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Development of an automotive financing framework and product programme

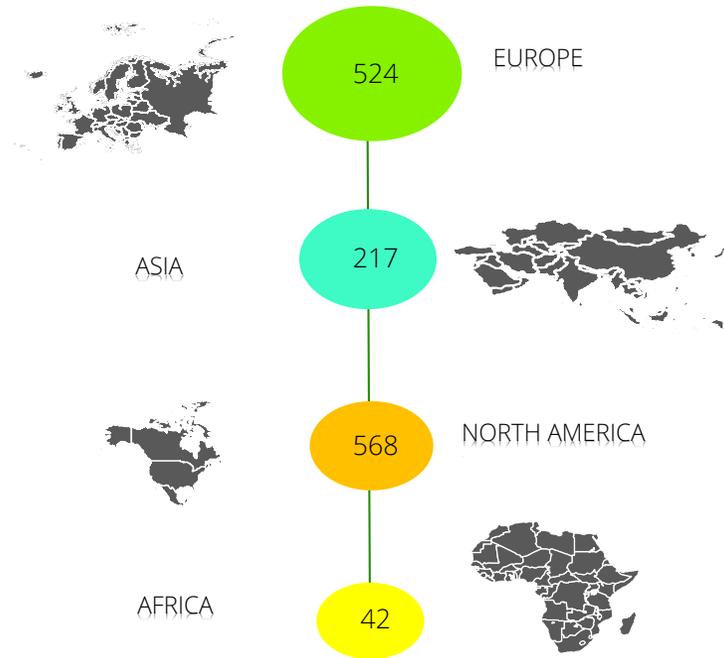
IATF Conference

17 November 2021

Context

The automotive market in Africa shows great potential based on motorization rates, however the growth has been relatively modest

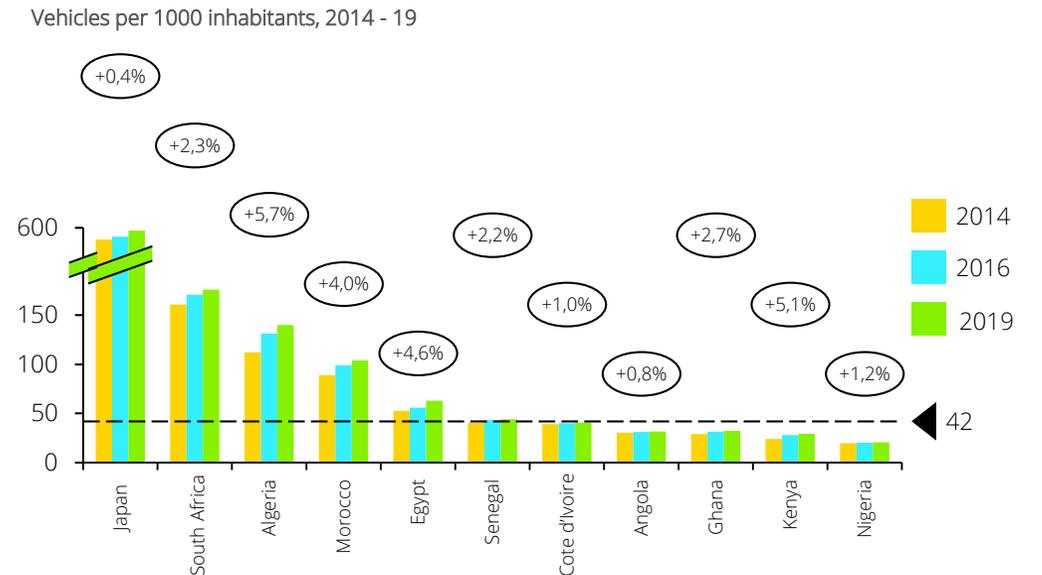
Global Motorization Rates



Key Points

- Vehicle density in Africa remains low, with the motorization rate of the continent at around 42 vehicles per 1000 inhabitants, substantially lower than the global average of 180.
- Motorization rate of all African countries is significantly lower in relation to those of more developed regions like the USA, Europe and even Asia, with South Africa, Algeria, Morocco and Egypt having the highest motorization rate.

African Motorization Rates average growth, '14- '19



Key Points

- Africa provides a large potential for increase in motorization rates, but is hindered by low disposable income and cheap imports of pre-owned vehicles.
- Kenya has experienced significantly higher motorization growth compared to the other countries under analysis, with the closest comparative countries in terms of growth rate being Algeria and Egypt

Motorization across Africa is low, largely due to used vehicle imports dominating the market with affordability, durability and fuel economy driving purchasing decisions across Africa.

