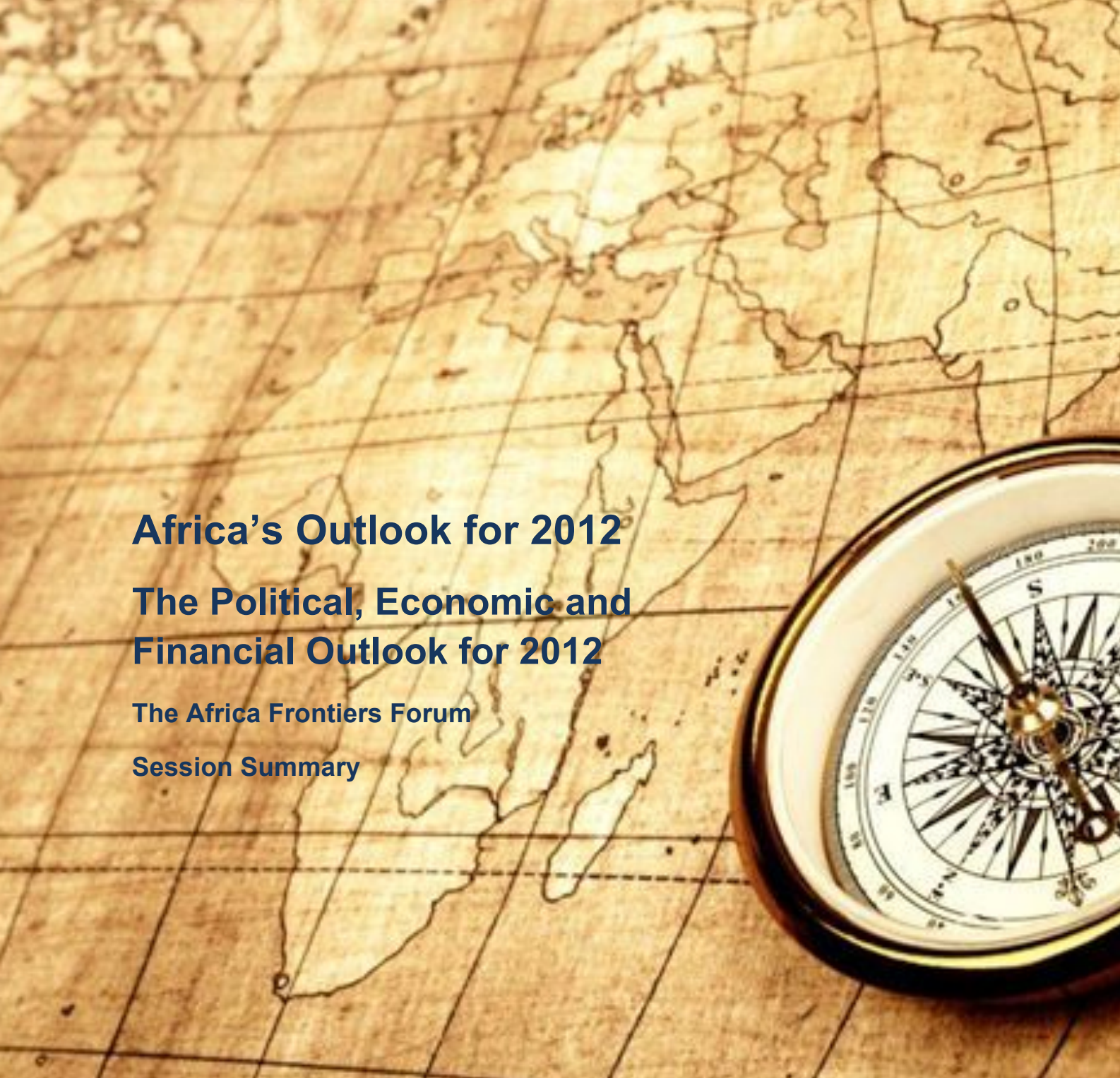




Africa's Outlook for 2012

The Political, Economic and Financial Outlook for 2012

The Africa Frontiers Forum

Session Summary

Held at the Johannesburg Stock Exchange,
Sandton, Johannesburg, South Africa

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Africa Outlook 2012 – The Political Outlook for 2012

The Africa Frontiers Forum: Session Summary

Africa's political environment is paving the way for economic growth and development. Given the importance of the political caveat in shaping the continent's macro-environmental trajectory, what are the major political opportunities, trends and developments investors can look out for in 2012?

