AFRICA BULLETIN

DECEMBER 2019

ALN

RWANDA

Qatar Airways Swoops in to Acquire 60 Percent Stake in USD 1.3 Billion Rwanda Airport

Rwanda and Qatar Airways have signed an airport deal that will see the two parties set up a joint venture to build, own, and operate the new airport in the district of Bugesera. Qatar Airways has agreed to take a 60 percent stake in the airport whose construction is now estimated to cost USD 1.3 billion, while the government of Rwanda retains 40 percent. With the Qatari investors in, the deadline for the first phase of construction has been pushed from 2020 to 2025 due to the mandatory redesigning of the airport that aims to accommodate more passengers while full completion is expected for 2032.

Qatar waived visa requirements for Rwanda travellers in November 2019, while Rwanda approved a bilateral investment treaty that both countries had signed in 2018.

SIGNIFICANCE

The new capacity under the Rwanda and Qatar Airways airport deal will see the airport not only serve Rwanda but the region as a hub. According to the Rwanda Development Board, the first phase of construction would provide facilities for seven million passengers a year in Bugesera district, about 25km southeast of the capital Kigali. The second phase, expected to be completed by 2032, would double capacity to 14 million passengers a year. According to Rwanda's infrastructure ministry officials, the country's national carrier, RwandAir, has made orders for the purchase of more wide-body planes while it prepares to expand in preparation for a bigger airport.

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ALGERIA

Apicorp Finances Sonatrach First Overseas Acquisition

The Arab Petroleum Investments Corporation (Apicorp), a multilateral development bank, and Sonatrach Petroleum Investment Corporation, a subsidiary of the Algerian national oil company Sonatrach, agreed to two loan facilities with a combined worth of USD 250 million. Sonatrach owns about 80 percent of the total hydrocarbon production in Algeria and has about 12.2 billion barrels of proven oil reserves. The first USD 100 million loan will be used to fund maintenance of the Sonatrach Raffineria Italiana complex in Sicily which was acquired from Exxon Mobil in 2018 by Sonatrach. The second loan, a USD 150 million syndicated letter of credit, is for the purchase of Saudi Aramco crude oil by Sonatrach Raffineria. According to Apicorp, the bank strives to provide solutions that drive innovation and boost sustainability of the oil and gas sector while exploring opportunities in Algeria and other member states.

SIGNIFICANCE

Raffineria Italiana, Sonatrach's first overseas acquisition is an integrated refinery complex which has access to major global shipping routes through the Mediterranean Sea. The refinery has a capacity of 200,000 barrels of crude oil a day and produces a wide range of downstream products, including gasoline, distillates, fuel oils, lubricants, asphalts and chemicals.

Sonatrach Petroleum Investment Corporation's strategic investment in international refining through Raffinera Italiana is part of its efforts to diversify the country's energy assets and secure reliable supplies of crude oil. This is expected to meet local energy demand and address the imbalances in petroleum supplies of the domestic market.

EGYPT

Egypt Competition Watchdog Approves Uber's Acquisition of Careem

The Egyptian Competition Authority (ECA) recently approved Uber's USD 3.1 billion acquisition of regional rival Careem, with conditions that are meant to keep the local market competitive. The approval is a big win for Uber and Careem as the authority has been one of the most vocal on the acquisition. Careem will become a wholly owned subsidiary of Uber but will continue to operate as an independent brand with independent management.

Under a series of commitments Uber and Careem agreed to comply with a cap placed by ECA if they intend to increase their fares as well as a cap on the surge price at 2.5 times to be applied to a maximum of 30 percent of the annual trips. In addition, both parties are required to abandon exclusivity agreements with partners in Egypt to reduce barriers to entry into the market, allow new competitors access to Uber's mapping and trip data as well as allow users to port their data (with their consent) to other similar apps in case of a new entrant.

SIGNIFICANCE

With the acquisition of Careem, Uber will be able to expand its footprint in the Middle East with Egypt's population expected to grow to 100 million. The two platforms will build upon the each other's unique strengths allowing the entities to expand the variety and reliability of their service offering. The acquisition will also offer economic opportunities due to trip growth and predictable earning to benefit the drivers and the riders.

ETHIOPIA

IMF, Ethiopia Reach USD 2.9 Billion Financing Package Agreement

The International Monetary Fund's (IMF) Executive Board and the Ethiopian government recently reached an agreement for a three-year USD 2.9 billion financing package to support the country's economic reform program. According to a statement by the IMF, the agreement, supported by the Fund's Extended Credit Facility and Extended Fund Facility, aims to support the authorities' implementation of their ambitious reform agenda and catalyse concessional donor financing.

