Africa Digest

Trends and Issues in Business
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1. Trends in Financial Services in Africa

Africa's banking requirements are unique and varied, reflecting the needs of its uniquely diverse range of customer segments. The issues below reveal recent developments in the continent's banking sector.

NIGERIAN BANKS STRUGGLING IN EAST AFRICA

When Access Bank from Nigeria recently acquired Transnational Bank in Kenya, the number of Nigerian-based banks currently operating in Kenya increased to three. The other two are UBA and GTBank. In East Africa, all three also provide banking services in Uganda, Tanzania and Rwanda.

According to one article, while an aggressive pan-African agenda is driving these growth initiatives, local market conditions are often ignored. That is why the Nigerian banks have yet to reach the dominant positions in the east African markets they enjoy in their Nigerian home market.

The article’s author identifies two fundamental differences between the Nigerian and East African markets, and explores their implications:

- First, Nigeria is largely a big-ticket market, where the focus is on large private conglomerates or entities/businesses in which the State holds interest(s). As it’s a corporate-driven market, a large balance sheet is a core value proposition.
- The East African market, in contrast, is small-ticket segment where the share of consumer credit in Kenya stands at more than a third of total outstanding credit. A large balance sheet is not a core value proposition.
- Banks in East Africa therefore had to build strong retail franchises for both lending and deposit mobilisation.
- Additionally, Kenyan banks, specifically, have exploited the full advantage of the requisite infrastructure being put in place for retail lending.
- The second fundamental difference is in loan pricing. In Kenya, large corporates can borrow dollars at 7% per annum. For their Nigerian counterparts, the cost of dollar funding is higher, and has been as high as 10.75%. This difference makes it difficult for Nigerian banks to compete in lending activities originated by local franchises in this region.

In order to compete more successfully, Nigerian banks therefore need to build a mass-market franchise and localise foreign currency funding (as well as operations).¹

DEVELOPMENT OF A STATE BANK AND SOVEREIGN WEALTH FUND IN SOUTH AFRICA

In South Africa, President Cyril Ramaphosa announced during his state of the nation address on 13 February 2020 that the government would establish a sovereign wealth fund as a means to preserve and grow the country, as well as a state bank. He neglected to provide details on where the money for such a fund and bank would come from in current financially constrained times. The purpose of the state bank would be to extend access to financial services to everyone.

According to Ramaphosa, the finance minister Tito Mboweni would have provided details on these two initiatives in his budget speech on Wednesday 26 February 2020.² However, Mboweni’s speech was equally sparse on detail.

GREATER ROLES FOR LOCAL BANKS IN TANZANIA

The Tanzanian government wants local financial institutions to become more involved in major infrastructure development projects in the country. According to the Finance and Planning minister, Philip Mpango, these projects include the Morogoro-Makutupora-Singida section of the SGR (US$1.46 billion), the Rufiji Hydroelectric Dam (US$2.95 billion) and the revival of Air Tanzania Company Limited. These and other large projects required the government to take up sizeable locally and internationally sourced loans. According to the minister, credit from local financial institutions was vital for investment in infrastructure and development of the manufacturing sector. Banks play an important role in Tanzania’s aspiration to transform itself into a semi-industrialised middle-income economy by 2025.³
COPYRIGHT INFRINGEMENT IN THE BANKING SECTOR

Kenya’s banks launched the interbank transfer service Pesalink as a counter to Safaricom’s M-Pesa in February 2017. The service transacted Sh81 billion (~US$800 million) in the 17 months ending August 2018. These 30 banks are now embroiled in a legal case in which tech innovator Stephen Muikia Njongoro seeks Sh1 billion (~US$10 million) damages from them, claiming they appropriated his idea without his permission.

According to Njongoro, Pesalink bears similar salient features and components to an idea he shared with the Kenya Bankers Association (KBA) in 2015. He has accused KBA of utilising the copyrighted idea without his authority or granting him any royalties or compensation. In addition to the damages he wants, he is also seeking a temporary injunction to stop the use of Pesalink, arguing that the platform has infringed his copyright.

The product was registered with the Kenya Copyright Board and issued with a certificate on 2 February 2015. After a presentation to the Central Bank of Kenya, he was advised to share the idea with the KBA. The latter, however, informed him the innovation was not right for the banking industry.

CREATING CREDIT PLATFORMS FOR SME’s

The Kenya banking sector launched its Stawi mobile credit platform for small and medium-sized enterprises (SMEs) in November 2019. Stawi is a mobile loan product targeted at SMEs. It enables access to unsecured credit of between 30,000 shillings (~US$300) and US$2,500 at an interest rate of 9% per annum, with repayment periods ranging from 1 to 12 months.

President Uhuru Kenyatta described Stawi as the culmination of a joint effort by both the government and the banking sector to provide affordable access to credit for SMEs. He hoped that it would help boost enterprise in the country by making access to credit cheaper and faster. The importance of SMEs is clear — they represent more than 80% of all businesses in Kenya.

As the over 7 million SMEs in Kenya are mostly unlicensed, they are unable to access capital from the current credit infrastructure. This situation is partly to blame for the estimated 90% of start-ups that collapse within three years of their set up.

President Kenyatta subsequently challenged more financial institutions to innovate new approaches to support SMEs instead of categorizing them as high-risk borrowers. He said SMEs have the potential to contribute more than the current 30% of the country’s GDP if fully supported, adding that failure to support the mostly youth-managed entities risks creating social instability.

Stawi provides entrepreneurs with a digital account for their business operations as they can manage all payments and money made from their business.

