machinery, textiles and furniture to Kenya, while the latter sold coffee, tea, horticultural products and fruits to Turkey.

A delegation from Turkey's health sector will be on a trade mission to Kenya in September 2019 to investigate opportunities in Kenya's health sector. During their visit, they will showcase the latest health medical equipment from Turkey that could improve health outcomes for Kenyans.<sup>47</sup>

## **NIGERIA**

The US government recently disclosed it had invested US\$165 million on agriculture and economic development in Nigeria over the last four years. Nigeria and the USA also launched a five-year Feed the Future Nigeria Country Plan (currently targeting 11 states in Nigeria) to increase investments on agriculture and improve household nutrition in Nigeria.

According to the Charge d' affairs at the US Embassy in Nigeria, the initiative will help Nigeria embrace agriculture as a driver of its economy. It is seen as a five-year plan to stimulate the agri-business industry, to support communities to withstand unanticipated shocks (e.g. droughts) that affect food security, and to improve the health of some of the vulnerable communities in Nigeria.

The initiative will link farmers with suppliers, improve agricultural services and inputs and stimulate market growth. As such it will present new opportunities for millions of households to improve their quality of life and standard of living.

Once again, the private sector is seen as a crucial player for the success of a government initiative. With its contribution, the private sector will become the main driver of economic development and enable agriculture to become a robust contributor to the health and prosperity of Nigerians.

Other partners important for the success of the initiative include universities, research institutes, international organisations, local and international NGOs, civil society, the media, and donors. According to USA stakeholders, this plan integrates Nigeria as part of the global food security strategy.<sup>48</sup>

## **RWANDA**

The renowned graduate school in ICT development, Kobe Institute of Computing (KIC), in collaboration with the Private Sector Federation's Rwanda ICT Chamber and the Japan International Co-operation Agency (JICA), created a two-year capacity-building ICT project in Rwanda. This project was dubbed the "ICT human resource development project" and offered youth professional training opportunities such as the Internet of Things (IoT), business-oriented problem solving and leadership courses in order to drive national development.<sup>49</sup>

On another topic, sources have confirmed that Rwanda's application for membership of the Asian Infrastructure Investment Bank (AIIB) was set to be approved in the very near future. Together with the applications from Benin and Djibouti, the AIIB will then consist of 100 members. Rwanda, Benin and

Djibouti will officially join AIIB once they complete the required domestic processes and deposit the first capital instalment with the Bank.

According to the African Development Bank, Africa's infrastructure needs US\$130–US\$170 billion a year, with a financing gap in the range of US\$68–US\$108 billion. AIIB members collectively account for 78% of the world's population, 63% of global wealth, and 75% of global carbon emissions.<sup>50</sup>

## UGANDA

A number of companies from Turkey have opened manufacturing plants and other businesses in Uganda. Turkey's government is encouraging its companies to invest more in developing economies rather than just exporting goods to these countries. This strategy helps the local economy to develop and creates job opportunities.

Turkish companies that have set up plants in Uganda include Level Energy, Potenza Lubricants and Colin Construction. Turkish construction company Yenigun also intends to invest in Uganda. These companies will be producing in Uganda and will also have access to the markets in Uganda, the DRC and South Sudan.

Turkey and Uganda have recently had two business council meetings - one for Turkish electronics exporters in May, and a Uganda-Turkish business forum in June 2019. They were attended by 300 business executives who became acquainted with one another.<sup>51</sup>

## ZIMBABWE

Russian diamond company Alrosa recently signed a deal to explore and mine diamonds in Zimbabwe. This comes as the country aims to leverage its mineral resources to boost its weak economy. Although Zimbabwe has large diamond reserves, mining has been problematic with corruption and policy uncertainty being serious challenges. Alrosa will invest an initial US\$12 million in its foray into the diamond sector of Zimbabwe. It hopes to start exploration in September 2019. Given its perception of the potential to be unlocked in Zimbabwe, it will invest more in the years to come, depending on the outcome of the exploration.

According to the Minister of Mines and Mining Development, there was a broad scope for investment. The investment by Alrosa will take the form of a joint venture between Alrosa and the ZCDC, and will look at both greenfield and brownfield projects. It is part of Zimbabwe's vision to produce 10-million carats annually and to earn US\$1 billion annually from diamonds.

While Russian investors have also committed to invest US\$3 billion in platinum production in Zimbabwe, concerns over shareholding demands by the Zimbabwean government are stalling the deal. In Zimbabwe, investors in the platinum and diamond sectors are obliged to partner with the government.<sup>52</sup>

## POINTS OF INTEREST

- Russia is increasing its footprint in Africa. This has become a strong trend with an increasing visibility of the country in Africa. This is the case in both the military and economic sectors. In this regard, Turkey is replicating the Russian strategy. Reasons for this development include influence, resources and a huge market of 1.2 billion people.
- The visibility and presence of countries other than China and the USA, provides African governments with realistic alternatives to these two economic super powers. It will also strengthen their negotiation power in trade and other discussions. As it is, Africa is seen by many as strongly beholden to especially China, due to the latter's investment in Africa and its dominant trade position with countries on the continent.
- In spite of Africa accepting investments and support from the US government and private sector, it has also embraced China's BRI. It remains to be seen whether these two countries will allow Nigeria

to sit on the fence, ideologically speaking, or whether they will demand Nigeria's support in exchange for investments.

- Turkey is an interesting case. It has lately supported an arms procurement package from Russia, in opposition to demands from the USA to not do so. We have been seeing Turkey reaching out significantly to Africa, with investments in various sectors. Turkish Airlines flies to more than 50 destinations in Africa, and has diplomatic presence in more than 40 countries. Given that Turkish support for the US ideology is not a certainty (increasingly less so, it appears), it will be interesting to see who they support in a showdown in Africa between the USA and Russia. In the meantime, Africa is the beneficiary of Turkish investments on the continent.
- It also appears that a number of African countries have become members of the AIIB, which is a Chinese initiative. With the addition of the countries mentioned above, i.e. Benin, Djibouti and Rwanda, there are now eight African countries that are members of the AIIB. Prospective African members include the likes of Algeria, Cote d'Ivoire, Ghana, Kenya, Libya, Morocco, South Africa and Tunisia. The question is why are African countries becoming members of the AIIB, which has the benefit of Asia as its goal? The answer is quite straight forward, namely that any AIIB member can submit a proposal for funding. The AIIB can lend to members beyond Asia if the project delivers a clear benefit to Asia.

Author: Mr Johan Burger

Editor: Dr. A. Lee Gilbert

Editor-in-chief: Prof. Sam Park

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## Contact Information:

Yvonne Chong

Email: [cas@ntu.edu.sg](mailto:cas@ntu.edu.sg)

Phone: +65 69081940

Address: S3-B1A-35 Nanyang Business School

Nanyang Technological University

50 Nanyang Avenue Singapore 639798