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Competition authorities across the region are gradually improving their capacity to enforce effectively despite significant resource constraints. 2015 and 2016 have been landmark years in this regard! Just recently, the Namibian Competition Commission conducted its first raid at the premises of Puma Energy in relation to allegations of excessive pricing in aviation fuel supply. The Zimbabwean Competition and Tariff Commission received an International Competition Network (ICN) award in 2015-16 for its advocacy and cooperation with the telecoms regulator and central bank in Zimbabwe to address competition issues in the provision of inputs to mobile money services.

There is also an indication that authorities are learning from one another and may move towards greater cooperation in future. For example, we noted in an earlier Review the signing of a Memorandum of Understanding by several competition authorities in SADC in 2016. The extent of commitment to meaningful cooperation across countries is likely to be of particular interest as member states of the East African Community, which was expected to fully launch the competition authority this year, enter into a formalised agreement to enforce competition law at a regional level. This occurs as the COMESA authority switches its focus to investigating restrictive practices.

In terms of intensifying enforcement activity, the Competition Authority of Kenya implemented its Special Compliance Process which invited trade associations (mainly in the finance and agricultural sectors) to disclose conduct which was potentially in violation of the competition legislation, in exchange for the authority not pursuing full investigations and prosecution. This programme follows a similar approach to the 'fast-track' settlement process in South Africa whereby firms were penalised extensively for involvement in the construction sector cartel, a process which has now also led to a commitment by the largest groups to invest in developing capacity amongst smaller rivals and black-owned construction firms.

It is critical that authorities publish information about their successes and failures widely, as this allows for a critical process of sharing and learning to take place. The Review seeks to contribute in this regard and we look forward to presenting a revised platform with contributions from authors in different regulatory and competition agencies in future! This edition reflects on some of the above developments as well as issues in funding black industrialists in South Africa, support for small firms in retail and agro-processing in the region, competition in pay-tv, and mobile money as a tool for greater financial inclusion.

Thando Vilakazi, Editor

Funding black industrialists in South Africa

Teboho Bosiu, Farisai Chin'anga & Lauralyn Kaziboni

Participation by a greater number of firms and individuals in the South African economy is hindered by a range of barriers identified in recent CCRED studies, including access to finance.[1] This research indicates that firms attempting to enter a highly concentrated market will likely be denied funding by finance institutions partly due to a high probability of failure. It takes considerable time before a new entrant is able to breakeven, let alone earn profits. As a result, commercial banking and even development finance institutions (DFIs) do not adequately cater for new entrants particularly in those sectors where there are already large established incumbents.

The approach of DFIs tends to be similar to that of commercial banks which apply very stringent criteria to assess the risk of investments in new firms. Applications for finance are cumbersome and lengthy, and entrants are often assessed on historical performance rather than projections and potential for growth over time.[2] Furthermore, assessments consider a shorter period of time as an investment hurdle rate than it generally takes for firms to breakeven and earn profits. As a result, firms that could become effective rivals over time are being excluded from the market, whereas funding that is 'patient' and more risk-taking in its approach could aid these firms substantially with long-term gains for the economy.

The issues above motivate for the establishment of forms of patient capital funding[3] to be used as seed-funding for new entrants. The CCRED studies show that success stories for entrant firms have emerged from cases where funding was in the form of a package of support, including assistance with routes to market and longer financing terms, often arising from non-traditional sources of funding such as from competition law proceedings. For example, Soweto Gold which is an entrant in beer production, could not access funding from DFIs and commercial banks because it was not considered a viable investment given the firm would be competing with South African Breweries. Soweto Gold was then funded from the agro-processing competitiveness fund which arose from the Pioneer cartel case proceedings. Similarly, Lethabo Milling that entered in maize meal production was also not considered a feasible investment by commercial banks because the likelihood of success was considered low given high concentration in that particular industry.[4] The entrant was eventually funded and supported through the supplier development fund which arose from the Wal-Mart/Massmart acquisition.

CCRED's proposal, arising from the research involves the creation of a pool of patient capital that uses as seed capital the funds that are collected through cartel settlements and penalties. We have estimated below how large such a fund could be.

Estimating the size of the pool

Since its inception, the Competition Commission of South Africa has unearthed a number of cartels in various sectors of the economy, and subsequently imposed administrative penalties on firms. Several cartels have involved very large fines for firms. For example, the construction cartel was uncovered in 2009 wherein several companies admitted to collusive conduct in the construction of the 2010 Soccer World Cup stadia, amongst other projects, and were subsequently charged collective penalties of over R1.4 billion in 2013. ArcelorMittal South Africa (AMSA) was recently penalised for its involvement in collusive conduct in the flat steel; long steel and scrap metal industries; price discrimination in the carbon wire rod industry; and excessive pricing for flat steel products. AMSA was charged a penalty of R1.5 billion in settlement of the matters which will be paid in installments over five years.

The Government of South Africa and the South African Forum of Civil Engineering Contractors (SAFCEC) reached an agreement with seven of the construction firms (WBHO, Aveng, Murray & Roberts, Group Five, Basil Read, Raubex and Stefanutti Stocks) to develop a R1.5 billion fund spanning over 12 years from 2016.[5] The fund aims to achieve socio-economic goals via three commitments: (1) financial contribution for development projects; (2) transformation in the construction sector; and, (3) integrity commitment by chief executive officers.[6] The commitments include agreeing to increase the equity share of black South Africans to 40% in the seven companies; assisting in the promotion of black-owned construction companies; and designing 'a partner model' where three emerging black-owned companies are able to grow and reach an annual turnover equal to 25% of the mentoring company's turnover by 2023.[7]

The patient capital fund proposed by CCRED would involve a wider coverage to involve firms across different sectors. CCRED has estimated that cartel penalties levied in the period from 2011 to 2016 amount to over R5 billion (Table 1). While this amount may appear limited, we consider that it constitutes a larger pool of funds than various other initiatives that have had notable success in funding SMEs in South Africa. For instance, the Gauteng Enterprise Propeller (GEP), with an average annual budget of approximately R290 million in 2015-16 managed to support 1 207 SMEs and cooperatives.[8]

