Friday@Noon

A weekly African news briefing for the Southeast Asian community

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- **Africa:** The lack of addresses in Africa complicate the delivery of products, etc. Third party collection points are used to address the problem, while entrepreneurs are seeing this as a business opportunity.

  In the developing world, 85% of new jobs are in the informal economy, where people don't have an address and that is thriving in African slums. Tapping into the buying power of the informal economy, SA clothing retailer Foschini is developing innovative solutions to deliver purchases made online by its e-commerce customers living in slums. Getting online orders to township residents where few people have a street address, is a challenge requiring innovative solutions. To that end, Foschini has intro-duced a system called Pargo - third party collection points - and is considering drones to deliver packages bought by online shoppers who live in townships. Custom-ers can collect deliveries at a pick-up point close to home, choosing it as a delivery option at checkout. Once the parcel arrives at the pick-up point, a text message informs the shopper saying it's there. The Kenyan government plans to spend US$28 million naming all roads, and assign numbers to all buildings and parcels of land, which will play an important role in transforming Kenya into an e-commerce hub. The U.N. estimates that 70% of the world is unaddressed. For more information, read here.

- *CAS View:* Africa has many informal settlements and addresses are a nightmare. People living under these con-ditions frequently must make the additional effort to travel to a central collection point, such as a local police station, to pick up a package that is supposed to be delivered to a home address. Without knowing where the actual house is, drones will not help. From personal experience, I know that until you know where the house physically is, an address is meaningless in many residential areas such as Khayelitsha, Cape Town. It is here where a young entrepreneur, Sizwe Nzima, recognised the entrepreneurial opportunity inherent in this situation and created a transport company, Iyeza Express. It started off with him fetching medication for his grandparents at the local clinic. This soon expanded when he asked a small fee from other friends and people in the neighbour-hood to pick up the medication as well. He soon had a number of people working for him, delivering medication all over Khaye-litsha on bicycles. In this manner, his people got to know Khayelitsha intimately. He is now meeting with a medical aid company in SA to negotiate business. He has also secured a contract with a global logistics company operating in SA to deliver their parcels in Khayelitsha. He once stated that he was going to be the Fedex of Khayelitsha. This is how one exploits an opportunity inherent in challenging conditions. Well done Sizwe!

- **Africa:** Technology is helping Africa get access to electricity.

  Around 650 million people in Africa live without access to electricity. The electrification rate is as low as 14.2% in rural areas. Over the last few years, the cost of solar equipment has been falling. Over US$511 million has been invested in solar firms since 2008. In 2014, South Africa moved into the top 10 solar power-producing countries in the world, connecting more than half a gigawatt of utility-scale solar power thanks to government private sector investment. Further down the scale, pay-as-you-go solar companies in Africa like M-KOPA Solar, Off Grid Electric and PEG Africa have raised huge funding rounds to roll out their offerings across more African countries. Yet below that, there has been a funding gap. Technology is increasingly providing mechanisms for such smaller scale investment, utilising the power of the crowd. In SA, The Sun Exchange, a P2P lending marketplace, crowd-funds small-scale solar projects using digital currencies such as bitcoin. Medium-sized projects, such as those that would power schools, factories and communities, are left unfunded as they are too big to get aid money and too small to warrant the interest of large funds. The Sun Exchange fixes this problem by enabling commercial and community scale projects to access P2P funds on a case-by-case basis. For more information, read here.

- *CAS View:* This is a topic CAS has spoken about frequently. The opportunity is there to assist Africa in the provision of electricity to its people by tapping into the existing and developing technology. Africa is slowly but surely achieving one of the "High 5" priorities of the AfDB, naming electrifying Africa. And it is doing it by tapping into solar as business model. But there is still a long way to go, and there are many opportunities for entrepreneurs to tap into the business of providing electricity to Africa and its people.

- **Africa:** According to John Staley from Equity Bank in Kenya, Africa will still need banks as the business model of fintech companies do not provide for a float and zero transaction costs. I am not sure he is right. While banks do have a float, they also cannot function on zero transaction costs. They are also not the only institutions that do have float.

  SSA remains the most unbanked region in the world, and over two-thirds of the adult population lack a formal bank account. Reasons include a low penetration of banking infrastructure, a strong informal economy, and rigid requirements for opening a bank account, which often exclude lower-income people. On the other hand, fintech companies such as M-Pesa and M-Kopa have managed to plug some of the gaps with innovative solutions. People believe that fintech might completely leapfrog traditional banks in Africa. John Staley, chief officer of finance, innovation and payments at Equity Bank, disagrees. Staley argued that most fintechs are focusing on unsustainable business models based on payments and loans. As we are fast heading to zero transaction costs, making money out of a payments game will be very difficult. Fintechs focusing on loans also have an unsustainable model, as they don't have the cash reserves (float) that banks do. Looking at some of the fintechs in the loan space, the av-erage APR is 100% per annum. That is not great for anyone in the industry. The only way you can have a float is if you are a bank. There is room for banks to partner with fintech companies and become more customer-focused. Ultimately if you are going to do financial services, you need to be a bank. For more information, read here.