POINTS OF INTEREST

- Foreign banks frequently (but not always) find it difficult to compete against local banks for retail customers. Locals do not necessarily trust the large multi-national banks to the same extent they trust the local banks. The foreign banks also may not want to go into rural areas to seek market share.
- Many of these large global banks therefore frequently do cherry-picking, where they enter a region or country and then focus only on investment banking or corporate banking, prioritising large-scale corporate funding deals.
- The case study on Nigerian banks in East Africa is also a good study on how Africa is not a homogeneous continent, but has clear differences between regions. What works in one country, does not necessarily work in another.
- It is not just banks from other regions that are struggling in the East African markets. As has been indicated in other African Digest reports, retail chains from outside the region (as well as within Kenya!), have been struggling as well, frequently having to close shop. It seems that the east African market has specific characteristics that must be kept in mind when venturing into the region.
- Resistance (or scepticism?) against President Ramaphosa’s announcement on the creation of a state bank and sovereign wealth fund are based on a number of factors. The first and most important factor is the origin of the funds to create these institutions. The government is currently facing severe
challenges with a number of the high profile SOEs facing bankruptcy, such as Eskom, SAA, Transnet, Post Office, etc. The country does not have the funds to bail out these entities. Serious mismanagement of the economy during the Zuma administration has led to a situation that the debt to GDP ratio has climbed significantly and that the country is on the edge of receiving a junk bond status from the third ratings agency, Moody’s. In such a case, a lot of capital will flee the country and new funds will become much more expensive.

- The second concern is that the evidence shows the government is not capable of running its SOEs. Major state banks, i.e. the Land Bank and the Post Bank are both in dire straits. As noted above, the poor conditions in which the other SOEs find themselves, are a matter of public record. Where can the government find the management expertise to run these new entities? As it is, the acting CEO of the Post Bank and two of his executives were recently suspended, along with the interim CEO of the Post Office. This has become a regular phenomenon in South African SOEs. Some of these suspensions do not necessarily reveal the actual cause, which in itself is a cause of concern.

- Tanzania’s quest to get their local banks to play a greater role must be lauded. However, forcing the issue might be counterproductive. Getting involved in large-scale projects require large and strong balance sheets, as well as the technical expertise to set up and manage the funding part of these projects. This is not necessarily always the case in developing countries.

- The accusation of copyright infringement against the banks of Kenya is not a new phenomenon in Africa. In the recent past we have seen similar cases, albeit in other industries. Vodacom in South Africa is involved in a case against one of its former employees who developed the “please call me” application. His involvement was initially ignored, but the case is now about the size of the payment he needs to receive from Vodacom. Woolworths, a large and upper-end retailer based in South Africa, was also involved in a case where its employees copied the idea of a baby carrier from someone who wanted to sell the idea to Woolworths. However, it did apologise and withdrew all the products from the shelves when the incident reached the press. It seems that the larger corporates are inclined to think that their size gives them a number of perks.

- The challenge SMEs face in respect of financing is not new. A few years ago, Kenya tried to make credit cheaper for SMEs by capping the rate banks could charge. As the banks could no longer price for risk, they stopped lending to the SMEs, who are seen as high risk. The regulation thus had an opposite effect than what was intended. Much more recent this regulation was scrapped. Hopefully more credit would be available for SMEs. A problem for them would be the high interest rates the banks would charge. The platform where rates would be fixed at 9% will hopefully address this problem. The fact that various Kenyan banks are cooperating on the platform is a welcome sign, an indication of greater sustainability.
2. Trends in Investments and Economics in Africa

African economic development is performing well and attracting investments from abroad. However, those considering investments in the continent face serious challenges. This report addresses recent development related to investments and economic development.

REGIONAL ECONOMIC PERFORMANCE

According to the Executive Secretary of the Southern African Development Community (SADC), other SADC members should emulate Tanzania’s economic performance. Tanzania achieved a 7% GDP growth rate during 2018. Botswana, the DRC, Madagascar and Tanzania all achieved strengthened growth rates, although only Tanzania met its GDP growth target of 7% in 2018. Regarding inflation, 10 SADC member states met the inflation target range of 3 - 7%. Despite these victories, the region registered a drop in recorded investments, from 24.4% to 22.8% of GDP, against a regional target of 30% of GDP. On savings, the region’s performance dropped from 20.6% of GDP to 19.9%, while the fiscal deficit also dropped from 4.3% of GDP in 2017 to 3.1% in 2018. A trend that raises concern is the increase in public debt, rising from 47.8% in 2017 to 48.8% in 2018. Transnational crime was another factor that raises serious concern.

NEW LEADERS ON THE INVESTMENT ATTRACTION RANKINGS

Morocco recently overtook South Africa not only as Africa’s primary vehicle producer, but also as a more attractive investment destination, according to a Rand Merchant Bank investment report. Morocco has significantly improved its operating environment, and its reintegration into the African Union enhanced its investment appeal. The country has adopted a number of reforms to improve its business environment. South Africa, on the other hand, has recorded slow growth, weak governance and lack of structural reforms. Egypt is still the number 1 target for investments due to its huge market and growth-boosting reforms, with South Africa now trailing in third place.

INVESTMENTS AND INTEREST FROM THE UK

UK Export Finance (UKEF), the UK’s export credit agency, provided financing valued at £620 million (US$807 million) to support UK exports to four African countries. According to UK international trade secretary Liz Truss, UKEF had unlocked overseas contracts for UK exporters to provide goods and services for six national infrastructure projects across Africa.

These initiatives include: 750 hospital beds for maternity care in Ghana; an upgraded terminal at Kumasi airport in Ghana; 600 hospital beds and 108 rural healthcare centres powered by solar energy in Zambia; an industrial business park set to create 200,000 jobs in Uganda; upgrades to more than 80 kilometres of road surfaces in Gabon; and the supply of equipment to a Ugandan roads project.

