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AFRICA PREBRIEF

Africa Prebrief is a weekly analytical commentary serving 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 on the margin. *Africa Prebrief's* focus is on identifying the significance of economic, political, and cultural dynamics; explaining their point of intersection; and providing prescient analysis. The service combines historical perspective, market analysis, political strategy, and cultural sensibility to weigh variables and make predictions – formulating its analysis utilizing insights, information and intelligence gathered from an eclectic network of experts and observers 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 a rising star and success story in the continent's banking sector – ***United Bank For Africa****. In West Africa we consider that the probe into the* ***Nigeria's*** *$50bn equities crash is of some value but that new* ***Nigerian Stock Exchange (NSE)*** *director-general,* ***Arunma Oteh****, is likely to misdiagnose the fundamental problem that made for it. In Northern Africa, excitement over what Egypt's continued economic reforms may deliver is greatly exaggerated unless it places tourism, and* ***Egypt's*** *peculiar relationship with* ***Russia*** *in this sector at the forefront. In Central Africa we continue to be positive about* ***Angola's*** *prospects for receiving a credit rating from a major agency. In East Africa we see the election-year debate in* ***Tanzania*** *over tax reform as promising. In Southern Africa, we spotlight nascent protectionist pressures from within* ***Namibia****, another chapter in the story few are reporting – the rising tensions that* ***China's*** *intense presence in African economies is causing. In 'Markets and Movements' we lay out the four foundational elements that Nigeria must put in place – not just regulatory reform of the NSE – if it is to reward risk capital and become a highly regarded place to do business.*

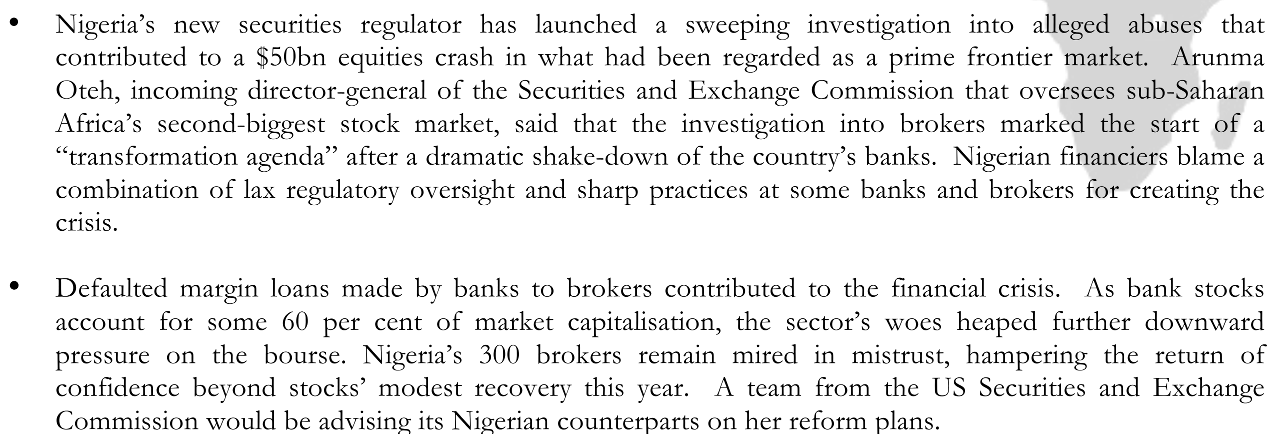
COMPANY WATCH

United Bank For Africa (UBA: Nigerian Stock Exchange)

Company Profile: United Bank for Africa Plc (UBA) is the product of the merger of Nigeria's third (3rd) and fifth (5th) largest banks, namely the old UBA and the erstwhile Standard Trust Bank Plc (STB) respectively, and a subsequent acquisition of the erstwhile Continental Trust Bank Limited (CTB). UBA is one of Africa's leading financial institutions offering universal banking to more than 7 million customers across 750 branches in 14 African countries. With presence in New York, London and Paris and assets in excess of $19bn.