- *CAS View:* The reality is that fintechs have for the past decade addressed the banking needs of millions of people in Africa, without banks. Fintechs might not have the float of banks, and they might be in a race to zero payments. However, no client really expects to not pay any transaction costs. They are just not prepared to tolerate the bureaucracy and hassles that go with banks. This is where there are banks, because frequently this is not the case! And the assumption that banks are the only institutions that have available float is a dangerous one. Food retail companies globally are notorious for their working capital policies, where they have significant negative working capital requirements. They have massive cash reserves, and in South Africa in any case, they have frequently gone into partnerships with banks to provide cash to clients at the checkout tills. Fintechs have also until now succeeded in providing enough cash to meet the demand. Given their operating model, their overheads are also significantly lower than those of banks, which enable them to charge significantly lower transaction costs. Whether loans are a major need for the vast majority of Africans, is also debatable. This is not where M-Pesa started and where it made its returns. Banks will have no other option but to jump on the mobile money bandwagon, as Equity in Kenya has done quite successfully. Equity first went into a partnership with M-Pesa, and then developed its own mobile money platform. Mr Staley is from Equity and should know all of this.

East Africa

- **Kenya:** KCB is looking at escaping the constraints of Kenya by expanding into East and Southern Africa. This will also allow them to grow their number of clients and provide them with scale.

Kenya Commercial Bank (KCB), the country's largest by assets, is set to enter the Southern Africa market. The move is part of KCB's efforts to spread operations outside the Eastern Africa region and re-duce reliance on the Kenyan market that accounts for 90% of its revenue. The entry into Southern Africa through the Botswana market comes after KCB announced plans to open branches in neighbouring Ethiopia, Somalia and the DRC. The Kenyan lender will become the first local bank to open subsidiaries in the three markets, after Equity Group halted its expansion into DRC. In September, the bank secured entry into Somalia, after President Uhuru Kenyatta signed an agreement with the government, allowing KCB to open its branch by the end of the year, in a country where only 4% of the population has access to banking services. The lender is the only Kenyan bank operating in the 6 East African community member states of Uganda, Tanzania, Rwanda, Burundi, South Sudan and Kenya. The lender is also targeting expansion into Mozambique and Djibouti by 2020. For more information, read here.

- *CAS View:* Kenya's banking industry is characterised by a large number of small players, in addition to a small number of large players. The very high Return on Assets typical of the Kenyan banking industry, relative to its neighbours, has prompted the President to cap interest rates at 4% above the central bank rate. This all created the conditions ripe for consolidation in Kenya, and expansion to other countries outside of Kenya. KCB is clearly more interested in the latter than to start on an acquisition trail in Kenya. This is good to the extent it will diversify its risk profile. However, while Botswana is a stable democracy with a sound economy, some of the countries it is targeting have a very high risk profile, e.g. Somalia, South Sudan and the DRC. On the other hand, given the low penetration of their banking industries, it is countries such as these that have the potential to deliver good returns should the risk be priced correctly.

West Africa

- **Nigeria:** The naira is still on a slippery slope. It appears there are a number of factors that raise eyebrows. Nigeria needs to deal with this issue as a matter of urgency. The solution lies in a diversified economy, but then we all know that. The question is how fast can Nigeria bring this about?

  The naira was devalued in June 2016 and moved from N199 to N280 to the US$. While the official ex-change rate has since drifted up to around N315, at the airport money could be changed at N410. For-eign businesses had hoped the devaluation would lead to business normalising. Anecdotal evidence shows the foreign exchange market has created a new "get-rich-quick" scheme for the connected. Banks in Nigeria each gets allocated a small amount of US dollars to sell to its customers. Some banks are allocating to friends and family, who buy these US dollars at N315 and then go and sell in the black market in excess of N400. Others say that money is being "washed" through real estate investment, which may partly explain why, despite the economy going backwards, Dangote Cement volumes were up 38% in the 6 months to the end of June. The shortage of US dollars is not only affecting investors, but also listed companies such as manufacturers who find it hard to pass on the rising costs; margins are likely to come under pressure. The banks have benefited from the weak currency, as around 30% of loans and deposits are in US dollars. Before considering increasing exposure to Nigeria, the currency market needs to free up. For more information, read here

- *CAS View:* The foreign currency situation in Nigeria is becoming an ever more serious problem. It is also becoming more problematic to get money out of the country. The latest attempt to deal with the foreign currency shortage, has the CBN seeking the power to "seize" foreign currencies in instances "where money is imported to sponsor terrorist activities or any other subversion activities to undermine the security of Nigeria." However, this can be viewed as a move to allow the bank and the government to access funds in domiciliary accounts of private citizens in the name of national security. Should this become law, a 2-year sentence has been proposed by the CBN or fine for anyone in "possession" of foreign currency "without depositing same in a domiciliary account within 30 days of its acquisition." For more on this, read here. This is not endearing the government to the business community. Should Buhari proceed with it, he will have to deal with a large number of disgruntled business executives. And he can rest assured that potential investors will not view this situation in a positive light. The shortage of dollars has its origins in the drop of the oil price. To deal with this, Nigeria needs to diversify its economy, and it needs to have done so yesterday!

