AFRICA BULLETIN

DECEMBER 2018

ALN

NIGERIA

MTN Settles USD 8 Billion Illegal Profit Dispute for USD 53 Million

South African telecoms operator MTN Group has agreed to make a USD 53 million payment to resolve a dispute with the government of Nigeria, ending a four-month multi-billion dollar dividend repatriation row that has hammered its share price.

The Central Bank of Nigeria had initially ordered MTN and its lenders to bring back a total of USD 8.1 billion it alleged the company had illegally repatriated in profits using improperly issued paperwork between 2007 and 2008. However, the Central Bank has found that a 2008 private placement remittance worth around USD 1 billion was based on certificates that did not have final approval. In a statement made by the Central Bank after negotiations, the telecoms operator ended up paying USD 53 million as a notional reversal amount without admission of liability.

SIGNIFICANCE

Amid the allegations, MTN's share price slumped sharply and the company appeared to slow down on plans to launch an initial public offering in Nigeria. However, the group's shares jumped as much as 8.2 percent after the phone carrier settled the matter, ending a crisis that had threatened its operations in Africa's most populous country. Buoyed by the settlement and reduced friction with authorities, MTN is planning to launch its mobile money service, similar to Kenya's Safaricom M-PESA, in Nigeria from June 2019.

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ALGERIA

Algeria's Trade Deficit Decreases Amid Imports Restriction

Algeria increased its exports and decreased its imports from January to November 2018, reducing its negative balance by USD 6.4 billion. This is attributed to the energy earnings that rose by 18.21 percent in the first 10 months of 2018 from the same period in 2017, pushing down the trade deficit by 58.65 percent. 93.17 percent of total sales abroad were attributed to oil and gas exports, which accounted for USD 31.8 billion, up from USD 26.9 billion in January-October last year, according to customs data.

Earlier in 2018, a slump in oil prices prompted the Algerian government to seek temporary measures to reduce the trade deficit. The most notorious among these were import restrictions that affected more than 800 products.

SIGNIFICANCE

Measures to decrease the trade deficit in the year saw the country restrict the importation of cars, foodstuffs, cell phones, home appliances and some raw materials in July 2018, all the while increasing exportation of its hydrocarbons to countries such as Italy, Spain, France, United States and Great Britain. With the decrease in trade deficit came the inflow of foreign currency in the country. In many cases, a trade surplus like this helps strengthen a country's currency relative to other currencies, affecting currency exchange rates and it will be interesting to see whether this is the case for the Algerian Dinar come 2019.

ETHIOPIA

Ethiopia Goes Digital to Attract Investors

Investors hoping to benefit from one of Africa's fastest-growing economies can now easily get access to reliable and relevant information after Ethiopia recently launched an online investment guide, called the iGuide.

The web-based investment promotion tool covers a wide range of topics relevant to investment, serving as the first point of contact for domestic and international companies and businesspeople looking to invest in Ethiopia. The platform highlights the various investment opportunities in the country and provides information on a wide range of topics, including the steps needed to start a business in Ethiopia, the skills and wage expectations of its labour force, taxation, acquisition of land, the legal framework on investment protection as well as sectors with exceptionally high investment potential. It also highlights areas for reform in the country's investment environment and helps the government to collect extensive feedback from investors regarding their needs on the ground.

SIGNIFICANCE

Designed to attract productive investment into the country, iGuide will help Ethiopia attract better quality and greener foreign investment and provide investors with information that is otherwise scattered across different stakeholders in the government and private sector or unavailable, while at the same time enhance forging of impactful business relations among local and international investors. iGuide is an important step towards Ethiopia's endeavors to address the existing bottlenecks when it comes to doing business in the county and mobilising private financing that can become a more important factor toward diversifying the country's economy.

EGYPT

Regulator Threatens to Bite Apple for Violating Competition Law

According to a recent decree by the Egyptian Competition Authority issued on 10 December, US tech giant Apple has been accused of violating the country's competition law. The regulator has alleged that the company geographically isolated the Egyptian market by imposing restrictions on its distributors in the country to supply Apple products from foreign distributors. It further claimed that Apple, using its marketing strategy and contracts, had managed to ban any form of parallel importation, including Egyptian distributors from obtaining supplies from authorised distributors outside Egypt.

According to the authority, Apple's policy has resulted in an unjustified rise in the price of Apple products in Egypt, up to 50% higher, exceeding those sold in the United Arab Emirates, Saudi Arabia, Kuwait and the United States.

