NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE

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# Africa Digest

## Trends and Issues in Business

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# Contents

# 1. Linking Africa to the World

A wide variety of foreign investors revealed their interest in Africa over the past few decades. This phenomenon continues despite the Covid-19 pandemic. In addition to high-profile investors from the USA and China, those from less prominent countries continue to dabble in the African continent. This report addresses some of the more recent developments in this arena.

## GLOBAL INVOLVEMENT IN DEVELOPING GAS IN MOZAMBIQUE

The Japanese government recently announced its plan to invest ~US$14.4 billion to develop LNG in partnership with the business sector in Mozambique. This specific development will produce 12 million tons of LNG annually from 2024. Mitsui & Co. and Japan Oil, Gas and Metals National Corp. will jointly own a 20% stake in the gas field. Part of the US$14.4 billion noted above may go to this project. Japan Bank of International Cooperation (JBIC) will finance US$3 billion for the Mozambique LNG project, and three Japanese private banks are to provide debt funding.

Japan is the world's largest importer of liquefied natural gas. As reported earlier in 2020, the coronavirus outbreak threatened the country's LNG supply security, with stockpiles at the time sufficient for only two weeks of consumption.

Mozambique is a hotspot for the LNG industry, with Total's $20-billion Mozambique LNG project expected to produce close to 13 million tons of the fuel annually, and Exxon's Rovuma project to yield about 15.2 million tons once operational.

Various other global companies participate in the gas sector in Mozambique. They included Standard Bank and Rand Merchant Bank (RMB) of South Africa, Societe Generale from France as financial advisor, Total (France), ONGC Videsh, Bharat Petroleum Resources, and Oil India (all three from India), and PTTEP (Thailand).[1] [2]

## JAPANESE INVOLVEMENT IN GEOTHERMAL ENERGY

Toshiba Energy Systems & Solutions Corporation (Toshiba ESS), Toyota Tsusho Corporation (both from Japan) and Egesim Energy Electro-Mechanic Construction Contracting Co., Ltd (from Turkey) secured a geothermal project deal from Ethiopia's government. The consortium received an order for the engineering, procurement and construction of the Aluto Langano Geothermal Wellhead Power System in central Ethiopia. Ethiopian Electric Power (EPP) will operate the system and plans to commence commercial operations in August 2021. This system is a 5 MW small-scale geothermal power plant. Toshiba ESS will supply the steam turbine and the generator. The project will proceed under the Grant Aid scheme of the Japan International Cooperation Agency (JICA).

Ethiopia possesses an equivalent of roughly 10,000 MW of geothermal potential and intends to develop new geothermal power plants totalling roughly 2,500 MW by 2030.[3]

## RUSSIAN WEAPONS TO AFRICA

As reported in March 2020, Russia received orders valued at approximately US$1 billion from African countries for military hardware over the last six months.

According to Director of Russia's Federal Service for Military-Technical Cooperation (FSVTS) Dmitry Shugaev, most African countries are keen to develop strategic cooperation with Russia. This cooperation includes activity in the military-technical sphere, such as procuring military equipment and weapons, increasing quotas for training national personnel, and assistance from Russian specialists.

The African region absorbed 17% of Russia's arms exports during the 2015-2019 period. Russian exports of major arms to Egypt reportedly increased by 191% between 2010–14 and 2015–19. Russia provided Egypt with AT-16 and AT-9 anti-tank missiles, a reconnaissance satellite, Ka-52 attack helicopters, MiG-29M fighter jets and AA-11 and AA-12 air-to-air missiles. In 2019, Russia delivered 12

Su-30K fighters to Angola, supplied four Pantsyr-S1 air defence systems to Ethiopia, and 300 AT-6 anti-tank missiles and several Mi-35M attack helicopters to Nigeria. Algeria is another major recipient of Russian arms.[4]

## SAUDI INVOLVEMENT IN EGYPT

The Saudi Arabia Grant Committee recently agreed to finance five new development projects in Egypt. This aid initiative has a total value of US$200 million, and will support financing of small, medium and micro projects in Egypt. Five projects were approved for funding, three projects with the Egyptian Agricultural Bank plus two projects in the field of health care. In addition, value chain support was also approved for funding.

The projects included support for food security and small farmers, namely a project to develop rural villages, a project for a value chain financing program, and a program for financing dairy products and dairy laboratories. This would target small and micro projects in rural villages carried out by rural women and handicrafts and other activities aimed at achieving rural development.

The digital payments pioneer e-Finance, a developer of digital infrastructure and a driving force in Egypt's growing digital economy, will receive US$3 million to support the development of value chains and provide logistical support to SMEs.

Project implementation across all parts of the country will focus on Upper Egypt's governorates and other governorates outside Greater Cairo and Alexandria.[5]

## INDIA SUPPORT FOR ZIMBABWE

The Zimbabwean government sees a broad potential for increased co-operation with India, especially in its ICT, energy, mining and pharmaceutical sectors. Viewing India as a key ally, the government seeks to deepen and strengthen economic activity between the two countries. The Zimbabwean focus is on enhancing trade and economic co-operation for the mutual benefit of both nations. The government invited the Indian business community to exploit investment opportunities in the newly established special economic zones in Zimbabwe.

Zimbabwe intends to strengthen its co-operation with India in the area of human capital development. The Indian government provides post and undergraduate scholarships and technical training courses for civil servants under its ITEC (Indian Technical and Economic Co-operation) program.

Zimbabwe received donations of medication from India, which helped boost stocks in the country.

In 2019, India and Zimbabwe exchanged several ministerial levels and high-level business delegations. Capacity building endeavours supported by India included three projects in the energy sector, technology centres (waterfalls and HIT), supply of equipment and medicines, training program with 2019 slots, scholarships, etc.

