



Africa Digest

Trends and Issues in Business

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1. Trends on China in Africa

Although China's involvement in Africa is far from secret, conspiracy theories abound regarding the motives for this rapidly growing relationship and how its end game will evolve. The scale and scope of China's activities on the continent is undeniable. Current projects include agriculture, energy, housing, mining, and infrastructure development across a broad range of sectors, such as telecoms and transport (roads, railways, and ports).

The first China-Africa Economic and Trade Expo was held from 28–30 June in China, during which a total of 84 deals worth US\$20.8 billion were concluded in trade, agriculture, tourism and other sectors.¹

EAST AFRICA

Viewing public debt levels of the two countries as excessive, China recently declined to increase funding for the joint railway project between Kenya and Uganda. The 1,500km railway project, originally set to complete in 2018, was intended to increase the region's competitiveness by lowering transport costs. Kenya completed the initial SGR phase linking Mombasa to Nairobi, and progressed with the second phase from Nairobi to Naivasha, but has been unable to extend the railway line to Malaba. China reportedly requested Kenya and Uganda to "work on their respective financing modalities" to receive additional funding for the joint railway project. According to Ugandan Finance Minister Matia Kasaija, complications between Kenya and Uganda delayed China's funding for the project.

A visit to China by Kenyan and Ugandan government officials in April 2019 sought to secure the funding needed for the SGR project, without success. However, according to Kenyan Transport Cabinet Secretary James Macharia, the Chinese Ministry of Commerce recently approved funds and China's Exim Bank seeks to match the financial dynamics of lending to the structure of each country.²

EGYPT

According to Deputy Minister of Agriculture Mona Mehrez, Egypt will cooperate with China in the agricultural domain. Chinese investors are active in developing various sectors in Egypt, including infrastructure, industrial cities and agriculture. A number of Egyptians are working at Chinese agricultural research institutes and academies. The minister emphasised the importance of China's Belt and Road Initiative for Africa, adding that Egypt is upgrading its roads to facilitate inter-continental trade, broadening Africa's opportunity to benefit from Egypt's cooperation with China.

ETHIOPIA

Ethiopia will have the longest bridge in the country designed and built by a Chinese company, China Communication Construction Company (CCCC), at a cost of US\$49 million. CCCC's offer was 15.3% higher than the engineer's estimates. Three companies that initially participated in the bidding process with CCCC were disqualified, leaving CCCC as the sole bidder.³

KENYA

The poor quality of East African roads is a barrier to trade. For example, to reach South Sudan by road, Kenyan traders must travel through Uganda, a trip that can take up to three days. Construction of a new highway will cut travel time by at least two days. Three Chinese contractors are on track to complete the Kenya-South Sudan highway in 2020. They will upgrade about 248 km of road to bitumen standards on the Kenyan leg of the road that links the country with South Sudan. Kenya is prioritizing the completion of the highway, which is currently 30% complete and an important part of the East African Community road network, to boost intra-regional trade.⁴

Kenya recently requested Chinese firms to invest to help Kenya achieve its ambitious manufacturing targets to produce goods that are currently imported to save foreign exchange and create jobs locally. According to Kenya's "Big Four" strategy, Kenya's president wants to increase the manufacturing sector's contribution to the GDP from less than 8% to 15% by the end of 2022. According to the Kenyan

Cabinet Secretary for the Ministry of Industry, Trade and Cooperation, Peter Munya, China represents a huge market for Kenyan goods.⁵

Kenya plans to build its first nuclear plant in the next 8 to 10 years, and has contracted with a Chinese firm - China National Nuclear Corporation (CNNC) – to determine the most suitable location. While the Nuclear Power and Energy Agency (NuPEA) of Kenya plans to set up the nuclear power plant with a 1,000 MW capacity by 2027, the Energy ministry is of the opinion that Kenya should only turn to nuclear power when it has fully exploited other sources of energy. NuPEA announced that its capacity would rise to 4,000 MW by 2033, with nuclear electricity a key component of Kenya's energy mix.⁶

NIGERIA

China's Shenzhen Lemi Technology Development Company recently launched the distribution of its solar home kits in Nigeria. This will benefit Africa's largest population, a large portion of which is not connected to a national electricity grid that is struggling to supply large cities. More than 50% of Nigeria's population of close to 200 million live in rural areas, where few are connected to a national electricity grid. The increase of solar kit suppliers will hopefully lead to lower market prices. Shenzhen Lemi's product consists of a solar panel, a controller, and a battery storage system with sockets to supply power to devices such as televisions or radios.

While the firm has yet to reveal its payment model, the pay-as-you-go (pay-per-use) model is popular in Nigeria and easy to implement thanks to "mobile banking".⁷

China National Offshore Oil Corporation (CNOOC) recently announced investment of US\$16 billion in Nigeria's oil and gas sector. It said Nigeria was one of its largest investment destinations. It also called upon the Nigerian National Petroleum Corporation (NNPC) to support it in securing the investments, adding that there was a need for both national oil corporations to work closely. CNOOC currently produces 800,000 barrels of crude oil worldwide, with a target of 1.2 million barrels per day. Nigeria was one of the sources targeted to achieve this target.

The Group MD of NNPC, Mele Kyari, commended CNOOC for its plan to expand investment in the Nigerian petroleum industry and assured it of the NNPC's support. The NNPC targets growth in production to three million barrels per day by 2023, with the help of partners such as CNOOC.⁸

TANZANIA

Tanzania recently awarded licences for the construction of a mineral smelter and two gold refineries to Chinese firms to generate more revenue from its mining industry. The Chinese companies will soon receive licences for mines, each of which will require an investment worth over US\$100 million. When the Tanzanian government invited bids from mining firms to build smelters and refineries, 37 Chinese companies expressed interest. The companies who received the licenses have not yet been named.