However, there may be concerns regarding the sustainability of such a fund for two main reasons. The first is that cartel penalties are not stable nor predictable from year to year and that firms may in fact pay the fines in installments over an extended period. Secondly, the Commission's efforts to implement other measures for increasing deterrence as dis-

Table 1: Total annual administrative penalties for cartels in South Africa, 2011-2016[9]		
Year	**Penalty (R, million)**	**Highest contributing cartel by % of total fines per year**
2011	343.3	Cement cartel – 36%
2012	1 365.4	Freight service cartel – 70%
2013	1 510.8	Construction cartel – 97%
2014	190.8	Electric cables cartel – 42%
2015	339.2	Logistics cartel – 62%
2016[10]	1 580.3	Steel cartel – 95%
Total	**5 329.8**	

cussed below, as well as a growing damages culture may mean a smaller pool of funds over time. There may also be concerns regarding the perverse incentive that can arise to increase penalties unduly in order to effectively fund industry development. These are all valid concerns that could be addressed through careful structuring of programmes to involve recipients in those sectors or downstream industries affected by specific cartels which aids with monitoring of commitments made, and even involving offending firms in assisting to administer the programmes as in the funds discussed above.

Cartel fines, criminalisation and damage claims not enough

It is widely accepted that fines for cartels are not adequate to deter collusive conduct, and damages do not sufficiently compensate for the harm caused to the economy as a whole, particularly through deterring entry. The recent World Bank and African Competition Forum study discussed in the previous edition of this Review, shows that when companies fix prices consumers are likely to pay 49% more on average and this increases to 80% where the cartel is more influential in terms of market share.[11] In South Africa, overcharges for cartels were estimated at 7-42% for wheat products, 25% for poultry, 15% in the pharmaceuticals industry and 7.5-9.7% in cement between 2013 and 2014; with the cartels spanning over eight years on average in non-construction cartels.[12] Yet, in spite of the high overcharges, cartel fines in South Africa are capped at 10% of a year's total turnover of firms. This generally is not considered sufficient to deter cartel conduct.

Firms will continue to be fined very large amounts for their conduct, however there is a greater understanding that these fines are not enough. The competition authorities have considered measures to enhance deterrence alongside penalties. These include the amendment to the Act under section 73A(1) to (4) which became effective in May 2016 stating the criminalisation conditions for a manager or director involved in anti-competitive conduct.[13] This means that criminal cases can now be pursued against representatives of companies involved in cartels, which may result in jail time or a financial penalty. This should deter individuals party to decisions involving establishment of cartels, and/or incentivise management into creating strong mechanisms and awareness to educate employees about the risks of collusive behaviour.

The possibility of damage claims over and above penalties levied by the competition authorities may help to compensate victims for losses suffered. For instance in 2016, Nationwide Airlines was awarded a damage claim of R104.6 million against South African Airways arising from SAA's contravention of section 8(d) through the use of an incentive scheme offered to travel agents leveraging its dominant position in the domestic air travel markets.[14]

Implications

It is likely to take some time before criminalisation proceedings and a culture of damages claims gains momentum in the South African context. On the other hand, there are already clear and functional mechanisms for penalising or settling cases with offenders which in just five years, have brought in more than R5 billion in penalties. The approach proposed here is to consider alternatives in terms of thinking about the purpose served by these funds. If cartels are shown to cause harm in terms of limiting entry and charging high prices to consumers, then the proceeds should be used directly or indirectly to increase and support entry which in turn results in dynamic gains from rivalry including lower prices in the medium- to long-term.

In many ways, this approach seeks to 'repair' the damage caused by conduct through considering how entrants and smaller firms can be supported. Cartel fines currently go into the National Revenue Fund, but could be used to promote a much more competitive environment through a patient capital fund similar in its design to funds that have already been established from other cases. This includes the R240 million supplier development fund that was set up following the Wal-Mart/ Massmart merger, aimed at assisting SMEs and suppliers for Massmart's supply chain;[15] and the R180 million agro-processing competitiveness fund that was set up following the Pioneer Foods settlement with the Commission as a result of its involvement in the bread cartel. These funds have already benefited black-owned companies like Lethabo Milling and Soweto Gold and lessons from the implementation of these important initiatives could be drawn on to shape the nature of the patient capital pool.

As South Africa battles to transform its economy and repair harm caused by a previously exclusionary economic and political structure, it may be worthwhile to think proactively about how we can use what is available in an environment of scarce resources to change the shape of the economy for the long-term. The proposal above aims to contribute in this regard.

Notes

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New platforms and emerging rivalry in the region's pay-tv markets

Tatenda Zengeni

The pay-tv market in Africa has experienced growth in subscription revenue over the past few years largely accruing to a few large players.[1] However, there appears to be emerging competitive rivalry from non-traditional operators in this market which could introduce greater competition in the medium- to long-term. For example, Safaricom in Kenya launched its own internet TV service in 2015, MTN launched MTN TV in Nigeria in 2016[2] and more recently Econet Wireless in Zimbabwe launched Kwese TV in 2016. New entrants are using different platforms to challenge often dominant firms in traditional pay-tv, some of which have been alleged to have abused their positions of market power in the past. For example, Multichoice has been challenged regarding the use of exclusive contracts in the broadcasting of sport content.[3] More recently beIN Sports in Egypt was also shown to have violated competition law in Egypt's pay-tv market.[4] The company was found to have forced subscribers to take up new subscription plans that limit their ability to choose the most appropriate channels or packages for them.[5] This article builds on those published in previous Reviews to assess the current developments in this market and the competition concerns that arise.[6]

Since its launch in 2016, Econet's Kwese TV acquired free to air exclusive rights to broadcast the English Premiership in fifty African countries for three seasons starting from the 2016/17 season.[7] This has occurred despite Multichoice having exclusive rights to broadcast English Premiership content in the continent.[8] The two agreements differ in that Kwese TV's rights allow it to broadcast only one live match per week in fifty African countries, while Multichoice has rights to broadcast all live matches throughout the continent.[9] Kwese TV's deal further allows them to sub-licence the English Premiership rights to other public broadcasters in the continent, thereby creating an opportunity for other players to provide content using their network.[10] Econet has also acquired exclusive rights to broadcast other content for the National Basketball Association (NBA), Extreme Fighting Championship (EFC) and most recently the National Football League (NFL).[11]

Recently Multichoice announced that it will reduce its prices from the 1st of November 2016 and will also add more TV channels to lower-tiered bouquets in several countries including Botswana, Kenya, Tanzania, Ghana, Uganda, and Zimbabwe.[12] The price decrease follows a decline in profits from its video entertainment business in 2016 arising from a high cost of content due to increased competition to buy content for sale to viewers and weakening of many African countries' currencies.[13] The decrease prices may thus reflect a combination of changes in other factors including local country dynamics in terms of ability to pay for pay-tv, or increased competitive pressures on the multinational player.

