AFRICA PREBRIEF

9 Reasons Why 2011 Isn't 2008

Yesterday, while watching markets collapse and commentary on American, European, Japanese and African channels, two consistent themes emerged. From the perspective of the West, comparisons to the financial crisis of 2008 were irresistible and a consensus – though vague and fleeting in nature – emerged over the place of Africa, with the suggestion that many investors *could* seek growth there as equities in America and Europe declined. From Africa, we heard concern, the idea being that risk averse investors abroad will see the continent in broad brush generalizations (with no distinction or differentiation within the international 'emerging market' category) and too challenging to navigate in coming days.

Both views reflect the transition phase that Africa is undergoing which we have assessed as simultaneously too pessimistic and too optimistic. While the process will be uneven – with winners varying across regional, national, and sector lines, we are confident that 2011 is not 2008 and that Africa will receive a net gain from the ongoing decline. Here are 9 reasons why:

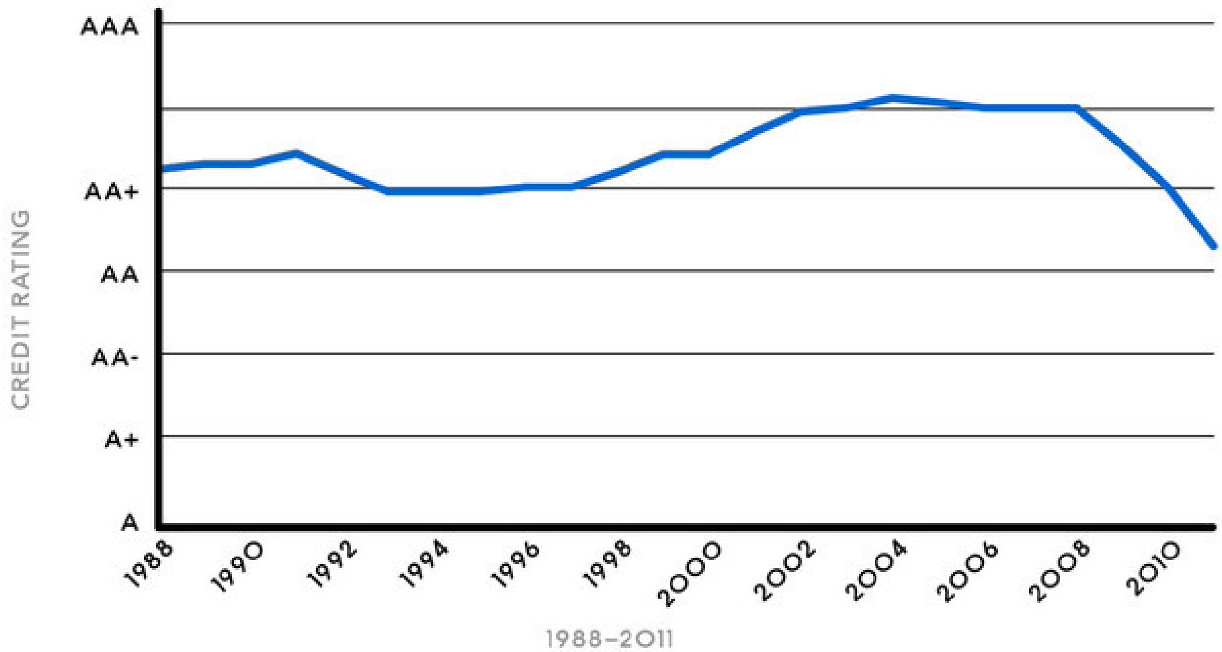
- **The *Africa Narrative* Has Evolved**. From our perch in Washington, D.C. (still the capital for 'Africanists' in America) we have seen the storyline regarding the continent undergo a remarkable transition from a preoccupation with famine and excruciating poverty in the 1980s to depictions of poor governance and corruption in the 1990s to a transition from aid to trade and the current euphoric 'growth story' which began late last decade. The African brand in general now is sufficiently developed with a critical mass of policy-makers, media outlets, activists, investors, entrepreneurs, NGOs, and celebrities capable of pushing back on less informed generalizations and stereotypes. The internet and social media alone ensure that Africans can speak to the world in their own, never monolithic, voice these days. And things like the *Forbes Africa* launch in October (http://www.businesswire.com/news/home/20110503006996/en/Forbes-Launch-Forbes-Africa-October-2011) are a bellwether of the improving Western perspective.
- **Demographic Pressures**. As we indicated in ***APB* March 30, 2011 "Portugal's Loss Is An African Gain,"** the economic crisis in Europe is sending enough underutilized and unemployed human capital to the continent to help make up the greatest deficit that Africa suffers from - a human capital deficit in the areas of higher education, business, administrative and management disciplines - which has been obvious since the post-

Liberation era but never adequately addressed by either anti-colonial heroes (who focused on the political more than economic development) and multi-lateral institutions. With emigration to Africa from Europe, infrastructure development, real estate, and financial intermediation will be immediate winners.

