AFRICA BULLETIN
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Power Cuts in Zambia Dimmed

With a robust hydraulic and solar power generation industry in recent years, Zambia is now self-sufficient in meeting its electricity energy demand and the country's constant power cuts are now a thing of the past. In addition, the nation's capacity to produce electricity could soon be in surplus and has already stopped electricity imports from neighbouring countries such as Mozambique.

Zambia generates practically all its energy from its own primary resource: biomass, coal and hydroelectricity, with flagship plants such as the power station near the Itezhi-Tezhi Dam, in the south-east of the country, taking centre stage. The USD 375 million Itezhi-Tezhi hydroelectric generating station, which has a 120-megawatt capacity, has already increased the country's power generation capacity by 7.5 percent and supplied an extra 50,000 people with electricity.

Zambia's success can further be attributed to a major energy project on the 2,750 km Zambezi River. The project, which has a projected output of at least 2400MW, is to be built upstream of the Kariba dam, close to the Victoria Falls, at a cost of USD 3 billion.

SIGNIFICANCE

Zambia has been working towards producing enough power to end the crippling daily blackouts and meet the consumer needs of its population of 17 million citizens. With blackouts now a thing of the past, the next step for the Government of Zambia includes plans for an energy surplus over the next two years. To meet this goal, it is exploring renewable energy sources such as solar power, where an ambitious programme is underway, involving the construction of mini solar plants with an overall capacity of 600MW at an estimated cost of USD 1.2 billion. Electricity output will be shared equally, with excess production sold to other member countries of the Southern African Development Community.

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ALGERIA

Larsen & Toubro Strike USD 1 Billion Gas Deal with Sonatrach

Algerian energy firm Sonatrach has awarded Larsen & Toubro, India's largest engineering and construction company, a USD 1 billion contract for the development of three new gas treatment and compression plants on pre-existing gas fields that are located close to each other in the Adrar province of Algeria.

The engineering, procurement, construction and commissioning contract is to set up three central processing facilities that would produce 11 million cubic metres of gas per day. It comprises detailed engineering studies, supply management of materials for the construction, trials and commissioning, training of personnel and operational assistance.

Algeria is Africa's largest natural gas producer and has the 10th largest reserve in the world. Its gas output registered at 135 billion cubic meters in 2018.

SIGNIFICANCE

Heavily dependent on hydrocarbon exports which make up almost 60 percent of Algeria's budget, the country's economy has been hard hit by dwindling gas reserves, rising local consumption and the falling prices of oil since 2005. The award of the project to Larsen & Tourbo is a confident indicator that Algeria still has a substantial reserve of gas and that it can significantly increase its output in the coming years which would go a long way towards boosting the country's economy. The award of the contract also means that more jobs will be created over the period of the plants' construction to the start of operations.

EGYPT

Egypt's Foreign Reserves Hit USD 44 Billion in February

According to the Central Bank of Egypt, the country's foreign reserves reached USD 44.06 billion after rising by USD 1.4 billion at the end of February 2019, compared to USD 42.6 billion in January. The bank further stated that the country's current foreign reserves balance would cover about eight months of Egypt's imports of goods and services. Egypt spends an average of USD 5 billion per month on imports from abroad, with an annual spend of more than USD 55 billion.

Egypt's foreign currency reserves have been witnessing continuous increases since 2014, hitting USD 37 billion in 2017, USD 24.3 billion in 2016, USD 16.4 billion in 2015, and USD 15.3 billion in 2014. In December 2018, however, reserves fell to USD 42.5 billion down from USD 44.5 billion in November. This marked the first drop in the country's foreign reserves since the International Monetary Fund's three-year USD 12 billion loan programme, which was signed in November 2016.

SIGNIFICANCE

An increase in the country's foreign currency reserves boosts its ability and confidence to pay for its imports, repay foreign debts and associated interests, and cope with any economic crises in exceptional circumstances. It is worth noting that Egypt has been negotiating billions of dollars in aid from various lenders to help revive an economy battered by political upheaval since the 2011 revolution, ease a dollar shortage that has crippled import activity and hampered recovery, bring down public debt and control inflation.

