



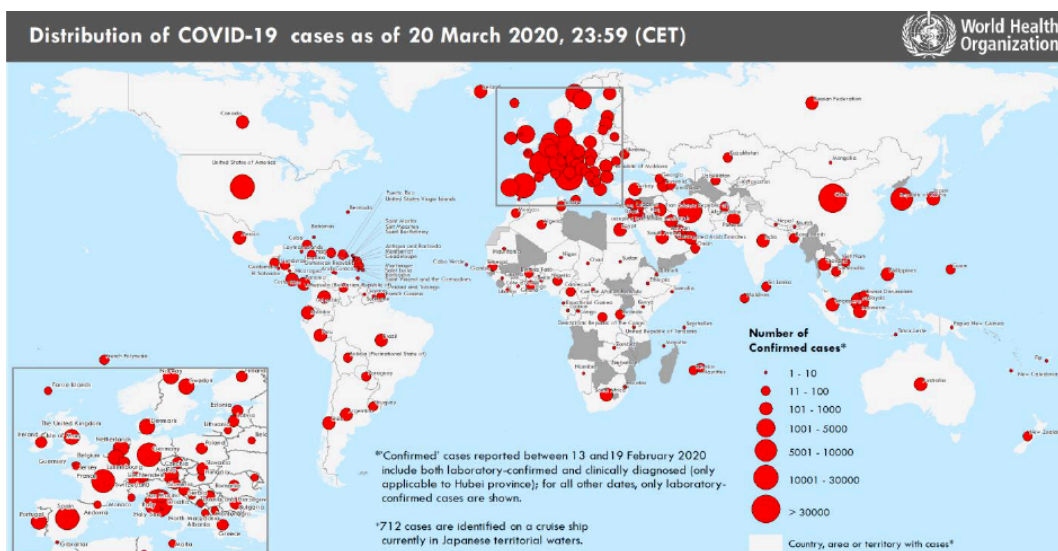
Current Macro Environment Impact on Africa

Briefing Note

1. COVID-19 in Africa

The spread of reported confirmed cases of COVID-19 from China, initially led by Europe, is starting to affect Africa (Figure 1), albeit currently in a small way. It is necessary to treat these figures with some caution, given the limited availability of testing in Africa. Nevertheless, anecdotal local information suggests a limited spread to date. This may be the consequence of the more limited travel to and within Africa, compared to other continents, with Africa accounting for 5% of international tourist arrivals compared to 51% for Europe¹.

Figure 1: Countries, territories or areas with confirmed cases of COVID-19



Whether the current low level of incidence grows to European/Chinese proportions is difficult to predict. The spread across Africa may well be slower than in Europe or the US for a number of reasons:

- Fewer international arrivals are likely to slow the infection rate as fewer hotspots are established by new arrivals. Less regional travel compared to developed countries is also likely to slow the spread. Many African countries have experience of dealing with potential epidemics (eg Ebola) by identifying infected individuals and tracing those with whom they have been in contact. Health workers in many African airports routinely measure body temperature of arriving passengers.
- Africa has lower levels of urbanisation (40% urban population as a % of the total population), compared to 82% in North America and 76% in the EU², leading to lower levels of contact.

Nevertheless, it seems likely to spread across the Continent eventually. Predicting the impact is almost impossible with any certainty. The key factors to consider are the likely severity in terms of number of people infected, number of deaths, and duration of the impact. We have no special knowledge, but one of the most authoritative studies available on infection rates³ – in the UK and US at least – models

¹ International Tourism Arrivals in 2018. Source: UN World Tourism Organisation.