These are part of a range of infrastructure projects in Africa facilitated by UKEF, amounting to about £2 billion (~US$2.6 billion) of support in the past two years. It is raising its risk appetite in several African countries and significantly increased its country trade limit for Rwanda. In addition, UKEF raised its support to Nigeria and Egypt to £1.25 billion (~US$1.6 billion) each.

In Africa, many international banks are reluctant lenders to private companies. The guarantees by UKEF, however, alter risk perceptions. UKEF now has a much stronger focus on Africa after the UK’s exit from the EU, and will play a bigger role in bolstering the UK’s trade with countries in Africa.

According to the British Prime Minister, Boris Johnson, the UK is an ideal business partner for Africa. This announcement came on the eve of the UK leaving the EU. However, the UK does face a number of challenges in positioning itself as the preferred trade partner for Africa:

- Far fewer of Africa’s 54 heads of state or government were attending the first UK - Africa Investment Summit than the dozens who attended the first Russia - Africa summit last year or the gatherings China regularly holds (e.g. FOCAC and BRI Forums).
- Two-way trade between Africa and the UK in the year ending in the second quarter of 2019 was US$46 billion. Africa’s two-way trade with China, the continent’s top trading partner, was US$208 billion in 2019.
Johnson acknowledged that British officials and companies needed to convince African governments to do business with the UK. When former prime minister Theresa May visited Kenya in 2018, it was the first visit by a British prime minister to Nairobi in more than 30 years.

Johnson projected that “billions of pounds worth of deals” would be sealed at the UK – Africa summit of January 2020, including major clean-energy projects. According to the UK, 16 African leaders had attended the summit, including the leaders of Nigeria, Congo, Kenya, Egypt, Ghana, Senegal, Malawi, Mozambique, Ivory Coast, Uganda and Rwanda.9

TAPPING THE DIASPORA AS SOURCE OF INVESTMENT FUNDS

Kenya needs project funding for its Big 4 development agenda. It is considering the use of remittances to finance these development projects. Under active consideration is a diaspora green bond for Kenyans working and living abroad, which will enable them to invest in the Big 4 agenda: affordable housing, food security, manufacturing and affordable healthcare. The funds can also be channelled to agribusiness and value addition, with on-going negotiations to channel these investments into healthcare facilities such as cancer centres.

Should the policies be adopted, Kenyans abroad will be able to mobilise the US$3.5 billion required to finance the standard gauge railway phase 2B from Suswa to Kisumu in a span of three years.

According to governor of the Central Bank of Kenya, Patrick Njoroge, diaspora remittances have already played a part to reduce Kenya’s current account deficit from 5% in 2018 to 4.6% in 2019. The remittances have also contributed to expanding reserves that stood at US$8.4 billion at the end of January 2020 (amounting to 5.2 months of import cover).

The CBK is encouraging Kenyans living abroad to invest directly in projects contributing to economic growth at the micro level. It is expecting an increase in Kenyans abroad investing in government securities.10

IMF URGING SA REFORMS

The IMF urged the SA government to speed up reforms to revive the economy. While the IMF found that South Africa had great economic potential, there were a number of risks that raised concern. These included risks to the economy such as weak growth, deteriorating fiscal and debt positions, and difficulties in the operations of state-owned enterprises. These risks continue to undermine the country’s potential.

According to the IMF, South Africa should implement structural reforms to boost economic growth and create a conducive environment for private sector investment. These reforms should include “reducing the cost of doing business, streamlining operations of SOEs, releasing the spectrum, improving governance, promoting competition in product markets and addressing labour market issues.”

While some of these have already been identified by the South African government, the IMF was concerned by the lack of implementation.

The IMF forecasts South Africa’s growth to gradually increase from 0.4% in 2019 to 0.8% in 2020 and to 1% in 2021.

Treasury responded as follows:

- Projected short-term growth for South Africa was subdued, but it expected a stronger recovery in confidence moving forward that would result in GDP growth of 1.7% by 2022.
- Average inflation expectations for 2019 have fallen from 6% to 4.5%. In January 2020, the South African Reserve Bank cut its repurchase rate by 25 basis points, taking into consideration inflation expectations.
- Failure to address governance and operational issues at SOEs will continue to weigh negatively on the outlook.
- SOEs, particularly electricity utility Eskom, present risks to the fiscal framework.
- Government is committed to resolve the challenges facing SAA.
- Government has made progress in implementing many of the reforms to revive the economy.11
INVESTMENTS IN TOURISM

Tanzania’s Permanent Secretary for Natural Resources and Tourism, Prof. Adolf Mkenda, views tour operators as playing a major role in building the tourism sector. From scratch a few years ago, it is now a multi-billion dollar industry. Without private sector involvement, the government would not have been able to develop and grow tourism into Tanzania’s largest foreign exchange earner. Tourism contributes an average of US$2.5 billion annually, equivalent to 25% of all exchange earnings. Tourism also contributes to more than 17.5% of GDP, creating more than 1.5 million jobs.

Tourism is also acknowledged as the sector with the greatest potential for expansion, as well as an engine for economic growth in Tanzania. Companies should therefore develop synergies and achieve a competitive advantage. It is this context that public-private partnerships play an important role in tourism development.\textsuperscript{12}

POINTS OF INTEREST

- Tanzania’s strong economic growth comes on the back of a strong anti-corruption and efficiency increase drive launched by President John Magufuli since his election as president at the end of 2015. While he has frequently been criticized for his strong-arm tactics, it seems that this has not deterred external investors. Criticisms were levied against the following, amongst others:
  - His policies to indigenise the labour force.
  - Actions against Acacia Mining.
  - Heavy-handed policies towards the media and press.
  - Clamping down on social media.
  - Enforcing policies where telecoms companies were forced to list on the local stock exchange.
  - Establishing mineral trading hubs under the government’s control.
  - Policies forcing refinement of certain minerals in Tanzania to tap into associated benefits of the additional value added.