The entry of Mobile Network Operators (MNOs) into the pay-tv market comes at a time when subscribers in the region are increasingly taking up mobile broadband services, driven by network rollouts and mobile operator device and data strategies.[14] GSMA estimates that mobile broadband connections in Africa will almost triple over the next five years.[15] Strong growth in mobile data traffic is evidenced across the continent. For example, MTN Cameroon reported a 62% increase in data traffic in 2015, while MTN Nigeria and Vodafone Egypt recorded data traffic increases of 59% and 73% respectively in the first quarter of 2016.[16] As a result, data revenue as a share of total revenue of MNOs is rising rapidly across the region, reaching 15% on average and considerably higher for mobile operators in the more advanced markets such as South Africa and Egypt.[17] This is likely to create incentives for mobile operators to increase investments in newer internet-based services such as pay-tv.

As MNOs seek to increase their revenue from data services we can expect new entrants in the pay-tv space, particularly from established operators in adjacent industries. There is of course a question as to whether mobile-based viewing can serve as an effective substitute for 'traditional' pay-tv, or if these services are complementary to those of the incumbent pay-tv providers.

Furthermore, there are potential competition concerns that arise from these developments. If high-value content is exclusively acquired by a dominant MNO, as in the case of Kenya and Zimbabwe where Safaricom and Econet have 65.2%[18] and 51.6%[19] market share, respectively, it can be leveraged to establish a position of market power in adjacent markets.[20] Customers are likely to find it attractive to switch to networks that provide a wide range of services, particularly broadcasting services that are competitively priced relative to pay-tv.

As this market develops further in the continent we expect that the degree of competitive overlap between pay-tv providers and MNOs to provide viewing content will intensify. This will be aided by the fact that MNOs such as Safaricom are continuously broadening their product offering to their subscribers to include even more services, such as 'the big box' decoder which is to include Wi-Fi hot spots and radio channels among others.[21]

Convergence in the provision of various services is likely to become an important consideration for competition authorities in defining relevant competition markets due to the overlap of markets and services that has been created. Furthermore, as network operators extended their reach into sublicensing of content provision as in the case of Kwese TV, there is a likelihood of the firms leveraging their existing market power into these markets, rather than enabling 'wholesale' access to different potential service providers.

Notes

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10. See note 7.
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Towards a more inclusive agro-processing sector in South Africa

Maria Nkhonjera

The South African agro-processing sector, and food processing in particular, has grown more rapidly than the manufacturing sector as a whole over the 2004-2014 period. The sector accounted for 13.9% of total manufacturing value add in 2015 and was the largest manufacturing sub-sector.[1] Food processing is particularly important for building manufacturing capabilities and growth as it has strong backward and forward linkages[2] to other industries that have the potential to drive economic growth. This article draws on a CCRED sector study[3] on barriers to entry and inclusive growth in agro-processing, considering key competition issues in three value chains: poultry, maize and wheat milling and dairy.

There are inherent characteristics of the agro-processing value chain that make it challenging for new entrants such as economies of scale, high capital requirements, and the importance of branding. This article explores these barriers and the key policy implications that may facilitate entry and transformation in the three value chains.

Animal feed to poultry value chain

The poultry and animal feed industry in South Africa is relatively concentrated.[4] It is characterised by a small number of large firms who are vertically integrated throughout the value chain - from feed and broiler production to processing. Two large broiler producers, RCL and Astral, make up almost half (46%) of broiler meat production in the country.[5] Although there have been some new entrants into the poultry industry (mainly at one level of the value chain - generally the broiler breeder level) it is not sufficient to create rivalry to vertically integrated incumbents. This may be partly because they depend on rivals for inputs. There are potential risks associated with depending entirely on rivals for inputs. These include limited countervailing power and lack of alternative sources of supply in the case of shortages of inputs.

Entry into this market has typically taken two forms. First, entry has generally been firms with existing activities within the value chain (i.e. milling) or those with poultry operations elsewhere in the region. Second, small-scale black broiler breeders have entered into the value chain as contract growers for vertically integrated market players, making them dependent on large incumbents for key inputs such as animal feed as well as for abattoirs and routes to market. This emphasises the importance of having capabilities and access to inputs. In addition, given high capital investments in setting up and operating as well as a lengthy production process, it would typically take new entrants more than two years to become profitable. The study emphasises that the ability of small entrants to successfully enter and grow in the sector is highly dependent upon the behaviour of incumbents, ability to obtain competitively priced inputs and long-term patient capital to allow firms to overcome the initial years before there are any significant returns.

Maize and wheat milling

Extensive anticompetitive conduct has been uncovered in the maize and wheat value chain. This ranges from collusive conduct in grain storage and trading markets to milling and collusion in the final prices of bread and white maize products. Following competition investigations[6], the sector saw a number of entrants into maize and wheat milling with varying degrees of success and seemingly little impact on consumer prices (in bread, flour or maize meal). Much of new milling capacity has also been shown to come from agro-conglomerates with an existing presence in the value chain, expanding into processing and production. This suggests that presence at one level of the value chain may make it easier to enter at another level. Furthermore, agro-conglomerates' control of infrastructure (e.g. silos), coupled with the advantage of scale economies appears to be a major barrier to entry for new millers and therefore new milling capacity.

