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AFRICA PREBRIEF

Africa Prebrief is a commentary service for frontier investors, academic institutions, and serious observers of the African continent seeking relevant insight into current events, important developments and trends which may impact opportunities and change. *Africa Prebrief's* identifies the significance of economic, political, and cultural dynamics; explains their point of intersection; and provides prescient observations. The service combines historical perspective, market review, political strategy, and economic anthropology to weigh variables and make predictions - with insights, information and intelligence gathered from a network of experts on the ground in Africa, as well as sources in Europe and key power centers in the United States.

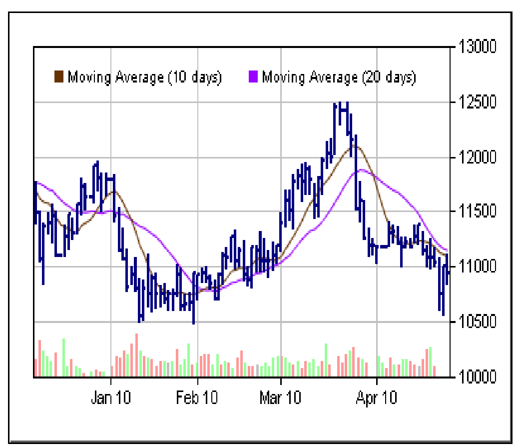
SUMMARY

*In Company Watch we glance at the company at the center of this week's most talked about telecom deal – **MTN Group**. In West Africa we consider the high price of credit in **Nigeria** to be a natural stage of the country's development toward formal capital markets. In Northern Africa we explore the political tag-team that is **Libya**'s **Muammar Gadhafi** and his 38-year old son **Saif al-Islam Gadhafi** and what it means for the question of succession.. In Central Africa we continue to be worried about the region's prospects for peace and development – this time we couple the bad news of Chad's worsening hunger crisis, with progressive possibilities to aid its dairy farmers. In East Africa we offer insight into **Kenya**'s credit spreads and high interest rates in light of growing penetration of commercial banking into the country's informal sector. In Southern Africa, we interpret the rise of **Julius Malema** as we head toward a long hot summer in **South Africa**. In 'Markets and Movements' we consider **Julius Malema**'s 'study tour' of the socialist nations of Central and South America in light of the little-known recognition by **Ernesto 'Che' Guevara's Agrarian Reform Institute**, 51 years ago, of*

COMPANY WATCH MTN Group (MTNJ.J: Johannesburg Stock Exchange)

Company Profile: The **MTN Group Limited (MTN Group)** is a multinational telecommunications provider cellular and is listed in South Africa on the Johannesburg Securities Exchange (JSE) under the Industrial – Telecommunications sector. Launched in 1994, MTN Group, with core operations in 21 countries in Africa and the Middle East, MTN has over 90 million subscribers.

APB Assessment: The news last week that South Africa's MTN and **ORASCOM Telecom** of Egypt are discussing a possible deal for some or all of Orascom's assets came as no surprise. As indicated in the March 11th issue of *APB*, now that Orascom's legal issues are settling, the Cairo-based company will find a suitor in the near future. While MTN's initiatives can't be dismissed, markets were not convinced, and we still maintain the view that a non-Africa company like **Russia's VimpelCom (NYSE:VIP)** or **India's Bharti Airtel Ltd. (135466:Bombay Stock Exchange)** may take Orascom to the altar. However, as long as the rand continues to strengthen relative to the U.S. dollar, one can expect South African companies to continue to dominate pan-African merger opportunities. With only 50% of its population using cell phones, and mobiles increasingly being used to transfer funds, Africa's wireless industry is an apple in the eye of investors.



AFRINALYSIS & ASSESSMENT

WEST AFRICA

Source: The New York Times

Headline: **'**Banks making big profits from tiny loans'

- In recent years, the idea of giving small loans to poor people became the darling of the development world, hailed as the long elusive formula to propel even the most destitute into better lives. But the phenomenon has grown so popular that some of its biggest proponents are now wringing their hands over the direction it has taken. Drawn by the prospect of hefty profits from even the smallest of loans, a raft of banks and financial institutions now dominate the field, with some charging interest rates of 100 percent or more.

