

Africa

- **Africa:** The flour milling business in Africa is booming, leading to consolidation among the bigger players and the launch of new smaller and independent outfits. The boom can be ascribed to the demographic growth and local agricultural production is insufficient. Also, the purchasing power of sub-Saharan African families is modest, but wheat is one of the cheapest food sources on the market.

It's estimated that milling capacity in sub-Saharan Africa grew by 12%, or 3.6 million tonnes, between 2014 and 2017 to reach 34 million tonnes. The big multinationals are buying up competitors and expanding their operations. These include Singapore's Olam, the US-based Seaboard and French-owned Somdiaa. Large African players are also expanding on the continent, such as Sudan's Elnefeidi Group and Tanzania's Bakhresa Group. In Nigeria, Flour Mills of Nigeria, Honeywell and Dangote Flour Mills concentrate on feeding the country's 200 million population, with competition from Olam. Nigeria still imports 89% of its flour. Small upstarts are hungry for market share in countries like Angola, Guinea and Mali. Vertical integration is the most common strategy for firms to grow. Animal feed is another promising sector. For more information, read: <https://bit.ly/2umyja4>.

CAS Analysis: Africa's current population of 1.2 billion is set to increase to 2.4 billion by 2050. Currently, Africa imports food to the tune of between US\$35 and US\$41 billion on an annual basis. That Nigeria is importing 89% of its flour requirement, is an indictment against the agriculture sector and authorities. As has been said, this scenario exports jobs as well. It also creates serious challenges for the foreign exchange requirements of the country. This situation is unfortunately not confined to Nigeria. Africa has great agriculture potential. It is time it starts to live up to that potential. The investment opportunities in this regard are many. Some farmers have also started to produce cassava for cassava flour production. This is gluten-free and the practice is to mix it with wheat flour. However, the quantities are still quite low and the end product somewhat more expensive than normal. Having said that, there is a lot of opportunity in cassava production, not only in flour production, but also in starch and maltose production.

East Africa:

- **Ethiopia:** France has agreed to help Ethiopia to build a navy. Other deals agreed include a 100 million Euros boost to the economy and partnerships to preserve Ethiopian churches. The accord also provides for air cooperation, joint operations and opportunities for training and equipment purchases.

Ethiopia disbanded its navy force more than two decades ago following the separation of Eritrea, leaving Ethiopia without a port that could host its navy. Ethiopia uses Djibouti for its import and export demands. The Djibouti Port currently handles about 95% of Ethiopia's export-import trade. Although Ethiopia doesn't have a coastline, it has more than 20 lakes its navy could protect. Ethiopia also appears to have a vested interest in owning some coastlines of its neighbouring countries. Abiy's government agreed to develop Port Sudan on the Red Sea. It also agreed with Djibouti to swap shares in state-owned ports, airlines, and telecommunications and will acquire land at Lamu Port in Kenya for "logistical facilitation." Ethiopia also took a stake in a port in Somaliland. This all points to Ethiopia's seriousness in achieving its goal of a fully operational navy. For more information, read: <https://bit.ly/2UNHWu6>.

CAS Analysis: It was announced last year that Ethiopia was contemplating rebuilding its navy. This led to questions as to the reasoning behind this move. In addition to protecting Ethiopia's lakes, it was suggested that Ethiopia would also use its navy to escort shipping with cargo to and from Djibouti. It also explains the urgency with which the Prime Minister of Ethiopia had been looking for ports in the whole of East Africa, including Sudan. At the time it was felt that he was trying to reduce Ethiopia's dependence on the Djibouti harbour, as this has created a vulnerability for Ethiopia. It also explains his willingness to acquire a share in the port of Djibouti in exchange for shares in Ethiopian Airlines, etc., as it does the acquisition of land at the port of Lamu in Kenya. The development is indicative of a long-term strategic vision that bodes well for the country and its positioning, not only in East Africa, but Africa in general. It is also probably one of the reasons why ISS Africa identified Ethiopia as one of the Big 5 in Africa.

- **Rwanda:** Rwanda's economy grew by 8.6% in 2018 – a build-up of 10.4% registered in Q1, 6.8% for Q2, 7.7% for Q3 and 9.6% growth in Q4. Initial projection had put the economy at 7.2% growth.