In maize milling, the existence of established brands, produced by large incumbents like Tiger Brands and Pioneer Foods who benefit from economies of scale makes it harder for new entrants to compete as effective rivals. In addition, the study shows that access to retail markets for small entrants is a critical barrier to entry. The experience of new maize milling entrant, Lethabo Milling, indicates that the high costs incurred to be listed in supermarkets and unfavourable terms of payment make it difficult for small players to access shelf space and therefore customers. An initial and key hurdle faced by this entrant however was access to capital from development financiers. Following four years of struggling to get funds, the miller eventually accessed funds from the Massmart Supplier Development Fund (SDF)[7] which not only facilitated market entry, but assisted in providing a route to market. Lethabo Milling's partnership with Massmart's SDF therefore played a role in reducing common barriers to entry for new entrants, such as accessing formal retail markets, obtaining good shelf space and overcoming listing fees.

Dairy

There have also been competition concerns in the dairy sector involving alleged unilateral and collusive conduct of dairy processors which may have raised barriers to entry for new processors.[8] In 2006, for example, an investigation was initiated against eight dairy processors concerning the exchange of information which may have allowed processors to act collusively and set the purchase price raw of milk. These cases were however withdrawn and the conduct not prosecuted.[9] New processors (i.e. Coega Dairy and Dairy Day) in the UHT dairy sector have indicated that the buying power large processors have over farmers is what encouraged entry.[10] Moreover, at this level of the value chain, the dairy sector is highly concentrated.

High capital outlay required to set up processing plants and specialist logistics capabilities also inhibit entry into UHT milk production. Furthermore, given excess capacity in the production of UHT milk and low margins, further entry into the industry is unlikely. However, there is scope for new entrants in the dairy sector at a small scale and in niche markets such as cheese and yoghurt. The study confirms that there has been significant entry into niche markets (as opposed to concentrated dairy markets such as for UHT milk). This has been attributed to low capital costs of entry and the ability to operate efficiently at a low scale within this segment.

Notes

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2. These include backward linkages into primary agriculture and the manufacture of capital equipment, and forward linkages into packaging industries and even services such as transport.
3. See note 1.
4. See note 1.
5. See note 1.
6. Collusive conduct in grain storage and trading markets was uncovered in 2003, while cartel conduct in the bread value chain was uncovered by the Commission in 2006.
7. A fund established as part of the Wal-Mart/Massmart merger to develop new and black owned suppliers.
8. The competition case against dairy processes was however withdrawn by the Competition Commission.
9. These cases were withdrawn by the Competition Commission in 2001, on the basis that there were irregularities in the way the Commission had initiated and investigated the case.
10. See note 1.

Limited role for small suppliers in regional supermarket supply chains

Shingie Chisoro Dube and Mmamoletji Thosago

The growth of South African supermarket groups in southern Africa has not translated into increased participation of small local suppliers in supermarket value chains. Small suppliers refer to organisations with less than 50 employees and an annual total turnover of less than R13 million.[1] Building on a previous article in this Review[2], this article draws insights from research conducted by CCRED, ZIPAR and ZEPARU on supermarket value chains in South Africa, Botswana, Zambia and Zimbabwe.[3] Based on interviews with suppliers and supermarkets, we focus on supermarkets' centralised procurement, trading terms and private standards and the implications for local supplier participation in southern Africa.

Centralised procurement

In order to achieve economies of scale, supermarket groups centralise procurement activities. This shifts decision making rights from regional store managers to the head office level. This has the effect of excluding smaller suppliers from supply chains due to supermarkets contracting a few large suppliers with scale to serve outlets across the region.[4] The effects are important for small suppliers and new entrants located outside the head office country who find it challenging to be listed on the supermarket's supplier database.

Particular to southern Africa, South African-owned supermarkets practise centralised purchasing regarding corporate stores operating in Zambia, Zimbabwe and Botswana. The head office in South Africa is responsible for listing of suppliers for the majority of regional corporate stores. This means that suppliers located outside South Africa are less likely to participate in regional supply chains given their limited scale and difficulties in accessing decision makers. In addition, small suppliers cannot undertake informal negotiations with store managers who have minimal discretion regarding listing of local suppliers, although they can submit potential supplier information to the head office. On the contrary, suppliers find it relatively easy to supply locally-owned supermarkets since they can easily access decision makers and receive prompt responses.

Private standards

Requirements for international accreditations create additional costs to suppliers and make it increasingly costly to supply supermarkets. Although international standards are regarded as voluntary certifications, suppliers are compelled to incur additional costs to acquire higher accreditation standards to have a competitive edge in the market and increase the likelihood of supplying supermarkets. These lump sum upfront fees are burdensome for small and new suppliers who lack the funds and therefore continue to produce without the necessary certifications which results in supermarkets not accepting their products. For example, the Food Safety System Certification (FSSC 2000) and Hazard Analysis and Critical Control Point (HACCP) are international accreditations costing as much as US$13,800 (plus US$6,900 annual fees for renewal) and US$5,500, respectively.[5] In addition, retailers are quickly adopting global initiatives such as the Global Agricultural Practice (GAP) and sustainability requirements which entail minimum use of chemicals and water harvested as well as organic production systems. Small suppliers often lack the expertise and systems to quantify and track the use of chemicals and water.

Costs associated with trading terms

After a supply contract has been approved, the supplier is required to pay upfront listing and slotting fees to be listed on the supplier database and gain access to supermarket shelves. Slotting fees are generally fixed and independent of the volume of goods sold and hence may not be reflective of costs.[6] Although listing and slotting fees act as a screening device for retailers to stock quality products with low risks of failure on the market, they create additional costs and pass on the risk of stocking new products to suppliers.[7]

Some suppliers are not able to pay these fees. In addition, the fixed nature of slotting fees favours established large firms that produce large volumes of products and can spread the costs over a greater number of units.