New capacity-building projects for 2020 are in the areas of government devolution, ICT and agriculture.[6]

## EUROPEAN INTEREST IN MOROCCO

European investors and business people reportedly may now relocate their companies to Morocco as an alternative to focusing on the Asian market, especially following the pandemic. Morocco offers several advantages as a base for company relocation and investment. The following factors are relevant:

- With its close proximity to Europe, Morocco can serve as an industrial hub for the continent, which depends heavily on Asian markets, especially China.
- This geographic position also enables Europe to shorten logistics paths while reducing carbon emissions, thus doing good for our climate.

- Morocco's response to the Covid-19 pandemic became a model to emulate in Europe and in France in particular.
- The pandemic also demonstrated Morocco's potential for scientific and technological innovation. The technological and innovation potential of the segment of educated Moroccans and technicians enabled the North African country to provide health centres with 500 ventilators and a locally developed RT-PCR diagnostic test.
- The process to gain authorization for patent approval was speedy and greatly superior to that of France.
- The rapid and efficient mobilization of textile factories played a critical role in Covid prevention efforts, producing millions of nose masks for domestic use and for export.
- Morocco's health sector managed the crisis in an excellent manner, with local production of medication for patients and other supplies.

A number of important European companies currently seek deals with Moroccan organisations in the areas of electronics, biomedical engineering and pharmaceuticals.[7]

**POINTS OF INTEREST**

- As noted in an earlier African Digest Business Report, Ethiopia and Morocco recently agreed to share energy resources to provide the region with electricity. Ethiopia now taps wind and solar, as well as hydro energy resources. Tapping into their geothermal energy sources will support the country's total energy base load. Unfortunately, the Grand Ethiopian Renaissance Dam remains a bone of contention between Ethiopia and Egypt. Ethiopia also concluded an agreement to provide electricity to some of the GCC states. It also developed a Waste-to-Energy plant in Addis Ababa to augment its electricity supply. Ethiopia's strong focus on renewable energy serves as an example for the rest of the continent. Japan's involvement in Ethiopia's energy generation potential paves the way for many more development projects in the country.

- The countries involved in exploiting LNG in Mozambique have the opportunity to benefit from the country's very rich LNG reserves. Mozambique also has a host of other sources of wealth, such as gold and rubies, as well as a huge agriculture potential. However, a lot of its mineral and energy wealth is to be found in the Cabo Delgado province in the north of the country. This province has since 2017 been the target of a terrorist group, whose actions have increased significantly since then. Mozambique can greatly benefit from the investments and knowledge transfer from countries such as India, South Africa, France and Thailand, but the challenge of providing a safe environment might deter other investors and could cause current investors to withdraw. As a matter of fact, the terror group's activities have the potential to destabilise the whole Southern African region.

- Russia's outreach to Africa the last few years is well known. Russia clearly intends to complement its efforts to sell nuclear energy to countries in Africa (even though most cannot really afford it) with arms sales. In this field it faces strong competition from countries such as China, the USA, Turkey, France and even Serbia. What should not be forgotten is that the African defence industry is also growing, particularly in Algeria, Egypt, Nigeria, and South Africa.

- Zimbabwe is currently on the verge of an implosion, despite its massive potential. India's support will complement that from China. Whether it will be sufficient to get the country's economy up and running again is very doubtful. The kind of support mentioned in the article above can be seen as charity and is done to increase India's influence in Africa. Note that India and China both targeted Africa strongly before the onset of the Covid-19 pandemic to win support for and to increase their influence on the continent.

- Morocco is increasing its brand equity in Africa and is moving from strength to strength. It has succeeded in positioning itself as a gateway into Africa as well as a manufacturing hub for countries in Europe and even Asia. Morocco gained global recognition for its projects to generate electricity via renewable energy sources, and is now the top vehicle manufacturer in Africa. It is also quite high on the list of attractive investment destinations on the continent.

## 2. China in Africa

China remains interested in Africa even after the outbreak of the global Covid-19 pandemic. The range of its activities on the continent spans a wide number of industries. While Africa seems keen to embrace investment and construction support from China, at times we see tension between African countries and China. This report addresses some of the more recent developments in this field.

**CHINA SUMMIT IN AFRICA**

The Daily Maverick, a South African online publication, recently published an article by Dr Cobus van Staden, a senior researcher at the South African Institute of International Affairs. Van Staden analysed the recently held "Extraordinary China-Africa Summit on Solidarity Against Covid-19," addressing the issues President Xi Jinping did not address at the summit.

- President Xi did not include any major new announcements of support packages to help Africa overcome the Covid-19 pandemic. The measures addressed were already announced during his address to the World Health Assembly in May 2020.
- He announced no major initiatives to help Africa overcome the economic impact of the pandemic. While Xi's announcement that some African loans will be written off was taken as a victory for Africa, what he did announce was that Chinese interest-free loans maturing in 2020 (only 9% of all Chinese loans to Africa) would be written off. The majority of Chinese loans to Africa are concessional loans (US$150 billion), and they will not be cancelled.
- Xi did not announce support for the call by UNECA and others for a blanket repayment freeze for all African debt. What he did do was to echo previous comments that China will renegotiate loans on a case-by-case basis.
- Xi did not apologise for events in April in Guangzhou in China, where a sudden spike in Covid-19 infections led to a campaign of discrimination against the city's large African population.

Van Staden expressed his opinion that China's motivation for the summit was "to shore up African support at a moment when China faces numerous international pressures, including renewed tensions with the United States, India, and some of its neighbours in the South China Sea." He believes that the summit was a signal to Africa that China will have limited capacity for African initiatives, at least in the short term.

While Africa's response to the summit has been warm, the Guangzhou crisis and the wider disruptions of 2020 will lead to rethinking of some aspects of the relationship from the African side.[8]

**ELECTRIC VEHICLE MANUFACTURING**

El Nasr Automotive Manufacturing Company, an Egyptian state-owned company, and Dongfeng Motor, a company from China, signed an agreement in mid-June to produce the first electric cars in Egypt. The agreement calls for El Nasr to produce 25,000 electric vehicles annually.

