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1. Developments in the Blue Ocean Economy

The oceans surrounding Africa are rich with resources, including fish, minerals, oil, abalone, lobster, crab and even seaweed. Even landlocked countries on the continent developed fishery sectors to tap the oceans as sources of protein for their population. Unfortunately, the lack of productivity in their seafood industries presses quite a number of African countries to import fish. This report addresses some recent developments in this sector.

PRODUCTION OF SEAWEED IN EAST AFRICA

Seaweed farming in Zanzibar was a challenge for many years, until recently. A lack of skills, poor and inappropriate equipment, climate change, sea warming, disease and low product prices caused some farmers to abandon the seaweed farming sector. However, other farmers decided to adopt value addition as a strategy, and now produce products containing seaweed such as washing detergent, cookies, and cosmetics. The Zanzibar government decided to boost value addition in seaweed farming in Zanzibar, thus enhancing the economic returns of the venture to the farmers.

The government declared its full commitment to revive and boost seaweed farming, with a focus on creating jobs and reducing poverty in the country. The World Bank has contributed by supporting the purchase of barges (which ease transporting seaweed) through its South West Indian Ocean Fisheries Governance and Shared Growth Programme (SWIOFish). These carrier barges will help farmers carry seaweed, especially when farming seaweed in deeper waters.

SWIOFish aims:

- Improve the management effectiveness of selected priority fisheries at the regional, national and community levels;
- Encourage ecotourism and seaweed farming to conserve the coastal ecosystem,
- Protect Zanzibar's fisheries,
- Grow the local economy.

Ideally, these programmes would contribute to the World Bank's corporate goals of ending extreme poverty and promoting shared prosperity in a sustainable fashion.

Zanzibar aims to increase the production of seaweed from the current level of 7,000 tons annually to more than 20,000 tons of seaweed. One incentive to achieve this objective is to increase the current price of Tsh400 per kilogramme to three times that. Farmers will also be assured of a market as they will sell to the new seaweed processing factory under construction. This factory will produce products such as food items, medicines, cosmetics, and poultry food.[1]

The United Nations Environment Programme (UNEP) has at the same time warned that fishing trawlers, seaweed farming, and tourism on the coasts of Kenya and Tanzania were threatening the survival of sea grass. UNEP has requested countries to include sea grass protection and restoration in their nationally determined contributions to help reduce the amount of heat-trapping carbon in the atmosphere. UNEP has blamed unsustainable activities for a deteriorating coastal ecosystem, a decline in coastal productivity, and affected certain supportive functions performed by the marine plant, leading up to loss of critical fisheries habitat.

Biologically rich and highly productive sea grass ecosystems provide valuable nursery habitat to more than 20 per cent of the world's largest 25 fisheries. They filter pathogens, bacteria, and pollution from the seawater, and play a significant role in producing oxygen under water. Sea grasses help people thrive and sustain the healthy natural environment. Though sea grass meadows cover only 0.1% of the ocean floor, they are efficient carbon sinks, and store up to 18% of the world's oceanic carbon.

Sea grasses can help humanity address some of its toughest environmental challenges. They purify water, protect against storms, provide food to hundreds of millions of people, support rich biodiversity, and efficiently store carbon.

The UNEP World Conservation Monitoring Centre estimates that 7% of sea grass habitat is lost around the world each year. In addition, at least 72 sea grass species are in decline worldwide.[2]

GROWING THE FISH SECTOR IN EAST AFRICA

Uganda and Tanzania both reported increased fish production over the last three years. They report this success as the result of the following management measures:

- Improved enforcement of regulations
- Tougher measures to curb illegal fishing
- Efforts to address challenges caused by poor quality fish seed and aqua feeds

Nearly 50% of Uganda's population depends on fish for proteins. In Uganda, fish production increased by 43% from 391,000 tons to 561,000 tons between 2017 and 2019. Uganda's fishing sector contributes 12% to the country's GDP. The sector does face a number of severe challenges, including a fast-increasing fish consuming population, persisting deployment of illegal fishing gear, and limited access to fish seeds and feeds.

The value of Tanzania's fish exports went up more than 80% to TZS692 billion (US$298 million) in 2019, following the government launch of the revamped Tanzania Fisheries Corporation. Fish production grew by nearly 16% to 448,467 tons by the first quarter of 2020. The sector announced a sustained increase in Nile Perch production, from 417,936 tons in 2015 to 816,964 tons in 2020. The government continues to promote investment in aquaculture, and succeeded in increasing the number of fish farmers from 18,843 to 26,474 in 2020.[3]

IMPACT OF COVID-19 ON THE AQUACULTURE SECTOR

The Covid-19 outbreak interrupted Ghana's drive to reverse the decline in its aquaculture production, from 76,629 tons in 2018 to 51,120 tons in 2019. This decline was due mainly to outbreaks of highly infectious fish spleen and kidney viruses. Expected 2020 production was 69,620 tons, now no longer possible.

Ghana's aquaculture sector hopes for a quick resumption of normal operations after the lockdown period in response to the Covid-19 pandemic. According to the Ghana Chamber of Aquaculture CEO Jacob Adzikah, the recovery of local markets and the hospitality industry, which consume up to 90% of all harvested farmed fish, is a prerequisite for the sector to survive.

The pandemic severely curtailed the exponential growth of and immense contribution made by aquaculture towards national food security in the pre-Covid era. It negatively affected harvesting and sale of matured fish, as farmers were unable to supply domestic markets due to stringent government measures to stop the pandemic from spreading. As restaurants were closed and tourism halted, fish farmers experienced higher production costs. Their fish remained in cages and ponds, yet had to be continuously fed to prevent weight loss. The subsequent revenue loss reduced the cash flow of farmers, challenging their ability to pay their bills and employee salaries. In addition, due to lower demand for fish during the lockdown period, the prices for fish fell.