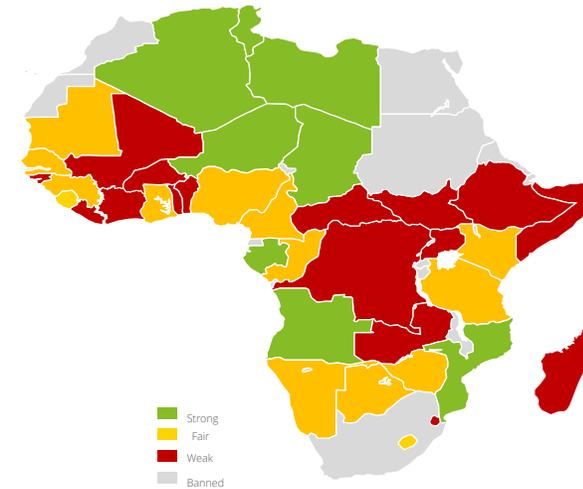
Vehicle Demand in SSA, 2007 – 35f



Key Points

- Importation of used vehicles remains a concern across Africa with pre-owned vehicle imports expected to continue to surpass the total new vehicle demand for the foreseeable future.
- More than 96% of vehicles imported into Kenya were second hand vehicles in 2016. In Ethiopia and Nigeria used vehicle imports account for 80% of all vehicle sales in 2016.
- SSA currently imports more pre-owned vehicles (764 880 units in 2017) than new vehicle sales (734 084 units in 2017), with three-quarters of vehicles in SSA second hand vehicles.

Status of used vehicle import bans



Strong – 10 countries ban used vehicles over 5 years and/or have a strong tax fee based scheme.

Fair – 16 countries all vehicles between 6-9 years and/or imposes a tax base on vehicle age.

Weak – 24 countries ban used vehicles 10 years and over, imposed graduated penalty from 10 years and/or had no regulations in place

Key Points

- Imported vehicles are coming from various regions globally.
- The largest competitor in the Southern African region is the Japanese car market, imported via the UAE.
- Local African import regulations are weak, but manufacturers are lobbying to reduce used imports.
- Tax holidays and tariff reductions are present in key markets such as Kenya, Ghana, and Nigeria; but success has been limited.

Project Approach



Approach

A twelve-week engagement to develop an **automotive financing framework** for new and used vehicles assembled in Africa, develop **automotive product programmes**, develop an **automotive financing capital mobilization strategy**, and provide pre-implementation **training**

MACRO OBJECTIVES

- (i) Facilitate the **increase of Africa's share of global new car sales** from its current level of 1% to 2% by 2026.
- (ii) **Double the motorization rate** from its current level of 42 vehicles per 1000 people to 80 vehicles per 1000 people by 2026.



Interviews

To understand the context per regional hub, **in-person and virtual interviews** will be conducted per stakeholders grouping.



Survey, Reports and Data Analysis

Desktop research will be completed across the breadth of the automotive industry encompassing stakeholder survey, reports and data analysis



Workshops

Workshop sessions will be held to further outline key themes and trends



Best Practice and Case Study Research

Best practice and case study research related to market winning strategies

Initial Considerations

The ecosystem needs to work in tandem

Interviews and discussions are beginning to point to some important pathways

1

- No single, coherent automotive policy across Africa
- Governments are the most important player across the value chain. Without a supportive government the local automotive sector will not thrive



2

- The second hand market is diminishing automotive value, through the importing of low-cost cheaper alternatives
- Imports must be regulated with a bias for creating local country value
- Financial institutions should be open to adjusting credit policies



3

- The automotive value chain can provide opportunities according to each country's comparative advantage
- Hub and spoke approach is best option

4

- Applying conventional risk assessment tools has not worked
- The answer will lie in innovative ownership options and exploring alternative ownership models



Key barriers to catalysing the automotive industry across the Regional Hubs

Government factors

- **Trade policies** continue to challenge the African automotive industry with **high import tariffs/restrictions and ineffective customs** processes
- Lack of regional implemented policies to incentivise local production
- **Infrastructure challenges** such as unreliable energy, **poor road conditions**, and **port inefficiencies** and congestion