ETHIOPIA

Hyundai, Volkswagen to Rev Up Ethiopia's Automotive Industry

Ethiopia's continued efforts towards improving ease of doing business in the country as part of wider economic reforms of the Abiy Ahmed led government seem to be gaining traction in Ethiopia's automotive industry. South Korea's Hyundai Motor Company recently opened a 10,000-a-year vehicle capacity assembly plant in the Ethiopian capital Addis Ababa, its first factory in East Africa. Vehicles that will roll off the assembly line at the plant just outside of the capital include passenger hatchback cars and trucks. Ethiopia has also signed a memorandum of understanding with German car maker Volkswagen to establish an assembly plant in the country and produce automotive components. According to figures from the automobile industry, Ethiopia produces around 10,000 commercial and other vehicles a year for its home market. It imported more than 40,000 cars in 2017.

SIGNIFICANCE

Given the high taxes imposed on car imports, Hyundai and VW can hope that their new locally-assembled cars will prove attractive to Ethiopians. The move is set to have a positive effect on the country's credit rating and will further encourage other companies to come and invest in Ethiopia. Interestingly, the timing of the vehicle manufacturers to position themselves for the lucrative saloon car business could not be better, as the East African Community starts shifting towards newer vehicles with lower emissions by cutting down on used car imports. The establishment of the Regional Automotive Industry Platform of East Africa by the EAC Heads of States 20th Ordinary Summit in Arusha is expected to be endorsed in March 2019. Once operational, the new platform will see the region save more than USD 2 billion annually in car import costs.

GUINEA

USD 148 Million Donor Funds Drive to Finance Local Authorities

Local governments in Guinea are set to benefit from global financing worth GNF 1,350 billion (approx. USD 148 million). The head of government, Ibrahima Kassory Fofana, made the recent announcement as he commented on the financial projections of local authorities to elected officials at the closing ceremony of the Estates General of Decentralisation. According to Prime Minister Ibrahima Kassory Fofana, the World Bank and the French Development Agency have so far confirmed their intention to offer USD 40 million and EUR 10 million (approx. USD 11.3 million) respectively towards supporting Guinea's efforts to consolidate the local government's budget.

SIGNIFICANCE

Local authorities in Guinea and across Africa face myriad challenges in the delivery of fundamental public services. The funds being mobilised will support the Guinean government in the operationalisation of decentralisation and the establishment of the National Agency for Financing Local Authorities, which is in charge of managing the National Fund for Local Development. The funds are further set to be used in developing priority sectors in Guinea, including local and rural development, education and vocational training, energy and water, health, environmental preservation and support to the private sector. In the long term, the local authorities are bound to benefit from the donors' involvement when it comes to improving their debt management capacity by providing financial expertise and improving transparency for the benefit of involved stakeholders.

KENYA

Government Seeks USD 1 Billion Loan to Settle Maturing Debt

Amid caution to cut back on contracting new debt, the government of Kenya is seeking to raise USD 1 billion through a syndicated loan under rising pressure to settle credit maturing in the first half of the year, as well as to finance part of its development expenditure.

The government is expected to settle a USD 816 million debt with an accumulated interest of USD 130 million by March 2019, being a commercial loan from Standard Chartered Bank, Standard Bank, Citi and Rand Merchant Bank procured in March 2017, at an interest rate of eight percent. The new debt, which is being arranged by the Trade and Development Bank and Standard Bank, will be offered in three tranches: two seven-year loans of USD 710 million split into USD 410 million and USD 300 million, and another USD 250 million with a 10-year tenor.

SIGNIFICANCE

In the 2018/19 fiscal year, Kenya had budgeted for external debt repayments amounting to USD 2.5 billion and is now facing large redemptions in 2019. Part of the strategy to refinance its debt was to extend the tenure of some of its loans as well as to replace more expensive debt with cheaper debt. However, in its recently released 2019 Medium Term Debt Management Strategy, the Treasury proposed a cap on commercial loans at four percent of the total external debt and gross external debt financing at 38 percent against 62 percent gross domestic financing. The lower proposal for commercial loans could be seen as an indicator of mounting pressure for the country to reduce its appetite for sovereign and syndicated loans, which have topped external borrowing in the past five years.