Some commercial fish farmers with cold-storage capacity were in the fortunate position to be able to harvest their fish.[4]

In Nigeria, the aquaculture sector requires urgent attention of stakeholders to save it from a total collapse as the outbreak of the Covid-19 pandemic threatened fish farming activities across the country. The fear is that should nothing be done as a matter of urgency, local farmers would not be able to meet the huge local demand. Nigeria imports 800,000 tons annually to complement the 1 million tons produced locally.

According to WorldFish Nigeria, fishery employs over 8.6 million people directly and a further 19.6 million indirectly, of whom 70% are women.

The sector faces the following challenges:

- Capital intensiveness
- Increasing cost of fish feed
- Cost of fuel in running boreholes
- Poor expertise

- Climate change
- Bottlenecks faced in the aquaculture system hindering the growth of the sector

While the prices of fish feed keeps rising, the price of cultured fish remains constant, leading to a shortfall for the farmers.

According to the president of the National Fish Association of Nigeria (NFAN) Dr. Gabriel Ogunsanya, the industry needs strong government commitment to provide policy direction and funding, and for a ban on fish imports in 2022. NFAN requested the Federal Government to declare a state of emergency and implement a structured plan to revamp the struggling fishery and aquaculture sub-sector.

NFAN requested that government develop and implement a strategic plan for the sector, and allow interested fish farmers to access soft bank loans. The local production of maize, soya beans and other additives for fish feed production was also encouraged.[5]

POINTS OF INTEREST

- A number of points come to mind when studying the aquaculture sector of Africa. As is the case with the agriculture sector at large, most if not all SMEs involved in harvesting products from the sea face a funding challenge. In addition, a lack of knowledge of the more efficient ways of “farming” the sea limits the productivity of these farmers. It also seems that some of their practices can be harmful to the sea, as is the case with agriculture at large where soil erosion and climate unfriendly practices can be equally harmful.
- Another point that has become clear is the need for a balance between harvesting seaweed from the sea and allowing seaweed to play its role in oxygen generation. As is the case on land, “deforestation” of the seabed has a very real and harmful potential of contributing to climate change and disrupting the finely balanced natural habitat of the sea. In addition to climate change, it will also increase food insecurity over time, with all its negative consequences, including economic hardships and unemployment.
- Africa must develop commercial fish production into a highly productive and efficient sector of the economy, so that it contributes towards food security, economic prosperity and gainful employment. It is unnecessary for Africa to import fish, given its access to oceans and even lakes for the landlocked countries of the continent. It is not sufficient to just call upon entrepreneurs to produce more fish; they should be supported by means of financing packages and training courses, as well as support with routes to market.
- The Covid-19 pandemic severely impacted the aquaculture sector of both Nigeria and Ghana. This goes beyond economic hardship as it also impacts negatively upon food security. The lack of demand (due to lockdown regulations) has the potential to eventually destroy the smallholder fish farmers in the medium-term (even the short-term), which will destroy the structure of supply, thereby impacting food security and necessitating importation of fish. This has the potential to become a vicious cycle, unless governments on the continent implement measures to ensure the survival of this key sector.

2. Developments in Financial Services Sector

The Covid-19 pandemic severely curtailed economic activities on the continent, impacting African banks quite negatively. Despite this, some banks were able to identify opportunities to develop their Pan-African goals through innovation and cross-border acquisitions. This report addresses some recent developments in this sector.

DEVELOPING DIGITAL BANKING

Uzoma Dozie, former CEO of Diamond Bank, recently launched a mobile-first banking platform, Sparkle, using technology to provide financial, lifestyle and business support services to Nigerians all over the world. Sparkle is a smartphone-enabled platform that offers many traditional banking products. Dozie believes that moving these products online will help drive financial inclusion. Sparkle offers banking services, taking a holistic view of the customer to service their needs. Customers are provided with regular feedback on their spending patterns, and receive online advice on how they can manage their money differently. The platform will reportedly give small businesses tools to manage their accounts, access business services and improve their skills.

Sparkle also links customers to legal services, gives them access to official documentation and connects them to other platforms to pay bills. A partnership with PwC will allow Sparkle to also provide tax assistance.

Due to the saturation of Nigeria's corporate market, the SME space is seen as the growth engine in most African economies.

Sparkle signed up a few thousand customers since its June launch, but the real marketing push will take place when its international partnerships are bedded down. The company is collaborating with global giants such as Visa and Microsoft to add services and capacity.

Challenges in this technology-driven business include educating potential customers to move from their old ways to online business, and building consumer trust. The biggest competitors are still the established banks, who have started to see the importance of the SME segment of the market.[6]

TELECOMS OPERATORS ENTERING THE FINANCIAL SERVICES SECTOR

One of South Africa's telecom operators recently entered the financial services sector. Telkom launched a life insurance business line that will initially sell funeral insurance underwritten by Guardrisk. Mobile operators in South Africa have targeted South Africans without bank accounts (more than 11 million) to offer lending and other financial services. They also seek to leverage their network and customer base and expand their mobile payment apps into online marketplaces. This move has the potential to threaten both traditional and young digital banks.

Telkom had previously completed a strategic shift to digital distribution, putting the operator in a good position to distribute insurance products using its digital structure and intellectual property.

Telkom, which is partly state-owned, has diversified its income streams beyond the fixed-line business, which now contributes just over 20% to group revenue, down from 56% in 2013.

Telkom will also offer business loans and will launch a digital wallet service for customers to buy products and pay for services via its Yep! App, as well as via other online transaction platforms.[7]

COLLABORATION BETWEEN BANKS AND TELECOMS OPERATORS

Standard Chartered Bank and Airtel Africa recently created a partnership to drive financial inclusion across Africa by providing customers with increased access to mobile financial services. The two organisations will co-create products to enhance the accessibility of financial services and improve service levels across Africa.

