

29 April 2020

# Experian Africa 2020

## Weekly Market Impact Report (Week 4) A look at a rapidly changing economy

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# Contents page

- Introduction..... 3**
- Executive Summaries ..... 4**
  - Week 1 ..... 4
  - Week 2 ..... 4
  - Week 3 ..... 4
  - Week 4 ..... 5
- What does credit activity look like in week 4? ..... 6**
  - South African Enquiry Volumes ..... 6
- Our African Footprint..... 8**
  - Sub-Saharan Africa Footprint Summary ..... 9
  - Africa’s Regulatory Structure ..... 9
  - Our Support and Partnership ..... 9
  - Credit provided by the financial sector ..... 10
  - Timeline of COVID-19 events in Experian Sub-Saharan Africa ..... 11
  - COVID-19 in Sub-Saharan Africa ..... 11
  - ICCR Global Policy on Credit Data During COVID-19 ..... 13
- What early consumer trends are we observing in Sub-Saharan Africa? ..... 14**
  - COVID-19 Impact on Sub-Saharan Africa ..... 14
  - COVID-19 impact on enquiries ..... 14
  - Uganda ..... 15
  - Namibia ..... 17
  - Botswana ..... 19
  - Lesotho ..... 21
  - Mozambique ..... 24
  - Ethiopia ..... 25



# Introduction

While the lockdown in multiple countries across EMEA has appeared to have had a positive effect on decreasing the spread of COVID-19, it continues to have a negative impact on various industries.

With many countries announcing extensions of lockdown periods, the extent of the pandemic's economic impact continues to be largely unknown. However, through tracking and analysis of the emerging patterns in the credit and related industries, we see early indicators of what is to come over the next few months.

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We are committed to continually sharing insights and trends as they emerge, keeping you informed to support your strategies.

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All emerging trends are tracked weekly with a focus on how they impact overall market activity, changes in consumer behaviour and the impact on overall performance at a total market and business vertical level.

Week 4 ending 24 April 2020 focus areas:

- What does credit activity look like in week 4?
- What is Experian's footprint in Sub-Saharan Africa?
- What early consumer trends are we observing in Sub-Saharan Africa market?



# Executive Summaries

## Week 1

The extent of the drop in enquiry volumes across the Experian EMEA region directly correlates with the level of confinement in each country.

- The stricter the lockdown criteria, the more significant the impact on overall enquiry volumes across all industries.
- In countries where the confinement criteria are less stringent, enquiry volumes are less affected, with ECommerce transactions still growing positively.
- For countries where stringent lockdown measures have been in effect the longest (Italy and Spain), it took circa 21 days for enquiry volumes to reach a new normal.

South African trends appear to be more aligned with countries where similar severe lockdown measures are in place.

- The most significant drop in enquiry volumes occurred from the date the lockdown was formally enforced.
- The drop in enquiry volumes was similar across all industries, with retail and non-bank loan industries the most severely impacted due to complete closures.
- An immediate drop in the number of accounts opened and outstanding balances was observed at the same time as the lockdown took effect.
- While the number of applications for Debt Counselling remained relatively stable, approved applications significantly reduced.

## Week 2

Enquiry activity trends seem to be stabilising across the Experian EMEA region. However, still in its early stages, South Africa continues to experience a negative effect on enquiry level.

- On average, the month of March was only 12% lower than February; we expect April to be significantly lower than March due to the impact of the extended lockdown in South Africa.
- The retail and non-bank loans industries in South Africa remain hit the hardest due to the total lockdown.
- Overall, the lack of credit activity across multiple industries (clothing and furniture retail, telcos, asset-

based finance, short-term loans, credit cards, etc.) will have a medium- to long-term impact on these industries.

- While volumes of requested and approved debt review applications have decreased considerably during the past week, they are expected to dramatically increase once the lockdown is lifted and the courts reopened.
- Fraud attacks are expected to increase; however, we expect our fraud solutions to remain stable and provide the desired support to our clients.

## Week 3

Enquiry activity trends appear to be further stabilising across the EMEA region. However, South Africa continues to experience a negative effect on enquiry level as we move through the lockdown period.

- Europe continues to struggle with the effects of COVID-19 with the lockdown in Italy and Spain having the biggest impact.
- The impact on the rest of Europe is starting to increase as more stringent lockdown criteria are put into effect.
- South Africa's infection trends continue to increase; however, at a rate lower than that observed in the rest of Europe.
- The lockdown continues to negatively impact enquiry volumes with only the telco industry showing growth due to the increased demand for data.

Key indicators Experian tracks weekly continue to show distress due to the lack of economic activity:

- New account volumes and outstanding balances remain depressed due to lack of market activity.
- Applications for debt review dropped to almost zero due to non-essential service classification.
- Increased consumer demand for both deferred payment and restructures have not yet materialised; however, it is expected to increase over the coming weeks and months as the impact of the lockdown takes effect on consumers.
- Both bureau scorecards and segmentation models remain stable.

SME sector suffering the same fate as the consumer sector due to depressed demand:

- Enquiry volumes significantly lower since the onset of the lockdown.
- Experian Business Debt Index is expected to significantly deteriorate in coming quarters due to the pre- COVID-19 ailing economy and impact of the strict lockdown criteria.
- Average debtors days already show initial signs of deterioration, with significant extensions expected.
- While all industries show distress, the construction, transport and communication industries are most severely impacted.
- Business conditions are expected to significantly deteriorate in the coming months as the impact of the lockdown and weak economy result in increased company closures and job losses.

Experian continues to actively track all components of our value chain to ensure that all available data is loaded timeously and is complete. We further actively monitor our various scoring solutions to ensure ongoing accuracy.

## Week 4

Enquiry activity trends seem to have stabilised across all the Experian EMEA regions including South Africa.

On the local front, new account volumes and outstanding balances remain depressed due to lack of market activity as we enter the 5th week of total lockdown. Similarly, debt review applications remain low with requests for deferred payments and restructures at pre-COVID-19 levels, with volumes expected to increase in coming weeks.

Both bureau scorecards and segmentation models remain stable as the expected impact of the crisis has not yet materialised in reported data.

- Sub-Saharan African countries are showing similar trends as observed in the EMEA region and South Africa:
- The most significant drop in enquiry volumes occurring from the date each country's lockdown was formally enforced.

- This trend is consistent across the banking and non-banking industry with the larger impact being on the non-banking sector due to the lockdown.
- Experian continues to actively track all components of our value chain to ensure that all available data is loaded timeously and is complete.
- We will further actively monitor our various scoring variables to ensure ongoing accuracy.



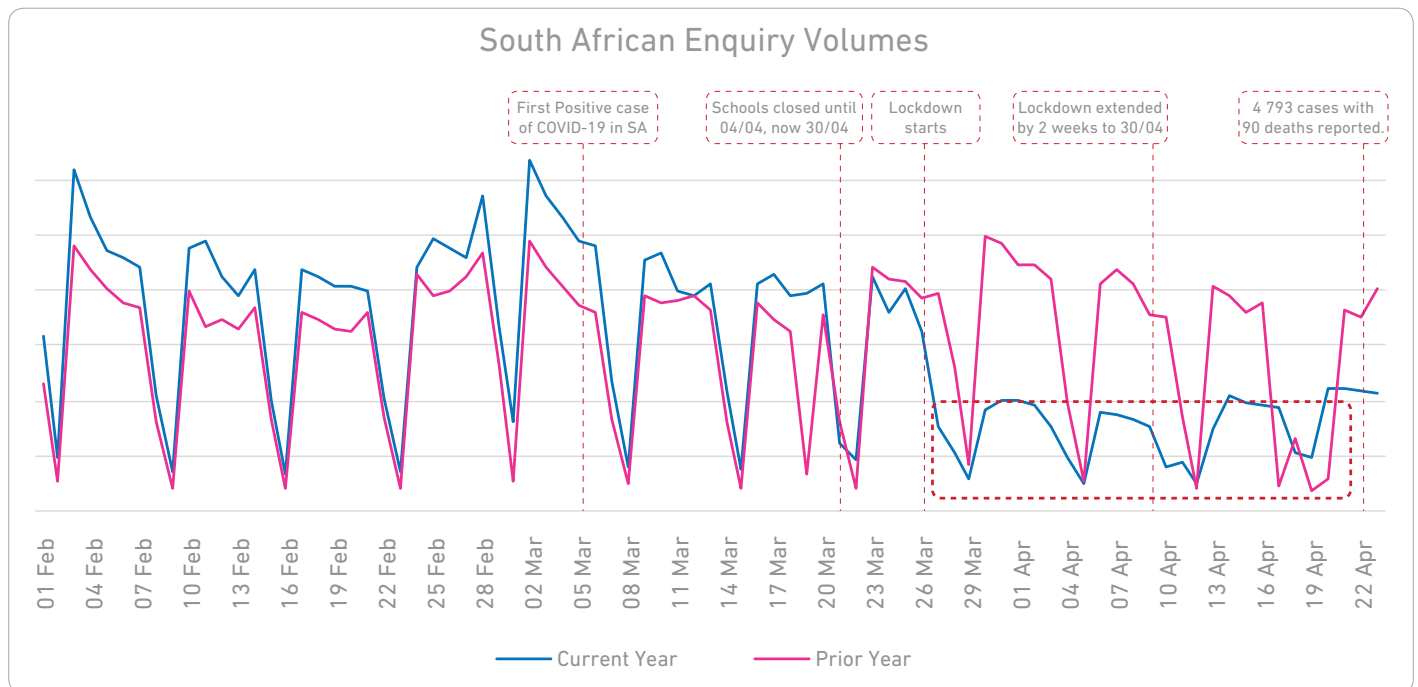
# What does credit activity look like in week 4?

