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Contents

1. Developments of China in Africa

China's economy is picking up, in recovery from the slowdown in response to the onslaught of the Covid-19 pandemic. As African countries open, in certain cases even despite closed borders, China is again active in Africa. A number of Chinese activities are reportedly continuations of projects that started before the pandemic. This report addresses some of the recent developments on this topic.

SUPPORTING THE CONSTRUCTION OF THE INGA HYDRO PROJECT IN THE DRC

The DRC government selected six Chinese companies and one Spanish company, who will be forming a consortium, to develop the mega Inga III hydroelectric project with a capacity of 11,050 MW. The six Chinese companies have a 75% stake, while the Spanish company, AEE Power Holdings, has a 25% share, which it will retain in the SPV that will be set up to develop Inga III. This future SPV will ensure the financial mobilisation for the project, which will require an investment of US$14 billion. This agreement is a major step towards the implementation of the Inga III hydropower project.

The initial negotiations on the formation of a consortium were complicated by the withdrawal of another Spanish group, Actividades de Construcción y Servicios (ACS), who has still not given reasons for its departure.

The DRC President Félix Antoine Tshisekedi wants to implement the project in several phases. The first phase entails the construction of a 4,800 MW hydroelectric power station. While the AfDB supports this option, it has been rejected by the Chinese companies as not being economically viable. The outcome of this situation remains to be seen.

On a different domain, South Africa has indicated its renewed interest in this project. It is the main partner in the Inga III project and intends importing electricity from the future plant to boost its national power grid. A recent hesitancy from South Africa about the project led to Angola acquiring 5,000 MW from Inga III. South Africa's renewed interest and Angola's proposal should lead to an acceleration of the project's implementation.[1]

GAS PRODUCTION IN ETHIOPIA

Ethiopia's Ministry of Mines and Petroleum recently entered into a gas commercialization agreement with Poly GCL Petroleum Investment Ltd, a company from China, to develop the Calub, Hilala and Shibola gas reserves in the Ogaden Basin. The agreement will focus on utilizing the natural gas of the area for different purposes and to commercialize 4 trillion cubic feet of gas from the mentioned sites.

The agreement prioritizes consumption of the natural gases for domestic purposes, with the gas product reserved for the local market used as an input for industries engaged in the production of fertilizers and petrochemicals.

This project should earn Ethiopia close to US$6 billion over the next six years.[2]

INTEREST IN MINING SECTOR OF ETHIOPIA

Chinese investors have reportedly identified Ethiopia's mining sector as a major priority investment area. This is coming amidst efforts by the Ethiopian government efforts to attract foreign firms to the country's mining sector, the scene of abundant mineral resources. A growing number of Chinese investors have responded to the calls by the Ethiopian government and seem keen to penetrate the country's untapped mineral and natural-gas resource sector. Many Chinese firms have been recently awarded licenses in the exploration and production of various mineral resources across mineral-rich parts of Ethiopia. Chinese firms are focusing on minerals such as gold, iron-ore, various types of precious stones, chemicals, oil and natural gas.

This interest in Ethiopia's mining sector is a part of the engagement of Chinese firms in Ethiopia's overall investment landscape in recent years.

One example of Chinese investment involves Tanaramu Chemical Industrial Plc., which recently signed a 12-year contract accord with the Ethiopian Ministry of Mining and Petroleum to produce Bromine, a chemical resource, in Ethiopia. Tanaramu will invest US$57 million and intends to start production within the coming next year.

Potential investors were attracted by Ethiopia's "untapped potential and resources" in the mining sector, the country's working force, and the various incentives to foreign companies to penetrate the mining as well as various other sectors.[3]

REVOKING MINING CONCESSIONS IN NATIONAL PARKS

The Zimbabwean government very recently announced that it was banning the mining of coal within the Hwange National Park. This announcement followed calls from environmentalists and citizens for a stop to coal mining exploration activities by two Chinese companies in the park. There were concerns for environmental degradation, as there seemed to be lapses in the granting of the mining concessions to the Chinese companies by the Zimbabwean authorities.

The Chinese companies had reportedly not obtained the Environmental Impact Assessment (EIA) and State of Works Plan acceptance by the Ministry of Mines and Mining Development of Zimbabwe.

In spite of the Hwange National Park being a reserved area, there are procedures to be followed, which would allow for mining in such areas. The initial mining concession was granted in 2015 to the Zimbabwe Mining Development Corporation (ZMDC), who has held that mining concession since then. Since then, the ZMDC concluded an agreement with the Chinese companies. However, after reviewing the mining concession, the Zimbabwean cabinet decided to cancel all the special grants that are held in national parks.

Conservationists were angry at the government's decision to allocate two coal mining concessions in the middle of Hwange National Park and the surrounding Deka Safari Area. Zimbabweans took to social media to vent their anger at the decision, using the #SaveHwangeNationalPark.[4]

EXPORTING TO CHINA

Alibaba gave access to Rwanda products in 2018 when the two parties singed the electronic world trade platform (eWTP) deal, which aims at opening markets for small businesses in Africa to take part in cross-border electronic trade. The deal gives Rwandan products access to Chinese consumers online, in addition to promoting the country's tourism packages in China. Rwanda's exports through the Alibaba platforms reportedly grew by 124% in 2019. The numbers of consumers purchasing Rwandan tourism products on Fliggy (Alibaba's tourism site) has also more than doubled.

Coffee and chili have been prominent amongst the products exported from Rwanda to China. Both these products have been steadily gaining popularity on the Chinese market. More than 60 tons of chili were imported since the beginning of 2019.