SIGNIFICANCE

The Egyptian competition watchdog has said it will proceed to take legal action against Apple and Arab Business Machine, the distributor of the Apple brand based in the United Arab Emirates, if the company does not withdraw its trade restrictions within 60 days after the decree was issued. Having applied this strategy in other African markets, Apple now finds itself in an uncomfortable position; the Egyptian decision could snowball to other countries, which would follow suit looking to eliminate similar limitations on the capacity of a distributor, consequently forcing the tech giant to review its marketing approach across the continent.

GUINEA

Rio Plans to Delay Former CEO's Hefty Bonus Payout Amid Probe

Rio Tinto Group plans to delay payment of nearly USD 30 million in deferred bonus shares to former chief executive Sam Walsh for a second time, as authorities continue a bribery investigation related to the Simandou iron ore project in Guinea.

The company in 2017 announced that it would delay any short and long term incentives to Walsh for a period of two years. It is now considering extending that time period until the investigation is concluded. Walsh retired as CEO in July 2016, before the company announced that it had alerted authorities, including the U.S. Department of Justice and the U.K.'s Serious Fraud Office, about payments related to the Simandou project, which provides access to one of the world's largest untapped, high grade iron ore resources in the world. The investigation is centered on a USD 10.5 million payment to an external consultant in 2011 for assisting on negotiations with Guinea's President Alpha Conde.

SIGNIFICANCE

The Simandou affair is one of several rolling crises that afflicted Rio as it appeared to lose control of its mining future in Guinea. The payment of any of awards to Walsh is contingent on there being no information in connection with the Simandou matter which would justify a determination to cancel, defer or reduce these awards. The Rio and Guinea relationship throws into sharp focus how ethical and legal issues impact the award of mining project deals and concessions for mining companies in Guinea and across the continent.

KENYA

100MW Kipeto Wind Power Project Gets to Financial Close

London-based private equity company Actis has acquired the equity interests of both the International Finance Corporation and the African Infrastructure Investment Managers in the Kipeto Wind Power project making it the largest shareholder in Kenya's second largest wind farm. Actis, which will now funds 88 percent of the project together with Kenyan partner Craftskills Wind Energy International, at 12 percent, will rope in senior debt from the Overseas Private Investment Corporation (OPIC), the US Government's development finance institution.

The deal will now see the complete exit of the World Bank financing arm from the project originally conceived by Craftskills Wind Energy International, with support from US multinational conglomerate General Electric. Kipeto has signed a 20 year power purchase agreement with Kenya Power at a tariff of USD 0.12 cents per kW. The project is now preparing for the construction of wind turbines and a 17 kilometre (220KV) transmission line to carry the power to Isinya substation in Kajiado County.

SIGNIFICANCE

Once operational, Kipeto, which is the country's second largest wind farm, will supply 100MW of clean energy to the national grid as a significant contribution to Kenya's Vision 2030 and Big Four Agenda. In addition, when the construction of the wind turbines and transmission lines are complete, power to the equivalent of approximately 40,000 homes in the region will be provided. It is anticipated that more than 400 job opportunities will be created during the construction phase of the project and an additional 70 permanent jobs during the operational phase.

MADAGASCAR

Madagascar Court Declares New President Amid Fraud Allegations

Madagascar's constitutional court recently confirmed Andry Rajoelina as the winner of the country's presidential election after his opponent petitioned the court alleging that the results were riddled with fraud. In the run-off vote on 19 December 2018, Rajoelina took 55 percent of the votes compared with Marc Ravalomanana who garnered 44 percent. European and African Union election observers said they had not seen any evidence of malpractice.

The two candidates were both banned from running in the 2013 election as part of an agreement to end recurring crises that have rocked Madagascar since independence from France in 1960.

SIGNIFICANCE

With the court's final ruling on the presidency, it is hoped that stability and a sense of normalcy will return to the country shaken by political demonstrations. The hope is that the new president will, among other things, work on increasing access to the financial system for 41 percent of the Malagasy population who are currently unbanked so as to improve economic inclusion and provide opportunities for greater access to credit to start or grow small and medium enterprises. Additionally, there is hope to improve the development of the mining and tourism sectors and to maintain the Word Bank's positive macroeconomic outlook that is projected at 5.4 percent in 2019.

MALAWI

Draft Seed Bill Sows Dread for Offenders, Hope for Farmers

The draft 2018 Seed Bill, soon to be tabled in parliament for debate, proposes tough fines and custodial sentences as Malawi embarks on a reform agenda for the agricultural sector in line with the agricultural transformational initiative as espoused in the National Agricultural Policy. The draft bill has proposed a maximum fine of MWK 50 million (approx. USD 60,000) and up to 10 years imprisonment for seed-related offences, a development expected to bring order in the seed sector. The fine is a significant leap from the Seed Act, 1993, whose penalties are seen to be lenient with a maximum fine of less than MKV 1 million (approx. USD 1,400) for various offences and less than two years' imprisonment; in this way, permitting the seed trade-related malpractices.