Enquiry activity trends remain stable across the Experian EMEA region.

Situation as of 13 April	Level of confinement *	Total cases (variance vs the day before)	Quarantine start date	Estimated end date
Italy	High	197,675 (+2,324)	10/03	13/05
Spain	High	226,629 (+2,870)	14/03	25/04
Netherlands	Medium	37,845 (+655)		
Norway	Medium	7,527 (+34)		
Denmark	Medium	8,575 (+130)		
South Africa	High	4,793 (+247)	25/03	30/04

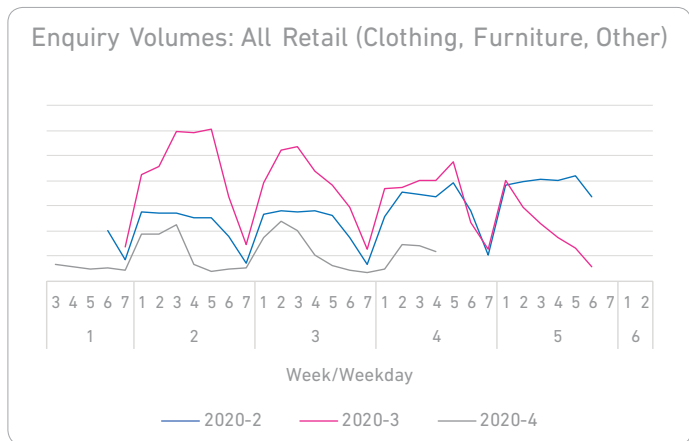
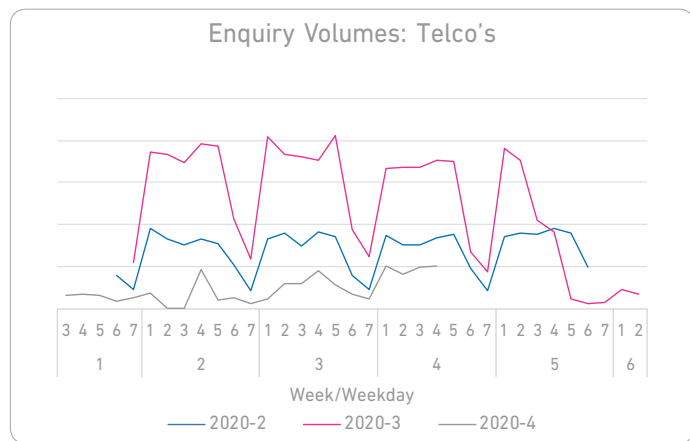
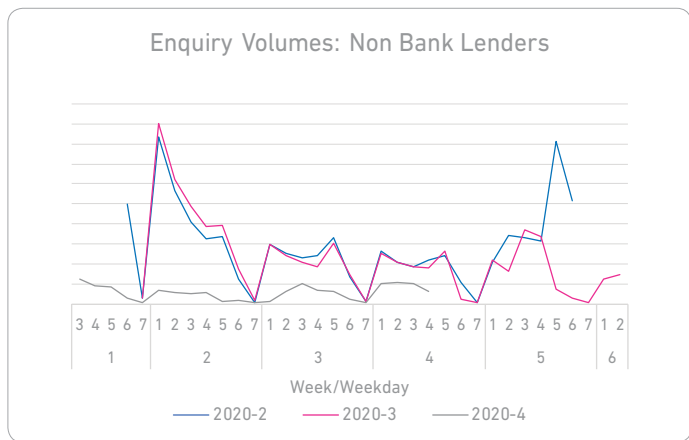
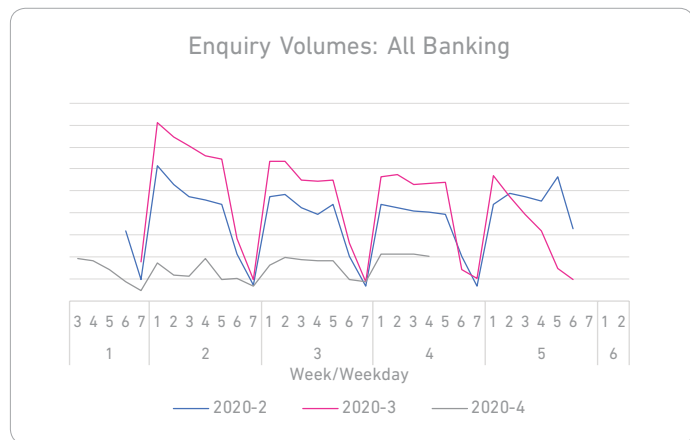
\* High: full quarantine (schools closed, forced home office), Medium: partial quarantine (schools closed, recommended home office, possibility to go outside home), Low: soft quarantine (early stage of economic activities reduction).

The trends observed during the first two weeks remain consistent across the EMEA region with Italy and Spain most severely impacted as the total lockdown continues, with new infections and deaths still at unfortunate high levels. South African numbers also continue to increase as increased testing is implemented. What is promising is the rate of recoveries in the South African market with the death rate at the low end of the international norms.



While the enquiry trends in South Africa correlates with that of Spain and Italy, infections and subsequent deaths are growing at a significantly slower pace due to the early lockdown.

All industries continue to struggle with lower application volumes due to the strict confinement measures in place; however, the risk-based relaxing criteria is expected to positively impact on impacted industries.



Key tracked criteria continue to show distress or lack of activity due to lockdown.

Measure	Comment	Week 1	Week 2	Week 3	Week 4
New accounts opened	The volume of new accounts opened remains under pressure as payday loans, short-term loans, secured lending products and retail loans demand remains subdued.	↓	↓	→	→
Total outstanding balances	Similarly, outstanding balances remain under pressure due to low renewal of short-term and payday loans, and lack of activity in the secured lending market. Credit card balances are the least impacted due to preferred payment mechanism status.	↓	↓	→	→
Debt review	Requested and approved volumes continue to drop as industry seen as non-essential service. Post-lockdown growth expected as requests increase.	↓	↓	→	→
Deferred payments	Deferred payment volumes remain in line with pre-COVID-19 levels. This is expected to increase in the coming weeks (post lockdown) as consumers take advantage of the option to manage cash flows.	→	→	→	→
Restructures	Restructures remain in line with pre-COVID-19 levels. This is expected to increase in the coming weeks (post lockdown) as consumers take advantage of the option to manage cash flows.	→	→	→	→
Bureau scores	Bureau score distributions and characteristic stability remains in line with development expectations.	✓	✓	✓	✓
FAS stability	Segmentation distributions and characteristic stability remains in line with development expectations.	✓	✓	✓	✓

# Our African Footprint

We are present in 7 African countries and are planning to expand through innovative growth strategies. Experian, Compuscan and Scoresharp are operating in the following African countries:

- South Africa
- Namibia
- Botswana
- Lesotho
- Uganda
- Ethiopia
- Mozambique





## Sub-Saharan Africa Footprint Summary

Country	Year of Entry	Population	Market Focus	Services
Uganda	2006	44 269 594	Retail and commercial banking Bureau Non-bank finance	Credit Bureau Services Biometric ID card Decision Analytics
Botswana	2000	2 303 697	Retail and commercial banking Non-bank finance Retailers Government/utilities	Credit Bureau Services Commercial Credit Reporting Decision Analytics Academy
Namibia	2000	2 494 530	Retail and commercial banking Non-bank finance Retailers Government/utilities	Credit Bureau Services Commercial Credit Reporting Decision Analytics
Lesotho	2014	2 125 268	Retail and commercial banking Non-bank finance Retailers Government/utilities	Credit Bureau Services Commercial Credit Reporting Decision Analytics
Mozambique	2017	30 366 036	Retail and commercial banking Non-bank finance Retailers Government/utilities Training	Credit Bureau Services Commercial Credit Reporting Decision Analytics
Ethiopia	2011	112 078 730	Commercial banking	Software Sale

## Africa's Regulatory Structure

- Most markets have bureau-data-enabling legislation, requiring mandatory data submission and affordability assessments.
- Uganda limits bureau data access and submission to participating institutions (banks).
- Namibia, Lesotho, Mozambique have comprehensive data submission.
- In some instances, data protection legislation is applicable.
- Bureaus are regulated by Central Banks as opposed to a stand-alone regulator.