The growth was attributed to Agriculture which grew by 6%, Industry (10%) and services that grew at 9%. The economy is projected to grow at 7.8% and 8.0% in 2019 and 2020 respectively. A team from the IMF is currently in Rwanda working with the ministry to come up with a final review of the economy in coming years. The growth in the services sector was attributed to transport activities, which grew by 16%, boosted by air transport that grew by 36%. Wholesale and retail services grew by 14%, while Hotels and restaurants increased by 11%, followed by financial services (12%), ICT (14%) and public administration activities by 27%. The growth in agriculture was pushed by good harvests of food crops, with livestock products increasing by 14%, while export crops declined by 4%. The 12% growth in Industry was boosted by a 20% increase in construction activities and a 13% increase in manufacturing. For more information, read: <https://bit.ly/2U0uqpW>.

CAS Analysis: An economic growth rate of 8.6% would put Rwanda very high on the list of fastest growing economies globally of 2018. This is the result of a government focused on putting in place reforms to making it easier to do business in Rwanda, to increase its global competitiveness, to reduce and clamp down on corruption, and to improve its standing on the Ibrahim Index of African Governance. On the latter index, Rwanda is in the Top 10 of Overall Governance. Its Rwandan Development Board has made it quite easy to start a business in the country, and steps are also being taken to increase the level of youth participation in the agriculture sector. In addition, the technology sector is also receiving significant support to ramp up the contribution of this sector to the economy of Rwanda.

- **Ghana:** Ghana's government is taking steps to make Ghana a sub-regional pharmaceutical hub. It is leveraging on India's expertise to aid its ambition of becoming the first pharmaceutical hub in West Africa.

Ghana believes its business people will be very well-positioned to have productive engagements in these areas, as well as in agriculture, oil and gas. Ghana wants to emulate India when it comes to ultramodern pharmaceuticals and medical institutions. The pharmaceutical hub will support healthcare delivery, and also create job opportunities. Policies and programmes will ensure medicines are available to patients, timeously and affordably. Pharma Village will help reduce the high level of imported medicines, which stands at 70% of the market share, and will reduce the pressure on foreign exchange. Manufacturing costs comprise a very small portion of the total cost of medicines, with the larger share absorbed by R&D. Due to this, generics can be produced at very low cost. Africa as a whole still depends heavily on the importation of pharmaceutical products in spite of the existing local capacity. The AfDB is convinced that "Africa's pharmaceutical industry is the fastest growing in the world." For more information, read: <https://bit.ly/2Cx1eNc>.

CAS Analysis: Africa is known for being mainly users of generic medicine. With its large population, it makes sense to support the development of a generic pharmaceutical industry. Another country that has supported this development, is Ethiopia. India is well known in Africa as being a source of generic pharmaceutical products. Cipla is one such company that is active in Africa, amongst others in South Africa. In Singapore we find Beacons Pharmaceuticals that has adopted a strategy to license its business. They should find a number of interested parties in Africa.

Central Africa

- **Democratic Republic of the Congo:** FSD Africa and Equity Bank Congo have entered into a partnership to target unbanked people in rural areas in the DRC. The three-year US\$2.8 million project will train and enrol at least 4,000 people to become bank agents across 22 of DRC's 26 provinces. These agents will help unbanked people in rural areas gain better access to financial services.

By 2021, the project aims to have opened one million new savings accounts, approved 10,000 loans and issued 5,000 new insurance products. A large proportion of these products will be opened by farmers and small businesses who until now have had limited access to formal financial services. Poor infrastructure, large geography and a prolonged civil war means financial inclusion rates in DRC remain low. More than 25 million of the 88 million population remain excluded from the financial system, while only 14% of people have an account at a financial institution. Access to financial services remains limited once outside DRC's key economic zones of Kinshasa, Matadi, Lubumbashi, Kivu and Goma. Those working within the informal sector currently have limited ability to weather political, environmental and economic instability or access

capital to grow their businesses or pay for emergencies. For more information, read: <https://bit.ly/2HGQXBy>.

CAS Analysis: The DRC is a country with tremendous potential. In spite of this, poverty is rife and financial services are reserved for a small portion of the population. Equity Bank Congo is a subsidiary of Equity Group Holdings Ltd., which has its head office in Nairobi. Equity was one of the first banks in Kenya to support mobile money, first by partnering with M-Pesa, and later on developing its own mobile money application. Adapting this business model to target the unbanked and raise the levels of financial inclusion in the DRC, makes a lot of sense. The world of banking in Africa has been significantly disrupted by technology. While the mainstream banking sector initially ignored this phenomenon, they are all awakening now to the threats (disintermediation) and opportunities (servicing an hitherto unreachable market segment) provided by mobile technology. This would be in addition to protecting their market share against the predator moves of mobile telephony companies who have not only been targeting the unbanked, but have also been stealing away customers from traditional banks. In Kenya, the Central Bank way back had created a conducive environment for M-Pesa to grow and develop. Nigeria's Central Bank recently also announced it would issue banking licenses to mobile telephony companies to emulate the likes of M-Pesa. South Africa's MTN has already announced it would apply for such a license. The end result would be access to banking products for a large part of the population that had up till now been forced to go without.