With hundreds of millions of consumers, Alibaba is the world's largest e-commerce company and home to leading cross-border marketplaces where Chinese consumers look to find the highest quality products from around the world.[5]

DIVERSIFICATION OF THE ECONOMY

Angola's Minister of the Economy and Planning, Sérgio Santos, is in favour of innovative changes to the paradigm of cooperation with China, propagating a focus on agricultural projects. He highlighted a plan to revive the productive sector and diversify the country's economy. He pleaded for greater emphasis on agricultural production, food processing and logistical platforms. He also wanted to see more Chinese entrepreneurs exploring the new opportunities available in the agriculture sector. Typical products providing business opportunities for these entrepreneurs included fertilizers and tillage machines, as they are essential goods for agricultural production that Angola does not yet produce locally.

Angola depends almost in 100% on imports for its fertilizers. Regarding tillage machines, while about 72% of all lands are prepared manually, the remaining 28% are prepared through machines, showing upon the need for these tillage machines.

Angola is subsequently keen on expanding its cooperation with Chinese companies that can contribute to the development of its agricultural potential and reduce the import of goods that can be easily produced in the country.

Angola therefore intends to invest heavily, in the medium term, in projects that aim to contribute to the increase in the production of cereals, vegetables, fruits and tubers, construction of irrigated perimeters, as well as to encourage animal production.

Santos also invited Chinese logistics services companies to invest in Angola, especially in the field of developing technological applications that facilitate market information and connectivity.

As a member of two important regional economic communities, namely the Economic Community of Central African States (ECCAS) and the Southern African Development Community (SADC), Angola has good access to vast potential export markets for products produced in the country.[6]

POINTS OF INTEREST

- China is continuing to grow its presence in Africa, as can be seen in its investment and construction activities in renewable energy, gas and mining. It understands the attraction of Africa as a source of minerals and other resources, and is actively engaging with African governments. This has been a source of concern for the USA, although the latter's response is a bit ambivalent at times. One example of this ambivalence is while the USA is negotiating a trade treaty with Kenya, it is reportedly placing pressure on the Kenyan government to support Israel or else lose the trade treaty. In addition, the USA government is planning on banning students from numerous African countries, including Kenya, to study in the USA for more than 2 years, which effectively will put an end to African students studying for four-year degrees in the USA. China, in contrast, does not appear to be so direct in forcing issues of influence on Africa. It would be naïve to think China is not getting its pound of flesh, but they seem to be subtler. They are also keener to get involved in Africa and have been sending very high-level delegations to the continent on a regular basis. This does open more doors for them than is the case with the USA.
- Alibaba's agreement with Rwanda has benefitted the latter in a significant way, not only in terms of the products that are sold online to Chinese consumers, but also in terms of the tourism packages that China's tourists now have easy access to. This contract between Rwanda and Alibaba, which is not the only one between Alibaba and an African country, will undoubtedly soon be replicated in a number of other African countries. This will increase competition between suppliers in Africa, and also lead to countries increasing the quality of their products and services, as well as their tourism offerings. This can only be to Africa's benefit. It will also increase the influence of China in Africa, which, as indicated above, can be to the detriment to the West who is struggling to curtail the growth of China's physical presence and its commercial interest on the continent.
- Angola has until very recently depended on its oil exports for its revenues (±92% in 2018). Most of its exports have been to China (±59% in 2018). Of these exports, by far the majority is oil and related products. It has been an objective of the Angolan government for more than a decade to diversify its economy, but under the former government that objective has never materialised. It is therefore a very timely decision by the Angolan government to diversify its economy away from a dependence on oil products. However, Angola's decision to approach Chinese companies for support in its diversification strategy raises questions about its ability to reduce its dependence on China, and hence its vulnerability towards this country's wellbeing. Angola needs to not only diversify its economy and export products, but also its markets.

- The pushback in Zimbabwe against China's potential development of coalmines in the Hwange National Park is yet another example that China does not have a clear mandate to do as it pleases on the continent. Although the last word on this case has not been spoken, it can be added to instances in countries such as Kenya, Sierra Leone and Tanzania where governments have limited the influence of China in their countries.

2. Developments in the Financial Services Sector

The financial services sector in Africa exhibits several interesting trends. Of these, the impact of digital technology is currently the most significant. This trend led banks to adopt various strategies to deal with threats to their client base. In another trend, technology is enabling development of regional cooperation among stock exchanges on the continent. The events below reveal interesting trends.

THE IMPACT OF DIGITISATION IN THE FINANCIAL SERVICES SECTOR

According to a recent Omdia report, the number of people in Africa with mobile phones (> 1.1 billion) is significantly higher than the number of people with bank accounts. This high level of mobile network accessibility makes digital banking via mobile phones the logical channel to provide entire populations access to the benefits from a full range of financial services.

In a report called "A Whole New World: Banking's Digital Future," Wiseasy, a digital banking and payment builder, states that in Africa, digitisation will play a major role in addressing the issues of poor bank service coverage and very low engagement with the formal economy.

Examples of organisations tapping into the benefits of digital technology, include the following:

- In Nigeria, Okra recently received an investment from the USA to grow its role as Africa's first API integrator between banks and fintechs
- In Kenya, M-Pesa grew revenues by 12.6% between 2019 and 2020 to reach almost US$1 billion. M-Pesa is using consumer transaction information to establish micro-lending and micro-financing products based on credit scoring. Operators like Airtel and Orange are replicating this model across Africa.
- Lesotho Postbank (LPB) recently adopted Wiseasy's smart POS terminals and successfully upgraded its core banking system – Flexcube – and brought in many digital and smart services including mobile banking, online banking, mobile wallets, merchant bankcards and agency banking. To help expand the range of banking services available in the country, LPB has opened more than 500 banking outlets in 14 major cities and towns, and branches have also been set up in South Africa.