## Our Support and Partnership

How will we support our clients through this crisis?

- Proactive communication with our partners:
  - o Committed to helping consumers and businesses get accurate information quickly.
  - o Listening to your challenges and how you are responding to the crisis.
  - o Understanding the impact of COVID-19 on your business and where you need help.
  - o Ability to react quickly to your needs.
- Offering the right solutions to help:
  - o Enabling digital lending.
  - o Analytics: provisions, impairments, expected loss modelling, stress testing on capital adequacy and organisational impact assessment.

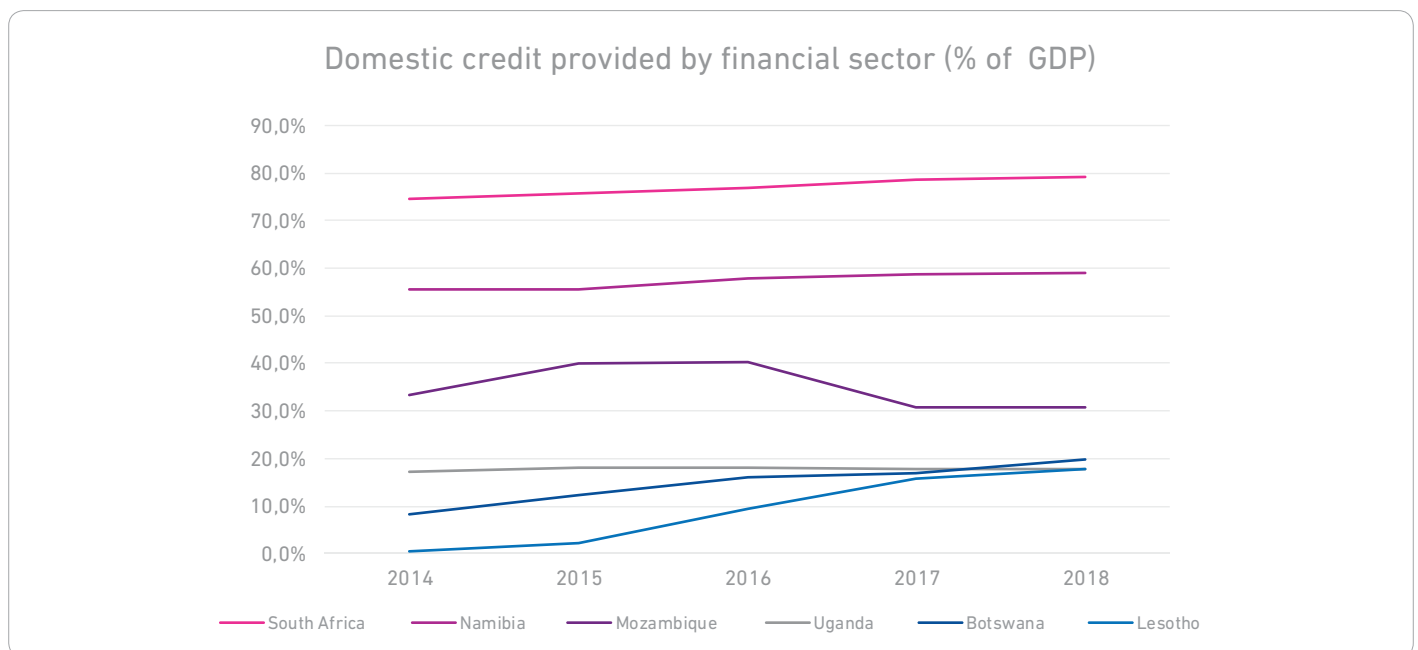
## Market Impact Update

- o Leverage our relationship with Compuscan Academy to help with appropriate credit training.
- o Preparing for post-COVID-19, finding good customers now to stimulate advances after lockdown.

Economic Statistics	Namibia	Botswana	Lesotho	Mozambique	Uganda	Ethiopia
Total Population	2.5 m	2.30 m	2.12 m	30.3 m	44.2 m	112.0 m
Vulnerable Population > 55 yrs www.cia.gov	8.58% (210 k)	11.48% (264 k)	10.58% (224 k)	6.2% (1.8 m)	5.29% (2.3 m)	7.8% (8.7 m)
Unemployment www.cia.gov	34%	36%	34.4%	25%	14.8%	25.2%
GDP www.worlddeconomics.com	\$ 26 bn	\$39 bn	\$5 bn	\$37 bn	\$62 bn	\$204 bn
Agriculture www.cia.gov	6.7%	1.8%	86%	75%	28.2%	34.8%
Industry www.cia.gov	26.3%	27.5%	7%	4%	21.1%	21.6%
Services www.cia.gov	67%	70.6%	7%	21%	50.7%	43.6%

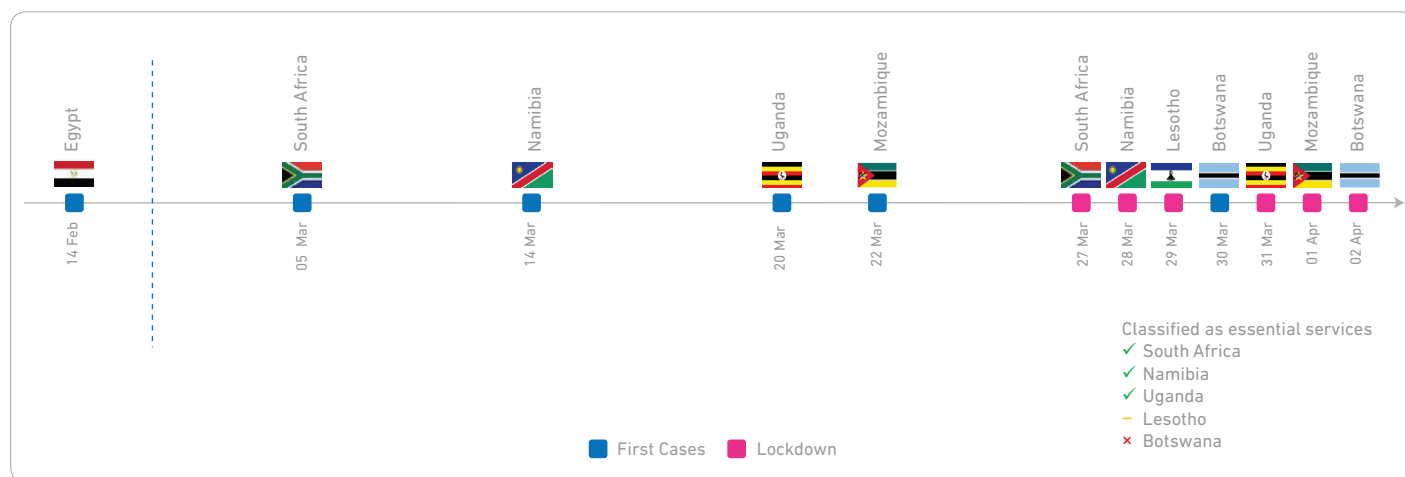
### Credit provided by the financial sector

South Africa's financial sector contributes the most towards their GDP compared to other African countries where Experian has a footprint.



- South Africa still has the highest rate of domestic credit provided by the financial sector as a percentage of GDP, followed by Namibia.
- Mozambique’s rate has decreased since 2017, while Botswana and Lesotho’s rate has been increasing.