Southern Africa

- **South Africa:** Absa Group is restructuring its South African retail and business banking unit within months of reducing the division's management team and rolling out a new strategy. Absa stated that the steps aren't a "retrenchment exercise, but a realignment effort aimed at enabling our new strategy."

The shake-up comes as South African banks contend with slow economic growth and a consumer base battered by tax hikes and rising fuel and utility expenses. An unemployment rate of about 27% and declining business confidence is also curbing demand for loans, forcing banks to bring their costs down. Retail and business banking accounts for more than half of Absa's profit and is at the centre of a group-wide push to grow revenue faster than its competitors. The division's CEO is focusing on boosting mortgage lending, lowering costs and expanding the number of products sold to its clients. He is implementing his strategy as South Africa's banking sector becomes increasingly competitive with one new rival, TymeBank, launching in February and two more are expected to follow this year. For more information, read: <https://bit.ly/2Hye4iG>.

CAS Analysis: Disruption in the financial services industry is a sign of the times. Here we see ABSA in South Africa looking at innovating its business model. It is not the first to do so. Standard Bank has recently announced that it will close 91 branches, in the process affecting 1,200 jobs. It stated that it is "realigning its retail and business banking delivery model" amid a "rapid adoption of digital banking products and services." Therefore, branches are less of a focus for the bank. It is not inconceivable that other big banks could move in the same direction as they begin to face competition from emerging digital banks. These developments follow upon the prominent role mobile money has started to play in Africa since more than decade ago. M-Pesa in Kenya needs no introduction, while Nigeria's Central Bank has recently announced that it will issue licenses to mobile telephony players such as MTN to participate in mobile money banking. In Singapore, senior executives from Standard Chartered managing the bank in Africa, announced banks in Africa should embrace fintech and mobile money. It was announced in January 2019 that Standard Chartered has begun the roll out of its digital-only banking proposition in four more African markets after a successful launch in Cote d'Ivoire. This is an attempt by the bank to make up ground lost to telco-based mobile-money services by offering a full range of up to 70 online and mobile-only financial products, including money transfers and bill payments, QR code and P2P payments, loan and overdraft facilities, and instant fixed deposits. It is therefore not unrealistic to assume that many more banks will go the same route as Standard Bank and Standard Chartered. This is not the end of disruption in the financial services industry. One commentator recently identified 3 inflection points in technology. One was the slowdown and end of Moore's Law. The future was therefore seen to not be digital, but quantum. Quantum computing would need new languages, hardware and software programmes, and would stimulate the development of new products and banking models to an even greater extent. Bill Gates is reported to have said that we need banking, but not necessarily banks. With technology

developing as it is, the future of the industry is in flux. With quantum computing, our future is seemingly constrained only by our imagination.

- **Zimbabwe:** Industry and Commerce minister Mangaliso Ndlovu has said Zimbabwe is losing US\$100 million annually to wheat imports due to failure by farmers to produce enough stock.

Ndlovu commended millers (Grain Millers' Association of Zimbabwe – GMAZ) for venturing into contract wheat farming. A study in 2003 indicated that there was a huge deficit in terms of wheat production compared to the nation's annual consumption, where seven months' wheat supply was to be met through imports. 16 years down the line, Zimbabwe is still faced with the same challenges, if not worse. Since 2000, Zimbabwe has failed to produce 400 000 metric tons of wheat it needs per year. Ndlovu said GMAZ's initiative would reduce government expenditure. He encouraged the GMAZ to consider mobilising inputs, farming machinery, promoting and expanding grain farming in the country in all suitable farming districts of Zimbabwe. He believed the sector could design, promote and support agro extension services for contracted farmers and negotiate with government and farmers' unions on producer prices and subsidies. For more information, read: <https://bit.ly/2JrWrmo>.

CAS Analysis: We see here the same situation referred to in the first article of this newsletter. Zimbabwe can afford it far less than Nigeria to import wheat as it does not have the funds to pay for it. This is a price Zimbabwe is paying for the poorly managed land transformation process of the early 2000's. Many of its farmers left the country to farm in neighbouring countries, such as Zambia, etc. Their farms were given/taken by the political elite and became unproductive. The country has a serious challenge to once again transform the agriculture sector to improve its productivity. The Zimbabwean experience should serve as a warning to those countries aiming to "transform" their agriculture sector.

Interested in subscribing to this weekly newsletter? Subscribe by clicking here: <https://ntusbfcas.com/african-business-insights/friday-noon>.