MADAGASCAR

NextSource Granted Mining Permit for Molo Graphite Project

The Madagascar government has granted Canadian-based NextSource Materials a 40-year mining license for its Molo graphite project. Located in the Toliara province, the Molo graphite project is a superior-quality super flake graphite deposit. The mining license does not limit mining to any specific volume, so the company will be able to produce as much super flake graphite concentrate as the market demands.

Commissioning is anticipated to start in 2019 and phase one of the project is expected to produce 17,000 tonnes per annum of finished super flake graphite concentrate by 2020. The project is estimated to have a mine life of more than 90 years based on reserves alone. Graphite is used in pencils and as a lubricant, while its high conductivity makes it useful in electronic products such as electrodes, batteries, and solar panels.

SIGNIFICANCE

Madagascar has always been renowned globally for the quality of its graphite and it will be the world's largest producer of high-quality flake graphite in the world once this project takes off. The project is expected to create approximately 170 direct jobs. In the long run, the country will be able to benefit from revenues generated from the sale of the graphite that has been mined. In addition, many other industries and sectors in the economy, including transportation, construction, equipment manufacturing, environmental management, geological services, education and research, among others are bound to receive a major boost from the development of the mine.

MALAWI

Low Rates to Spur Property Market

The Reserve Bank of Malawi (RBM) recently revised the monetary policy rate from 16 percent to 14.5 percent and directed that all banks have their lending rates at 14.9 percent. As at December 2018, some banks had their base lending rates at about 22 percent. An official source at the bank indicates that although the reduced lending rates may positively affect mortgage rates at household level, there is a need to sustain the trend beyond the general elections and the lean period thereafter. The bank official also noted that if inflation remained low and lending rates kept going down, overall gross market yields for real estate would be positively affected. Additionally, the lower cost of investment would mean better yields for rental investments.

SIGNIFICANCE

Of immediate impact is that reduced lending rates will positively affect mortgage rates. In turn, low mortgage rates will assist in house ownership schemes and reduce takeovers that have been very common previously. In addition, commercial real estate developers are set to realise better returns with lower lending rates. This may in turn spur development of more housing schemes, commercial buildings and shopping malls. In the long run, it can be expected that housing schemes will offer a better value for investors, further encouraging private sector participation in property development. In such an event, the real estate sector in Malawi is bound to create employment for most of its skilled technical staff.

MAURITIUS

Mauritius to License Crypto Custodians

Mauritius is expected to license digital asset custodians as part of its plan to create a fintech hub in and for Africa. The island nation's Financial Services Commission said that after publishing draft rules in a consultation paper in November 2018, the framework has now been finalised, effective 1 March 2019. The framework sets out the rules for a licence that allows the holder to provide custody services for digital assets. While the final framework has already been published in full in the Government Gazette, the announcement indicates that holders of the digital asset licence will be mandated to comply with the anti-money laundering and counter-terrorism funding rules in line with international best practices.

The November consultation paper lists a series of stipulations for licensees, including statutory reporting and disclosures to clients, a minimum of reserve assets and a comprehensive program for risk management. Custodians are also expected to follow guidelines for storage of digital asset keys and seeds, demonstrate security procedures for onsite cold storage of assets.

SIGNIFICANCE

In effect, the framework sets out the rules for a licence that allows the holder to provide custody services for digital assets. The revolutionary move to license crypto custodians will steer Mauritius towards an age of digitally-enabled economic growth and reiterates the stance taken over the last year by the country to be a forward thinking and innovative nation that can lead appropriate and sensible regulation for the region. Considering that this is the first framework of its kind globally, it would be interesting to see if other regions across Africa will take it up or model their own framework based on the experience of Mauritius.

