AFRICA BULLETIN

SEPTEMBER 2019

ALN

Algeria Considers Lowering Guard on Foreign Borrowing and Investors

Algeria recently signalled that it may be considering borrowing from external sources and lifting some of its restrictions on foreign investment. The OPEC member has been struggling to revive its economy and the government has been wary of turning to foreign financing after it was forced to restructure billions of dollars worth of loans from foreign banks in the 1990s. According to the state-run APS news agency, the draft budget law for 2020 prepared by the Finance Minister Mohamed Loukal proposes a “selective recourse to external finances from international financial institutions” for “profitable and solvable” projects. The current cap on foreigners owning more than 49 percent of companies would also be lifted for projects involving non-strategic enterprises.

The ratio of foreign debt to the gross domestic product in the country stood at 2.1 percent in 2018, while foreign direct investment amounted to 0.8 percent of economic output, according to the International Monetary Fund.

SIGNIFICANCE

Algeria has been struggling to shift its economy away from hydrocarbons, which account for over 90 percent of export revenue, and instead opted to tighten import restrictions and to rely on borrowing from the Central Bank. As a result, according to the IMF, foreign reserves plunged from around USD 177 billion in 2014 to an expected USD 64 billion this year. The proposed law could reduce borrowing from the Central Bank, though it is unlikely to provide quick relief especially since it doesn’t affect the vital energy sector where Algeria is planning to keep the main clauses in its energy law, including a rule limiting foreign stakes in oil and gas projects.

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EGYPT

Egypt's Business Sentiment Upbeat Despite Subdued Private Sector Activity

According to the latest IHS Markit Egypt Purchasing Managers' Index (PMI), Egypt's investors' confidence around future activities rose to an 18-month high in August as more Egyptian firms expressed optimism for growth. Economists at IHS Markit acknowledge that concerns around the current economic and employment conditions continue to have an impact on the country's business activities. Notably new export orders grew for the second consecutive month. Egyptian companies said there was a noted improvement in foreign markets, as contracts from trading partners in the Middle East and other regions increased. According to the PMI report, this was an indication that the fall in total sales was driven by weakness in domestic demand. To meet the surge in export sales, employment rose marginally in August, ending the previous three-month decline. On average, the rate of job creation was the strongest in a year.

On the other hand, Egypt's PMI in the non-oil private sector fell by 1.7 percent, recording 49.4 in August just below the 50-point threshold that separates growth from contraction and lower than the 50.3 reported in July.

SIGNIFICANCE

Earlier in the year, the International Monetary Fund approved a USD 2 billion tranche, the last instalment of a three-year USD 12 billion loan to Egypt that has reportedly helped revive the country's economy through tough austerity measures. According to financial experts, the reforms have so far helped end a major dollar shortage, repaired overburdened finances and pulled the country out of an economic crisis, despite Egyptians having had to bear the brunt of the austerity measures.

ETHIOPIA

First Brick Holdings to Accelerate Digital Transformation in Ethiopia

Ethiopia is set to have its first privately-owned data centre known as Raxio Ethiopia, which will be built by First Brick Holdings (FBH), a Roha Group investment company. The new data centre will be built and operated as a Tier III standard facility to meet the large demand for high-quality facilities to store and process data safely and securely in Ethiopia.

The FBH announcement comes as the telecoms sector in Ethiopia opens up for new carriers and Internet service providers, and as regulatory changes are being designed to enable broader technology access and encourage the development of technology infrastructure. Raxio Ethiopia will target to serve major industries, among them financial services, cloud service providers, IT companies, media companies, local and regional companies, and content delivery networks.

SIGNIFICANCE

The Raxio Ethiopia investment can be expected to transform the digital economy in the country by opening up new opportunities for financial services, governments and small to medium enterprises and by addressing their critical needs for data storage, business continuity and disaster recovery, as well as by creating a network of data centres able to accommodate international and regional customers. The facility will enable Ethiopian companies to operate more effectively locally, to compete at a regional and global level and it will provide an environment where new companies focused on the digital economy can thrive. Companies will further benefit from a shared infrastructure model and substantially reduce operational and capital costs.

GUINEA

HPX Clinches Deal to Develop Rich Iron Ore Nimba Project

High Power Exploration (HPX), a private US mining company, is set to control Guinea's Mount Nimba iron ore deposit after it recently signed a deal to buy a 95 percent controlling stake owned by BHP, the world's biggest mining company, US group Newmont Goldcorp and French nuclear power group Orano.

