Royal African Society
Promoting Africa

The Africa Business Briefing

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This is the second edition of our ***Africa Business Briefing***, which will be published monthly, with business and economics news on the world's fastest changing continent. A more comprehensive version of our research is available to our corporate members on a quarterly basis. To find out more about corporate membership of the RAS click here.

TOP STORY

AFRICAN ARGUMENTS BRICS SPECIAL | THE FIFTH BRICS SUMMIT: DURBAN, SOUTH AFRICA

While the developed economies are clawing their way out of recession, investors and economists alike are currently evaluating the merits of alternatives in the emerging markets, and the increasingly significant economic bloc formed by the BRICS nations. South Africa's entry into the BRIC club is symptomatic of this trend towards frontier markets and the surge of interest in Africa in particular.

South Africa hosted the fifth BRICS Summit on March 26 and 27 in Durban. The newest member of the club was eager to showcase itself as a political and economic leader on the continent, as some analysts, including Jim O' Neill, who coined the term BRIC, are of the opinion that the country is more of a "Briquette" due to its small economy and population relative to the other BRIC countries as David Smith writes here in the Guardian.

Opinion on the summit itself was divided, with one swathe of opinion arguing that the fuss over the BRICS is largely just politicking that won't really amount to anything concrete. Other analysts, such as Radhika Desai, felt that it was reflective of seismic changes in the geopolitical economic order such as the ascendance of China and South-South co-operation. The most obvious outcome was the announcement of a BRICS development bank, an idea that has been floated for some time as a challenge to the financial omnipotence of IMF and World Bank, which are dominated by Europe and the US. However, there is concern that the BRICS Bank may be largely subject to Chinese interests. The BRICS summit also coincided with new Chinese President Xi Jinping's maiden visit to the continent, which kicked off in Tanzania.

Ultimately the summit was broadly successful and resulted in some important, albeit symbolic, developments. One of the more concrete outcomes was the confirmation of plans to establish the BRICS Bank with the announcement of a $100bn contingency fund signed off in the Contingency Agreement Fund for use in emergencies, and as an alternative to the IMF.

The summit also saw a $30bn currency swap deal between China and Brazil and the establishment of the BRICS Business Council as Simon Freemantle, senior analyst at Standard Bank, highlights here. Freemantle also emphasises the *symbolic* importance of the BRICS summit, saying: "Emerging as it did during the stiffest headwinds of the global economic downturn in 2009, the then four BRIC economies leveraged an opportune moment to emphasise the robustness of their individual and collective growth as the 'developed world' teetered on the brink. While a natural cooling has undoubtedly occurred since 2009, the broader thrust of the emerging world's advance remains compelling."

However, Lorenzo Fioramonti is more sceptical, and says the "fanfare surrounding the new alliance between Brazil, Russia, India, China and South Africa (the so-called Brics) has been adding to the general feeling among Africans that things are finally turning around". Further, Fioramonti warns that if "one scratches the rhetorical surface, the story proves not to be as rosy as pundits would have us believe" because GDP "conceals structural deficiencies and deep imbalances" to which commodity-rich/export-dependent economies are particularly vulnerable.

The issue of inclusive growth is of major concern for the African Development Bank as well, which will be competing with the BRICS bank for influence in Africa. AFDB President Donald Kaberuka is, however, positive on the consolidation of the BRICS for Africa and emphasises that "The relationship between Africa and the BRICS has grown dramatically, with trade levels increasing ten-fold in ten years, to a value of some $340 billion a year."

However, Andre Roux, co-head of fixed income and currency for Investec Asset Management, says that while there is no doubt that the BRICS countries together are a major economic force, the summit did not mean a concrete economic action plan has been implemented, and that it is not necessarily a bad thing that the BRICS bank has not yet been officially launched. Says Roux: "The world does not necessarily need another development finance institution (DFI). If anything, DFIs the world over are battling to maintain relevance, as development and infrastructure are increasingly able to attract private funding".

You can read all the articles in our BRICS Special on Business Africa here:
http://africanarguments.org/category/business-africa/brics-special/

FEATURES

KENYAN ELECTION: MAJOR DE-RISKING OF ECONOMY

My colleague Magnus Taylor was in Nairobi during March, to cover the recent Kenyan election. I've asked Magnus to share his thoughts on some of the broader implications of the election for Kenya's political economy.