Chair & Panelists

Abdullah Verachia, Director, Frontier Advisory

Elizabeth Sidiropoulos, National Director, South African Institute of International Affairs (SAIIA)

Prof. Gilbert M. Khadiagala, Head of School of Social Sciences, University of the Witwatersrand

Peter Fabricius, Foreign Editor, Independent Newspaper group

Key Points:

- Africa's attractive growth and development is strongly correlated with political events, trends and stability.
- Although Africa is uncoupling itself from the developed world's growth, corruption, unemployment and high costs of living may hamper its economic development.
- Africa's rise as an attractive investment region poses a number of social and economic risks, which may destabilise political trajectories.
- The unpredictability and economic power of African politics is still a major risk for multinationals (MNCs) wishing to invest.
- The political events of Tunisia, Egypt and Libya in 2011 should not be discounted in 2012, given the unpredictable nature of radical political change in Africa.

Africa's political environment is a key indicator of the continent's economic and financial wellbeing – with the latter often lagging concurrently with major political change and events. 'We speak of economic growth, but political policies underpin Africa's growth', Abdullah Verachia said, referring to the fact that the continent's political risks are often blindsided by attractive economic growth rates. Verachia also pointed out that the revolutionary political events of Egypt, Libya and Tunisia in 2011 are not to be ignored in 2012, given the amount of elections lined up for the year.

Some of the politically sensitive factors highlighted were, amongst others, the festering global economic crisis (GEC). The possible presence of a GEC further augments the perception of a rising Africa, yet the power shift from the Western world might well be a double-edged sword for the continent. This is particularly in terms of the social inequalities faced by the continent best described by what is a 'growing unemployed consumer market'. Elizabeth Sidiropoulos pointed out that Africa's youth bulge and booming urbanisation rates could be a dangerous political risk driver. 'There will always be a tipping point', she said, stressing the need for Africa to effectively manage these variables.

Other emerging political trends pointed out were the rise of religious fundamentalism, especially in Nigeria and Kenya, which may be potentially politically disruptive. Similarly, the lack of democratic 'substance', poses a hazard to societal peace and order. 'Africa's politics are messier than most (countries)', Peter Fabricius said, specifically referring to the expected instability in Angola's upcoming general elections. The ripple effect of Libya's 2011 uprising is yet another issue to note – '...the circulation of arms from Libya to Niger and Cote d'Ivoire...may have an impact on the political trajectory of surrounding countries' Sidiropoulos said.

Quite contradictory, Professor Gilbert Khadiagala challenged this school of thought, noting 'Africa will be politically quiet in 2012'. In reference to the political events of Tunisia, Egypt and Libya spilling over to sub-

Saharan Africa, he added that, while 'there was an expectation of a contagion of events, there will not be an African Spring'. Northern Africa will have to focus on redefining itself, which raises another key issue for African politics – leadership.

Africa's leadership vacuum and lack of succession planning is an infamous driver of political instability. Khadiagala pointed out that inefficient states are also obstacles to a favourable political climate, especially regarding the likes of Burundi and the Central African Republic (CAR). On the other hand, Africa's big players are 'limping' in terms of regional leadership – with South Africa and Nigeria at the forefront.

African nations should, however, enhance and integrate political and leadership policies within the region in order to enhance the continent's attractiveness, relative to those currently at mercy of the GEC. 'South Africa is hesitant in how it plays a leadership role on the continent', Sidiropoulos said, stressing the need for the continent's powerhouse to be more assertive at the United Nations Security Council. 'ANC power struggles are distracting government in addressing local issues', Fabricius added. Political stability and predictability is a key determinant for MNCs as well as donor fund investments as political structures and issues often hinder these flows. Khadiagala pointed out that there has been a shift in donor assistance from the Western countries to emerging powers, especially the likes of China, India and Brazil.

Integration and cooperation still remains key in maintaining and improving the continent's political mechanics, especially leadership roles, as pointed out by Khadiagala. Bribery and corruption is yet another key issue that needs to be addressed across the continent. 'Africa needs to get her politics right', Verachia said, referring to the global economic power the continent could attain should political issues be resolved.

Africa Outlook 2012 – The Economic Outlook for 2012

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The Economist's 3rd of December 2011 cover story entitled 'Africa rising' can be seen as placing an exclamation point on the growing positive consensus around the continent's economic future. With the financial turmoil still playing itself out in the more advanced economies, is this positive outlook set to continue? What are the economic challenges and opportunities facing the continent? How is the changing political and economic environment shaping the landscape of the future?

