Friday@Noon

A weekly African news briefing for the Southeast Asian community

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Africa:

- **Africa:** The US$2 trillion-plus Sub-Saharan Africa economy continues to strengthen from a low point in 2016, thanks to domestic policy adjustments and improved global economic activity. Growth is projected to increase from 2.7% in 2017 to 3.1% in 2018.

  With the exception of SSA's two biggest markets (Nigeria and SA), the rest of SSA has grown at 5.3% on average in 2010-17, but with wider heterogeneity across countries. Hence, there are plenty opportunities for dedicated investors. The regional business climate is improving, with 40 African countries implementing a total of 107 reforms in the past year, up 24 on the previous year. SSA is home to 5 of 2018's top 10 improvers – Côte d'Ivoire, Djibouti, Kenya, Rwanda and Togo. Strengthening governance, fighting corruption and tackling obstacles such as inadequate electricity and financial services will support further business growth. Overall, growth prospects for SSA are favourable, although greater economic diversification would strengthen resilience to commodity price shocks. In 2019, 18 out of 45 SSA countries are predicted by the IMF to grow at 6% or higher compared to 10 in 2016 – well above the global trend. For more information, read: https://bit.ly/2QLtNfc.

  CAS Analysis: Africa is frequently the target of bad news reporting. It is therefore refreshing to read about the positive prospects for Africa. Many African countries have implemented meaningful reforms to improve the ease of doing business in the country and to boost economic growth. This is the case even in countries that do not present good economic growth prospects for 2019, e.g. Nigeria. Africa must, however, continue on the path of economic diversification and on improving the general political and business climate. One aspect that should be eradicated from Africa's business environment, is corruption. There are still too many reports on this phenomenon. In spite of this, Africa presents an attractive investment destination for 2019!

East Africa:

- **Kenya:** The Leather Apex Society of Kenya (LAS) has been launched to promote investments in leather manufacturing. It will also search for export markets for Kenya-branded products. The entire leather value chain had been activated to support full commercialisation, with an emphasis on value addition.

  Kenya has adequate livestock to support the sector, but it needs to reverse the 90% export of semi-processed leather and turn this into the export of finished products, which will create more jobs and establish more businesses. In 2017, Kenya exported semi-processed leather worth ~US$48.5 million, up from ~US$44.6 million in 2016. LAS has roped in tannery operators, jua-kali-based manufacturers as well as pastoralists to create a vibrant value chain. Resin shoes were sold at extremely cheap prices, hurting the local market for Kenya made shoes and other products like bags and belts. For more information, read: https://bit.ly/2K92CZi.

  CAS Analysis: Kenya has the 3rd largest cattle herds in Africa, yet import 30 million pairs of shoes annually. Hopefully President Uhuru Kenyatta's "Big Four" strategies will boost the manufacturing sector and convince those active in the leather subsector to produce their own shoes, etc., not only for local consumption, but also for exports. The current contribution of the manufacturing sector to GDP in Kenya is ~9%. The Big Four strategies aim at growing this to 15% by 2022, and create 1.3 million jobs in the process. Adding value to leather before exports creates opportunities for investors to become involved in the fast-growing Kenyan economy. It has been reported that Kenyan retailers tend to procure low cost products from China, amongst others, rather than support local manufacturers. Kenyan consumers should therefore be targeted to "Buy Kenyan." This would hopefully encourage the local retailers to procure locally.

- **Rwanda:** The Prime Minister of Rwanda, Dr. Edouard Ngirente, recently launched the report on Future Drivers of Growth in Rwanda. The study identified 4 essential and interdependent drivers of future growth – innovation, integration, agglomeration, and competition. These growth drivers must be harnessed if Rwanda is to achieve its Vision 2050.

  The PM stated that the findings and recommendations of the report will serve as a key reference in the definitions of Rwanda's future growth targets in key priority areas of the report such as: Human capital

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development; Export dynamism and regional integration; Urbanization; Competitive domestic enterprises; Agricultural modernization; and capable and accountable public institutions. The successful implementation of these findings will require the active involvement and joint efforts of various stakeholders, including the private sector, civil society organizations, development partners and other stakeholders. Rwanda was committed to support the implementation of the recommendations of this study and welcomed further collaboration with the World Bank to achieve upper middle income status by 2035 and high income status by 2050 to improve the quality of life for all Rwandans. For more information, read: https://bit.ly/2z9RnLP.

CAS Analysis: Rwanda's Vision 2050 Vision 2050 is about ensuring high standards of living for all Rwandans. There are 5 main areas, i.e. quality of life, modern infrastructure and livelihoods, transformation for prosperity, values for Vision 2050 and international cooperation and positioning. One has to visit Rwanda to visually experience the tremendous strides forward this country has made the past 24 years. Reading this is good, but does not prepare one for the visual impact when one steps foot in Kigali for the first time. Looking at the World Bank's Ease of Doing Business rankings for 2018, Rwanda has made 5 reforms and climbed a staggering 15 places, from 56th to 41st. The country is second in Africa, behind Mauritius who is 1st. Rwanda's willingness to implement the requisite reforms to improve its attraction as an investment destination must be lauded.

