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The Emergence of Africa

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The Subsaharan attempt to join the emerging markets club.

After 2005's proclamation by the official aid and development community as the "year of Africa" spurred a flurry of headline initiatives that underscored solid economic and financial system progress in selected countries, private sector emerging market investors have begun to take notice. According to data trackers, the region outside South Africa has received a modest pickup in capital inflows for the first time in a decade, as multinational business and money managers continue to pursue exotic destinations to secure long-term returns and natural resources. This trend should strengthen in 2006, and see the sub-Sahara finally gain acceptance in the global commercial and financial mainstream.

For both 2004 and 2005 the International Monetary Fund reports overall 5 percent GDP growth as inflation dropped to a thirty-year low. Oil and non-energy commodities fueled the upswing. At the same time, structural reforms boosted competitiveness and trade, enabling exporters to tap duty-free privileges, such as available under the U.S. African Growth and Opportunity Act (AGOA). Inroads could be extended with the WTO agreement in Hong Kong for industrial countries to phase out agricultural subsidies over the coming years. Intra-regional barriers are also falling slowly through such blocks as COMESA, SADC, ECOWAS, and the

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WORLD BANK

Leading a team of prominent technocrats, Nigeria's Finance Minister, former World Bank executive **Ngozi Okonjo-Iweala**, *has cultivated foreign investors and pushed the debt renegotiation as a means to slash the sovereign risk premium. For her accomplishments she was named Finance Minister of the Year by* Euromoney *magazine*.

respective Central and West African CFA franc zones which share common euro pegs and tariff regimes.

At the historic Gleneagles summit in July 2005, G8 leaders pledged to double assistance to Africa by 2010, while writing off the remainder of bilateral and multilateral debts owed by two dozen countries qualifying under the IMF and World Bank's Heavily Indebted Poor Country (HIPC) program. The 100 percent relief presumes sound fiscal and monetary directions and efforts to better mobilize domestic and foreign private capital. These preconditions must also be demonstrated over time to be eligible for new aid vehicles such as the Millennium Challenge Account in the United States and the Investment Climate Facility in the United Kingdom, which also require basic standards of political and social achievement.

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Sub-Saharan stock exchanges, which are minor components in benchmark indices, have been good performers the past two years. Botswana, Cote d'Ivoire, Ghana, Kenya, Mauritius, Namibia, and Nigeria have all turned in prolonged stretches of double-digit gains. On the debt side, ratings agencies Fitch and Standard & Poor's now cover a dozen African sovereigns which average a "B," with Botswana and Namibia classified as investment grade. Outside Cote d'Ivoire which remains torn by civil conflict, most major defaults have been resolved. Commercial creditors have at times been successful in enforcing claims through litigation, as in recent London court cases against Congo.

NIGERIA

The biggest turnaround has been in Nigeria, the most populous and number one oil producing nation on the continent, which has chalked up 6 percent growth in both that sector and the non-petroleum economy. It has brought inflation to near single digits on a steady exchange rate. International reserves hit a record US$25 billion in mid-2005, which enabled the country to end longstanding arrears with the Paris Club of bilateral creditors and buy back US$31 billion at a 60 percent discount. The landmark deal, the largest ever in Africa, saved US$1 billion in annual servicing costs, and came without a full-fledged IMF arrangement, which historically has been a prerequisite for reduction. Instead, a monitoring process will be in place tied to Nigeria's own National Development Strategy document.

In its 2005 Article IV review, the Fund praised fiscal prudence through the set aside of higher than envisioned oil revenue in a special account, and cited positive anti-corruption, transparency, and civil service reorganization efforts. A bank consolidation campaign triggered unprecedented equity issuance on the Nigerian Stock Exchange as institutions struggled to meet the US$200 million minimum capital requirement, and combined seventy-five previous participants into twenty groups. Banks such as First and Union are the top weightings on the US$18 billion market—along with South Africa the only area member of a core emerging market index—up 25 percent through the end of 2005.

Nigeria is also a fractional portion of the benchmark JP Morgan EMBI Bond Index, and prices soared in the aftermath of the Paris Club breakthrough. Since its Brady Bond conversion a decade ago, an accumulated US$5 billion in private obligations have always been honored, and recent installments have featured a premium tied to surging hydrocarbon proceeds. Leading a team of prominent technocrats, the Finance Minister, former World Bank executive Ngozi Okonjo-Iweala, has cultivated foreign investors and pushed the debt renegotiation as a means to slash the sovereign risk premium. For her accomplishments she was named Finance Minister of the Year by *Euromoney* magazine.

