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Africa Digest

Trends and Issues in Business

Vol. 2019 - 02

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Article 1: Linking Africa to the World

INTRODUCTION

Most of the 54 countries on the African continent were colonised at some point in their history. Even as trade within these colonial empires flourished, cultural and trade barriers hampered collaboration among African countries. Today, an African country might seek economic growth internally, from exports to legacy markets within its post-colonial network, from markets in neighbouring countries on the African continent, or by breaking into new markets beyond its geographic and cultural boundaries. According to the Brookings Institution, Intra-African trade is about 17% of GDP, compared to levels within Europe (69%), Asia (59%), and North America (31%). While African countries recently signed the African Continental Free Trade Area Agreement (AfCFTA) intended to create a single African market of over a billion consumers with a total GDP of over \$3 trillion, implementation will take decades.¹ Reaching out to each other to accelerate the development of their economies is an emerging trend for many state and corporate players. Below are current examples of today's Africa linking up to the world beyond the boundaries of its post-colonial legacy.

SOUTH AFRICA

The new CEO of South African retail group Mr Price, wants to adopt a new offshore growth strategy. The group decided in April to exit its Australian business, which was generating insufficient margins, and is considering similar moves in Poland. The clothing, sportswear and homeware goods retailer originally pursued organic growth to enter new markets outside Africa. This greenfield entry strategy, hampered by limited local expertise and weak infrastructure, has turned out to be challenging and distracting. Consequently, Mr Price will now pursue an acquisition strategy (thus locking in local knowledge) when going abroad. Given its large cash stockpile, this may well be viable. Rather than deals that would require funding significant debt, Mr Price would prefer to invest in smaller businesses with growth potential. Currently, Mr Price's international business, including other African markets, remains relatively small — SA still contributes 91.9% of sales.²

South Africa and Russia plan to work together to increase trade in fruit and grain. In 2018, South Africa delivered more than 203,000 tons of its fruit to Russia, constituting 7% of total fruit exports from South Africa. Russian stakeholders are visiting South Africa to familiarize themselves with the process of growing fruit by enterprises that seek to increase exports. South African representatives have been provided with the requirements for importing plant products into Russia. As South Africa expressed interest in importing grain from Russia, Russian stakeholders requested the requirements for exporting grain to South Africa.³

NIGERIA

The 2019 edition of Nordic Nigeria Connect brought together players from five countries, i.e. Nigeria, Finland, Norway, Sweden, and Denmark. Their target is to strengthen relationships amongst them. Given the emergence of Nigeria as an innovation hub cutting across multiple sectors, it has become necessary for them to collaborate amongst themselves for more mutually beneficial partnerships. The Connect seeks to combine the ideas and solutions from the Nordic countries and Nigerian companies, investors, government representatives and other stakeholders for a more impactful trade relationship.

Finland considers Nigeria strategic for trade and investment, confirming the importance of infrastructure and education for the development of any nation. For Norway, the most important sector in Nigeria is the oil and gas sector, but they are also interested in renewable energy. For Sweden, collaboration was essential for countries to achieve economic and social development. Sweden has built its business model around infrastructure, gender equality, cooperation and dialogue, which has made Swedish industries innovative and dynamic. For Denmark, innovation, connections, partnerships, knowledge, and technology exchange are important for the development of all countries. Common goals can be achieved through the innovative use of goods, services and raw materials.⁴

COTE d'IVOIRE

Cote d'Ivoire is expected to finalize the licensing procedures for six oil blocks in June 2019, creating interest amongst European oil majors. This very substantial initiative would enable its oil sector to double its output by 2020. Corporates such as the UK's Tullow Oil, Italy's ENI and France's Total SA are already involved in exploration activities in the country. At the same time, the government is attempting to entice more local companies and independents to become involved in the oil and gas opportunities in Cote d'Ivoire. With this initiative, the country is portraying itself as a preferred investment destination for gas and oil in West Africa, whilst hoping it would attract exploration and production companies with the requisite skills and competencies to search and find crude oil and natural gas. As it is, investors have found the authorities to be very cooperative. The strongly growing Cote d'Ivoire economy has also played a role in attracting several of the majors.⁵

GHANA

In an interesting development, Ghana has linked up with Iran for cooperation in the field of culture and the arts. The two countries are looking at launching an Iran-Ghana handicrafts export network, which they believe will help to develop the industry in Ghana. A memorandum of understanding (MoU) was subsequently signed by representatives of Ghana and Iran. Iran believes in the capacity of their free trade zones to develop Ghana's economy. The Iranian representative stated that mutual economic cooperation between the free trade zones of Iran and Ghana can provide countries in Africa with access to a wide range of products and pave the way for boosting trade exchanges. The two countries are also investigating the establishment of a joint exchange context between their free trades zones as it could prepare electronic trade based on digital currencies.⁶

RWANDA

A Dutch solar firm, NOTS, will invest US\$70 million in the production of solar lighting products in Rwanda. The project will provide at least 4.2 million people with electricity in the next five years. Under the agreement, NOTS will set up the factory for manufacturing solar home systems, while the Rwandan government will purchase solar systems for approximately 100,000 households in the next three years. The solar systems will be available at ~US\$58, which is payable in 100 weekly instalments. This is affordable for most Rwandan families. Currently, the more than 20 companies engaged in off-grid energy business have been importing the products into the country. It is also envisaged that the factory will produce products for the export market.⁷

