GLOBAL riskupdate

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The Myth about Exchange Traded Deriviatives

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Africa: The Fascination, Rewards, Hazards and Management of Risk

Charles Stevens is a banking consultant specialising in emerging markets administrative and back office development focused in Africa. His expertise is built upon a 38 year career in the Barclays Group in securities custody, fund administration and fund management where he developed the bank's service of custody in Sub Sahara Africa running it as a standalone business for 7 years. Charles asks if portfolio management investors can afford not to have a proportion of their funds invested in Africa?

There has always been certain magnetism about the continent of Africa, with its 54 nation states, its multitudes of peoples and languages. How is this defined in our consciousness? How has the world's media managed our knowledge and views about Africa? Do we have a balanced view?

From a business perspective should we be accepting this way about thinking of Africa in the 21st century? It seems that too often our view may be more based on emotion than based in fact or reality. We believe that it is useful to explore the current situation, especially as we are advised that the newly emerged powers of Brazil, Russia, India and especially China, appear to be taking, accepting and dealing with the hazards we appear to be shying away from.

Is our view of Africa, that the animals are the "good guys" and the people are the "bad guys"?

Our positive exposure to Africa has tended to be through the leisure industry, trips to antiquities in Egypt, safaris to South Africa, Kenya and Tanzania, the wonderful expanses of deserts, mountains, lakes, and tropical forests, either by experiencing these for ourselves or through the media.
The other side of the coin is the exposure to the negative and extreme hazardous news of wars, famine, disease, dictatorships and the poor if not fraudulent management of economies. We have therefore tended to see the answers to these difficulties in terms of giving by way of development and charitable funds.

Investing in Africa

Whether we explore the African potential from a commercial and banking perspective, or from a capital market development perspective, some of the facts about Africa ought to mean that we should, once again, be considering Africa as a place of investment potential. We have the risk management skills and so should be able to reap the rewards.

Key information

- **Population, urbanisation and growing middle classes:** As of 2009 only China and India have larger populations and Africa's is growing (nearly 1 billion). There is increasing urbanisation and increasingly there is a fast growing middle class and therefore a market for consumer goods. Significant examples are found in South Africa, Botswana, Nigeria, Ghana and in Kenya.

- **Reforms:** In recent years a number of countries have introduced significant reforms both in the political and economic arenas. The most recent events in North Africa would seem to be pointing in a reformist direction. Of course one can also give examples of no change but the general trend is an improvement.

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- **Government Debt, current account surpluses, GDP growth:** it was not more than 5 years ago western countries were writing off sovereign debt in Nigeria, Ghana, Zambia and many others. Many of these nations are now in surplus, and we are looking at our own very real lack of growth, debt and balance of payments difficulties. The core reason for the change is the demand by the emerging powers of China, India and Brazil for Africa's resources.

- **Resources:** Much has been written about China's huge resource needs and their activities in Africa. We should not forget that India has similar needs and is actively looking to invest in Africa. Let us not assume that Africa is only interested in supplying oil, gas and minerals. There are opportunities in the more sustainable production of solar and hydro electric power.

- **Agriculture:** There is also large potential for development. Countries such as Zambia and Mozambique have particular attraction. Zambeef is a company which is about to be listed on the UK's AIM market.

- **IT & Communications:** Less well known is the impressive growth and innovation in the use of mobile phones right across the continent. Additionally the digital information demand is booming and in response to this need for additional cable infrastructure WASACE has just announced the construction of a new submarine fibre-optic cable network that will link Africa, North America, South America and Europe.

- **Capital markets development:** as the middle class grows there is also potential to capture local capital flows as well as for foreign investment flows. The capital markets need to develop in a properly regulated and controlled way. Whilst South Africa is well catered for, elsewhere, this will necessitate the development of further local long term savings legislation and regulation to include pension funds, mutual funds and insurance products.

- **Education:** in many countries schooling has been improving in that the average time spent in school across the region is getting closer to the global average. In many countries, especially those who are part of the Commonwealth, English is well understood and spoken.

- **Health & Housing: th**ese are areas which leave much to be desired but as the middle classes grow there will be natural improvement.

Investors in Africa

Who are the well known, experienced companies who are already reaping the benefits and managing the risks in Africa?

Here are some examples:

In the resource sector there are oil and gas companies such as Shell, Mobil Exxon, Total, Tullow, mining companies such as BHP Billiton, Anglo American.

In the banking and financial arena: Barclays, Standard Chartered, HSBC, Société Générale, BNP Paribas, Prudential and the main accountancy firms PWC, KPMG and Ernst & Young.

Telecomms & Infrastructure: There are many others such as Vodafone, Unilever, WSP (the property services company), and the large construction companies.

Many of the risk issues are still very much in evidence but with a changing environment they also seem to be much more manageable.

Finally, the question might simply be "can portfolio management investors afford not to have a proportion of their funds invested in Africa not just the BRIC countries?"

The risk and reward profile for African investment would seem to be changing.

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