Unlike traditional bank outlets, digital bank outlets penetrate deep into the community much like gas stations, convenience stores, and beauty shops. Residents have access to convenient banking services and can pay various kinds of utility bills at home. It is foreseeable that digital bank outlets would be readily available, providing brand-new services and living experiences to residents.

Wiseasy provides integrated and customized digital banking solutions to many banks in Africa, including Lesotho Postbank. However, as technology continues to improve, the gap also widens for those who are left behind.[7]

BANKS COLLABORATING WITH FINTECH COMPANIES

Standard Bank from South Africa recently acquired a 35% equity stake in the digital escrow startup, TradeSafe Escrow, for an undisclosed sum. TradeSafe refers to itself the longest-running digital escrow company in South Africa. The company operates as an online escrow platform that safeguards the buyer's funds in trust, in transactions involving two or more parties. The funds are released only to the seller and other approved beneficiaries once the buyer receives the goods or services as agreed. TradeSafe also claims to be the first digital escrow organisation in the world to offer an API gateway that allows online marketplaces and stores to manage escrow payments to customers.

According to CEO/Founder of TradeSafe Jethro O'Brien, the parties involved in transactions identified the need "for a fast, secure, and affordable escrow solution in the wake of the increasing volume of scams, fraud, and unpaid invoice payments in South African commerce." TradeSafe charges a fifth of what a mainstream law firm or bank would charge in a transaction.

According to O'Brien, Standard Bank will provide a second release payment function, which will enable TradeSafe to target commodity and M&A transactions greater than R25 million (~US$1.46 million).

The API offering of TradeSafe also incorporates new payment gateways such as SnapScan and Ozow. They have also employed Standard Bank's host-to-host technology, which allows for automated payments.[8]

STOCK EXCHANGE INTEGRATION

Rwanda, Tanzania and Uganda have partnered to implement a World Bank-funded financial project that aims to connect regional stock markets electronically. These countries will start trading as a single market before the end of 2020 after interconnecting their trading systems and hooking to the EAC Capital Markets Infrastructure (CMI) Information Technology platform. Operating as a single market will enable them to reduce the cost and time of trading in shares of companies listed on markets across the borders. Investors will be able to trade in the shares of companies listed in any of the countries without going through different stockbrokers.

The project reportedly dragged on for more than five years largely due to a payment dispute with the software provider and the lack of integration between CMI software and the trading systems of the participating states. It is envisaged the project, once operational, will eliminate obstacles on stock trading in regional markets, increase activities and boost liquidity in underperforming markets.

Despite running the largest stock market in the region in terms of market capitalisation and number of listed companies, Kenya pulled out of the project in 2015, as they were dissatisfied over the awarding of the software contract to the Pakistan firm, citing irregularities in the procurement process.

The market capitalisation of the Nairobi Securities Exchange (NSE) for the six months period to June 16, 2020 stood at US$22.1 billion as compared to DSE, USE and RSE, whose value of listed shares stood at US$6.5 billion, US$5.1 billion and US$3.52 billion respectively.

Seven African stock exchanges initiated the process of procuring a software suite to electronically link their stock markets as part of the initial phase of the African Exchanges Linkage Project. The exchanges involved include Bourse Régionale des Valeurs Mobilières (Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo), Casablanca Stock Exchange (Morocco), Johannesburg Stock Exchange (South Africa), Nairobi Securities Exchange (Kenya), Nigerian Stock Exchange, Stock Exchange of Mauritius and Egyptian Exchange. They have a combined market capitalisation of US$1.25 trillion (90% of Africa's market capitalization).[9]

VISA COLLABORATING WITH TANZANIAN BANKS

In Tanzania, 45 member banks will work with VISA Tanzania to implement a campaign developed by the Tanzania Bankers Association (TBA). The drive, tagged "be smart go cashless," promotes the use of self-service channels, including electronic payments.

According to TBA Chairman Mr Abdulmajid Nsekela, the initiative is an important opportunity to educate customers on the safe utilisation of self-service financial services offered by TBA members. The rapid growth of self-service channels promises to increase access to safe, convenient and affordable banking services across Tanzania.

The campaign enjoys support from the Bank of Tanzania (BoT), the merchants who accept cards as a payment mode, a government that encourages Tanzanians to have and use accounts, and the TBA members whose distributed agents across Tanzania ensure easy access to services.[10]

COLLABORATION BETWEEN BANKS AND TELCOS

Banks and telcos on the continent increasingly collaborate to roll our mobile money and mobile financial services. Standard Chartered Bank and Airtel Africa will work together to create new products to increase accessibility to financial services and drive financial inclusion across key markets.

The collaboration will enable Airtel Money's customers to make real-time online deposits and withdrawals from Standard Chartered bank accounts, receive international money transfers directly to their wallets and access savings products. Corporate clients of Standard Chartered will be able to make rapid and secure bulk disbursements, such as payroll payments, directly into Airtel Money customer wallets.

Mobile banking transfers between Airtel Money and Standard Chartered are now live in Kenya, Tanzania, Uganda and Zambia, with more products expected to be rolled out later this year.

Standard Chartered regional CEO for Africa and the Middle East, Sunil Kaushal, said that the Airtel deal would assist the bank to accelerate its mobile and digital-led strategy in Africa. According to Airtel Africa's CEO, Raghunath Mandava, the partnership supports its efforts to expand Airtel Money offerings across its customer base of 19 million.