UGANDA

French retailer Carrefour will open its first store in Kampala, Uganda this year. It has already successfully launched in Kenya in 2016. The Carrefour franchise holder from the UAE, Majid al Futtaim (MAF), managed to grow rapidly in Kenya, in spite of the fact that just 30% of retail transactions take place in the formal market. MAF adopted a long-term expansion plan for East Africa, and sees Uganda as one of the fastest growing economies in Africa. They will open a second store in Kampala early in 2020.⁸

Uganda reached out to Thailand's Federation of Industries, which will collaborate with Uganda's National Agricultural Advisory Services (Naads) to promote agricultural mechanisation in the country. The project intends to increase productivity in the sector. As is the case in many African countries, agriculture in Uganda faces numerous challenges, such as the lack of modern and affordable agricultural machinery, which severely limits productivity in the sector. Thailand has significant experience in mechanising the rice, sugarcane and cassava sub-sectors. They are quite keen to take up opportunities in Uganda, as the country presents a large market for agricultural machinery. Assembling tractors, irrigation equipment and other agricultural machinery in Uganda will reduce costs and create employment opportunities. Mechanisation to increase agri-productivity in its agriculture sector is also a high priority for the Ugandan government.⁹

POINTS OF INTEREST

- The cases demonstrate the variety of sectors involved in the growth of trade and business relationships between Africa and the world at large. These include clothing, retail, food retail, agriculture, trade, investment, renewable energy, tourism, culture, and manufacturing.
- They also show that Africa is not restricting itself to reach out only to a few large countries. Beyond China, whose strong links with Africa are highly visible, the cases above indicate a broad range of new cross-border trade relationships.
- The trade activities also reveal the increasing importance of free trade zones as a mechanism to enhance the level of trade and reduce costs.
- The cases and sectors sampled above demonstrate the broad range of opportunities for foreign players in Africa's economies.
- Carrefour's expansion of its footprint in Africa suggests that international retail food giants have awakened to the significant growth potential across the continent. Note that Walmart entered Africa about a decade ago via its acquisition of 51% of Massmart in South Africa.
- It is also clear that not all outreaches are successful, as clearly demonstrated by the challenges experienced by Mr Price. The lesson for African countries is that business leaders must do thorough homework before engaging in business ventures abroad.
- Attempts by the USA to isolate Iran place the country at risk of becoming a pariah state. Ghana's outreach to Iran demonstrates the non-aligned stance of Africa's governments. It also makes these states vulnerable to USA retaliation, as many of them participate in the USA's AGOA framework.
- Africa is in dire need of ramping up its manufacturing sector. The contribution of the manufacturing sector to GDP in most African countries is a source of concern. Some observers have remarked upon the premature de-industrialisation of Africa, costing job opportunities and increasing unemployment, increasing import bills and negatively affecting trade balances and current accounts. Thailand's venture to assemble tractors and other agricultural equipment in Ghana has the potential to stimulate the manufacturing sector in Ghana, in addition to benefits from increasing the productivity of the agriculture sector.
- The experience of Mr Price reveals the dangers of not using partnership as an entry strategy when expanding abroad. Foreign corporates coming into Africa generally use a partnership as their entry strategy, as do many African corporates moving into the rest of Africa. When moving beyond Africa's borders, African corporates should seriously consider this approach.

Article 2: Trends on China in Africa

INTRODUCTION

China's presence in Africa, the topic of many policy papers, articles and arguments, is controversial. While many support China's involvement on the continent, opponents view it as the expansion of China's influence in Africa, at the cost of Africa. China's foreign aid, trade and investment activities in Africa, and subsequently its influence, have grown in leaps and bounds over recent decades, much to the chagrin of the USA.¹⁰

AFRICA

Chinese tech giant Huawei increased its focus on Africa, following the USA's drive for the West to ban the company from operating there. Huawei established itself across Africa, after launching in Kenya in 1998, and now operates in 40 countries, providing 4G networks to more than half of Africa. It will showcase its 5G technology in Egypt during the Africa Cup of Nations, which runs to mid-July. Huawei has identified Africa as an attractive market, which they plan to conquer through a strategy based on cheap financing and speed of execution. The company recently signed an agreement to reinforce its cooperation with the African Union.

Huawei's presence in Africa goes far beyond selling smartphones and building mobile networks. In South Africa, it provides training at the country's top universities, this year launching a specialised course focused on 5G deployment. Kenya's government signed a US\$172 million deal with Huawei in April 2019 to build a data centre and provide "smart city" services. Huawei's "safe city" surveillance programme is now in use in Mauritius and Ghana. Huawei Marine is also helping to deploy a 12,000-kilometre cable system connecting Africa to Asia.¹¹

In another development, a research associate at China's Ministry of Commerce speculated that the recent ratification of the African Continental Free Trade Agreement (AfCFTA) creates new opportunities for Chinese companies to participate in China-Africa economic and trade cooperation. Chinese companies, seeking to invest in Africa's manufacturing sector to increase their industries' added value, can target various industries for investment, such as steel, cement, flat glass, electrolytic aluminium, basic chemicals, ships, vehicles, and household appliances.