Chair & Panelists

Dr Martyn Davies, CEO, Frontier Advisory

Anushuya Gounden, Head of the Africa Desk, Deloitte

Stephan Claassen, Head of Africa and China Strategy, FNB Commercial Banking

Andrew England, FT's Southern Africa Bureau Chief

Key Points:

- Recent and projected average real economic growth figures have placed Africa firmly in the global spotlight.
- As the economic and debt crisis in developed markets plays out, this equates to opportunities for emerging markets and African economies.
- The increasing interconnectedness of the emerging economies and the African continent, in shaping the growth trajectory of the latter, is a key and defining trend.
- A sense of perspective and realism is still needed however when viewing the continent. One should be wary of viewing the continent as a homogenous entity.

Dr. Martyn Davies reiterated the 'Africa rising' theme by stating that at the World Economic Forum in Davos, Switzerland, which will be held at the end of January 2012, three sessions are solely dedicated to

the African continent – something that was not imaginable a decade ago. It is clear that Africa's mounting potential is becoming increasingly illuminated in both the regional and international spotlight. But with this spotlight firmly on the continent and with Africa still struggling with poor brand perception, Stephan Claassen highlighted the need for a 'brand manager' for Africa to realise and capitalise on the economic opportunities in the changing global environment.

One of the key drivers of the high headline growth figures seen across Africa stems from the increasing economic interactions with leading emerging economies. Anushuya Gounden emphasised the inextricable link between African economies and its new partners by stating that there is a new adage: 'If China and India grow, Africa grows'. This 'Big Brother' relationship is set to strengthen and define the next decade's growth. Real GDP growth rates are expected to reach 5.8% in 2012 in sub-Saharan Africa, according to the IMF.

While coming from a low base and with a population that is set to double, the African block of countries shows similar growth and demographic trends seen in emerging economies such as India. The emergence of the African middle class – now roughly the size of India's middle class – signals Africa's move towards becoming a substantial consumer block.

This rise of economic fortunes in African economies is however currently juxtaposed with the recession in the developed economies. Davies stated that the EU's financial quagmire could in fact be 'good for Africa'. Capital, in search of greater yields, is forced to venture beyond the safe havens and traditional destinations of the past and this will result in increased investment on the continent. Similarly, Gounden noted that the slowdown in trade with the developed world will be counteracted by an increase in trade with emerging markets with the likes of China and India being at the forefront. The pull back of western involvement on the continent will also present opportune timing for emerging markets to fully capitalise on investments and financing needs in the continent.

While the debt crisis and recession in western economies will ultimately have some negative consequences for Africa, it has numerous positives. One of these being the gradual re-patronisation of the continent's lost skills base, with many African professionals and entrepreneurs returning back from stagnating economies in the developed world.

Andrew England cautioned that one should remain realistic amongst all the attention that Africa is receiving. Africa is far too often 'lumped' together and homogenised, and England stressed the incredibly varied political, geographical, structural and cultural differences across such a vast land mass. There is also a disproportionate amount of investment focus on 'the usual suspects' – mainly the oil-producing nations – to the detriment of smaller countries with equally as inviting opportunities.

What becomes glaringly obvious under the increased scrutiny is that the infrastructure gap as well as the dearth in skills continues to be substantial hindrances to the continent's development. These issues need to be addressed before any long-term, sustainable economic takeoff can begin, stressed England. Claassen comments that the infrastructure deficit must be seen by the private sector as an opportunity and not as a hindrance and that private public partnerships (PPPs) are one of the keys in unlocking Africa's potential in this regard. To support such developments, the varying quality of governance across the continent needs to be addressed. Yet, Africa's growth has often been 'in spite' of itself and of its governance, noted Davies.

Africa needs to embrace its natural resource wealth and utilize it to 'kick-start' the next five to ten years of growth, according to Claassen. Beyond hard commodities, and with nearly 60% of the world's uncultivated arable land, the potential for Africa's agribusiness sector is immense. Growth on the continent will continue to be centered around the extractive industries and continued demand from emerging markets such as China, India and Brazil will fuel this growth going forward. Yet it is of utmost importance that countries utilize these resource windfalls and diversify their economies. With this in mind, the key concern is based around the quality of this growth going forward. Gounden pointed out that one of the key threats

to sustainable growth on the continent is the increase in inequality, which is interlinked with social unrest arising from unequal growth.

Davies concluded the discussion by stating that 2012 will start the process of separating the 'shining stars' from the duller performers of the continent. How each country differentiates itself from the 'homogenised Africa' of common perception will define its own specific growth trajectory. Equally, how companies start positioning themselves now will define their success or failure on the continent and whether they share in the potential of the awakening of the long dormant region, noted Gounden. Yet England cautioned that one should not be 'blinded' by the new spotlight on Africa and realise that the continent is still in its early phases of sustained growth.