Located in the south-east of Guinea, the Nimba deposit is estimated to hold around one billion tonnes of high-grade ore with an iron content of 65 percent. HPX has revealed that it was planning to produce between one million to five million tonnes in the first phase. Feasibility studies are being completed with the aim of increasing output to at least 20 million tonnes. Under the deal, the government of Guinea will be handed a 15 percent stake in Société des Mines de Fer de Guinée (SMFG), the entity that owns Nimba. The government will also get two seats on the board of SMFG.

SIGNIFICANCE

As HPX makes an entry into Guinea's mining scene, major social and economic benefits can be expected to flow from the Nimba mine with local procurement of goods and services, local recruitment and training of the workforce, the upgrading of transport routes and infrastructure, and the resulting economic benefits from increased production and export income for the government. In a statement by HPX, more than 95 percent of the project's employees and contractors are expected to be Guinean nationals and the project's recruitment and training program will give priority to qualified Guineans for senior management and professional roles.

KENYA

Proposed High Taxes on Digital Economy Could Hinder Growth

According to the 2019 Digital Economy report from the United Nations Conference on Trade and Development (UNCTAD), taxes on internet and mobile money services could be counter-productive and may slow down transactions by online businesses. Kenya is one of the countries that has proposed levying taxes on internet and mobile money in a bid to spread the tax burden beyond workers and companies.

According to statistics from the Kenya Revenue Authority (KRA), in the year ended June 2019, higher duty on fees for internet, money transfer and airtime generated nearly KES 13.44 billion (approx. 130 million) against KES 20.2 billion (approx. 195 million) that the Treasury had targeted. The KRA revealed that lack of clarity on what amounts to premium-based or related commissions that are exempt from excise duty has led to abuse of the exemption by taxpayers.

SIGNIFICANCE

In the Finance Bill 2019, set to be debated and passed in October, the Treasury has clarified that firms making cash from digital marketplaces in Kenya are subject to income and value added taxes just like those in brick-and-motor operations. The KRA will be targeting revenue generated in Kenya by global internet-based giants such as Facebook, Uber, YouTube, Amazon and Netflix. Under section 16 of the Tax Procedures Act, non-resident companies will be required to pay VAT and income through their tax representatives. It will be interesting to see the outcome of the finance bill 2019 when it is reintroduced in parliament with lawmakers rooting for compliance with local regulation and tech companies protesting double taxation. Taxation of digital economies is not a novel issue as it is also being discussed by the Organisation for Economic Cooperation and Development member states.

MAURITIUS

Mauritius Joins Africa Finance Corporation in Bid to Boost Infrastructure Industry

Mauritius has joined the Africa Finance Corporation (AFC), a financial institution providing project structuring expertise and risk capital in Africa, as the 23rd member state. According to a statement by AFC, Mauritius has continued to register impressive economic progress, including a near fivefold increase in its GDP per capita in the last 30 years. The country is also one of the highest-ranked countries in Africa in the UN's Human Development Index.

The Mauritius Africa Fund, SBM Group and AFC are in ongoing discussions aimed at establishing an Africa-focused infrastructure and industrialisation fund. A Mauritian initiative, the fund will seek to collaborate and mobilise funds from key institutional investors for investment in crucial infrastructure projects and facilitate the setting up of special economic zones across Africa.

SIGNIFICANCE

The Mauritian authorities, the private sector and AFC are now expected to engage on how to best contribute towards developing the country's infrastructure investment, with a particular focus on three sectors that Mauritius has emphasised on in its growth agenda: power, transport, and logistics. AFC's mandate to develop and finance infrastructure and industrial assets for enhanced productivity and economic growth of African states presents an opportunity for Mauritius to identify and pursue new strategies to optimise low-cost funding sources that will enable investment in high-quality assets, as well as promote private sector-led solutions as part of its economic growth strategy.

MOROCCO

Segula Technologies to Open Automotive Excellence Center in Morocco

Segula Technologies, a global engineering group, is set to open an automotive sector-dedicated "Centre of Excellence" in Agadir, Morocco. The centre will be dedicated to research and to developing technological innovation in mechanical engineering. According to the Wall Street Journal, Morocco has become a leading automotive hub with the country attracting several automotive manufacturers such as Renault and Peugeot.

The centre is expected to support the sector by providing a pool of highly trained and qualified engineers, by offering research and training in artificial intelligence and additive manufacturing as it responds to the growing needs of the industry. The goal of the company is to employ 300 full-time engineers and researchers by 2020 with a target of reaching 2000 employees by 2025. The centre is set to begin operations from October.

SIGNIFICANCE

Morocco has been making reforms in its investment policies to attract investors as it seeks to position the country as an investment and innovation hub. This is evidenced by companies such as Segula and PSA Group, which recently set up its first PSA Peugeot African industrial complex in Kenitra. In addition, these companies have provided opportunities for job creation and skills transfer which will contribute to the overall growth of the economy while reducing unemployment and integrate youth into the job market.

