Friday@Noon

A weekly African news briefing for the Southeast Asian community

Editor: Johan Burger

NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE

NTU-SBF Centre for African Studies
Nanyang Business School

Issue 70 21 October 2016

African Union

- **Africa:** Abraaj is actively investing in the health sector in sub-Saharan Africa. It appears the growth of the middle class in Africa has also led to increases in middle class lifestyle diseases. The current focus is in Kenya, with Nigeria and Ethiopia identified as a future focus.

  Abraaj is seeking to invest in Kenya's growing healthcare market and use it as a launching pad to build a network of hospitals to offer decent and affordable medical services in sub-Saharan Africa. They are looking at acquiring Metropolitan Hospital and other healthcare centres in Nairobi as part of its $ 1 billion expansion plan into Asian and African markets to capitalize on the growing middle class, currently at 313 million people. Rising cases of lifestyle related ailments such as diabetes, heart diseases and obesity, which are driven by unhealthier diets amongst the growing middle class, is attracting investors into the African healthcare industry. Abraaj, alongside the International Finance Corporation and Africa Health Fund, are also funding 3 doctors to build Iso Health Limited, a $17.7 million hospital in Nairobi. Abraaj already owns stakes in Avenue Hospital and Nairobi Women's Hospital in Nairobi. It invested $145 million in the Tunisian and Egyptian healthcare sectors last year. It has plans to invest in Nigeria and Ethiopia. For more information, read here.

- *CAS View:* South Africa is the African country with the most private hospital groups, i.e. Mediclinic, Netcare and Life. While Mediclinic is in Namibia and Life is in Botswana, none of them are in Africa other than in these two Southern African countries. Mediclinic has expanded into the UAE and into Switzerland. It seems that Africa does not present sufficient opportunity to these 3 hospital groups. Abraaj, however, appears to be so comfortable with the level of income available, that they have had no problem investing in healthcare in Africa in quite a big way. While some may question the definition of middle class, which frequently is the case, there are definitely returns to be generated in the healthcare sector in Africa. Rising lifestyles have brought about not just the positives of higher living standards, but also the lifestyle-related diseases such as diabetes, heart disease and cancer. It is these people, together with the rising disposable income levels, that present companies such as Abraaj with the opportunity.

- **Africa:** Bitcoin is punted as a long-term strategy to facilitate remittances into Africa. It will take time for people to get to trust it and to adopt it.

  Bitcoin's low-cost money transfer feature was hailed as the solution to expensive remittance charges when it comes to transferring funds to Africa. However, bitcoin remittances in Africa have not really taken off. Merchant adoption has been sluggish and there has been a lot of negative press regarding scams, money laundering and underground markets. However, bitcoin growth is set to become exponential in Africa. Reasons include: 80% of Africans do not have access to traditional banking services; cross-border remittance has very high costs with African corridors being the most expensive; faith in central banks is exceedingly low; and bitcoin acts as a hedge against inflation and monetary control. However, interest in bitcoin has been sidelined by blockchain technology which underpins it. It is currently unclear how blockchains will be incorporated into existing business processes. Business cases and appropriate-use cases remain elusive. As Bitcoin awareness and adoption is slowly growing in Africa, more remittances will likely start to take place using digital currencies. As the ecosystem matures and more companies experiment with ways to overcome current obstacles, bitcoin may eventually begin to make inroads into the multi-billion dollar African remittance market. For more information, read here.

- *CAS View:* CAS has previously addressed the issue of bitcoin and the underlying blockchain technology. Recently CAS reported on a trade finance deal where the bank used blockchain technology. In that specific article, it was stated that bitcoin had been sidelined as a currency as people did not understand it and did not trust it. This article underscores that point and provides good reasons as to why that is the case. However, it does state that the use of bitcoin will increase slowly but surely! The conventional alternative is just too expensive. The annual remittance market in Africa is massive. One source states this figure at US$35.2 billion annually. Another source claims that as many transactions are informal, this figure could be as high as US$160 billion annually. Given the high costs associated with sending money back home by the African diaspora, it definitely makes a lot of sense to investigate and support the use of technology such as bitcoin.