KENYA

Kenya paced African bourses last year with an advance of more than 30 percent in local terms despite the Kibaki Administration's defeat in a referendum proposing constitutional changes which rekindled tribal rivalries and sparked a wholesale cabinet reshuffle. The President, designated a close ally of the United States in the war on terror, has been lackluster in tackling graft allegations since his election in 2002. However, the government has accelerated privatization, with the key state-run electricity and power companies scheduled for divestiture in early 2006. It has also maintained tourist numbers notwithstanding international travel warnings following hotel bombings and kidnapping incidents.

The burden of rising domestic debt, at 24 percent of GDP by the latest IMF figures, has been eased by sliding interest rates, with the three-month Treasury bill yield below 8 percent. Kenya Airways, which is cross-listed on the neighboring Tanzanian and Ugandan stock exchanges, recently won a prestigious award as the most admired company in the East African sub-region, beating traditional stalwarts such as Barclays and Standard Chartered Bank. Its strategic owners abroad plan a pan-African expansion that major Kenyan firms hail as a model for their cross-border ambitions.

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GHANA

After winning a second term in December 2004 in Ghana, President John Kufuor vowed further moves to create a "golden age for business" and bolster the confidence of overseas donors who underwrite half the US$3 billion national budget. Cocoa, gold, and timber still comprise three-quarters of exports, while private sector credit has reached 14 percent of output with increased public spending control. Despite spiking prices for its commodities, the oil import bill has offset benefits and elevated inflation to 15 percent. To relax energy constraints, a West Africa-wide natural gas pipeline is due to come on stream in 2007. Road and port overhauls are also underway, and privately managed Ghana Telecom has upgraded the fixed-line network.

Ghana's credit rating was recently lifted to B+ and several investment banks have approached the government about an inaugural sovereign bond. For years the cocoa harvest has been pre-financed commercially through an international loan syndicate. However, the country must first complete the final phases of HIPC, which has cut external debt service as a ratio of fiscal revenue by two-thirds and replenished foreign exchange reserves previously almost empty to US$1.5 billion. Savings have been earmarked for extreme poverty reduction, repaying internal debt, and job creation which have sustained 6 percent GDP growth. Tourism, climbing 15 percent annually, aims for the crucial one-million-visitor threshold.

After a 33 percent uptick in dollar terms in 2004 with the takeover of blue-chip Ashanti Goldfields by South Africa's Anglogold, capitalization on the tiny Accra bourse halved with negative results in 2005. Nonetheless, a handful of dedicated foreign Africa funds remain active, pointing to systems modernization, including launch of a central depository, stricter regulation which caused the suspension of brokers for failing to submit financial data, and attractive single digit price-to-earnings valuations.

BOTSWANA

Botswana in contrast rallied 23 percent by its domestic index on healthy corporate profits despite rising inflation and interest rates following currency devaluations, an anticipated GDP growth slowdown to the 4 percent range, and the persistent AIDs epidemic devastating the working population. Portfolio managers increasingly view it as an extension of next-door South Africa with the same exchange listings, prime credit rating, and adherence to international accounting standards. The central bank at the close of 2005 hiked borrowing rates to a two-year high above 14 percent to counter price pressures, which have hampered diversification away from diamonds to other industries,

The country's well-established reputation for superior governance was dented by a recent dispute over mining rights in ancient tribal lands. Critics charge that the authorities forcibly evicted inhabitants, an accusation officials deny. Amid the uproar, the European Investment Bank plans to go ahead with a pioneer local bond placement that will be the agency's initial domestic currency foray in Africa.

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With these examples in mind, 2006 could be the genuine year of Africa as it enters the normal emerging market universe. Although not as dramatic as orchestrated head of state and celebrity events promoting departure from low-income status, imminent insertion into worldwide capital and credit channels can represent a more convincing solution already embraced by developing countries in every other region. In the future, Africa's arrival can then be marked not by improvised special occasions, but by conventional everyday recognition of its relative risk/reward dynamics. ◆