According to the draft bill, any prescribed seed found to be fake or found not to conform to standards of moisture content, defects, purity and germination shall not be sold by any person for sowing, save with the consent, in writing, of the Director General of the National Seed Commission.

SIGNIFICANCE

The draft bill comes at a time unscrupulous traders have infiltrated the market and continue to deceive unsuspecting farmers by selling them fake seed, a development which has resulted in poor harvests over the years. Malawi's efforts to advance a comprehensive and robust regulatory framework for the sub-sectors of seed and fertiliser guarantee that farmers have access to quality farm inputs, seeds and improved technology to boost agricultural productivity as well as improve the sector's contribution to growing the national economy.

MAURITIUS

Mauritius Turns to Sugar Cane to Produce Electricity

Mauritius is employing the use of sugar cane, its main cash-crop, to produce about a quarter of its daily electricity needs when combined with other renewable resources such as solar, wind and hydropower. Dried and crushed sugarcane byproduct known as bagasse is burned to generate electricity through thermal power plants during the harvest season which starts in November, accounting for 14 percent of the island's energy needs. The carbon dioxide generated by the burning process is then captured and used to add fizz to soft drinks. Currently, four of the island's sugar companies run their own thermal power station – together generating up to 60 percent of the island's electricity.

The island has historically relied on imported petroleum as fuel but is finding that their main cash-crop is providing a reliable, more economical option.

SIGNIFICANCE

As a result of this additional form of energy generation, Mauritius is considerably reducing its reliance on petroleum imports and is well on track to increasing the share of renewable energy in the country's energy mix to 35 percent by 2025. The country now has an additional source of power that is affordable and readily available being injected into the national grid, which will significantly improve power supply and reliability to commercial industries and contribute to economic growth.

MOROCCO

Morocco Climbs the Ease of Doing Business Ranking List

Between 2011 and 2016, the Kingdom of Morocco climbed from the 114th to 60th place in the 2019 World Bank Ease of Doing Business report, indicating sustained improvements to the business climate. This has been majorly influenced by the tourism industry.

In 2000, with its aim to boost business, tourism and trade relationships with African countries, Morocco set up a strategic development programme that would receive up to 10 million tourists by 2010. The country hit the 10 million mark in 2012 and has prepared a new strategy to lure more tourists with the target of welcoming 15 million in 2020. It is important to note that tourism plays a critical part as a cross sector link in the economy, impacting trade, creative, business, sports, aviation and employment creation.

SIGNIFICANCE

Morocco's tourism business development plan has seen it go from hosting 2.5 million tourists in 2000 to welcoming 11.3 million tourists in 2017. In line with the Kingdom's agenda of improving the tourism industry, it has started equipping the cities, like its business capital Casablanca, with infrastructure related to conferences, exhibition, reception and activities in conformity with international standards. Thus, large building sites are currently in hand like the construction of a Marina, a 2,500 seat conference centre, an aquarium, golf courses and high-speed rail lines, just to name a few.

RWANDA

Rwanda Reaps Big from Conference Tourism Investment

Conference tourism has become a major source of Rwanda's revenue drawing from thousands of meetings and conference travelers since 2014, after the government began to actively invest in the Meetings Incentives, Conferences and Exhibitions (MICE) sector with hope it could generate economic value for the country as well as raise its profile as a destination for business.

To support this sector, the Government has invested in infrastructure projects like the Kigali Convention Centre and the national airline, as well as attracting the private sector which was estimated at USD 2 billion in support of tourism in 2018. According to the Rwanda Convention Bureau, Rwanda hosted a total of 201 events in 2018 that generated revenues estimated at USD 52 million, including the Extraordinary African Union Summit; the Mo Ibrahim Good Governance Meeting; the SWIFT African Regional Conference and the Africa Green Revolution Forum.

SIGNIFICANCE

Different sectors across Rwanda's economy have benefitted from the impact of the government's investment efforts in conference tourism, including the aviation sector, which recorded a boost in revenue following an increase in passenger numbers. Hosting major events and forums has made it possible for the country to showcase itself as an ideal host for MICE and a place for top executives and business leaders looking to do business in the country and across the continent. The International Congress and Convention Association, which had named Rwanda as the third most popular destination in Africa for accommodating international meetings and events.

