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Trends in Financial Services in Africa

The financial services sector in Africa exhibits several recent trends. In some countries, an increasing number of banks have pan-African ambitions, while in others we see steady consolidation as larger banks relentlessly acquire smaller ones. The events below reveal some interesting trends.

BANK ACQUISITIONS IN AFRICA

The banking scene in Africa continues to experience a number of mergers and acquisitions. In Kenya in October 2019, the Central Bank of Kenya approved the acquisition of the Transnational Bank by Nigeria’s Access Bank as part of a strategy to consolidate Kenya’s banking industry. Transnational Bank is one of Kenya’s tier-4 banks. In 2018, its non-performing loans increased by 58% from 2017, while it also registered a loss of US$694,000. Access Bank will acquire 93.57% of the assets of Transnational Bank. It is reportedly interested in capitalising on the interests of Transnational Bank in the agricultural sector of Kenya, as well as expanding its footprint in Africa by moving into Kenya.

In Nigeria, Access Bank announced a merger with Diamond Bank earlier in 2019. In this new arrangement, Diamond Bank transferred all its assets, liabilities, and undertakings to Access Bank. According to Access Bank CEO Herbert Wigwe, the bank is pushing ahead to create Africa’s biggest retail institution and become a formidable global powerhouse.1

Other mergers, or potential mergers, in the Kenyan financial services sector include the following:

- Mayfair Bank, which has been making losses, was sold to the Commercial International Bank from Egypt.
- Spire Bank, Jamii Bora Bank and Consolidated Bank are all seeking a strategic investor.
- Commercial Bank of Africa and NIC Bank are concluding a merger, which will create Kenya’s third-largest bank by assets.

According to financial sector analysts, Kenya’s banking sector is overbanked and consolidation was the appropriate strategy for mid and lower-tier banks to exit the sector. In Kenya the top five banks account for 46% of the assets in the sector.2

These mergers are in addition to those already reported on, i.e.:

- Kenya’s largest bank by assets, the KCB Group, in 2019 acquired the National Bank of Kenya (NBK).
- Equity Bank from Kenya intends to acquire a controlling stake in Banque Commerciale du Congo, the second-largest bank in the DRC.
- Equity Bank has acquired a number of other banks since 2015, such as the ProCredit Bank Congo and Atlas Mara’s banking operations in Rwanda, Zambia, Mozambique, and Tanzania.

Octagon Africa, a financial services provider in Kenya, recently purchased a 49% stake in Alexander Forbes Financial Services Zambia. This step follows a decision by South African-based Alexander Forbes Group Holdings to review its strategic business and operating model and exit countries such as Uganda and Zambia. Alexander Forbes sees Octagon Africa as the best fit for its business. In addition to providing financial services, Octagon also runs training programmes for retirement benefits schemes.3

Malawi has also seen bank consolidation. Some of this activity was motivated by the sustained increase in capital requirement by the Reserve Bank of Malawi (RBM), which led to the reduction in the number of banks from 13 to 8 over the past six years. More can be expected as the RBM has announced it will increase the capital requirement for commercial banks from K3.7 billion to K10 billion effective January 2020.

Recent banking mergers and acquisitions in Malawi include the following:

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1. Access Bank CEO Herbert Wigwe.
2. Financial sector analysts.
3. Octagon Africa.
The National Bank of Malawi (NBM) acquired a 97.05% interest in Indebank in 2016, which was then struggling to meet Basel II requirements.

FDH Bank and Malawi Savings Bank (MSB) in July 2016.

In 2017, FMB, now First Capital Bank, bought and merged with Opportunity Bank of Malawi.

Also in 2017, MyBucks S.A. acquired a 50% interest in New Finance Bank Malawi, which has now acquired a 100% interest in Nedbank Malawi.

These developments emerge as the strategic direction that will enable a number of smaller banks to meet the increased RBM capitalisation requirements, while solidifying their resilience.

Investment banker and strategist Misheck Esau believes Malawi will benefit from this trend toward financial sector consolidation. The additional capital will lead to more financing capacity, while the higher level of competition will benefit the Malawi private sector. Previously the top two banks held over 80% of the nation’s total bank assets, and faced no meaningful competition from smaller and less well-capitalised banks.4

STOCK EXCHANGE INTEGRATION

The stock exchanges of Nigeria, South Africa, Morocco, Egypt, Kenya, Mauritius, and Ivory Coast seek to boost securities trading in Africa. They plan to integrate their trading platforms by the first quarter of 2021. Integration will provide stockbrokers in each country with direct access to all linked trading platforms via their local bourse. Karim Hajji, president of the African Securities Exchanges Association (ASEA), believes the initiative will position these African exchanges as the gateway for the development of Africa, and improve growth of the African economy. The African Development Bank (AfDB) provided US$1 million to boost this initiative.5

REMOVING THE INTEREST RATE CAP IN KENYA

November 2019 saw the removal of the much-criticised interest rate cap in Kenya. In late 2016, Kenya’s Parliament passed legislation that capped interest rates to 4% above the central bank rate for loans, with a bottom cap at 2% below the central bank rate for deposits. When President Uhuru Kenyatta attempted to remove the cap, his efforts were thwarted by Parliament. However, he eventually succeeded in early November 2019 when his amendment was automatically passed in Parliament during a period when there was no quorum to overturn his order.

The removal of the cap will expose borrowers to higher lending rates, which reached levels as high as 25% prior to introduction of the ceiling. This will increase the cost of servicing loans by individuals and small businesses. This also means that banks will have their way in pricing the interest rate on loans.