Increasing trade between China and Africa has the potential to improve the added value of African raw materials and facilitate the transformation of its resource advantages into development advantages. Specifically, Chinese companies can invest in Africa's e-commerce sector to promote the construction of service trade platforms. E-commerce helps Africa's small and medium-sized companies to participate in global trade and to be directly connected with the Chinese market and other overseas markets, making it easier for them to participate in global trade. Finally, Chinese companies can actively participate in the construction of connectivity infrastructure to further lower logistics costs.¹²

KENYA

Quite recently, it was reported that various neighbourhoods in Nairobi have been the target of Chinese infiltration, such as the Kilimani area and the Gikomba market. Local traders operating in the Gikomba market have been forced to request support as Chinese businessmen enter the market in large numbers to open shops, selling new imported clothes from China at very low prices. The influx of these Chinese nationals in Kenya may be as a result of the huge debt Kenya is expected to pay back to the Chinese government. The intensifying conflict between Kenyan traders and their Chinese counterparts may soon become a major test for Kenya-China diplomatic relations.¹³

As far as debt is concerned, Kenya is the third largest debtor to the Chinese in Africa. By December 2018, the debt had accumulated to US\$8.78 billion. President Kenyatta visited China in April 2019, hoping to get additional funds (US\$3.68 billion) to extend the SGR from Naivasha in the Central Rift Valley to the lakeside town of Kisumu, and on to the Malaba border crossing from where Uganda would

take over its construction to Kampala and beyond. However, he only obtained US\$400 million, which will be used to upgrade the 120-year old railway to Malaba on the border with Uganda.¹⁴

Reuters reported in early June 2019 that China was ready to negotiate a trade deal with the East Africa Community (EAC) to address Kenya's complaints about a huge trade imbalance in favour of China. East Africa's exports to China is significantly less than the imports of manufactured goods like electronics and plant equipment. Kenya itself imported goods worth US\$3.67 billion from China in 2018, while only exporting ~US\$112 million of goods to China.

The Kenyan government stated it was not ready to discuss an FTA with China as it feared a strong growth of imports from China, but was open to a partial deal. China was ready to open trade talks with Kenya via the EAC, as they felt they should consider the broader area. The Kenyan government wanted a preferential, non-reciprocal trade deal, giving Kenyan exports duty free access to China. Such a scheme could be modelled on the Africa Growth and Opportunity Act (AGOA), which allows African exports such as apparel and textiles duty free access to the U.S. market.¹⁵

The Chinese company, Zhingmei Engineering Group, is in the process of finishing up the project to expand the drinking water supply network in Nairobi. The project will be delivered before the end of 2019. The work in progress in the western part of the Nairobi metropolitan region should be delivered by the end of June 2019, while the work in the eastern part will be delivered in October 2019. The cost of the project amounts to US\$35 million.¹⁶

The China National Nuclear Corporation (CNNC) and the China Petroleum Corporation signed a cooperation agreement on 30 May 2019. The parties will jointly undertake a geothermal resource utilization project, which will help guarantee electric power supply to local areas and contribute to local economic growth in Kenya. The two partners will build power stations near geothermal fields discovered in the Great Rift Valley in Kenya.¹⁷

ETHIOPIA

In Ethiopia, two shoe manufacturing plants, owned by the Huajian Group from China, produce five million pairs annually and employ more than 7,000 people. The group recently signed an agreement with the Ethiopian authorities for the management of Jimma industrial park. Within the framework of that agreement, Huajian will invest US\$100 million in the construction of shoe manufacturing and coffee processing plants. It will also help to attract other Chinese operations to the Jimma park.¹⁸

RWANDA

Rwanda recently signed a partnership deal with Chinese garment house Pink Mango C&D to set up a modern garment factory in Kigali's Special Economic Zone, which will employ 7500 Rwandans by year 5. This factory will produce garments for both domestic and export markets and generate cumulative export earnings of US\$20 million over the next five years. Pink Mango C&D is also expected to build capacity and transfer skills to 500 workers of local garment cooperatives, which will also benefit from some of their supply contracts through an outsourcing model. This firm is one of the largest Chinese investors in Rwanda's manufacturing sector.

C&H Garments was the first Chinese player to invest in Rwanda's manufacturing sector. It entered the market in 2014 and currently produces uniforms for the police, military, the immigration department and for schools. One of the largest private sector employers in Rwanda, C&H employs over 1,000 people.¹⁹

ZAMBIA

Chinese tyre manufacturing firm Fujian Haian Rubber Company Limited recently set up its base in Zambia to market its products and services in Africa. The company supplies products to the mining industry in Zambia, the DRC, South Africa and Senegal. This new move is aimed at expanding into the wider African market. Fujian chose Zambia because mining is a huge sector in the country, which is stable and offers a good business climate with many opportunities for foreign direct investment.²⁰

EGYPT

Egypt has also been the scene of a growing Chinese presence. Ties between these two countries have been growing fast over the past few years and have led to the elevation of bilateral ties to a comprehensive strategic partnership in late 2014. In the tourism sector, close to 500,000 Chinese tourists visited Egypt in 2018, compared with 300,000 in 2017, while the number for 2019 is expected to exceed 500,000. Chinese tourists are encouraged by Egypt's efforts to enhance stability and eliminate terrorism, especially at heritage sites. China and Egypt have also discussed organizing a tourism exhibition in Beijing. In November 2017, the first Chinese archaeological team in Egypt started its excavation work in Montu Temple at the Karnak Temple Complex of Luxor. A Chinese Excavation Centre is set to be established in Luxor.²¹