SOUTH AFRICA

South Africa Ratifies Minimum Wage Bill

South Africa's minimum wage bill was recently signed into law, stipulating a minimum national rate of ZAR 20 (approx. USD 1.44) per hour, or ZAR 3,500 (approx. USD 251.37) per month, depending on the number of hours worked. The ZAR 20 (approx. USD 1.44) hourly rate will be phased in slowly in the agriculture and domestic work sectors, with workers earning ZAR 18 (approx. USD 1.29) and ZAR 15 (approx. USD 1.08) per hour respectively. South Africa's average household net-adjusted disposable income per capita is currently about USD 10,872.

A unified national minimum wage, which spans all economic sectors, has been more than four years in the making. It followed the signing of the Ekurhuleni Declaration by business, government, labour and civil society stakeholders, represented at the National Economic Development Council, in November 2014.

SIGNIFICANCE

Over six million workers who have been earning less than the prescribed rate will greatly benefit from the minimum wage coming into effect. In addition, ratings agencies want to see a stable labour market in the country. On the other hand, some economists have warned that it may depress the country's already high unemployment rate further by making it more expensive to hire workers.

TANZANIA

Tanzania's Plans for Gold Smelter Heat Up

Tanzania is preparing to enter into the final stages of negotiation with investors to construct a gold and copper smelter in the country.

According to officials at the Ministry of Minerals, the government has already received a number of offers from prospective mining firms ready to build one, as it works on a number of issues that investors have requested before construction can begin. The investors who have shown interests want assurance of availability of gold and copper concentrates for smelting. Currently, the Bulyanhulu and Buzwagi mines produce around 50,000 tonnes of gold/copper concentrate per year. A presidential ban on exports of unrefined metals prevented mining firm Acacia, which runs the mines, from selling partially processed gold and copper concentrates. The firm has expressed willingness to partner with the government on the possibility of setting up the smelter.

President John Magufuli, seeking more benefits for the country from its natural resources, recently ordered the Mining Minister Dotto Biteko and his team to urgently work on the plan, emphasising that his government had put everything in place; from legal grounds to a conducive environment for miners.

SIGNIFICANCE

Should the findings of two presidential committees be accurate, the extent of the undervaluation found in the Bulyanhulu and Buzwagi mines gold/copper concentrates is substantial, amounting to almost USD 4 billion annually. Having a smelter in the country will make it easier to monitor and obtain exact data on what is being produced, how much and what is sold, for the government to get its rightful share in revenue. The facility would also provide employment and develop the mining industry further.

UGANDA

Uganda's Business Confidence Remains High on Stronger Demand

According to the Stanbic Bank Uganda Purchasing Managers' Index (PMI), business conditions in the private sector improved at the end of 2018 albeit at a slightly slower pace in December compared to the previous month. The index came in at 56.6, slightly lower than November's 55.7. Notably, the PMI is still above the 30-month survey average of 53.1, having exceeded the 50-point level separating improvement from contraction as business conditions improved further in the private sector according to the readings.

Output rose across all of the five broad sectors that are monitored – agriculture, services, wholesale and retail, construction, and industry. Compared to November, growth in new orders rose, driven by an increase in export orders for the second consecutive month.

SIGNIFICANCE

The rise in new business volumes prompted companies across the various sectors to make and sustain new hires in response to stronger demand and greater output requirements. Companies also purchased more inputs and other commodities, with stocks of purchases rising. Economist experts point out that the improvement in business conditions in Uganda has been a combination of a more stable exchange rate and improving agricultural productivity; these could continue to underpin growth for subsequent months. They also express optimism that the economy will expand further on the back of an increase on public investment expenditure.

ZAMBIA

New Taxes Squeeze Mining Firms to Dig Deeper

Zambia, Africa's second-biggest copper producer, plans to introduce new mining duties, replace value-added tax with a sales tax and increase royalties from January 2019, to help bring down mounting public debt and reign in foreign borrowing. However, prevalent concerns have been expressed by the Zambia Chamber of Mines that the move could price Zambia out of the global mining market, a further warning to investors rattled by the government's efforts to squeeze more money from the sector.

The government estimates that mining tax revenues will rise to USD 1.3 billion next year following the tax increases, from USD 800 million this year. Zambia's Chamber of Mines, however, expects revenues would rise to only around USD 840 million.

Copper accounts for more than 70 percent of Zambia's foreign-exchange earnings.

SIGNIFICANCE

Concerns about Zambia's rising debt, alongside additional accusations of hidden borrowing and government corruption, have spooked investors and Western donors in recent months. According to the country's Chamber of Mines, the proposed regime will result in more than half of Zambia's copper producers being in a loss-making position at current prices, with about USD 500 million in capital spending cuts and more than 21,000 jobs at risk, notwithstanding the fact that the government still owes mining firms around USD 550 - 600 million in VAT refunds.

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