Following a botched election in December 2007, after which more than 1,000 people were killed, investors watched the recent Kenyan election closely – its outcome being a key litmus test for the sustainability of the operating environment and the direction of economic policy. In addition to such domestic shocks, Kenya is also relatively integrated into the Global economy and is therefore also vulnerable to risks from the continued fallout from the Great Recession.

The March 2013 election proceeded relatively peacefully with Uhuru Kenyatta confirmed as Kenya's new President following a lengthy court case in which his chief opponent, Raila Odinga, challenged the outcome (this was eventually dismissed).

A peaceful election raises hopes that this may be the end of a familiar pattern in Kenya in which, most obviously in 2007/08, promising economic developments are interrupted by major political upheaval.

In 2007, the ensuing violence and general chaos, not to mention the Kofi Annan-brokered 'Grand coalition', caused growth in East Africa's biggest economy to slump by two-thirds to 1.5 percent in 2008 as farm output collapsed, the shilling declined 8.5% against the dollar and the benchmark stock index dropped 11%. The Kenyan economy, however, has since recovered and grew at 4.4% in 2012.

Kenyan economist Aly Khan Satchu has declared this election to signal "a major de-risking of Kenya Inc" and predicts that growth rates, following resurgent domestic and international investment, will peak at around 8 to 9 percent towards the end of this current political cycle.

Areas of particular interest will be the nascent extractives industry – particularly oil finds currently being developed by Tullow in the north-west, the IT sector and the mobile money 'revolution' headed by Mpesa. President Kenyatta appears to understand this 'de-risking' narrative well, stating in his inauguration speech: "We will not settle for a perfunctory peace that is disrupted every five years by an election cycle".

Botched, but not rigged

The Independent Electoral and Boundaries Commission (IEBC) had its work cut out delivering something more credible than its 2007 effort. In 2007, opposition leader Raila Odinga noisily rejected the election of Mwai Kibaki, calling his supporters out into the streets, precipitating rioting and ethnically-motivated killings mainly focused in the Rift Valley, Kisumu and Nairobi slums. In 2013 security was extremely tight throughout the country and journalists, in particular, demonstrated severe self-censorship in limiting partisan or inflammatory statements.

While the Presidential ticket gained greatest international attention, Kenyans were also voting on candidates for a devolved administration based upon the 2011 constitution. This included the new positions of Senators and County Governors, the latter being in charged of their own county budgets, thus greatly increasing the importance of local politics.

ICC Charges

Both Uhuru Kenyatta and his running mate (now Vice President) William Ruto are indicted by the International Criminal Court (ICC) for the role allegedly played in organising violence after the 2007 election. This is unlikely to prove much of a headache for investors though for 3 reasons:

- Kenyatta's case is quite likely to be dropped following various key witnesses being withdrawn by the prosecution.
- Kenyatta has, up to now, complied fully with the investigation. This contrasts with Omar al Bashir, President of the Republic of Sudan, who has been the subject of sanctions following non-cooperation with the ICC.
- Kenya is too strategically important for Britain and the US, in particular, to ostracise their most important military and economic partner in the region.

Saving Kenya from its politicians

Whilst Kenyatta may get the international headlines, the most important dynamic in upcoming years will be how the new constitution is implemented and regional power and state finances are devolved. The capital, Nairobi, will now be run by the dynamic Evans Kidero, former head of Mumias Sugar, one of the country's biggest companies. Producing 50 – 60% of the country's economy, what happens in Nairobi will be a bellwether for the state of the national economy.

Magnus Taylor is Editor of *African Arguments*, Royal African Society.

Economic Trends & Forecasts

THE START OF AN AFRICA BUBBLE? | SHOULD WE BELIEVE THE HYPE?

With the Africa hype still going strong – amidst signs of recovery in developed markets, and foreign and domestic investment reaching record levels in Africa – the economists J K Galbraith and Robert Shiller spring to mind. Shiller made famous the 'snowclone' "Irrational Exuberance" first coined by former chief of the US Federal Reserve, Alan Greenspan, in his 2000 book of the same title, and Gailbraith spoke about investor risk appetite increasing as soon as the most recent crisis is forgot in the "Great Crash 1929".

Recently, I can't help but wonder if the same can be applied to the effusive Africa Rising zeitgeist and if we might be witnessing the beginning of an Africa bubble. The optimist in me believes this Africa growth story – despite the poor data on the continent and evangelical faith in GDP that persists among economists – is underlined by fundamentals and not informed by cognitive dissonance and speculative exogenous capital. Improved governance, financial infrastructure, data and credit ratings amidst increased investment has considerably reduced the opacity of African investments. The combination of these aspects with sensible economic and public policy could deliver inclusive and sustainable growth, as president of the African Development Bank, Donald Kaberuka recently said at our Business Breakfast on March 11 as I wrote here.