- Yet, despite the criticisms, the Tanzanian economy is ticking along nicely! We have seen above that the country’s tourism industry is making significant contributions to the economy, being the largest foreign exchange earner. The benefits of the country’s gas reserves still need to be tapped into as well. What also played a role, and will play an even greater role in future, will be his success in convincing Uganda and Rwanda to use Dar es Salaam instead of the Port of Lamu or Mombasa for their oil and other exports and imports.

- South Africa’s place on the various rankings is increasingly coming under pressure. In addition to losing its first place to Egypt as the most attractive investment destination, and now its second place to Morocco, there are various other rankings where the country is lagging relative to its African peers:
  - Largest motor manufacturer lost to Morocco (as indicated)
  - Ease of Doing Business
  - Global Competitiveness rankings
  - Largest gold producer lost to Ghana, with Mozambique also showing a lot of promise

  Should Moody’s rate the country’s counters as junk bonds, it will fall even further behind.

- The most recent Budget speech by the Minister of Finance probably has tried to take into consideration the IMF’s points. However, Tito Mboweni has a tough battle ahead of him in the implementation of his announcements. His biggest challenge will be to work with the labour unions, and he has to deal with the divisiveness within his own party. The labour unions have already announced their fierce opposition against his plan to reduce the unsustainable high government wage bill. Then there are the SOEs that appear to be on a road to self-destruction.

- Kenya is not the first country to actively tap into its diaspora in an attempt to finance growth and development. The reality is that many Africans work abroad, for various reasons. They should be a priority for governments when it comes to financing. However, just relying on patriotism is not sufficient. There should be a clear investment case, with good governance being axiomatic. Nobody
is going to throw money into a well with no guarantee of the effective use thereof. Should corruption be rampant, there will be no takers.
3. Developments in the Pharmaceutical Industry in Africa

The African Digest of September 2019 addressed development of Africa’s pharmaceutical industry. Much has occurred since then. While the development and growth of the industry remains imperative, a number of issues emerge as constraints in some African countries. This is not the case throughout Africa: some countries have assigned high priority to the growth of the sector.

BOOSTING THE SECTOR THROUGH TARIFF REDUCTIONS

A number of developments have taken place in Nigeria, some aimed at boosting the growth and development of the local pharmaceutical industry. The country’s National Agency for Food and Drugs Administration and Control (NAFDAC) suspended tariffs on pharmaceutical products in July 2019. This was widely viewed as an attempt to both boost local manufacturing and the growth of SMEs.

As it is, manufacturers of pharmaceutical products in Nigeria were the victims of a lingering foreign exchange crisis and financial squeeze in the economy, which affected the importation of drugs and local production too. In addition, the adverse effect on smuggling of vaccines into the country from the porous borders has not helped local manufacturing either. Also, the non-availability of forex to local manufacturers of drugs in the country has led to firms stopping orders for raw and other material importation for production.

In June 2019, the NAFDAC initially announced a new tariff on pharmaceutical products in a bid to shore up its revenue, which resulted in a public outcry that it would further fuel the high cost of goods in the country. The Governing Council of the NAFDAC subsequently suspended the tariff take-off for the time being to enable the agency to carry out a proper due diligence.13

More recently, in November 2019, the NAFDAC said it would ensure that 60% of drugs being imported into the country were manufactured locally. However, with the country’s infrastructure deficit and manufacturing challenges, it was not sure this objective was achievable. The pharmaceutical industry is already characterised by high production costs, as well as the challenges referred to above.14

Another major challenge, which was the topic of many discussions between government and industry players, was the ECOWAS Common External Tariff (CET) policy, whereby imported medicines attract zero duty while raw and packaging materials for local manufacturing attract up to 20% duty.

While the pharmaceutical sector is usually considered as the lifeline of the national healthcare system, the challenges mentioned have led to operations in many factories almost grinding to a halt.

Local manufacturers with the capacity to meet the country’s demand were now given a five-year market exclusivity, during which period, “there would be no approval of a similar product to ensure that products manufactured, imported, distributed and sold after registration or renewal of registration conformed to quality specifications.”15

REQUESTS FOR PROTECTION VIA “BAILOUT FUNDS”

To achieve its target to produce 60% of imported drugs locally, the Pharmaceutical Manufacturers Group-MAN, PMG-MAN, seeks N300 billion (~US$820 million) in bailout funds from the Federal Government. These funds will enable the industry to reposition itself for the task, and develop optimal capabilities for exporting drugs to neighbouring countries.

In December 2019, industry player May & Baker Nigeria Plc. stated that the Nigerian pharmaceutical sector needed a bailout of N500 billion (~US$1.365 billion) to become an active player through the African Continental Free Trade Area (AfCFTA) agreement. This raised concerns about the viability of business models in the sector. The bailout fund would strengthen the industry in anticipation of the commencement of the AfCFTA agreement. The agreement is expected to increase competitive pressure from pharmaceutical producers based in other African countries.

The Nigerian pharmaceutical industry recently experienced major restructuring in its product portfolio. Producers were compelled to discontinue production of some of their top cash cow brands in the last two years, as a result of aging products and a change in national treatment protocols and policies.16
HIGH PERFORMANCE POTENTIAL

All is not just doom and gloom, however. Neimeth Pharmaceuticals Plc. recorded after tax profits of N220.147 million (~US$602,000) for the financial year ended 30 September 2019, up from N148.016 million (~US$405,000) reported in 2018, accounting for a growth of 48.73%. On a before tax basis, the growth rate was 82.89%.