Gold exports are a key source of foreign exchange for Tanzania. The country exported gold worth US\$1.549 billion last year, an increase from US\$1.541 billion in 2017.⁹

ZIMBABWE

The Zimbabwean government hopes to obtain a US\$2 billion bailout package from China in a desperate bid to rescue its failing economy and ease the serious liquidity crisis facing the country. Finance minister Mthuli Ncube and Reserve Bank of Zimbabwe (RBZ) governor John Mangudya recently visited Beijing for this purpose. However, the Chinese government is demanding that Zimbabwe first service US\$700 million in loans, which are about US\$300 million in arrears.

With international financial institutions shunning Zimbabwe, China is seemingly the only viable option for a bailout package. While China has committed to continue funding infrastructural projects, it has been cautious in its engagement with Zimbabwe, maintaining that repayment of arrears is a precondition for fresh funding.

China indicated to Zimbabwe that it requires a credit guarantee by the China Export and Credit Insurance Corporation — Sinosure — to provide funding. Zimbabwean officials are also negotiating for credit from China's Industrial and Commercial Bank and Export-Import Bank. However, China remains worried about Zimbabwe's country and political risk profile, lack of creditworthiness and capacity to repay its debts.¹⁰

POINTS OF INTEREST

- Despite significant anti-Chinese rhetoric, several African countries continue to request China's involvement in investments and projects on the continent. Some, like Zimbabwe, struggling to get its economy firing on all cylinders, have no other option. Others, such as Egypt, do have viable alternatives.
- However, China appears no longer willing to provide African countries with loans without preconditions. China has been accused of debt-trap diplomacy by various countries in the West. At the most recent FOCAC meeting in Beijing, President Xi Jinping made it clear that African governments should refrain from accepting vanity projects. Even where there is a clear business case for the project, the examples above reveal China's increasing concern about the debt levels of African governments seeking these loans. Kenya, Uganda and Zimbabwe clearly attest to this shift.
- Regarding Tanzania's smelters, only Chinese companies appear in news reports, raising the question of whether companies from other countries were invited to express interest. The number of Chinese firms is an indicator of the prominence the country enjoys in Tanzania!
- Kenya invited Chinese companies to invest in Kenya's manufacturing sector, hoping to boost the contribution of the manufacturing sector from less than 8% to 15% by 2022. This very ambitious target faces the challenge of preparing local companies to compete with cheap imports, mostly from China. Chinese investment in Kenya could generate benefits, ranging from import substitution to jobs. It is not the only country in Africa to have done so. An excellent example of this is Ethiopia, who has built a number of industrial parks, some of them by China or with China's financial support.

2. Financial Services in Africa

The financial services sector in Africa faces new technologies, changing user behaviour and evolving regulatory trends, leading to phenomena such as the rise of the mobile money sub-sector. Related shifts include increasing digitalisation, cash losing its shine, and in some markets, deregulation. The resulting market trends led some banks, such as Standard Bank in South Africa, to close branches while other banks sought to expand to markets beyond their current borders.

ETHIOPIA

The Ethiopian government approved a new policy to stem illegal currency transactions by doing away with cash transactions. The Prime Minister stated that the National Bank of Ethiopia would stop cash transactions as soon as possible. Government offices would be the first to start with cashless transactions, followed by private institutions. The government will apparently permit the private sector to continue to conduct cash transactions, albeit in small and predetermined amounts.

The Ethiopian Revenue and Customs Authority will collect annual payments online, replacing the cash register machines to collect taxes. Furthermore, the National Bank of Ethiopia is required to accept movable goods as collateral for loans.

Recently, eight commercial laws were revised to attract investments and generate more job opportunities for young people.¹¹ The World Bank recently ranked Ethiopia in 159th place in its Ease of Doing Business Index, declining from 101 in 2006.

GHANA

Emerging payments technologies and solutions contribute significantly to the on-going transformation of the Ghanaian economy. Fintech affects many sectors, including family support, tax mobilization, trade, e-commerce, health care, education, savings, insurance, wealth creation and access to credit.

E-commerce players benefit from these emerging digital payments technologies. This is true for the giants such as Alibaba and Amazon, as well as small-scale Ghanaian businesses such as food vendors, dressmakers and carpenters.

Policy makers recently focused on digitization as a catalyst for economic growth in Ghana, highlighting the contribution of emerging technologies for collections and payments to the growth of the Ghanaian economy. However, to fully leverage the benefits of emerging collections and payments technologies, traditional banks, government agencies and Fintech will need to invest even more.

Much work remains. The role of cash in today's Ghanaian economy remains dominant - turning this around will require robust infrastructure, public education, and well-designed user interfaces. Stakeholders must formulate, adopt and enforce the standards and regulations needed to streamline operations and raise public confidence in Ghana's emerging collections and payments model.¹²

KENYA

In September 2016, Kenya adopted a law to cap bank lending rates at 4% above the central bank rate, currently 9%. The intent was to cut the costs of credit for businesses and private consumers. The government hoped that boosting access to loans would stimulate economic growth in the country, especially the SME sector. However, as banks then refused to lend to customers they considered too risky, the new law did not have the desired effect. Kenyan lawmakers rejected efforts by the Kenyan Treasury and other stakeholders to remove the cap.

To add insult to injury, Parliament declared its intent to adopt a bill that would entrench the limit to lending rates. They intend to target borrowers, who would be fined up to Sh1 million or jailed for a maximum term of one year if found to have accepted loans above the rate cap. The proposed new legislation would also levy penalties against the banks and their CEOs.

According to the Kenyan central bank, private-sector credit expanded by 5.2% in the year to April, well below the ideal growth target of 12% to 15%.¹³

NIGERIA

Mr Peter Amangbo, CEO of Zenith Bank, believes the banking sector in Nigeria offers great potential. Approximately 60 million Nigerians are without a bank account. Zenith Bank, well aware that the adoption of mobile money has the potential to fill this gap, embarked upon a digital expansion drive.