- **The Changing Europe-Africa Risk To Reward Pyramid**. We have never put as much stock in ratings agencies as others. But it is worthy to note the progress of African nations in the world of sovereign credit. Few can appreciate the transition which involved the **United Nations** exhorting the major credit ratings to not leave Africa out of the picture (http://www.un.org/apps/news/story.asp?NewsID=9895&Cr=UNDP&Cr1=Africa). Here is where things stood in 2009

Country	**Standard & Poor's**	**Fitch**	**Moody's**	**As of Year**
Benin	B/Positive/B	-	B/Stable	2009
Botswana	A/Negative/A-1	-	A2/Stable	2009
Burkina Faso	B/Stable/B	-	-	2009
Cameroon	B/Stable	B/Stable	-	2009
Cape Verde	-	B+/Stable	-	2008
Egypt	BB+/Stable	BB+/Stable	Ba1/Stable	2009
Ghana	B+/Negative	B+/Negative	-	2009
Kenya	B/Positive	B+/Stable	-	2009
Libya	A-/Stable/A-2	-	-	2009
Morocco	BB+/Stable	BBB-/Stable	Ba1/Stable	2009
Nigeria	B+/Stable	BB-/Stable	-	2009
Senegal	B+/Stable/B	-	-	2009
South Africa	BBB+/Negative	BBB+/Negative	A3/Stable	2009
Tunisia	BBB/Stable	BBB/Stable	Baa2/Stable	2009
Uganda	B+/Stable/B	B/Stable	-	2009

And today finds **Botswana** at A2 still; **Zambia** at B+ with African nations increasingly issuing debt on international credit markets – even diaspora bonds (see **Kenya**'s debut: http://www.businessweek.com/news/2011-07-08/kenya-to-raise-36-billion-shillings-in-debut-diaspora-bond.html). Conversely, the downward trend in average credit ratings for Western Governments continues:



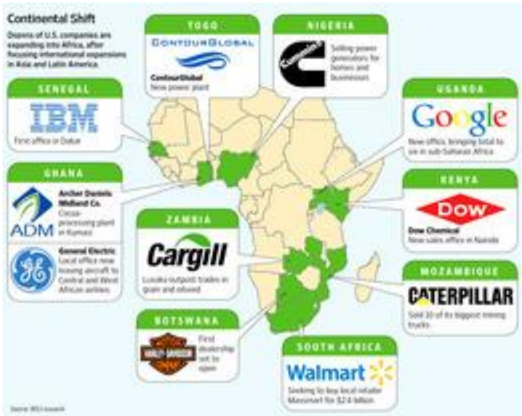
Anecdotally it is interesting to see yields on Eurozone countries rising juxtaposed to those of similar time horizon in Africa. The 10-year **Italian** bond yield is at 6.23%. The 10-year **Spanish** yield has touched 6.44%. **Portugal**'s 10-year bond yield reached 13.441% in July with the **Greek** 10-year yield at 17%. Although not a perfect comparison**, Nigeria**'s 10-year was 11.49% last month. The average redemption yield on Kenya's 10-Year was 13.089%. And Zambia's 10-year government bond is yielding 15.4010%. As it relates to equities, African companies increasingly find themselves included in ETFs and Index offerings. We spoke of this trend when we revealed the African presence in **Standard and Poor**'s new frontier/emerging market index, in our ***APB*** **May 4, 2011 "South Africa In The CIVETS 60 Index."**

- **Nation-State Competition**. As we outlined in our coverage of **U.S. Senate Committee on Foreign Relations Subcommittee on African Affairs** in our ***APB*** **April 14, 2011 "Assessing The FY2012 Budget For Africa"** it is clear that only a dramatic leapfrog by the United States in its African policy is capable of making up for some of the deficit between it and the Chinese presence on the continent. Utilizing recently classified national security council documents we explained how the U.S. interests in Africa are still trapped in a **Cold-War era** paradigm which is no match for China's more economically-rational pursuit (although it should be noted that almost everyone we have spoken too underestimates the role that the **'One China'** policy plays in her engagement with African nations. In many cases it matters *more* than natural resources). Economic downturn notwithstanding the United States will continue to more aggressively compete for friends in high places and the hearts and minds of African masses.

- **Capital Market Expansion.** Although basic trade execution remains an issue, the acceleration of capital markets in Africa will continue without hindrance, we think. Not only are promising efforts at regional integration underway but as we have noted in ***APB*** **June 14, 2011 "Tullow's Ghana IPO And The Rise Of Secondary Listings In Africa"** and in ***APB*** **August 3, 2011, "Zambia: Pre-Election Outlook –Cautious,"** the rise of such financial innovations as depository receipts and secondary listings will continue as African politicians seek avenues to allow their electorates to share more evenly in the wealth accessed and produced by foreign companies. We insist that direct distribution of oil revenues would be a more efficient and potent remedy but with the emergence of an African political entrepreneur willing to take a chance on that policy still not in our line of sight, we think experimentation with capital markets will become more attractive.