MOROCCO

Investment Confidence in Morocco's Private Sector Boosted

The World Bank has agreed to give Morocco a MAD 700 million (approx. USD 73 million) loan to create private sector jobs. The loan was approved through a six-year-partnership with Morocco, from 2019 to 2024, to help Morocco reduce unemployment. The European Bank for Reconstruction and Development (EBRD) also recently granted Morocco a loan of EUR 7.5 million (approx. USD 8.5 million) to support its automotive sector. The loan has been provided to Tuyauto Gestamp Morocco, an automotive equipment manufacturer jointly owned by Morocco's Tuyauto and Spain's Gestamp Automocion. This is the fourth project that ERDB has supported so far this year in the Moroccan automotive sector after Faurecia, Varroc Lightning Systems, and Novares Morocco. In February, Morocco also signed two financial cooperation arrangements worth EUR 30.5 million (approx. USD 34.6 million) with Germany to boost its economic activities in sustainable development.

SIGNIFICANCE

The European bank EBRD has said that its grant will allow approximately 100 young Moroccans to improve their skills through certified vocational training, which will, in turn, improve their job prospects in the automobile industry. The World Bank loan is, on the other hand, set to promote employment in the private sector by growing the human resource capacity, accelerating digitalisation and improving the quality of education, while signing of the two agreements with Germany is intended to support renewable and electric energy and water supply, which will further see Morocco advance on the ease of doing business for local entrepreneurs and improvement of the health sector.

NIGERIA

President Buhari Gets another Shot at Improving Nigeria's Economy

Muhammadu Buhari recently won a second term as Nigeria's president in an election marred by delays and allegations of vote rigging. Buhari defeated his closest rival candidate Atiku Abubakar. Nigeria's Independent National Electoral Commission announced the final count on 20 February, after days of vote tabulating across states. Buhari won handily, securing approximately 56 percent of the vote, compared to Atiku's 41 percent. The 2019 election was initially scheduled for 16 February 2019 but INEC postponed it for one week just hours before polls were due to open, citing logistical difficulties in delivering ballot boxes and other election materials. Buhari, after his victory, promised to once again focus on security, restructuring the economy, and fighting corruption. Despite sluggish growth in the first quarter of 2019 in Nigeria due to the elections, Renaissance research reports a moderate pick-up in growth in 2019 to 2.5 percent versus 2 percent in 2018, mainly on the back of higher oil production and sustained growth in the non-oil sector.

SIGNIFICANCE

In Nigeria, just like many other African countries, elections and the accompanying political uncertainty have often had a significant impact on economic growth, with adverse effects on businesses, sometimes having contracts stalled and major projects abandoned. President Buhari's re-election will allow the administration to continue intensifying its efforts in the creation of jobs, improving the country's infrastructure, facilitating business and entrepreneurship, improving of human capital enhancement services and political inclusion. Given that there will not be a change in administration, investors are more or less assured that there will be no drastic changes in policy.

RWANDA

Rwanda Hedges in USD 400 Million Deal to Produce Methane

Rwanda announced that it has signed a USD 400 million deal with Gasmeth Energy to extract the methane gas from the bed of lake Kivu for use as fuel on a large scale. The lake lies on the border between the Democratic Republic of the Congo and Rwanda where large amounts of boiling lava from volcanic activities in the surrounding rift valley enter the lake and produce large amounts of methane and carbon dioxide.

The seven-year deal will produce bottled gas which should be on sale within two years to domestic and international consumers. Gasmeth Energy which is owned by American, Nigerian and Rwandan investors, said it would finance, build and maintain a gas extraction, processing and compression plant near the lake.

SIGNIFICANCE

The relatively simple process of releasing, collecting and combusting methane is a massive potential source of energy for Rwanda to generate electricity, which can then be injected into the local power grid to power industrial and manufacturing operations as well as homes with affordable alternative fuel, while reducing reliance on fossil fuels. Methane, in the form of natural gas, is also an important contributor to key processes for a variety of local industries, including fabric, plastic and fertiliser manufacturers and food processors. Its availability locally means that it will be cheaper to source and bottle, translating to reduced costs of production that hopefully will be passed down to the local consumer.