According to the China Market Research Group, the agreement will be mutually beneficial. African countries seek manufacturing jobs and investment funds to revive economic growth on the back of the COVID-19 pandemic. This is reportedly why African countries are increasingly amenable to welcoming Chinese companies in their borders. Africa is also a key market, and Chinese firms are often highly cost competitive compared to automakers from the West.

Chinese automakers will benefit from the Egyptian market as a step toward global expansion.

While COVID-19 slowed negotiations and put Chinese firms under financial strain due to lower sales, they are likely to take a long-term view as usual. This will move the electric vehicle manufacturing initiative in Egypt forward.

However, some infrastructure must be put in place. Supporting the rollout of electric vehicles in Egypt will involve a number of steps:

- Implementing 3000 charging stations in Egypt over three years,
- Access to financial assistance for new buyers,
- The local media should also increase public awareness about electric vehicles as a new global trend for a clean ecological system,
- The industry will need well-trained technicians capable of handling electric vehicles.[9]

**INFRASTRUCTURE DEVELOPMENT**

The Nigerian Federal Government recently announced that the Bank of China and Sinosure, a Chinese export and credit insurance corporation, would fund the Ajaokuta-Kaduna-Kano gas pipeline at a cost of US$2.6 billion. Two Chinese firms will work with their counterparts in Nigeria to carry out the project. Fidelity Bank will also support the project.

Brentex/China Petroleum Pipeline Bureau-CPP Consortia and Oilserve/China First Highway Engineering Company-CFHEC Consortia were announced as the Engineering Procurement and Construction contractors for the project.

The pipeline will provide gas for power generation. This will enable gas-based industries to facilitate development of new industries. It will also create a significant number of direct and indirect employment opportunities, while boosting the development and utilisation of local skills and manpower, technology transfer and promotion of local manufacturing.

President Buhari appealed to the governors of Kogi, Niger, Kaduna and Kano states and the Minister of the Federal Capital Territory to provide the required support for the project.[10]

**TENSIONS BETWEEN CHINA AND KENYA**

Tension between Kenya Railways (KR) and Afristar, the Chinese company appointed to run the Standard Gauge Railway (SGR) project in Kenya, delayed an early handover of the operations of railway to Kenya Railways. Afristar is supposed to run the SGR till 2027. However, the contract is skewed in favour of Afristar as it freed the company of all liabilities and forced Kenya Railways to pay a fixed monthly service charge on a quarterly basis and in advance. These terms led the Kenyan government to push for the handover of project operations to Kenya Railways by 2022. The latter has been trying to negotiate a reduction of the operation costs of the SGR with the Chinese company for the past year.

Other issues causing frustration and tension between the two partners, include the following:

- The project is still far from turning a profit and has yet to break even.
- The State Law Office advised KR not to extend the operation contract for the Nairobi Suswa SGR leg.
- Afristar asked for a further three months to operate the route, but could not reach a consensus with Kenya Railways on steps to reduce operation costs for the entire project.
- The Court of Appeal recently declared that the original award of the contract to Afristar's holding company failed to follow Kenyan procurement laws.

Afristar is apparently unwilling to agree to Kenya's request. Should it decide to agree, KR will still be required to pay six months' worth of the fixed costs and all pending bills. This appears to be a financial risk that the Kenyan government is willing to take to save face and reduce the financial burden of operating the SGR.[11]

**E-COMMERCE SUPPORT**

Alibaba signed an agreement (the electronic world Trade platform - eWTP) deal with Rwanda in 2018 to host Rwandan products on the platform.

The purpose of the eWTP is to open markets for small businesses in Africa to participate in cross-border electronic trade. This platform makes Rwandan products available online to Chinese consumers and promotes Rwanda's tourism packages to Chinese tourists.

Two products that have already received quite a lot of attention on the platform are coffee and chili.

Since Rwanda joined the eWTP at the end of 2018, imports from Rwanda through Alibaba platforms increased by 124% in 2019, while the number of consumers purchasing Rwandan tourism products on Fliggy (Alibaba's tourism site) has more than doubled.

In May 2020, approximately 1.5 tons of roasted Rwandan coffee beans were sold within a minute.

Rebranded by Freshippo (Alibaba's new retail grocery chain), Rwanda's chili products have become increasingly popular in China since the beginning of 2020. China imported more than 60 tons of chili since the beginning of 2019.[12]

**POINTS OF INTEREST**

- Africa's debt burden has long been a point of debate in the global environment. China has frequently been accused of practicing debt diplomacy. By providing so much debt to African countries that they had no other choice but to support China and its companies. China may gain control over assets in Africa. With the onset of the Covid-19 pandemic and the economic catastrophe that came along with it, many African countries have applied for stimulus packages to help them deal with the effects of the pandemic, further increasing the debt burden of these countries. Now the IMF and the African Development Bank are mostly the financial institutions involved. China's economy has slowed down and the latest economic growth statistics show a slowdown from about 6% to 3.2% (source: China) in 2020 Q2. While this is a good performance given the circumstances, China is not in a position to write off the huge loans it has provided to Africa (US$150 billion). However, without assistance many African economies will implode. Africa itself must stop wasting money and improve its financial governance.
- China's on-going support in the fields of vehicle manufacturing, infrastructure development and e-commerce are typical of its endeavours to gain support and generate returns in Africa. Africa is still quite keen to receive support and investment from China, despite tensions that arise from time to time. The tension between China and Kenya over the operations of the SGR has been coming for quite a while. A further challenge to the relationship between the two countries was created when President Kenyatta visited China at the end of 2018 to obtain further financing to take the SGR from Naivasha into Uganda. China refused this request, forcing Kenya to develop alternative plans. Kenya subsequently brought the private sector on board via a PPP-agreement.
- At the last FOCAC Summit in Beijing in 2018, President Xi, while pledging US$60 billion to Africa's projects and development, urged African leaders to refrain from adopting "vanity projects." With the Covid-19 pandemic devastating economies in Africa, and limiting the extent to which China's Belt and Road Initiative (BRI) can support infrastructure-led growth on the continent, African leaders must focus on projects that generate revenue for their countries and their private sector organisations. Corruption is a major hurdle to this approach, and has seemingly become structural. Africa's largest economies face serious challenges. Some appear unable to curtail corruption within their leadership. One unfortunate example is seen in South Africa, where President Ramaphosa recently announced, on a televised outreach to the South African nation, an investigation to ascertain the facts behind the looting of some of his R500 billion (~US$30 billion) fund to boost the South African economy during the Coivd-19 pandemic.