Ethiopia has previously relied on domestic resources rather than foreign investment to fuel its rapid growth – foreign banks and portfolio investors are still forbidden – but, according to financial analysts, the IMF agreement marks a shift which may accelerate plans to liberalise its economy. Ethiopia's foreign exchange shortages have worsened in the past five years as the government spent heavily on infrastructure before export earnings from new sectors such as manufacturing took off.

SIGNIFICANCE

The Ethiopian economic reform programme is expected to focus on addressing the foreign exchange shortage and transitioning to a more flexible exchange rate regime, while working to strengthen oversight and management of state-owned enterprises. The IMF acknowledges that the fund-supported programme would also work to free up domestic revenue for essential infrastructure spending; pave way for financial sector reforms to support private investment and modernise the monetary policy framework; and strengthen supervisory framework and financial safety nets. Coupled with the launch of the Addis Ababa stock market in 2020, the programme will encourage greater foreign investor participation in, and the diversification of one of Africa's fastest growing economies.

GUINEA

Guinea Launches Site to Improve on Data Sharing Transparency

Guinea has established a national summary data page (NSDP), an online portal for sharing macroeconomic and financial data to interested parties, implementing the recommendations of the IMF's enhanced General Data Dissemination System (e-GDDS). The NSDP serves as a one-stop dissemination vehicle for essential macroeconomic and financial data. The e GDDS was endorsed by the IMF's Executive Board in May 2015 to support and improve data transparency, encourage statistical development, and help create synergies between data dissemination and surveillance. The NSDP is hosted by the African Development Bank through its Open Data Platform. Data available on the page includes statistics published by official data producers, including the Central Bank of Guinea, the National Statistics Institute, the Ministry of Economy and Finance and the Ministry of Budget.

SIGNIFICANCE

It can be expected that making this information easily accessible will allow users to have access to timely data and will bring greater data transparency. According to the IMF, publishing essential macroeconomic data through the NSDP will provide national policy makers, including investors and rating agencies, easy access to information critical for monitoring Guinea's economic conditions and policies.

KENYA

Merger Wave Hits Kenya's Banking Sector

Kenya's banking sector recorded several mergers and acquisitions in the year 2019, and more are predicted in the next two years as capital raising options diminish for smaller struggling lenders. Kenya's Transnational Bank was acquired by Nigeria's largest retail lender, Access Bank.

Just two and a half years since it started operations, the loss-making Mayfair Bank is being sold to a leading Egyptian bank, the Commercial International Bank. Spire Bank is also looking for a strategic investor as is Jamii Bora Bank and Consolidated Bank. Rare merger activity has also been recorded at the top band of the country's banking sector. Kenya's largest bank by assets, KCB Group, this year acquired National Bank of Kenya. Commercial Bank of Africa and NIC Bank recently concluded a merger which is expected to create the country's third-largest bank by assets.

SIGNIFICANCE

With more than 40 banks in the market, financial sector analysts have acknowledged that the sector is overbanked, with the top five banks accounting for 46 percent of the sector assets. Regulatory changes, such as the interest rate cap and stricter capital requirements, are putting smaller lenders under pressure and inviting takeovers by large peers. According to the Central Bank of Kenya Governor, there is an indication of more market-driven consolidations, especially for mid and lower-tier lenders. Whereas merges and acquisitions are strategies that bank managers adopt to increase profitability, the regulatory perspective is that it enhances stability of the resultant entity and the entire banking sector.

MADAGASCAR

50 MW Solar Project to Light up Madagascar

Groupe Filatex, a real estate developer based in Antananarivo, is completing solar power plants in four cities on the island to boost access to electricity in the nation of 26 million people. The project is a joint venture with Canada's DERA Energy and according to a statement by the company, the plants will have a combined capacity of 50 megawatts. The company, which employs 15,000 people mostly in the real estate and hospitality sectors, plans to install another 50 megawatts next year. The solar panels will be supplied by Canadian Solar Inc. According to the World Bank's Doing Business 2019 report, Madagascar is ranked 186 out of 190 countries in terms of access to power.

