

Bristol MBA - Information for Postgraduate Education

Risk Assessment of the African Market

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The most stated reason on why investors develop cold feet's towards investing in Africa is the unstable political environment, the GDP, and poor regulatory and judicial framework. There may be strong reasons for this tendency towards the African continent. Political Risk Consultants and the press make their living in propagating exactly this kind of dreadful picture of Africa. They are very well acquainted with the worst case scenario and not known for their sunny dispositions. However the presence of risk in Africa does not necessarily mean business cannot be done there.

Oil companies in Nigeria, mining companies in Angola, Ghana, Congo DRC and Telecommunication companies all over Africa are known for their strategies so much so that they can be immune to the risks. The press in the West is doing so much favour to these Political Risk Consultants; it is the image of uncertainty in Africa that brings business to these Consultants.

Credit Finance assessments tend to fall by the wayside when it comes to Africa. Moody's for example rate only four African countries [Botswana, South Africa, Morocco, and Tunisia]. For B rated securities in the cases of Morocco and Tunisia the investor faces a possibility of a 10 year default on debt repayment of 44.57 %. Taking that statistic on board makes bad the case of investing in the other 50 African countries which do not feature on Moody's report.

Some analysts see the need to look at countries via a case by case approach to avoid the tendency that the whole of Africa is affected by the same problem. Branding Africa as an investment risk is seriously affecting investment in Africa. 'Banks in Europe can routinely take a 12 year risk in Europe but you are lucky if you get 12 months in Africa'. Tony Crowther Green, International Project Finance Manager.

Given the extent of media coverage of war, famine, disease and instability in Africa it is difficult for an investor to even consider doing business in Africa. While there exist war, famine, corruption, and instability in Africa this can be overstated, and this affects just specific countries in Africa and not the continent as a whole

THE REALITY COULD BE DIFFERENT.

The past decade has seen a new environment in Africa lowering the risks. Many African countries have reformed their economies with promising investment opportunities. This can be seen in the growth rate of some African countries for 2003.

Equatorial Guinea- 20%
Algeria-7.4%
Benin- 5.5%
Botswana- 7.2%
Burkina Faso- 5.2%
Cameroon- 4.2%
Chad- 15%
Congo DR- 6.5%
Gabon- 1.2%
Gambia 3%
Ghana 4.7%
Libya 3.2%
Malawi 1.2%
Morocco 6%
Nigeria 7%
Senegal 5.5%
Zambia 4 %

SOURCE: <http://www.cia.gov/cia/publications/factbook/fields/2003.html>

This is indicative of the improvement in Africa. Interestingly the EU had a growth rate of 1% in 2003 while that of the UK was 2.2%.

Democratically African countries are building strong institutions and dictatorships are falling out. Senegal, Ghana, Nigeria, Benin, Kenya are examples of previously dictatorial regimes that are democratic states today. The reaction of ECOWAS and the African Union after the 'coup d'etat' in Togo following the death of Eyadema Gnassingbe in February 2005, speaks in favour of this new trend in Africa. The new visionary leaders of Africa, [Mbeki T, Wade A, Obasanjo O, etc] have ushered a new era via the New Partnership for the Development of Africa, NEPAD and the African Union.

And the results are beginning to follow; the European Investment Bank which in the past had stayed clear of risky African business is beginning to embrace them by providing insurance cover.

Since September 11 perceptions of risk is beginning to shift geographically. African projects are considered less risky than those of the Middle East. The ECGD which is the UK government's official export credit agency recently resumed medium term export credit cover for both Libya and Kenya while discussions are

going on for Ghana, Tanzania. ECGD recognises that political risk should not blind investment opportunities. It has therefore begun the Good Projects in Difficult Market Schemes. It has thus agreed financial guarantees worth \$215 million last year for the expansion of liquefied natural gas at the Bonny Gas plant in Nigeria.

Other sectors are also registering booms of which the Telecommunication sector is one of the most significant sectors. Vodacom Group, MTN Group, Telkom SA Ltd and Orascom are among the leaders in the continent. With around 12% of the world's population and 3% of the world's fixed lines Africa could be regarded as the least exploited continent by Telecoms. However Africa's low population density and sparse population makes wireless systems in the form of cellular networks more economical than fixed-line infrastructure. African networks have been growing at twice the international rate and more opportunities exist. Celtel the Dutch based Company recently announced profits of \$ 74 Million.

In the consumer market Diageo, the UK based owner of Guinness states that Nigeria is its third biggest market. Aside from beverages like Guinness demand is also being observed for appliances, furniture, cars, mobile phones and associated gadgets. Economists point to an emerging consumer base emerging in some countries as a result of the development of, natural resources, tourism, and foreign investor initiatives. An example is that of Botswana. It has sustained an economic growth of 8% a year in recent years with a prudent economic policy while the country's diamond wealth has been channelled into education, health and infrastructure. Thus a consumer base is starting to emerge. The story goes for South Africa, Nigeria, Ghana, Kenya etc.

An indicator of this increase in the consumer base in Africa is that advertisers are setting up as a result of manufacturers spending more money on advertising. In the past year London's WPP Ogilvy & Mather has set up partnerships on the ground in Madagascar, Reunion, Gabon. Contact offices have been added in Chad, Niger and Sierra Leone. And from its base in Kenya it is exploring opportunities in Burundi and other African countries. Political stability, GDP growth and the explosive consumer trend is the push factor.

Another company taking advantage of this is NISSAN. The Japanese car manufacturer is manufacturing on site in Africa manufacturing both 4x4 and small cars for the African market.

Continuation Next week as we look at advances in the Banking sector.