POINTS OF INTEREST

- Chinese exploiting the AfCFTA as an opportunity to develop and grow their footprint in Africa will increase the levels of much needed foreign direct investment in Africa. Amongst others, the investment and technical support of the Chinese in the manufacturing sector will make a significant contribution to ramping up Africa's manufacturing activities.
- Although not mentioned above, many African countries have become participants in China's Belt and Road Initiative. This has led to a strong stimulus of the infrastructure (transport, energy, water) in many African countries.
- Africa's participation in AGOA could provide Chinese companies tariff-free access to the USA by developing manufacturing capacity in Africa. Some African countries are using this angle to attract foreign investment. It is not unlikely that the USA will close this avenue in the foreseeable future. We have already seen the USA acting against Vietnam for allowing a similar strategy.
- One reason Africa's governments are embracing Chinese investments, is the creation of many jobs for its unemployed. This is a major source of concern for Africa.
- Huawei has obtained a significant presence in Africa. The many restrictions placed on US-based companies may provide Huawei with a relatively competition-free playing field in the high-tech arenas.
- China's presence in Kenya presents somewhat of a mixed bag. Kenya will need to clarify its stance on its relations with China. It seems that Kenya wants to have its cake and eat it – accepting loans and investments, but wanting to safeguard against cheap Chinese imports. The government of the day could also be driven by local politics, as complaints of trade losses against Chinese traders will weaken its popularity.
- China's reluctance to meet Kenya's request for ~US\$4 billion could indeed be interpreted as punishment for Kenya's unwillingness to sign the FTA.

Article 3: Western Firms in Africa

INTRODUCTION

Africa has been the target of investments by companies based in the West for many decades. Although the arrival of Chinese foreign direct investment in Africa is widely reported, Western companies appear to attract less attention. Yet it is clear the West has not forsaken Africa. For example, innovative Western firms are increasingly active in the energy sector in Africa.

AFRICA

The solar kit sector in Africa is currently very dynamic. Azuri Technologies from Britain raised US\$26 million to expand its solar home kit sales service in Africa. The funds were raised from Japanese conglomerate Marubeni Corporation, well known for its investments in renewable energy production in Africa, and from other investors such as the IP Group, a UK fund that provides capital to technology companies. Azuri will expand distribution of its solar kits in African rural areas, including Kenya, Tanzania, Zambia and Nigeria. The firm aims to eventually expand into other countries in West and East Africa. Sales of its solar kits are facilitated by its pay-per-use business model, which has become more practical with the rise of mobile banking on the continent.

Azuri Technologies has also been forging partnerships with many of its competitors, such as Unilever in Kenya. Unilever has a network of more than 67,000 retailers in Kenya, and will provide Azuri with access to this network, who will then be responsible to propose the off-grid mini systems to the population. Azuri has also ventured into Nigeria by means of its partnership with First Bank of Nigeria. The latter will be able to contribute through its “Firstmonie” mobile phone payments system that will facilitate the sale and distribution of solar kits.²²

CDC Group, the UK government’s foreign investment arm, will invest US\$300 million in power grid development in Africa over the next five years. CDC will launch Gridworks as its platform to invest in African transmission networks, electricity distribution infrastructure, and off-grid electricity systems. In Africa, at least 600 million people are without electricity due to their lack of access to transmission and distribution power networks. This investment is a drop in the bucket, compared to estimates of a required investment of US\$345 billion in transmission and distribution by 2040 to absorb current and planned power generation in Africa. CDC will over time open offices in Lagos, Nairobi, Johannesburg, Abidjan, and Cairo.²³

DJIBOUTI

Engie, a French company specialising in energy production, recently signed an agreement with the Djibouti government to build a 30MW solar power plant in the Grand Bara region in Djibouti. This plant is part of a much larger project, i.e. the construction of a 300MW solar complex. The overall investment is expected to amount to ~US\$404 million. The 30MW Engie project will enable Djibouti to reduce its dependence on Ethiopia, which currently supplies most of the electricity consumed in Djibouti. The country aims to generate 100% of its electricity consumption in future from renewable energy sources. Its 60MW wind project, involving the construction of a wind farm in the east of the country, is a step towards this goal. Qatar is keen to invest in this project.²⁴

KENYA

Anglo African Agriculture plc (AAA) is a trading company listed on the London Stock Exchange, set up to develop an agricultural trading group in Africa. It recently announced that it has agreed to purchase Comarco, a port and marine logistics group based in Kenya, for US\$30 million. The acquisition is subject to an equity fundraising that awaits shareholder approval. Payment will be made via the issue of new ordinary shares of AAA to the sellers of Comarco Group at 0.5p. AAA wants to expand its scope of activities beyond the agricultural sector, while continuing to rely on the experience and networks of its

directors in Africa. The acquisition will allow AAA to acquire a reputable port and marine logistics business while providing Comarco with US Dollar-based revenues and a strong asset base. It will also allow the company to diversify and grow its revenue and income base. AAA also intends to change its name to Agulhas Group Africa plc.²⁵