EXPORT GROWTH

The South African Health Product Regulatory Authority approved Uganda’s Cipla Quality Chemical as a drugs manufacturing site as part of a process that will see Uganda export locally made Anti-Retrovirals (ARVs) to South Africa. However, the drug itself has not yet been approved, the next step in the process.

Cipla in Uganda wants to broaden its market, especially in Africa, as well as help Uganda to raise its profile abroad. In addition to venturing into the South African market, they have also targeted markets in South America.

In November 2019, Cipla exported its first antimalarial exports to Rwanda, initiating the first of more orders not only to Rwanda, but also other countries, including Sierra Leone in West Africa and Myanmar in Southeast Asia. According to the Private Sector Foundation Uganda (PSFU), the exports were timely as many regional manufacturers continue to be constrained by the lack of market.

CREATING NEW CAPACITY IN EAST AFRICA

The Rwanda Food and Drugs Authority (FDA) recently licensed Apex Biotech Ltd as its first pharmaceutical manufacturing plant in Rwanda. The plant, co-owned by Rwandan and Bangladeshi investors, is located in the Kigali Free Economic Zone. The following plans and terms are pertinent:

- Apex Biotech Ltd will be manufacturing a total of 34 medicines in different dosage forms.
- The plant will have an annual capacity to produce 800 million packets of tablets, 200 million capsules, 8 million bottles and 5 million Oral Rehydration Therapy (ORT) sachets at optimum capacity utilisation.
- The above products will be used to prevent and treat a wide-range of medical conditions, including malaria, HIV/AIDS, Tuberculosis, Hepatitis as well as non-communicable diseases like heart diseases, diabetes, malnutrition, women’s and children’s health and chronic pain conditions.

This development will help Rwanda to save foreign currency, as it imported drugs amounting to US$100 million in 2016. This added to Rwanda’s trade deficit that exceeded US$196 million in May 2019. In addition to this, the plant is expected to provide employment to an estimated 200 Rwandans in its first two years of operations.

While Apex Biotech will initially be targeting East African countries along with Mozambique, Angola and Congo, its target market is the whole African continent.

DEVELOPING SOCIAL ENTERPRISES IN THE PHARMACEUTICAL INDUSTRY

In Ghana, social enterprise mPharma manages prescription inventory for pharmacies to make medicines more affordable for Africans. Started five years ago, the business expanded in 2019 with the purchase of Kenya’s second-biggest pharmacy chain and the launch of new initiatives, including a financing programme for breast cancer treatment in Nigeria.

POINTS OF INTEREST

- The reality is that Africa still imports the bulk of its medicine, mostly generic versions. There is no reason why Africa cannot take the import substitution route by encouraging development of local production.
- African governments, not just that of Nigeria, should also address the challenges confronting the industry. The industry is a potential major source of meaningful employment opportunities, import substitution benefits and export revenues. It is imperative that the business model environment be optimised for pharmaceutical companies to develop appropriate business models, geared for success.
• South Africa’s approval of Cipla in Uganda as a manufacturing site is an indication of the standards of Cipla. As stated, this should help the company to export beyond its region. It is also interesting to note that the holding company, Cipla, which is based in India, also owns Cipla South Africa. Yet it chooses to manufacture the ARVs in Uganda and then to export to South Africa, while it could have manufactured in South Africa and exported abroad. Cipla clearly selected Uganda as its base for the manufacturing of ARVs, getting scale in the process, an important consideration. It is also diversifying its risk by not putting all its eggs in the South African basket. Given the way the country is going, it is not a bad strategy to follow. In addition, it will clearly endear itself to the Ugandan government, where the strategy will have created meaningful jobs and generated economic growth and export revenues.

• The licensing of Apex Biotech in Rwanda is a much-needed development. It is no secret that Africa imports huge quantities of generic medication, which could have been manufactured on the continent. African leaders have encouraged building new factories in their countries for a number of years. It is still early days and there is still a lot of potential for those companies whose business models are flexible enough to embrace the opportunities in Africa.

• The profits generated by Neimeth are a clear indication that there is money to be made. The developments of the factories also show the need to provide people with the requisite skills and competencies. Even where there is a lack of suitably qualified people, the supply of factories will act as an incentive for the training of pharmacists, etc. It reminds one of the saying, “build it and they will come.”

• Developments in the rest of Africa show that South Africa is losing its dominant role in the production of sophisticated goods. This trajectory is good for the continent as a whole.
4. Trends in Trading in Africa

Africa is renowned for its inclination to prefer trade with external partners rather than internally. However, the continent is working to increase the degree of intra-African trade. This report addresses events and developments over recent months.

GROWING INTRA-AFRICA TRADE

According to a report by the African Export-Import Bank (Afreximbank), Africa’s output grew by 3.4% between 2017 and 2018. Improved regional trade and exposure to new trading partners drove this growth. This compares with growth in global merchandise trade of 3% in 2018, down from 4.6% in 2017. Africa’s total merchandise trade in 2018 exceeded US$997.9 billion. Africa remained one of the world’s fastest growing regions.

The findings of the report highlight the resilience of Africa’s economies to global volatility at a time of rising uncertainty, escalating trade wars and tariffs between the United States, China and others.

The report noted that while the EU remained Africa’s main continental trading partner in 2018 – accounting for 29.8% of total trade – African trade with the South grew significantly over the last decade to account for more than 35% of the continent’s total trade in 2018.