- **Rwanda:** The Mara smartphone project is touted to take the smartphone business in Africa by storm. Developed by Rwandan businessman and billionaire Ashish Thakkar, the Mara group recently announced ambitious plans to develop manufacturing plants in Rwanda and in South Africa.

  The Mara Group will be investing ~US$105 million in a South African venture over the next 5 years. There were further plans to develop the phone in plants across Africa. Quality smartphones mean Africa can enable financial inclusion, micro-lending and micro-insurance. This can translate into better education, digital healthcare and agriculture efficiency and improve commerce. For this to be possible, quality and affordability are important. Currently, Africa has quality smartphones, but they are not affordable and if they are affordable, it is not quality. The Mara smartphone will be the first high-quality, affordable smartphone to be made in Africa. The phones will also be exported and sold in Europe, making Mara a global player in the market. The project is in partnership with Google. It will create thousands of jobs directly and hundreds of thousands of jobs indirectly across Africa. Africa is going to be the manufacturing base to create markets within as well as outside Africa. For more information, read: https://bit.ly/2zTj0bj.

  CAS Analysis: Africa had 453,329,534 Internet users in Dec 2017, a 35.2% penetration rate. Obviously not all of these gained access via mobile phones, but many do. For many consumers in SSA, the mobile phone is not just a communication device, but also the primary channel to get online, as well as a tool to access various services. Mobile adoption in SSA has grown rapidly in recent years. Overall subscriber penetration reached 44% in 2017, up from just 25% at the start of this decade. Access to mobile connectivity is vital to empowering consumers and driving economic growth. There were 444 million unique mobile phone subscribers in 2017, a number which is set to grow to more than 500 million by 2020. The mobile industry's contribution to GDP was US$110 billion in 2017, and is set to grow to US$150 billion by 2022. For digital inclusion, it is forecasted that an additional 300 million will come online by 2025. These numbers clearly indicate the importance of the mobile phone industry in SSA. Smartphones are generally too expensive for most consumers in Africa, in spite of attempts like those of Vodacom to develop cheaper ones. This initiative by Rwandan businessman Ashish Thakkar is a timely one, actually long overdue. The combination of quality and affordability is intuitively a contradiction. However, it has been shown that while consumers in the developed world are comfortable with the contradiction and subsequently either choose for quality or affordability, those in developing countries are adamant they want both. The Mara smartphone will meet the requirements of the consumer in Africa in this regard. It seems to be a case of "for Africa, by Africa!"

- **Tanzania:** Tanzania has emerged as an exciting prospect for Egyptian investors. Tanzania has battled for foreign investors with Ethiopia, which is now considered Africa's top investment destination. However, the business reforms in Tanzania are increasing its attraction.

Egyptian traders have made inquiries on establishing their businesses as soon as possible. The Egyptian investors are interested in business opportunities in agro-processing, textiles and construction materials. They were also impressed by the strategic and geographical location of Tanzania, surrounded by other EAC countries that offer them a bigger market for expansion into the region. The Egyptians are also keen to launch their ventures into the SADC through Tanzania. The potential harnessed in Tanzania could propel the growth of their businesses to open branches in the SADC countries. Tanzania offers various additional benefits, such as industrial parks, EPZs, and raw materials. Infrastructure improvements such as electricity and water will reduce operational costs. For more information, read: https://bit.ly/2B6AsLg.

CAS Analysis: Egypt is not only increasing its attraction as an investment destination, it is also reaching out to Africa for investment opportunities. They seem quite interested in Tanzania. Tanzania provides various opportunities for investment, such as in agriculture, mining, manufacturing and tourism. However, one has to raise concerns over the actions of President John Magufuli. His latest move has been to fire his ministers of Agriculture and Trade over the issue of low cashew nut prices, as well as disband the cashew nut board. He also ordered the army to buy up all the cashew crops in Tanzania, after he had ordered a 94% increase in the cashew price. This is but one of his latest interventions. The Acacia Mining case study is well known, as are his actions to curb press freedom. He seems to be very sensitive to criticism in the media. Whilst his actions to gain control over the economy can be criticized (depending on where one stands, i.e. are you a farmer or cashew processor), the entry of Egyptian investors is an indication of support. It remains to be seen to what extent current investors will remain in Tanzania. Some of them might actually disinvest and exit via a sell-out to the Egyptians. Some investors in Africa will tell you that as long as there is policy consistency, the business environment is acceptable.

West Africa

- **Ghana:** Ghana is embarking on an industrial transformation agenda that wants to change the face of the Ghanaian economy. A national Micro, Small and Medium Enterprise (MSME) Policy for Ghana seeks to provide the administrative, regulatory, institutional and legal framework for the growth and development of the MSME sector.