See also: Adam Green writes here for us on about the importance of sensible public policy design around fuel subsidies in particular.

WORLD BANK 2013 REPORT ON AFRICA'S ECONOMY | AFRICA'S PULSE

Highlights – African economic growth not sufficiently fast to reach MDGs

The World Bank released on Monday an analysis of issues shaping Africa's economic future. Highlights from the report are the continued growth momentum of Sub-Saharan countries and progress towards the Millenium Development Goals. However, this growth has not reduced poverty sufficiently. The World Bank asserts that better governance of mineral revenues, high agricultural prices, the demographic dividend and rapid urbanization may be steps towards meaningful poverty reduction. Growth should remain over 5% well into 2015.

Economic growth in Sub-Saharan Africa expanded at nearly twice the global rate

There are signs of recovery in the global economy, which is good news for African exporters. The developed market resurgence has been led by the US and Japan, and in the emerging markets, by China. But problems persist in the UK and EU especially, and the US 2013 budget sequestration could sabotage the recovery.

However, while this is undeniably an African moment on the global stage, the continent should not be viewed as one market. This is especially the case when considering the case of South Africa, which has seen sluggish growth due to its relative embededness in the global economy – and the relatively high financialisation of its economy.

Further, the North African economies have been plagued by unrest and conflict following the Arab spring as I discussed in our previous business briefing. Nonetheless, general trends show that the upward growth trajectory still being enjoyed by most Sub-Saharan countries is being spurred on by **domestic demand** and **high commodity prices**.

Risks and Challenges

Rising inequality and jobless growth remain the primary challenges to achieving this. Other risks for Africa's success highlighted by the Bank are the risk of a **disorderly unwinding of Chinese investments**, **regulatory uncertainty**, political instability and **labour unrest** in some regions as well as the risk of **poor public investment and policy design**.

Rising **food prices** also pose a threat to poverty alleviation. Finally, if the US recovery is retarded by budget sequestration, or the EU does not sort its economic woes soon Africa's growth may be slowed down in tandem.

The full text of the World Bank Report can be found here:

http://www.worldbank.org/content/dam/Worldbank/document/Africa/Report/Africas-Pulse-brochure_Vol7.pdf

FOCUS ON NORTH AFRICA | Is Egypt too big to fail?

Last month I asked if the continued conflict in North Africa and the Sahel poses a substantial political risk for investors in the continent. The economic repercussions of that are currently being keenly felt by Egypt. Is Egypt is too big to fail? The seemingly intractable economic crisis in the country continues with sporadic violence and protests. The country has also had trouble obtaining a loan of $4.8bn from the IMF, its currency is falling and Moody's continues to downgrade its banks and bonds. However, Qatar came to its rescue last Wednesday with the announcement of an additional $3bn of financial aid.

The economic crisis is being most keenly felt by ordinary Egyptians through shortages and price hikes, and their dissatisfaction with the economy has in turn led to more social unrest, which in turn further deteriorates economic policy. While obtaining the IMF loan could be "crucial for restoring Egypt's faltering economy", as James Maxwell says here, the IMF's conditionalities could be socially and politically costly. Egyptians are therefore wary of this aid. Ultimately, as the FT reports here Egypt needs much more than an IMF loan to save it from its woes.

Markets

ACCELERATING TREND – PRIVATE EQUITY | DEALS AND DEVELOPMENT

Private Equity is a major trend to watch in Sub-Saharan Africa despite the harsh deal climate described by Katrina Manson earlier this month in Nairobi. Investors have to hunt for deals and make the right contacts and get ahead of the pack by leveraging local knowledge.

Manson says private equity represents just 4% of total emerging markets private equity assets. Such a low base means there is plenty of room for growth, with lots of deals and multimillion pound funds now frequently emerging. This presents opportunities both for African businesses and foreign investors.

The African Venture Capital Association reports that some of these private equity have outperformed other emerging market portfolios by a considerable margin here. PE leaders on the continent include Abraaj, IFC, Actis and Ethos.