APB Assessment: We really like United Bank for Africa as maybe *the* bank to consider for those seeking a pan-African financial intermediation play. It is one of seven banks that have completed the interoperability process linking their customers' accounts to the E-Zwich cards in Ghana – a process which connects bank accounts to point of sale. And its durability, even in Nigeria has been tested. When banking sector stocks plunged on Nigeria's stock exchange in late January on an announcement of a Central Bank of Nigeria directive that bank CEOs and Directors who have served for 10 years or more must resign, the only shares to hold their ground were those of UBA, even though its Nigeria CEO was one of those forced to resign. The bank is showing up wherever the action is – most recently at the table in discussions under way to help the Nigerian National Petroleum Corporation (NNPC) tap capital markets. Their stock price is 20% off of highs from a year ago and we think undervalued in light of emerging opportunities.

Regional News Commentary



WEST AFRICA

Source: Financial Times
Headline: 'Probe launched into $50bn equities crash'

- Nigeria's new securities regulator has launched a sweeping investigation into alleged abuses that contributed to a $50bn equities crash in what had been regarded as a prime frontier market. Arunma Oteh, incoming director-general of the Securities and Exchange Commission that oversees sub-Saharan Africa's second-biggest stock market, said that the investigation into brokers marked the start of a "transformation agenda" after a dramatic shake-down of the country's banks. Nigerian financiers blame a combination of lax regulatory oversight and sharp practices at some banks and brokers for creating the crisis.

- Defaulted margin loans made by banks to brokers contributed to the financial crisis. As bank stocks account for some 60 per cent of market capitalisation, the sector's woes heaped further downward pressure on the bourse. Nigeria's 300 brokers remain mired in mistrust, hampering the return of confidence beyond stocks' modest recovery this year. A team from the US Securities and Exchange Commission would be advising its Nigerian counterparts on her reform plans.

APB Assessment: This is a positive step but insufficient to correct the problem it aims at. In addition it could be harmful as Oteh believes the country must move away from indigenous retail investing in its capital markets – replacing it with a reliance on foreign institutional investors – a plan the U.S. team will surely support. But Nigeria lacks the basics of a commercial society (explained in this week's "Markets and Movements") and a top-down approach to creating accountability and trust will not address the more basic issues such as the fact that the country lacks a credible judiciary system, stable currency, and risk-free assets that a commercial banking sector and equity markets are built upon. The 'irrational exuberance' that created the Nigerian bubble was not simply the result of easy money from banks and lax regulation of brokers but also because the country's dynamic informal financial sector and savings culture found the NSE an attractive place to allocate capital, as a result of a 10% capital gains tax rate and the alternative of a static, underdeveloped commercial banking system. Until Nigeria gets the basics in place this effort to regulate capital markets may drive away more capital from the bottom-up (as the nation's entrepreneurs and mass of small and medium sized businesses from the non-oil and non-banking sector find it hard to go public) than it attracts from abroad.

Link: http://www.ft.com/cms/s/0/a9e25ee4-2c69-11df-be45-00144feabdc0.html?catid=8&SID=google

NORTHERN AFRICA

Source: Wall Street Journal
Headline: 'Egypt Moves To Recapture Its Recent Economic Growth'

- Egyptian officials are promising 5% gross domestic product growth this year and 6% in 2011, eventually matching the growth of 7% and higher that Egypt enjoyed for three years before the global economic crisis hit in late 2008.To reach its goals, the Egyptian government plans to actively seek more foreign direct investment by emphasizing the country's comparative resiliency during the economic crisis, to push tax reform by streamlining the complicated income-tax and property-tax codes, and to curb widespread nonpayment of taxes with stricter enforcement. They also aim to reduce the drag created by Egypt's socialist-era subsidy programs.

- For several years, a small cadre of economic reformers, working under President Hosni Mubarak and his son, Gamal, pushed to liberalize Egypt's creaking, state-dominated economy. The process had its critics, but succeeded in pushing Egypt to growth peaks. Things came unhinged in 2008, however, as the expansion stoked inflation and triggered unrest in some places, including the so-called bread riots in Cairo and in several rural cities. Foreign direct investment fell to about $8.1 billion in the fiscal year ended June 2009 from a peak of $13.2 billion the previous year, according to the central bank.. Tourism and remittances from workers overseas slumped.