The President of AFREXIM Bank, Prof. Benedict Oramah, strongly encouraged African countries to embrace the economic growth opportunities presented by the AfCFTA, the growing domestic demand and the growing population, as well as the closer investment and trading links with their emerging partners in the South.

Intra-African trade, which grew by 17% in 2018 to US$159 billion, more than three times the rate of growth of extra-African trade, was the major driver of Africa’s total merchandise trade in 2018.

China and India entrenched their positions as Africa’s first and second single largest trading partners, accounting for over 21% of total African trade in 2018.

However, Africa’s contribution to global trade remains marginal at 2.6%, slightly up from 2.4% in 2017. Also, while intra-African trade rose to 17% in 2018 from 5% in 1980, it remains low compared to intra-regional trade in Europe and Asia. There is therefore still a lot of work to be done.

GROWTH IN TRADING LINKS BETWEEN SOUTH AFRICA AND ANGOLA

Angolan Minister of Commerce Dr Joffre Van-Dunem Junior observed the need for South Africa and Angola to improve their trade and investment links. Angola views South Africa as a strategic trade and investment partner. He presented Angola as a trade and investment destination for South African companies keen on investing and doing business. The two countries can work together to empower small, micro and medium enterprises to participate in economic activities, as well as transferring specialised skills and technology. Angola offered a wealth of major business opportunities in oil and gas, mining in general, particularly in diamond mining and beneficiation. South African investors could exploit opportunities presented by the strong growth in the non-oil sectors such as agriculture, construction and tourism.

These comments were made during a visit by South African business executives to Angola in August 2019, organised and funded by the Department of Trade and Industry (dti) through its Export Marketing and Investment Assistance (EMIA) Scheme. The objective is to develop export markets for South African products and services and to recruit new foreign direct investment into the country.

ENSURING CONTINUED TRADE BETWEEN UK AND SOUTHERN AFRICAN AFTER BREXIT

The UK government signed an economic partnership agreement with the Southern African Customs Union and Mozambique (SACU+M) in September 2019. The agreement will provide preferential terms post-Brexit for UK businesses trading with South Africa, Botswana, Lesotho, Namibia, Eswatini and Mozambique. The agreement supports economic development of these Southern African countries (all Commonwealth partners), and lays the foundations for new trade and investment in the future. It will also help strengthen trading between the UK and SACU+M nations, worth US$12 billion in 2018.
IMPROVEMENTS IN TRADING POTENTIAL

Standard Chartered recently published a report indicating Cote d’Ivoire as ranked first and Kenya third out of 66 economies with the best potential in future trade growth. Ghana also performed well. India was ranked second. The ranking reflected a wide range of variables grouped into three pillars — economic dynamism, readiness to trade and export diversity. African and Asian nations dominated the list of the leading 20 growth economies. According to StanChart, the strong trade readiness of Côte d’Ivoire and Kenya is driven by improvements to their business environments, with enhanced digital and physical infrastructure, and moves to improve their ease of doing business.

Some of the more visible changes in Kenya have been in road and railway development, which has made it easier to move goods both within the country and to trading partners in the region. The country was also among the most improved on the World Bank’s ease of doing business report in 2018, showing an improvement of 19 positions in a year (2019) and 31 positions in two years.23

TRADING CHALLENGES IN EAST AFRICA

In October 2019, Kenya announced it would set up warehouses in Rwanda, Burundi and the DRC as part of its strategy to strengthen its position in the regional export market. The warehouses are expected to improve exports and deter competition from neighbouring countries (such as Tanzania and Uganda) that are threatening Kenya’s dominance of the key markets. The warehouses will specifically help to address challenges such as delays that come with cross-border transportation of goods. Kenya will be exploiting opportunities in free trade zones in the various countries.

Kenya also faces competition from countries like China, India and Saudi Arabia. One of its challenges is that Kenyan brands in Burundi are 16% more expensive than products from competing countries.

Kenya’s primary exports to Rwanda and Burundi are iron sheets, steel, oils, perfumes, paints, paper, confectionery and cigarettes.24

IMPACT OF COVID-19 VIRUS

The Covid-19 coronavirus outbreak in China created fears amongst Kenyan businesses that rely on imports from China. They worry that the outbreak will affect exports from the country and disrupt their supply. Employees are concerned they may lose their jobs while small traders are concerned that they may have to close shop.

The livelihoods of small traders are under threat as it has become difficult if not impossible to import goods from China. While it is possible to import single items, bulk imports are not possible. In addition, there are long waiting times in both China (15 days) and Kenya (longer than 15 days). The process would normally take not more than three weeks from the moment an order is placed to delivery. Some businesses have already paid their suppliers and are not receiving their goods.

These constraints are occurring despite the WHO stating it is safe to receive goods from China. Entrepreneurs are now running out of stock.

The textiles industry as well as the electronics and electrical industry have been struck.

It is not only importers that are struggling. Fishermen exporting lobsters to China were forced to sell their catch in the local market at very low prices just to get rid of their stock.

Kenya Airways reportedly lost US$8 million in revenue in about one month since it suspended its flights to China as a precaution against the virus.25

POINTS OF INTEREST

- It is good to see Africa increasing the level of intra-African trade from the earlier low levels to the current 17%. Intra-regional trade levels are 59% in the case of Asia, and 70% in the case of the European Union. There are a few causal factors for the low level of intra-African trade. The poor condition of transport infrastructure is highly problematic. This is true both for roads and railways. Border posts where goods can wait for days if not weeks to gain clearance represent a number of challenges. The number of documents that need to accompany each load of goods is staggering.
All of these raise costs significantly, so that it is cheaper to ship a load from China to Mombasa than it is to ship that same load from Mombasa to Kigali. This phenomenon is well documented.