MTN Liberia recently announced that its Mobile Money (MoMo) users could now transfer money from Ecobank accounts directly to their MoMo accounts and vice versa. Integration between the two companies' systems enabled this new feature. The collaboration positions the two companies as pioneers within Liberia's digital finance space.[11]

POINTS OF INTEREST

- Most of the above articles underscore the prominence of a number of trends that have been strengthening over a period of time. Technology has strengthened the convergence between the financial services sector, the digital fintech sub-sector and telecommunications sector. The fact that this has taken two decades to become a prominent trend is due to banks underestimating the importance and impact of digital technology, as well as underestimating the ability of telecommunications companies to disrupt the banking sector. By now there should be no uncertainty that banks must either adopt their own fintech models or start collaborating with either fintech companies or telcos. If they do not, they will be disintermediated. This is relevant to the retail market in the banking sector. The old saying is still relevant: while banking services are needed and relevant, banks are not.
- Another trend that is gaining momentum is the rising presence of global credit card companies that target Africa. They are clever enough to avoid a greenfield strategy, instead partnering with local players in Africa. In the process, the card companies gain immediate access to millions of consumers.
- Stock exchange integration in East Africa is long overdue. None of the stock exchanges in the region, not even that of Kenya, have the liquidity and the number of listed companies needed to function effectively and efficiently. In Kenya, four companies comprise about 80% of the market capitalisation, with one, Safaricom, representing more than half of the total value of the exchange. Regional integration of the stock exchanges has long been a popular discussion topic, which for various reasons never materialised. Technology now enables integration without closing down local bourses. This may make it more likely that we will see exchange integration actually take place. However, Kenya’s refusal to join the integrated exchange puts a serious damper on the potential success, and even relevance, of the regional bourse in its current guise. Kenya’s bourse is by far the largest in the region. Without its participation, it is unlikely a regional bourse will be more relevant than the single bourses in place.

3. Developments in Investments and Economics

This report addresses a number of diverse issues. Some African economies seem on the verge of imploding, while others adopt investment and development policies aimed to grow their economies and attract foreign investments. South Africa's airline sector remains the scene of developments focused on rescuing its state-owned carriers. This report addresses some of the recent developments in this field.

ZIMBABWE ON THE EDGE OF AN ABYSS

Zimbabwe currently faces an array of problems: weak medical services, water problems in major urban centres, collapsing infrastructure, and food insecurity for more than 50% of the population. Many city roads are untarred, and power outages last 18 hours a day. Hospitals experience medicine shortages, while strikes over pay and working conditions by nurses and doctors are commonplace. In the education sector, funding cutbacks demotivated many staff and left schools without essential teaching materials. Many experienced teachers emigrated. Unable to make a living, 25% of its population left the country. Even the security forces that keep Mnangagwa in power are reportedly growing frustrated. These troubles result from 20 years of economic mismanagement in a country once perceived as Africa's shining star.

In assuming the presidency, Emmerson Mnangagwa promised of an economic revival and greater political freedom. His ascent to power was perceived as a fresh start for Zimbabwe. He spent much of his first few months in office visiting foreign capitals to sell the idea that "Zimbabwe is open for business." The change in power was welcomed by the U.S. and the EU.

However, Mnangagwa's promises have not materialized. Despite his announcements of US$30 billion of investment plans, there was no influx of foreign capital. In addition, relations with multilateral lenders have degenerated due to unpaid debts of US$8 billion and are yet to be restored.

All of the above led to protest actions over intolerable living conditions. This in turn led to brutal suppression actions by the military. Western governments have started to criticise Mnangagwa for human rights violations, while even South Africa, a long-time allay of Zimbabwe, now stand critical towards the events in Zimbabwe. Frustrated by the deteriorating economy, Mnangagwa has blamed the private sector.

Mthuli Ncube, Zimbabwe's Finance Minister, is optimistic the economy can be put back on track. He announced a plan that will rely on investments in mining and infrastructure to turn Zimbabwe into an upper-middle income country by 2030. However, most analysts view that as wishful thinking.[12]

EMPLOYEES AIMING AT BUYOUT OF STATE-OWNED AIRLINE

Employees of SA Express employees recently created a Special Purpose Vehicle (SPV) to bid for the airline's assets. Some view this move as a desperate attempt by employees to save hundreds of jobs by buying the state-owned airline to prevent it from final liquidation.

The SPV would reportedly be anchored by a private investor and owned by a public limited company, Fly SAX, with SA Express's 691 employees as the shareholders.

SA Express employees have not been paid since February. They freely express their opinion that the South African government had not only subjected workers to poverty, but also killed their morale.

SA Express flights have been grounded since March 18, after the company was placed in business rescue in February. The North Gauteng High Court recently granted an extension for its final liquidation to 28 October, after the airline's rescuers failed to raise funds to save the airline.

SA Express employees listed in August on the equity crowdfunding platform Uprise.Africa to raise the capital needed to save the airline, which they valued at R1.5 billion. Their spokesperson would not reveal the amount of their bid for SA Express, but emphasised that the proposed funding model would vest ownership in the workers. The capital raised would be structured through an equity funding model

to finance and scale employee ownership conversions. The shares will be privately held and publicly traded.

Should SA Express be liquidated, its assets would be sold for maximum value and the proceeds shared among the company's creditors. All employees would lose their jobs in this event.[13]

EXTERNAL PARTIES INTERESTED IN BAILING OUT SAA

State-owned South African Airways (SAA) has lost money for nearly a decade. The carrier relied on bailouts and debt guarantees from the South African government to survive. SAA went under administrative protection in December 2019, well before the Covid-19 induced lockdown. Ethiopian Airlines, Africa's largest carrier, is reportedly one of the companies involved in negotiations with the South African government regarding potential support for the now insolvent carrier. Taking a stake in SAA is reportedly under discussion. Negotiations are ongoing, though reaching an agreement is not guaranteed.

South Africa must raise more than R10 billion (US$595 million) to revive SAA, according to a rescue plan compiled by administrators and backed both by the state and labour groups. However, according to South Africa's Minister of Finance, Tito Mboweni, the funds should come from private sources, and the government commits only to assist in mobilising the required amount. According to sources, much of the funding is likely to come from private financial backers rather than Ethiopian Airlines.