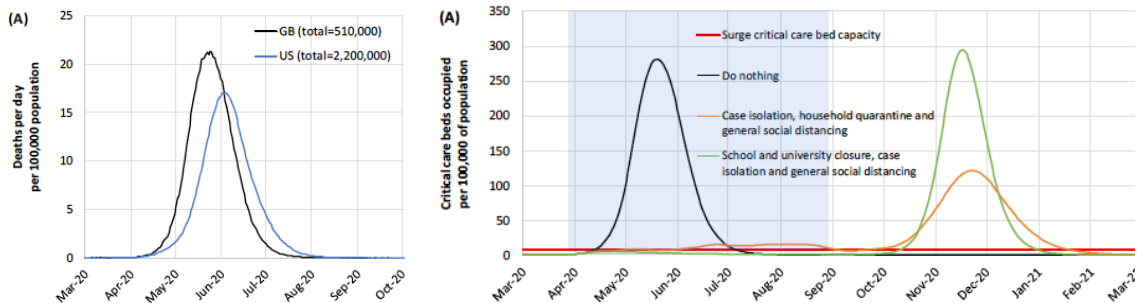
² Source: World Bank DataBank. UN Population Division. World Urbanization Prospects (2018).

³ Impact of non-pharmaceutical interventions to reduce COVID-19 mortality and healthcare demand. Neil M Ferguson et al. *Imperial College COVID-19 Response Team publication 16 March 2020.*



a duration of 3-4 months following the first infections without mitigating the epidemic (Figure 2a). The peak can be reduced substantially through various suppression strategies (Figure 2b).

Figure 2: (a - LHS) Unmitigated epidemic scenarios for the UK and US; Projected deaths per day per 100,000 population. (b - RHS) Suppression strategy scenarios for the UK showing ICU bed requirements.

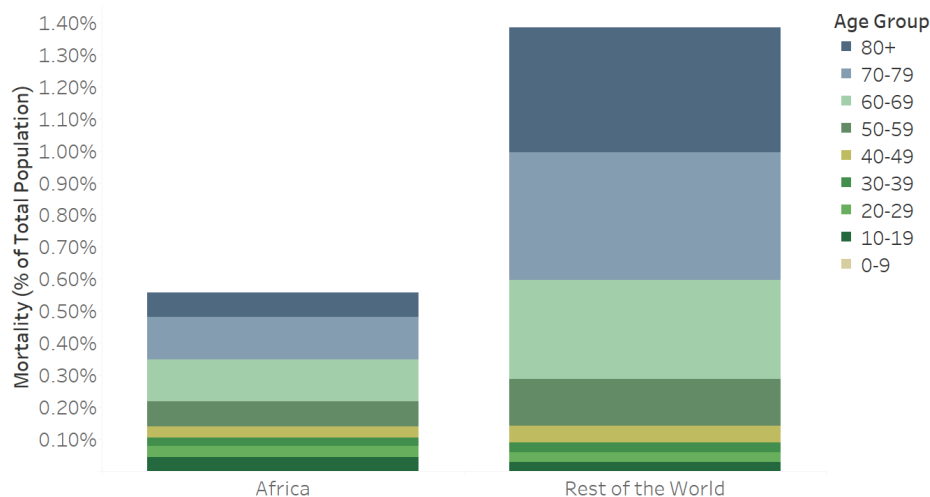


However, as shown in Figure 2b, suppression strategies have temporary effect and need to be reintroduced to prevent the epidemic from taking hold on a large scale again.

We would not consider the following to be more than informed speculation, but the following factors may shape the impact on Africa:

- Mitigating factors
 - The age distribution of the African population is heavily skewed to younger people, compared to the developed world. Consequently, by applying the much higher mortality rates for higher age groups seen in China⁴ to the relative age distributions of the Africa and Rest of World populations, the impact on Africa is likely to be less severe than in the rest of the world (Figure 3).

Figure 3: Predicted COVID-19 mortality Africa vs RoW based on population age distributions and mortality rates by age group



Source: World Bank Databank (population statistics), OurWorldinData (see note 4 below), Mbuyu Capital analysis

⁴ Source: OurWorldinData.org, sourced from Novel Coronavirus Pneumonia Emergency Response Epidemiology Team. *Vital surveillances: the epidemiological characteristics of an outbreak of 2019 novel coronavirus diseases-China, 2020*. China CDC Weekly.