- **Africa:** There are still investment opportunities in the real estate sector in Africa. Some countries are struggling, but others present good growth opportunities.

  Convincing domestic and foreign investors to place their bets in Africa's real estate is a long shot. Reasons: lower commodity prices, the slowdown of China's economy, and volatile currency markets. Other risks include haphazard changes in government policies, instability in the legal framework on land ownership rights, and investment restrictions. Companies that have been comfortable to hitch their wagon have opted to invest in mature and bigger markets such as South Africa and Kenya, where property investors are guaranteed stable rental growth rates in stable economies. There is an abundance of opportunities in Africa, but a lot of foreign companies are still struggling to understand Africa in detail, with a high perceived risk. Shopping malls in various African cities recently are reflecting mixed results – with some performing above expectations and others below. Developers, retailers and investors have started to be more careful before investing in Africa. Countries which have the highest development opportunities include South Africa, Mauritius and Botswana, while countries like Uganda, Mali and Burundi rank as having the lowest property development potential. Markets that present real estate opportunities are Kinshasa, Lagos and Dar es Salaam, given their rapid urbanisation which paves the way for shopping mall and residential developments. Investors who can maximise opportunities are those that will be patient and in it for the long-haul. For more information, read here.

- *CAS View:* Some of the risks deterring foreign investors are outside the direct control of African countries. Others, such as uncertain regulatory environments, however, are directly controllable. Even when one takes an issue such as low commodity prices into consideration, which are determined by global factors of supply and demand outside the control of supplier countries, the impact of this issue could have been negated/reduced with a diversified economic system. As for real estate investment, now is probably a good time to get invested in Africa. As stated in recent newsletters, how far can Africa's economies still fall? Many opportunities are already available due to the value that can be unlocked from investing in assets that are currently undervalued due to issues such as volatile and under-priced currencies. Given the growth in the middle class in Africa, there will be a market for the malls of the future, provided one goes into the right cities! Looking at Africa as a homogeneous market is definitely a massive mistake. Looking at countries are also becoming dangerous, as specific cities in Africa frequently demonstrate higher economic growth rates than the country as a whole. Investors could therefore do better should they adopt a city strategy and not a country strategy.

- **Africa:** Goldman Sachs thinks global sentiment is improving and that Africa is still an attractive option. They are quite bullish about East Africa, but concerned about factors in South Africa that could result in SA being downgraded to junk status by credit ratings agencies.

Much of the optimism around Africa has died down as low oil and commodity prices have reduced export revenues considerably – resulting in slower growth and local currency volatility. However, Goldman Sachs thinks that global sentiment is improving. For investors with a long-term approach, Africa's large, rapidly growing, under-serviced consumer base is still an attractive option. The real growth rate in Africa is disappointing, and the political risks and other risks in Africa have elevated. Given a shortage of foreign currencies, some MNCs are struggling to get their profits out of the country. One area of optimism is East Africa. It has managed to escape some of the knock-on effects of lower commodity prices, with countries such as Kenya and Rwanda focusing on improving their business environments. However, there is concern about government issues and security and the potential out-break of terrorism around Somalia, Tanzania and Kenya. SA's political turbulence and slow growth are concerning foreign investors. Issues such as December's three-finance-minister shuffle, violent student protests, last week's fraud summons of the finance minister, and Zuma's interdict preventing the release of the Public Protector's state-capture report, could result in SA being downgraded to junk status by credit ratings agencies. However, its strong institutions are something to feel optimistic about. For more information, read here.

- *CAS View:* The report is clear on the negatives facing Africa. However, it clearly shows upon the opportunities that are still available. The countries that have not been locked into a model of commodity exports are currently looking quite attractive. But even these need to be approached with caution, as the potential for terrorism is not negligible. As for SA, it seems the country is the victim of its own designs. At the end of last year, the rating agencies were clear that a down-grading to junk status was a real danger. It seems that SA's political leaders, with the exception of the finance minister and a few others, do not understand the catastrophe awaiting the country should this happen. This is in spite of business leaders and economists pointing out the dangers quite vividly. The report does show upon the strength of SA's institutions as a saving grace. How long this will still be the case, remains to be seen. The country has just appointed a new public protector. Whether she will live up to the expec-tations and perform at the same exemplary levels of her predecessor, also remains to be seen. It is in SA's best interest that it is the case! Overall, the message is clear, there are obvious challenges that Africa must deal with, but there are also investment opportunities if you know where to look.