NAMIBIA

Coca-Cola recently installed an off-grid solar facility on the roof of its Windhoek plant in Namibia, at a cost of US\$388,000. The plant will now rely on green energy for 9% of its power. The installation will avoid emissions of 832 tonnes of CO₂ per year, corresponding to planting more than 80,000 trees. The Windhoek project is one element of a much broader process of greening Coke's soft drinks production. In South Africa, Coca Cola has installed 11 off-grid power sources in its production plants. This move is due both to the vision to embrace renewable energy, and the weak performance of Eskom, the public electricity company in South Africa. According to Jacques Vermeulen, President and CEO of CCBA, "a feasibility study is underway on the use of solar energy as a clean, sustainable and distributed resource in nine of the twelve African countries" in which they currently operate.²⁶

NIGERIA

Oil giant Shell will invest US\$2 billion in the Kano Electricity Distribution Company (KEDCO) in Nigeria over the coming three years. The purpose of the investment is to improve and expand the distribution segment of the power value chain in northern Nigeria. The Kano power supply system is seen as dysfunctional, requiring massive investment to transform it. Billions of Naira were committed to it in the last five years. Shell's investment will make a serious contribution to resolve several of the challenges faced by electricity consumers in the region. Many of the communities that are not yet connected to the national grid can now look forward to enjoying electricity.²⁷

Shell's growing investment in Nigeria is despite its joint venture pipeline network oil theft losses averaging 11,000 bpd in 2018. This is an increase of about 20% over 2017. The number of sabotage-related spills increased to 111 in 2018, compared to 62 in 2017.²⁸

RWANDA

The Rwanda Development Board and the Luxembourg Chamber of Commerce recently hosted the first Rwanda-Luxembourg Business Forum, on 10 June 2019. A delegation of Luxembourg business executives attended the forum, while fifteen Luxembourg companies expressed interest in the Rwandan IT sector. Luxembourg actors were also interested in investment opportunities in the construction, consumer goods and industrial sectors. According to the director of International Affairs of the Luxembourg Chamber of Commerce, they identified many commonalities in the economic development agendas of the two countries, and saw the potential to cooperate through partnerships, and in working with SMEs.²⁹

Swedish entrepreneurship hub Norrsken entered the Rwandan market, seeing Rwanda as the natural gateway to the fast-growing markets and entrepreneurs of East and Central Africa. Norrsken houses 340 entrepreneurs and 120 companies in Stockholm, and will open its first Africa hub in Kigali. Norrsken operates across all sectors: healthcare, education, finance, food and agriculture and environment. It chose Rwanda as their second market because of its strategic location, connectivity, strong infrastructure, high economic growth and ease of doing business. Norrsken aims to attract and integrate ideas, talents and innovations across the region by creating an enabling and favourable environment for entrepreneurs to develop, prototype and scale their solutions. This boosts Rwandan entrepreneurship and innovation ambitions, and is in line with Rwanda's vision for its future.³⁰

POINTS OF INTEREST

- The African energy sector is seemingly an attractive investment destination for Western firms. Within the sector, the renewable energy sub-sector gets much attention. Although solar seems to dominate, geothermal and wind also receive attention in specific geographic locales.
- East Africa, once identified by investors as benefiting from the “tilt from West Africa to East Africa,” continues to rise. Note that West Africa is receiving investments, but far less attention. While not addressed in this report, Egypt ranks as the favourite investment destination in Africa.
- Although the large economies are receiving attention, even a small country such as Rwanda is attracting quality investments. In 2018, Rwanda’s economy had a GDP of US\$9.7 billion, which is small when compared to the likes of Nigeria and South Africa, with GDP of US\$397 billion and US\$377 billion respectively.³¹
- The oil sector is also receiving attention, despite the high cost of doing business in oil-rich African countries. While Shell is still struggling to address its security challenges in Nigeria, this has not deterred it from further investments in the country.
- The ICT sector increasingly receives investor attention. Providing Internet access and creating opportunities to tap into e-commerce and e-government domains also generate rising interest. The West is competing with Huawei and Transsion from China in this sector. Currently, these two companies currently have about half of the handset market in Africa.

Article 4: Local Firm Activity in Africa

INTRODUCTION

A wide variety of firms with strong roots in Africa are growing and expanding their footprints within their home country. An increasing number are also expanding their reach beyond home country borders to tap opportunities in the rest of Africa. Some home-grown African firms are now strong competitors, even sparring with global giants operating on the continent. Their entry tactics, business models, financial strategies and operations provide food for thought, especially for other local firms anticipating entry to the markets of and exploiting the many opportunities in the 54 African nations.

AFRICA

DHL Africa's eShop app has experienced impressive usage growth in 11 countries across Sub Saharan Africa, including Botswana, Ghana, Kenya, Malawi, Mauritius, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, and Uganda. DHL Express has subsequently announced that this platform has been rolled out in nine more countries across Africa, i.e. in Cameroon, Cote d'Ivoire, the DRC, Gabon, The Gambia, Madagascar, Mozambique, Tanzania, and Zambia. The DHL Africa eShop enables African customers to shop directly from over 200 US- and UK-based online retailers, who provide access to global brands. Purchases are delivered to their door by DHL Express. There is a growing demand for world-class online retail services in Africa, given a strongly-growing middle-class consumer market that is eagerly embracing the internet in search of globally branded products.³²