However, the Treasury, Central Bank of Kenya (CBK) and Kenya’s banks blamed the rate cap for constraining private sector lending growth and reducing the effectiveness of monetary policy. As a result of the rate cap, banks have avoided lending to customers deemed as risky, including SME’s and individuals who borrow for consumption.6

CROWDFUNDING FOR INFRASTRUCTURE DEVELOPMENT

Kenya, Ethiopia and South Sudan will use crowdfunding to raise the capital required to build infrastructure linking their economies. The Lamu Port-South Sudan-Ethiopia-Transport (Lapsset) Corridor project, for which the three governments have also agreed on joint budgetary allocation, is one of the target projects for this innovative approach to funding infrastructure.

Lapsset seeks to link the three countries via rail, airports, roads and oil pipelines. At project completion, Lamu will become East Africa’s largest seaport. The African Union adopted the project, building up the profile and exposure required to attract foreign direct investment (FDI) and other financing. The first phase will cover Lamu-Isiolo-Addis Ababa to Djibouti, while the second phase will connect Lamu to Kribi/Doula via Juba and Bangui.7
POINTS OF INTEREST

- The phenomenon of African banks expanding their reach into other countries on the continent is not new. Earlier, most such banks would be South African, such as Standard Bank and ABSA. Ecobank from Ghana has been venturing abroad since 1985. The countries of origin are now increasingly diverse, with banks from Kenya seemingly leading the expansion into so-called new areas.

- Motivating this banking expansion is the increasing need for scale to cover fixed expenses. Some countries, such as Kenya, are overbanked and their smaller banks are struggling. Banking regulators in overbanked markets encourage smaller banks to merge to avoid bank failures and the concomitant negatives associated with such a calamity.

- Other African countries lack enough banks to serve their population. In many cases, it is difficult for poorer segments of the population to use the available banking services. This led to a loss of trust, and unbanked segments subsequently grabbed the opportunity provided by telecoms companies to adopt mobile money offerings. This phenomenon increases the pressure on the banking sector to grab market share. Some banks developed their own mobile applications in response to the threat of mobile money. This belated response might, however, be too little, too late.

- The recent removal of the interest rate cap in Kenya is good for the sector and its customers. The rate cap on loans of 4% about the central bank rate led to various unintended consequences, such as banks refusing to extend loans to SMEs as they could not price for the risk they faced. This either led to the collapse of SMEs or led them to borrow money from loan sharks. It also led to a slow down on the growth rate of especially SMEs. None of this was good for the Kenyan economy. The bad news was compounded when the Kenyan regulator at one point in time adopted fines for not just the banks extending more expensive loans, but also to the clients that accepted such more expensive loans.

- Using crowdfunding to source funds for infrastructure projects in Africa appears to be an innovative way to involve the private sector in financing much needed infrastructure development. One potential source of funding is the Programme for Infrastructure Development in Africa (PIDA). PIDA is a continental initiative that has the buy-in of all African countries, for mobilizing resources to transform Africa through modern infrastructure, across four main infrastructure sectors, namely energy, transport, transboundary water and ICT. Africa has a dire need for infrastructure funding due to the huge deficits in this sector on the African continent.

- Integration of stock exchanges is mooted as a solution for the lack of liquidity in most stock exchanges in Africa. To be truthful, there are only about 29 stock exchanges on the continent, representing 38 national capital markets. One limiting factor for integrating stock exchanges is the location of the regional bourse. Nobody would like to report to his/her head of state that the neighbouring country would be the seat of the new regional stock exchange.
Trends in Retail in Africa

Retail activity in Africa, which began with so-called spaza shops, also known as mom-&-pop stores, now extends to sophisticated retail chains that bring the best of overseas and local goods to consumers. South Africa is a country with a mature retail scene, especially for retail food. A number of South African retailers, along with others in the continent, now target other African countries for expansion. Global players such as Walmart and Carrefour, both of which recognize the massive potential in Africa, have joined them. However, these expansion drives face severe challenges.

AFRICAN RETAIL CONSOLIDATION

Botswana’s food retailer Choppies in December 2019 sold its 70 stores, three distribution centres and one production plant in South Africa to Kind Investments for R1 (US$0.07). According to Choppies, its South African businesses had been trading at a substantial loss for the last two years. Due to a lack of cash flow, Choppies was unable to pay its trade creditor suppliers on time. They subsequently refused to supply stock, causing Choppies stores in South Africa to become under-stocked and lose market share.

Choppies was unable to continue to fund the losses of its South African subsidiaries from Botswana. According to Choppies, the continued failure to service debt exposed it to threats of application for the winding up of its South African subsidiaries, a situation that “would have had negative consequences for the liquidity of the company and the relationship of the Botswana business entities with critical suppliers.”

Kind Investments, which will also take over all the subsidiaries’ debt, will provide an immediate, interest-free loan of R100 million (~US$6.938 million) to Choppies Supermarkets SA that will be used to fund immediate working capital requirements and purchase stock.

Choppies also started closing down its stores in various cities in Kenya. These include Kisumu, Bungoma, Kiambu and Nairobi. The company has been battling with decreasing revenues and increasing competition. Mergers amongst smaller retailers like Tumaini and Quickmart have been changing the nature of the competition as well.

Since late 2018, Choppies has been hit by operational turbulence, including a failed rapid expansion programme, inability to pay suppliers and suspension from the Botswana Stock Exchange and the Johannesburg Stock Exchange. Lack of stock and poor governance has also been mentioned as reasons for the company’s deteriorating position.