- The propensity of Kenya traders to import from China and other countries in Asia is well known. They prefer getting lower quality goods at low costs to supporting their own industries. The local manufacturing industry in Kenya is under pressure, with its contribution to GDP at a low 8%. To address this issue, the Kenyan president made increasing the manufacturing sector’s contribution to GDP one of his Big Four Agenda pillars. He now aims to increase the contribution to 15% by 2022. This is a tall order. However, the impact of the Covid-19 virus has clearly demonstrated Kenya’s vulnerability to external events and catastrophes in supplier countries. The situation in China is causing immense human suffering and many deaths, with has the potential to develop into a global catastrophe. African countries must reduce their exposure to external shocks by growing their local industries.

- It will be interesting to note to what extent the UK will grow its actual trade with its former colonies in Africa after Brexit has been finalised. The UK will no doubt still enter into agreements with the EU, a situation that has already been reported upon by the media. On the other hand, to reduce its dependence on the EU, and any vulnerability to the exigencies of the EU, it will no doubt also look at increasing trade and attract investments from African countries. It recently hosted a UK-Africa Investment Forum where exactly these issues were addressed. Africa has strong trade links with Asia (especially China, Japan, South Korea and India), and is also the beneficiary of the AGOA with the USA. In addition, it is also benefitting from the “anything but arms” agreement with the EU. Having another sweet deal with the UK can only be to its advantage.
5. The UAE in Africa – a growing presence

The UAE invested heavily in Africa over the past number of years, steadily growing its footprint on the continent. Its two airlines, Emirates and Etihad, have a strong presence in Africa. Both are highly regarded by the people of the continent. The developments below make it clear that the UAE has identified Africa as a target for investment.

UAE INVESTING IN TOURISM

According to the Tourism Ministry of Cote d'Ivoire, a number of investors from Dubai in October 2019 expressed interest in investing in the country. These investors had pledged $5 billion to support Cote d'Ivoire’s program to attract foreign tourists to its tourism attractions. Cote d'Ivoire’s goal is to become the fifth biggest destination for tourism in Africa by 2025. If objectives are reached, tourism would account for 12% of GDP compared with 5.5% today, and jobs in the tourism sector would grow from 270,000 (2016 figure) to 365,000.26

FOCUS ON EAST AFRICA

According to trade officials, the UAE wants to double non-oil trade and investments with Kenya. The UAE has been regarded as the gateway of trade between Kenya and the rest of the world. However, the relationship between the two countries has been marked by a huge trade imbalance in favour of the UAE. The UAE exported Sh186.6 billion (~US$1.8 billion) worth of goods to Kenya in 2017, comprising largely of machinery and electronics and manufactured articles and textiles, while Kenya sold goods valued at Sh30.5 billion (~US$301.4 million) to the UAE. Kenyan exports were mainly vegetables, pearls and live animals.

According to business leaders from Dubai, Sheikh Mohammed bin Rashid Al Maktoum, the vice-president and prime minister of the UAE and Ruler of Dubai, has singled out Kenya as “one of the most promising business partners for Dubai” in the coming years.

According to Hamad Buamim, president and chief executive of the Dubai Chamber, Dubai is ready to offer expertise to Kenya in traditional sectors such as logistics, infrastructure, retail, tourism, agriculture, manufacturing and finance, as well as in new areas like ICT.

The UAE is among the top 10 source countries for foreign direct investment in sub-Saharan Africa. In addition to being a major supplier of oil to Kenya, the UAE has emerged as a favoured shopping destination for Kenyans. Kenya in turn was described as a market of strategic importance to the UAE. The latter also saw the African Continental Free Trade Area (AfCFTA) as a deal offering huge potential to boost UAE-Africa trade and investment flows.27

Dubai has not been the only emirate interested in East Africa. In November 2019, the fifth trade mission of the Sharjah Chamber of Commerce & Industry (SCCI) visited Kenya and Uganda.

The strategy of the SCCI is to “boost the exports of national companies and penetrate new markets to expand their business, hold investment partnerships to enhance their presence in the emerging African markets, in the course of the efforts of the previous trade missions to East Africa.”

The trade mission, headed by Abdullah Sultan Al Owais, SCCI’s Chairman, aimed at strengthening the competitiveness of the business community in the Emirate of Sharjah, promoting the commercial and investment relations between Sharjah and both countries and pushing them towards further development in food, construction, infrastructure, logistics, vehicle spare parts, etc.

The SCCI was keen on exploring the emerging opportunities in African markets to help national companies and investors establish cooperation relations and new partnerships with their counterparts in Africa, thus elevating their exports and expanding their businesses in new geographical areas. 28

GROWING RELATIONSHIP WITH NIGERIA

The volume of mainly non-oil bilateral trade between the UAE and Nigeria reached approximately US$1.5 billion for 2018. According to the Ambassador of the UAE in Nigeria, Dr Fahad Al Taffaq, this is expected to rise following the opening of a consulate office in Lagos in June 2019.
The two main UAE airlines (Emirates Airlines and Etihad Airways) now operate a combined 28 flights weekly from Abu Dhabi and Dubai to Lagos and Abuja, representing the highest flight route from Nigeria to any other country globally. This is seen as an indication of the increasing bilateral relations between the UAE and Nigeria.

The UAE also assisted over 22,000 Nigerian victims of insurgents in the Northeast in 2019 alone, and targeted over 7 million Nigerians in its eye treatment for the next four years.29

SUGAR INVESTMENTS IN EGYPT

Emirati businessmen, along with Egypt’s Al Ahli Capital Holdings, plan to invest US$1 billion in the Egyptian sugar industry to build a sugar refinery and develop agricultural land in Egypt.