Periodically, retailers carry out special promotions before major holidays where products are sold at discounted prices. In order to participate, suppliers pay promotion fees to cover marketing or advertising costs incurred by the supermarket through television, newspapers and flyers. Retailer initiated promotions, although beneficial in terms of volumes sold, create unexpected costs for suppliers resulting in less than expected income and pass on increased uncertainty to suppliers.[8] In South Africa, suppliers pay promotion fees ranging from US$2,500 to US$7,000 depending on the nature of the promotion in terms of duration and geographical coverage. Suppliers in Zimbabwe pay even higher fees to take part in large scale promotions at US$10,000 for each product line.[9]

Long payment periods

Extended payment period terms are a key factor contributing to the non-participation of local suppliers in supermarket supply chains in Zambia and Zimbabwe. This means that supermarkets do not pay suppliers immediately for products already sold and delivered. These payment terms adversely affect suppliers' cash flow and working capital making it difficult to continue production. This in turn leads to additional finance costs as suppliers find alternative sources of working capital.[10] The effects are important for small suppliers without additional reserves to carry out day to day operations particularly where they lack quality administration systems that invoice promptly and correctly which results in late payments.[11]

For instance, South African-owned supermarkets operating in Zambia and Zimbabwe practise longer payment periods between 30 and 90 days for products already sold and delivered by suppliers. However, the same supermarkets operating within South Africa have shorter payment periods of 15 to 30 days. As a result, the majority of small suppliers tend to trade in the informal markets with instant cash payments. For example, in Zambia the high level of informal trade at the DRC-Zambian border in Katanga Province provides an easily accessible market for small suppliers who cannot penetrate supermarket supply chains.

Support from supermarkets

Centralised purchasing and trading terms puts considerable pressure on suppliers in terms of additional costs, suppressed profits and uncertainty. To put this in perspective, in South Africa the various fees constitute approximately 16% of the value of the supplier's product, which is significant.[12]

In order to mitigate the effects of the above fees on suppliers, some supermarkets across the region have introduced measures to increase participation of local suppliers in supply chains. In South Africa, major retail chains offer small suppliers preferential trading terms through shorter payment periods to ease cash flow problems and guarantee access to markets through lenient supermarket procurement policies. In Zambia, supermarkets encourage participation of local suppliers by relaxing private standards for processed goods and developing a database procurement system that includes local suppliers. Similarly in Botswana, local-owned supermarkets provide access to market for small farmers and advance cash to suppliers to ease cash flow challenges.

Such programmes, although they open up the market to small suppliers, fail to address the core financial constraints imposed by the above fees and costs. To participate in supermarket supply chains, suppliers need to pay upfront lump sum costs before a single product is sold. The upfront costs can be prohibitive and are in some cases not product-related, with the effect of constraining the ability of suppliers to sustain and grow their businesses.

To reduce the cost of supplying supermarkets and promote transparency in procurement procedures and trading terms, southern African countries could adopt retail industry codes as a starting point. Such codes as applied in several other countries regulate the conduct of supermarkets towards suppliers by setting minimum standards and obligations for retailers with regard to drafting of supply agreements and various fees included in the trading terms.[13] Namibia recently adopted the retail sector charter in March 2016 aimed at increasing participation of local suppliers through transparent procurement procedures, fair payment terms and rebate provisions.[14] Internationally, the Australian Competition and Consumer Commission forbids supermarkets from directly or indirectly requesting suppliers to pay listing fees, shrinkage fees, wastage fees, promotion fees or payment for better positioning of products on the supermarket shelves. Only certain exceptions are permitted and any amount paid must be considered reasonable according to certain predefined criteria.[15] Importantly, the commitment to codes of conduct can help to reduce costs and uncertainty faced by suppliers.

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The role of mobile financial services in achieving financial inclusion in Africa

Anthea Paelo

As of 2014, about two-thirds of the population in Sub-Saharan Africa were financially excluded.[1] Financial inclusion, defined as access to financial services such as savings and credit, is important for any economy that intends to achieve inclusive growth and development. Good financial systems are necessary to provide access to saving, credit and risk management to help the poor start and expand businesses, absorb financial shocks and invest in education.[2]

Constraints to greater financial inclusion include a lack of money to use an account, the high cost of accounts, long travel distances to financial institutions, lack of required documentation, onerous bank regulation and poor road infrastructure.[3] There is also a lack of credit information regarding the unbanked. Before a financial intermediary can lend money they must be able to determine how much can be lent, for how long and at what cost. In order to have this kind of information, however, the financial intermediary must have access to an applicant's credit record which in the case of the unbanked is often non-existent.

Mobile money technology, capitalising on the high levels of mobile phone penetration in sub-Saharan Africa, has created a means of overcoming some of these barriers. The term mobile money is used to refer to a number of distinct but related services offered over a mobile digital platform including; mobile money transfer, mobile payment and mobile banking. Mobile money transfer (MMT) is the basic transfer of mobile money between two mobile money subscribers over a mobile network.[4] This is the most common use of mobile money in Sub-Saharan Africa. Mobile payment refers to the transfer of mobile money for the purchase of goods or services, usually used for paying utilities such as electricity and water, school fees and merchants.[5] Mobile banking, on the other hand, is the use of mobile devices to access banking services such as deposits, withdrawals, loans, savings, account transfers, bill payments and inquiries. For a subscriber to access these services, they require an account at a bank and these services are usually offered by banks as added value to traditional banking products.

By providing a cheap, more accessible, convenient and safer means for cash transfer, mobile money has proved to be a driver of financial inclusion.[6] Between 2011 and 2014, mobile money accounts contributed to growth from 24% to 34% in accounts held overall including with banks, micro-credit, savings, loan cooperatives and mobile wallets.[7]

The evolution of MMT to mobile financial services

The role of financial intermediaries like banks is to reduce the information and transactions costs arising from the information asymmetry between individuals with cash to spare and those that do not have (potential borrowers and lenders).[8] Financial intermediaries develop expertise in collecting information, evaluating and monitoring potential borrowers, lenders and projects to fill the information gap.[9] However the ability for financial intermediaries to perform this role efficiently is dependent on the availability of some kind of record on potential borrowers' net worth, ability to make repayments and the viability of the project they want to undertake. Where individuals and firms do not have formal deposit accounts through which financial intermediaries can monitor their credit record, it becomes difficult to assess whether the potential borrower qualifies for a loan and for how much.