SIGNIFICANCE

With an average of almost 2,800 hours of sunlight a year, Madagascar is well placed to benefit from solar energy. Just 15 percent of the population has access to electricity and the total generation capacity is about 500 megawatts. The solar plants set to be switched on in four cities are expected to supply power to 1 million people and improve the ease of doing business across various sectors. According to a statement by the state-owned electric utility company Jirama, they will be able to cut costs by up to 40 percent and reduce reliance on fossil fuels. The project is further expected to reduce electricity costs in mining and agriculture and will produce power at about USD 1m/MW, in line with industry norms.

MOROCCO

Morocco Moves to Regulate Crowdfunding

The long-awaited legal framework to regulate the collaborative financing method is coming to Morocco. A bill on crowdfunding, which has been prepared and was supposed to be adopted in 2018 according to the presentation note of the Finance Law of 2018 issued by the Ministry of Economy and Finance, is currently being examined by the deputies with the aim of providing a framework. Crowdfunding transactions covered by the bill are debt, equity or donation-based. The bill also provides for crowdfunding platforms dedicated to the implementation of sharia-compliant crowdfunding transactions. All crowdfunding companies will be duly licensed and controlled either by the Moroccan central bank, Bank Al Maghrib, when carrying out debt or donation-based crowdfunding transactions, or by the Moroccan Capital Markets Authority when operating equity crowdfunding.

SIGNIFICANCE

Financial experts have acknowledged the rise of crowdfunding in Morocco, which has undergone a significant evolution with more than 70 projects worth over USD 208,000 having been financed through crowdfunding. In addition, the objectives of setting up a legal framework support this method of collaborative financing, to include mobilising new sources of funding for small and medium-sized enterprises and young people with innovative projects as well as financing projects with a high social impact. It will be interesting to see how the banks, which are reluctant to finance small projects, as well as venture capitalists will react to the new regulation should it be adopted.

MOZAMBIQUE

Japan Provides USD 37.5 Million for Construction of Nacala Power Plant

The Japanese government donated USD 37.5 million for the construction of a power plant in Nacala, in the northern province of Nampula after an agreement signed by the Foreign Affairs Minister, José Pacheco, and the Japanese Ambassador in Mozambique, Toshio Ikeda. The Japanese Government will also provide USD 21.3 for the construction of four schools in four districts in Zambezia province. The support is the result of TICAD 7, a ministerial meeting between Japan and African governments in Japan. The construction of the power plant aims to improve the quality and capacity of energy supply, in addition to providing electricity to the Nacala Corridor (CLN), one of the special economic zones where Japan has investments through Mitsui.

The corridor has been in operation since 2016 and is an investment of USD 4.5 billion that brings together the Brazilian multinational Vale, the Japanese conglomerate Mitsui and the Mozambican public railway company CFM. The CLN comprises a 912-kilometre railroad and a deep-water port terminal that handles the coal that the Brazilian mining company Vale produces in Moatize district, Tete province in central Mozambique.

SIGNIFICANCE

The construction of the power plant is anticipated to stabilise and improve power supply in northern Mozambique, where there is a severe power shortage due to increased demand. In addition, the power plant will assist in reducing the reliance of diesel generators while boosting the electrical loads that the grid can support. The power plant will also contribute to the economic and social development of the region.

NIGERIA

Nigeria Moves to Boost LNG Output to Above 30 Percent

Nigeria recently signed a major gas expansion deal which is expected to boost its liquefied natural gas (LNG) output by more than 30 percent.

The final investment decision on the Train 7 processing unit at the Bonny Island plant was signed by Nigeria LNG (NLNG) partners: state-run Nigerian National Petroleum Corporation, Eni, Total and Royal Dutch Shell in Abuja. NLNG indicated in a statement that the new train is expected to boost output by 35 percent to 30 million tonnes per year and will arrest a decline in Nigeria's LNG output. In December 2019, Nigeria LNG signed 20-year supply agreements with Shell, Eni and Nigerian oil company Oando to feed the Train 7 project. Commodities trader, Vitol, also signed a 10-year deal with NLNG earlier this month to buy 500,000 tonnes of LNG per year from other trains.

SIGNIFICANCE

The West African country is rich in oil and gas but it has been struggling to boost its output of both resources. Its declining LNG production last year pushed it down to the world's fifth largest producer, with the United States taking its place at number four. This LNG agreement signifies a renewed confidence in the much-needed collaboration with oil majors, including Total, Shell, Chevron and ExxonMobil, who are trying to pare back some Nigerian assets as they focus on projects elsewhere, including US shale. The project is expected to generate USD 20 billion in net revenue for the government and create some 10,000 direct jobs.