East Africa

- **Tanzania:** Tanzania has pulled out of a EAC common visa, in addition to other actions to protect itself against its neighbours. Whether this will be sustainable on the medium- to long-term, is uncertain. Why it sees this as a need, is also not clear.

  Tanzania has pulled out of the East African Community (EAC) common visa to protect itself against economic competition from the region's other nations. The common visa is an initiative by Kenya, Uganda and Rwanda to promote tourism and enable their nationals to freely engage in business without restricted movement. It was set to woo tourists from across the globe into the 3 nations as it markets the region as a single tourism destination. The pull-out by Tanzania will however not affect the remaining nations from signing a cooperation pact on tourism to enable tourists move between the 3 nations using a common visa. Tanzania also recently pulled out of the Economic Partnership Agreement with the EU to protect its local industries. Uganda followed Tanzania, which stopped the signing of the trade deal that could have allowed goods from the region into European market without paying duty. The decision to pull-out of the visa plan points to economic differences between Tanzania and Kenya. It pulled out of the joint Lamu Port Southern Sudan-Ethiopia Transport project with Kenya, last year. Uganda too disapproved of the plan with Kenya and instead chose the Tanzania route through the Tanga Port. For more information, read here.

- *CAS View:* It is clear that Tanzania has embarked upon a course to serve its best interests, possibly at the cost of the interests of some of its neighbours. I have already shown in earlier newsletters that it does seem that Tanzania has its own regional leadership aspirations. In this regard it has "poached" "clients" of Kenya to rather use Tanzania to gain access to the sea than Kenya. Both Uganda and Rwanda have gone this route. This latest development does not really make sense though. Pulling out of the common visa will make it that much more difficult to tour the region. Faced with the choice of either touring Kenya, Uganda and Rwanda with one visa, or Tanzania with another, Tanzania would need to offer a compelling value proposition to entice tourists to rather come to Tanzania. However, it is possible that Tanzania could be offering free visas, which would compare very favourably with the US$100 of the common visa. Up till now the EAC has been held up as the most efficient regional community. It remains to be seen whether Tanzania's actions would have a negative impact on this efficiency.

West Africa

- **Nigeria:** Dangote states that the oil price will not increase significantly in the short-term and that Nigeria must focus on diversifying its economy. In this regard, he specifically mentioned agriculture and construction.

  Aliko Dangote has stated that Nigeria should be serious about diversifying the economy. According to him, people who were still hoping for a rebound of oil to around $70 and $80 per barrel to improve the economy should forget it. Given the abundant supply, oil at even $53 per barrel is a temporary measure. For Nigeria to go through this long haul of low oil price would help push them into the real sectors, which are agriculture, construction and all others. Dangote also disclosed measures to help reduce the price of fertilizers in the country. He commended the federal government policies as key to the availability of fertilizers to farmers. Dangote is on record to have said that Nigeria entered recession because 90% of the government's foreign exchange earnings is from oil. The only way to get out of this recession is to diversify the economy quickly. Nigeria's GDP contracted by 2.06% in the second quarter. The situation in Nigeria has been worsened by renewed insurgency in the Niger Delta region; the attacks on oil installations continue to disrupt production of oil in the region. For more information, read here.

- *CAS View:* A somewhat gloomy outlook for the oil-producing countries of the world. More so for those in Africa, as they had built their economies on the basis of the oil price. Unfortunately, they never used the proceeds to change the structure of their economies and reduce their dependence on oil. This is not a new insight. What should concern oil producers is his view that oil at as low a price of $53 per barrel is a temporary measure, and that prices of $70 and $80 is unattainable. In order for this to remain true, supply must be in a glut with no steps taken to reduce production. This can only be true if OPEC fails to not only cap output, but to actually educe it. The finance minister of Saudi Arabia recently stated that even non-OPEC countries were prepared to join an output cut. Whether this will happen, is anybody's guess. Both Saudi Arabia and Iran boosted oil production by more than any other nation in the OPEC group of oil exporters in August right before a critical meeting of OPEC countries to freeze output. The next OPEC meeting in November will shed greater clarity on the future movement of the oil price. Whether the production caps will be sufficient, will remain to be seen. The level of the cap, if any, will be critical. On the other hand, should the price of oil rise significantly, it will bring back the shale oil producers in the USA in an aggressive manner, which runs counter to OPECs interests as well. In the mean-time, Nigeria should heed Dangote's advice and diversify its economy away from oil at speed. This would also reduce its vulnerability to the NDA that have been disrupting oil supplies in the Niger Delta.

