

Why Africa is worth exploring

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Africa may seem an unlikely investment opportunity, but with its markets growing at a clip, the continent looks increasingly attractive, says Simon Wilson.

So why invest in Africa?

To help Africa help itself and make profits in the process. Despite the continent's structural problems and the relentless focus on aid and debt relief, Ghana's stockmarket was the world's third-best performer last year, while Egypt topped the global table and is soaring this year too. In the long term, Africa's best chance for prosperity and stability is not from dependency on foreign aid, but from sustained private investment and enterprise. Currently, only about 1% of the private capital in the world is invested in sub-Saharan Africa. As the continent becomes gradually more prosperous, levels of private investment are set to increase significantly, especially since (according to World Bank figures) Africa currently offers 'the highest returns on foreign direct investment of any region in the world'.

How are Africa's economies doing?

Currently, they are doing pretty well. Sub-Saharan Africa is experiencing its 'best economic performance in years', according to Goldman Sachs economists, who reckon 'gross domestic product growth could average 5% over the next decade, compared to less than 3% over the past 30 years'. They also point to dramatic differences in outlook between countries, with Botswana near the top and Zimbabwe near the bottom. The big growth areas for the continent are infrastructure, agribusiness, vehicles, tourism, finance and natural resources.

But is it safe to invest?

Investing in Africa is high risk for many reasons, including currency fluctuations, poorly developed markets and political risk. (Although in Transparency International's most recent survey, Botswana is rated less corrupt than Italy or Greece.) Yes, there are still some poorly run and unstable countries, but the number of African democracies has jumped from just four

in 1990 to 17 today. At the same time, many countries have begun liberalising their economies and developing their capital markets. A good example is Uganda, whose GDP grew an impressive 7% a year from 1993 to 2002.

(Article continues below)

So how are stock markets doing?

Extremely well, and not just in Ghana and Egypt. African markets easily outperformed the world averages last year and over the past three years. Moreover, the number of stock exchanges has jumped from ten to 18 in the past decade. In the best-case scenario, Africa could be right at the start of a virtuous circle of investment, in which the growing size of the markets and the growth in foreign direct investment (FDI) inflows boosts credibility in Africa's exchanges, making it easier to raise capital and encouraging Africans to invest in them.

What about South Africa?

The picture there is pretty rosy too, crucially, as it accounts for a quarter of Africa's entire GDP. The economy is growing strongly, predicted annualised growth of 6% in the second quarter together with a strengthening rand, employment levels are up, and government debt down. In spite of a solidly performing stockmarket (up 9% this year), assets are still cheap compared to the developed world. Most significantly, FDI is buoyant. The return of Barclays last month is widely seen as a major boost to investor confidence in the region. This is the latest in a line of big FDI deals in the country, including General Motors' decision to build Hummer H3s in Port Elizabeth.

So how do I invest in Africa?

It's not easy. As yet, low demand means that none of the mainstream UK fund managers offer African funds, although investors can get good exposure to South African mining stocks through popular funds such as **Merrill Lynch Gold & General**, or **JPMF Natural Resources**. Some emerging-market funds do offer exposure to Africa, in particular the successful **Genesis fund**, which is 10% invested in South Africa and 5% in Egypt, with smaller holdings in Ghana, Kenya, and other African states. Elsewhere, the boutique private-client investment firm **Blakeney** has a strong track record of investing in Africa. Alternatively, investors could consider investing directly in South African plays such as **Investec**, the Anglo-South African bank, or European-listed colonial firms with significant African assets, such as Belgium's **SIPEF**.