South Africa's Department of Public Enterprises reportedly received ten expressions of interest from private sector funding sources and private equity investors. Also, Gulf giant Emirates has discussed its codeshare agreement with SAA with the South African government.[14]

RWANDA ADOPTS NEW INVESTMENT CODE

A new investment code in Rwanda contains incentives for a number of key priorities relating to investment promotion and facilitation for investors. These incentives include:

- **Support to key priority sectors**: According to experts, the National Transformation Strategy will support the transitioning from an agriculture-based economy to a service- and knowledge-driven economy. It will support increased investment in the key priority areas such as construction and development of Kigali Innovation City, creation and growth of the Kigali International Financial Centre (KIFC), film production and post-production, as well as mining exploration.
- **Reducing operational costs for firms**: The new code shifted support to cost-based investment incentives that reduce operational costs and help accelerate productivity gains from learning-by-doing. The focus is on new types of activities aimed at increasing the tax income of the government on new activities.
- **Talent attraction**: Aspects of the investment code is dedicated to attracting and retaining talent and skills from across the world. These include dedicated visas for startup entrepreneurs, students graduating from leading Rwandan universities, remote work professionals, and high net worth individuals. It also provides for a more flexible work visa regime for employees of foreign investors and designated talent-based industries.
- **Support for innovation and diversification of firms**: The incentives of the code also aim at spurring innovation and diversification among medium-sized investors with features such as a 150% tax deduction for qualifying expenses on market expansion and internationalization activities. Local firms will enjoy tax deductions for R&D and training expenditures to incentivize innovation and skills development. The code also provides for angel investment incentives for individual investors investing into startups.
- **Flexibility**: The code accommodates public-private dialogue, rapidly feedback and testing new hypotheses. Flexibility in the investment code seeks to adapt to the evolving priorities and new information.[15]

NIGERIA PRIORITISING AREAS FOR DEVELOPMENT

Nigeria's President Buhari hopes to channel time, energy and resources towards mobilising the federal government over the remaining three years of his administration. He will lead decisions and actions to grow the economy, fight poverty, enhance productivity, and improve people's access to quality education and healthcare. Buhari recently listed nine policy issues as major priority areas for these people-focused policy directions.

These nine priority areas focus on: building a thriving and sustainable economy; enhancing social inclusion and reduce poverty; enlarging agricultural output for food security and export; attaining energy sufficiency in power and petroleum products; expanding transport and other infrastructural development; expanding business growth, entrepreneurship and industrialisation; expanding access to quality education, affordable healthcare and productivity of Nigerians; building a system to fight corruption, improving governance and creating social cohesion; and improving Nigeria's security.

According to Buhari, these policies will sustain Nigeria's position as a profitable investment destination with unequalled incentives in all sectors. These incentives include a large market and a flexible tax system.[16]

POINTS OF INTEREST

- Previous African Digests explored prospects for Zimbabwe. This country has significant mineral resources, and great potential in agriculture and tourism. Sadly, the riot that all can now see started during the governance of former president Robert Mugabe. Mnangagwa's inauguration in November 2017 generated both hope and hype. He attended the WEF meeting at Davos in January 2018 and returned with stories of successful agreements for investments. These, unfortunately, never materialised. Some say the country has gone from bad to worse. It is a sad state of affairs, as the country has not only plentiful resources and opportunities, but also a well-educated workforce. Many of these workers currently find themselves in neighbouring South Africa, where they work for a pittance in roles unsuited for the qualifications (for example as labourers and waitrons). Many work in the country illegally. Some commentators now refer to Zimbabwe as a failed state. This only serves to further deter investors. Despite its current situation, the brave investor can find great opportunities in this beautiful country.
- In contrast to Zimbabwe, Rwanda positions itself as an attractive destination for foreign investors. Over several years, it has earned second place in Africa on Ease of Doing Business rankings. Rwanda continuously implements reforms that make it even easier to do business in the country. This is an example of a country that succeeds in implementing most of the strategies it adopts. This makes it a member of a very small group of African states.
- Nigeria's President Buhari adopted nine very ambitious priorities for the last three years of his administration. His critics might ask why he did not adopt them at the start of his first term as president, or why he has yet to deliver on any of them. On the positive side, the priorities appear quite relevant to the development of the Nigerian economy, and have the potential to make a significant contribution to diversify the economy from its dependence on oil.
- State-owned airlines such as SAA and SA Express dominate South Africa's airline industry. Due to corruption, political interference and weak management, these carriers are now either in liquidation (SA Express) or under business rescue (SAA). In a late development, it seems that employee-created Fly SAX won the bid to take over the assets of the former SA Express. They sought R250 million (±US$14.62 million) to buy SA Express and provide further capital needed to restart the airline, which typically serves smaller cities in South Africa. In an even more recent development, it seems that Fly SAX only needs R50 million, as selling off the assets of SA Express will generate the remaining R200 million. Note that should selling off these assets not provide the R200 million, Fly SAX will be held accountable for the shortfall.
- Bailing out SAA has become yet another insurmountable challenge for the government. The reality is that the government does not have R10 billion (±US$595 million) to revive SAA.

Without external investors, SAA is doomed. In a latest development, the Business Maverick publication[17] announced that SAA operations are suspended as from 29 September as it has completely run out of cash flow to keep its operations going. The SA Government reportedly failed to come up with the R10.5 billion needed to keep the carrier in the air. This suspension apparently also affects SAA subsidiaries, such as Mango Airlines, SAA Technical, Air Chefs and SAA Cargo. Many commentators question the rationale of pumping in billions to keep SAA alive, while millions in South Africa are unemployed and hungry. It is sad to see corruption and incompetence bring the once-proud state carrier to its knees, if not its grave.