KENYA

Kenya's Equity Bank aims to expand its regional footprint to become a Pan-African bank. As part of this strategy, it seeks investment opportunities in Ethiopia. Rebooting the continental expansion plan it put on hold in 2016, Equity's focus is now on expanding into the Horn of Africa, where it hopes to acquire an existing bank as its entry strategy. Equity CEO Dr James Mwangi stated his bank was keen to exploit new opportunities generated by recent economic reforms in Ethiopia. He believed the Ethiopian market could open in 2020 or 2021, and that, given the large market size, acquisition was the correct entry strategy. Ethiopia has 18 licensed commercial banks, of which the Commercial Bank of Ethiopia and the Development Bank of Ethiopia are state-owned.³³

Dr Mwangi also announced that Equity intended to grow its customers from the current 10 million to 100 million. Following Ethiopia, its expansion path will move the bank into the DRC, Burundi, Zambia, Zimbabwe, Malawi, Mozambique, Botswana, Ghana and Nigeria. While his intended entry strategy for larger countries is through acquisitions, Equity will deploy a greenfield strategy for entry to smaller markets. The ten-country expansion will be funded from operations, with the exception of the move into Nigeria, which may require a cash injection. Equity is currently testing its Equitel mobile phone-based banking service, which it aims to formally launch in July, reaching break-even by September.³⁴

RWANDA

In Rwanda, the Mara Corporation will manufacture mobile phones for availability within two months in Rwanda and the rest of Africa. The construction and setting up of their new factory at the Special Economic Zone in Gasabo District are in the final stages. The factory will employ at least 200 people: 16% will be women, in line with the UN's Sustainable Development Goals. This project is expected to enhance access to digital services and deepen internet penetration in Rwanda. The Mara range of smartphones will retail between US\$100 and US\$200. Mara also has a smartphone factory in South Africa, where it has invested US\$100 million.³⁵

Still in Rwanda, BK Group Plc, the holding company of Bank of Kigali (BK), Rwanda's largest bank by assets, is developing into the country's new investment powerhouse, reporting a 23.4% growth in its net income. It earned US\$8.3 million in the first quarter of 2019 across its four subsidiaries. The group's latest addition, BK Capital — a wealth management and investment firm launched this year — recorded growth in its assets under management to US\$2.7 million. BK Group reported an ROE of 15.2%, with

its ROA at 3.3%. Total assets increased by 20.2% over last year, making it Rwanda's first billion-dollar company. Group CEO Diane Karusisi said, "This growth is due to innovative products we continue to roll out. BK Group also reduced operating costs by 9.7% this year due to improved efficiencies in our operations as we continue to digitise many of our processes." ³⁶

SOUTH AFRICA

South Africa's MTN Group has launched Africa's first Mobile Money (MoMo) Artificial Intelligence (AI) service or "chatbot". The chatbot went live in Ivory Coast in May and would be rolled out across MTN's MoMo footprint in the next few months. It enables customers to engage with MTN's MoMo services, including payments, on a number of social media platforms, such as WhatsApp and Facebook Messenger, and via SMS. The service would eventually be included in MTN's own newly released advanced instant messaging service "Ayoba".

According to Rob Shuter, President and CEO of MTN Group, MTN is keen to extend the power of their mobile money solutions to more than 60 million customers across Africa over the next few years. AI can improve how MTN interacts with customers, enabling MTN to reach them anytime and anywhere, through a variety of channels, including social networks and messaging applications. It would also enable MTN to increase the level of financial inclusivity in Africa.³⁷

In another development, PayU, a subsidiary of South African media giant Naspers, is growing its footprint in Africa. It has been a licensed operator in Kenya since February 2019, from where it has launched payment services for East Africa. The company provides organisations with on-the-ground local liaisons, strong relationships, improved stability and reduced downtime, and localised customer support. It also provides access to Tanzania, Uganda and Rwanda. Kenya's payment market is dominated by mobile transactions, with more than 80% of payments taking place over mobile wallets with M-PESA as the dominant player, closely followed by card payments, then EFT. PayU provides a single, integrated transaction point, making it simple and accessible for merchants and customers. To create a localised offering in Kenya, PayU has entered into a partnership with Cellulant to ensure localization and payment method expansion. Cellulant provides a one-stop mobile payment platform for connecting businesses and governments in Africa, offering consumer payments, digital and neighbourhood agency banking and remittance solutions.³⁸

Still in South Africa, a new life insurer, African Rainbow Life (ARL), opened in South Africa through a deal brokered by African Rainbow Capital (ARC), an investment firm controlled by South African mining billionaire Patrice Motsepe, in partnership with Sanlam, one of South Africa's largest insurers. Sanlam and ARC joined forces to better compete in a market dominated by the likes of Old Mutual and Assupol. ARL will focus on low-income, entry-level retail insurance, offering a full spectrum of insurance, from life insurance to investments and retirement products. Most of its competitors in this space restrict offerings to funeral cover. Sanlam agreed to grant ARC's parent company, Ubuntu-Botho Investments, a US\$180 million loan to form ARL. Sanlam will own a controlling 51% stake in ARL, ARC Financial Services holds 26%, while the rest is held by an ARL management consortium that includes a staff, community and management trust. As such it is a Black Economic Empowerment (BEE) deal.³⁹