Friday@Noon

A weekly African news briefing for the Southeast Asian community

Editor: Johan Burger

NANYANG TECHNOLOGICAL UNIVERSITY SINGAPORE | NTU-SBF Centre for African Studies Nanyang Business School

Issue 70 21 October 2016

Southern Africa

- **South Africa:** The CEO of Volkswagen SA is concerned about the possibility of the lessening of government support for the motor industry. South Africa's industry is not cost-competitive. The possibility of manufacturers relocating to other African countries such as Kenya is raised, should the APDP be adjusted.

  Any lessening of government support for the motor industry could have drastic consequences by causing multi-national companies to question the need to remain in SA, Volkswagen SA (VWSA) MD Thomas Schäfer has warned. Despite the 2013-2020 Automotive Production and Development Programme (APDP) attracting nearly R50 billion in foreign investment, some senior officials were arguing that resources set aside for APDP incentives could be better used for other economic priorities. SA accounts for only 0.6% of global vehicle production and it is not really cost-competitive. However, a lot of the disadvantages are overcome by the APDP. If it went away, it would be the immediate end of the motor industry in SA. He added that companies could afford to walk away without hesitation. Such a response could also be triggered by growing pressure on the industry to pursue broad-based black economic empowerment (B-BBEE). To meet government targets, VWSA alone needs 500 black suppliers. They could find only 41, with no guarantee that they will be able to grow into what VWSA needs. VWSA recently signed a deal with the Kenyan government to put back Polo Vivo cars together at a factory near Nairobi. The Kenyan factory will eventually shift to full manufacture, including locally sourced components. Other multinational motor companies were also eyeing Kenya and Schäfer predicted its scale could start to rival that of SA's within a decade. With Nigeria already attracting heavy foreign investment to become a vehicle manufacturing gateway to West and Central Africa, Schaefer predicted Kenya could perform a similar role for East Africa. VWSA was also encouraging banks to make finance more readily available in Kenya. For more information, read here.

- *CAS View:* The last thing SA needs is for the major vehicle manufacturers to relocate to other African countries. With Nigeria and Kenya developing into gateways to West and East Africa respectively, the role of South Africa will reduce. Kia has recently developed a plant in Ethiopia. Ghana, Nigeria and Uganda are also developing its own local brands. While it is undeniably so that SA has the most sophisticated economy and infrastructure in Africa, it is apparently becoming difficult to operate in it. Schäfer is clear about the negative consequences of reducing the benefits of the APDP, as well as the difficulties of abiding with the B-BBEE prescriptions. In addition to this, SA's labour force in the vehicle manufacturing sector is notoriously militant. Both Nigeria and Kenya will jump at the opportunity to take over the mantle of the premier vehicle manufacturer in sub-Sahara Africa. In North Africa, Morocco is also actively reaching out to the big MNCs in the sector to encourage production in Morocco. It is also quite foreseeable that labour in the rest of Africa would be cheaper than in SA, which is another source of concern. As Schäfer stated, SA is not really cost-competitive. The kind of policy uncertainty referred to in the article, as well as impractical policies, should be actively avoided. This is not a new insight, but why are we seeing it in SA? Or are we seeing the motor vehicle industry grandstanding to either prevent possible policy changes, or to bring about policy changes? Unfortunately, given the potential for massive economic disruptions should the move be accompanied with a downgrade of the SA debt rating by the ratings agencies, this is an issue that should be taken very seriously by all concerned. Even raising the spectre of motor vehicle manufacturers relocating to outside of SA by people such as Schäfer, creates uncertainties that in themselves are not good for SAs economic prospects.