The partnership supports Airtel Africa's efforts to expand the range and depth of its Airtel Money offerings across its customer base of 19 million, with new products and services helping to promote the wider adoption of mobile money and increasing financial inclusion. The customers of Airtel Money will be able to make real-time online deposits and withdrawals from Standard Chartered bank accounts, receive international money transfers directly to their wallets, and access savings products amongst other services.

Standard Chartered views the partnership as a means to accelerate its mobile and digital-led strategy to provide best in class financial services to Africa. During the past year, it launched digital banks across 9 countries in Africa. Its corporate clients will be able to make rapid and secure bulk disbursements, such as payroll payments, directly into the Airtel Money customers' wallet. This should reduce the risks associated with travelling long distances for cash payments as customers can go to any Airtel Money agent, kiosk, or branch to cash-out their funds.

Mobile banking transfers between Airtel Money and Standard Chartered Bank are now live in Kenya, Tanzania, Uganda and Zambia.[8]

EXPANSION ACTIVITIES

Equity Group Holdings is Kenya's second-largest bank in terms of profitability. Equity will become the largest foreign bank in the DRC following its US$95 million acquisition of a 66.53% stake in BCDC, the DRC's second-largest bank. Equity already has a foothold in the DRC through Equity Bank Congo, re-named following its acquisition of an 86% shareholding of ProCredit Bank between 2015 and 2017. After the BCDC acquisition, Equity will have a total asset base of US$2 billion, second only to Rawbank, which had an asset base of US$2.1 billion as at December last year.

When Equity becomes the largest bank in the DRC by 2021, it will benefit from economies of scale and a strong capability to address the financial needs of the market; it will therefore be attractive to the mining industry. The merged group in the DRC will be close to 40% of the size of Equity Bank Kenya. Taking into consideration projected growth, the DRC subsidiary will in five years be larger than Equity Bank Kenya.

Equity also partnered with the International Finance Corporation (IFC) in its venture into the DRC to give it the financial muscle to engage in commercial banking and project, equity and infrastructure financing in the mineral-rich DRC. This partnership will also improve the brand of Equity Bank and provide a platform to attract international capital to bolster its lending business in the DRC. The IFC will be acquiring the Congolese government's 25% shareholding in BCDC.[9]

CONSOLIDATION IN THE INDUSTRY

The Bank of Tanzania (BoT) recently approved the merger of three microfinance lenders to form a large bank. Mwanga Hakika Microfinance Bank Limited came about after the merger of Mwanga Community, Hakika Microfinance and EFC Tanzania Microfinance. According to the BoT, the merger will create a stronger bank in terms of scale, efficiency and innovation, with an asset base of TZS40.53 billion (~US$17.5 million). The newly created bank is expected to demonstrate its competitive advantage in the market.

According to the BoT, the merger would improve the financial sector by ensuring the under-banked communities have access to affordable banking services, as well as access to loans for SMEs, thus offering a more inclusive economy in Tanzania.

The Board Chairman of the Mwanga Hakika Bank Board, Ridhuan Mringo, stated that the merger aimed at offering cost effective and technology driven solutions to its customers. The banking sector also lent itself to consolidation; in the recent past, smaller banks have opted to merge with other banks and formed stronger and larger banks.[10]

According to McKinsey, the coronavirus crisis could result in African banking revenues falling by between 23% and 33% between 2019 and 2021, while return on equity could fall by between 5% and 15%, caused by rising risk costs and reduced margins. African banks currently have among the highest cost-to-asset ratios in the world at 4% to 5%, twice the global average. Due to an increased asset-quality risk that will hurt liquidity and capital ratios for many banks, more bailout-type M&A deals are expected.

Some acquisitions have the potential to let people consider whether domestic consolidation and M&A could be the right solution to gain more market share. Regulation could also drive bank consolidation in Africa. The implementation of IFRS 9, which altered the credit position of banks, meant many had to raise money.

The bulk of M&A will reportedly be domestic. The concept of domestic consolidation is a big theme. It is probably where there is the most synergies and minimal execution risk.

A number of large bank mergers occurred in Kenya last year:

- National Bank of Kenya was acquired by KCB Group,

- NIC Bank and Commercial Bank Africa merged to form NCBA.
- Access Bank receiving regulatory approval to acquire Kenya's Transnational Bank earlier this year.

Cross-region financial M&A is relatively rare in Africa, and the challenges of navigating 54 disparate markets are only heightened by Covid-19, as Equity Bank's decision to abandon talks with Atlas Mara over the sale of four of its subsidiaries shows.

Moody's analyst Christos Theofilou perceives two ways of viewing the outlook for bank M&As in Africa:

- One view is that banks that want to protect their own balance sheet will hesitate to invest in or acquire other players.
- The other view is that valuations will fall, leading to opportunities to acquire cheap assets.

According to Bolaji Balogun, chief executive of Chapel Hill Denham, an independent investment bank, the pandemic will bring out potential investors that will explore good institutions in domestic markets that might be capital constrained. Financial services companies, including banks and non-banks such as insurers and pension funds, will likely see the most activity, as will the consumer segment and commodity-led businesses.