According to Amangbo, Nigeria's banking industry faces a number of challenges. Oil price volatility is a major challenge, given the dependence of the national economy on oil revenues. In response to plummeting oil prices, the Naira fell from 151 to the dollar to about 360. Regulation is another challenge; with the government closing down bank branches due to outstanding tax claims. Requests for assessment documentation resulted in statements that the bill must first be paid. Actions such as these highlighted a need for consistent governance, backed by law and appropriate enforcement.

Automation has taken over much of banking. Many Nigerian bank cards, debit cards, credit cards, and mobile payment systems are used globally. Most banks are introducing robotics to perform reconciliation. Thus, automation will continue to be at the heart of banking. However, Amangbo views technology as the biggest challenge to financial inclusion in Nigeria. Nigeria is not moving fast enough to a cashless system. Cash requires physical infrastructure, and the cost to build branches is high.¹⁴

RWANDA

Kenya's Equity Bank has bid to acquire Rwanda's BPR, now owned by the Atlas Mara group. This has the potential to develop into a battle for market share, thus heating up the market and forcing market players to change their strategies to maintain their positions. Should Equity acquire BPR, the move would create the second largest bank in Rwanda, after partially state-owned Bank of Kigali. Equity has apparently offered over US\$100 million for all of Atlas Mara's assets in Rwanda, Tanzania, Zambia and Mozambique.

Equity's offer for BPR is motivated by strategic synergies. Both share common roots, common philosophy and purpose, and focus mainly on the poorer and more rural segments of the market. While BPR has a robust infrastructure and a bigger network than Equity in Rwanda, Equity has more advanced technology than BPR. Strategically, the acquisition will give the new bank more muscle.¹⁵

SOUTH AFRICA

Africa's first equity crowdfunder, Uprise.Africa, and South African alternative exchange, ZAR X, have recently agreed that ZAR X will list any up-and-coming entities that have already successfully raised capital via crowdfunding, and freely trade their shares on the open market. This will simplify venture capital through this "mutually beneficial partnership for both entrepreneurs and investors." Start-ups will now have the ability to use Uprise.Africa to raise capital quickly, and then eventually list on ZAR X where their shares can be publicly traded.

The initiative provides investors with an alternative exit strategy, thus contributing significantly to de-risking investment proposals. Before this move, investors were locked in an equity crowdfunding investment for between 6 to 8 years. Listing shares on ZAR X increases the liquidity of these shares. It appears that equity crowdfunding is gaining support internationally, with the World Bank estimating that the global equity crowdfunding sector will be worth more than US\$93 billion by 2020.¹⁶

President Cyril Ramaphosa recently signed the controversial National Credit Amendment Bill into law. This so-called 'debt relief bill' aims to provide relief to over-indebted South Africans who have no other means of extracting themselves from over-indebtedness. Specifically, certain applicants can have their debt suspended in part or in full for up to 24 months. This debt may then be extinguished altogether if the financial circumstances of the applicant do not improve. The unsecured debt may not be more than R50,000 (~US\$3,300), and the borrower may not earn more than R7,500 (~US\$500) a month in the last six months.

Stakeholder concerns include the costs banks would incur from writing off the debt, and that banks may respond by tightening lending conditions, thus making it more difficult for the poor to secure credit. The result would be higher interest rates and more stringent loan criteria. According to expert estimates, the bill could force losses at local banks in the region of R25 billion (~US\$1.65 billion).¹⁷

UGANDA

Commercial banks in Uganda aim to develop an ecosystem that will increase lending to the agricultural sector. Their target over the next five years is to reach 20% from the current 12%, which is already double the figure of 5.2% in 2009. This strategy is based on the views of experts that with sufficient financing for sustainable and climate-smart production systems, the sector can unlock economic potential in Ghana. Agriculture currently contributes 25% of Uganda's GDP, and banks eventually want to match lending to agriculture (currently at 12%) with the same level it contributes to GDP (25% as stated).

Chief executive of Stanbic Bank Uganda, Mr Patrick Mweheire believes partnerships such as the Agriculture Credit Facility (ACF) at the Bank of Uganda and other initiatives will help in de-risking agriculture. He stated it was imperative for bankers to understand the "dynamics and cycles in agriculture and structure appropriate financing models that suit agriculture and its value chains."

According to Bank of Uganda Governor Mr Emmanuel Mutebile, potential areas of further investment for the government and the financial sector include roads, cold storage, transport, support for farmer organisations, agricultural extension, and outgrower schemes.¹⁸

POINTS OF INTEREST

- Mobile money in Africa is turning out to be a challenge for the formal banking sector. On the other hand, it has played a major role in increasing financial inclusion levels in Africa.
- Some African countries actively work to reduce the role of cash on the continent. The development of new technologies and digitalisation of the sector supports this aspiration, as does the accelerating increase in the use of mobile money.
- However, the level of government intervention in credit terms and conditions could backfire. In Kenya, we have already seen the negative impact of the rate cap on the number of loans issued and the slowing down of SME activity. Targeting loan applicants for fines should they accept loans at rates prohibited by law, is likely to lead to providing even less credit to the SME sector, and a cooling of the economy. The impact is clearly seen in the gap between the private sector credit growth target and the actual achievement. This gap, with all its negative consequences, will only grow should the government remain on its current path. The situation reminds one of the classic systems thinking paradigm of unintended consequences.
- The South African president's signing into law the writing off of loans of heavily indebted borrowers, also has the potential to create negative unintended consequences. These include higher interest rates for borrowers, a lower number of loans granted, and potentially more undisciplined borrowing by those whose debt may be written off. These impacts would soon lead to a shift to loan sharks by those who will now find accessing bank loans more difficult, a loss of trust in the nation's formal financial services sector, and less economic activity by parties now denied access to loans. Perhaps the South African government should learn from the Kenyan experience and dial back their involvement in the banking sector.
- The mechanism by which start-ups can access capital from venture capitalists, then list on the ZAR X, is an innovative development providing a novel exit strategy for venture capitalists and private equity (PE) players. This development has the potential to be emulated throughout Africa, and perhaps the world. As the continent struggles with low levels of PE and thus lacklustre venture capital (VC) involvement, this initiative could lead to substantially improved PE investments. Africa could subsequently see a substantial increase in business development by SMEs and start-ups, given the potential increase in PE and VC involvement in Africa.