- Like Mexico, Nigeria attracts scrutiny for high interest rates. One firm, LAPO, Lift Above Poverty Organization, has raised questions, particularly since it was backed by prominent investors like Deutsche Bank and the Calvert Foundation. LAPO, considered the leading microfinance institution in Nigeria, engages in a contentious industry practice sometimes referred to as 'forced savings.' Under it, the lender keeps a portion of the loan. Proponents argue that it helps the poor learn to save, while critics call it exploitation since borrowers do not get the entire amount up front but pay interest on the full loan.

APB Assessment: The growth of micro financing in countries such as Nigeria is a positive development which will go a long way to strengthen entrepreneurship and also deepen financial markets. Although concerns about exploitative interest rates are not out of order, we believe these high rates to be an inevitable stage of credit expansion. Given the poor state of credit infrastructure, such as credit agencies, credit history and records, lack of personal identification such as social security numbers and a credible judiciary, the rates of interest are reflective of the high risks associated with these loans. Moreover, traditional lending models would have excluded these types of borrowers and the cost of such exclusion would in many cases be higher than the rates they currently face. These rates are temporary. The higher rates will attract new entrants into the micro financing world which will lead to stiffer competition and consequently lower rates of interest. In addition, the growth of micro credit creates the opportunity to marry the widely used informal credit institutions such as Su Su (A rotational credit system) with the capital and reach of formal lending institutions. Lastly, the Nigerian economy, and West African economies in general, lacks a vibrant financial market that is able to match capital with talent across a society stuck between kinship system loyalty and State authority. The gradual move of micro credit away from its charitable origins and towards incentive oriented risk-taking will evolve this matching process in more dynamic and accountable ways placing decision-making in the hands of others who are perhaps better suited to allocate capital and coordinate business activity - a necessary transition stage toward the construction of thriving formal capital markets.

Link: http://www.nytimes.com/2010/04/14/world/14microfinance.html?pagewanted=1

NORTHERN AFRICA

Source: Financial Times

Headline: 'Gaddafi's son takes role as liberty defender'

- Colonel Muammer Gaddafi's reform-minded 38-year old son, Saif al-Islam Gaddafi, often mentioned as a likely successor, has been carefully raising his profile and fashioning an image as a defender of liberty in a country long known for its human rights abuses. The younger Gaddafi, who recently said that Libyans should enjoy the same freedom as the citizens of the Netherlands, has often appeared at odds with the ideology of the autocratic state created by his father. Saif, who has a doctorate from the London School of Economics, is credited with helping to improve Libya's relations with the west and supporting economic reform, which proceeds at a slow and hesitant pace.

- Opponents of reform have recently tried to increase their influence over the oil industry, but observers say there are also signs that Saif has strengthened his position. In a particularly daring step, he sponsored the first report on Libya's domestic human rights, prepared by the New York-based Human Rights Watch. In Libya's opaque political system, uncertainty remains over the real impact of interventions by Saif, who has no official position. He has turned down an offer to become co-ordinator of the "popular social leadership", a post described as the nation's second most powerful. Last October Col Gaddafi publicly called for Saif to have an official job, a move generally interpreted as a sign that the son was being positioned for the succession. But Saif turned down his father's suggestion, explaining that because Libya had no constitution, he would not want to join a political game where the rules are not transparent. Col Gaddafi has publicly praised his loyalty, but the leader has often appeared to give only cautious backing to the young man's reformist initiatives.