According to Islam Salem, Managing Director and CEO of Canal Sugar, the company will produce 900,000 metric tons of white sugar per year. Egypt’s current annual sugar demand is approximately 3.3 million metric tons.

Jamal Al Ghurair, Managing director of the UAE-based Al Khaleej Sugar, and other UAE investors will hold a 70% stake in the sugar refinery, with the rest controlled by Al Ahli Capital.

The factory and part of the farms will be ready by the end of 2020, while the refinery should start production in early 2021.30

FOCUSING ON DEVELOPING THE YOUTH

The UAE’S Consortium for Africa committed US$500 million to help fulfil the vision of a connected new Africa. Launched at the African Union, the initiative aims to build human capital in Africa. It will focus on two immediate priorities: digitisation and youth development. These will ensure that “young and talented populations are not overwhelmed by, but embrace, the opportunities of the future.”

According to UAE Minister for International Cooperation Reem Al Hashimy, the consortium will “align the UAE government and its private sector’s commitment to Africa, combining ambition for progress, and resource to support it, into one focused entity to assist development and investment.”

The UAE has reportedly been an active partner in Africa throughout its 49-year history, investing billions in roads, bridges and ports, schools, clinics and hospitals.31

DEVELOPMENTS IN THE ARMS INDUSTRY

According to a senior arms control official, South Africa aims to free up over a billion dollars in stalled weapons sales, including to Saudi Arabia and UAE, by amending a document at the heart of an export row. A clause in the export document requires foreign customers to allow South African officials to inspect their facilities to verify that weapons are not being transferred to third parties.

The current clause allows for “on-site verification ... performed by an inspector designated by the (defence) minister.” Saudi Arabia and the UAE refused to agree to the inspections because they consider them a violation of their sovereignty.

The clause will be replaced by a clause that states “on-site verification of the controlled items may be performed, through diplomatic process.”

For the new clause to take effect, the amendment must be published in the government gazette. However, this would take time and permission was therefore being sought from the South African defence minister for companies to use the new clause in the interim.

Arms exports to the Gulf and North Africa are a key revenue source for local South African defence companies, including state-owned Denel, Paramount Group and Rheinmetall Denel Munition, a joint venture between Denel and German industrial giant Rheinmetall. Should the issue not be resolved and the client states look elsewhere for arms procurement, South Africa would lose many jobs. In the 2013 to 2018 period, the UAE bought arms from South Africa worth R5.5 billion (~US$361.2 million). Saudi Arabia imported arms from South Africa worth R2.1 billion (~US$138 million) over the same period. South African exports to the Gulf region over the period totalled R21.2 billion (~US$1.4 billion).32
PORT DEVELOPMENT IN AFRICA

It was recently announced that DP World, ports operator based in Dubai, is finalising agreements on the construction of a new port and economic zone in Dakar, the capital of Senegal. This project will transform Dakar into a major logistics hub and gateway to west and north-west Africa.

According to DP World group chairman, Sultan Ahmed bin Sulayem, the economic zone in Dakar will serve as a “great aggregator of cargo, creating a hub for African exporters and importers and generating value for Senegal and businesses in the region.

Port de Futur will be developed into a multi-purpose port, including economic and logistics zones adjacent to the new Blaise Diagne International Airport.

DP World will develop the initial phase of the port, constructing a modern northwest container terminal capable of handling the largest container vessels in operation today.

DP World has an extensive footprint in Africa, with operations in Senegal, Egypt, Mozambique, Somaliland, Rwanda, Algeria and the Democratic Republic of Congo.

POINTS OF INTEREST

• First, the UAE is not interested just in a specific region of Africa, but has invested in East Africa, West Africa, Southern African and North Africa.

• Second, there are a number of sectors the UAE is getting involved in. These include tourism, sugar, agriculture in general, infrastructure development, and armaments.

• Third, the UAE also appears to also be interested to play a role in the development of Africa’s people. Its programmes to develop the youth of Africa is clear, as is its commitment to the general wellbeing of Africans. Here I am referring to the assistance the UAE is providing to the victims of the insurgencies in Nigeria, as well as those in need of eye care.

• The UAE is no doubt implementing a strategy of diversifying its base as it realises that its oil wells will run dry one day and then it should have a broad range of investments in a range of industries abroad.

• As for the issue around the inspection of the use of the arms procured by the UAE from South Africa, it seems a part of the problem was that the wording of the section was such that the South African government could send literally anyone to do the inspection, which could even be someone from another country. This was clearly not acceptable to the likes of the UAE and Saudi Arabia. The suggested amendments have reportedly already been approved at the highest political levels in South Africa.

• It was in South Africa’s best interest to deal with the wording that the UAE and Saudi Arabia found unacceptable. Its arms manufacturing industry has been mismanaged into the ground and at one stage found it difficult to pay salaries. It could therefore not afford the cancellation of arms procurement contracts with the Gulf states.
ADDITIONAL READINGS

1. Trends in Financial Services in Africa


2. Trends in Investments and Economics in Africa


3. Developments in the Pharmaceutical Industry in Africa


4. Trends in Trading in Africa


5. The UAE in Africa – a growing presence


REFERENCES

1. Trends in Financial Services in Africa

2. Trends in Investments and Economics in Africa

3. Developments in the Pharmaceutical Industry in Africa

4. Trends in Trading in Africa

5. The UAE in Africa – a growing presence
   4. https://nipc.gov.ng/2019/12/10/igbaga-uae-trade-volume-hits-1.5bn/-7mc_cid=82dsa4322453186126996ec090d
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