MOZAMBIQUE

USD 880 Million in Tax Targeted from Anadarko Takeover

In a deal expected to raise much-needed revenue for Mozambique, French oil company Total has completed the acquisition of Anadarko's 26.5 percent stake in Mozambique's liquefied natural gas project for USD 3.9 billion. As a result of the deal, Mozambique is said to be targeting USD 880 million in capital gains tax.

Anadarko has agreed to be taken over by Occidental Petroleum Corp after it initially led a liquefied natural gas project in Mozambique, but was replaced by Total after the French oil giant agreed to buy Anadarko's African assets for USD 8.8 billion as part of the Occidental takeover.

SIGNIFICANCE

Mozambique is banking on its massive natural gas reserves to grow its economy with the recent signing of mega deals despite being hard hit by a hidden debts scandal which prompted donors to cut off funding and deterred investment. Earlier in June 2019, Mozambique LNG committed USD 20-billion on the development of integrated offshore and onshore gas fields, through LNG, in the Rovuma basin, and in December 2019, Rovuma LNG (led by ExxonMobil and ENI) is expected to commit USD 30-billion to develop the same. Each of these projects marks the largest investment of its kind in Africa, giving Mozambique the chance to grow its USD 14 billion economy and repay its government debt. There will also be opportunities for growing and developing human capital working on the LNG projects and other domestic gas investments as employees, contractors, manufacturers, service providers and consultants.

NIGERIA

AfDB Supports Development of Nigeria's Energy Access Fund

The African Development Bank's (AfDB) Sustainable Energy Fund for Africa (SEFA) has approved a USD 500,000 grant to support Nigeria Energy Access Fund (NEAF), a new private equity fund developed by All On, a Nigerian impact investment firm financed by Shell. A first-of-its-kind facility, NEAF will provide equity solutions to viable projects and businesses currently unavailable in the market. The SEFA grant will support the set-up of NEAF which is expected to make strategic investments in sustainable energy in Nigeria, particularly in the country's off-grid and mini-grid sectors as well as to mobilise private sector investors.

AfDB has been supporting clean energy developments in Nigeria. In 2018, the Bank's Board of Directors approved a USD 200 million package to support Nigeria Electrification Project, designed to help scale-up green mini-grid solutions with subsidies, among other measures. In the same year, SEFA approved a USD 1.5 million grant to support the first phase of the Nigerian government's Jigawa 1-GigaWatts Independent Power Producer Solar Procurement Programme.

SIGNIFICANCE

According to the AfDB, Nigeria requires tailor-made and innovative market-based solutions to provide its off-grid population, estimated at 100 million, access to sustainable sources of energy. The IMF suggests that the lack of access to reliable electricity costs Nigeria an estimated USD 29 billion a year. Renewable technologies may be able to address this problem. The SEFA grant will be instrumental in securing necessary funding for private sector investment and will boost the government's power sector recovery plans. NEAF is expected to complement AfDB's sustainable energy initiatives that have so far been implemented in the country.

RWANDA

Volkswagen Injects USD 50 Million in Ride-Hailing Venture

Volkswagen (VW) is banking on a new business model which is still in its early stage to expand its market share in highly competitive African markets. With the introduction of the ride-hailing and car-sharing services in the country, VW hopes to expand in Africa starting with Ethiopia and Ghana. According to VW, the decision to focus on the new business model was based on a series of studies conducted by the firm which revealed that there is no demand for new cars and that low purchasing power and lack of financing would put them out of reach of most Africans. In addition, the firm faces stiff competition from imports that offer the customers cheaper options. VW is investing USD 50 million in the new business and is using Rwanda, a country with a growing reputation for innovation, as its pilot. The app for its ride-service has over 23,000 registered users in Kigali with around 2,200 active users in a city of 850,000 people. After a year or two of service, the VW vehicles will be sold onto the second-hand market at a price more accessible to average Rwandans. VW is also opening certified service centres.

SIGNIFICANCE

Industry experts have questioned whether VW can compete with companies such as Uber and Bolt in Africa and whether relying on data from Rwanda where these companies are absent would accurately gauge conditions in bigger markets. If successful, the model could help Volkswagen, and others, to navigate Africa's challenging auto sector by securing a foothold in the region's rapidly growing ride-hailing space. In addition, such innovation ventures are set to provide opportunities for job creation and skills transfer which will, in turn, contribute to the overall growth of the economy.