APB Assessment: This article rightly acknowledges the heightened profile of the man most likely to succeed Muammar Gaddafi (who last year celebrated 40 years in power) but it struggles with interpreting the relationship between father and son. If one carefully follows The Leader's statements it is clear that nothing Saif is working on is outside of the scope of change Col. Gaddafi has advocated. Saif's initiatives – with some refinement and innovation – are actually his father's and all that needs to be worked out is how to confront and outmaneuver a conservative guard of leadership that not only opposes Saif, but his father as well. A case in point is the initiative to distribute $30 billion in oil revenues directly to the people of Libya. The senior Gaddafi openly advocated for this complaining of red tape, corruption, and inefficiency within his government. Actual implementation, however, was frustrated by other segments of the Libyan government. That Libya is ruled by an iron-hand all-powerful autocratic hand is clearly not the case. We believe that Saif and his father are executing somewhat of a good cop-bad cop tactical play (Saif as the public face of his father's more private desires for reform) designed to prepare the Libyan electorate for change. That it will result in a seamless succession should the elder Gaddafi pass or voluntarily transfer power to his son is not guaranteed.

Link: http://www.ft.com/cms/s/0/04e5ff2c-4e6f-11df-b48d-00144feab49a.html

CENTRAL AFRICA

Source: Afrol News

Headline: 'Food Crisis Affecting 2 Million In Chad'

- Around 2 million people have been affected by the poor harvest of 2009-2010 in Chad and they will need food and non-food assistance during this year, according to a new emergency report from the Sahelian country. The drought had also resulted in the reduction of the level of rivers, water levels of ouadis, water reserves and irrigation lands and limited cultivation of sorghum and commercial vegetables during the counter season. The current rate of malnutrition had reached disturbing levels in several districts, the organisation reported. The areas most affected by the drought were named as Kanem, Barh El Gazal and Lac regions, located just north of Lake Chad and the capital, N'djamena. After a period of several years with good harvests, most of the Sahel belt countries are now affected by food insecurity. In addition to Chad, the government of neighbouring Niger has issued a food crisis alert, appealing for international food aid.

APB Assessment: This article is one of the reasons that we have great concern over the Central region of Africa leading up to next year's referendum on a possible secession vote in neighboring Sudan (which could spark civil war and refugee crisis of epic proportions), and great hope for the development efforts currently underway in Darfur, in Western Sudan, which shares a troubled border with Chad (an estimated quarter of a million Sudanese refugees are currently in Chad). Chad is an example of an African nation whose economy cannot be transformed by top-down macroeconomic policy. With the country land-locked and 80% of its population subsistence farming and livestock-based, the solutions will have to be bottom-up, literally. As population pressure and land scarcity historically have a way of forcing people to bet on new ideas and innovation, the possibility of the country gambling on the promising work of Dr. Farouk El Baz, of the Center For Remote Sensor Sensing at Boston University (see *APB* March 4, 2010) is real. Dr. Baz – who has the ear of UN General Secretary Ban Ki Moon increases as the fortunes of Chad [one of primary four factors identified by former South Africa President Thabo Mbeki, Chairman of African Union High-Level Panel On Darfur (AUPD) contributing to the Darfur conflict] and Sudan are wedded together in the eyes of the UN refugee agency UNCHR. How important is water to Chad's livestock? One estimate is that the nation's herds could be increased by 35 percent if the distribution of water were improved. Another practical idea would be to bring in New Zealand farmers, currently advising Tanzanian farmers on how to increase milk production by feeding cows more efficiently.

Link: http://www.afrol.com/articles/35666

EAST AFRICA

Source: The East African

Headline: 'Kenya's underground economy emerges into the open'

- Cash circulating in the informal sector has dropped by over 50 per cent, from Ksh9 billion ($120 million) in 2008 to Ksh4.9 billion ($65 million) this March. Central Bank of Kenya (CBK) governor Njuguna Ndung'u said that the drop resulted from increased penetration of banks in rural and low income areas as well as the ongoing reforms in the sector, which have enhanced competition. However, despite the positive prospects in the industry, critics argue that deeper reforms need to be undertaken to arrest the ever widening spreads between interest rates and credit rates which currently stand at 10 per cent in Kenya. Last week, the Monetary Policy Committee (MPC) said the continual cut in CBK rates had yielded fruits as the private sector credit has started growing both in volume and the number of loan accounts.