Choppies was accused of accounting irregularities, related to how the group accounted for bulk sales and inventory at its stores in South Africa and Zimbabwe, and store acquisition. According to independent analyst Syd Vianello, Choppies may have been growing too rapidly, expanding into new markets without properly developing their infrastructure, communication lines and management.

Choppies announced its exit from three more African markets — Mozambique, Tanzania and Kenya — in December 2019. This reduces Choppies’ presence to just four countries, i.e. Botswana, Zimbabwe, Zambia and Namibia.

The large South African retailer Woolworths decided in August to close its operations at its two stores in Ghana. This is the second country exit for Woolworths, Nigeria being the first. Woolworths gave no reasons for its exit. The company noted only that it was confident about investing in Africa and were experiencing healthy growth in the majority of the African countries in which they were invested.

The company’s original investment in Ghana was based on its views on Ghana’s annual economic growth, rising household incomes, increasing urbanisation and a substantial emerging middle class.

According to Woolworths, it withdrew from Nigeria in 2013 due to high rents and duties, as well as difficulties marketing to consumers in the country.

Woolworths still has stores in 11 countries in Africa outside of South Africa, mostly in southern and East Africa.
The large South African retail chains Edcon and Massmart also curtailed their operations, in their home market South Africa.

Edcon has struggled to deal with the challenges it faced in the retail environment for a number of years. It recently decided to close down one of its underperforming Edgars stores in Rosebank Mall as a cost cutting measure. This was the continuation of a strategy to cut costs to ensure profitability. The strategy led to the closure of 150 other underperforming stores in the group during the past year, including various Jet, Edgars and CNA stores.

According to Edcon, the aim of the strategy is to reduce the group’s trading space, right-size their store portfolio, consolidate is nodal store configuration and reposition its key products.

In 2018, Edcon received a lifeline of R2.7 billion (~US$187 million) from the Public Investment Corporation and lenders, as well as rent reduction from landlords, in return for equity to support the restructuring of its business model to restore its competitiveness.\(^{14}\)

In mid-January 2020, Massmart, another large South African retailer, announced the potential closure of 34 stores in South Africa. This would affect up to 1,440 employees working for DionWired and Masscash. Massmart, which owns Game, DionWired and Makro among other brands, recently conducted a store optimisation project that highlighted a number of underperforming stores in its portfolio.

Massmart has 23 DionWired stores in South Africa, and had already closed two outlets in the first half of 2019. According to Massmart, DionWired sales had been affected by low consumer confidence, which caused a decline in customer traffic in major shopping malls. Customers also postponed buying high price-ticket electronic items as the South African economy stagnated last year. In addition, DionWired faced stock supply challenges causing its outlets to underperform.

Masscash, which consists of wholesale and cash & carry outlets like Jumbo and Rhino that target low-income groups, had experienced severe price deflation in staples like maize, oil and sugar in some of its brands. Massmart started converting some of underperforming brands, like Rhino, to Cambridge Food Retail to help lift their profits.

The announcement of the potential closure led to the South African Parliament’s Select Committee on Trade and Industry, Economic Development, Employment and Labour calling on those departments to urgently intervene. Walmart acquired the majority shareholding of Massmart more than a decade ago against the will of many in South Africa, especially the labour unions. The loss of jobs is seen as the major challenge.\(^{15} \textit{16}\)

RETAIL EXPANSION

In contrast, French retailer Carrefour (the African franchise is held by Dubai-based conglomerate Majid Al Futtaim) is soon to open its first branch in Kampala, in its expansion drive to solidify its presence in East Africa. The store will take up space previously occupied by collapsed Nakumatt Holdings. Carrefour in Africa stocks fast-moving consumer goods such as beverages, packed food, electronics and other household items. Their new outlets will stock up to 20,000 products, a mix of international and local brands.\(^{17}\) Spur Corporation, a family fast food restaurant chain based in South Africa, plans to open two new fast food restaurants in Kenya this year to support its international expansion. Spur currently has seven restaurants in Kenya, comprising of five steak houses, one restaurant under the RocoMama brand and a recently opened Panarottis pizzeria. They are all operated through a franchising model.

According to Spur, trading in Africa and the Middle East remained strong, despite trading in certain African countries, e.g. Namibia, Kenya and Lesotho being slower.\(^{18}\)

In Kenya, South African retailer Shoprite opened its third Shoprite store in August 2019, with plans to open an additional two by end of 2019.
POINTS OF INTEREST

- The African retailers moving into other African countries have been driven by a lack of growth opportunity in their home countries. This would explain why the likes of Massmart, Shoprite and Woolworths from South Africa, and Choppies from Botswana, have been moving into the rest of Africa. It does seem that they are all underestimating the challenges associated with moving into other African countries. As is clear above, Choppies has decided to call it quits in a number of the countries in which they were active. While Shoprite has opened a number of stores in Kenya, they had withdrawn from Tanzania a few years ago. Another South African player, Pick n Pay, also struggled in Africa, as did Woolworths.

- Shoprite have so far adopted a greenfield approach in their expansion strategy. Pick n Pay initially adopted the same entry strategy, but after a number of failures, have decided to use a partnership strategy for their expansion into Africa. It has mostly targeted Southern Africa, which makes their strategy easier to implement. Whether this approach will be successful should they move further afield, remains to be seen.

- Kenya has been the burial ground of a number of local retailers, such as Nakumatt and Uchumi (who is currently facing imminent collapse). Their retail space is being taken up by new players such as Carrefour, Shoprite and earlier, Choppies. Choppies is now withdrawing as well. One reason why local retailers have been struggling is the lack of good governance. Another challenge they all face is that consumers in Kenya will visit malls, but buy at open-air markets closer to their homes. It remains to be seen to what extent urbanization and the growth of the middle class will influence buying patterns in the retail sector.