Balogun is of the opinion that some of the best deals are done in a crisis. Covid will damage entities that entered the crisis with a lot of leverage. Consequently, there will be opportunities for those buyers who have excess capital and cash, or whose share prices have remained quite solid.[11]

POINTS OF INTEREST

- There are a number of consolidation opportunities in the banking sector in various countries in Africa. Unfortunately we saw the phenomenon of a number of small banks fighting for a minor share of the market, with about five or six larger banks sharing about 70 to 80% of the market. In a country such as Kenya, the central bank actually recommended that the small banks consider the possibility of consolidation to mitigate the potential of bank failure. A series of bank failures amongst the smaller banks has the potential to destabilise the entire banking sector. With Covid-19 placing pressure on the profitability of the banks in Africa, this has become a real threat.
- With the drop in profitability reported by many, if not all, of the banks, there will be more opportunities for consolidation. Those in the pound seats will be the banks with a strong cash balance and the ability to acquire other banks. We should see a smaller number of banks after the Covid-19 pandemic, but they will be larger. The survival of the fittest will become the rule. This will hopefully lead to a stronger and more efficient banking sector throughout Africa, with the small and weak banks being weeded out.
- The creation of the Mwanga Hakika Bank in Tanzania through the creation of three microlenders reminds one of the creation of Capitec Bank in South Africa, which was brought about in a similar fashion. Capitec focused on the bottom of the pyramid and used technology to minimise the personnel component of the bank, increasing its efficiency at the same time. The bank has grown in leaps in bounds and is now a great success story. It seems that Mwanga Hakika Bank has the same strategy focus in mind.
- An increasing number of traditional banks are turning to digital technology to increase their efficiency and cut their cost base. Some also partner with telecoms operators. They have little option, as an increasing number of telecoms companies are acquiring approvals to launch digital money applications to meet the needs of their millions of customers. In a very real sense, this move provides them with a captive audience, especially amongst the poorer segments of the population. This phenomenon is not restricted to one or two countries in Africa, but has become a continental trend.
- About two decades ago, food retailers (notably in South Africa) attempted to provide money services to their customers, banking on the assumption that their retail customers would trust them enough to use these money service offerings. This model never took off in a major way. Vodacom tried to launch M-Pesa twice in South Africa, without success. It is now trying to hit the market in a partnership with Alibaba's Alipay, offering a broad range of services over and above mobile money; it is still too soon to judge the success of this venture. MTN is now also in the process of targeting the South African market with a mobile money app, as is Telkom. It remains to be seen whether they will be successful where Vodacom failed.

3. Developments in Investments and Economics

The Covid-19 pandemic impacted every country on the African continent in various ways. Most, if not all industries suffered. Many governments now actively seek to adopt policy measures to reposition themselves favourably in a post-Covid-19 era. However, it seems that some of their industries will never be the same, such as the airline industry. This report addresses some of the recent developments in this sector.

MOROCCO ENTRENCHING ITS POSITION AS A GATEWAY INTO AFRICA

Morocco intends to outperform India and China as the most attractive hub for automotive investments by improving its competitiveness. In order to do so, the country has offered favourable conditions for car manufacturers and part suppliers in key industrial clusters in Tangier, Casablanca and Kenitra. A number of factors are impacting Morocco's vision:

- It has already made a number of investments in its low-carbon economy and renewable energy sector, and intends using this as the base to reduce the competitiveness gap with both China and India.
- The Covid-19 pandemic has caused manufacturers to reduce their dependence on China to avert the disruption of supply and cut costs.
- Morocco intends to exploit its location and infrastructure to draw investments as it outperforms many Eastern European countries and even Turkey in terms of the car industry in particular.
- Morocco has attracted global car part suppliers and hosts the production plants of French car-manufacturers PSA and Renault. It has successfully positioned itself as a competitive export hub thanks to a solid network of highways, railways and ports.[12]

As part of its growth vision, Morocco aims to create more than 120,000 direct and indirect jobs over the next three years. Morocco seeks to attract over US1.06 billion in foreign direct investments (FDIs), becoming a regional and African leader. The government plans to implement a series of eleven national programs over the years. These will support its national economy, prioritise development of its social sectors, and accelerate digital transformation.

Morocco's medium to long-term vision revolves around five main axes, namely:

- Strengthening the resilience of the national economy
- Promoting the competitiveness and innovation among national companies
- Encouraging investments and public-private partnerships
- Promoting national products
- Gradually integrating the informal sector.

Morocco is revising its relations with international partners to better position itself in the international value chain.

The government also wants to diversify the national economic fabric, promote emerging sectors, reduce its imports, and adapt the economy to global trends. The government developed an action plan for its tourist industry, one of the hardest hit sectors in the country.

To accelerate Morocco's digital transformation, it will focus on five main objectives. The goals include "consecrating Morocco's position as a leading technological hub in Africa, encouraging the creation of jobs in digital fields, establishing a digital administration at the service of citizens and businesses, and using digital technology to promote a competitive economy."[13]

AIRLINES SUFFERING IN AFRICA

Africa's airline industry appears to be dying and in desperate need of life support to avoid a total collapse. This was the warning from IATA regional vice president for Africa and the Middle East Muhammad Albakri, at the IATA at end July 2020. Part of the blame was directed at the bureaucratic procedures that made it difficult to operate during the pandemic. Governments were asked to provide both financial and tax relief. In South Africa, state-owned South African Airways is in business rescue, as is Comair, which owns Kulula.com and operates British Airways. State-owned SA Express is in provisional liquidation.

According to IATA, as a consequence of the pandemic and associated restrictions, airlines in Africa are set to lose US$2 billion in 2020. According to Albakri, airlines in Africa are more vulnerable than elsewhere in the world. Government support was therefore seen as essential for the survival of the airlines on the continent. Governments promised US$30 billion, though most of this is yet to reach the airlines, due to institutional bureaucracy, complex application and creditworthiness processes, etc.[14]

Ethiopian Airlines has succeeded in minimizing the negative impact of the Covid-19 pandemic. It claims it has dealt with the crisis without reducing salaries or asking the government for a bailout. According to the CEO Tewolde Gebremariam, the earlier decision by the airline to switch to transporting cargo helped it to avert financial ruin by allowing the airline to maintain half of its income while 90% of its passenger fleet is currently grounded. This strategy was possible thanks to the airline's investments that led to the creation of Africa's largest and most advanced cargo hub in Addis Ababa.

The implementation of its shift from a "growth mode to survival mode", led to the reallocation of capital and resources away from its passenger business, as well as converting 25 passenger aircraft into cargo planes. It is now shipping cargo to 70 destinations compared to just 10 at the start of the pandemic. Airfreight rates remain about 40-50% above their usual levels, and IATA estimates cargo will contribute 26% of airline industry revenue in 2020, up from 12% in 2019.