APB Assessment: The increased penetration of commercial banks in rural and low income areas is a positive development, and would over time provide access to loans to a major segment of the country. This would fuel growth and further expand the economy. However, the widening interest rates spread, hovering around 10 per cent much like in many African countries, remains to be addressed effectively if the banking sector is to properly fuel the Kenyan economy. Interest rate structure is influenced by a number of variables among which inflation and credit/default risks have major impacts. Inflation is no longer a significant determinant, according to the MPC, but credit risk remains dominant in the interest rate structure. One way the Kenyan government and private sector could lower interest rates spread is to come up with innovative ways to structure loans as well as innovative collateralization of loans. Another downward pressure would come from competition for the deposits of informal investment clubs (chamas) which are equal in size to 5% of total bank deposits.

Link:http://www.theeastafrican.co.ke/news/Kenyas%20underground%20economy%20emerges%20into%20the%20open/-/2558/892516/-/1287agp/-/index.html

SOUTHERN AFRICA

Source: City Press (South Africa)

Headline: 'Poor, misunderstood Comrade Julius'

- It seems that no day can pass without the press being full of attacks on the ANC's Youth League leader. Although we should perhaps be pleased to have something to liven up our daily reading, I am beginning to feel sorry for our noble, misunderstood Comrade Julius. After all, how refreshing it is to experience a top politician not only giving honest answers and opinions on any subject but also using language that everyone can understand and not just using correct "polit-speak" that is capable of any number of interpretations.

- Comrade Julius has obviously set his heart on making his way to the top echelons of the ANC and not merely pursuing monetary gain. In the developed world today politicians cannot be trusted because their policies are solely based on what they think they have to say to win the next election. ANC politicians don't have to be so sly because the majority of the electorate will always vote for them, whatever they say or do or, at least in the words of one of their leaders, until Jesus Christ returns to earth, which seems like being a long time. However, by being financially independent, Comrade Julius can enjoy the luxury of saying exactly what he thinks, whether his party agrees or not. He is obviously right to want to nationalise the mines, as this is just the same as ensuring that stolen goods are returned to the rightful owners.

APB Assessment: This witty editorial from the domestic Black press captures much of the appeal of Julis Malema, the controversial 29-year old leader of the African National Congress' (ANC) Youth League President, whom many credit for Jacob Zuma's victory. Malema's star and influence is rising, in large part based upon the formidable coalition that supports him – Black business leaders, youth and a portion of the electorate that has not seen its standard of living rise tangibly since President Mandela took office in 1994. Malema's colorful and brash statements (which reveal South Africa is not that far removed from the climate that characterized apartheid) and support of Zimbabwe's President Robert Mugabe, at a time when President Zuma has attempted to play a mediation role in the politics of his neighboring country earned him a carefully-worded rebuke from the leader of the country who knows he must tread carefully when dealing with this young fireball. His nationalization rhetoric (without land ownership, voting in South Africa means nothing, he told a youth rally in the Northern Cape) and 'study tours' of the socialist-influenced nations of Central and South America remind us of Che and Fidel in their 30s. D-Day continues to be the ANC Convention in September where battle lines will be drawn within the organization, revealing how whether Malema will actually be able to rise with the help of the ANC infrastructure. Should the SA economy falter; World Cup symbolism fail to deliver (reports indicate the event will be under attended disappointing the country's tourism sector); Zuma continue to weaken; and Malema can style himself as Africa's heir to the anti-Western revolutionary mantle currently shared by Gaddafi and Mugabe (with business opportunities and financial support in hand from nations like Venezuela) he will solidify his position as a king-maker.