Mobile money technology helps overcome these information asymmetries by generating credit records from the assessment of mobile money transactions and airtime purchases by subscribers. By partnering with mobile money providers to make use of these credit records, financial intermediaries are better able to evaluate and allocate loans to potential borrowers, providing essential financial services to the formally excluded. When mobile money providers partner with banks and other financial intermediaries to provide these services, including loans, insurance and savings products, it is referred to as mobile financial services. For instance in Kenya, Safaricom formed a partnership with the Commercial Bank of Africa (CBA) in which Safaricom mobile money users can open an M-Shwari bank account via their mobile phone.[10] KYC (know-your-customer) information submitted when opening the M-PESA account is used to open the bank account thus eliminating the need to complete forms or even go to a bank. M-Shwari account holders can gain interest on their savings and even access a micro-credit loan.

However, mobile money has only been successful in a small number of countries. Additionally, in the countries in which it has been successful, the evolution from mobile money transfer to other mobile financial services such as savings and credit has been slow.[11] In Uganda for instance, savings and credit facilities were only introduced in August 2016 although mobile money services were launched as early as 2009. Neighbours Kenya and Tanzania introduced credit and saving services in 2012 and 2014, although mobile money transfer services were launched in 2007 and 2008, respectively.[12] In Zambia, the shift to mobile financial services is yet to take place despite mobile money transfer having been launched in 2011.

Competition dynamics in the mobile money sector

A key aspect of increasing access to financial services is affordability. The structure of mobile money markets shapes outcomes and prices may be higher in concentrated markets

Table 1: Comparison of mobile money transfer charges in 2015, US$ (largest operators)[17]

	Tanzania	Uganda	Zimbabwe
US$ 5 MMT on-net transfer	0.74	0.58	0.34
US$ 5 MMT off-net transfer	0.74	0.95	0.74
% difference between off-net and on-net charges	**0%**	**64%**	**118%**
US$15 MMT on-net transfer	0.91	0.71	1.04
US$15 MMT off-net transfer	0.91	2.59	1.34
% difference between off-net and on-net charges	**0%**	**264%**	**29%**
US$150 MMT on-net transfer	3.29	2.22	5.98
US$150 MMT off-net transfer	3.29	5.18	12.00
% difference between off-net and on-net charges	**0%**	**134%**	**101%**

which limits the ability of people to access these services. CCRED recently conducted a study for the Bill and Melinda Gates Foundation in which it assessed competition dynamics of the mobile money industry in Uganda, Tanzania and Zimbabwe, with interesting comparisons.[13] All three countries are largely similar in terms of development. They each have concentrated mobile money markets. Uganda has six mobile money providers although one MNO, MTN Uganda, has an effective market share of more than 70%.[14] The case is similar in Zimbabwe where there are three mobile money providers but with Econet holding approximately 90% of the market share in terms of mobile money revenues.[15] The situation is a bit different in Tanzania where there are four mobile money providers, two of whom have a market share of 54% (Vodacom) and 40% (Tigo), respectively.[16] The effects of the different structures in the mobile money sectors are apparent when comparing the different mobile money transfer charges, particularly when looking at the difference between on-net and off-net charges.

In Uganda and Zimbabwe where the sector has clear dominant players, off-net charges (transfers across different networks) are significantly higher than the on-net charges. In Uganda, the charges in the US$15 range are as much as 264% higher than on-net charges (Table 1). In Zimbabwe where the majority of transfers are in the US$ 5 range, off-net charges are 118% more than on-net charges (Table 1). This price differential gives new mobile money subscribers an incentive to join the larger network and subscribers on rival networks to switch so as to benefit from the lower fees as well as access to a larger number of subscribers. On the other hand in Tanzania where there is a more even distribution of the market share, off-net charges are no different from the on-net charges. Although this is partly a function of the interoperability of mobile money providers in Tanzania, it also illustrates the benefits of rivalry in reducing prices and thus accessibility for consumers.

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Quarterly competition case update - Mergers and acquisitions			
Country	**Target**	**Acquirer**	**Status**
Botswana	beMobile	BTCL	Ongoing
	Warbler Holdings	Bluehearts (Pty) Ltd	Approved with conditions
	Edcon	Parentco	Approved
	55% & 45% of the issued share capital of Manica Holdings	AMI International & Bchange group, respectively	Approved
	Additional shares in Torre Industries leading to 50.1% shareholding	Stellar Capital Partners	Approved
	All moveable fixed assets of Sally Dairy Products (Pty) Ltd as well as the right to use the name Sally Dairy	Gravitas Investments (Pty) Ltd	Approved
	Eqstra Fleet Management & Logistics, and Industrial Equipment divisions of Eqstra Botswana	enX Group	Approved
	Uni-Span Holdings (Pty) Ltd, Prowalco (Pty) Ltd, Concord Cranes (Pty) Ltd, and Uvundlu Investments (Pty) Ltd	Business Venture Investments (Pty) Ltd	Approved
	88% shareholding interest in Abercrombie & Kent Group of Companies S.A	Yan Zhao Global Ltd	Approved
	Entire issued share capital in Zurich Insurance Company Botswana	HWIC Asia Fund	Approved
	31.8% shares in Chlor-Alkali Holdings (Pty) Ltd	Rosewild Trade Invest	Approved
	100% issued share capital of Regent Botswana Group & Regent Life Botswana Ltd and 70% issued share capital in the Hollard Botswana Group; Hollard Botswana Pty Ltd; & Hollard Holdings Botswana Pty Ltd	Direct Axis International S.À r.l.	Approved
	Entire issued share capital in Prefsure Botswana	Liberty Holdings Botswana	Approved
	100% of the issued shares in & claims on loan account against Brandcorp Holdings (Pty)	Bidvest Group Ltd	Approved
Kenya	Genghis Capital	Overtime Capital Ltd (Formerly Goodison Two Seven Three Ltd)	Approved
	Joint venture Helios Investment Partners	Acorn Group	Approved
	65% stake in Burbidge Capital	I&M Holdings	Approved
Namibia	Pointbreak and Ebank	FNB	Ongoing
	35% of Fabupharm	EOS Capital's Allegrow Fund	Approved
South Africa	75% of Sub-Saharan Industrial Holdings (SSIH)	Public Investment Corporation (PIC) and Business Venture Investments	Approved
	Nanoteq	Reutech	Approved with conditions
	Branch Engineering & Erf 616	Abercom	Approved
	Propertuity Development	RMB Holdings	Approved
	Rockwood & Chemetall US	BASF SE, Germany (BASF)	Approved
	The fleet management and logistics businesses and the industrial equipment businesses from Eqstra Newco	enX Group	Approved with conditions
	Mitsubishi Motors Corporation	Nissan Motor Co. Ltd	Approved
	Imbali Props 21, Saddle Path Props 69 and Collins Property Projects	Tradehold	Approved
	Uni-Span, Concord Cranes, Uvundlu Investments and Prowalco	InServe	Approved
	Big Red Investments, some of the assets, licenses and consents belonging to Turquoise Moon and some of the assets belonging to Redlex	Afric Oil	Approved
	Billion Property Developments, Bay West City, Billion Asset Managers and Billion Property Services	Rebosis	Approved
	Chlor-Alkali Holdings	Rosewild Trade and Invest	Approved
	Brandcorp Holdings	Bidvest Group	Approved
	Liberty Medical Scheme	Bonitas Medical Fund	Approved
	Goldrush Group	Zico Capital Two	Approved
	Bay West City	Billion Property Group	Approved
	Regent Life Assurance Company	Hollard Holdings	Prohibited
	5 Fixed asphalt plants from Roadspan Surfaces	Much Asphalt (Pty) Ltd	Prohibited