NIGERIA

Nigerian e-commerce company Konga confirmed its plan to launch an integrated and cost-effective health project across the country. Acquiring a pharmacy chain will enable Konga to better meet the needs of all Nigerians for genuine drugs. Konga intends to reduce the cost of health service delivery in Nigeria and beyond. The project is expected to launch by the third quarter of 2019. Konga received government approval to import digital laboratory equipment to test drugs supplied to its pharmacies to ensure they meet global standards, and has invested in world-class laboratory equipment to re-certify drugs delivered through their pharmacy chain. Health services delivery in Nigeria faces many challenges: very expensive, with poor access and low delivery speed. Konga obtained the commitment from a foundation to subsidise the cost of last mile delivery to target persons and organisations, and is projected to become the first e-Commerce venture to turn profitable in Africa.⁴⁰

POINTS OF INTEREST

- Many firms in Africa are using acquisitions and partnerships to enter new countries. This has the benefit of acquiring local knowledge of the market, the regulatory environment and the important stakeholders in the new country of operations.
- It is interesting to note that Equity will use either an acquisition strategy (for larger countries) or a greenfield strategy (for smaller countries). Some companies in Africa have burnt their fingers with a greenfield strategy, as they lacked market knowledge. Even where they did not burn their fingers, it took much longer to get the greenfield entity up and running as compared to a partnership entry strategy.
- Africa has started to manufacture its own mobile phones, thereby developing the ability to tap into a very lucrative market. This goes beyond mere assembly. Cost efficiency is of paramount importance, given the relatively low per capita incomes in many African countries.
- The size, scale of operations and levels of efficiency of banks in a number of African countries are rising. This should be of interest to those foreign companies eager to do business in Africa, but whose home country banks are not keen on venturing into Africa. The banks of a number of countries appear to be loath to support their corporates in Africa with financing. African banks can fill this gap.
- We are again seeing mobile money platforms being developed to tap into the immense market in Africa. Expansion into other countries is facilitated by entering into partnerships, as is the case with PayU partnering with Cellulant in Kenya. In addition, these mobile platforms are increasing in sophistication and scope of services provided.
- The creation of a BEE life insurer, African Rainbow Life, in South Africa, is long overdue. With its history of white economic dominance under previous regimes, developing and growing Black-owned businesses are a very high priority. The large Black population in South Africa gives ARL the potential to grow strongly and present stiff competition to existing life insurers.
- It is interesting to note an e-commerce company venturing into the pharmaceutical industry. Africa imports the vast majority of its medicine it uses, despite primarily using generic medicine. This opens up a significant opportunity for foreign pharmaceutical companies to expand their operations and manufacturing facilities into Africa.
- The provision of genuine medication is an important issue, given the high incidence of fake medication. Having the ability to purchase the genuine version from a trusted source is an important value proposition for not only Nigerians, but for Africa as a whole.

Article 5: MSME Activities in Africa

INTRODUCTION

Micro, small and medium enterprises (MSMEs) are the primary business and employment opportunity generators, not only in Africa, but around the world. Despite the significant contribution they make towards job creation, MSMEs face many challenges to growth of their businesses. Many are excellent examples of how innovation and creativity can help initiate, develop and grow businesses from an idea, through the startup phase, and on to a fully-fledged business. Such MSMEs are visible in all sectors of the economy, ranging from technology to the NGO sector. This article focuses on several representative cases, and identifies some emergent trends and potential opportunities.

KENYA

The VALUE4HERConnect online platform was recently launched in Nairobi, Kenya to empower female agripreneurs. The network will help bring women entrepreneurs in agriculture together as a virtual community and serve as an important business resource for members. Despite the fact that women are key players in the agriculture sector in Africa, their participation in agribusiness is often limited to low-profit production. With this online platform they now have access to buyers, to market information and intelligence, investments, and capacity building opportunities, which should help them form strategic partnerships to access global markets for increased incomes. A Women2Women Community forum, which is a part of the network, will allow “women to interact, trade and share information, and market information such as country profiles, trade policies and market entry requirements.” The network also provides information on financing and training opportunities. Women entrepreneurs in agriculture now have the opportunity to showcase their businesses and to secure regional and global business deals.⁴¹

Also in Nairobi, Twiga Foods, a B2B distribution platform based in the city, recently secured a US\$5 million investment from French investor Creadev. It is Creadev's first investment in Africa. Twiga Foods' platform aggregates the requirements of the informal retailers through its m-commerce platform and leverages this volume to source produce directly from farmers and food manufacturers. As part of the deal, a number of early Twiga Foods investors sold some of their initial shareholding to accommodate later stage and longer-term investors. According to Twiga Foods, Creadev's investment will support its strategy to grow and develop its ecosystem of farmers and retailers. Total investment in Twiga Foods since its founding is estimated at US\$35 million.⁴²

Kenyan investor John Kibunga Kimani, once one of the largest oil investors in Kenya, recently sold his 3 million shares in Total Kenya. He used these funds to buy more shares in Kakuzi, a Kenyan agricultural cultivation and manufacturing company dealing with tea, fruits and livestock. His stake in Kakuzi currently stands at about 31%. Kakuzi, listed on the NSE (India), is increasingly diversifying its business. The firm recently announced it would shift from growing pineapples to focus on avocados, to meet skyrocketing global demand. In 2017, Kenya exported a record 51,507 tons of avocados. South Africa, the former leader in African avocado exports, exported 43,492 tons.⁴³