UGANDA

Chilli Exports Restricted to Safeguard International Horticulture Market

Uganda recently issued a statutory instrument limiting exports of hot pepper (Capsicum Annum) plant products to the European Union (EU). The country's Ministry of Agriculture however emphasised that the measure is a restriction and not a ban. According to officials at the ministry's plant protection division, the restriction is expected to be in force for four months, until April 2020. However, exporters who are able to demonstrate compliance with the sanitary and phytosanitary conditions along their supply chain will be allowed to continue with regular exports even during the period.

SIGNIFICANCE

According to official government records, Uganda is scrambling to implement long-overdue reforms, noting that earnings from horticulture are estimated to have declined from an average of USD 130 million a year between 2012 and 2014 to between USD 80 and USD 100 million between 2016 and 2018. The control measure restricting the export of chilli is expected to control pests and not to trade in infested products under the International Plant Protection Convention and as such stem a possible loss of the country's lucrative EU horticulture market.

SOUTH AFRICA

South African Airways Goes into Business Rescue in Bid to Clear Debt Runway

South Africa's government has announced that it will place the national airline, South African Airways (SAA), under a local form of bankruptcy protection as a last-ditch measure to try and prevent its total collapse. According to a statement by the Public Enterprises Minister, Pravin Gordhan, state-owned South African Airways is entering a business-rescue process to allow a "radical restructuring" under which the carrier will receive ZAR 2 billion rand (approx. USD 140 million) from existing lenders ahead of the business rescue, and another ZAR 2 billion at a later date through the country's national treasury.

SAA, which last made a profit in 2011 and has received ZAR 57 billion (approx. USD 4 billion) in bailouts since 1994, has been struggling to pay its bills after the National Treasury balked at providing it with more funding. Its finances recently took a further hit by an employee strike with workers demanding higher wages and protesting against planned job cuts.

SIGNIFICANCE

South Africa's Companies Act enables firms in financial distress to file for business rescue. If granted, SAA will be protected from liquidation and legal proceedings, enabling them to keep trading. The business rescue move for the airline is thus being deemed by industry experts as an optimal mechanism that can restore confidence in SAA, safeguard its assets and help restructure and reposition the entity into one that is stronger, more sustainable and able to grow and attract an equity partner.

TANZANIA

Msalato Airport Lands USD 272 Million AfDB Loan

The African Development Bank (AfDB) has approved a USD 272 million loan for the construction of Msalato International Airport in Dodoma. Of the total loan amount, the AfDB will provide USD 199 million while African Development Fund (ADF), the concessional financing window of the AfDB, will contribute USD 23 million. In addition, USD 50 million will be provided in co-financing with the Africa Growing Together Fund.

Construction is expected to take place over four years, and work will include the construction of a passenger terminal, a runway, and air navigation equipment. Other operational services for the project include water supply systems and electrical power distribution substations. As of late November 2019, the AfDB portfolio in Tanzania comprised of 21 public and two private-sector operations, with a total commitment of approximately USD 2.1 billion. The transport sector alone accounts for 51 percent of project funding.

SIGNIFICANCE

AfDB's investment towards constructing a high-capacity airport that can accommodate the future growth of Tanzania's air transport together with the ongoing high-speed railway construction on the central corridor is necessary to help unlock and disperse the spatial development in the countryside. The new facility is expected to handle at least 50,000 aircraft and a million passengers per year, most of which will be international. It is expected to benefit and serve more than 200 million passengers in East Africa, as well as international trade networks.

ZAMBIA

Zambia Suspends 15 Percent Export Duty on Gemstones

Zambia will suspend a 15 percent export duty on gemstones from January 2020, a move intended to raise more revenues and support the growth of the gemstone industry. The suspension of the export duty was a concession to miners after the upfront tax affected their output and profits. However, the government's move does not lift the duty on diamonds. Gemstone miners welcomed the suspension of the duty which has been one issue in a broader row between the government and the mining industry about tax rates. The government has tried to levy higher taxes on the miners as it grapples with high levels of debt and low growth, including the proposed plans to replace its value-added tax with a non-refundable sales tax, which it has had to roll back.

SIGNIFICANCE

With mining as a key part of Zambia's economy, the suspension of the duty is expected to create a business environment which is conducive to further investment and growth in Zambia's gemstone sector as it competes with countries such as Colombia and Brazil. With the output of the miners affected by the tax, the suspension will in turn boost sector revenues, contribute to employment and enhance tax revenues in a sector that is still in its infancy and requires investments to unlock its full production.

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