Link: http://www.citypress.co.za/MyCityPress/YourStory/Poor-misunderstood-Comrade-Julius-20100324

Markets and Movements

Julius Malema's 'Study Tour' - The Next Socialist Revolution

"*Since we are able to train our officers only in theoretical principles of business, we would appreciate it if you would take into your firm one officer for approximately one week in order to become familiar with all phases of the business and industrial administration*," read the words, contained within a little-known 1959 letter sent by Ernesto (Che) Guevara's socialist-oriented Agrarian Reform Institute to domestic and foreign-owned firms operating in Cuba, just prior to the height of nationalization efforts.

The request represents one of the major unmet challenges of socialism, as exemplified in Central and South America (whose indigenous identity has been reasserted recently as 'Indo-America' by Hugo Chavez).

This dynamic was more recently witnessed, just a few years ago in Hugo Chavez's management of state-owned oil company Petróleos de Venezuela, S.A. (PDVSA) which. A politically motivated work stoppage - tied to the opposition movement and aimed at frustrating his leadership – necessitated the replacement of professionally experienced striking workers, with lower skilled and lesser trained employees elevated from with the ranks of PDVSA or recruited from among the poor electorate who provided the base of his popular support.

President Chavez, in an act of classic socialist wealth redistribution utilized oil revenues to feed the poor and provide badly needed medical services and also to seed his vision of a cooperative-based economy, employing approximately a quarter of a million people in transportation, apparel, construction, crafts, and bakery enterprises. The country's number of co-ops dramatically rose from 800 in 1998 to 75,000 by June of 2005 at an estimated cost of over half a billion dollars.

The cooperative initiative provided gainful employment for the previously unemployed and subsistence farmers and street vendors, but was also plagued by inefficiency acknowledged to be the result of the lack of management skill and technical and marketing experience or know-how.

Today, Venezuela and Cuba – from the Statist platform - have done an impressive job of investing in the healthcare and education aspects of the human capital of their nations but continue to struggle with developing a mass of small and medium-sized enterprises capable of allocating capital and coordinating the business organization. Cuba's admissions on this front are most glaring – finally relinquishing control of its retail sector which the State has attempted to run since 1968 – allowing barbers, for example, to pay rent and taxes in exchange for giving up a guaranteed minimum wage and taking on the risk and right to charge any price they like.

Enter a new cadre of African leadership.

The shrewd firebrand-rouble rouser-rising star, whatever you like, of South Africa – Julius Malema of the ANC's Youth League, this week, was in Venezuela as part of a 'study tour' learning how to properly nationalize industries. It is part of his effort to better inform or substantiate his worldview in that direction and to determine whether it is in the best interests of South Africa (and his political future, of course). It is his entry onto the grand stage of the international leadership circuit and of course, calculated for the consumption of a domestic and foreign audience intrigued by his meteoric rise.

It will be interesting to see what Mr. Malema concludes about the quality of life in Venezuela, which is experiencing its first recession since 2003. It's likely he'll notice that not all of the country shares the increasingly emboldened Mr. Chavez's expressed confidence, “"[Gross domestic product] fell in 2009, it's true. And will it happen again in 2010? It might, but should we be worried? Not at all."

Still not a popular subject among leading socialist and progressive thinkers in the West - Venezuela (and Cuba's) problems largely stem from the oversight or misreading in the teachings of Karl Marx, and specifically his insights regarding the equality of humans in terms of their units of labor, as measured by stable money. Even less recognized is the fact that Marx identified gold as money par excellence because it, in and of itself embodied units of labor – writing in Volume 1 of his 2,500 page series *Capital*, also published as 'Das Kapital':

Money fulfills two entirely different functions, as the measure of value, and as the standard of price. It is the measure of value, because it is the social incarnation of human labour; it is the standard of price, in so far as it exists in the form of a fixed weight of metal. As the measure of value, it serves to transform the values of the manifold commodities into prices, it measures these quantities of gold. The measure of values measures commodities considered as values; the standard of prices measures, on the contrary, quantities of gold by a unit quantity of gold, not the value of one quantity of gold by the weight of another. If gold is to function as the standard of prices, a definite weight of gold must be fixed upon as the unit. Here, as whenever quantities of the same denomination are measured, it is of the importance that there should be an unvarying unit of measurement. Consequently, the standard of prices will fulfill its function better in proportion to the degree to which one and the same quantity of gold can unalterably serve as the unit of measurement. But gold can only serve as the measure of values because it is itself a product of labour, and therefore potentially variable in value…

…The first function of gold is to provide the world of commodities with the material for the expression of their value, or to represent the values of commodities as magnitudes of the same denomination, qualitatively and quantitatively comparable. Thus it functions as the general measure of values; and only in virtue of this function does gold, being the specific equivalent commodity, become money.