- Given the relative lack of consumers who would buy at retail stores (and malls - which are low in numbers in Africa), first mover advantage becomes important. In this regard, Carrefour moving into Uganda can present a challenge to other African retailers such as Shoprite. Carrefour and Walmart also have deep pockets and have streamlined their supply chains to optimize their low-cost strategies. Given their size, local retailers, and even larger African retailers, find it difficult to meaningfully compete against them.

- The projected growth of Africa’s population, its urbanization rate and the envisaged growth of the consumer class will all combine to over time offer an attractive opportunity for retailers on the continent. Supply chain management is a crucial element of any retail expansion strategy into Africa. Brands are equally important, as Africans are brand conscious and brand loyal. Yet, they are cost conscious as well, while also demanding quality. First movers therefore do have an advantage. All prospective players in the continent must bear this in mind.
Southeast Asia in Africa

Southeast Asia represents a high-growth region, with relatively low levels of risk. It is interesting to note that many stakeholders in the region have healthy appetites for Africa, despite perceptions of investment in Africa as high risk that prevail in many parts of the world.

INDONESIAN PARTICIPATION IN AFRICAN DEVELOPMENT

The Indonesian government recently requested Raila Odinga, the African Union (AU) Special Envoy for Infrastructure, to settle a number of issues that had restricted trade relations with some African countries. The AU was tasked to facilitate the development of free trade relations between Indonesia and Mozambique and Kenya. Indonesia saw the AU as an entry point for cooperation with its member states. According to the Indonesian government, Indonesian energy and infrastructure companies were eager to invest in Africa.

Odinga confirmed that the AU played a role to harmonize infrastructure development among its 54 member countries. He expressed his opinion that due to its strong economic growth, Indonesia was a potential partner for development in Africa. He consequently issued an invitation to Indonesian companies to participate in the development of infrastructure, such as toll road, bridges, railways, as well as in industries such as petrochemical industry, copper, aluminium, and medicine.

The Kenyan government expressed keen willingness to cooperate with Indonesia in the areas of defence and training for paramedics, and invited Indonesia to participate in the development of transportation infrastructure, especially railway transportation, in Kenya.

Indonesia was also interested in developing business relations with Ghana. Indonesia's PT Pindad and Ghana's Ministry of Defence in November 2019 signed a Letter of Intent (LOI) to explore the procurement of weapons and equipment. According to Ghana's Defence Minister, Dominic Nitiwul, Ghana was interested and committed to buying defence and industrial products produced by Pindad, as well as collaborating on joint development of defence products.

Pindad is ready to support the defence needs of Ghana, including the supply of equipment, establishing maintenance, repair and overhaul (MRO) and after-sales services, including training and facilities. The Letter of Intent also covers technology transfer. Ghana is apparently also interested in procuring items such as firearms, tactical military vehicles and amphibious vehicles, as well as engineering vehicles such as excavators.

OLAM IN AFRICA

In October 2019, the West African Cocoa Coffee Council (CCC) announced it had signed a deal with Singaporean group Olam International for the sale of 100,000 tons of cocoa export contracts for the 2020/21 season. The deal included a premium to support farmers in the cocoa industry. This was the result of an agreement by Ivory Coast and Ghana, announced in July 2019, that all cocoa purchases for the 2020/21 season would include a Living Income Differential (LID) of US$400 a ton. This would be used to address pervasive farmer poverty.

As this represented a major change in global cocoa pricing, buyers initially responded cautiously. However, the Ivory Coast and Ghana threatened to end cocoa industry certification and sustainability programmes in their countries should buyers not start buying LID contracts. The threat was lifted after a meeting between chocolate makers and representatives from West African cocoa producers in Berlin in late October 2019.

Olam is the second largest cocoa buyer and exporter in Ivory Coast behind Cargill. It confirmed it had purchased cocoa, although it declined to specify the exact tonnage or timing. Olam shares the belief that raising the incomes and living standards of cocoa farmers was vitally important.

Olam has an impressive record in Ghana. Olam Cocoa is currently sourcing 140,000 metric tons of cocoa beans, a massive increase from the 38,000 tons it sourced in 1999 when it started in the country. The company has also evolved from sourcing cocoa beans at farm gate in 1999 into a fully integrated
business, encompassing nearly every part of the cocoa supply chain, with traceability and sustainability at the core of its business. Olam’s cocoa portfolio now accounts for 25% of the cocoa bean trade in Ghana, and has contributed significantly to Ghana’s position as a world leader in cocoa production.

Olam was proud of the high level of local content in the operations of Olam Cocoa, while it employs 650 direct staff and engages some 6,000 commission agents, all of whom are Ghanaians, operating in all the COCOBOD regions within about 13,000 communities across the country.

Olam Cocoa sources cocoa beans from hundreds of thousands of smallholder farmers across Ghana and provides long-term support to help them professionalise their operations and get the best price for their crop through its flagship Olam Livelihood Charter (OLC) sustainability initiative.

The OLC “provides support ranging from micro financing, coaching on good agricultural practices and climate smart agriculture to supplying inputs such as fertilisers and seedlings. The company also has an impact on the wider cocoa growing community by running training on health and safety, gender inclusion and child labour awareness.”

Olam is also active in the cashew sector in Ghana. In December 2019, it was named the most ‘Outstanding Agribusiness Sustainability Company.’ Olam Ghana was recognised for its exceptional efforts through sustainability initiatives for cashew farmers. The initiatives engage directly with over 5,000 farmers in livelihood improvement programmes in the Brong Ahafo region. Olam also provides marketing and information support to more than 25,000 farmers indirectly in the country.