SOUTH AFRICA

Total Discovers Gas off South African Coast

French energy giant Total recently discovered a large gas field off the South African coast. Total, along with its partners, owns the exploration rights to the Brulpadda block, an area of 19,000 km², some 275km south of Mossel Bay. The discovery, which comes against the backdrop of rising fuel prices and an electricity utility in crisis, has raised hopes that it may be a game changer. It is not yet clear how big the find is.

In a press release, Total estimates the find to be one billion barrels of global resources, gas and condensate light oil. This single discovery in South Africa beats ExxonMobil's discovery of a total of 895 million barrels in wells across the world which had been the most successful exploration worldwide. Exploration could happen within the next one to three years.

SIGNIFICANCE

The discovery of gas will be a major source of revenue in the form of taxes as Total and its partners will pay the regular 28 percent corporate tax on all taxable income from Brulpadda. Oil currently accounts for more than 15 percent of South Africa's imports and this discovery is further set to bring down the figure significantly once production begins, since there is a ready local market. The Brulpadda find could have a massive boost to all kinds of businesses in South Africa, including to companies providing marine services catering supplies and transport to get supplies to the deep-sea platforms. In the long run, the gas could supplement the main forms of renewable energy available to South Africa—solar and wind—which are both intermittent.

TANZANIA

Tanzania Enacts Significant Reforms to Mining Regulations

The Tanzania Ministry of Minerals recently made significant amendments to the Mining Local Content Regulations, 2018. Among key notable changes is the decrease in the local shareholding requirement for indigenous Tanzanian companies from 51 to 20 percent. An "indigenous Tanzanian company" is also now defined as a company incorporated under the Companies Act that has at least 20 percent of its equity owned by a citizen or citizens of Tanzania, compared to 51 percent previously. Timelines for the Mining Commission and Local Content Committee have been extended for certain stages of review. Further, the local shareholding requirement for a Tanzanian bank to meet the local content requirements has been reduced. With regards to the provision of financial services, contractors, subcontractors, licensees or other allied entities shall maintain a bank account with a Tanzanian bank and transact business through banks in the country. A "Tanzanian bank" is defined as one that has 100 percent Tanzanian or not less than 20 percent of Tanzanian shareholding. This is in contrast to the former definition which required 100 percent Tanzanian or a majority Tanzanian shareholding.

SIGNIFICANCE

The amendments to the Mining Local Content Regulations could be considered a welcome change for banks, mining companies and allied stakeholders doing business in Tanzania. Banking requirements have been made flexible, as not many banks operating in Tanzania fell under the previous definition of "indigenous Tanzanian banks". Majority of miners would have found it difficult to maintain a bank account with a bank that is 100 percent Tanzanian owned, while foreign investors and shareholders in banks operating in Tanzania have had to give up their majority shareholding. Furthermore, the changes will create a better investment climate for foreign investors in the mining and banking sector.

UGANDA

Connection between MTN and Uganda Grows Shaky

Uganda has accused the country's biggest telecoms operator, MTN Uganda, of under-declaring its sales and causing public revenue losses, in a further souring of relations with the South African-owned company. MTN has rejected the government's accusations and said it was fully meeting all its tax obligations. According to MTN officials, revenues are independently audited and the company remains firm that all revenues have been correctly accounted for and are compliant on all tax matters. Official government sources say scrutiny of MTN came after the government acquired the capacity to monitor telecom firms' transactions for tax compliance and reporting purposes. Government spokesman Ofwono Opondo said MTN has been found, in some instances, not to have been making full declarations of transactions.

SIGNIFICANCE

Relations between the telecoms firm and the country have been strained over a series of issues, including a security raid on the company's data centre, deportation of its top executives, accusations of under-reporting revenues and delayed renewal of its operating licence which have dragged on since 2017. MTN has also been under political pressure to list its shares on the local bourse to facilitate domestic ownership of the company and ensure more of the money it earns stays in the country. Any rash actions against the company could have a ripple effect on investor perception while the grave charges levelled against the company and its foreign employees could be causing unnecessary diplomatic friction.

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