

AFRICA

THE NEW WEALTH FRONTIER?

DID YOU KNOW THAT AFRICA'S GROWTH RATE IS AHEAD OF EUROPE'S? IT'S JUST ONE REASON WHY BOB GELDOLF, THE BANKING COMMUNITY AND THE CHINESE GOVERNMENT ARE BACKING THE CONTINENT AS THE WORLD'S NEXT ECONOMIC GIANT. SHOULD YOU BE INVESTING IN AFRICA TOO?

BY ANDY VAN SMEERDIJK, FEATURES EDITOR

When Bob Geldof addressed the All As One charity dinner in Dubai in November, he naturally devoted some of his speech to the plight of 70 children at the Sierra Leone orphanage and the need for people with a conscience to take a stand and do something about it. It was classic Geldof: the blunt, impassioned Live Aid founder giving his usual spiel on the moral imperative to give aid when situations are so dire.

But to the amazement of those who attended, the ageing rocker at times sounded more like an asset manager than a 'Make Poverty History' campaigner. Geldof, brought to Dubai courtesy of AirMiles, reeled off African GDP growth figures, investment patterns and economic forecasts for the continent. His case? Africa is sorting itself out, he explained. The continent is more stable and better governed than ever and going through a mini boom. And with a massive influx of investment from China, investors from the West and GCC are missing out on opportunities.

"Europe's growth is about 1.8 per cent, Africa's does about five to six per cent continentally economic growth. So the continent has taken off," he said.

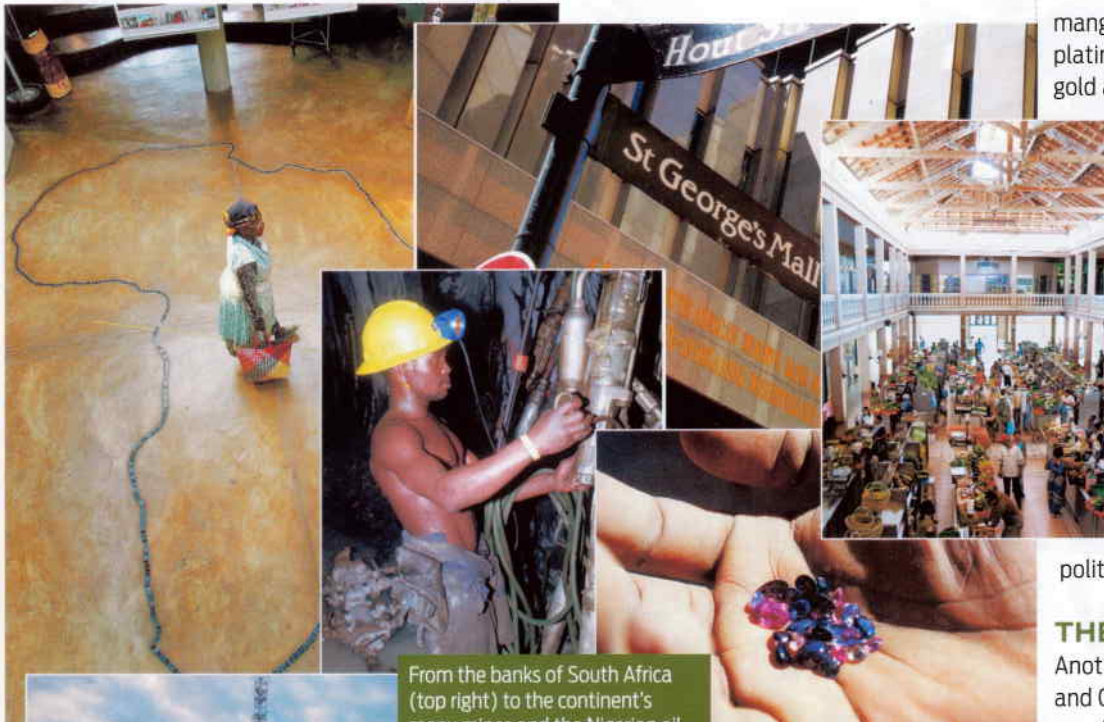


Bob Geldof says Africa is going through a mini-boom.

While Geldof's adamant about the need for aid, he's equally vocal about investment opportunities in Africa – and for the G8 to honour its pledge to double aid to Africa once it sorted itself out.

"When the G8 met in Gleneagles, the deal they agreed on was that if African governments got their act together, they'd increase aid," said Geldof. "And they have – countries like Mozambique and Botswana have been through a mini boom. One of the world's poorest nations, Sierra Leone has GDP growth of 5.6 per cent while the UK struggles with about two per cent."