APB Assessment: An interesting broad read but not enough emphasis on the key to Egypt's economy – tourism, and its reliance on one country in particular – Russia. While the largest international market for scheduled traffic to Egypt is from Saudi Arabia - the main source of *tourist* travel to Egypt is Russia, and volume is only increasing - up 12% - last year - in the depths of a recession. While Russia was sending this large mass to Egypt, it's own GDP *declined by nearly 8% percent*. Yet, despite this, in 2008, Egypt's key sector experienced its greatest growth rate of 15% - with nearly 13 million tourists. One can only imagine the boon Egypt might receive in 2010, with Russia enjoying growth for two consecutive quarters now. 14 to 15 million visitors is not unthinkable.

Link: http://online.wsj.com/article/SB20001424052748703791504575079091736448422.html

CENTRAL AFRICA

Source: Reuters
Headline: 'Angola Talking With Agencies To Obtain A Credit Rating'

- Angola has met with at least one ratings agency in recent weeks, a government source said on Monday, as the country seeks its first credit rating before going ahead with a possible $4 billion bond issue. Africa's second-biggest oil producer hopes a credit rating would help it sell up to $4 billion in bonds to foreign investors.

- President Jose Eduardo dos Santos has also appointed a new finance minister in the interim in a cabinet reshuffle. A recent $1.4 billion loan from the International Monetary Fund may also help bolster investor confidence in Angola. But the deal could also limit the amount of debt sub-Saharan Africa's second-biggest economy can carry on its books.

APB Assessment: These reports are credible and we are confident Angola will receive a credit rating, most likely from Fitch in the neighborhood of the B+ that Ghana received a couple of years ago. The recent IMF loan and the pace of change in President dos Santos' policies and cabinet shuffling we think support this. We also think Standard Bank's assessment that Angola can't tap capital markets for more than $2 billion is also accurate and don't expect Angola to raise more than $1.5 billion. The debt issuance we think could come before June.

Link: http://af.reuters.com/article/investingNews/idAFJOE62E0IO20100315

EAST AFRICA

Source: Daily News (Tanzania)
Headline: 'Next Budget Should Address Tax Reforms'

- Investors want the next national budget to address tax reforms by harmonizing them and abolishing others that impede enterprise development in the country. At the annual Pre budget forum for new Tax reform proposals for the 2010/2011 budget organized by Tanzania Private Sector Foundation in Dar es

Salaam, participants drawn mainly from the business community were pre-occupied with the need for government to reinstate the deemed capital goods exemption.

- They want the government to re-instate the rescinded import duty exemption and VAT relief. The private sector feels that Value Added Tax should come down further from 18 per cent where the government put it last year to 15 per cent in order to make goods more affordable to give more taxes to the government.

APB Assessment: This is one of a few positive signs that Tanzania is taking steps to improve the climate for doing business. Tanzania and Kenya are both in danger of being left behind by Rwanda (if reconciliation efforts, title to property, and financial intermediation efforts continue) and Uganda (if *massive* new oil discoveries result in improved wealth distribution) in East Africa and the tax burden is a big part of the problem. The total corporate tax burden in Kenya approaches 50% compared to Tanzania's 45%, Uganda's 32% and Rwanda's 31%. Part of Tanzania's unique problem is that Zanzibar, which is part of the United Republic of Tanzania has its own VAT law, not identical to the mainland. A VAT reduction to 15% would do well as it would give the country a comparative advantage over Uganda (18%), Rwanda (18%) and Kenya (16%).

Link: http://www.dailynews.co.tz/business/?n=8232&cat=business

SOUTHERN AFRICA

Source: Bloomberg
Headline: 'Namibia Bans Chinese Investment In Beauty Salons'

- Namibia will ban foreign investment in small and medium-sized public-transport businesses and in hair and beauty salons because of increased Chinese involvement in the industries. Trade and Industry Minister Hage Geingob said "Much of this concern has been sparked by activities of Chinese business persons."