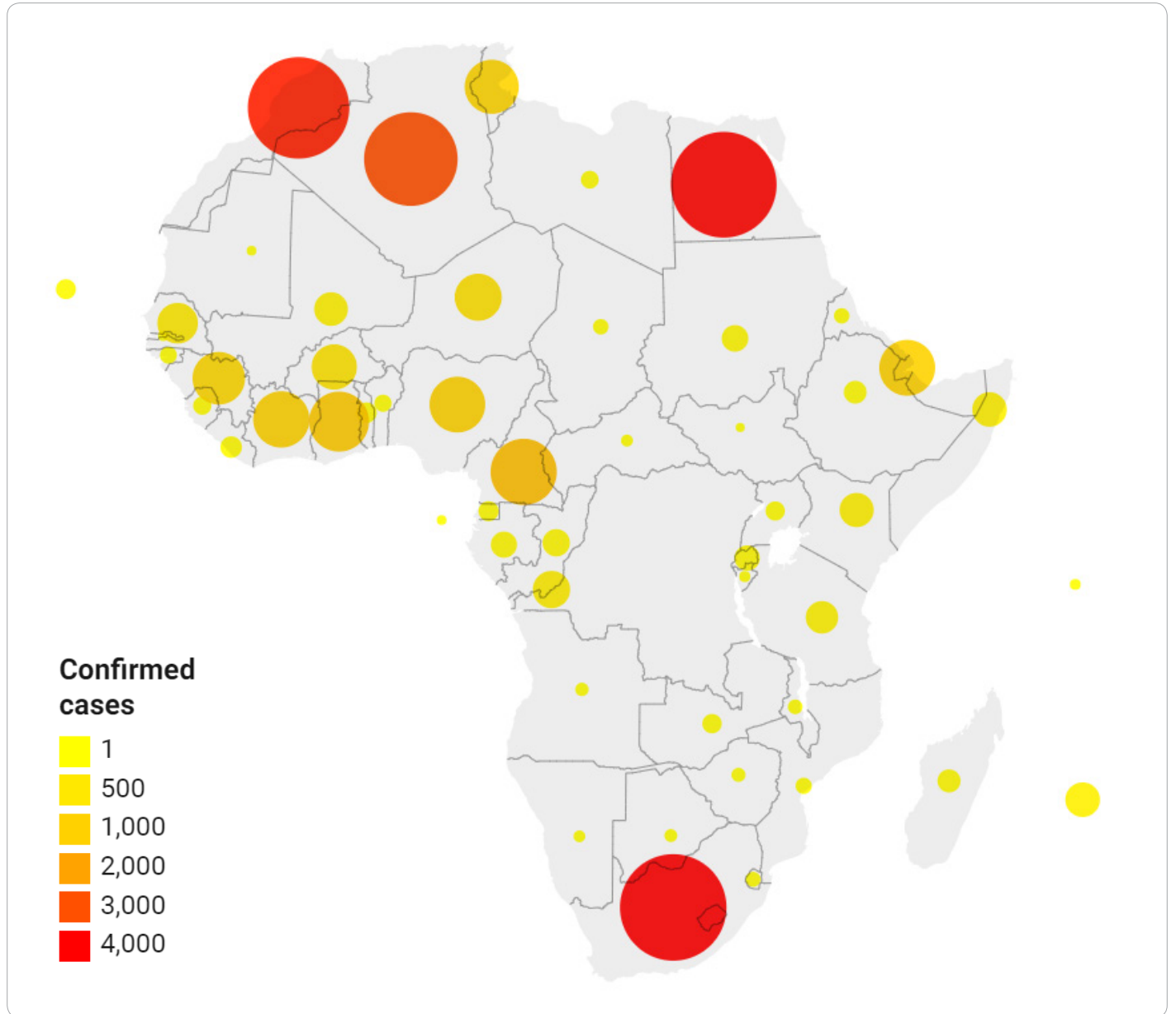
### Timeline of COVID-19 events in Experian Sub-Saharan Africa



### COVID-19 in Sub-Saharan Africa

Country	Total Cases	Total Deaths
South Africa	3953	75
Uganda	63	0
Mozambique	46	0
Namibia	16	0
Botswana	22	1
Lesotho	0*	0

\* Total cases for Lesotho unknown as the country doesn't have COVID-19 testing ability (as at 24 April).



Source: <https://africanarguments.org/2020/04/23/coronavirus-in-africa-tracker-how-many-cases-and-where-latest/> 24 April 2020

## ICCR Global Policy on Credit Data During COVID-19

### **Safeguarding the integrity of the credit reporting systems**

- Promote continued full file credit (positive and negative) sharing of credit information, including reporting of missed payment data arising due to the crisis.
- Ensure consistent interpretation and application of the data reporting requirements by all credit providers and participants in the credit reporting system.
- Implement adequate business continuity procedures to offer full services (including complaints and dispute handling) during the crisis.

### **Safeguarding borrowers**

- Implement measures to monitor that the negative payment information reported during the crisis has minimal or no effect on credit risk scores of data subjects.
- Ensure data subjects are provided digital access to free credit reports and scores during the crisis, where possible.
- Enhance complaints and dispute handling capacity of regulatory authorities. Stakeholders should consider leveraging technology to automate their complaints and dispute handling processes.

### **Improving transparency and disclosure regimes**

- In markets where the processes are still manual, promote digitisation of the process of accessing consumer reports.
- Enhance regulatory authorities' consumer and financial literacy programmes through the publication of recommended plan of actions and availing additional useful resources to the borrowers.

### **Impact on banking sector training**

- The Botswana Institute of Banking and Finance (BIBF) is a strategic partner delivering Compuscan Academy credit training material (BQA accredited).
- The BIBF primarily offers training to its members such as banks, lenders and financial service providers in Botswana to further improve the quality of credit training and material available to credit staff in the country.
- Impacts of COVID-19 on BIBF:
  - o The institute's target market indicated an unwillingness to participate in any face-to-face training (20 March).
  - o Education and training are not considered an essential service; therefore, institutions of learning were first to close.
  - o Urgent efforts to implement e-Learning and virtual training.
  - o It is critical that credit staff continue with learning, especially on collection, debt restructuring and borrower engagements across all platforms.

# What early consumer trends are we observing in Sub-Saharan Africa?

## COVID-19 Impact on Sub-Saharan Africa

- All banking sectors are seen as essential services.
- Most banks are offering payment holidays ranging from 3 months to 6 months.
- In some countries, government grants/salary subsidies have also been provided to assist companies, employees and SMEs.
- Botswana declared a state of emergency for 6 months. During that time, the Constitution is on pause, the President has absolute powers and does not need parliament to pass motions.
- Microlenders have been qualified as an essential service in Namibia and Zambia, while in Botswana, microlenders are not an essential service. In Lesotho, microlenders have to apply for a permit to continue operations.

## COVID-19 impact on enquiries

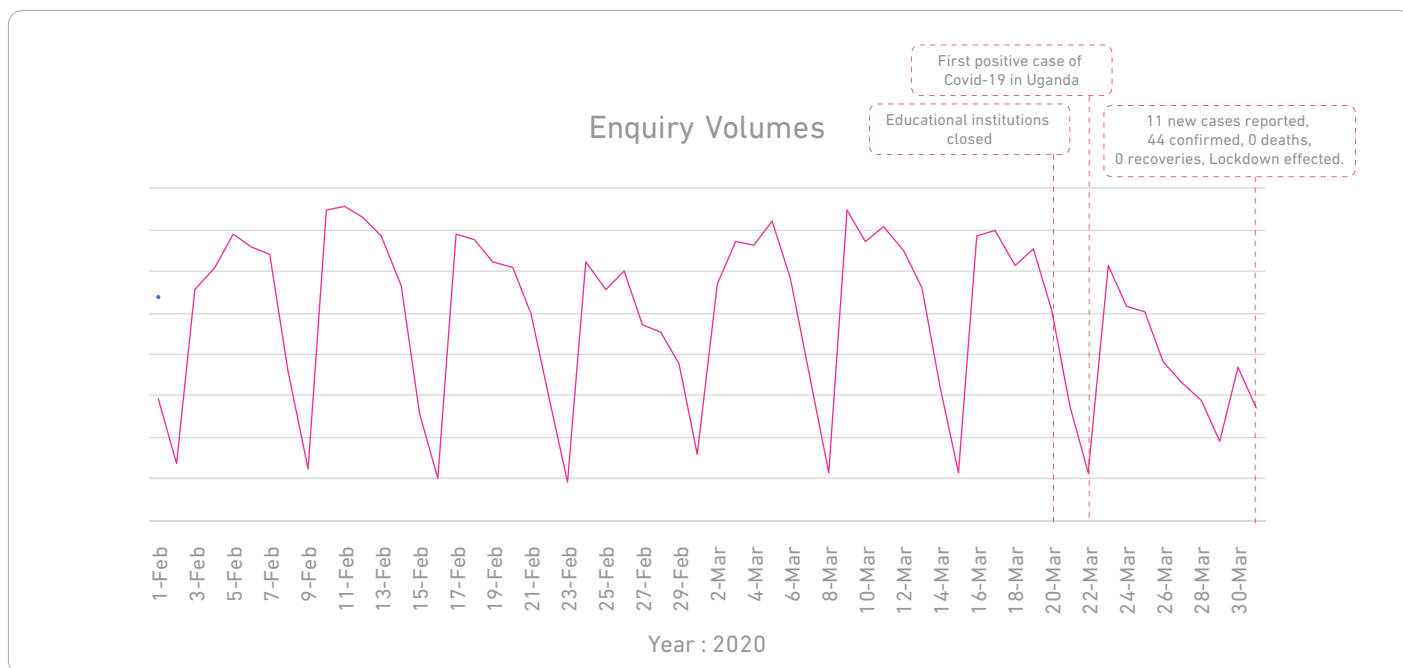
- There is a consistent trend across Sub-Saharan Africa countries where enquiries start decreasing just before the lockdown comes into effect.
- The most significant drop in enquiry volumes occurred from the date the lockdown was formally enforced.
- Significant drop off in Biometric Identification solution use provided by Compuscan (FCS) in Uganda.
- Experian continues to actively track all components of our value chain to ensure that all available data is loaded timeously and is complete.
- We further actively monitor our various scoring variables to ensure ongoing accuracy.