Quarterly competition case update - Mergers and acquisitions cont.			
Country	**Target**	**Acquirer**	**Status**
Swaziland	Four Pick n Pay supermarkets	Greystone Partners	Approved
	Entire shareholding of B&H Sugar and Foodcom Sugar	Sunshine Sugar specialists (Pty) Ltd	Approved
	Swazi Syra	Henno Louis Delport, Ludick Cornelius Delport and Christiaan Wege	Approved
	Interneuron's shares in Swaziland Industrial Development Company	Swaziland National Provident Fund	Approved
	100% Patti Holdings and Ramedica Holdings	Kadent Ltd	Approved
Tanzania	35 % stake in Bharti Airtel	Tanzania Telecommunications Corp (TTCL)	Approved
Zambia	Silverlands Limited	Crooke Brothers	Ongoing
	100% shares in both Zam Chick and Zamhatch	Zambeef Products Plc	Ongoing
Zimbabwe	35% of Talwant Trading	Takura Ventures	Approved with conditions
	Falcon Gold Zimbabwe	RioZim	Ongoing
	Scopserve Investments	Yellowcop Investments	Approved

Quarterly competition case update - Main enforcement cases	
Country	**Case summary**
Egypt	The public prosecutor has dropped charges brought against Oriental Weavers Company by the Egyptian Competition Authority (ECA) for monopolistic practices due to insufficient evidence.
	The ECA found beIN Sports to have violated the competition law by forcing subscribers to take up new subscription plans that limit their ability to choose the most appropriate channels or packages for them. In order to watch the Euro 2016 football league, beIN Sports customers were required to pay for the main full-year subscription plan.
	ECA has referred 24 fertiliser distribution companies to the public prosecution for manipulating prices.
Kenya	The competition authorities of Kenya and South Africa have signed a Memorandum of Understanding to exchange technical assistance and promote cooperation in monitoring mergers and in enforcement cases.
	The CAK fined eight advertising firms (Magnate Ventures, A1 Outdoor, Live Ad, Adsite, Consumer Link, Look Media, Firm Bridge and Spellman Walkers) a total of KSh 11.64 million for setting minimum advertising rates on billboards.
	The CAK gave a directive to commercial banks and mobile network operators to make transparent all the fees incurred in mobile money transactions. This includes all firms providing financial services through applications, Unstructured Supplementary Service Data (USSD) codes and SIM toolkits.
Namibia	The Namibian Competition Commission (NaCC) raided the offices of Puma Energy in Windhoek on the 16th of September 2016 following allegations from the Aircraft Owners and Pilots Association of Namibia of excessive pricing by the dominant player in the aviation fuel supply market at Eros and Ondangwa airports. This was the first raid conducted by the authority.
	Sanlam Namibia and Professionals Provident Society (PPS) reached a consent agreement with the NaCC in which they would pay a fine of N$15 million for contravention of the Competition Act by agreeing to divide the market among themselves.
South Africa	The Competition Tribunal has declined an application by Computicket to set aside a complaint laid against it by the Competition Commission. The case follows complaints from Strictly Tickets, Artlink, Going Place, TicketSpace and Enzimidlalo Technologies that alleged Computicket was entering into exclusive agreements with entertainment providers.
	The Competition Commission raided 6 cargo shipping companies in the Western Cape and Kwazulu-Natal on suspicions of collusion to fix the incremental rates for shipment of cargo from Asia to South Africa. These companies include; Hamburg Sud South Africa, Maersk South Africa, Safmarine, Mediterranean Shipping Company, Pacific International Line South Africa and CMA CGM Shipping Agencies South Africa.
	Aveng signed a consent agreement with the Competition Commission in which the construction and engineering group would receive conditional immunity from an administrative penalty for collusive tendering on ten projects.
	Two geotechnical construction firms have been found guilty of collusive tendering on certain Gautrain projects as well as the Lesotho Highlands Water projects and have agreed to pay a fine of R1.65 million.
	The seven listed construction groups found guilty of collusion have reached an agreement with the government in which they will contribute R1.5 billion to help black-owned partners grow in addition to the R1.4 billion fine imposed on WBHO, Aveng, Murray & Roberts, Group Five, Basil Read, Raubex and Stefanutti Stocks by the Competition Tribunal. The agreement included selling at least 40% of their shares to black people or help up to three black-owned companies build their turnover.
	The Competition Tribunal has provided a remedy following an earlier decision that found Media24 guilty of predatory pricing. The remedy involves a requirement to guarantee the credit of any community newspaper in the Goldfields area that met the criteria set out in the order for a period of 90 days for printing and distribution instead of paying upfront.
	The Competition Commission fined ArcelorMittal R1.5 billion for its involvement in long steel and scrap metal cartels. ArcelorMittal also agreed to remedies relating to complaints against its pricing conduct that include limiting its EBIT (earnings before interest and tax) margin to a cap of 10% for flat steel products sold in South Africa. The firm, in addition, agreed to a R4.6 billion capital expenditure over the next five years. The settlement will cover all pending cases against ArcelorMittal including those that are still under investigation.
	The Commission decided not to prosecute a complaint against Parmalat SA, milk processor, with regards to a 'bonus scheme' to reward raw milk farmers for their continuous supply of raw milk to it in the Eastern and Western Cape Province. The Commission found that there was insufficient evidence that competition between milk processors would be substantially lessened or prevented as a result of Parmalat's bonus scheme.
	The Commission decided not to refer a complaint brought against Uber taxi app up by the SA Meter Taxi industry who alleged that the company was competing unfairly. The Commission found that the alleged conduct did not contravene the Act.