  Ultimately, the Policy is expected to stimulate the growth of MSMEs to produce world class products and services that can compete locally and internationally. This will also provide a supportive enabling environment and interventions of technology transfer, entrepreneurial culture, skills development, access to finance and market facilitation. The objectives of the policy are to coordinate and consolidate public resources, and to provide clear guidelines and the needed regulatory framework to businesses, prospective investors, development partners, financial institutions, service providers and other stakeholders to promote the development of the MSME sector. The Ghanaian MSMEs constitute about 92% of all business in Ghana, about 85% of manufacturing employment, and contribute about 70% to Ghana's GDP. The policy will subsequently improve the competitiveness in the sector and enhance the participation and contribution of the MSMEs to boost the Ghanaian economy. For more information, read: https://bit.ly/2Pvj2Rq.

  CAS Analysis: Ghana's economy grew 8.5% in 2017, up from 3.6% in 2016. While the initial prospects for 2018 as stated by the World Bank was above 8% again, this was reduced to 6.8% by the IMF. Given the massive contribution of MSMs to GDP in Ghana, it makes a lot of sense to support this sector to grow the GDP of Ghana. MSMEs constitute 92% of all business and they provide 70% of GDP. While it is not correct to say that they should also contribute 90% of GDP as one has to take into consideration the leverage that size provides to the large companies, there is more potential for growth in this sector than amongst the large companies. This sector also tends to be the main source of employment creation. Support for the MSME sector also increases its attraction to investors, both local and foreign. Besides the normal origin of investors, we have recently seen Qatar being quite interested in investing in Ghana. On a side note, Ghana changed its base for measuring its GDP from 2006 to 2013, in the process increasing its GDP for 2017 from US$42.1 billion to US$52.5 billion. Given the new way of calculating its GDP, Ghana adjusted its GDP growth rate for 2017 from 8.5% to 8.1%. Relative to 2016, it remains a massive improvement.

- **Nigeria:** Despite MTN Nigeria pulling its first mobile money service offer in Nigeria years ago after it failed to gain traction, it is now confident of success. MTN will launch mobile money services in its two biggest

markets, SA and Nigeria, in the first half of 2019 as part of its efforts to be “the biggest provider of mobile financial services in Africa”, according to CEO Rob Shuter.
Shuter was confident of success as large segments of the population in Nigeria were still reliant on cash transactions. Mobile money services would be relaunched in SA in the first quarter of 2019. In Nigeria the Central Bank has agreed to allow mobile operators to act as payment-service banks. MTN, which has 55-million subscribers in Nigeria, will apply for a licence to launch mobile money services in Nigeria in the second quarter of 2019. MTN offers mobile money services in 14 of its 22 markets. It has about 27 million mobile money customers and is targeting 60 million customers in the next few years. Shuter also said that MTN’s micro-insurance partnership with MMI Holdings was gaining traction. About 2 million policies had been issued. As part of its push into digital services, MTN will also acquire music streaming service Simfy. For more information, read: https://bit.ly/2B6DmzW.

CAS Industry: MTN Nigeria has reached the news the past few years for all the wrong reasons. These included an initial fine of US$5 billion for failing to deregister mobile phone sim cards, and more recently an instruction from the Nigerian Central Bank to return US$8.1 billion to Nigeria, which the Central Bank said had been expatriated against regulations. This was in addition to a tax bill of US$2 billion, which MTN contested, as it had the instruction to return the US$8 billion. The news of MTN entering the mobile money market in Nigeria is a clear indication that MTN intends not only staying in the Nigerian market (its largest market in Africa), but that it actually intends growing its exposure and footprint in the country. This is a sign of the confidence MTN has in the prospects of the Nigerian market. Given the nature of the market in Nigeria, and the support of the Central Bank, it is likely that MTN will succeed, if the success of M-Pesa in Kenya is anything to go by. However, it will be interesting to see whether they will be successful in SA. Vodacom South Africa, MTN’s largest competitor in South Africa, has twice launched M-Pesa in SA, without success. One must say, however, that the nature of the banking industry and the market in general is quite different in SA than it is in Nigeria. What is also interesting to see is the expansion and diversification of MTN’s service offering, indicating that voice and data on their own are not as lucrative as they used to be. Adding value added services is the route to go, and adding insurance and music streaming, in addition to mobile money services and entertainment, will boost their value proposition. MTN already has 55 million subscribers in Nigeria. Cross-selling to this group should be a no-brainer. Banks in Nigeria should be watching this development with trepidation. They were asleep in Kenya when Safaricom opened M-Pesa way back, and have only wakened recently. As Sunil Kaushal, CEO of Africa & Middle East at Standard Chartered Bank in Singapore recently stated, Africa’s banks should embrace fintech. This is a greater imperative when Africa’s central banks actively support mobile telephony companies’ attempts at providing mobile money services. If banks do not do so, they will be disintermediated in the retail banking markets.

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