# Uganda

## Economic Overview

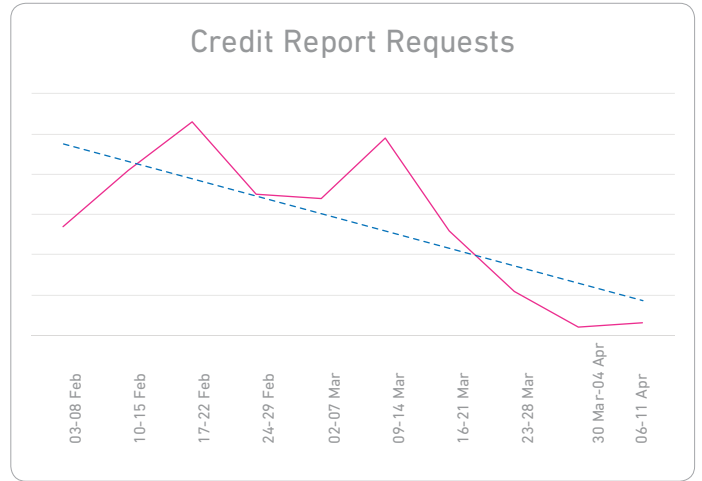
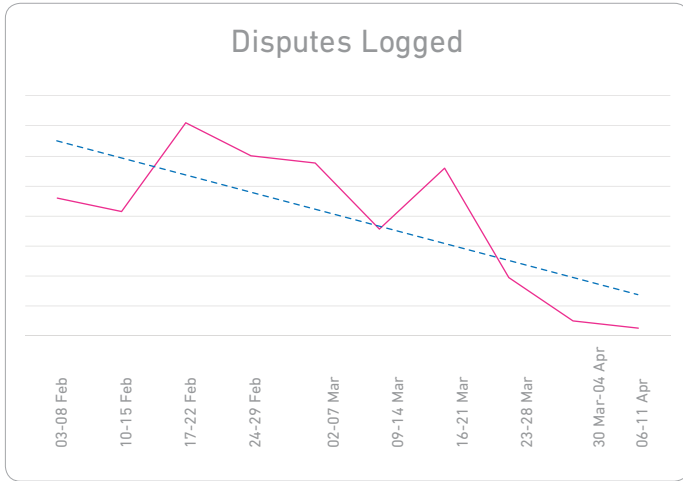
- Uganda's annual population growth rate is among the highest in the world at 3%.
- Undernutrition is high, and stunting affects one-third of all children in Uganda aged five years and below.
- Services, agriculture and manufacturing, are the main sectors contributing to GDP.
- More than 70% of Ugandans are employed in agriculture.
- Uganda's refugee population is currently around 1.35 million, making it the largest refugee host in Africa and third-largest in the world.
- Uganda's refugee policy is one of the most progressive in the world; refugees have access to social services, land and can move and work freely.
- Challenges include poor management, corruption, inadequate investment in health, education, and economic opportunities for a growing young population.

## COVID-19 Impact on Enquiries



## Initial Trends

- When comparing February and March 2020 enquiry volumes, a decrease in volumes is already noticeable towards the end of March.
- April enquiries are expected to be significantly worse due to the lockdown imposed at the end of March and the measures imposed by Bank of Uganda on financial institutions regarding disbursement and restructuring of loans.



### Dispute Handling and Resolution

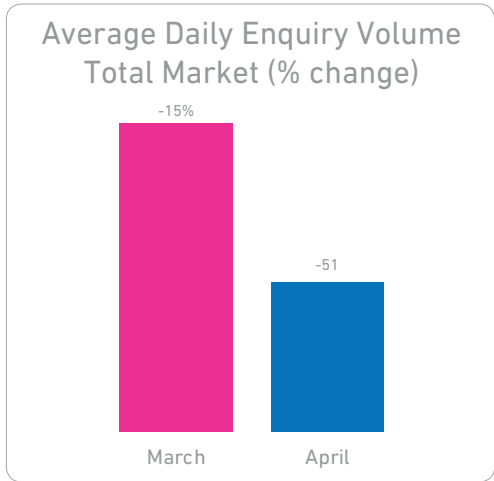
There has been a decrease in the number of disputes logged as well as the number of credit reports requested since Uganda recorded its first COVID-19 case.



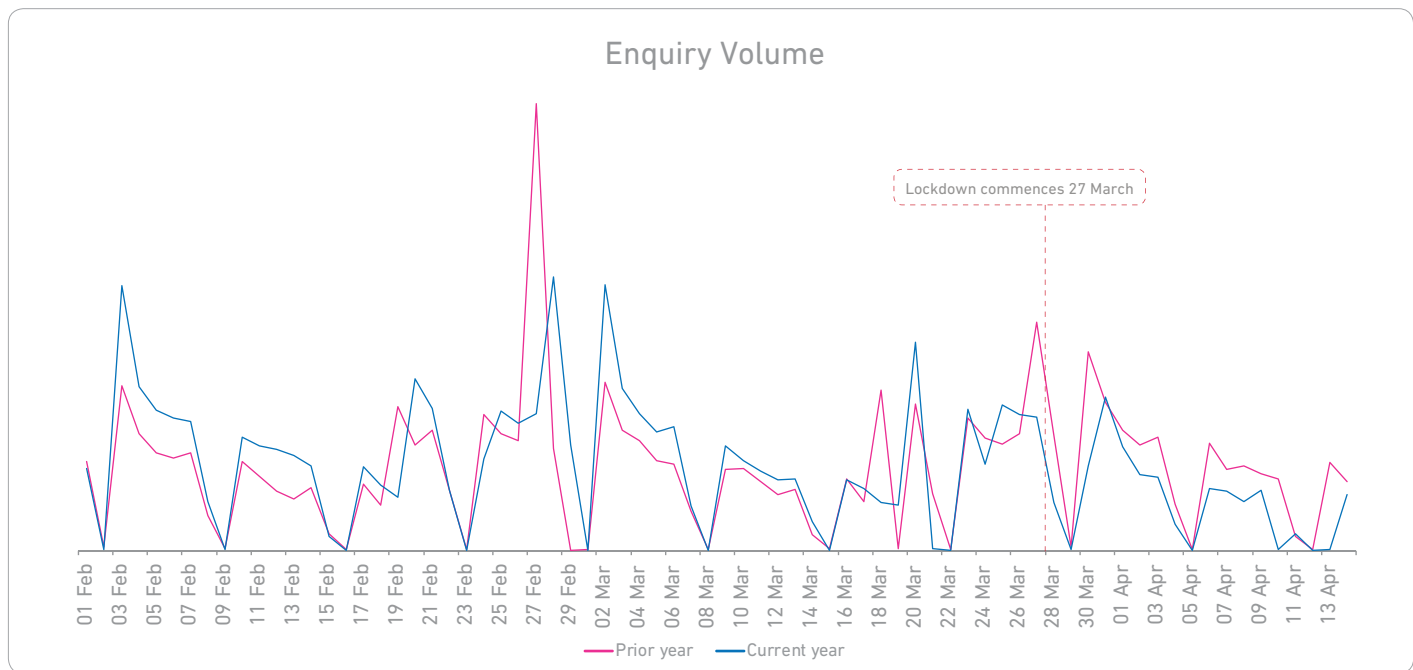
# Namibia

## Economic Overview

- Political stability and sound economic management have helped anchor poverty reduction.
- However, the relatively steady economic growth has not been enough to deal with the country's triple challenge of high poverty, inequality, and unemployment.
- Some encouraging signs for the possible recovery of the economy came from the expansion of mining and construction activity. The expansion of the construction activity was driven by the private sector.
- Namibia has achieved notable progress in reducing poverty since independence in 1990. However, the poverty rate in 2018 was 33.7%, relatively high for an upper-middle-income country.
- In 2019, the President declared a state of emergency due to one of the worst droughts being experienced.