## 3. Developments in Financial Services

The African financial services industry experienced vigorous activity in the pre-Covid-19 period. Banks developed counterstrategies to deal with threats from non-bank service providers such as micro lenders and mobile telecommunications companies. This report addresses some of the latest developments in this sector.

**CONTROL VERSUS INNOVATION**

Towards the end of May 2020, the Kenyan Treasury issued a policy that forbade mobile application lenders from using credit reference bureaus (CRBs) to share information on defaulters. While Treasury did not provide any reason for this step, they reportedly see these lenders as immorally benefitting from poor citizens. Some observers worry that this action may slow down innovation.

Analysts reportedly see the hand of the banking sector in this development, as legacy banking institutions view fintech innovations as a threat. Banks in Kenya were historically not very customer-oriented. Some made life difficult for potential customers and charged exorbitant fees for every possible service. Banks are accused of colluding with valuers to auction (at very low prices) the assets pledged by clients that defaulted on loan repayments.

In contrast, fintech innovations included the use of artificial intelligence to create credit scoring for offering non-collateralized loans. Consequently, this led to greater financial inclusivity.

A 2017 study found that the majority of Kenyans access digital credit for business purposes and to meet everyday household needs. The borrowers are largely microenterprise organisations that viewed fintechs as a solution to escape challenges posed by the banking system at the time.

Banks do not lend out small amounts due to their high fixed cost base. Micro-enterprises are punished by actions of the defaulters. The defaulters have led to a situation where the non-performing loans (NPLs) for fintechs reached high levels.

The financial services sector needs diversity. Government should therefore not pass laws that are meant to harm fintechs. The author of the article is of the opinion that the Treasury and the Central Bank of Kenya should have promoted innovations while curbing the lending rates by mobile lenders instead of adopting legislation that will have the end-result of killing off fintech companies.[13]

**GROWTH IN CONSOLIDATION OF BANKING SECTOR OF AFRICA**

Mergers in Tanzania's banking sector have been quite prominent in recent years. In June 2020, the state-run TPB Bank absorbed TIB Corporate Ltd, continuing its strong growth trajectory. This is the fourth merger involving major Tanzanian banking institutions in the past two years. It positions TPB Bank among the top 10 financial institutions in Tanzania in terms of assets.

Previous acquisitions by TPB Bank include the following government-owned entities:

- In May 2018, the former Twiga Bancorp was acquired,
- In August 2018, the Tanzania Women's Bank was acquired.

Both entities experienced undercapitalisation issues, and both were placed under statutory management of the Bank of Tanzania in 2016.

The latest merger is another step towards establishing a single state-owned commercial bank strong enough to compete with an increasing number of private banks. This required major reforms in operations, systems and structure to become a strong competitor.

The merger has reduced the total of registered commercial banks in Tanzania down to 37, excluding six community banks, two development banks, and five micro-finance banks.

Tanzania's government reportedly wants to consolidate the country's banking industry amid the coronavirus pandemic and is seemingly strengthening government control in all spheres of the economy, including finance.

Financial sector mergers and acquisitions appear to have become a regional trend in recent years.

Other recent mergers in Africa include the following:

- In Kenya, the KCB Group acquired the National Bank of Kenya in 2019
- The Commercial Bank of Africa and NIC Bank, both from Kenya, merged and created the country's third largest bank by assets
- In 2019, Nigeria's largest retail bank, Access Bank Plc., acquired Kenya's Transnational Bank
- Also, Mayfair Bank was sold to the Commercial International Bank from Egypt
- A merger between CBA Bank and NIC Bank in April 2019 also put their respective Tanzanian subsidiaries in line for consolidation

In Kenya and Tanzania, the top five banks account for 46% and 55% of financial sector assets, respectively. Central Bank of Kenya governor Dr Patrick Njoroge envisages more "market-driven consolidations in the banking sector" [14]

**LEGACY BANK GOING DIGITAL THROUGH ACQUISITION**

In South Africa, Standard Bank, the biggest bank in Africa, acquired a 40% stake in Payment24, a digital fuel management solutions and telematics start-up, for an undisclosed amount. Payment24 runs a platform that outsources management, monitoring and control of fleet fuelling transactions using real-time, mobile and cloud technologies.

Payment24 targets companies with large fleets and its fuel management app is widely adopted, via partnerships with major filling stations. In addition to South Africa, the firm targets other African countries.

The startup has had a successful three-year relationship with various divisions of Standard Bank, including the launch of the BlueFuel Fleet Card system in Namibia. Its founders view the partnership as presenting new opportunities for both Standard Bank and Payment24.

The scale of Standard Bank provides Payment24 with leverage for growth into new markets and customer segments across Africa. For Standard Bank, the deal will help its Fleet Management wing to strengthen its footprint across the continent. It would allow Standard Bank to provide its customers and oil company partners with an effective digitally enabled solution to facilitate fuel, repairs and toll purchases across the 35 transport hubs and corridors in Africa.[15]

**COVID-19 NEGATIVELY IMPACTING ACQUISITIONS**

Kenya's Equity Bank Group cancelled its plan to acquire four regional banking subsidiaries from London-listed Atlas Mara Limited preserve its capital in the wake of the Covid-19 pandemic. Equity Bank was targeting Atlas Mara's units in Rwanda, Zambia, Tanzania and Mozambique.