Africa Outlook 2012 – The Financial Outlook for 2012

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Africa's ever increasing economic potential is well documented, but concerns of capital outflows coupled with macro-environmental shifts may deter the positive investment outlook. What are some of the capital and financial trends investors can look out for in 2012? And how will it affect the continent as a global economic player?

Chair & Panelists

Bronwyn Nielsen, Associate, Frontier Advisory

Siobhan Cleary, Senior Manager, Strategy, JSE

Stephan Morais, Deputy CEO, Banco Nacional de Investimento (Mozambique)

Adenrele Oni, General Manager, First Bank (Nigeria)

Key Points:

- Stock market liquidity and the viability of African stock markets are still constrained by structural caveats in the financial sector. The most sophisticated economies on the continent control the majority of equity based finance.
- Capital markets in Africa remain underdeveloped and equity financing vehicles poorly integrated.
- Political risk, regulatory constraints, and macroeconomic stability are major factors to question in terms of Africa's financial market developments in 2012.
- New sources and financing vehicles from markets such as China, India and Brazil should be welcomed as Western investors grapple with more muted environments.

The 'Africa rising' story is coupled with the increasing need for capital and sources of finance to underpin the future of this growth story. Stock markets can contribute to underwrite such economic growth but this depends on many factors, including the efficiency and structure of the financial system, as well as the nature of the economy. With 29 stock markets representing 38 countries on the continent, as Siobhan Cleary pointed out, not all economies in Africa meet the criteria for a flourishing equity market to prevail. African stock markets face the challenge of integration and the need for better technical and institutional development to address the problem of low liquidity. The latter particularly implies low trading volumes and greater difficulty in supporting a local market with its own trading system, market analysis, and brokers.

While integration of stock exchanges is at best gradual, Adenrele Oni indicated that African corporates, particularly major Nigerian companies are considering dual-listings on the Johannesburg Stock Exchange (JSE). While other African companies might want to consider similar opportunities of tapping the equity culture in markets such as South Africa, Stephan Morais cautioned that these companies do not always comply with the listing requirements of the JSE.

The challenge of shallow capital markets in Africa is coupled with an emerging equity gap, which comes as the equity capital that is needed for investment is disproportionately allocated to that which investors are willing to allocate to sectors beyond traditional commodities. The best way to address this, according to Cleary, is to build an enabling equity framework that has acceptable listing requirements, thereby greatly simplifying access to capital. 'An emphasis on transparency encourages domestic equity culture, proper market regulation, market surety and auditing credibility that is up to international standards' Cleary said, referring to the current positive equity reforms taking place in markets such as Kenya and Nigeria, with only four exchanges, including South Africa and Mauritius, currently complying with such requirements. However, while colonial linkages might play a role, with a number of conglomerates preferring to list on the London Stock Exchange (LSE), the JSE remains 'bullish' on Africa and attracting more companies to the Africa Board.

There is also a direct causal relationship between the sophistication of a country's banking sector and its stock market dynamics. 'Banking sectors in Africa are usually not sizable enough', Morais said, noting the reason for domestic bonds not being viable. In addition, credit to the private sector relative to GDP is now higher than ever, while financial depth indicators in Africa remain the lowest in the world. Also, multibillion-dollar projects cannot be funded by the local banking sector as the growth of the deposit base is lagging. Countries like Nigeria are restructuring the banking industry to allow for greater flows of capital volumes. 'We are sanitising the Nigerian banking sector', Oni said, referring to a more transparent banking environment transformation in the West African nation.

Predictable and low inflation rates will most likely contribute to stock market development as well as economic growth. Therefore, a stable macro-environment coupled with acceptable political risk levels remain key drivers behind a potentially thriving African financial market. 'We need growth despite government, not by government', Cleary said, stressing the importance of African financial market independence in terms of regulatory constraints.

To conclude, capital flows throughout sub-Saharan Africa are still restricted and despite measures to liberalise the continent's financial markets in recent years, openness to cross-border finance remains limited. However, the emerging players' investments in the continent are shaping favourable financial prospects amid the expected Global Economic Crisis (GEC) in assisting local companies, noted Morais. 'The consistency of interest in Africa's markets by the likes of China and India is a favourable prospect' Oni said, concluding that Africa's growth is being predominantly fuelled by other BRIC economies, reducing the continent's dependence on traditional sources of financing.

Disclosure

This summary was prepared by Reinhardt Moller, Luke Mann, Ishmael Mbetse and Hannah Edinger. The views expressed are those of certain participants in the discussion and do not necessarily reflect the views of all participants or of Frontier Advisory Pty (Ltd).

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