Supply side factors

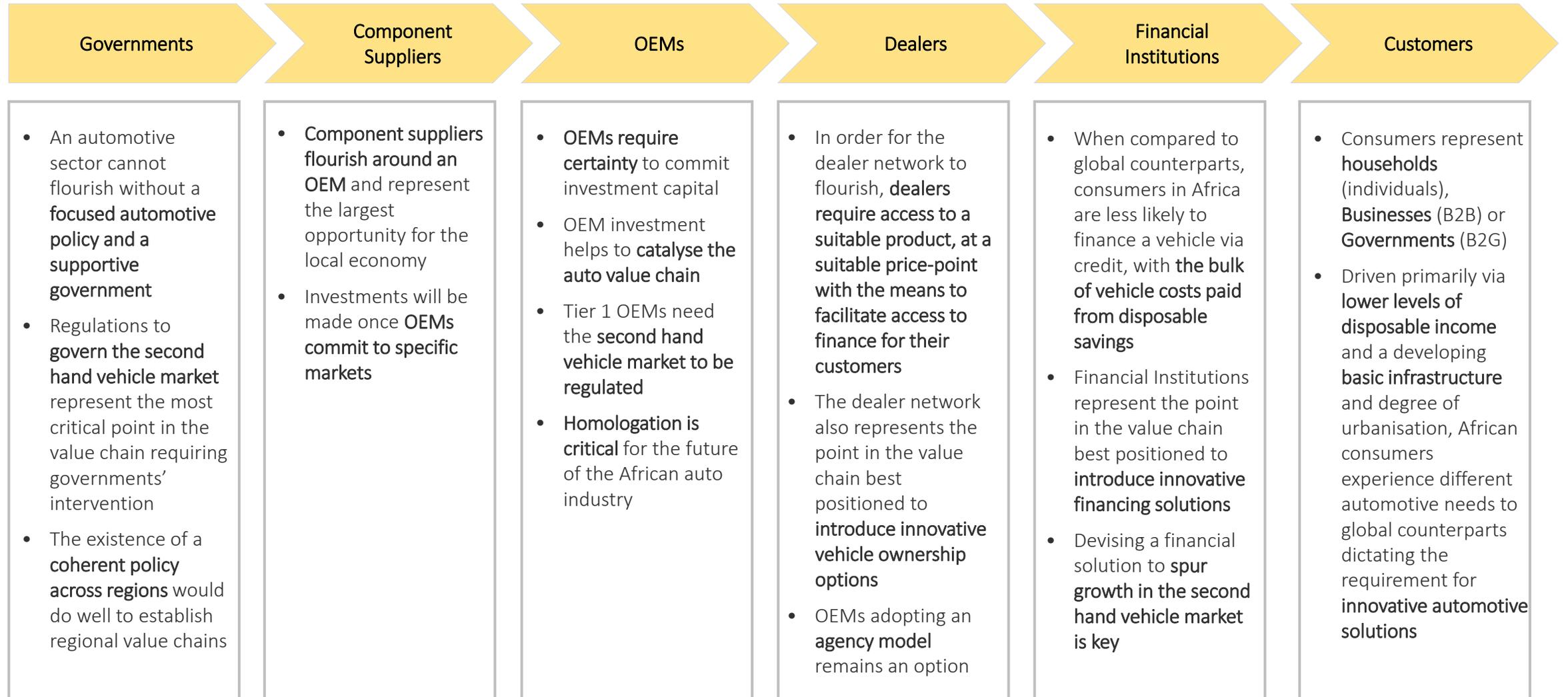
- **Limited manufacturing capacity**
- **Lack of sufficient funds/projects/working capital**
- **Limited manufacturing skills** in Africa hinders automotive production capability.
- **Grey used vehicle imports** into Africa from Japan, Europe, ME and USA remain a challenge which stagnate new vehicle sales. **Used cars occupy more than 80% of vehicle sales in Africa.**

Demand side factors

- **The lack of consumer data** inhibits effective market research and credit worthiness assessment
- **Limited disposable income and affordability challenges** (the high cost of new vehicles together with high interest rates)
- Automotive finance challenges, with **consumers unable to access affordable vehicle finance** for new vehicle purchases.
- **Limited credit bureau coverage**

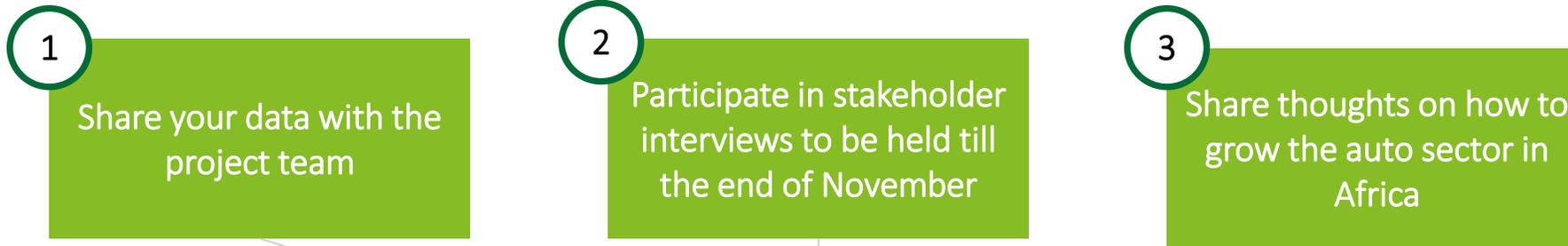
Summary – Insights emergent across the value chain

Quantitative Study: Stakeholder Interviews



Your continent needs you

How can you participate and contribute?



Countries selected for the study:



Ghana



Kenya



Egypt



Nigeria



South Africa



Morocco

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Thank You

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