Geldof argued that African nations – bar Zimbabwe and a few others – are growing as never before, but most of the world's economic powers aren't coming to the party. "The world is richer and healthier than ever before," he said. "Yet an entire continent falls outside this economic net. It's said that Africa is hit by corruption and conflict. And to a certain extent, this is true. But these are symptoms of economic conditions. And you can get out of it. The African continent has five to six per cent growth per



From the banks of South Africa (top right) to the continent's many mines and the Nigerian oil industry (bottom left), Africa is viewed as a promising emerging market by some investment banks.



cent to about 20 per cent of GDP since 2005. And according to the World Bank's

Governance Matters Survey 2007, the quality of government has improved over the past decade – ie, there's less corruption.

"There's a lot of interest in Africa right now," said John Mackie, head of African Funds, Stanbic, part of the Standard Bank

Group, Africa's largest financial services group. "Amazingly, Angola is now achieving 25 per cent GDP growth per annum. It's the third-largest sub-Saharan economy and is now opening a stock market, with 16 companies listed. Rwanda, which over a decade ago was in the middle of a horrific civil war, is now courting foreign investors and making it very easy for them to invest."

Mackie was in the UAE to promote the Standard Africa Investment Fund, which invests in up to 17 different African markets.

With the current climate conducive to investment, he noted there's been an upturn in interest from other emerging market investment banks. "Look at Renaissance Capital, it went to Russia about ten years ago and prospered from the boom there. It's the biggest investment bank in Russia and the Commonwealth of Independent States (CID). Its CEO Stephen Jennings now sees Africa as what Russia was like a decade ago."

MINING AND ENERGY

Africa's big drawcards are natural resources and energy. It has the lion's share of the world's

manganese, chromium, diamonds, cobalt and platinum reserves, 41.3 per cent of the world's gold and 8 per cent of its oil resources. The latter, of course, is the reason why Chinese and Western firms have already dug in. With high oil prices, Nigeria, Angola and 16 other African nations that produce fossil fuels are attracting trade and investment. And unlike a decade ago, oil money is being funnelled into infrastructure and other development, according to Mackie.

By 2010, the US will import 25 per cent of its oil from Africa (while just 10 per cent will come from the Middle East), according to Stanbic. Geldof quoted similar figures, saying the US will eventually have to take notice of Africa's political and economic environment.

THE TELECOM BATTLEGROUND

Another lucrative sector is communications. India and China have invested in this sector while last year Etisalat announced it was pumping \$5.5 billion more into African telecom markets: \$4.1 billion in East Africa and \$1.4 billion in West Africa. Set to launch operations in West Africa March, Etisalat already has a mobile licence in Egypt with more than three million subscribers.

"We believe there will be more growth in Africa," said Mohammad Hassan Omran, Etisalat chairman, when he announced the deal. "Expanding opportunities in Africa is absolutely the next big battleground. Especially with the improving economies in Africa, you'll have a lot more subscription and revenue growth."

AFRICA'S MINI BOOM

When Geldof compared Sierra Leone's GDP growth to that of Britain, it was like comparing oranges and apples. Yet like all his claims, there's a strong element of truth in it. Africa is going through a mini boom.

According to the OECD's Africa Economic Outlook Report, May 1997, real economic growth across the continent is forecast to rise from 5.7 to 6.7 per cent in 2007, while real per capita GDP growth will be about five per cent. "Africa's annual GDP growth has averaged about 5 per cent annually over the past six years," it noted. "This growth has been more broad-based, with non-oil exporters growing as fast as the oil exporters."

Studies by Deutsche Bank Research conclude that Foreign Direct Investment (FDI) is growing faster in Africa than any other emerging market.

So can Africa's economic boom achieve what the NGOs have struggled for? Perhaps the two

annum, but it needs seven per cent. And the only way that can happen is more direct foreign investment in Africa, which is being led by China."

Geldof's argument centred on several factors. He said the continent was relatively stable and experiencing high growth rates. Debt was declining, governance was improving and there was less conflict and corruption. "There's far less corruption in Africa than Asia. Far less," he said.

Speaking to *4Men*, Geldof said a hike in aid to Africa was a moral imperative. But when queried about whether NGO aid ends in the wrong hands, he emphatically denied this. Furthermore, he said the West is missing the boat, aid or no aid, as Africa's going through a growth spurt.

The words of an optimist? "I'm neither an African optimist, nor an African pessimist. I'm an African pragmatist," he said. "This continent is coming together in ways we cannot predict."

At closer analysis, the former Boomtown Rats frontman seems to be singing the right tune. Sub-Saharan Africa's growth has outpaced the OECD nations for five years. Africa's total external debt has declined from over 100 per

will complement each other. According to Geldof, the work of NGOs and aid channelled through governments address the "symptoms of poverty". But ultimately, world leaders and African governments are the only ones who can address the "structures of poverty". And the leaders of commerce also play a crucial role.

FOLLOWING CHINA'S LEAD

Clearly, Africa's recent growth is tied to its trade relations with China. Trade has grown by 40 per cent per annum over the past six years. In 2006 trade between Africa and China stood at \$50 billion, up from \$4.5 billion in 2001.

