

Local players eye expansion

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AFRICA is an increasingly important strategic market for SA's banks as the continent becomes a more significant world trade player.

Sim Tshabalala, CEO of Standard Bank SA, says the bank's move into Africa some years ago was very much a long-term strategic investment.

"Africa as a continent is increasing its presence in the global economy. For example, Africa's trade with the BRIC nations increased from 4,6% in 1993 to over 19% in 2008.

"While Africa's percentage of world trade fell from 4,5% in the early 1980s to 1,7% in the early 2000s, it has now climbed to more than 3% of global trade, a significant rebound.

"Furthermore, Africa as a continent with over a billion people makes it another BRIC country with a huge market and a large percentage of younger people, an advantage over many developed economies with their ageing populations," Tshabalala says.

He adds that the continent has a greater gross domestic product (GDP) per capita than India, and there are 12 countries in Africa that have greater GDP per capita than China.

Africa also has a huge pool of natural resources, more than anywhere else in the world.

Another advantage Africa enjoys, particularly in the light of the greater global emphasis on food security, is having about 60% of the world's uncultivated arable land.

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At the same time, he says early adopters have the advantage as it takes time, commitment and a clear understanding of local market conditions to make money.

While some international banks withdrew into their domestic shells during the international financial crisis, some major players such as Standard Chartered, Barclays, Citi and HSBC demonstrated a similar view when they opted to remain active in Africa during the crisis.

In addition, there are some other African banks, particularly those from West Africa such as Eco Bank, that are strong players on the continent.

"There is a lot of movement in financial services on the continent and that will likely bring down margins over time.

"However, there is great potential," Tshabalala says.

David Polkinghorne, CEO of Grindrod Bank, says Africa offers considerable opportunities for South African banks.

SA's trade with the rest of Africa has been rising steadily and while exports

may have fallen during the recession, the future looks positive for local companies providing goods and services to the continent as a whole.

Therefore, Polkinghorne says trade finance will become a growth area.

"SA is considered a favoured supplier in Africa, and China and India are active in securing raw material sources to feed their growing industrial bases.

"As a result, there is considerable demand for a wide range of goods and services sourced from this country.

"These companies are looking to their South African banking partners to provide them with the financial facilities they need to support this trade," Polkinghorne says.

He believes that many African economies are likely to grow at a faster rate than SA, as was evidenced by the fact that a year ago Angola, as a result of its oil, was the fastest-growing economy in the world.

Furthermore, many African countries will be investing in the infrastructure needed to support their growth.

As a result of this, Polkinghorne sees considerable opportunities for South African banks to facilitate infrastructure finance.

"This is going to require banks with balance sheets or very strong links with development agencies," he says.

Michael Jordaan, CEO of First National Bank (FNB), says there is no doubt that opportunities exist in the rest of Africa for South African banks



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to add to their bottom line.

"FNB's ventures in Africa are already profitable. Business in Namibia and Botswana, for example, has proved profitable, with excellent growth and good returns on equity for shareholders.

"Operations in Lesotho, Mozambique, and Zambia are also seeing good growth in customer numbers, and this has prompted us to spread further across the continent," Jordaan says.

FNB has opted to develop full-service banking in the African markets in which it is active, with branch networks and full product ranges.

"We are expanding via a full replication of our South African network. SA is the innovation hub for products and services that are rolled out into the other markets in which we operate," Jordaan says.

He says this approach means that South African banks can compete effectively against international players because they offer more and they have demonstrated their genuine commitment to the future of their businesses on the continent.

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