Ethiopian Airlines also generated income through repatriation flights, with access to 75 countries globally. The carrier offered to repatriate citizens to a range of countries, including Nigeria and South Africa. In addition to maintaining flights, the airline's hotel business in Addis Ababa benefited from its designation as one of the capital's 122 quarantine facilities, softening the blow from the devastating drop in tourism and business travel.

Despite all these income-generating activities, Ethiopian Airlines will lose an estimated US$1 billion in ticket sales by the end of its first quarter, in June. While cargo has provided some relief during this period, the airline will struggle if its core business remains on hold for much longer. The bread and butter for Ethiopian Airlines is transporting people.[15]

STATE-OWNED ENTERPRISES IN SOUTH AFRICA IN NEED OF GOVERNANCE

According to the OECD, in order to turn around its economy, South Africa needs to sort out the governance framework for its many state-owned enterprises (SOEs). This requires setting clear enterprise-specific objectives in terms of profitability expectations; capital structure and non-financial objectives the SOEs are expected to deliver.

The urgency of these steps is driven by the fact that SOEs not only pose a risk to the government's finances, but also represent an important segment of the South African economy. In recent years, SOEs have become synonymous with corrupt activities of political leaders and senior officials. Their administrative and financial troubles are symptomatic of endemic corruption in the public sector – with actors in the private sector as willing participants.

Some of the more prominent examples include Eskom, the Public Investment Corporation (PIC) and South African Airways (SAA). Recently, Eskom and the Special Investigating Unit initiated a court process through which Eskom wants to recover an estimated US$214 million that former executives and board members of the power utility are suspected to have misappropriated. The PIC recently appointed a new CEO, Abel Sithole, whose key tasks include implementing the recommendations of an inquiry that was set up to uncover the extent of the rot throughout the organisation. SAA is currently in business rescue. Despite its creditors voting in favour of its business rescue plan, the government has yet to announce its plans to provide funding for the national carrier.

One of the areas where governance could be improved is ensuring that appointments to SOE boards are done in a professional manner. Furthermore, SOEs require competent independent members. Adhering to these principles would help foster transparency and engender proper monitoring.[16]

POINTS OF INTEREST

- Morocco's growth and development as an investment destination is the result of its stability and business-enabling policy frameworks. Morocco invested a considerable amount of money in its renewable energy plants, and provided attractive incentives to foreign investors. As stated before, it is succeeding in being recognized as an attractive gateway into Africa, and has renewed its membership of the African Union and obtained membership of ECOWAS. It is therefore unsurprising that French automakers moved their production facilities to this country. According to Trading Economics, Morocco improved its rankings on the Ease of Doing Business Index from 115th in 2010 to 53 in 2019. On the World Economic Forum's Global Competitiveness Rankings, the country has ranked between 73rd and 77th over the same period, with a 75th ranking in 2019. These solid rankings are the result of a number of reforms the government had instituted to improve its attraction to foreign investors. Morocco, despite the perception that it is more focused on Europe, has stated unequivocally that it is part of Africa, hence its renewal of AU membership and acquisition of membership of ECOWAS.
- Africa's airlines were sad stories even before the outbreak of the Covid-19 pandemic, with the exception of Ethiopian Airlines, then the only profitable airline in Africa. Ethiopian Airlines has positioned itself as the paramount airline in Africa, and did quite well. In contrast, airlines such as South African Airways (SAA) and Kenyan Airlines are struggling or moribund. Corrupt boards under the Zuma presidency exacerbated SAA's woes. Reports suggest that the South African government is seriously contemplating partial privatisation of the airline. The other option would be to shut the carrier down. The reality is that the South African government does not have the money to keep the airline afloat after having spent billions of dollars to keep planes in the air. In Kenya, the government contemplates nationalising the airline due to its lack of profitability, going against the global trend. Ethiopian Airlines' management clearly understands the need to tap all segments of the airline value chain to reduce the negative impact of the pandemic.
- The OECD, a very prominent institution, noted the poor state of governance of South African state-owned entities (SOEs), of which SAA is one. The government frequently received the excellent advice to privatise a number of the many SOEs, a strategy followed by some African countries. However, labour unions in South Africa appear to have the political clout to prevent such a strategy, which is also opposed by senior members of the ruling political party, the ANC. The more cynical in the country would say that these SOEs serve as a conduit for looting the fiscus in South Africa by the ANC leaders and their supporters in the business sector. It has reached a point where the president of the country has written and published a 9-page letter to express his dismay at the corruption, in a way indicating his lack of power to do something about the situation. A number of senior analysts expressed the opinion that the country is on the abyss of an economic meltdown, while others are even less optimistic.

4. Developments in Retail

The retail sector in Africa is very interesting, as always. Some retailers expand into other countries through a greenfield strategy, while others prefer partnerships and acquisitions. The success of these expansion strategies varies widely. It seems Africa is not everyone's cup of tea. South Africa's retailers have dominated the expansion pitch, with Choppies from Botswana as a notable non-South African player. We also see certain companies succeeding in some countries, just to fail in others. This report addresses recent developments in this sector.

ACQUISITION OPPORTUNITIES IN RETAIL

South Africa's large clothing & footwear retailer Edcon faces business rescue, offering a number of opportunities to acquire its subsidiaries. The Foschini Group (TFG), seemingly on the hunt for bargains in a buyers' market, recently presented a R480 million (~US$28 million) offer to acquire at least 371 commercially viable Jet stores from Edcon. Edcon's second prominent brand is Edgars.

