Friday@Noon

A weekly African news briefing for the Southeast Asian community

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African Union

- **Africa:** Sub-Saharan African governments have issued \$18.1bn in dollar denominated eurobonds from 2013-2015, nearly triple the \$7.3bn issued in the previous 3 years. Historically, with the exception of South Africa, Africa has largely been a non-factor in sovereign bond markets. Today, many national issuers are getting first time credit ratings from Moody's and S&P, as they've become more accountable and transparent. African governments are also benefiting by inclusion in standard indicators, such as J.P. Morgan's Emerging Market Bond Index Global (EMBIG). Global bond markets are giving African governments an alternative source of infrastructure financing. Nigeria is funding greater electricity output with its recent \$1.5 billion issuances. Zambia plans to spend on improved health care and railways. Ethiopia is using eurobonds to finance a 6000 watt hydroelectric dam and industrial parks. Critics point to the possibility of a new African debt crisis or warn that bonds impose less conditionality and monitoring on governments than MDB financing. But they have no alternatives. Too much corruption or bad economic policy will cause investors to dump certain bonds and drive up borrowing costs. Investors can certainly expect more sovereign bond issuances. For more information, read here.

- *CAS View:* Africa is in dire need of capital to fund its infrastructure development needs. Some mention the need for \$90 bn per annum for the next 30 years. A vibrant bond market will go a long way to meet the needs of Africa in this regard. And whilst the critics may have a point, the bond market is self-regulating in the sense that credit ratings and bond yields will reflect poor governance and fiscal management of the issuing country. Africa's governments will therefore have to take heed of the potential negative implications of "inappropriate" behaviour. There is nowhere to hide in such a case, as can be seen in South Africa where it is hovering one level above junk bond status.

- **Africa:** Of more than 1.5-million businesses registered in Africa, only 1,600 are listed on the stock exchanges of the 23 states that make up the African Securities Exchanges Association (Asea). New ways of engaging business leaders are needed, not just to talk about the benefits offered by Africa's bourses, but for economies more broadly. The weakness of the African stock exchanges is that most remain illiquid with little trade and few listed companies. Many companies don't see the benefits of stock exchanges. Many are family-owned enterprises that are reluctant to cede management control to shareholders or PE firms and do not want to comply with onerous corporate governance and financial regulations. Most are of a size where survival, rather than adherence to western governance standards, is their focus. There is also a cultural resistance to transparency by companies that believe it is their proprietary information that keeps them ahead of the game. Another challenge is the reluctance by many bourses to expand their offerings and exposure through greater regional integration. However, attitudes and business practices are starting to change in Africa's private sector as the next generation of leaders, open to more modern business practices, step up. For more information, read here.

- *CAS View:* The perceived lack of trust in stock exchanges in Africa makes it difficult to get access to capital for growth purposes. This is one reason why Africa is dependent on PE and VC firms for capital acquisition. It is rather shocking that only 0.11% of registered firms in Africa are listed on stock exchanges. As indicated, however, the next generation of leaders could lead to a different outcome in the, hopefully, not too far distant future. Being listed does lead to more transparency and hopefully better governance. It protects prospective investors, as well as the company itself. This will increase the capital SME's have access to for growth, and give more peace of mind to investors. It also makes sense to move towards integrated regional bourses, given the current levels of illiquidity. Issues such as location of the integrated bourse could be problematic, as it could be seen as a matter of prestige and national pride as to where this mega bourse will be situated. No stock exchange manager would want to be seen as the person that allowed the national stock exchange to be relocated to a neighbouring country.

- **Africa:** Bowman Gilfillan advised there were opportunities to do small and mid-sized transactions with family-owned businesses in East and West Africa. The view is that more value could be created if good small and medium-sized companies were transformed into bigger entities that can be bought with bigger cheques. The deals are there, but not as big as in SA. Many of these companies are family businesses, which creates a gap for people that specialise in the mid-market with opportunities to do deals with companies valued at $10m-$50m. Attractive sectors include the infrastructure, fast moving consumer goods, agri-business and real estate sectors. Interest is buoyed by oil and gas discoveries and a growing consumer class. In West Africa, deal makers were attracted by Nigeria's population of about 180-million people. In East Africa, investors were optimistic about Ethiopia and Kenya. The Dubai-based Abraaj Group's raising of $990m was seen as a sign of interest in Africa. RMB Corvest plans to invest R500m - R1bn by next June with more capital allocated to businesses in Africa. PE deals of $8.1bn were made in Africa last year, second only to the $8.3bn of deals concluded in 2007. For more information, read here.