- African countries have experience of dealing with epidemics and infectious diseases. They are willing and able to confine and quarantine individuals.
- Despite the small number of cases, African countries are already putting measures in place. Many countries (e.g. Kenya, Côte d'Ivoire, Ghana) have put international travel bans in place to and from countries with COVID-19 or have stopped all international flights (e.g. Mauritius, Madagascar). There are also widespread school closures, bans on public gatherings, mandatory closure of theatres, clubs, etc.
- Exacerbating factors:
 - Africa's healthcare facilities are significantly poorer than those in developed markets, so a larger proportion of people who get very sick may die.
 - While there is a larger young population, poor access to healthcare means a higher proportion of the population is likely to have pre-existing conditions predisposing them to COVID-19 complications, such as TB, other respiratory diseases and HIV-AIDS.
 - When a vaccine is developed, it is likely that it will take significantly longer for it to be available to the general population in Africa, if it is at all, resulting in a long-drawn-out impact of the disease.

Our best guess is that the impact of COVID-19 on the population may be less severe than in Europe, but it is likely to be protracted and it becomes yet another disease which afflicts the African poor, against which the expats and African middle classes are able to vaccinate. A best-case scenario is that countries are able to mitigate the impact through ongoing identification and tracing of infected individuals' contacts, as is currently done for Ebola and other infectious diseases, and they can avoid large-scale, prolonged shutdowns of the economy.

African governments are, however, less able to mitigate economic damage from large-scale suppression owing to fewer financial resources and lower ability to borrow in global financial markets. This is exacerbated by the other negative macro factors developing currently.

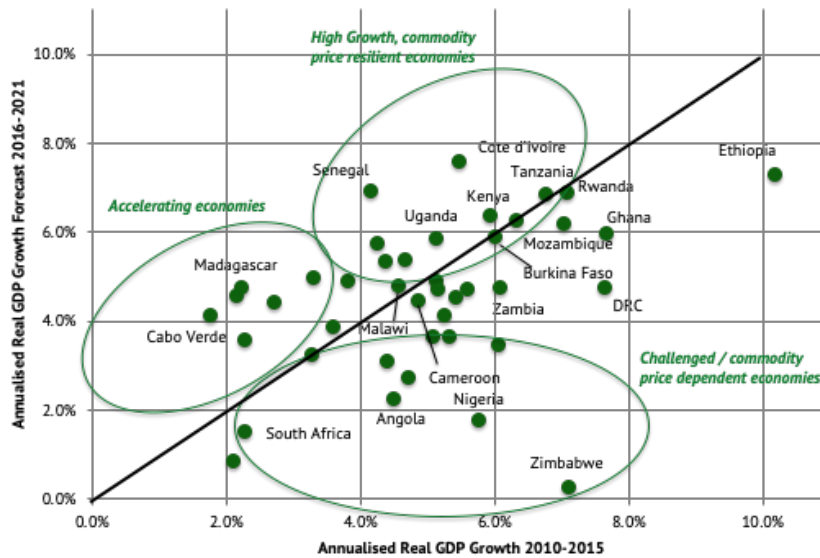
2. Other macro factors

Oil prices have declined 54% over the past three months, to c. USD 30/barrel. This is a key commodity for Nigeria, Africa's largest economy, putting downward pressure on the currency. Nigeria's budget is based on USD 57/barrel. Other countries affected will be Angola, Algeria, Sudan and South Sudan, Egypt, Congo and Ghana. In contrast, net oil importers, such as Kenya and other East African countries, benefit from lower oil prices. The consequently lower transport costs can be expected to reduce the costs of goods in shops, as well as increase disposable income owing to savings on fuel purchases.

Other commodities such as copper have also declined significantly owing to concerns about a global economic slowdown. This affects countries with significant mining activity such as Zambia, the DRC and Congo. This scenario – of declining commodity prices – played out between 2010 and 2015. African countries can be grouped into commodity-dependent and resilient countries (Figure 4).