Olam provides the cashew farmers with knowledge input support, and training on Good Agricultural Practices. Olam is committed to scaling up this programme in future years, and create a sustained positive impact on farmer livelihoods, communities and the planet as a whole.

Ghanaian cashew is one of the latest supply chains to be available on AtSource, “Olam’s sustainable sourcing solution that connects manufacturing and retail companies to the source of their ingredients by providing visibility into the social and environmental impact behind their cashew nuts, as well as other products such as cocoa, coffee and garlic.”

In Nigeria, Olam recently ventured into commercial tomato production with a pilot farming presently taking place in Kano and Jigawa states. At the time of announcement, more than 100 farmers were engaged as out-growers to farm produce for the company, starting from this tomato-cropping year.

Olam Nigeria noted the project was still in a pilot stage, intended to monitor the viability of the new initiative. At the end of the trial, the company will buy the produce from the out-growers, check its quantity and quality, and identify areas to be improved before going into full cultivation.

TOLARAM IN AFRICA: LATEST DEVELOPMENTS

In Nigeria’s economic capital Lagos, Singapore-based Tolaram Group is building the biggest port in West Africa, with more than US$1billion of Chinese funding. The port is said to have the potential to help transform Nigeria’s economy. It is also the largest development ever undertaken by Tolaram.

The new port will be financed with US$630 million from the China Development Bank, and US$470 million in equity from the state-owned China Harbour Engineering Company, which has a 52.5% stake and will build it. Tolaram owns 22.5%; the Nigerian Ports Authority has 5% and Lagos state 20%.

Tolaram’s decision to begin importing Indomie to Nigeria in 1988, transformed the company. Over the next two decades, it shed its other business, with the exception of the Tallinn real estate, to focus almost exclusively on Indomie. It now controls about three-quarters of Nigeria’s US$600 million noodle market.

The company has in recent years entered a series of joint ventures: a milk business with Denmark’s Arla Foods, cereal and snacks with Kellogg’s and, starting in 2020, dental care products with Colgate-Palmolive. Now it is moving into infrastructure in a big way. The Lekki port is the anchor of an 800-hectare free economic zone the company plans to build. Tolaram said the project would allow Lagos to reclaim its place as the region’s top port from nearby Togo, which focuses on making its port state of the art and its regulations business friendly.
POINTS OF INTEREST

- A number of Southeast Asian countries are reaching out to Africa. These include Indonesia, Malaysia, Thailand, Philippines and Singapore. They have realised the immense potential locked up in 54 countries and 1.2 billion population, where there is a lot of scope for a broad range of industries. A population growing to 2.4 billion by 2050 will create immense pressure on many sectors and represent very attractive opportunities.

- These governments reaching out to Africa present African governments with alternatives to the larger Asian players such as China, India, Japan and South Korea. One benefit of these governments reaching out to Africa in a more meaningful manner is that the private sector in these countries frequently takes their cue from their governments. Many are hesitant to venture into other regions should their governments not have an active presence there.

- While Olam and Tolaram are mentioned here as representatives of Singapore, they are not the only Southeast Asian companies involved in Africa. Others that have succeeded in building successful businesses in Africa include Asiatic Agricultural Industries, Indorama, Poultry East Africa Limited (PEAL), PIL, Top International, Vega Foods and Wilmar. There are reportedly about 60 companies from Singapore alone that are active in Africa.

- In spite of the reported activities in Africa by governments and companies from the region in Africa, the companies active in Africa represent a very small minority of those registered in Southeast Asia. It does seem that distance and risk perceptions still play a role in keeping Southeast Asian companies away from Africa.

- While Olam is a listed entity, Tolaram is a family business, which “plays” with their own money and not that of a large number of faceless shareholders. They therefore represent an example of a company that has done its homework and achieved immense success in a continent that deters many others due to the perceived risk. Tolaram has also built a pasta factory in Egypt and has partnered with Kellogg to grow a noodle business in the rest of Africa (outside of Nigeria). What the article on Tolaram does not address is the fact that Tolaram has enabled many Nigerians to become entrepreneurs by supporting them to put up a retail shop, which Tolaram sponsors (the set up) and stocks with supplies. As stated by Tolaram’s website, “First Choice Retailing Limited has grown its retail banner Best Choice, becoming the largest retail store chain in Nigeria. Offering packaged Fast-Moving Consumer Goods at fair and competitive prices is core to the business. The Company's vision is to have 3,500 mini mart style stores providing Nigerians convenient access to their daily household and on-the-go needs, at the same time developing the modern trade landscape of the country.” This massive footprint in Nigeria is part of the reason Kellogg was so interested in working with Tolaram in Nigeria. In fact, Kellogg paid US$450 million for 50% of Multipro, a distribution company owned by Tolaram.
Trends in the Telecoms Industry in Africa

The telecommunications industry in Africa features many interesting developments. One is the growth of the mobile money sub-sector in Africa, where telecoms companies have become dominant players. Some also consider moving into the e-commerce environment. However, telecoms players also face a number of challenges from both the political and regulatory domains.

INVESTMENTS IN THE SECTOR

The Vodacom Group in South Africa announced in August 2019 that it would invest more than R9 billion (US$589 million) over the rest of the year on network enhancements, particularly in rural areas in its home market. This is in addition to the R9.6 billion it invested in 2018. The 2019 investment was earmarked for accelerating the company’s rural coverage, as well as replacing and modernising base stations and digital services. The fact that rural land makes up 98.6% of the total land area in South Africa drives their prioritised focus on rural areas.