SOUTH AFRICA

South Africa Revives Plan to Take Free Stake in Energy Projects

The Department of Mineral Resources and Energy is drafting a new law that will give the government a 20 percent free stake in exploration and production rights on all new oil and gas ventures, revising the terms of a proposal put on hold four years ago. The proposed bill is still being refined and will be submitted to lawmakers in the final quarter of the year. Other key aspects of the proposed law include contract terms offered to companies being informed by location of the exploration block and whether they tap a conventional or unconventional resource, provision for a 10 percent stake in new ventures for local investors and empowering the energy minister to reserve some exploration blocks for companies that are wholly owned by local investors.

The oil and gas companies that have secured exploration rights are reluctant to engage in costly drilling while they wait for clarity from the government on the commercial terms. Concluding the legislation has become more urgent since the first significant deep-water oil find off the coast of South Africa in February by Total. Since the discovery, Shell has bought a stake in the exploration blocks in the same area from Anadarko.

SIGNIFICANCE

If the proposed bills by the government to take a free stake in energy projects pass, oil and gas companies would have to forfeit a significant portion of their finds in an industry that is already high-risk and capital-intensive. This may act as a deterrent to potential investors and likely lead to loss of job opportunities in a country that is grappling with an increase in unemployment.

TANZANIA

Tanzania Cracks Whip on Banks for Lax Anti-Money Laundering Controls

Five commercial banks have been fined over USD 800,000 for breach of anti-money laundering rules as the government moves to tighten regulatory oversight in Tanzania's financial services sector. The Bank of Tanzania indicated that the fines were imposed for failure to conduct proper customer due diligence and file suspicious transaction reports to the country's Financial Intelligence Unit.

The affected banks, I&M Bank, Equity Bank, UBL, Habib African Bank and African Banking Corporation, were given three months by the regulator to implement various anti-money laundering measures, which include taking disciplinary action against all staff members who were involved in opening implicated deposit accounts contrary to KYC (know your customer) requirements.

SIGNIFICANCE

Over the past few years, Tanzania has been tightening its regulatory oversight over commercial banks and other financial institutions. In August, the central bank gave financial institutions in Tanzania 90 days to establish primary data centres in the country and imposed hefty fines on those who failed to comply. This latest move by the government is set to curb increasing cases of anti-money laundering and terrorism financing.

UGANDA

Increase in Deposit Protection Cover Could Cut Losses for Big Depositors

The government of Uganda is seeking to raise the official deposit protection cover, the maximum amount of money provided by the government for compensation of depositors who hold cash in closed banks or other defunct financial institutions, from UGX 3 million (approx. USD 810) to UGX 10 million (approx. USD 2,700). The move promises a huge relief to citizens who are holding huge account balances in case of a bank collapse.

As of June 2018, there were 33 contributing financial institutions enlisted, comprising 24 commercial banks, four credit institutions and five deposit-taking microfinance institutions.

The new reform proposal is in the final drafting stage, with officials at the Deposit Protection Fund making final touches on the framework before submitting it to the Fund's board for discussion and approval.

SIGNIFICANCE

The current deposit protection ceiling was introduced in the 1990s under the repealed Financial Institutions Statute of 1993. However, significant growth registered in customer numbers, deposits and service providers within the financial sector since 2004 and movements in macroeconomic indicators such as inflation, have rendered it obsolete. The expansion of the deposit protection cover will cut losses for big depositors affected by future bank closures. Under the existing rules, regulated financial institutions are required to contribute 0.2 percent of the value of annual deposits to the Deposit Protection Fund; a fee that might be raised to support a higher deposit protection cover in an industry troubled by previous bank failures.

ZAMBIA

Zambia to Rehabilitate USD 46 Million Chishimba Power Station

Zambia Electricity Supply Corporation (Zesco) and German development agency Kreditanstalt für Wiederaufbau (KfW) signed an agreement for a loan of USD 46 million for the rehabilitation and extension of the Chishimba hydroelectric power plant in Kasama district located in Zambia's Northern Province. The power plant is a run-of-river where the turbines of the installation run due to the force of the current of the Chishimba Falls, on the Luombe River. The Chishimba hydroelectric power plant currently has two units. The project involves the installation of a third unit that will house three horizontal 5 MW Francis turbine generator sets.

In 2016, Zesco extended its 330 KV transport network from the Pensulo substation in Serenje District to Kasama in efforts to support commerce in and around Kasama. The network has led to significant improvements in the quality and stability of the electricity supply in the area.

SIGNIFICANCE

The Chishimba hydroelectric power plant was last upgraded in 1971 with its capacity being increased from 0.9MW to 6MW. The infrastructure built on the Chishimba Falls was originally designed to provide electricity to Kasama town and other small settlements in the area. The power plant is expected to have a capacity of 15MW by 2021 which will contribute to a significant reduction of the power deficit in the country as well as increase trade in Kasama and its environs.

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