Note: Based on competition authority websites and publicly available sources.

Quarterly competition case update - COMESA Competition Commission mergers and acquisitions assessed (from January 2016)			
Target	**Acquirer**	**Affected member states**	**Status**
Pirelli & C.S.p.A	China National Tire & Rubber Co. Ltd	BUR, DRC, EGY, ERI, KEN, LIB, MADA, MAL, MAU, RWA, SUD, UGA, ZAM, ZIM	Unconditional Clearance
Two Rivers Lifestyle Centre Limited	OMP Africa Investment Company (Pty) Ltd	N/A	Comfort Letter Granted
BRD Commercial Bank Limited	Atlas Mara Mauritius Limited/ Banque Populaire du Rwanda	MAU, RWA, ZAM, ZIM	Conditional Clearance
Ukwala Supermarkets Limited, Ukwala Supermarkets (Kisumu) Limited & Ukwala Supermarkets (Nakuru) Ltd	Choppies Enterprises Kenya Limited	ZAM, ZIM, KEN	Comfort Letter Granted
Telkom Kenya Limited	Jamhuri Holdings Limited	N/A	Comfort Letter Granted
Professional Life Assurance Ltd	Prudential Africa Holdings Ltd	ZAM, ZIM	Unconditional Clearance
Oasis SA and Mobile Cash RDC	Orange Middle East Africa	DRC, EGY, MADA, MAU	Unconditional Clearance
Kuoni Travel Holding Limited	EQT Services (UK) Limited	DRC, ETH, EGY, KEN, LIB, MADA, MAU, RWA, SEY, SUD, SWA, SUD, SWA, UGA, ZAM, ZIM	Unconditional Clearance
Opportunity International	MyBucks	KEN, MAL, SWA, UGA, ZAM, ZIM	Unconditional Clearance
Blue Nile Cigarette Company Limited	British American Tobacco Middle East	COM, DRC, DJI, EGY, ERI, ETH, KEN, LIB, MAL, MAU, RWA, SUD, SWA, UGA, ZAM, ZIM	Conditional Clearance
I&M Holdings Limited	CDC IM Holdings Limited	KEN, MAU, RWA	Unconditional Clearance
Crooke Brothers	Silverlands Plantations	SWA, ZAM	Unconditional Clearance
Metal Fabricators of Zambia plc	Reunert Limited	DRC, KEN, MAL, UGA, ZAM	Under assessment
EMP	Network International LLC	BUR, DRC, DJI, EGY, KEN, LIB, MADA, MAL, RWA, UGA, ZAM, ZIM	Unconditional Clearance
The Dow Chemical Company	E.I. du Pont de Nemours Company	BUR, COM, DRC, EGY, ETH, KEN, LIB, MADA, MAL, MAU, RWA, SWA, UGA, ZAM, ZIM	Unconditional Clearance
Lusaka Cosmopolitan Investments Limited	Delta International Mauritius Limited	MAU, ZAM	Under assessment
ARM Cement Limited	CDC Africa Cement Limited	KEN, DRC, UGA, RWA	Unconditional Clearance
Gulf Africa Petroleum Corporation	Total Outre-Mer S.A.	BUR, DRC, EGY, ERI, ETH, KEN, LIB, MADA, MAL, MAU, RWA, SWA, UGA, ZAM, ZIM	Under assessment
St. Vincent Investment (Pty) Ltd & Sun International Zambia Limited	MHG International Holding (Mauritius)	EGY, KEN, SEY, SWA, ZAM	Unconditional Clearance
Chlor Alkali Proprietary Limited	Rosewild Trade and Invest Proprietary Limited	DRC, EGY, ETH, KEN, MADA, MAL, MAU, SEY, SWA, UGA, ZAM, ZIM	Unconditional Clearance
Zamchick and Zamhatch	Zambeef	DRC, KEN, UGA, ZAM	Unconditional Clearance
Syngenta AG	China National Agrochemical Corporation	BUR, DRC, EGY, ETH, KEN, LIB, MADA, MAL, MAU, RWA, SUD, SWA, UGA, ZAM, ZIM	Unconditional Clearance
United Arab Shipping Company	Hapag-Lloyd AG	DJI, EGY, KEN, LIB, MAU, RWA, SUD, SWZ, UGA	Under assessment
Compagnie D'Exploitation Des Services Auxiliaires Aeriens S. A (Servair)	HNA Aviation Group Company Limited	DRC, ETH, KEN, MAU, SEY	Under assessment
Manica Holdings Limited	AMI International Limited and Bchange Group Pte Limited	BUR, KEN, MAL,MAU, RWA, UG, ZAM,ZIM,	Under assessment
Kuramo Africa Opportunity	Trans-Century Limited	DRC, KEN, UGA, RWA, ZAM	Under assessment

Public Platform: Climate variability and the need for more inclusive value chains - the role of supermarkets

Co-hosted by CCRED and the International Fund for Agricultural Development (IFAD).

In this platform, we evaluate how formal supermarkets, as a key route to market for processed foods, can act as integrators of the region. The discussion will consider issues such as the costs and challenges of accessing supermarkets and the role that supermarket's supplier development programmes can play in growing sustainable smallholder farming and developing more local producers (click here for more details).

This engagement forms part of a broader research agenda of understanding food production in the region, supporting the entry of smallholder farmers and processors into regional value chains, building resilience along agricultural value chains, and addressing competition issues arising from concentrated input and retail markets.

Date: Thursday, 24 November 2016
Time: 16h00 - 18h00
Venue: CCRED SEMINAR ROOM, 2nd floor, 5 Sturdee Avenue, Rosebank, Johannesburg
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