While TFG's consolidated retail turnover fell 43% compared to last year, it remains a viable business. This enabled it to shop around for assets from other retailers, such as Edcon, which are in distress. Jet appears to be the most attractive asset in the Edcon stable and targets mostly working-class consumers. Only 89 of the 199 Edgars stores are commercially viable, 36 are marginal and 74 are deemed either non-viable or in "onerous" straits.

If TFG succeeds in purchasing the Jet outlets, it would save thousands of jobs. This demonstrates that some retailers are in a position to expand and invest, even in the current economic climate.[17]

NEW RETAIL STARTUPS

The Smart Buy Hypermarket is a new supermarket recently launched in Dar es Salaam in Tanzania. With and investment of Sh100 billion (~US$43 million) and employing 40 workers, the new business entered the market at a time when other retailers suffer from tough trading conditions. Some foreign retail chains are leaving the market. These include South Africa's Shoprite and Kenya's Uchumi and Nakumatt.

Smart Buy's MD, Rajab Semfuko, pins his hopes on working with locals in his management team who understood the business environment. In addition, Smart Buy will offer customers an "enjoyable one-stop shopping experience," including an affordable and extensive variety of local products. Smart Buy will collaborate to boost local producers.

Smart Buy intends to grow its footprint in Dar es Salaam and in other regions of Tanzania.[18]

DECLINING SOUTH AFRICAN RETAIL FOOTPRINT IN REST OF AFRICA

A number of large South African retailers recently experienced difficulties that reflect wider problems in the African retail environment. They expanded into the rest of Africa to escape the overcrowded and largely saturated home market and tap the growing population and middle class. This move was in a climate of weak competition and increasing governance on the continent.

However, a number of problems led to various South African retailers withdrawing from Africa:

- Some retailers are accused of importing products instead of procuring them locally, while wage and dumping disputes erupted in some markets.
- In addition, many entrants learned the hard way that the South African retail conditions were not universal in Africa, and that they had to adapt; some struggled with this.
- In addition, declining consumer demand in high-cost, inflationary environments has become a challenge for everyone.
- The volatile oil price has been a major factor in some of the biggest markets of South African retailers, notably Nigeria, Angola and Ghana, driving economies into recession and causing serious foreign exchange shortages and currency devaluation. Consumer pockets were consequently hit hard.

- Retailers and mall developers were inclined to go big in countries based on the size of the opportunity, while the real need is for smaller and more widely dispersed shopping centres in big African cities.
- Building malls in countries without the relevant skills, a lack of locally available equipment and inputs, land shortages and power and water deficits, increased development costs and drove down yields.
- The relatively low number of local tenants that were large enough to rent and the tendency of global brands to either sit on the fence or distribute through small franchises, is another challenge.
- Business models were not tailored to local conditions or flexible enough to deal with rising challenges.

Shoprite exited Kenya and recently announced that it was considering its stake in its Nigerian subsidiary, Retail Supermarkets Nigeria Limited. Pep Stores closed the last of its 20 stores in Zimbabwe, ending a 20-year presence in the country after battling to trade amid soaring inflation, fuel shortages, currency issues and stagnant wages.

Other South African retailers that left Nigeria include the following:

- Woolworths left Nigeria in 2013 due to high rental costs, duties, and complex supply chain processes making trading in Nigeria highly challenging.
- In 2016, Truworths left Nigeria as it struggled to get stock into the country and cash out of the country.
- The reasons for Mr Price departing Nigeria include weak economic growth, volatility, and high inflation.

As for Shoprite's presence in Kenya, the retailer announced in early August that it would lay off 115 workers and close its second branch (the Nyali branch) in less than five months, due to a reduced flow of shoppers. The intended date of termination is 31 August 2020. The closure of the stores will limit Shoprite's expansion plans in Kenya, where it has remained with two branches and has targeted opening seven stores, including six in Nairobi. Its reduced branch count comes amid increased competition from cash-rich retailers such as Naivas and Carrefour in a sector where local retailers like Tuskys are struggling with lower sales and mounting debts.

Despite these troubling phenomena, Africa remains an attractive investment destination.[19] [20] [21]

E-COMMERCE RETAILER DEVELOPMENTS

Jumia, Africa's biggest e-tailer, recently announced its agreement to a settlement payment of US$5 million, of which US$1 million will be funded by insurance cover. This settlement comes without any admission of impropriety, and will put a stop to the litigation that became part of the company's post-IPO woes. The conflict arose following allegations of impropriety in some of its reported numbers leading to its listing on the NYSE. Jumia subsequently faced several class action lawsuits filed against both the company and current and former members of its supervisory and management boards.

Actions taken by Jumia since its listing to deal with the allegations seemingly yielded fruit, as Jumia reportedly cut losses and made up ground on its path to profitability. Jumia's share price recently increased after collapsing for much of last year and this year.[22]

Another Nigeria-based e-commerce retailer, Konga, announced its intention to list its shares on global stock markets. Konga wants to raise enough money to finance its African expansion from its Nigerian market that will land the company a multibillion-dollar status. It intends to go public on either or both the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE) bourses from which the company has already received enquiries for the process. When these initial public offering(s) will take place is still uncertain. Konga may also list on the Nigerian Stock Exchange (NSE).

Konga invested more than US$120 million since its acquisition by Nigerian firm Zinox in 2018. It succeeded in cutting its monthly losses from NGN 400 million (~US$1 million) to NGN 100 million (~US$258,700) by relying on new systems and refined operations structures.