4. Developments in the Telecommunications Sector

Telecommunications companies are expanding into new sectors in Africa. Their forays into the financial services sector are highly visible. The large telcos are also quietly diversifying the scope of their operations into areas other than voice, their original main value proposition. This report addresses some of the most recent developments in this sector.

DIVERSIFATION STRATEGIES OF TELCOS IN AFRICA

Over the past decade, Africa's large telcos diversified their revenue streams away from voice services. Their traditional revenue models faced a number of challenges:

- Increased broadband penetration and growing internet adoption across key demographics motivate telecom subscribers to meet their needs with over-the-top (OTT) streaming services
- Internet-enabled voice and video calls and instant messaging platforms are displacing and replacing SMS and traditional phone calls

MTN Group, Airtel Africa and Orange are three of Africa's largest telecom companies. Over the last four years, each of these telecom companies introduced diversification plans to remain competitive.

Orange adopted the following diversification strategy:

- Its "convergence strategy" is a multi-strategy approach that embraces voice and data bundling and strong growth in data infrastructure
- It aims to reinforce its multi-services strategy to represent 20% of turnover by 2025
- It is improving its 4G capabilities across Africa
- Orange partnered with Itel, a Transsion smartphone brand, to roll out 4G devices in its francophone markets
- Orange has been operating Orange Money in Africa since 2008, and unveiled Orange Bank Africa, a fully-fledged digital bank in Ivory Coast in July 2020, with expansion plans to other West African countries

MTN adopted the following diversification strategy:

- It has been scaling its 3G/4G broadband across Africa
- It plans to drive greater revenue and new growth with the adoption of data and digital services
- It is keen to drive data adoption by developing digital services and smartphone options, launching a new affordable "smart feature phone" powered by the KaiOS in 2019
- In the fintech business, its mobile money solution MoMo is taking off in countries like Uganda and Ghana, with expansions plans for Nigeria

Airtel Africa has the following diversification strategy:

- Airtel plans to grow its data services, digital services and mobile money operations
- It had upgraded 70% of its total network sites in Nigeria to 4G by Q2 2020, with similar moves in its markets in East Africa and Francophone Africa
- Airtel also intends to grow its digital services, the most important of which is Airtel TV, a video on-demand platform that also offers live TV content such as news, music channels and movies
- Airtel's mobile money service has also been a success and revenue so far show huge opportunities for the company

The Covid-19 pandemic severely impacted these telco strategies, especially in terms of how much they could achieve toward their targets, and how they can deploy these strategies to drive growth. Voice

revenue remains their biggest revenue stream. Unfortunately, the pandemic affected customer behaviour and voice revenue declined faster than the market could anticipate.[18]

COLLABORATION AMONG TELCOS AND PHONE MANUFACTURERS

Since June 2020, a number of telecommunication giants in Uganda were quick to partner with mid-range phone manufacturers. The digital inclusion imperative required having everyone on board. The telco industry then had to bridge multiple connectivity gaps to provide fast Internet access to many more users. Examples of their offers to users include the following:

- Customers who buy the Techno Camon 15 are automatically connected with a free SIM card along with 3GB of data for three months from MTN
- The Infinix-Airtel partnership is valid on a range of five kinds of phones packaged with a complimentary of 5GB of data for a month

According to Airtel, these partnerships with phone manufacturers will increase 4G network penetration, driving both digital and financial inclusion as well as tele-density in Uganda.

The benefits to the consumer are that a bundled product helps a consumer save and provides an opportunity to own a smartphone. The objective of the telecommunication companies is to get more people using more data. The more people that have smartphones, the more data they will consume.

From a distribution perspective, both the telecom companies and phone manufacturers have large retail footprints; collaboration leads to many people with easy access to mobile data. Granting data to the consumer is an incentive to buy the product and use the service. The telecom company grows with the customer. Many will subscribe for more data once the initial offer is consumed.[19]

DISINVESTMENTS ABROAD TO FOCUS ON AFRICA

MTN is the largest telecoms company in Africa. It has operations in 17 countries on the continent, with more than 50% market share in 10 countries and more than 30 per cent in six of the other countries. South Africa is the only country where its share is under 30%, thanks to stiff competition from Vodacom. MTN's largest market is Nigeria, where it plans to invest around US$1.6 billion over the next 3 years.

In a new development, MTN is ending its relationships in its markets in the Middle East. In order to focus more on Africa, MTN intends selling it businesses in countries like Syria and Yemen. MTN has been losing money in the region due to falling regional currencies, volatile geopolitics, and problems with Western sanctions.

According to MTN, its shareholding in its Middle East subsidiaries are as follows:

- Afghanistan: 100%
- Iran: 49%
- Sudan: 85%
- Syria: 75%
- Yemen: 85%

According to MTN, its market share in these countries is as follows:

- Afghanistan: 44.43%
- Iran: 33.48%
- Sudan: 33.48%
- Syria: 36.40%
- Yemen: 36.10%

As its first disinvestment step, MTN will sell its 75% stake in MTN Syria to Saudi-based TeleInvest Ltd, which already holds the other 25%.

MTN has faced two serious accusations over its operations in the MENA region. It was first accused of bribing its way into a 15-year operating license in Iran. It was also accused of aiding the Taliban militant group in Afghanistan, including paying protection money.[20]

TELECOMS INDUSTRY CAN PLAY A SIGNIFICANT ROLE IN POST-COVID PERIOD

The response by telecoms operators to the Covid-19 pandemic in East Africa over the past few months could provide leaders in the rest of Africa, and perhaps around the world, with ideas on how to better prepare for future emergencies.

In Somalia, effective telecommunications infrastructure and an increasingly cashless commercial environment enabled market traders to operate online without disruption. Sound infrastructure and mobile money services enabled most of the population to observe social distancing while continuing to carry on with daily business. The government was able to communicate public health messages to its population.