Skillful use of terms and phrases such as 'petty bourgeoisie,' 'proletariat,' and 'capitalist mode of production' will endear you to many a sincere socialist policy-maker, but to this day repeating Marx's exhortation regarding an '*unvarying unit of measurement*,' will probably not get you very far in a state planning meeting.

But without this stable and standard reference, socialist economies (and capitalist as well, to a lesser degree) grope in the darkness, unable to determine the velocity of money and quite naturally arrive at the optimal price of goods and services. The roller coaster ride of rationing decrees and exchange controls provide the best proof of this, with the most revealing symptom of all being the need for hard foreign currency in the form of U.S. dollars by nations radically oppose to 'American hegemony.' The paradox finds Cuba and Venezuela desperately seeking dollars, and Zimbabwe, home of the most credible remaining representative of Africa's liberation struggle - Robert Mugabe - dropping his own nation's currency in favor of a free monetary environment where U.S. dollars and European euros dominate. It was a necessary but embarrassing decision.

But perhaps, it is not Cuba, Venezuela or Zimbabwe, but Libya, where Mr. Malema's 'study tour' would be best served. There he will find a 'socialist revolution' where another credible anti-Western leader, Muammar Gadhafi is courageously exposing corruption, inefficiency, and graft within the Libyan bureaucracy and challenging the State's control of the oil revenue treasury by suggesting Libyans would be better served by a Norwegian and Alaskan-style direct distribution of over $30 billion and the possible elimination of *120,000* government jobs. The youthful face of his efforts belongs to his 38-year old son, Saif al-Islam Gadhafi, whose quest for guidance on how to deal with the dilemma that Cuba's Agrarian Reform Institute identified 50 years ago led to an embrace of Harvard University Business Professor Michael Porter. A key element of Porter's advice was intensive administrative and management training and education for government officials. One should not be surprised. Years ago *National Geographic* reported that Saif's father, the elder Mr. Gadhafi, in his quest to economically integrate Africa was studying corporate merger theory and history.

Mr. Malema's 'study tour'is being depicted by critics as an opportunistic parade on his part. Yet, these critics don't have his credibility among South Africa's youth nor do they appear to have any answer to the intention of these youths to soon leave their country in search of prosperity elsewhere. According to the *Sunday Times* of South Africa, "The latest national BratTrax study conducted by research group Youth Dynamix reveals that although most black teenagers between 13 and 15 want to stay put, 42% are disillusioned and plan to leave as soon as they can. The study, conducted this year, included face-to-face interviews with 900 youngsters aged seven to 15 in eight of the nine provinces… 71% of black youth felt it was impossible to get employment in South Africa; 58% said crime made them want to live in another country, and 73% felt government was not living up to its promises."

With countries in the West making policy blunders that lessen the magnetic pull of young Africans to the borders, this level of dissatisfaction may not result in the kind of mass exodus one would have seen decades ago. But without domestic leadership willing to bet on new ideas in the face of those which do not adequately address problems in the wealth distribution, African countries, teeming with a massive youth population, is leaving a mass of otherwise non-radical and apolitical persons with little more than emigration or crime as viable options in their quest for capital and peace of mind.

In that light, valuable answers may be found in the African study of a 'socialist revolution' that has much to teach.

Perhaps the 29 year old Mr. Malema will stumble upon the lesser known writings of a 31-year old Argentine-born doctor who understood one of socialism's greatest challenges.

Cedric Muhammad/April 28, 2010