3. Southeast Asia in Africa

Southeast Asia offers substantial growth opportunities with well-understood risks for those in the region. Recently, a number of Southeast Asia based corporates, identifying Africa as a high growth region, have joined investors from China, India, Japan and South Korea, to name but a few.

AFRICA

The Indonesia-Africa Infrastructure Dialog (IAID), which had just been hosted in Bali Province, on 20-21 Aug 2019, posted 11 business deals worth US\$822 million. According to the Indonesian Foreign Affairs Minister Retno LP Marsudi, the business deal value showed that Indonesia's intention to be closer to Africa was not just a political statement, but was followed with concrete cooperation.

The majority of the business deals are infrastructure projects, e.g. the construction of La Tour de Goree Tower worth US\$250 million in Dakar, Senegal; a housing construction project worth US\$200 million in Songon, Côte d'Ivoire; and a bulk liquid terminal construction project valued at US\$190 million in Zanzibar (Tanzania). The three projects will be carried out by PT Wijaya Karya (WIKA) with funding supported by Indonesia Eximbank.

Other business deals include a pharmaceutical project worth US\$1.5 million by Dexa Group (Indonesia) with Bahari Pharmacy (Tanzania); a clove leaf oil production project valued at US\$2.5 million by PT Indesso Aroma (Indonesia) with Zanzibar State Trading Corporation; and a pharmaceutical project worth US\$2.5 million between Kimia Farma (Indonesia) and Topwide Pharmaceutical (Nigeria).

Indonesia has also agreed to negotiate Preferential Trade Agreements (PTA) with several African countries such as Mozambique, Morocco, and Djibouti.

The first ever Indonesia-Africa Forum (IAF) held in April 2018 in Bali, Indonesia paved the way for increased economic cooperation. The Forum resulted in concrete economic cooperation amounting to US\$586.56 million of business deals in sectors of strategic industries, infrastructure, financing, mining, textile, aircraft maintenance and trade in commodities.¹⁹

According to Egypt's ambassador to Malaysia, Gamal Metwally, economic and commercial relations between Malaysia and Africa are less than satisfactory for both parties despite the vast potential. While Malaysia exhibited a strong focus on Africa during Prime Minister Mahathir's first stint as prime minister, subsequent governments implemented a "gradual withdrawal" from Africa. However, with Dr Mahathir again in power, new signals point towards better Africa-Malaysia relations.

Ambassador Metwally further said that the total trade volume between Africa and Malaysia in 2018 was about US\$32 billion, representing only about 1.7% of Malaysia's entire external trade. Among Africa's exports to Malaysia are crude oil, rubber, processed food and agriculture products while Malaysia's exports to Africa are rubber, palm oil, petrochemical products, machinery, furniture, electrical and electronic products, and processed food. Metwally opined that the Malaysian business community could also find opportunities through the African Continental Free Trade Agreement (AfCFTA), which could help facilitate Malaysian investors.²⁰

Singapore's start-up scene views Africa as the new frontier market. An increasing number of technology and venture capitalist firms eye Africa's largely untapped market, despite the inherent challenges, for the next wave of growth.

The massive size of the African market of 1.2 billion people, and the opportunities it presents as it seeks to keep pace with Asia and the rest of the world, attract a wide range of young Singapore-based companies. Typical entrants include the following:

- Gozem, a Singapore-based transport company providing ride-hailing services in Togo and Benin in West Africa, plans to enter 15 more African markets within five years.
- CrimsonLogic, a Singaporean company that launched IREMBO in 2015, an eCitizen portal helping Rwandans to reach more than 89 government services online.

- Thunes, a business-to-business cross-border payments network for emerging markets.
- CCRManager, a global fintech platform currently in over 26 markets worldwide.
- Antler Innovation, a tech-focused start-up generator and early-stage venture capital firm. It is currently eyeing annual investments in 20 early-stage start-ups in Kenya and Ethiopia, with plans to expand to West and South Africa in 2020.

According to Enterprise Singapore, apart from Africa's three largest economies, i.e. Nigeria, Kenya and South Africa, Singapore is also focusing on Mozambique, Angola, Ethiopia, Tanzania, Rwanda, Ghana, Ivory Coast, Egypt and Morocco for future growth.²¹

EGYPT

In Indonesia, the North Sulawesi Province (Sulut) exported coconut flour to Egypt at the start of Ramadan to fulfil the peak demand there. The export transaction consisted of two batches with a volume of 104 tons each.

According to the Sulut Industry and Trade Agency head, Darwin Muksin, the first batch was worth US\$113,143 and the second one US\$116,259. Coconut flour is usually exported once a month, but during Ramadan it is exported twice a month.

He views the exporting of coconut flour to Egypt as an opportunity for Sulut to expand the exports of main commodities to more countries across the world. While Egypt is not the most dominant export market for coconut flour, Muksin believed that it has the potential to expand the coconut flour in the market there.²²

GABON

Petronas, Malaysia's state-owned oil company, signed an agreement with Gabon for two exploration permits after Gabon enacted a new oil law last month. Gabon, a member of the Organisation of the Petroleum Exporting Countries, relies heavily on oil revenue. While Gabon put 35 oil blocks for sale, the deal with Petronas is for offshore blocks F12 and F13.²³

KENYA

The Monetary Authority of Singapore (MAS) and the Central Bank of Kenya (CBK) recently signed a FinTech Cooperation Agreement to support digital infrastructure development in Kenya. The two central banks will collaborate to develop basic digital infrastructure services for Kenya. This deal was done at the inaugural Afro-Asia Fintech Festival, recently hosted in Nairobi, Kenya.