One lesson from the Somali experience is that people should not be discouraged from use of mobile money, especially when it is more important than ever to keep money circulating through the system.

The Somali example indicates that:

- Telecoms can play an important role in supporting and rebuilding African economies once the crisis is over,
- Mobile money services enable small businesses to enjoy lower costs, greater security against theft and fraud, and easy access to other markets,
- Technology has stimulated competition, which in turn has led to economic development, and
- ICT has boosted job creation, led to a steep rise in local investment and reduced the gender gap in financial life.

The author identifies three main avenues to address this situation.

- Governments must invest in the development and expansion of telecommunications and digital infrastructure. They must reconsider their approach to ICT. Aid agencies, foreign governments and foreign investors, too, must think about how they can divert money towards the development of ICT.
- Governments must integrate their existing telecommunications infrastructure with public health, which could facilitate the dissemination of important public health messages in a national response to most natural crises.
- Citizens must learn how ICT can improve their lives and what opportunities it provides.

Africa's leaders wishing to rebuild in the wake of the pandemic, grow their economies and enable resilience to future shocks, must look to telecommunications infrastructure and commit to its use.[21]

POINTS OF INTEREST

- Most large telcos in Africa follow more or less similar strategies, as outlined above. Services embrace voice, data, digital services (including entertainment), mobile money and now collaboration with handset manufacturers. These shifts in scope are accompanied by geographic expansion. The economics of telecommunication has always been a numbers game, where fixed costs are high and market share is critical. The availability of additional spectrum to improve their value proposition is increasingly important. Africa used mobile phone service to leapfrog the development and expansion of landlines, especially into rural areas. Its population rapidly adopted mobile phones, and takes full advantage of the many benefits associated with mobile access to data and voice.

- MTN's withdrawal from its Middle Eastern subsidiaries may be attributed to its troubles in Iran and Afghanistan. To make matters worse, their contribution to its EBITDA (profit before interest, tax, depreciation and amortisation) is less than 4%. With a much larger potential market (a fast growing one at that) in Africa, there is no reason for MTN to remain in a region where the contribution to its bottom line does not justify the challenges and risks. In addition, it must also deal with the fallout from accusations of aiding the Taliban in Afghanistan. Amongst the five countries in which MTN has a presence, few are shining examples of stability. Syria, Yemen, and Afghanistan present high security risks, while Sudan is struggling with growth and development challenges after decades of dictatorship. Iran continues to be the target of USA sanctions. MTN has indicated that there would be no immediate withdrawal from these countries, which leads one to believe that MTN will not sell its assets off at bargain prices, but seek out suitable buyers over the next three to five years.

5. Developments in Trade

The impacts on global trading from Covid-19 are severe. Global supply chains took a hard knock. Many logistics experts now question the use of long global supply chains and suggest adopting shorter regional supply chains, and in some cases national supply chains, to reduce vulnerability to global shocks. Regional integration also has a significant potential to restructure Africa's trade regime. This report addresses recent developments in this area.

BOOSTING EXPORTS TO CHINA

Kenya recently became the first African country to export avocados to China after a trade deal signed by Kenya's President Kenyatta and China's President Xi Jinping in Beijing in July 2020. The trade deal will give Kenya farmers access to the huge Chinese market of 1.4 billion consumers. The Chinese market will reportedly eventually absorb over 40% of Kenya's avocado production, making it one of the largest importers of the fruit. Kenya also exports avocados to Europe and the USA.

To finalise the agreement, the Kenyan avocado sub-sector needed to meet the sanitary and phytosanitary requirements for the export of frozen avocado. These standards posed no problems for Kenyan farmers, who were keen to access the highly regulated but lucrative Chinese market.

Avocado is the second farm product from Kenya to gain access to the Chinese horticultural market, after the sugar substitute Stevia. Thirteen other agricultural products will follow. These include flowers, mangos, French beans, peanut, vegetables, meat, herbs, bixa and macadamia nuts.

In addition to the above avocado deal, Kenya also signed an Economic and Technical Cooperation agreement that covered sectors of mutual interest, and an MOU covering joint promotion of the implementation of the eight FOCAC priority areas.

President Kenyatta applauded China's continued readiness to open its market to Kenyan products. Kenyatta noted that the partnership between China and Kenya has greatly benefited Kenya's population, especially in poverty alleviation and economic development.

Kenyan Cabinet Secretary for Trade Peter Munya expressed his opinion that the deal will benefit smallholder growers by expanding the market and improving prices. He encouraged avocado growing counties to exploit this new market by increasing production volumes and enhancing their quality standards to meet the stringent Chinese regulations.[22]

BAN ON IMPORTATION OF AGRICULTURE PRODUCTS

The Kenyan government aims to invoke the Kenya Trade Remedies Agency Act (KETRA) to ban the import of milk and eggs, in an effort to benefit dairy and poultry farmers. The Kenyan government is reportedly concerned about the impact of imported products such as milk and eggs on local markets, stating that Kenya should not allow imports that were hurting the local economy.

This ban would also assist the government in their investigations and evaluations of claims of dumping and subsidization of imported products into the country.

The following are instances of imports that were considered as harmful to the economy:

- In 2018, Kenya imported 70 million litres of liquid milk and 10 million kilogrammes of powdered milk.
- In January 2019, the ministry imported 15 million litres of liquid milk and 1.5 million kilogrammes of powdered milk.

These imports took place despite Kenya's high production potential.