Kenya's Centum Investment Company recently sold its 53.9% stake in Almasi Beverages and its 27.6% stake in Nairobi Bottlers to Coca Cola Sabco East Africa (CCBA) for ~US\$191 million. Cutting its appetite for capital gains to invest more in cash-generating businesses, Centum has been selling off its various investments over the past five years, raising ~US\$356 million, realizing capital gains of ~US\$238 million. Centum will use these funds to repay a ~US\$73.5 million dollar-denominated bank loan, generating finance cost savings of US\$6.9 million annually. The remaining balance will be invested in private equity and marketable securities portfolios.⁴⁴

SOUTH AFRICA

Nsimbi Equipment is a new equipment company from South Africa that is changing the way business is done in the African earthmoving industry. The founders attracted the attention of Australian OEMs when they bought equipment from mines. They subsequently received an offer to sell OEM equipment to the mines, such as small belly plate jacks to Anglo American and Glencore. Currently it is the local supplier of three well-known earthmoving brands: Duratray, a manufacturer of all-steel trays; Jacon, a

manufacturer of purpose built equipment; and Nivek, maker of a track-driven all-terrain, battery-operated, remote controlled belly plate jack. In addition to providing equipment, they train the operators and technical staff, have service contracts with their clients, and carry consignment stocks of maintenance and repair parts. Nsimbi is currently negotiating with a Russian company to become the African supplier of its drill bits. The company is planning to increase its product offering and expand its operations in Africa, particularly West Africa. Nsimbi has a client base in Cote d'Ivoire, and is planning to expand into Ghana as well.⁴⁵

Kleinskuur Aquaponics, a South African aquaponics company, has tweaked techniques the owner learned in Australia to suit African conditions. They produce greens, microgreens and herbs for packhouses that supply all of South Africa's retailers plus a few restaurants. According to owner Colin Bremner, the system has been running for three and a half years, during which time the system has never required cleaning. He has also minimised the system's reliance on electricity. The water temperature is maintained at 23°C despite the season, through the use of geothermal piping running along the outlines of the beds three metres underground. The system has only one water pump and one air pump. His design is being replicated in Zimbabwe, Botswana and Namibia to provide fresh vegetables in the hospitality sector, while companies in remote areas in countries like Burkina Faso are also interested in its ability to perform in harsh environments. The company regularly offers training courses in its system of aquaponics.⁴⁶

CAMEROON

Pneupur is a Cameroonian startup that collects used non-reusable tyres and processes them into a secondary raw material, which is used to manufacture 100% ecological flooring. These coatings can be used to cover sports fields (basketball stadiums, athletic tracks), schoolyards, residential interiors and public spaces. In this way, Pneupur aims to minimise the environmental and health damages caused by the inappropriate disposal of used tyres in Africa, while creating jobs and limiting climate change. Initial orders amount to €50,000 (~US\$57,000). The startup plans to create a plant in Bikok with an annual processing capacity of 70,000 used tyres, before increasing the number to 150,000 by the end of the third year of operations. The investment will cost about €500,000 (~US\$570,000). The venture has benefitted from the official support of the Ministry of Environment and the Ministry of Mines and Industry in Cameroon. The founders will soon launch a mobile application to geolocate used tyres, map collection points, interact with used tyre operators, and are planning to expand to the rest of Africa.⁴⁷

POINTS OF INTEREST

- Africa's MSMEs are active in a wide range of sectors, as the cases above reflect. These include agriculture, aquaponics, waste recycling, earthmoving and strategic investments.
- Getting women involved in agriculture is an objective of various institutions such as the UN (SDGs), the AU (Agenda 2063) and the African Development Bank. Various governments in Africa have made an increase of the involvement of women in agriculture (and of the youth) a strategic priority. It is good to see this factor getting attention. It is also interesting to see how technology increasingly plays a role to facilitate the various facets of business in Africa.
- The business model of Twiga Foods reminds one of that of FarmCrowdy in Nigeria. Both link potential investors with farmers who have the required capacity, whilst ensuring there is a market for the product. This is the type of business model that has the potential to provide capital-starved farmers with financing that they otherwise would struggle to obtain.
- Avocados are currently in short supply globally, given small harvests in countries such as the USA. However, Australia had a bumper crop. African farmers should track demand trends for and market values of high value crops. Although avocados are a high value crop, investing in agriculture after the trend peaks is not necessarily a good thing.
- Aquaponics is a relatively new field of interest within the agriculture sector. It has significant potential to add to Africa's food supply. Africa is currently importing between US\$35 billion and

US\$41 billion worth of food, a tragedy given the potential of the continent not to only feed itself, but to grow food for the rest of the world.

- Once again, we see a startup using waste (in this case not plastic, but non-reusable tyres) to create a business, while addressing a serious environmental issue. Necessity is the mother of invention. It is a good example of social impact investing, for which there are many opportunities in Africa.

Author: Mr Johan Burger

Editor: Dr. A. Lee Gilbert

Editor-in-chief: Prof Sam Park

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Contact Information:

Yvonne Chong

Email: cas@ntu.edu.sg

Phone: +65 69081940

Address: S3-B1A-35 Nanyang Business School

Nanyang Technological University

50 Nanyang Avenue Singapore 639798