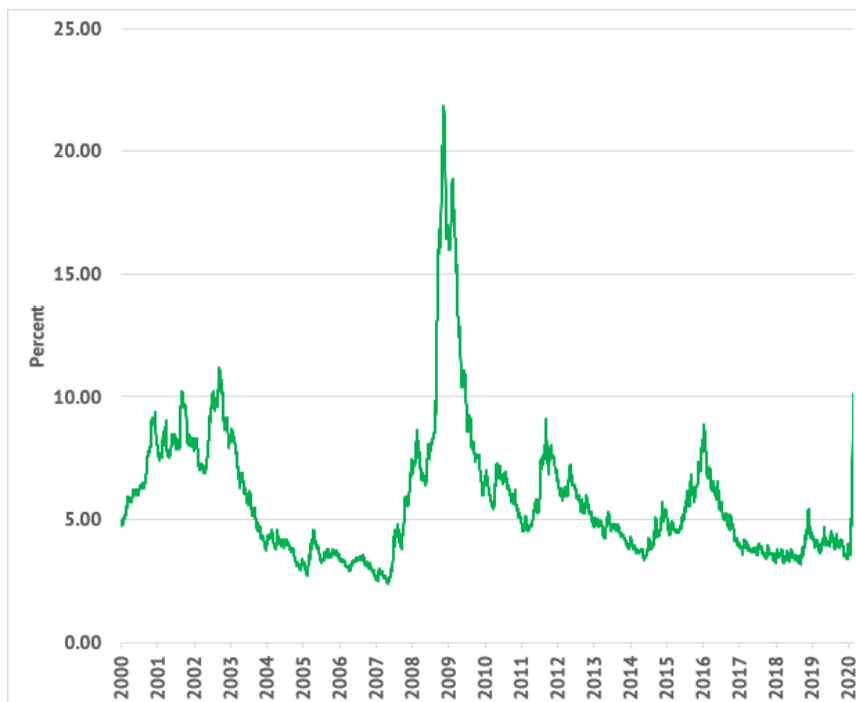
Figure 4: Commodity price dependence of selected African countries



Source: IMF, World Economic Outlook Database 2016, Mbuyu Capital analysis

Finally, the global financial system is seeing the start of a credit and liquidity crunch, with credit spreads increasing sharply (Figure 5) and banks starting to reduce credit lines.

Figure 5: ICE BofA US High Yield Index option-adjusted spread



Source: FRED Economic Data (Federal Reserve Bank of St. Louis)

3. Conclusion

COVID-19 is likely to spread throughout the continent, but the impact on mortality may be less severe than in the west owing to the different population age profile, although the level of other conditions



such as TB and HIV-AIDS and poor and often unaffordable healthcare, especially at the bottom of the pyramid (BotP) may well result in an increase in mortality, although the exact cause will almost certainly not be known or recorded. So the actual impact of COVID-19 in Africa will probably never be known. And is likely to become another disease of the poor, together with others such as malaria, TB and HIV-AIDS.

Given the poor live hand-to-mouth and have no savings the impact (and mortality) of shutdowns ordered by government may well be more severe than the consequence of COVID-19. The recent example in India, where a comprehensive shut-down caused wide-scale migration of suddenly unemployed foreign workers out of the cities to their home countries, taking the disease with them, is one example of unintended consequences of a shutdown.

Western governments are able to throw billions of dollars at the problem in the form of, for example, salary payments for those laid-off temporarily, low-cost business loans and other subsidies, which is not possible in Africa. Even if the World Bank or others provided assistance in some form, the infrastructure does not exist to provide effective subventions to keep businesses going and people paid during the crisis, given the scale of the informal economy.

COVID-19 then poses two risks for Africa. First, one of the disease itself, and second and in our view at least as important, of well-intentioned government action leading to widespread job losses and closure of businesses which may take years to re-build. Unfortunately, the need to be seen to take action – driven by social media – and potential pressure from Western governments who will want to see COVID-19 eradicated, make shutdowns more likely.

As investors and directors of African businesses we should be supporting companies in strategy development, contingency planning, looking after employees and their families and careful financial planning. And liquidity (cash) must be raised now. Not just internally within the business, but also seeking new financing, as these crises go on for longer than anyone expects. This will enable businesses to keep people employed and be ready to restart when the situation improves. African companies are the ideal mechanism for mitigating the social effects of COVID-19 through job preservation. The development finance and impact community need to play their part by making facilities available to support businesses and evaluate and disburse quickly and efficiently.



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