The government subsequently reviewed recommendations that Kenya should develop systems to enhance local milk production that will negate the need to import milk.[23]

IMPACT OF AfCFTA ON TRADE AND ECONOMIC DEVELOPMENT IN AFRICA

The African Continental Free Trade Area (AfCFTA) reportedly represents a major opportunity for its member countries to boost growth, reduce poverty and broaden economic inclusion. According to The World Bank Chief Economist for Africa, Albert Zeufack, the AfCFTA would increase the competitiveness of African countries, and lift 68 million people from moderate poverty by increasing employment opportunities and incomes. Fully implemented, the AFCFTA promises to boost regional income by around US$450 billion. Over the medium term, the AfCFTA will also accelerate wage growth for women and lift 30 million people out of extreme poverty by 2035.

A World Bank report suggested that the potential gains would be particularly important in light of the severe negative impacts of the Covid-19 pandemic on African economies. The pandemic is expected to lead to to US$79 billion in output losses in 2020. However, through support of regional trade and the reduction of trade costs, the AfCFTA has the potential to cushion the negative effects of Covid-19 on the continent's economic growth.

The AfCFTA could have the following benefits, amongst others:

- Cutting red tape and simplifying customs procedures.
- Tariff liberalization accompanied by reducing non-tariff barriers would boost income by about US$153 billion.
- The remaining US$292 billion would be brought about lowering trade costs for businesses and facilitating African businesses to integrate into global supply chains.
- In the longer term, the AfCFTA provides a path for integration and enhanced growth for African countries.
- By replacing a patchwork of regional agreements, streamlining border procedures and prioritizing trade reforms, the AfCFTA can also increase resiliency to future economic shocks.
- The AfCFTA has the potential to initiate larger wage gains for women, while boosting wages for skilled and unskilled workers.
- By reshaping markets and economies across the region, the AfCFTA will initiate the growth of new industries and expand key sectors.
- The AfCFTA would also boost intraregional trade in manufacturing, as well as increase intra-continental exports by 81% and to non-African countries by 19%.

According to Zeufack, the implementation of the AfCFTA will be key to its success.[24]

COVID-19 IMPACT ON REGIONAL TRADE AND DEVELOPMENT

The Africa Trade Policy Centre (ATPC) of UNECA, in collaboration with the UK-based ODI, recently released a working paper titled "Africa Trade and Covid-19: The Supply Chain Dimension." The paper investigates the impact of Covid-19 on trade and value chains in Africa, focusing on Ethiopia and Kenya, and on the pharmaceutical sector.

Covid-19 increased Africa's cross-border trade challenges and highlighted the continent's reliance on imports of essential food and medical products. About 82% of the continent's food imports , and 96% of its medicine and pharmaceutical imports, originate from outside Africa.

Africa also faces the shift in the Covid-19 epicentre from China, which accounts for 11% of African exports and 16 % of imports, to Europe, which accounts for 33% of African exports and 32% of imports. Covid-19-induced reductions in both demand and supply, higher transport and transactions costs associated with foreign trade, combined with the growing use of lockdowns and export bans, have significantly disrupted many global value chains.

Kenyan tea and flower value chains are severely hit due to reduced access to transport for its export products. Ethiopia's coffee and cut flower supply chains are similarly impacted. Unfortunately, the

slowdown in international travel dealt Ethiopian Airlines a severe blow, leading to cancellation of many of its overseas flights. These phenomena strengthen the case for regional integration as a means to increase resilience. This will require developing intra-continent regional value chains and unlocking Africa's internal business potential.

The pandemic taught supply chain users and operators that a robust supplier management system that takes into account sub-tier dependencies and proximity is a prerequisite for today's supply chain, and highlighted the need to use the AfCFTA as a springboard for developing Africa's industrial base.

The ATPC paper identified a number of priority actions for the AfCFTA to build competitive and resilient African value chains and economies in the post Covid-19 era. In addition to several generic recommendations, the paper suggested African policymakers must also focus on the liberalization of health and education in services in 2021-2022.

At the industry level, the pandemic highlighted the heavy import-dependency and vulnerability of Africa's pharmaceutical sector. Enhanced integration in Africa represents a huge opportunity for the industry. The ATPC paper proposes that the AfCFTA prioritize the pharmaceutical sector, and place it at the centre of its initial implementation stages.[25]

POINTS OF INTEREST

- Like the Rwanda case addressed earlier in this report, Kenya also is benefitting from trade with China. The ranges of agriculture products are significant. The obvious benefit for Kenya is clear, more so after a period of economic stagnation and deterioration. There is also no need to fear an over-reliance on China as an export target: Kenya's 2018 exports to China were a mere 1.8% of its total. This is a unique opportunity for Kenya to tap into the huge consumer market in China. The fact that many Kenyan smallholder farmers could benefit from increased trade with China is an additional benefit for the Kenyan economy.
- Kenya's ban on imported milk and eggs has the potential to be very awkward for the AfCFTA, and to destabilise the effectiveness of the East African Community (EAC). This is one more example of the ongoing battle between the various EAC members. These are not conducive to the optimal functioning of regional economic communities in Africa. Granted, states have the right and WTO-approved instruments to protect themselves against unfair imports or to protect fledgling industries. On the other hand, countries must ensure that their industries function optimally. This is a basic principle. Trade relations in East Africa seem to be slowly deteriorating- as has been the case for some time. Hopefully this specific case does not spill over to other trade challenges between countries such as Kenya and Tanzania.
- Pharmaceuticals are once again highlighted as a sector with significant potential. This sector has repeatedly been noted as important within the AfCFTA ambit. African Digest often notes the potential to manufacture generic medicine in Africa. It is unnecessary that African countries continue to import generic medicine. The same goes for many of its food imports.
- We continue to see very optimistic views on the potential impact of the AfCFTA. The main message of the World Bank report lies in the message from World Bank Chief Economist for Africa Albert Zeufack, that implementation of the AfCFTA will be key! Sadly, Africa's history of trade disputes, border closures, and security challenges among members of the same regional economic community does not bode well for successful AfCFTA implementation!

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