Vodacom grew its South African rural network coverage significantly over the past six years, to now connect over 16 million people with 4G/LTE services. Its 3G network is now available to more than 97% of the South African population living in rural areas, while 4G is available to 75%.

Safaricom, the Vodacom Group subsidiary in Kenya, is considering a stake in Ethiopia’s telecoms monopoly. Following the announcement of privatisation plans for SOEs in Ethiopia by the prime minister, mobile operators such as Orange, MTN, Etisalat and Zain also exhibited interest in Ethio Telecom.

To grow its business in Ethiopia, it was easier for Safaricom to acquire a stake in Ethio than starting a greenfield operation to set up a new telecommunication company in the country. The process of buying land, constructing buildings, recruiting staff and growing its brand in the Ethiopian market would be time-consuming. Competing for users with the established Ethio Telecom (given its subscriber base of 44 million) would be a problematic additional challenge.

In Rwanda, Mara Phones has launched Africa’s first entirely homemade smartphone factory. They are keen to continue to drive the development of affordable, high-quality smartphones equipped with the latest technology, and provide them to African markets.

In a more recent development, Mara Phones is now partnering with South Africa’s Vodacom Group to sell its smartphones in South Africa. For Vodacom, partnering with Mara Phones allows it to reach more South Africans, enabling it to sustain its South African title as the largest telecoms company in the country. It would also be contributing to skills development and job creation in South Africa.

Mara Phones will compete in Africa with established Chinese manufacturers such as Huawei and Transsion. According to the company, a percentage of sales of the Mara phones will be used to invest back into worthy causes. Bringing Vodacom on board as a strategic distribution partner significantly increases the potential for subscriber uptake.

REGULATORY DIRECTIVES

The Ugandan telecommunications has directed telecoms operators in the country, which are nearly all foreign-owned, to list on the Uganda Stock Exchange (USE) to encourage local ownership of the sector. The operators have been given two years to list at least 20% of their shares. Amongst the firms are a local unit of the MTN Group from South Africa and a subsidiary of India’s Bharti Airtel.

According to President Museveni, this move could conserve Uganda’s scarce foreign exchange as a portion of the firms’ dividend payouts would remain in the country.

As part of a number of the new conditions that have been announced for telecoms operators in the country, companies will also have to share infrastructure, such as fibre optic cables, to eliminate duplication and lower the cost of internet and other services.
Some telecoms companies are reportedly concerned that the USE might be unable to absorb a large volume of shares so rapidly. As it is, the USE is a small stock exchange with 18 companies and had its most recent listing in September last year after going six years without a single IPO. MTN Uganda reportedly prefers to sell a stake directly to a local pension fund to meet local ownership rules rather than having to list shares.\(^{29}\)

**DISINVESTMENT IN THE SECTOR**

MTN, headquartered in South Africa, is one of Africa’s most valuable firms. As the largest African telecoms player on the continent, MTN shaped network services in the region. It is currently in negotiations to sell its 49% equity holding in the Ghana and its Uganda Tower Company investments to the American Tower Company for US$523 million. MTN’s motivation for the disposal of these assets is reportedly to raise cash to settle its debts, one of its main stated priorities.

Following a history of clashes with the Nigerian and Ghanaian telecoms regulators, MTN initiated a US$1 billion asset disposal plan over a three-year period at the beginning of 2020. The company also stated it will sell off or close down loss-making e-commerce assets and abandon countries where conditions prevent it from reaching the top-two spots in market share.\(^{30}\)

**ELECTRICITY CHALLENGES**

Electricity supply challenges have been a problem for a number of telecoms operators. As far back in July 2019, Zimbabwe was in the midst of an energy shortage and economic crisis, with an ongoing drought limiting production from hydropower plants. Zimbabwean telecoms operator and mobile money player Econet Wireless warned it would be forced to take drastic measures should the country not satisfactorily address the energy crisis. Power outages led to instability in Econet’s wireless and cash payment services. From a societal perspective, outages in the Ecocash mobile money service were aggravated by a lack of access to physical cash in Zimbabwe.\(^{31}\)

Econet was not the only player affected, nor is Zimbabwe the only country facing electricity challenges for its telecoms players! In South Africa, in early December 2019, state-owned power utility Eskom implemented a system of rolling blackouts acts to prevent a total collapse of the grid after a number of plant breakdowns. Telecoms operator Vodacom announced that its customers around the country would experience network-connectivity issues due to the Stage 4 load-shedding affecting its mobile phone towers.

According to Vodacom, their towers are equipped with batteries as a back-up, but these have limited capacity. Due to the high level of load shedding over consecutive days, the batteries are not sufficiently recharged to full capacity. Vodacom subsequently implemented mitigation measures, including the installation of additional batteries and generators around the country.\(^{32}\)

**POINTS OF INTEREST**

- Africa presents somewhat of a paradox. One the one hand, it has a large poor population. Yet it has a large population that uses both smartphones and feature phones to gain access to e-commerce, mobile banking and normal voice communication. Cost efficient operations are a key factor for success, as is the availability of broadband Internet. Africa has indeed used mobile phones to leapfrog fixed line telephone systems. This has actually placed a lot of pressure on fixed line operators, such as Telkom in South Africa. The latter has been downsizing its staff complement from more than 30,000 in the early 2000’s, and is currently in the process of cutting 3,000 of its slightly more than 15,000 staff members.