According to Dr Patrick Njoroge, Governor, CBK, fintech offers a great opportunity for transforming many lives, not only in Africa and Asia, but also in the rest of the world. Mr Ravi Menon, Managing Director, MAS, stated the two central banks shared a vision to join the innovative energies of Africa and Asia to solve basic gaps in the financial system and improve the lives of their people through technology. This cooperation will serve as a launch pad for fintech firms and financial institutions in the two countries to collaborate on innovative solutions to enhance financial inclusion in Africa and Asia.

At the festival, Kenyan and Singaporean companies announced a jointly developed suite of fintech and technology solutions. These include a digital micro pension marketplace, a cattle insurance solution, a credit scoring solution, and an agreement to build a payments gateway between the two regions.²⁴

NIGERIA

Singapore-based Olam International's Nigerian subsidiary, Olam Nigeria Limited, recently distributed 3,000 hybrid cashew seedlings to selected farmers' groups in Kwara and Oyo states. According to the Plant Manager of Olam Cashew Processing factory, Mr Rajeesh Neelanjeri, Olam distributed the improved cashew seedlings to farmers in Kwara and Oyo states to increase the sustainability of cashew crop production in Nigeria. This goal required the planting of newer varieties of cashew trees, which

give higher yields to farmers and improve the quality of cashew nuts. Olam also collaborated with the Raw Materials Research and Development Council, which liaised with some agricultural research institutes to develop high-yielding, disease-resistant and early-maturing cashew seedlings.²⁵

The Nigerian National Petroleum Corporation (NNPC) recently announced its intention to renew its contract for crude oil sales with Indonesia, which expired last year. NNPC was interested in working with Indonesia's national oil company Pertamina to improve the volume of its crude oil exports. The partnership with Pertamina has the potential to open up opportunities for Nigeria's crude oil in the face of unpredictable global markets. In 2018, Indonesia imported crude oil worth US\$2.5 billion from Nigeria.²⁶

TANZANIA

Indonesia promoted its trade and investment relationship with Tanzania during the Dar es Salaam International Trade Fair (DITF), which ran from 28 June to 13 July. At the event, Indonesia showcased its various commercial products, such as textile products, soaps, lotions, body sprays, coconut milk and instant noodles. Among the Indonesian companies and their distributors that participated in the DITF, were PT Sinar Antjol, PT Softex, PT Priskila, Indofood and PT Sari Segar Husada.

According to the Indonesian Ambassador to Tanzania, Ratlan Pardede, excellent quality and competitive prices are key for Indonesian products to enter the Tanzanian market. The Tanzanian people have demonstrated a very favourable response to Indonesian products, and they hope Indonesia will maintain the excellent quality and competitive prices.

The Indonesian Embassy in Tanzania encouraged other Indonesian companies and entrepreneurs to join future fairs to introduce their products to the Tanzanian market.²⁷

POINTS OF INTEREST

- Indonesia, Malaysia and Singapore are quite active on the African continent. They are involved in a number of sectors in Africa, including agriculture, technology (including fintech and digitalization) and oil and gas. Africa presents a significant number of opportunities, given the strongly growing population, the high rate of urbanization and the strongly growing consumer class.
- The participation of pharmaceutical companies from Indonesia in Africa is timely. Africa predominantly uses generic versions of medicine of which it imports the vast majority. With large populations and high import trends, countries such as Nigeria and Ethiopia provide an excellent opportunity for foreign pharmaceutical companies. Some African governments are likely to attempt to incentivise the growth of a home-grown pharmaceutical sector to create jobs and tap into benefits associated with import-substitution. Pharmaceutical companies from Southeast Asia should seriously consider developing a foreign direct investment strategy and build factories in Africa, and either license or franchise the production of medication on the continent.
- The reality is that even for those Southeast Asian companies identified as active in Africa, their exports to the continent represent a low portion of their total economic activity. Barriers include distance and the perceived challenges of doing business in Africa, such as political instability (including security), the lack of liquidity and exchange rate volatility. Banks in Southeast Asia may also take a negative stance to providing funding for initiatives into Africa.
- Obviously, a few companies that have been involved in Africa for decades do excellent business with the continent. Companies not yet in Africa should learn from these corporates, which include the likes of Asiatic Agricultural Industries, Indorama, Olam, PIL, Tolaram, Top International, Vega Foods and Wilmar, to name but a few.
- The steady growth of involvement in Africa by SMEs and start-ups from the Southeast Asian region is an encouraging sign. This growth will create greater awareness amongst other SMEs



in ASEAN of the potential for growth and development in Africa. Collaboration with SMEs in Africa can only be beneficial for all parties concerned.

4. Fintech and Mobile Money in Africa

The fintech and mobile money sector in Africa is developing, and filling gaps in banking infrastructure in large parts of the rural areas of the continent. These gaps, combined with a general lack of trust in the formal banking sector, opened the door to the emergence of the mobile money sector on the continent. The trend toward mobile money has raised financial inclusion to significant levels in many African countries, and the number of players is on the rise, with large countries such as Nigeria recently deciding to license mobile phone operators to enter this sub-sector.

AFRICA

Africa has a growing and largely untapped e-commerce market, according to James Booth, Head of New Business Development at UK-based PPRO, provider of access to local or alternative payment methods worldwide. "Its rapidly growing and youthful middle class has an appetite for good quality products, delivered rapidly and conveniently. While businesses entering African markets can reap rich rewards, but only if they use localised approaches to payment, delivery and marketing." Booth sees Africans embracing technology to develop their own payment and purchasing methods. In terms of the pace of adoption of the mobile Internet, Africa is ahead of the worldwide curve. While research has identified 444 million African mobile subscribers, an additional 300 million are expected to join networks over the next few years.²⁸

Many Africans shop online, usually via smartphone. One consequence is the development and use of e-wallets, making it much easier for consumers to do business in Africa. Setting up an online shop is much cheaper than a traditional version; by doing so, merchants can bring goods and services within reach of people in typically under-served remote areas. As Africa embraces mobile technology, it becomes a vibrant and potentially lucrative market, particularly with the imminent launch of 5G on the continent.