"Countries like China and India are emerging as major economic players," said Geldof. "The developing world contributes more than 50 per cent of the world's GDP growth. And China's investing in Africa with none of the baggage that Western investors bring."

China often links infrastructure development projects with deals in Africa, noted Mackie. Among other projects, it's doing infrastructure projects in Angola and the Democratic Republic of Congo (DRC) and port reconstruction in Nigeria. But the investment that's attracted the most attention is the \$16 billion it has invested in Sudan's oil industry. Media reports have claimed this investment has propped up the government and supported its war against rebels in Darfur.

While Sir Bob noted that China's business ethics are often slammed by the West, he argued that Africa needs investment and trade, which China provides in addition to much-needed infrastructure development. "When the West comes it brings its values, unlike the Chinese," said Geldof. "Yet these laws we hold to be universal may be parochial concerns. When we help Africa we do so with our superior attitudes."

"China's success is due to two factors," said Mackie. "First, it keeps things simple. Second, there's no colonial legacy."

Traditionally, Western investors have associated Africa with poverty, corruption and conflict.

AN NGO'S PERSPECTIVE

There is a pressing need for investment in Africa, says Matthew Morgan-Jones, founder of All As One, which raises funds for an orphanage in Sierra Leone.

"This is crucial for the economic recovery of nations like Sierra Leone," he said. "There has to be movement and progress in all areas and this is where NGOs play such an important role. A country like Sierra Leone needs support at every level... NGOs at the grassroots level save

Mackie said the continent's political climate is a concern for investors, but things have improved since the 1980s. Countries such as Mozambique and Angola, which were major conflict areas in the 1980s, are moving in the right direction.

“ CHINA'S INVESTING IN AFRICA WITH NONE OF THE BAGGAGE THAT WESTERN INVESTORS BRING. ”

"If you look at the socio-economic situation in most African countries, they're enabling investment environments," said Mackie. "For instance, in Rwanda there's zero tolerance for corruption. The government's business-friendly and it's one of the easiest places to invest in."

Debt management by African nations has also been a concern and was a key point of the 2005 G8 Gleneagles meeting. Yet the IMF's World Economic Outlook April 2007 reported that Africa's total external debt as a percentage of GDP has dropped from about 70 per cent in 1997 to about 20 per cent last year.

THE NEXT BIG THING?

The men selling African equity funds to the world say the one major advantage African markets have is that they are detached from global trends.

"Africa's decoupled from the rest of the world – like Japan in the 1980s," said Dylan Evans, director of Global Investment Marketing, Stanlib, the Standard Bank Group's asset management company. He said Africa is a great diversification

lives on a daily basis. If you take our children, for example: most of them without the intervention of All As One would have been another statistic in a UN child mortality report. "Sierra Leone also needs the support of international government and international institutions to ensure that it enables itself to move out of poverty with social and economic measure that develop the country's overall standing."

opportunity as there's a low correlation to global markets and currencies, which is particularly useful when the US economy is lagging. African markets themselves are also uncorrelated, he added. "African countries themselves are diversified performers. Likewise, African currencies."

Swiss banks are already showing interest in investing, as are hedge funds, fund managers and family offices, said Evans. He added that big private banks and family offices in the GCC were showing interest in Sharia-compliant funds.

THE DARK CONTINENT

So Africa's moving forward, but what's holding it back from being the latest and greatest emerging market?

In its 2007 African Competitiveness Report, The World Economic Forum concluded that Africa lags behind the rest of the world in terms of competitiveness, governance and economic freedom. Investment managers concede that risks remain: political instability in some countries, lack of liquidity in markets, exchange rate risks and poor infrastructure in many cases. Business operating costs are also high compared to other emerging markets, said Mackie.

Yet Africa also needs a marketing makeover. "Africa suffers from a bad perception of reality," said Evans. "And it takes a lot to change that. The news most people see is generally negative, such as famines and conflict. Very few people would be aware that Africa has been growing faster than the OECD since 2000 or that most of Africa is stable. Perception often lags reality by five years or more."

This bias is probably why Sir Bob plays the African optimist, although he rejects the label with a customary, "That's bollocks!". Like any cause, extremists help raise public consciousness. Undoubtedly some aid money goes in the wrong pockets and clearly some of China's trade deals offend Western sensibilities – but without aid and investment, where would Africa be?

Geldof is beating a new drum, perhaps hoping that investment in Africa will achieve what the G8 hasn't. And maybe a more buoyant Africa will attract more aid and reduce poverty. That's when needy Africans might start getting the same assistance as livestock in Europe. As Geldof noted: "Europe receives more aid than Africa. In total, Africans receive 50 cents each year in aid, while the cows subsidised in Europe get \$2.50 a year!"

* Sir Bob Geldof was in Dubai courtesy of Airmiles to speak at the All As One charity dinner, which raised funds for the All As One orphanage in Sierra Leone. To make a donation to the Dubai-based non-profit organisation contact info@aaodubai.org