Various challenges in addition to the pandemic led to Equity's decision.. In addition to the purchase price, the Atlas Mara subsidiaries needed a substantial capital injection. Equity also needed to raise US$105 million to purchase a 66.5% stake in DRC's Banque Commerciale Du Congo.

Equity subsequently decided to refine its strategy in view of the Covid-19 pandemic. This entailed conserving its cash and liquidity and supporting customers in its existing businesses. Equity also cancelled its proposed dividend pay out after the pandemic forced it to restructure Sh92 billion (~US$849 million) of loans to customers hurt by the economic disruption caused by the pandemic. The two large outflows of cash in a crisis environment would have strained the bank's balance sheet.

Atlas Mara announced it would seek another buyer for the four banks, after the Equity deal collapsed.[16]

**EXPANSION STILL CONTINUES**

In Tanzania, the expansion strategy adopted by CRDB Bank Plc. in 2012 was put on hold in 2016 due to financial constraints. The Bank now intends to enter seven new countries in East and Central Africa as part of its revived strategy. CRDB Bank is the largest bank by assets in Tanzania with assets of about US$3 billion and now has much improved cash flows. It hopes to join regional banking giants, i.e. Equity Group and Kenya Commercial Bank in the race towards attaining pan-African status.

After transforming the bank over a period of two years, Bank management identified the DRC as its first target, adopting a greenfield strategy. While the pandemic initially slowed the growth process, completion of this transaction may take place in the next 12 months. However, CRDB continues to explore other entry strategies and has yet to make its final decision.

CRDB intends to leverage its technology and partnerships with other banks to expand its operations in the broader region. This approach will limit expansion costs. According to the CEO, with partnerships, technology will be key to the bank's expansion and will be the differentiating factor.

CRDB is also targeting countries that have strong trade ties with Tanzania, such as the Comoros, Malawi, Kenya, Rwanda, Uganda and Zambia. The bank views its entry strategy as crucial for a successful expansion.[17]

**POINTS OF INTEREST**

- It is interesting to note differences between two countries as far as growth and development is concerned. In Kenya, the Equity Group (which has grown in leaps and bounds for the last two decades) reined in its growth aspirations and put a temporary hold on its expansion plans. In Tanzania, the CRDB Bank moves to complete the expansion plan it adopted in 2012 within the next 12 months, despite a slow-down of the process due to Covid-19.
- CRDB's plan to use technology as a growth driver while cutting costs is not a new strategy on the continent. In South Africa, Capitec Bank took on the then "Big Four" and became a serious competitor in the South African market space. There is now the "Big Five." Non-banks such as Safaricom's M-Pesa also show how technology can support expansion and growth. By focusing on countries that have strong ties with Tanzania, CRDB is ensured of growing support from companies that are trading across borders. This strategy is viable.
- A number of countries in Africa have too many banks. It is frequently the case that a small number of banks, four or five, hold about 80%+ of the market share, while 10 or 20 smaller banks (if not more) compete for the remainder. In some countries these banks are actively encouraged to consolidate to avoid failure, which would place the entire sector under pressure. We will see more of this trend as Covid-19 places these banks, especially smaller retail banks without a digital footprint, under increasing pressure.
- Tanzania's state-run TPB Bank is an interesting case. State-run banks in other African countries have not fared well. One such example is the Land Bank in South Africa that focuses on the agriculture sector, and that recently had to be bailed out by government to the tune of R3 billion (~US$180.1 million). What the TPB Bank will need is a competent and honest management cadre, running the bank on sound business principles. To do otherwise will be to invite disaster.

## 4. Developments in Investment and Economics

Various interesting developments emerged in the investments and economics fields in Africa during the past few months, despite the onset of the Covid-19 pandemic. This report addresses some of the more recent developments in this field.

**TANZANIA CATEGORISED AS LOW-MIDDLE INCOME COUNTRY**

The World Bank recently upgraded Tanzania to lower-middle income country status. This followed a number of state-led economic reforms, such as developing consistent plans and taking hard decisions to accelerate its economic development. These included "discipline in financial expenditure and the prevailing peace and tranquillity." Other factors included reinforcement of leadership ethics, implementation of flagship projects and investment in human development.

Tanzania planned to gain middle-income status in 2025, but achieved this goal five years earlier than expected. Tanzania recorded an economic growth of 7% in 2019, making it one of the fastest growing economies in Africa. It is now the second East African Community member state to achieve the middle-income status, joining Kenya.[18]

The question is what this change in status means for Tanzania. Some experts view this as reflecting an improvement in poverty reduction in Tanzania and as a step forward in the country's development. It also boosts the country's credit worthiness, which is good for Tanzania's ambitious growth plans. Tanzania can now obtain favourable interest rates and attract foreign investors due to the improved living standards and higher consumption. Industrial investors can now borrow externally.

One disadvantage is that as maturing middle-income economy, Tanzania will no longer be able to access certain grants and concessional loans it once qualified for as a low-income country.

Overall, economists believe Tanzania has a long journey to reach the peak of the status of lower-middle income, which is at US$4045 per capita GDP. Tanzania also reportedly needs to accelerate its economic growth to between 8 and 10%.[19]

According to Prof David Himbara, a professor in international development based at Centennial College, Toronto, Canada, Tanzania's development path demonstrates a number of lessons for other developing countries. Tanzania's annual economic growth is significant, ranging from 6% to 8% over the past decade. Consequently, its nominal GDP more than doubled over that period, from US$29 billion in 2009 to US$63 billion in 2019.

- Diversification of the Tanzanian economy was key to its development.
- Tanzania is now one of the top five gold producers in Africa.
- Manufacturing is gathering momentum after years of decline. Tanzania now produces cement, textiles, ceramics, tools, and simple machinery.
- Part of the country's mining and manufacturing success story rests on having attracted FDI of at least US$1 billion annually over the past five years.
- Improved processing and delivery of goods from Tanzanian ports to countries such as Burundi, Rwanda, DR Congo, Uganda, and Zambia are now an important income source.
- Services, telecoms, banking and construction experienced impressive growth rates, with the commercial capital of Dar es Salaam becoming the largest city in eastern Africa.
- The importance of political stability enabled Tanzania to transform from a quasi-socialist to a market economy.