Africa's diversity is especially important for logistics, where payment methods and deliveries are sufficiently challenging that foreigners are likely to experience problems. Using partnerships as an entry strategy is therefore strongly recommended. As Africa differs from the West in many practical, cultural and psychological ways, marketing messages, payment methods and logistics must be tailored accordingly.²⁹

Orange Business Services and Genesis Analytics have collaborated to help financial institutions in the Middle East and Africa address the innovative and increasing disruptive mobile payment and digital banking business models. The partnership will combine the African and Middle Eastern expertise in regulatory economics, strategy and market research of Genesis with the digital, cloud and network service capabilities of Orange. The step is a response to the search by financial services players in Africa and the Middle East for digital partners to support them in their digital transformation journey, including the hosting of banking solutions in the cloud.

Disruption in the sector caused by the rapid adoption by consumers of new technologies and changing regulatory frameworks on payments, privacy and cloud computing, require banks to innovate their operating models, especially in Africa and the Middle East.³⁰

Standard Chartered will launch its digital bank in Botswana, Zambia and Zimbabwe. This follows launches in Ghana, Kenya, Tanzania and Uganda earlier in 2019, and Cote d'Ivoire in 2018. This expansion is an answer to the growing population of Africa asking for faster and more convenient banking services. The digitalization of the banking experience will allow customers access to simple, secure and affordable banking everywhere. The bank intends to launch in Nigeria in September.³¹

Flutterwave, a fintech start-up (B2B payments platform) based in Lagos and San Francisco, has partnered with China's Alibaba to enable digital transactions between Alipay and African merchants. Flutterwave allows companies to send payments to other firms globally. This partnership will help Alibaba capture payments with an estimated volume of US\$200 billion between Africa and China.

Alipay is Alibaba's digital wallet. It has more than 1 billion active users, to which Flutterwave will now have access. Flutterwave has connected African companies in Nigeria, Kenya, South Africa, Ghana, Uganda and Rwanda, making cross-border payments easy for their client companies.³²

SOUTHERN AFRICA

Kenya's Safaricom recently announced expansion of Masoko, its e-commerce platform, within Southern African by 2020. It envisions many opportunities for business beyond Kenya's borders. Most families have access to at least one mobile phone; by the end of 2020, more than 525 million devices will be in use in Southern Africa. These devices provide the population with access to e-commerce platforms. Masoko will provide small African businesses with access to opportunities created by the rapid global growth of e-commerce.

Safaricom also announced in March 2019 a partnership with the Chinese-run online store AliExpress.com, which forms part of the Alibaba Group.³³

GHANA

According to the World Bank, Ghana has taken over as Africa's fastest growing mobile money market. Mobile money has played a significant role in improving the level of financial inclusivity in Ghana. The percentage of Ghanaian adults with a registered financial account increased from 41% to 58% between 2014 and 2017, mostly due to the increased uptake of mobile money, with the percentage of adults who hold such accounts jumping from 13% to 39% over the period.

According to the Bank of Ghana, the number of registered mobile money accounts rose six-fold between 2012 and 2017, from 3.8 million to 23.9 million, while the value of transactions grew from US\$109.8 million to US\$28.7 billion, before increasing again by another 43% last year to total US\$43.1 billion.

A number of factors contributed to the rise in the use of mobile money in Ghana:

- Increased access to mobile phones. This created opportunities for the expansion of financial services and increased the role of non-financial institutions as much as e-money issuers.
- A growing agent distribution network.
- The launch of Ghana's interoperability platform in May last year, allows customers to transfer money between mobile money accounts operated by different countries, as well as between banks and other financial institutions.
- A series of new regulatory reforms are expected to stimulate further activity for digital payments in Ghana.³⁴

MALAWI

The Consumer Association of Malawi (CAMA) is concerned that the low number of mobile money agents in rural areas may have a negative impact on Malawi's financial inclusion agenda. The World Bank recently reported that 77% of these agents operated in urban and semi-urban areas of Malawi, while only 33% out of 39,434 mobile money agents operate in the rural areas (some agents operate in both rural and urban areas). This may be due to the low transaction volume in rural areas compared to the cities. Also, few agents in rural areas always have sufficient cash to pass to clients, and clients in rural areas are mostly recipients of cash rather than senders. According to CAMA, the authorities must develop incentives to entice agents to work in rural areas. Analysts point out that the situation in Malawi is similar to that of many other African countries, including Zambia.³⁵

NIGERIA

MTN Nigeria obtained approval from the Central Bank of Nigeria (CBN) for its subsidiary, Yello Digital Financial Services Limited, to provide digital financial services in the country. The license grants permission to fully deploy its Fintech capability and convert its existing airtime agents and recruit other

small businesses to deliver financial services. The licence also enables MTN to extend access to financial services to a much broader group of Nigerians, thus contributing towards achievement of Nigeria's financial inclusion goals.³⁶

Farmcrowdy, a Nigerian digital agri company, intends to expand operations in Nigeria by increasing its capacity from 25,000 to over 50,000 farmers. Farmcrowdy will be exploring opportunities in 17 states; as against the 13 states it currently operates in, helping more farmers to boost production and get market access to improve their livelihoods.

Farmcrowdy has also introduced its latest subsidiary, Crowdyvest, an impact-driven platform that "connects individuals to multiple sponsorship opportunities that are safe, trusted and secure." It will contribute towards building a system that will span Nigeria and the rest of Africa.