- *CAS View:* CAS has been bullish about opportunities in the SME market in Africa. This article underscores its sentiments. The reality is that there is generally speaking not enough capital to support the growth of these SME's in Africa. One reason is a fear of the turbulence and volatility in Africa, aggravated by a lack of knowledge on what really is happening in Africa. Isolated terror attacks in countries such as Mali unfortunately contribute towards this perception of an Africa that represents danger. However, more should be made of groups such as Tolaram that is investing in developing entrepreneurs in Nigeria and the surrounding countries through its subsidiary, Multipro. They have succeeded over the years to build this company up to a sizeable entity, of which 50% was recently sold to Kellogg for the amount of US$450 million. There are many such opportunities in Africa. Potential investors should do their homework and get involved, the sooner the better.

- **Africa:** MFS Africa has pioneered a mobile payment platform embraced by Africa's biggest telecommunications operators, which count about 500-million customers combined. The potential for MFS Africa can be seen in World Bank estimates that remittances to SSA increased 2.2% to $32.9bn in 2014 from a year earlier, and it's expected to grow an average of 2.7% between 2015 and 2017. MFS Africa's partners include MTN, subsidiaries of Vodafone, Bharti Airtel and many others. They can transfer money to the mobile account of any other customers of these operators who are signed up to the system. MFS Africa connects 55-million people in 17 African countries (20 million in 2014), and they they expect to have 100-million subscribers by mid-2016. The company pockets around 30 cents a transaction; the average transaction is about $80. SSA accounted for more than half of the 255 live mobile money services across the globe in 2014, with monthly mobile money transactions in Africa topping $10bn in late 2014. Mobile operators and MFS Africa hope lower fees will increase the number and volume of transfers that subscribers make. MFS Africa's payment platform could also be used for voting across SSA. For more information, read here.

- *CAS View:* MFS Africa is the platform that enables cross-border mobile-to-mobile money transfers. Its clients/partners are entities such as the well-known M-Pesa in Kenya and East Africa and Paga in Nigeria. This is another innovation from Africa within the mobile money industry. It is also usable in other fields such as in voting, given the security settings of the application, indicating the multifunctionality thereof. It confirms how technology is driving convergence in various industries/sectors. Africa is definitely one of the leading players in this environment. Overall it will drive financial inclusivity and put an end to the unscrupulous players who ask exorbitant fees for facilitating remittances to Africa.

East Africa

- **Kenya:** The Kenya National Highways Authority (KeNHA) has invited bids for the upgrade of the 172- kilometre Ahero-Isebania highway that is expected to boost trade with Tanzania. The project will be funded by the African Development Bank (AfDB) and the government of Kenya and is expected to improve trade in the Lake Victoria basin. Traders in Kenya and Tanzania presently struggle on the narrow and worn road, which has deteriorated over the years due to increasing transit traffic and is becoming a major constraint for the main economic activities within the Lake Victoria basin. The new highway will have special service roads at commercial centres to boost the uptake of goods and will facilitate cross border movement of passengers and freight, and further enhance access to regional markets. The project will also entail upgrading 75km of feeder roads that connect to the highway. Various other improvements will also be undertaken. The improvement of the road represents an attempt at improving regional trade and business with Tanzania, which has been on a dip in the last two years. For more information, read here.

- *CAS View:* Supply chains in Africa are crucial, be it via air, rail or roads. Roads are frequently in serious conditions of disrepair due to heavy traffic. At times, there are even attempts to deal with small loads by means of drones, for example in Rwanda, as was reported by CAS recently. Retailers using road transport to replenish their stores in African countries frequently complain about this poor condition of roads, as it adds time and costs to the final product. This project will therefore make a serious contribution towards improving the trade in the Lake Victoria basin. Kenya seems to be reaching out towards its neighbours as it is also in bilateral negotiations with Uganda to develop a rail line between Uganda's oil wells and the Kenyan harbour of Lamu. This approach obviously goes beyond any altruism as it will definitely have beneficial economic implications for Kenya. This latter project could, however, also be the source of trouble between Kenya and Tanzania, as it seems that Uganda and Tanzania are in talks as well to ship Uganda's oil from Dar-es-Salaam. All in all, this type of project will create an improved environment for the East African Community to be even better at what currently makes it such an efficient economic community.