Tanzania's agriculture sector will require more attention should Tanzania aspire to move it to the next level.[20]

## BOOSTING TOURISM IN RWANDA

In mid-June 2020, Rwanda announced its revival of tourism activities in the country. One of the steps entailed a sharp cut in the price of permits for trailing mountain gorillas. According to the Rwanda Development Board (RDB), this development and the continuation of international travel for charter flights took effect on 17 June 2020. The RDB stated that Rwanda's tourism industry would create a safe environment for travellers and operators to thrive in these unprecedented times.

Permits for trailing the mountain gorillas were now (until December 31, 2020) obtainable for US$200 to Rwandan nationals and for US$500 to East African Community nationals residing in Rwanda, and for US$500 dollars to foreign residents. Previously the permits were priced at US$1,500 dollars for all tourists.[21]

Rwanda was banking on the promotion of regional and domestic tourism to revive the revenue sharing scheme that would enable communities in the country to deal with the impact of Covid-19 in the tourism sector. Rwanda's government has over the years shared a portion of the revenues generated from tourism activities to the communities living in the areas around the parks.

Before mid-June, the government suspended all tourism and research activities in the country's national parks as a preventive measure against the transmission of Covid-19. This greatly reduced tourism revenues. Smallholder businesses and other community organisations were heavily affected.

Re-opening tourism activities, especially domestic tourism, will channel funding to the communities.

For the last seven consecutive years, tourism was ranked as the highest foreign currency earner in Rwanda. More than 80% of this industry is based on nature. Tourism contributes 10% to the GDP and 8% to non-agriculture employment.[22]

## INVESTMENT IN EGYPTIAN HEALTH SERVICES

Mabaret Al Asafra, a hospital operator in Alexandria, Egypt, received an investment from Tana Africa Capital, a private equity (PE) firm with a Pan-African focus.

Mabaret was perceived as having established a strong brand and reputation for high quality healthcare over the past 35 years. Tana Africa Capital sees a substantial opportunity for growth in Alexandria, the Delta and the broader Egyptian healthcare market. It has an experienced management team that built a stable and scalable business and operating model, with a proven track record of success. With the operator's existing expansion plans, combined with future market opportunities, Tana believed that Mabaret was set for significant growth.

Mabaret currently operates two hospitals and a laboratory business in Alexandria and will launch a new hospital in central Alexandria in the second half of 2020, increasing the total beds to over 400. It has the aim is to scale the business and bring quality medical care to the broader Egyptian public.

The Oppenheimer Family and Singapore sovereign wealth fund Temasek Holdings own Tana.[23]

## DEVELOPMENT MEASURES TO COMBAT COVID-19 IN KENYA

President Uhuru Kenyatta announced plans to the amount of US$503 million in May 2020 to help businesses and citizens survive the economic turbulence brought about by the Covid-19 pandemic.

Part of this stimulus package entailed ramping up infrastructure spending to stimulate and support micro and small business enterprises. Typical infrastructure projects include the rehabilitation of access roads, footbridges and other public infrastructure. US$50 million was set aside to hire local labour for this undertaking.

The Ministry of Education received US$65 million for hiring of 10,000 more teachers and 1,000 ICT interns to help in Kenya's digital learning programme. The government will now buy only locally manufactured vehicles worth US$6 million to promote local car assembly firms. Other measures included setting aside US$100 million for fast-tracking payment of outstanding VAT refunds and other pending payments to SMEs and US$30 million as seed capital for the SME Credit Guarantee Scheme.

The tourism sector is to receive US$20 million in various projects. The government will hire 5,000 more healthcare workers for one year to enhance the public health system.[24]

**POINTS OF INTEREST**

- Tanzania achieving lower-middle income status is a feather in the cap for its political leadership, and reflects the strong leadership of President John Magufuli. His relentless drive to rid his government of corruption and incompetence benefits his country immensely. Many have criticised his leadership style as authoritarian, as they have also done with President Paul Kgama from Rwanda, who succeeded spectacularly in turning around the fortunes of his country after the devastating genocide of 1994. Their successes, as well as that of Prime Minister Abiy Ahmed, have led to an increasing number of people stating that democracy is over-valued, and that Africa needs more strong leaders (strong being equated to authoritarian). Afrobarometer finds that many Africans are prepared to give up rights and freedom in exchange for security (safety and economic) and an end to corruption. This is a dangerous state of affairs and could lead to an Africa ruled by strong dictators, which can never be condoned. It does seem, however, that youth in Africa embrace democracy, which will inevitably lead to clashes with authoritarian leaders. What Africa does need are leaders that are both strong and honest, and who know when to leave.
- Tourism throughout Africa represents a low-hanging fruit to stimulate declining economies. In a previous African Digest, mentioned was made of countries such as Tanzania, Egypt and Uganda that adopted plans to boost tourism to their countries. The reason for this approach is the strong leverage effect of tourism, given the large number of jobs that are created within the total tourism value chain. Many of these jobs do not require high levels of technical expertise and are therefore easily filled. Rwanda is a beautiful country (as are many in Africa) with a wonderful story to tell (its progress the past 25 years and developments in various sectors of its economy) in addition to its nature (gorillas, etc.) It is one of the safest countries in Africa as far as crime is concerned, and has done a lot to achieve Number Two status on the Ease of Doing Business rankings in Africa. Kigali is also one of the world’s cleanest cities.
- Africa’s health sector is a sector in urgent need of investment and development. The private healthcare sector is seemingly doing well in a number of African countries and provides good investment targets. This is due to an increasing number of people in Africa moving into the middle class with more disposable income and a desire for higher levels of health care. Companies targeting health insurance are also doing well for the same reason. The challenge lies in the public healthcare sector where governments are frequently not doing well in providing sufficient health care to their populations. Covid-19 has laid bare these shortcomings, as cash-strapped public hospitals, frequently also suffering from incompetent and corrupt hospital management, are becoming disaster zones. Some countries have adopted an approach of universal health insurance, but have no practical ways of funding these policies other than tapping an already over-burdened taxpayer.