The plan is to migrate all the existing sponsors under the Farmcrowdy platform to the Crowdyvest platform, without needing to create a fresh account. Sponsors will be able to continue sponsoring farms on the Farmcrowdy platform, as well as accessing all other portfolio products and sponsorship opportunities to be launched via the Crowdyvest platform in future.³⁷

POINTS OF INTEREST

- A noticeable trend in Africa has been rapid development of e-commerce platforms. This growth will increase as consumers become more comfortable with online buying and their levels of trust in online payments increase. Currently, many buyers are using cash-on-delivery, as they are worried about the security of their online purchases. This situation is changing, however, with an increasing number starting to use pre-payments.
- The very high levels of growth in Ghana will shortly be challenged by the growth in Nigeria. Nigeria's growth has lagged due to an absence of the requisite regulatory environment. However, with the recent step by the Central Bank of Nigeria to license mobile phone operators, we will see a sharp uptick of mobile money in Nigeria. With a population four times the size of that of Kenya and close to seven times that of Ghana, the level of participation in mobile money platforms amongst Nigerian consumers will soon outstrip that of both Kenya (currently the country with the largest number of adopters of mobile money) and Ghana (currently the country with the highest growth in mobile money adoption).
- The situation in Malawi, with agents unwilling to serve rural areas due to low transaction levels, has the potential to curtail the delivery of financial services to exactly those that need it most. It is also unlikely that this situation is restricted to Malawi. Mobile phone operators and others involved in the provision of mobile money services should address this situation as a matter of urgency, and provide the necessary incentives for agents to serve the rural areas. This is after all where the greatest need is.
- Farmcrowdy's development path has been quite remarkable. It has created a subsidiary over the past months and increased the scope and scale of its services. The essence of its value proposition entails linking investors with farmers, and finding markets for the produce delivered by the farmers. A subsidiary of Farmcrowdy, i.e. Farmgate Africa, provides major processors and international buyers with the opportunity to buy commodities directly from farming clusters. This optimises direct market access to African farmers, thereby improving their margins as intermediaries are pruned from the value chain.
- Banks are now waking up to the threat to their retail divisions in Africa posed by mobile money and fintech players. The impact of their counter strategies remains to be seen, and it may be "too little, too late." Too many consumers at the bottom of the pyramid, seen as too difficult to reach, have in the past been ignored as being of no significance. This has now changed with the advent of fintech. Unfortunately for banks, they do not enjoy the trust of this large group of unbanked consumers.

5. Linking Africa to the World

An increasing number of foreign players beyond the traditional sources of capital now target Africa as an investment destination. Some of these sources are based outside the usual well-known countries. This is good news for Africa as it provides governments and growing companies with alternatives, and reduces their dependence on, and subsequent vulnerability to, the few large economic powerhouses that are already quite active on the continent.

BURUNDI

France resumed economic ties with Burundi, four years after the entire EU block withdrew its economic assistance to the country in 2015. France hopes this move will sweeten the sour relations between the two countries, as well as improve the situation in Burundi. In contrast, the EU apparently plans to renew its economic sanction against Burundi, accusing the country of human rights abuses since 2015. France is urging Burundi to prepare to hold the 2020 elections in a “free and fair atmosphere.”³⁸

KENYA

State-owned Qatar Petroleum (QP) acquired a block of Kenya's offshore oil and gas exploration fields. They join a growing list of global energy companies who want to exploit the huge fuel deposits believed to be underneath the Indian Ocean seabed.

QP recently signed an agreement with Total (from France) and Eni (from Italy) to take over three offshore exploration blocks in the Lamu Basin. In a deal that still needs approval by Kenyan authorities, QP will acquire a 25% stake (13.75% from Eni and 11.25% from Total) in three blocks located in the offshore Lamu Basin. After the deal, the operator Eni will retain a 41.25% stake in the block and Total's stake will stand at 33.75%.

Qatar sees this as a step to strengthen its presence in Africa.³⁹

Kenya imports textiles, food, energy, and cosmetics from Turkey. The business community has expanded its target to reach US\$1 billion in construction and health tourism in the coming years. In this context, Turkish investors have set course for various African countries, especially Kenya. Turkish investors, who are currently investing in furniture, food, energy and textiles in Kenya, will further expand their investments, especially in the field of collective housing. Turkey recorded US\$220 million in trade with Kenya in 2018, of which US\$200 million was Turkey's exports. The country plans to reach for a target of US\$1 billion of trade and investments with Kenya in the coming period.⁴⁰

MALI

The governments of Mali and Norway recently concluded an agreement to start construction work on a solar photovoltaic power plant in southern Mali with a 33 MW capacity. A Norwegian independent power producer (IPP) leads the consortium that won the tender for the construction of this plant. The consortium members are Scatec Solar, with 51% of the shares of the JV company Ségou Solar, IFC InfraVentures (30%), a subsidiary of the World Bank, and Africa Power (19%), a local company.

The plant will connect to Mali's national grid via a substation of the state-owned Mali Electricity Company (EDM) in Ségou. The construction of the solar power plant will require an investment of ~US\$54 million. The Ségou solar power plant will avoid 33,000 tons of CO₂ emissions per year.⁴¹

NIGERIA

Nigerian consulting and digital technology firm Crenov8 Consulting is developing strong linkages among Nigerian farmers and produce buyers in the United Arab Emirates (UAE) and Africa. The UAE imports 80% of its food. This market is worth over US\$100 billion, making it a very lucrative target.

According to Bola Oyedele of Crenov8, they aim to close the gap between the markets in Africa and Dubai, as well as other markets within the Gulf region. She stated that governments should broaden

existing bilateral agreements between the two countries to accommodate private sector players, as the Dubai government rejected an attempt by Crenov8 in 2017 to partner with it, insisting it would deal only with the Nigerian government.