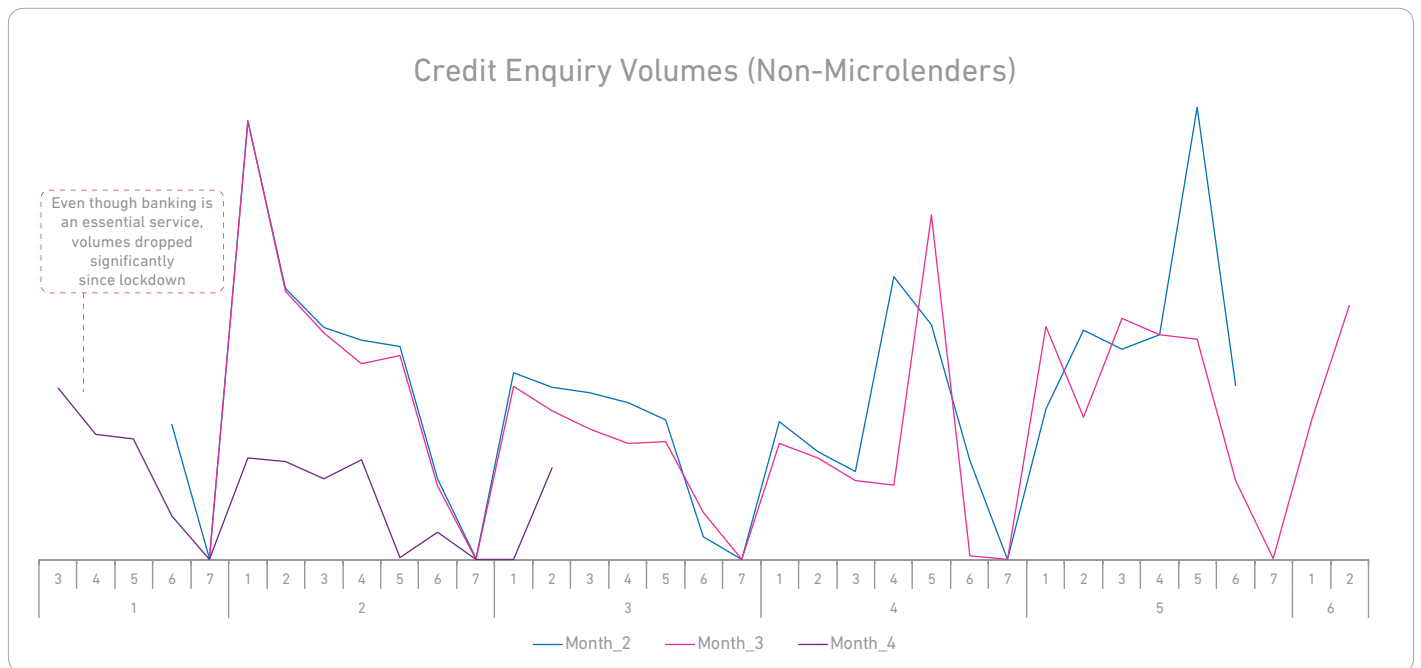
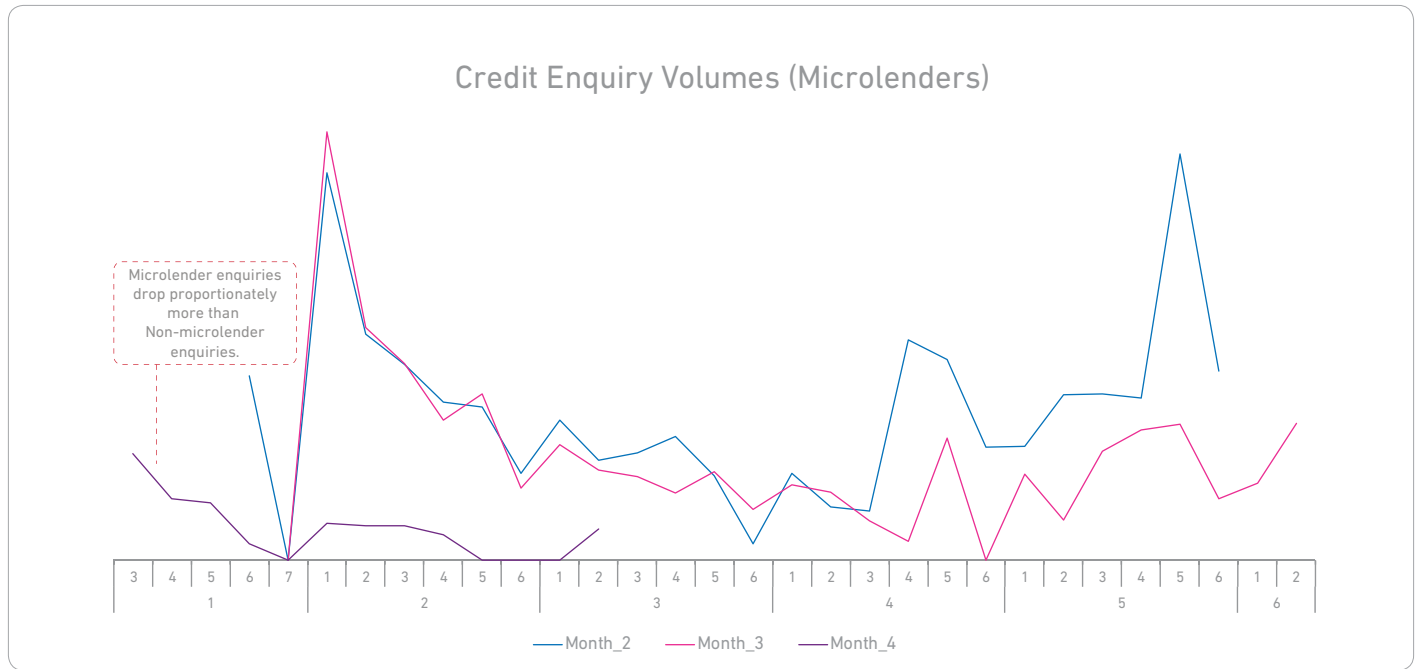


## COVID-19 Impact on Enquiries



## Initial Trends

The impact of the COVID-19 virus is already visible in the lower-end of March enquiry volumes, but average daily enquiries drop significantly by 51% in April.



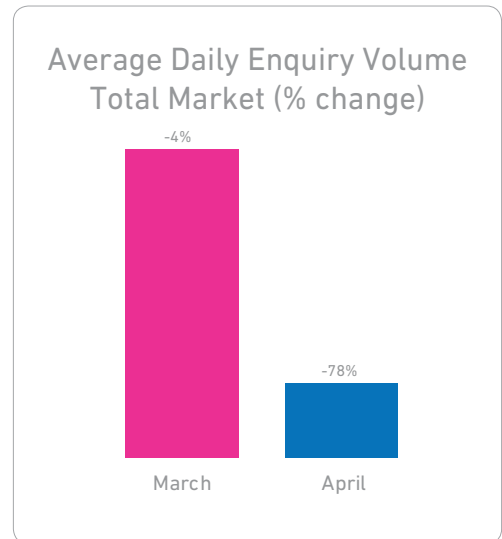
## Industry

While there is a similar downward trend across industry, the microlender enquiries have reduced proportionately more than non-microlender enquiries (driven largely by lack of foot traffic).

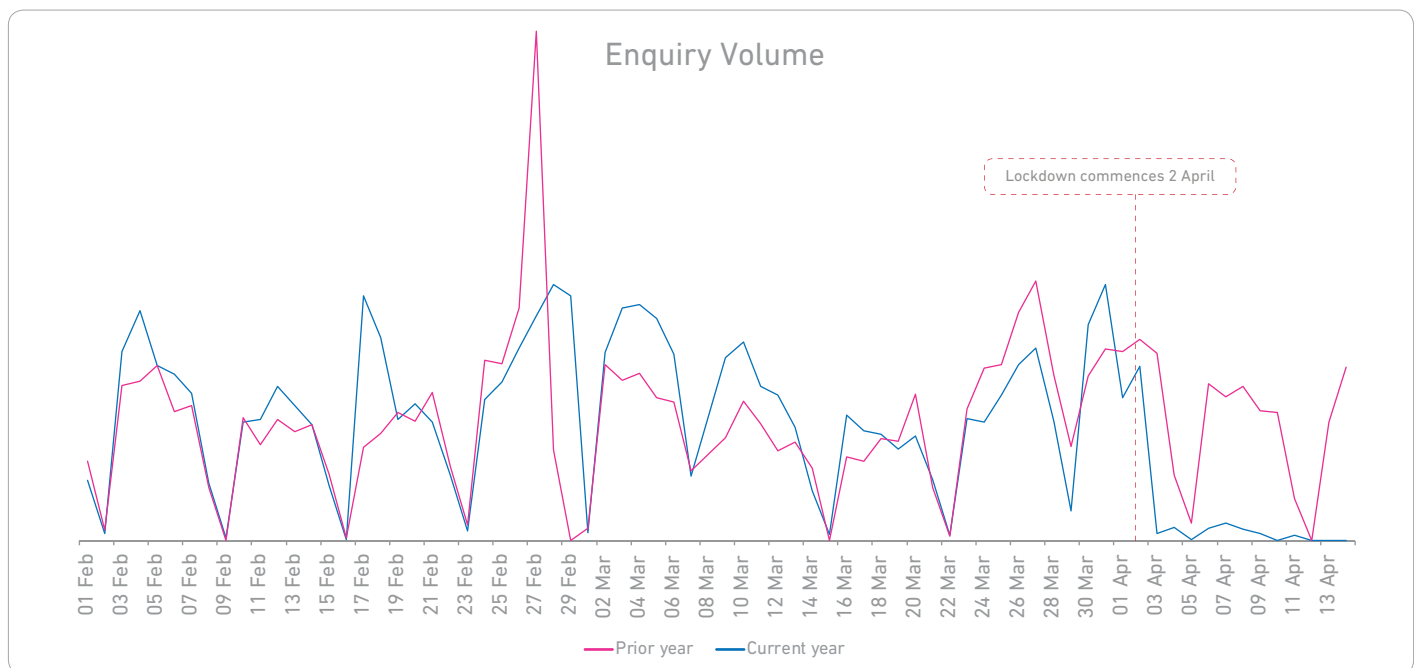
# Botswana

## Economic Overview

- Botswana has a stable political environment, therefore, they country has enjoyed strong and stable growth since independence, with sizable fiscal buffers and prudent policies playing a key role in shielding the economy, despite diamond market weakness and volatility.
- More recently, however, the limitations of Botswana's diamond-led development model have become more apparent: growth is slower, inequality remains high, and job creation is limited with youth unemployment posing a critical challenge.
- The global slowdown in demand and increased trade restrictions, in light of the COVID-19 pandemic, are expected to have a profound impact on Botswana's economy, particularly on the diamond industry and tourism.
- With the diamond industry still an important driver of growth, being the single largest contributor to government revenues and accounting 80% of export earnings, the expected reduction in activity is estimated to result in a 1.2% growth contraction in 2020.