Southern Africa

- **South Africa:** South Africa is not preparing its youth and entrepreneurs to be successful entrepreneurs. It is lagging behind other countries in Africa. It cannot afford to ignore this need!

  The youth of South Africa does not start businesses at the nearly the same rate as youth in other African nations. Despite support from government and the private sector for entrepreneurs, the rate of up-take is low. Government officials say most prospective entrepreneurs who approach them haven't developed their propositions sufficiently to attract support. There is a low conversion rate from training to small enterprises or to cooperative start-up compared to peer economies. But little is done to better understand and measure the impact of entrepreneurship training in fostering small business start-ups. A new approach is required to get entrepreneurship into the consciousness of South Africans, and to foster an environment that actively promotes entrepreneurship and effectively prepares individuals for entrepreneurial pursuits. Prof Daneel van Lill at the University of Johannesburg said: "South Africa's alarming unemployment rate of 27% and youth unemployment rate of 54% poses a crisis and an in-dictment to society. Over the last 5 years, entrepreneurship as a mode of employment has dropped by about 3% among youths and among women by 6%. This spells double trouble for all in SA." South Africa requires a clear game plan to support SME development in its disenfranchised society. For more information, read here.

- *CAS View:* It is good to see SA waking up to the fact that it needs to develop a policy environment much more conducive to the support of its entrepreneurs. SA is failing this group of people, frequently from the lower levels of society, in a bad way. Whereas governments in countries such as Tanzania, Kenya, Ethiopia and Rwanda, to name but a few, have actively put in place policies and mechanisms to support entrepreneurs, SA tends to pay lip-service to this facet of business life in SA. The reality is that unemployment is increasing, the economy is growing ever so slowly, and there is no way the formal economy can accommodate the number of jobseekers. The answer therefore must lie in the encouragement of entrepreneurs. SA has no option but to create the required business-enabling policy frameworks and provide tangible support in the form of financing assistance and mentorships, in addition to the dissemination of knowledge and practical skills. To not do so, is to lay the foundations of a disaster when the youth overthrow a system that is failing them. Institutions such as the University of Johannesburg must be commended for the work they do. It is not enough, however, and government must come to the party in a meaningful way. I do think the R46 billion (about US$3.2 billion) irregular expenditures recently identified by the Auditor General would make a significant contribution to the entrepreneurs in South Africa, provided it is spent properly.

- **Zimbabwe:** Bitcoin is suggested as a system to deal with the currency woes of Zimbabwe. The origins of its problems lie in the political sphere. The solution needs to be sought there as well.

  Thanks to a chronic shortage of US dollars, Zimbabwe is running out of cash. Businesses are struggling to import stock, renters can't pay their landlords, and even government is having trouble processing salaries on time. Morgan Tsvangirai of the MDC dismisses the dollar-backed "bond notes" as doomed to fail and said that turning to

SA is now Zimbabwe's only option as 95% of Zimbabwe's trade is with the rand. Although Lesotho, Namibia and Swaziland all maintain their own currencies, these are all pegged to the rand, and the rand is widely accepted for trading purposes. Economist Phillip Haslam has a radical proposal to rescue the country from its currency woes: the bitcoin. It is not backed by any government or central bank, which might make it easier for Zimbabwe to adopt without sacrificing too much autonomy. It's a system that allows for privatised banking. Effectively, the bitcoin system is both a currency and international payments platform. If Zimbabwe establishes a privatised bitcoin national currency, a whole lot of currency would flow into Zimbabwe. Zimbabwe would transform from a basket case to a global banking centre in a stable crypto currency. For more information, read here.

- *CAS View:* Zimbabwe is a country that has been run into the ground. The answer does not lie in adopting technology such as bitcoin and blockchain, irrespective whether that takes the control out of political hands. People need to invest in Zimbabwe because of the great opportunities, the certainty of returns and ability to take out the returns. Sound macro-economic decisions, together with sound political decisions, must create a risk-free investment environment that will attract foreign investors. This is not happening. Investors do not trust the Zimbabwean government sufficiently to invest in the country. And that is a tragedy, because Zimbabwe is a great country with great opportunities. The problem therefore lies in the political domain, and therefore requires a political solution.