- Ethiopia’s mobile telephony space presents an excellent growth opportunity. With a population of more than 100 million, any telecoms company in Africa in search of scale will be quite keen to tap into that market. One challenge facing foreign investors remains the lack of dollars. However, if you are patient, you will be able to take your money out of the country, eventually.
• Rwanda’s Mara Phones will hopefully be a success story. It is competing with both Huawei and Transsion. The latter has an offering at even a lower price than that of Mara Phones, which is why Transsion is the largest seller of mobile devices in Africa. Transsion achieved this status by offering smartphones at every possible price point. The Mara Phones sell at US$159 for the Mara X, and at US$229 for the Mara Z. Transsion’s smartphones are selling at approximately US$66. Mara’s phones would therefore need to be well marketed in order to pick up market share. It is not a certainty that the “Made in Africa” tagline will be sufficient to gain market share.

• MTN is seemingly in the process of reducing its risk by reducing its physical assets in Africa. As it is not really in the business of managing physical assets, it does make sense of getting rid of non-value adding assets and focusing on that portion of the value chain where its sources of competitive advantage lies. Also, MTN has picked up a number of huge fines in West Africa that negatively affected its cash flow. However, to sell assets to pay fines would not be an ideal strategy. Its strategy to only focus on those countries where it can be number 1 or number 2, cannot be faulted either. General Electric under Jack Welch had a similar strategy for the industries it operated in, and it worked well for them. Also, while a stated policy of reducing debt is always a sound one, having debt provides one with the ability to tap into the benefits provided by leverage.

• A lack of affordable and consistent electricity is not the only challenge mobile telephony companies are facing in Africa. Taxes, licences and limited spectrum are additional challenges facing these companies.

• The instruction to list on the local stock exchange is not restricted to Uganda. Tanzania has made a similar call upon the telecoms companies in that country. According to the law, network facilities, network services, and application services licensees (including mobile operators) will have to list 25% of their shares. However, for content service licensees, the minimum listing requirement is 51% of the shares.
Trends for Western Companies in Africa

Companies from the West target African markets, and have been doing so for many years. Many companies, both global MNCs and SMEs, are becoming more involved in Africa. Some are increasing their footprint, whilst others are creating a presence for the first time.

THE WORKZ GROUP TARGETING WEST AFRICA

The Workz Group is a Dublin-based mobile service, IOT, secure data management, and telecoms supply chain solution provider. The firm recently opened an office in Dakar, Senegal, to fill a gap in the West African telecommunications market. As the Irish firm plans to do everything in-house, its clients need not rely on multinational operators that subcontract to third-party suppliers. Regional players that produce in-house and have low overheads can offer cost-efficient solutions, and bring them to market much faster.

Workz envisions that as a global provider and a regional manufacturer, they can offer something not currently available in the market: a cost-efficient, high-quality solution within very short delivery times. The Dakar office is the company's second location in Africa, after establishing a presence in Johannesburg, South Africa, in June 2018.³³

DEUTSCHE BANK IN GHANA

The Ghanaian Parliament in July 2019 approved the government's request for a €276 million credit line from Deutsche Bank (DBK), Germany's largest bank. The funds were earmarked for use in implementation of the Tamale drinking water project in northern Ghana.³⁴

SIEMENS IN AFRICA

In July 2019, the Nigerian government signed an electricity road map agreement with Germany-based Siemens to improve Nigeria's power grid capacity. The implementation agreement for the Nigeria Electrification Roadmap (NER) will be a partnership between the governments of Nigeria and Germany and Siemens AG. The agreement aims to upgrade Nigeria's power transmission and distribution infrastructure. Siemens is set to help Nigeria achieve reliable power supply by 2023 in two phases, providing 7,000 MW of reliable power supply by 2021, and 11,000 MW by 2023 in phases 1 and 2 respectively.

According to President Buhari of Nigeria, Siemens AG is committed to work with Nigeria with support from the German Government to develop a feasible roadmap to modernize the country's electricity grid. President Buhari also indicated that while "Nigeria has significant natural gas, hydro and solar resources for power generation, the country is still on the journey to achieving reliable, affordable and quality electricity supply necessary for economic growth, industrialization and poverty alleviation."

There was reportedly also an imbalance between the capacity for electricity generation (13,000MW) and the amount distributed to consumers (4,000 MW). After fixing the challenges in the system, Nigeria will drive its generation capacity and overall grid capacity in a third phase to 25,000 MW.³⁵

Siemens and the Investment Commission of Ethiopia also signed a MoU to “address the country’s energy and infrastructure sector challenges, to assist the government to stabilise and expand the existing grid infrastructure and explore island solutions for industrial hubs/parks and microgrid solutions for remote villages.”

Siemens will install a solar-hybrid plant in Sodo, supplying reliable, sustainable and affordable electricity to the FruitBox farm and to the surrounding communities. The Fruitbox Farm is a key Siemens project, designed to demonstrate the importance of aligning corporate values and activities to a national vision that will ultimately benefit the lives of people across different societies.
In addition to providing electricity to Fruitbox, the project will provide electricity to a nearby school, which has approximately 300 students, and to an additional 150 households, indirectly benefitting approximately 1,500 people.36

REDESIGNING SUGAR OPERATIONS IN KENYA: TEREOS COMMODITIES
Tereos Commodities, a sugar company from France, will shut down its operations and stop sugar trading in Kenya and South Africa by 31 March 2020. The company recorded a decline in profits. Tereos will be concentrating its trading in certain geographic areas, which excludes South Africa and Kenya.