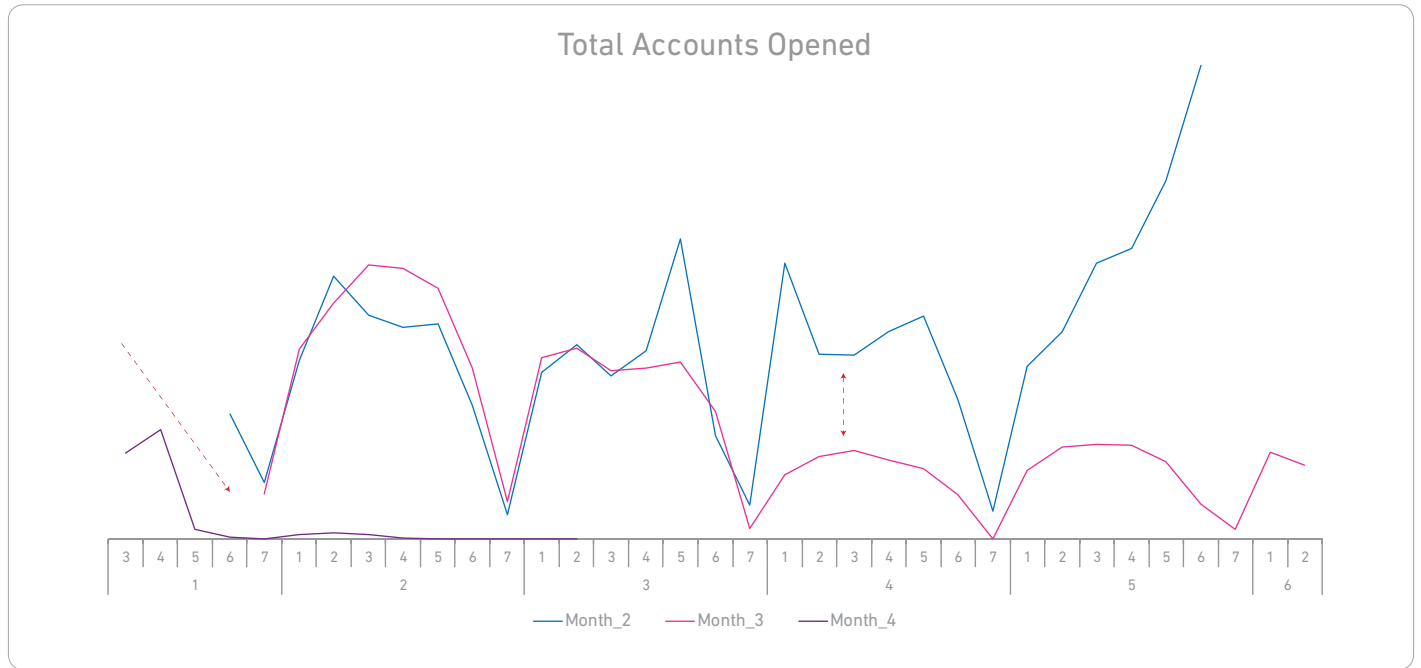


## COVID-19 Impact on Enquiries



## Initial Trends

The impact of the COVID-19 virus is already visible in the lower-end of March enquiry volumes, but average daily enquiries drop significantly by 78% in April.



## Industry

By the middle of March, the gap in the number of new accounts is visible compared to February due to Compuscan dominance in the unsecured micro-lending sector.

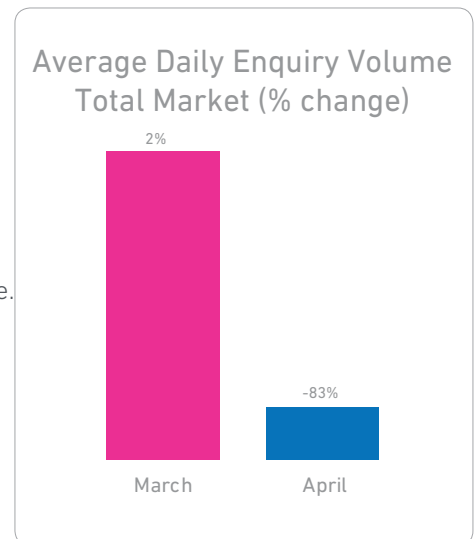
# Lesotho

## Economic Overview

- Lesotho has a narrow economic basis of textile manufacturing, agriculture, remittances, and regional customs revenue.
- Almost two-thirds of the country's income comes from the agricultural sector.
- The combination of the African Growth and Opportunity Act (AGOA) and the USA's Generalised System of Preferences (GSP) holds the benefit of duty-free exports to the US for about 6500 products. Textiles and apparel constitute the bulk of exports to the USA.
- Growth is expected to gradually improve (to reach an average of 2.2% in 2020) despite fast-changing implementation schedules of ongoing major construction projects (e.g. 2nd phase of Lesotho Highlands Water Project (LHWP II), Lesotho Lowlands Water Development Project (LLDWP), government roads). The projected medium-term growth trajectory is mainly dependent on the pace of activity in the construction-related projects.
- Private sector credit was forecasted to increase by 8.8% over the period 2019-2021, driven by consumer credit (the majority of which is unsecured personal loans). Thus, making banks vulnerable to the financial health of private households.
- Commercial credit to benefit from project-led finance related to mining, manufacturing and wholesale and retail sectors.

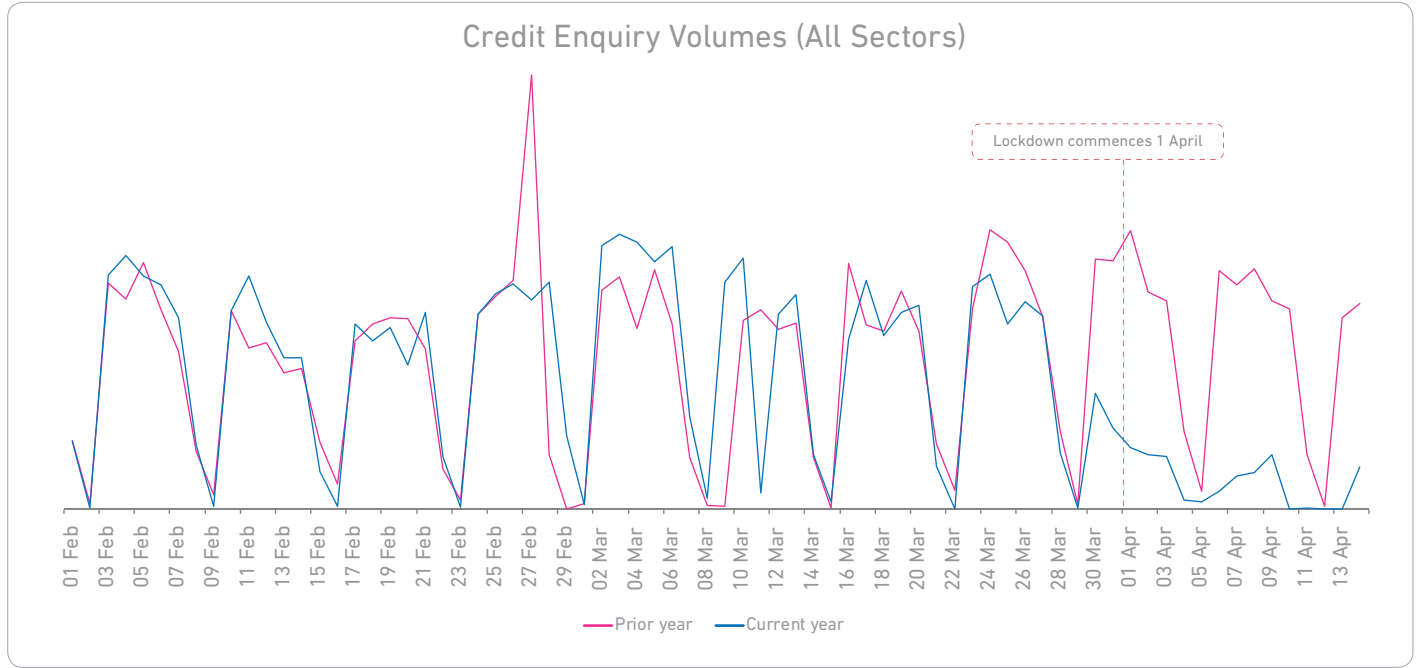
## The potential impact of COVID-19

- Dependence on remittances from migrant workers (e.g. miners working in South Africa) makes the country's economy vulnerable to South Africa's COVID-19 status.
- Although no cases have been reported thus far, the pandemic is expected to result in severe economic disruption as capital expenditure projects stall, diamond exports slump and investment inflows slow down.
- Overall, the positive growth trajectory (reaching 4.1% in 2021) is under pressure. Dependence on American and South African exports is expected to negatively impact Lesotho's economic growth prospects.
- High exposure of banks to the financial health of private households necessitates that gross reserve and bank net foreign asset (NFA) coverage ratios remain strong to safely rule out a self-fulfilling confidence crisis (although still unlikely).