The company views itself as more than just another e-commerce player. Konga describes itself as a technology company and positioned itself to leverage that status in deploying new solutions and innovations in Africa.[23]

POINTS OF INTEREST

- Edcon of South Africa is another organisation whose demise has been a long time coming. The Covid-19 pandemic has ensured that the company would not survive. While TFG has made a bid for 371 stores of Jet Stores from the Edcon stable, an earlier transaction saw Retailability putting in a bid for a number of Edgars stores. Edgars was the higher end brand of Edcon, while Jet Stores served the lower end of the market. It is interesting to see TFG targeting Jet and not Edgars, as the latter could be seen as serving the same market segment as TFG. However, it could precisely be because of this that TFG targeted Jet to avoid internal competition and actually get a brand that complemented its higher segment brand.
- It seems the retail space in Africa is a far more difficult field on which to play than generally understood. Shoprite moved into Tanzania a few years ago and subsequently withdraw about 5 to 6 years ago. It then moved into Kenya, possibly for the wrong reason, namely to prevent Choppies and Carrefour from having an open competition space. While this motivation can normally not be faulted, there needs to be a business case as well, in addition to the strategic driver. It seems that Shoprite has been struggling with the operational side of things in Kenya, as did Choppies, it would later appear. Shoprite has always had a strategy of approaching Africa with a greenfield strategy, and still does follow this. Pick n Pay has changed its approach from a greenfield strategy to expanding into the rest of Africa with a partnership strategy. It remains to be seen on whether this change of strategy will bring it a much sought-after success.
- Analysing reasons for the withdrawal of South African retailers from countries such as Nigeria and Kenya, one would be forgiven for reaching the conclusion that the due diligence work was inadequate. How can one find out only after entry about issues such as stock problems, profit repatriation, high inflation, high rentals, etc.? Surely these would be part of scenario analyses before making the decision to enter a country? My undergraduate students in International Business at NTU in Singapore would have picked up on these oversights.
- The rise and journey of the e-commerce players in Africa has been one of ups and downs. Jumia was the first African unicorn, and a lot of hype was floating around with the listing of the company on the NYSE. Thereafter the company took a beating for various reasons, including struggling in the African market. This led to it withdrawing from some of the markets, and from some of the sectors it had entered. With another e-commerce company from Nigeria also targeting an international listing, it would hopefully have learned from Jumia's experience and will avoid some of the mistakes made by the latter. The question is whether the market in Nigeria, specifically, and Africa in general, has enough space for a Konga. One should also bear in mind the large number of players in Africa. In Kenya, for instance, jumia.com, cheki.co.ke, olx.co.ke and rupu.co.ke compete for market share, with global giants Amazon and Alibaba also drawing on the market. In South Africa, another huge market, Amazon and Alibaba are competing with local player Takealot. Konga is currently predominantly a Nigerian player. It is doubtful whether there will be a demand for its shares on the various exchanges on which it hope to list. To be fair, Konga did state it wanted to use the funds to expand into Africa. This journey will be tough!

5. Developments in Trading

At every conference on business and trading opportunities in Africa, one of the obvious questions is why does Africa trade more with companies and countries from outside of the continent than those on the continent? The standard answer involves the lack of sufficient internal transport infrastructure and high levels of tariff- and non-tariff barriers. These challenges raise the costs of doing business between African countries. Given the small economies of most African countries, they are also quite vulnerable to large MNCs that dictate terms and conditions. This report addresses some of the recent developments in this sector.

SME EXPORT OPPORTUNITIES TO THE DRC

Rwandan SME's in the textile sector should explore the expansion and diversification of exports to the DRC. This was the main recommendation of the recent study, "The Opportunities for trade in the Democratic Republic of Congo," published by the East African Business Council in collaboration with GIZ. The study identified the many trade opportunities that SMEs in the region can tap.

The size of the market in the DRC has grown to US$23.9 million, and is currently dominated by the Netherlands, India and Belgium. The market for sacks and bags for packing of goods of man-made materials, excluding polyethylene, is reportedly worth exploring for SMEs in this sector.

In terms of potential export opportunities, the report identified the most-sought after products as clothing accessories, blankets and travelling rugs, household linen and articles, sacks and bags for the packing of goods, and polyethylene or polypropylene strips.

The Rwanda Private Sector Federation is helping Rwandan SMEs to exploit opportunities in the DRC textile trade. In addition to the textile sector, there are opportunities for SMEs in the food-processing cluster, including prepared food products. Products include cereals, flour, starch or milk. The most sought-after products in this category by the DRC are sugars and sugar confectionery.

In 2018, Rwanda exported products worth US$8 million, of which more than 50% went to the DRC. In the same year, the DRC imported products in this category worth US$99.7 million.

In 2019, the DRC imported goods to the value of US$6.6 billion, while EAC exports to the country in 2018 stood at US$855.4 million, representing 11.5% of total DRC imports. Of the 2018 EAC exports to the DRC, Rwanda comes first with US$337.4 million, followed by Uganda with US$204.3 million, Kenya at US$149.8 million, Tanzania at US$144.9 million and Burundi at US$18.9 million.[24]

SECOND-HAND CLOTHING IN KENYA

In Kenya, traders of second-hand clothing seek fast-tracked clearance of imported second-hand clothes and shoes. This will help them recoup losses made in the past five months, following the recent lifting of the import ban on the items. The import ban was imposed in March as a counter to new coronavirus infections. According to the traders, lifting the import ban was a win-win for traders whose businesses will receive fresh supplies, as well as government receipts of levies. The entire value chain of second-hand clothes and shoes would reportedly benefit from lifting the ban.

All importers of used textiles and shoes must register with the Kenya Bureau of Standards (KEBS), and clearly identify the source countries of their product to facilitate traceability.

The import ban severely impacted many businesses negatively due to the shortage of supplies. The few who were still in business had to deal with the high costs of imports, which they were forced to pass on to their customers, which in turn depressed sales.

This line of business remains an attractive sector for informal traders and has in recent years also attracted traders from China.[25]

IMPACT OF THE AfCFTA

According to Ghana's Trade and Industry Minister, Alan Kyeremanten, the implementation of the AfCFTA will offer many varied benefits to Africa:

- The AfCFTA will increase the level of intra-African trade through better harmonisation and coordination of trade within the African continent.
- Intra-African trade will increase by as much as US$35 billion per annum or 52% by 2022.
- The successful implementation of the AfCFTA will deepen regional integration of Africa into global markets through supply chain arrangements and other forms of subcontracting transactions.
- Africa will improve its terms of trade with the rest of the world by earning higher values for its exports through value addition.