- **The Rise of Islamic Banking**. The 'Islamicization' of Africa has been depicted as a threat to the national security by many in the West, another form of imperialism by many Africans and as a form of liberation (and freedom from the touch of the Christian missionary) by some pan-Africanists and Muslims in the diaspora. But from the perspective of high finance we see it as an alternative capital source for some African nations with significant Muslim populations. Any move toward the nexus point of financial intermediation, public finance, and *Sharia* is a potential cultural and political minefield but as we wrote in ***APB*** **July 27, 2011, "Nigeria Post-MPC Meeting: Infrastructure Or Inflation?"** Islamic finance is increasingly being seen as a form of innovation. Should foreign direct investment (FDI) from the West somehow dry up we believe more and more African nations won't be able to resist the attractiveness of a global sector with close to $2 trillion to deploy, and 500 institutions ready to allocate it.

- **Growing U.S. Multi-National Corporate Penetration and *Dependence*.** One clear theme that we have presented to clients for over a year is the reality that for many multi-national corporations (beyond the typical commodity/natural resource sectors), there is simply no more growth to access in the West. Revenue has reached plateau and the only 'untapped' region on earth is not China or India but Africa. We described this in detail in ***APB*** **March 23, 2011, "Coca Cola Walks On Water"; *APB* March 24, 2011, "Why Boeing's 737 NG Matters"**; *APB* May 10, 2011, **"South Africa: Inside The Wal-Mart-Massmart Merger"; *APB* May 12, 2011,"India Exports A Sunset Industry"; *APB* May 18, 2011, "IBM's Footprint Grows"; *APB* June 9, 2011, "Google and WIPO Create A Public Good".** Our perspective is that many American equities down from highs last seen 3 -5 years ago will only be able to revisit those levels with the help of growth in places in Africa. We also think the time horizon to do so is also 3 to 5 years.



The *Wall Street Journal* does a decent job of describing the changing landscape and why entering Africa is an act of self-preservation and an option for growth, despite risks. (http://online.wsj.com/article/SB10001424052748703841904576257233342891732.html?KEYWORDS=Africa#printMode)

- **'Volatility' Now Means 'Northern Africa' not Sub-Saharan.** In our ***APB* March 17, 2011 "What The 'Revolting Index' Missed"** we explained why we believe Northern African nations have proven to be more volatile than the rest of Africa. The 'Arab Spring' provided the clearest demonstration of the dangerous situation that governments operating with closed political systems in a world that does not have a single closed economy (not even China) find themselves in. The level of dissatisfaction that is created in societies that are exposed to the novelties of the world (through trade and media) yet find their aspirations denied and frustrated at home by regimes that have either innocently exaggerated their level of post-colonial sovereignty and independence; mismanaged their business monopoly or been the victims of subversive forces is enormous. In sub-Saharan Africa where populations are less urbanized and where the vast majority of the economy is still rural and agricultural in nature, kinship-system loyalty and immobility (always the result when land is the primary form of capital) have limited access to and desire for external novelties. While aspirations for quality of life and freedom, justice and equality are universal, the power of tradition in many ways still represents *the* stabilizing force in African societies unmatched by the weak central authority of post-liberation governments. This dynamic is now equaled by a recognition that the explosive possibilities for economic development and growth now lie in the West, Central, East, and Southern portions of Africa. The smoother transition from tradition to modernity without strong central governments intermediating the process (and that means not spoiling or corrupting it) combined with international desire for the African consumer class coming on line this decade will continue to redefine African as *sub-Saharan.*

- **African Leaders Have Their Own Development Agenda**. In March of 2009 I was asked to help draft a statement on the financial crisis on behalf of the **African Union Commission**'s **First Congress Of African Economists** that would advise the **Committee Of 10** (2 Finance Ministers and Central Bankers from each of the continent's 5 regions) who were helping to represent Africa prior to the G-20 meetings in London focusing on the impact of the 2008 financial crisis (**British Prime Minister Gordon Brown** had invited African representation for the first time in the gathering's history). It was striking to see how great the tendency was, at that time, for African policy-makers to look toward foreign governments for state-to-state aid as the only realistic remedy to help them not just survive the crisis, but as the lynchpin of their prospects for viable development and growth. How much things have changed in just two years. While not universal, it is impressive to see how many African governments have moved from the aid paradigm to one that is placing the financing of infrastructure as the focal point of an economic agenda. That this paradigm, unlike that which has focused on foreign aid to finance health and education programs, comes without austere conditionality is enough of a break through. That infrastructure can be financed by a variety of rational actors is especially liberating. And while electorates easily fight over how social service resources should be allocated; infrastructure is quite often a bi-partisan or non-partisan issue as the need for a bridge and electricity has universal appeal, with subsistence farmers, entrepreneurs, and business elite all in need.

To be sure, there are concerns and threats to African growth on the horizon. And Africa will be hurt in many ways by a global slowdown.

However, our only position at the moment is a clear one - for the above reasons and many more, 2011 is *not* 2008.

Cedric Muhammad

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