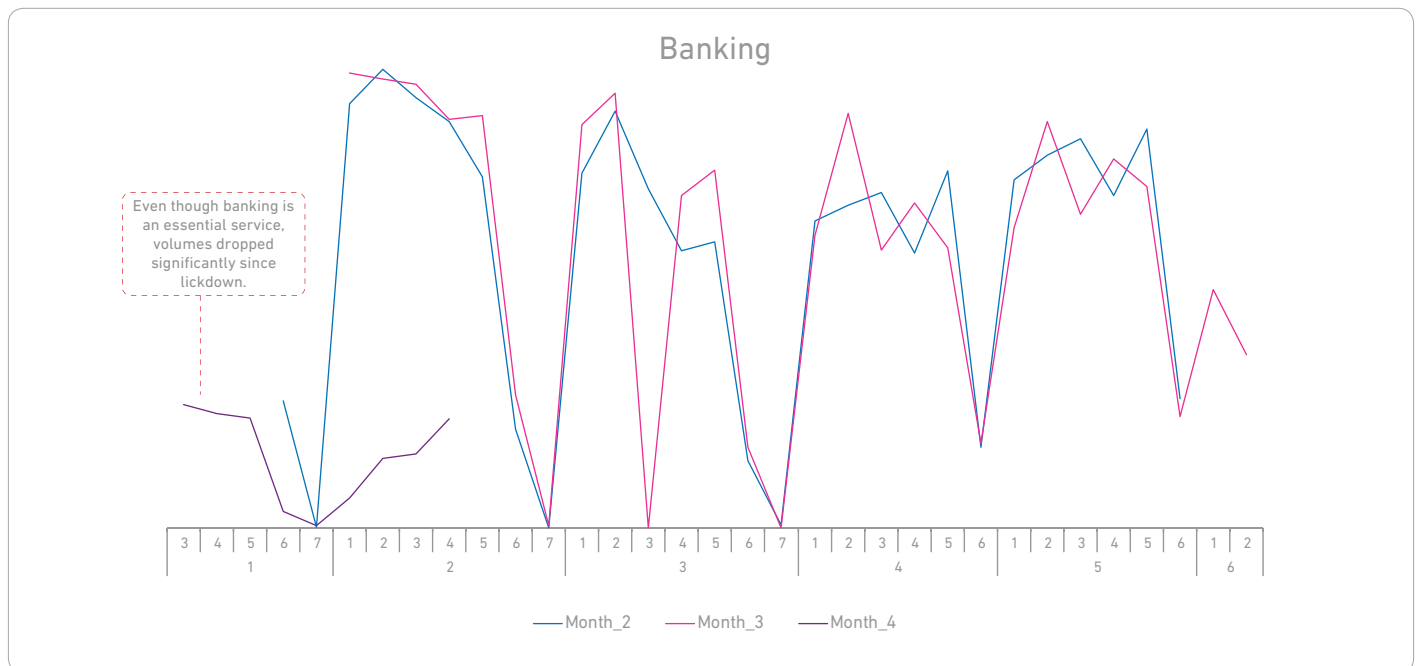
### COVID-19 Impact on Enquiries

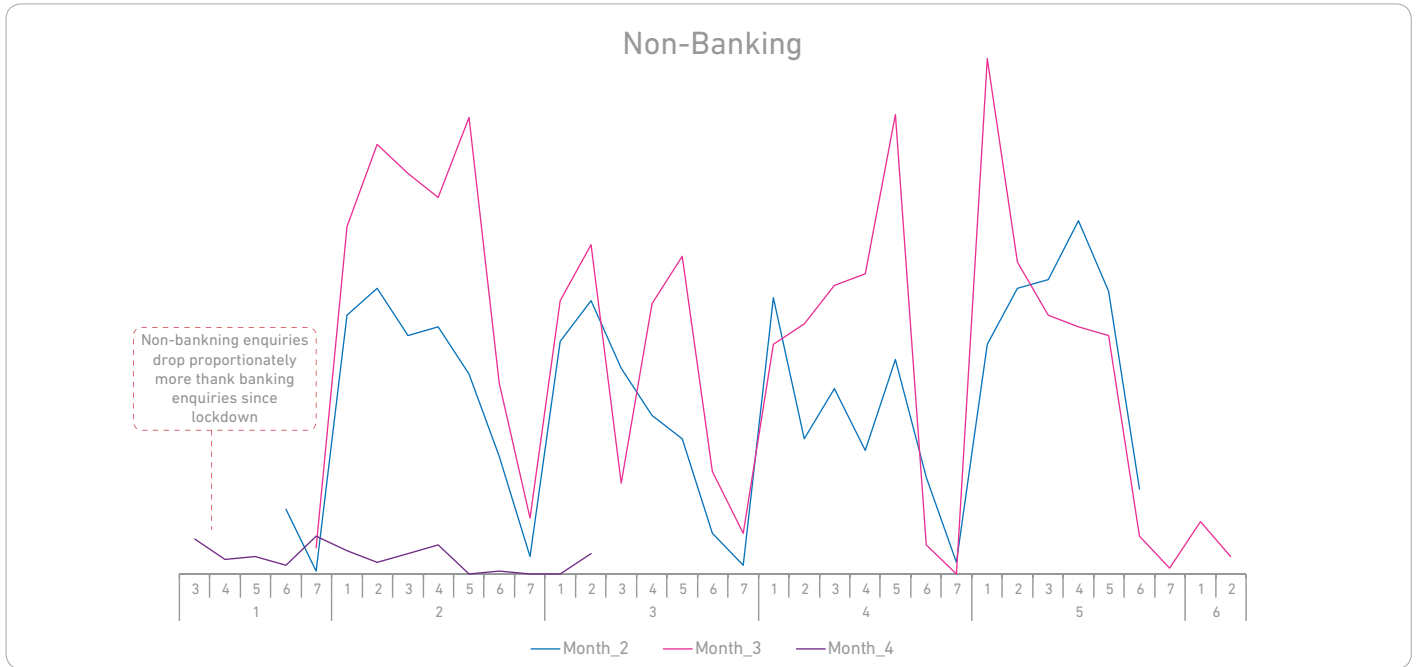
Compuscan is the exclusive credit bureau licensed by the Central Bank of Lesotho.



### Initial Trends

The impact of the COVID-19 virus is already visible in the lower-end of March enquiry volumes, but average daily enquiries drop significantly by 83% in April.





### Industry

While the enquiries have reduced across the industry, the non-banking sector is seeing very little credit activity due to COVID-19 lockdown.

# Mozambique

## Economic Overview

- As of 2017, about 66% of the population lived and worked in rural areas.
- The country is home endowed with ample arable land, water, energy and newly discovered natural gas offshore.
- GDP growth is estimated to be around 2% for 2019, which is down from 3.7% experienced from 2016 to 2018.
- The country remains in debt distress after several recent tropical storms.
- The country's main challenges include maintaining the macroeconomic stability considering exposure to commodity price fluctuations and upcoming general elections and re-establishing confidence through improved economic governance and increased transparency, including the transparent handling of the hidden debt investigation.

# Ethiopia

## Economic Overview

- Over the last 10 years, the service sector (primarily Ethiopian Airlines) continued to contribute about 40% of the GDP and surpassed agriculture as the main source of GDP (down from 48% to 33%). The industrial sector gaining importance (increase from 13% to 28%).
- Ethiopia remains one of the poorest countries in the world, as a result of rapid population growth and a low starting base.
- The government is broadly engaged in the economy:
  - o Infrastructure projects (e.g. power production and supply, roads, rails, airports and industrial parks).
  - o Essential sectors are state-owned (e.g. telecommunications, banking and insurance).
- Biggest destinations for Ethiopian exports are Asia, Europe and Africa.
- 25.4% expansion year-on-year in domestic credit - financial institutions (18 banks, 38 microfinanciers) contribute less than 5% to domestic credit levels.

## The potential impact of COVID-19

- Main service suppliers like Ethiopian Airlines will be impacted by the pandemic due to global travel restrictions since lockdowns started.
- Non-essential product exports to all countries will be impacted, although the majority of commodities might be classified as essential (e.g. coffee, oilseeds).
- Credit repayment behaviour to be affected negatively.



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