When starting its operations in 2016, Tereos intended to use its Kenyan office in Nairobi to increase distribution both in the Kenyan market and in neighbouring countries such as Rwanda and Uganda, which import sugar. It planned to export sugar, ethanol and starch products, particularly to countries in which the Group did not have any industrial facilities.37 The Group’s corporate focus is on South Asia. Sugar imports from the European Union have been a challenge for the sugar industry in Africa.

PRIMING THE EGYPTIAN TOMATO INDUSTRY: ITALIAN DEVELOPMENT COOPORATION
In mid-January 2020, the Italian Development Cooperation (IDC) announced it would contribute over €4.55 million to two United Nations Industrial Development Organization (UNIDO) projects in Egypt and Iraq. Egypt is the world’s fifth largest tomato producer, producing approximately 8 million tons of fresh tomatoes per year. The country’s tomato sub-sector benefits from Egypt’s climate, dual seasonality, and fertile lands. The challenge the country faces is that only 3 – 4% of the tomato crop is processed, while the processing sector suffers from a lack of integration with the supply chain.

The project in Egypt will focus on enhancing the link between supply and processing factories, improving the quality of tomato production and processing, and strengthening the technical skills of workers and managers in the factories. With the IDC’s investment, Egypt will be able to increase the efficiencies of their processing factories, while tapping into various markets. More job opportunities will also be created, and youths will be trained on value-added capabilities and technical know-how.

Other stakeholders of the project include the Egyptian Ministry of Trade and Industry, the Ministry of Agriculture and Land Reclamation, and the local private sector, which will be the initiative’s primary beneficiary.38

DEVELOPING THE UGANDAN OIL INDUSTRY: TOTAL, CNOOC AND TULLOW OIL
Uganda will be spending at least US$5 billion on the development of the Kingfisher and Tilega oil fields to expedite the growth of its oil industry. Total, CNOOC and Tullow Oil jointly own the Kingfisher and Tilega fields, and are currently involved in a tax dispute with the government regarding these oil fields. The Ugandan government is also in negotiations with Tullow to reduce its stake in the projects and allow final investment decisions to be concluded.

According to the Ugandan Permanent Secretary of Energy, Robert Kasande, the above investment is part of the US$15 billion to US$20 billion that will flow into Uganda’s developing oil industry in three to five years, including the construction of a refinery and crude pipeline. The funding will be used to drill over 500 wells and construct two central processing facilities and a water plant.39

COCA COLA TARGETING AFRICA
The Global CEO and chairman of Coca-Cola, James Quincey, in November 2019 toured Africa (Nigeria and South Africa) to better understand the opportunities that the continent presents in driving Coca Cola’s growth strategy over the next decade.

He met with Aliko Dangote (the Dangote Group) and top executives from Discovery Group, MTN, Unilever and the Johannesburg Stock Exchange, and thought leaders such as Tony Elumelu (chairman of Heirs Holding), Doyin Salami (chairman of Nigeria’s Economic Advisory Council) and Fred Swaniker.
from the Africa Leadership Academy. Quincey used these meetings to gain critical insights about Africa’s opportunities.

Quincey identified a number of developments across Africa, which he described as important foundations for strong economic growth. These include: the growing scale of domestic investments by African investors across sectors; the potential of the Africa Continental Free Trade Agreement (AfCFTA); Africa’s positive consumer demographics; the infrastructure expansion in many countries; and the growing emphasis on building African talent.40

CARGILL IN GHANA

Cargill will be investing US$13 million in the expansion of its cocoa processing plant in Ghana to increase its production capacity by 20%. The company has also allocated US$3.4 million to community sustainability programmes in Ghana and to cocoa traceability efforts in the country. The projects would include the building of six new schools and the implementation of a Child Labour Monitoring and Remediation System (CLMRS).

These statements were made during the visit of Cargill’s chief executive, David MacLennan to Ghana, where he aimed to deepen Cargill’s relationship with the government of Ghana and stakeholders of the cocoa industry. Cargill was committed to meet customer demand and work with Ghana to create economic opportunities and build sustainable local businesses.41

POINTS OF INTEREST

- Most of the companies/organisations identified here are either MNCs or large entities. It does say something of their belief in the future of their operations in Africa. Not only are most of them continuing their operations in Africa, but they are actually expanding their operations as well. This is truly a vote of confidence in the future of Africa. This observation is also valid for a range of industries, as is clearly visible. This tells us that Africa across a broad spectrum of sectors is viewed by globally successful entities as a great place for investments.

- The presence of these entities in Africa allows for the transfer of knowledge and technology, helping local industries to upgrade their efficiencies and effectiveness. It also allows for the development of more employment opportunities, as well as higher-level jobs. Hopefully this will convince Africa’s educated youth to remain on the continent and stop the brain drain.

- We are also seeing these MNCs not only operating on the continent for the sake of profit. They are also making a contribution to societies, to enhance the sustainability of these communities in which these entities operate. This can only be good for them. It is about putting an end to child labour, to ensure decent profits for the farmers, and to help with education in many African countries.

- It also shows that there will inevitably be instances where companies will close down their operations due to a lack of profitability. In the case of Tereos Commodities, a global glut of sugar led to a sugar price that made it unfeasible to continue with operations. This is someone that will happen from time to time and must be seen for what it is.

- Many African countries are also going out of their way to implement reforms in order to improve their rankings on the World Bank’s Ease of Doing Business rankings and the World Economic Forum’s Global Competitiveness Rankings. This makes it easier for corporations and entities to become involved in Africa. We should therefore see an increasing number of companies either increasing their footprint in Africa, or becoming involved on the continent.
ADDITIONAL READINGS

**Trends in Financial Services in Africa**


**Trends in Retail in Africa**


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