Governments were advised to review strategies for their competitive market response following the postponement of the implementation of AfCFTA due to the Covid-19 pandemic. A country such as Ghana will need to strengthen its private sector to compensate for any impending losses due to hosting the AfCFTA secretariat.

The AfCFTA will be the world's largest economic free trade zone, in terms of spatial area and population. Implementation of the agreement is expected to increase intra-African trade from the current 12 % of total trade by African countries to 52% by 2023.[26]

OPPORTUNITIES FOR TRADE IN MOZAMBIQUE

ZimTrade, Zimbabwe's national trade development and promotion organization, recently conducted a market survey of Mozambique. The survey identified products and services with market potential, and channels to establish contact with potential buyers. Although aimed at Zimbabwean companies, the results are valid for any company interested in Mozambique.

Mozambique offers rich and extensive natural resources. The government prioritised agriculture as a key area for economic development. Industrial processes in the country focus on food and beverages, chemical manufacturing, and petroleum production. The recent discovery of extensive gas reserves will raise the standard of living, by providing direct employment to approximately 60,000 employees. This find will transform Mozambique's economy, and enhance its resilience and competitiveness. Investments in the energy sector will in turn lead to opportunities in construction and engineering services.

Mozambique is open to foreign trade, which contributes significantly to its GDP. There are export opportunities for products such as pharmaceuticals, machinery parts and equipment, poultry and agricultural inputs. More potential lies in the services sector. These include engineering and training. Mozambique is also heavily dependent on imports for most of its processed foods, home electrical, toiletries, detergents, beverages, frozen foods and other FMCG categories.

There are also opportunities for construction and supply companies to participate in joint tenders for building and construction. Construction products such as wooden door and window frames, roofing tiles, PVC pipes, gum poles and timber will be needed. Other opportunities include provision of materials for construction and repair activities in the provinces that were affected by the cyclones, as well as services in the engineering sector.[27]

DIPLOMATIC DISPUTES IN EAST AFRICA ENDANGERS TRADE

The failure of the governments of Kenya and Tanzania to agree on Covid-19 protocols for the cross-border movement of people and goods surfaced in yet another round in the Kenya-Tanzania trade row. When Kenya decided to restrict movement between the Kenya-Tanzania border, Tanzania responded by forbidding entry to all automobiles and persons from Kenya. Kenya earlier identified the Kenya-Tanzania and Kenya-Somalia borders as coronavirus hotspots. As a preventive measure, Kenya maintained that cross-border long distance truck drivers must be tested for Covid-19 prior to entry into Kenya.

The tension between Kenya and Tanzania emerged shortly after Tanzania's President Magufuli skipped the videoconference between East African Community (EAC) heads of state and governments on 12 May 2020. The conference was meant to develop a regional approach against the Covid-19 pandemic.

More recently, the two countries banned each other's citizens from flying to their countries. On 31 July 2020, Tanzania's government banned flights from Kenya after Kenyan Transport Cabinet Secretary James Macharia announced on 30 July 2020 the countries with airlines cleared to access Kenya's airspace.

International flights were scheduled to resume on 1 August, but Tanzania was missing in the list of countries cleared. Fortunately, on 4 August 2020, it was reported that the flights between these two countries would resume and that the entire incident was the result of a "misunderstanding."

The diplomatic tensions between Kenya and Tanzania has the potential to endanger the EAC and by extension the AfCFTA. This relatively petty dispute between the two neighbours highlights the challenges awaiting African states in their attempt to eliminate trade barriers under AfCFTA.[28] [29] [30]

POINTS OF INTEREST

- While AfCFTA is welcome and long overdue, especially for the economic recovery of Africa, African politicians must show leadership if this trade agreement is to succeed. The lack of political will has been identified as the weak link in the vision to attain the AfCFTA, and political leaders need to move beyond a national perspective to a continental picture, which requires subordinating national interest to continental interest. This, currently, does not seem very likely. If the challenges between Kenya and Tanzania and between Rwanda and Uganda respectively are taken into consideration, it seems unlikely that a continental trade agreement will function smoothly. One could also consider the example of Nigeria, which recently closed its borders to its neighbours to "put a stop to smuggling." Seemingly insurmountable problems between countries do not make one excited about the success rate of the AfCFTA. If at all, it will take years for the AfCFTA to deliver on the high expectations.
- Mozambique has a large population with many opportunities for trade (imports and exports). The country's gas reserves could make it the third largest exporter of LNG globally, after Qatar and Australia. However, the terror group, al Shabaab in the northeast of the country in the Cabo del Gado Province, where the rich gas fields are, has the potential to disrupt all the plans for economic wealth generation. This is an ISIS-affiliated group, and not really part of its namesake in Somalia. It started to attract attention in 2017 with very low-level activities but have since then grown in prominence. They currently present a very clear threat to the stability of Mozambique.
- The second-hand clothing sub-sector in Kenya finds itself in an interesting bind. One the one hand, the high import duties and restrictions on imports are putting small businesses and jobs in jeopardy. On the other, the sector itself puts the local textile industry under pressure, as the latter cannot compete against cheap imports of second-hand clothing from countries such as the USA. When the Kenyan government, together with the governments in Uganda, Tanzania and Rwanda announced in 2016 it would raise import duties on the importation of second-hand clothes from the USA, the US government threatened to retaliate. Facing this threat, only the Rwandan government stuck to its guns to raise import taxes. The outbreak of the Covid-19 pandemic forced the Kenyan government's hand. While they did raise import duties, fortunately they could blame the pandemic for this action. With the USA and Kenyan governments currently in talks on a bilateral agreement, it appears the USA harbours no ill feelings towards Kenya on this issue.

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