For more news on private equity developments & deals in Africa visit AVCA's website here: **http://www.avca-africa.org/index.php/page/news**

Companies

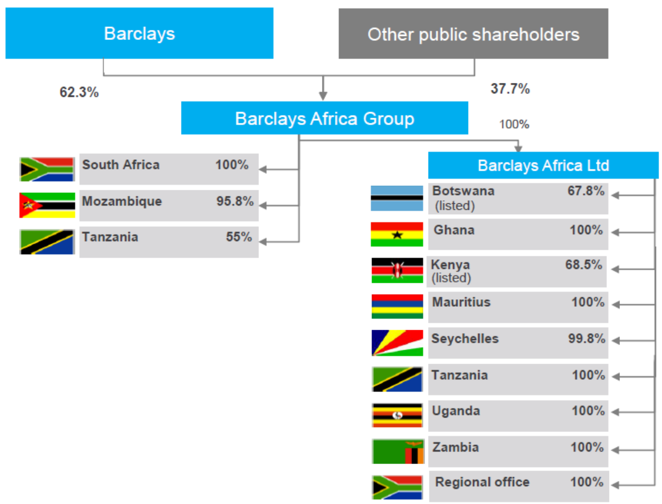
MANAGEMENT CHANGE | New CEOs for Standard Bank and Lonmin

In a trend of management change across the mining industry, the troubled British mining company Lonmin PLC (LMI) has announced a new CEO. Bloomberg reports here that Ben Magara will soon be leaving Anglo American to lead Lonmin in an "effort to restore output at the world's third-largest platinum producer and repair its reputation after a six-week strike at the company's main mine led to at least 44 deaths." Sim Tshabalala and Ben Kruger will replace Jacko Maree who spent 13 years as CEO of South African banking behemoth Standard Bank as its joint CEOs. Both appointees are internal.

Barclays & ABSA join forces to become Africa's "Go-to Bank"

Barclays and ABSA recently announced a transaction that will see the banks join forces to create the largest banking network in Africa. Absa Group will combine with Barclays' African operations in a move that will accelerate its One Bank in Africa Strategy, creating one of the largest networks on the continent. The deal, to be concluded in the first half of 2013, will see Absa acquire Barclays Africa Ltd for 129.5m Absa shares, representing a total value of ZAR18.3Bn (around £1.31bn) and will see Barclays stake in Absa increase from 55.5% to 62.3%. The deal highlights the growth opportunities in African banking stocks that ex-South Africa, have performed very well in Kenya and Nigeria in particular. It also highlights the demand for financial sector deepening and infrastructure. Barclays also plans to add branches in Egypt to its portfolio and introducing Islamic banking services in its offering there.

Proposed structure post transaction



Source: Barclays/ABSA Horizon Presentation

Labour unrest continues in mining sector – wildcat strikes spread to Ghana

Meanwhile industrial action in the mining sector continues to spread across the continent. Goldfields' mine in Ghana recently suffered a wildcat strike linked to dissatisfaction over its employee share scheme and alleged discrimination. Brazilian coal miner Vale endured protests at its Mozambican coal mine demanding compensation for the loss of livelihood caused by resettlement.

News and Events

Upcoming

20 April | London Business School Africa Day 2013 |

http://africaday2013.businesscatalyst.com/

30 April | London School of Economics | Private Equity Investing in Emerging Markets

http://www2.lse.ac.uk/publicEvents/events/2013/04/20130430t1830vOT.aspx

4 May 2013 | Pan African Conference | Oxford University

http://www.oxfordafrica.org/conference.html#home

8 May 2013 | World Economic Forum | Cape Town

http://www.weforum.org/events/world-economic-forum-africa-2013

27 to 31 May 2013 | African Development Bank Annual Meetings | Marrakech

http://www.afdb.org/en/news-and-events/article/afdb-annual-meetings-will-be-held-in-marrakech-in-2013-9442/

Past

Royal African Society Business Breakfasts | London

The RAS' Business Breakfasts are sponsored by Diageo and are a regular series of events for senior executives of companies, NGOs, policymakers and other experts. Invitations to the business breakfasts are available only to RAS corporate members at the discretion of the RAS.

11 March 2013:

Donald Kaberuka, the president of the African Development Bank was our speaker on 11 March 2013 – a write up of the event can be found here .

21 March 2013:

Joyce Banda, president of Malawi was our speaker for the second business breakfast of the year.

21 March 2013: Africa Redux

The University of Edinburgh Business School hosted Africa Redux, an international conference on Political Economy, Development and International Finance.

AVCA Conference

The African Venture Capital Asssociation Annual Conference took place in Cape Town, South Africa on 8-10 April. http://www.avcaconference.com/

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