## 5. Developments in Trade

The onset of the Covid-19 pandemic severely curtailed trade on the African continent. However, a number of interesting developments recently emerged, such as the envisaged trade pact between the USA and Kenya, and steps to boost regional trade. However, some trade tensions surfaced.. This report addresses some of the more recent developments in this sector.

**THE KENYA-USA TRADE PACT**

Kenya and the USA are currently negotiating the first bilateral free-trade agreement between a sub-Saharan country and the USA, although the Covid-19 pandemic poses some difficulties. For Kenya the deal would also create sustainable jobs, while the USA would gain access to a huge market, as Kenya is a part of Africa that requires everything "from toothbrushes to machine tooling."

The negotiations go back to August 2018, when President Uhuru Kenyatta and President Trump, announced the commencement of negotiations. A Trade and Investment Working Group (TIWG) would lead the negotiations. The TIWG developed four objectives covering the following themes:

- Maximizing the remaining years of AGOA;
- Strengthening commercial cooperation between the two countries;
- Developing short-term solutions to reduce barriers to trade and investment; and
- Exploratory talks on future Kenya – USA bilateral trade and investment relations.[25]

While some analysts worried that a bilateral deal between Kenya and the USA could undermine the African Continental Free Trade Area, President Kenyatta suggested that such a bilateral pact could complement the AfCFTA and serve as a model for replication by other countries.

In contrast, Ghana's President Nana Akufo-Addo believes the USA pays more attention to its bilateral deal with Kenya than to the AfCFTA. However, Ms Florizelle Liser, chief executive of the Corporate Council on Africa, stated that the USA had in fact worked to facilitate the AfCFTA, that a bilateral deal with Kenya was not an impediment to Africa's efforts to forge a multilateral free-trade grouping, that the USA understood that Kenya is part of the EAC, and that they were already looking at ways they could involve other East African countries. It could take as long as two years to conclude a Kenya-US trade deal, she added.

One driver for Kenya's actions to conclude a deal with the USA is that the AGOA agreement expires in 2025. While the US Congress can decide to extend the life of AGOA, this is no sure thing. Also, the pandemic intensifies Africa's need for increased trade and investment.[26]

More recently, Kenya identified the e-commerce segment as a key growth area and a priority in its negotiations with the United States. Kenya wants support to strengthen its e-commerce and digital platforms for trade that will enhance growth. In return, Kenya intends to relax its regulation of the digital market over time to ease the entry of US firms and products.

The US-Kenya FTA will progressively eliminate tariff and non-tariff barriers on all trade in goods to establish an FTA among the parties. Also, the USA calls for scrapping of tariffs on digital products, including software, music, video, and e-books, plus facilitation of cross-border data flows.

The USA wants a commitment from Kenya to "ensure that procedures facilitate e-commerce shipments and a simplified process for the return of domestic origin of goods to meet the challenges disproportionately impacting small business e-commerce."

The objective is to enhance the growth of the e-commerce industry and support enterprises to keep up with competition and raise consumer demand from both local and international markets.[27]

## PROTECTING LOCAL INDUSTRY

Betty Maina, Cabinet Secretary for Kenya's Ministry of Industrialization, Trade and Enterprise Development, recently stated that the Kenya Trade Remedies Agency (KETRA) would provide the legal and institutional framework to shield domestic industries against unfair foreign competition. This framework would be in accordance with World Trade Organization guidelines. KETRA would protect local companies against unfair import competition, and put Kenya on par with countries such as Egypt and South Africa. These African countries apply trade remedies to protect their infant domestic industries in accordance with WTO principles.

According to Maina, Kenya will implement trade defence instruments such as anti-dumping measures, countervailing duty measures and safeguard actions against imports that hurt local industries. By levelling the playing field for manufacturers, this approach will help to improve the environment for doing business in Kenya and improve its regional and global competitiveness.[28]

## TRADE DISRUPTION IN EAST AFRICA

In early July 2020, the Kenyan government placed an immediate ban on importation of brown sugar and cane. This placed Uganda's sugar industry under severe pressure, putting it on the road to crisis. The directive left more than 150 trucks loaded with raw cane stuck at the border. All pre-shipping approvals and extension of all sugar import permits are suspended until further notice.

From the Kenyan government's perspective, the directive was necessary to revive its sugar industry and improve its competitiveness. Several major sugar manufacturers recently closed their doors. Mumias Sugar, the largest sugarcane miller (Kenyan government owned 20%of shares) was heavily indebted. Several other sugar producers were under-performing due to limited raw materials supply.

This required Kenya to rely heavily on imports from Brazil and the Common Market for Eastern and Southern Africa (COMESA) market, particularly Uganda. However, Ugandan sugar sold for less in Kenya (KShs3000 per ton) than what Kenyan farmers were paid (Kshs3700 per ton). Also, of 32,000 hectares under production, 12,000 hectares were in sugarcane that was ready for harvesting, but had not yet been sold to millers due to the competition from Uganda.

The Uganda Sugar Manufactures' Association saw the directive as a crisis for Ugandan sugar. Its export markets to Rwanda and South Sudan were either closed or did not respect regional protocols. With the Kenya market closing, the industry found itself in a tough situation. They had approximately US$50 million in stock and were staring closure in the face. It also meant the spoilage of large quantities of sugar, as some companies had inadequate storage for excess stock.

Some in Uganda asked for retribution, such as temporarily banning Kenyan goods from entering the country. The Ugandan government was also asked to buy all excess sugar for storage until there was a market.