West Africa

- **Nigeria:** Nigeria is losing $1.5 billion annually due to the poor condition of its roads. When comparing the state of Nigeria's bituminous roads constructed a few years ago with the concrete roads in the USA and India which have been constructed over 80 years ago, the latter were still smooth. Roads played a very important part in the nation's infrastructure development and well-designed concrete roads required little maintenance over their 40-year design lives. Using concrete roads would result in less fuel consumption and less emissions, and they are durable and safe, needing less maintenance. There is a need for a new policy that will accommodate the use of concrete for roads in the light of the defects of bituminous roads and its attendant strain on the nation's lean economy. Concrete roads were the way to go because of the easy availability of indigenously produced cement, and the uncertainty about bitumen availability in future. The intervention by the Federal Road Maintenance Agency would not achieve positive results because the roads that it was to maintain were already failed and needed reconstruction and not maintenance. For more information, read here.

- *CAS View:* The topic links with the situation discussed in Kenya in the Lake Victoria basin. Nigeria has the benefit that Africa's largest cement producer, Dangote Cement, operates from Nigeria. It therefore has the means to make a meaningful contribution to the roads it uses every day. Nigeria's roads are notorious for the condition of some of its roads. Here there is a sound suggestion to improve the conditions with a substance that is firstly readily available and cheap, and secondly, far more durable. Africa must address its road infrastructure to improve its internal and intra-Africa trade and movement. It will also attract more economic players to operate in Africa to the benefit of Africa and its people. It does seem, however, that Africa realises this imperative and is making it a priority to address it.

Southern Africa

- **South Africa:** Insurance group Sanlam will, through its wholly owned subsidiary, Sanlam Emerging Markets (SEM), and its short-term arm, Santam, acquire a 30% interest in Saham Finances – the insurance arm of the Morocco-based Saham Group - for $375 million to gain access to untapped insurance growth markets in North and West Africa. The acquisition enlarges SEM's rest of Africa footprint from 14 countries to 30, with overlap in only 4 countries. Sanlam and Saham will continue to operate separately in these countries, and overlaps will be addressed. Saham Finances has operations in 26 countries across North, West and East Africa, and the Middle East. It is the largest insurance group in Africa outside of South Africa, with a consolidated turnover north of $1 billion. The Saham Group will run the businesses and Sanlam will cooperate in certain areas where they see opportunities. In simple terms, Sanlam will assist them on general insurance and on life insurance and Saham will help Sanlam on the roadside assistance and medical scheme side. SEM still has some countries where it does not have all the businesses it would like and others that still look attractive, such as Mozambique, Ethiopia, Egypt and the DRC. For more information, read here.

- *CAS View:* Sanlam has selected the emerging market as its area of expansion to escape the maturing South African market and to develop growth opportunities. South Africa has an insurance penetration of 11.4%, which is extremely high when compared to the global average of 3.7% and BRIC average of 1.9%. Malaysia comes in at 2.8% and India at 2.5%. It therefore makes sense for Sanlam to target emerging markets outside of itself. In addition to Africa, it has also targeted companies in second tier cities in India for their growth potential, and it has targeted Malaysia. This acquisition of Saham Finances has enabled Sanlam to more than double its exposure in Africa from 14 countries to 30. They have done well to choose a company that will complement its presence in Africa, instead of duplicating it. This is a strategy of Sanlam that can be traced back to more than 10 years, and has become an important pillar of the group's strategy, generating substantial revenues and returns for Sanlam! Sanlam's Africa strategy is also an indication of the trust Sanlam has in Africa as an investment destination. Given the growth of Africa's population and the increasing size of the middle class or consumer class in Africa, as well as the strong urbanising trend (currently 40% urbanised, and to rise to 60% by 2050), Sanlam is doing well to position themselves as a trusted financial services provider. They have also been very clear as to what countries and regions they will target, and which ones they will stay out of. Clearly their approach has worked well for them. Other financial institutions wanting to expand into Africa would do well to study Sanlam's strategic approach.