An event was being arranged in Dubai on 27-28 November to enable Nigerian farmers to meet their counterparts in other countries to encourage cross-pollination and facilitate synergy.⁴²

From an Indian perspective, the High Commissioner of India to Nigeria, Mr Abhay Thakur, recently stated that Nigeria accounted for 20% of India's trade in Africa for the year 2018, with India's total trade in Africa growing by 18% to a total of US\$18 billion. India was also seeking cooperation in maritime security and growing trade between the two countries. Nigeria has a thriving Indian community approaching 50,000, who operate businesses that employ a large number of Nigerians.⁴³

RWANDA

The governments of Rwanda and Brazil recently signed a bilateral air service agreement (BASA), to improve connectivity between these countries. The aviation sectors of Rwanda and Brazil will exchange aviation expertise and conduct training within the sector. They will also support exploration of and tapping into the economic potential of the two countries by the private sector of both countries.

The signing of the BASA and the opening of more routes by RwandAir will continue to expand opportunities for Rwanda's private sector in Brazil's large and economically vibrant market of more than 210 million people. In addition to opportunities for cooperation in the aviation sectors, potential for cooperation was also noted in areas like education, agriculture and health.⁴⁴

Germany and Rwanda will be cooperating in the areas of job creation, skills development and investment, following a recently signed agreement. Germany will support the Rwandan government's National Strategy for Transformation, which aims to create 1.5 million good jobs by 2024. The private sector, which employs more than 90% per cent of Rwanda's workforce, needs skilled workers.

The MoU between Rwanda and Germany should foster economic development in Rwanda and create training and job opportunities, especially for youth. The initiatives will support the Rwandan economy and the country's drive towards middle-income status.⁴⁵

Japan recently approved a loan to Rwanda for ¥10 billion (~US\$91 million) to enable Rwandans to produce nutritious foods and making them available to common citizens. The funds will augment existing government efforts to tackle malnutrition-related stunting. The funding program will focus mainly on two components of food security and multi-sectoral coordination.

This is Japan's first Sector Policy Loan (SPL) to the Government of Rwanda. The country has up to 40 years to repay the loan at an interest rate of 0.01% with a grace period of ten years.⁴⁶

SOMALIA

Qatar intends to build a new port at Hobyo in Somalia, an area of East Africa characterised by intense rivalry between Gulf states. Hobyo is an important port due to its proximity to the Bab-el-Mandeb Strait, one of the most important sea crossing points in the world, with the potential for access to international markets. Qatar Ports Management Company (Mwani) will construct the port.

Saudi Arabia and the United Arab Emirates, which are locked in a protracted dispute with fellow Gulf Arab state Qatar, are competing along with Doha's ally Turkey for a foothold in the Horn of Africa, located on key shipping routes.

According to Qatar, the Hobyo port open new horizons of cooperation between the two countries and boost Somalia's commercial ties to new markets in Africa and further afield. It strives to strengthen ties with Somalia, having donated a fleet of 68 armoured vehicles to Somalia earlier this year.⁴⁷

ZIMBABWE

Zimbabwe faces great difficulties in supplying sufficient electricity. Total demand is currently estimated at 2100 MW, while total production capacity is around 663 MW. Since May 2019, there have been regular power outages, with electricity being available on average seven hours a day and sometimes only late at night. To address this situation, the country recently obtained a loan from the Exim Bank of India for US\$42 million. The loan will be repaid within 20 years (with a grace period of five years) and the funds will provide sufficient power to reduce the current energy deficit of more than 1000 MW.

The funding will be provided in two phases. In the first phase, US\$23 million will be used to finance, renovate and upgrade the Bulawayo thermal power plant. This is an old plant dating to 1957, and has seen its performance being reduced from a 90 MW capacity to only 20 MW. In phase two, US\$19.5 million will be used to finance the second construction phase of the Deka pumping and water collection station.

The Zimbabwe Electricity Supply Authority (ZESA) will be increasing its tariffs by 30%. This will enable it to finance the maintenance costs of its networks and cope with the increase in raw materials used to produce electricity.⁴⁸

POINTS OF INTEREST

- Qatar has become an active player on the African continent over the past few years. Its developing relationship with the federal Government of Somalia led to a break-up of the relationship between the Somali government and the UAE. Qatar's involvement in the building of the Port of Hobyo is not its only port project in Africa. It has also been involved in developing the Port of Suakin in Sudan, much to the chagrin of Egypt, who has accused Qatar of supporting the Muslim Brotherhood, a charge that Qatar has denied.
- The UAE, another GCC member state, is also actively increasing its influence in Africa. While countries such as the UAE and Qatar were initially involved in East Africa and the Horn of Africa, they are now reaching out to African countries in West and even Southern African. For a considerable period, the GCC states have increased their investments as insurance for when their oil and gas reserves run out. Most have extensive sovereign wealth funds that actively invest in a number of sectors over a wide geographic area.
- India has traditionally expanded its influence in Africa via its private sector. Its government is now steadily also becoming involved. India launched the Asia-Africa Growth Corridor together with Japan in 2017. The Zimbabwean and Nigerian projects above can be seen as part of India's outreach to Africa. As it is, Zimbabwe is in dire need of investment in all sectors of its economy. The Zimbabwean president's call for investments has unfortunately not resulted in any meaningful investment activity by the international business community.
- Rwanda remains a country that is quite attractive for international investors and foreign governments. Above we see Brazil, Germany and Japan either becoming involved or increasing the level of their involvement in this small landlocked East African country. It has a relatively small economy of approximately US\$9 billion and a relatively small population of about 12 million. Yet it has become a highly sought-after investment destination. The good governance and high ranking on ease of doing business, as well as the stability and focus on digitalisation technology plays a role in this situation.

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

Phone: +65 69081940

Address: S3-B1A-35 Nanyang Business School

Nanyang Technological University

50 Nanyang Avenue Singapore 639798