However, Kenyan cane farmers believed the new policy (restricting Ugandan sugar into Kenya) would motivate farmers and revive sugarcane farming in the country.

Note that under its common market protocol, the East African Community allows free movement of people, goods, services, labour and capital.[29]

## IMPROVING REGIONAL TRADE IN THE COMESA REGION

The Common Market for Eastern and Southern Africa (COMESA) recently developed an online portal to support regional trade during the pandemic. This will allow its members to exchange information on the availability of essential products within the region, connect buyers to suppliers of essential goods, and thereby promote and foster intra-COMESA trade.

According to COMESA, suppliers in one country can now link up with buyers in another by uploading their products on the platform. This will require suppliers to be registered companies in their home countries and to open an account on the platform. Vetting suppliers will ensure the integrity of those that post on the platform. The platform will also provide small-scale cross-border traders and SMEs with access to market information, and will link producers, sellers and buyers.

This development emerged at a time that COMESA has remarked on the phenomenon of member states taking such steps as closing borders to prevent the spread of the Covid-19 pandemic. This resulted in slowing down economic activity and severely impacted cross-border trade. Such supply chain disruptions necessitate the development, strengthening and full implementation of the Free Trade Area.

COMESA stated that the “successful implementation of the online platform will no doubt be an important step towards realization of COMESA Digital Free Trade Area initiatives.”[30]

**COVID-19 IMPACT ON TEXTILE INDUSTRY**

Kenyan dealers in second-hand clothing appealed to President Kenyatta to lift the ban on imports of used garments. According to the chairperson of the Mitumba Association of Kenya, Teresia Njenga, the ban on the importation of second-hand clothing was a temporary measure to contain Covid-19 and was endangering 2 million livelihoods. According to surveys, 51% of households (6.2 million households) in Kenya bought second-hand clothes and footwear each quarter.

A key protocol suggested entailed the disinfecting and to re-fumigating of the used clothing on arrival at the port. The Cabinet Secretary of Trade, Betty Maina, had also directed the Kenya Bureau of Standards (KEBS) to assess the possibility of lifting the ban without running the risk of importing the disease.

In addition to small traders, importers have begun closing down and leaving for their country. The second-hand clothes and footwear industry employs an estimated 10% of the extended labour force.[31]

**POINTS OF INTEREST**

- Africa’s trade is mostly with trade partners outside the continent. Intra-African trade is between 15% and 17%. One of the challenges to increasing this level is the poor state of transport infrastructure linking the various countries. Others include non-tariff barriers such as huge documentation requirements, odious bureaucratic processes and even corruption. In a number of regions, strong nationalistic sentiment also serves to curtail intra-African trade. Examples include the tension and frequent stops to trade between Tanzania and Kenya, the tension between Uganda and Rwanda, and Nigeria closing its borders to trade with some of its neighbours.
- Africa’s attempts to develop a continental free trade area recently attracted a great deal of attention. Many laud the AfCFTA as a wonderful initiative. Before the AfCFTA, Africa launched the TFTA (Tripartite Free Trade Area) in Egypt in 2015 as a lead up to the AfCFTA. This has still not been implemented. The squabbles between regional economic communities, such as the EAC, COMESA and ECOWAS, do not bode well for the successful implementation of a continental initiative such as the AfCFTA, which will require all African countries to subordinate national interest to continental interest.
- Many of these countries worry that they will be victims of the actions of a larger and stronger African economy. While they therefore seemingly pay lip-service to the ideal of an integrated African economy, in practice they push national interests, frequently (mostly) against regional and continental interest. Those leaders and analysts with a Pan-African mindset see an integrated Africa as the solution to Africa’s woes. It remains to be seen to what extent this will become a practical reality. If the trade activities of many countries in Africa (including its large economies such as Nigeria and South Africa), and the xenophobic actions in some countries, are anything to go by, an integrated Africa is still a long way off.
- Kenya’s regional economic community partners worry that Kenya may put the envisaged bilateral trade ties with the USA above those with its partners. Given the points above, it will be

surprising should that not be the case. Kenya's 2018 figures on exports and imports indicate that with the exception of Uganda, the USA is Kenya's largest trade partner. However, a free trade agreement with the USA and its huge potential market (relative to any other African country) makes an agreement with the USA a much sought after deal. This again serves as a potential constraint on a continental trade agreement. With the UK also on the hunt for trade deals to escape the potential fall-out of its Brexit fiasco, more African countries will go the lone-wolf route and conclude bilateral trade agreements with the UK. This will also dilute the accomplishment of a continental free trade agreement. Despite strategic factors that appear to be common and to encourage the proposed continental approach to trade, at the ground level many diverse factors mitigate against achievement of this continental trade agreement.

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## NTU-SBF Centre for African Studies

The NTU-SBF Centre for African Studies (CAS) is to develop thought leadership and capacity for doing business in Africa. It includes bringing Africa to Southeast Asia and Singapore and helping Singapore to be positioned as the gateway into Southeast Asia. As such, CAS aims to build and expand its local and international profile by means of publications, conferences, seminars and business forums through collaboration with local businesses, other research entities and business schools in Singapore and Africa. http://www.nbs.ntu.edu.sg/Research/ResearchCentres/CAS

## Nanyang Centre for Emerging Markets

The Nanyang Centre for Emerging Markets (CEM) is a new initiative by Nanyang Business School to establish global thought leadership on business-related issues in emerging markets. It conducts research on pressing and timely business issues in emerging markets through a global research platform of leading scholars and institutional partners. It closely interacts with corporate partners to identify research topics and manage the research process. Its research outputs include valuable and relevant implications for sustained profitable growth for local and multinational companies in emerging markets. It delivers a variety of research reports and organizes forums, seminars, CEO roundtables, conferences, and executive training programmes for broad dissemination of its research outputs. http://www.nbs.ntu.edu.sg/Research/ResearchCentres/CEM

## Partner Organizations

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