- Bilateral trade between Namibia and China amounted to $526 million in 2008, China's ambassador to Namibia, Ren Xiaoping, said in October. In the first six months of 2009, trade volumes totaled $309 million, more than double the amount a year earlier. Namibia, a southwest African nation with 2.1 million people, is Africa's biggest uranium producer. The country relies on the nuclear fuel and other minerals including lead, zinc, tin, silver and tungsten to generate 50 percent of total foreign-exchange earnings.

APB Assessment: This article accurately represents an undercurrent in China's on-the-ground impact in several African countries. While most reports indicate a more rosy picture, a growing number of complaints against what is perceived as negatives associated with an increased Chinese presence in African nations – including broken promises of infrastructure development, and migrant workers displacing native ones - is emerging. The upcoming March 23 –April 1st 'goodwill' visit of China's top political advisor Jia Qinglin to Namibia (as well as Cameroon and South Africa) in no small part is designed to symbolically address such concerns. Right now, the problem is not of scandalous proportions but Namibia and Southern Sudan (see APB March 4th issue) could provide accurate readings on the tension level of African-Chinese relations this decade.

Link: http://www.businessweek.com/news/2010-02-22/namibia-concerned-by-chinese-influx-bans-some-investment.html

Nexus: Movements and Markets

Creating A Commercial Society In Nigeria

Much is being made of Arunma Oteh, a former vice-president of the African Development Bank, her new job as the head of Nigeria's Securities and Exchange Commission, and her strong public statements explaining her commitment to root out corruption and bring regulatory reform to Nigerian capital markets. Two depictions accompany her arrival in the Nigerian and foreign financial press – one of pessimism featuring Ms. Oteh as the overwhelmed sincerely-motivated professional who will learn the hard way what others have – Nigeria is no place to do business. The second characterization of the Harvard Business School prize-winning MBA student is that of possible saviour, or at least great reformer – the right person at the right time capable of unwinding a decades old dilemma.

The problem she faces?

Bringing confidence and stability to a nearly 50-year Nigerian Stock Exchange (The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange. In December 1977 it became The Nigerian Stock Exchange) after a bubble created by reckless lending, alleged manipulation, and unaware first–time investors in search of riches burst in 2008. $50 billion in market capitalization was lost in the process and the NSE fell more than 70% off of its highs. Individuals lost their entire net worth and life savings. Hundreds of brokers suffered billions of losses in naira.

The solution she offers?

Ms. Oteh says the embracing and enforcement of international accounting standards along with vigilance of the country's chaotic brokerage industry and reforms that make Nigeria's market more friendly to institutional investors is the answer.

A team from the United States' Security and Exchange Commission will help guide her through the efforts.

Her professional skills are apparent but the diagnosis of the root of Nigeria's financial problems is incorrect. The challenge is not simply to bring regulation at the NSE. If only things were that easy. The problem is that in many ways Nigeria has never been a *nation*. The lack of cultural homogeneity and the dominance of kinship systems impede the flow of power from the local to federal level and the formation of trust in a centralized authority, and by consequence, formal markets.

How does this relate to the NSE?

Without the private sector and government fulfilling certain roles, a formal commercial society cannot emerge.

Taking Reuven Brenner's seminal 'The Rule of Law and The Wealth of Nations' published in the Aug/Sept. Issue of the *First Things* journal, as our reference guide we can see Nigeria does lacks the basic elements of a commercial society and matchmaking which are the responsibility of a strong government: 1) guarding entrances (determining who can start banks and financial institutions), 2) guarding exists (consistent bankruptcy rules), 3) clearly established investor rights (which must have a credible judiciary where disputes over debt and equity holdings are handled) and the 4) provision of risk-free assets (stable government debt instruments and sound backing of financial institutions that hold the people's money).

Nigeria has plenty of talent and capital that its financial market is attempting to match but is unable to do so because the country lacks the four elements which would provide the accountability and stability to balance

the financing of risk-taking. Oteh's reforms seek to 'guard the entrance' to capital markets from shady brokerage houses but at the cost of denying access to small investors and entrepreneurs, it seems, who only got involved in investing because they had cash (the value of which was eroding each day due to inflation) and aspirations. The boom in the stock market was not only due to lax control of brokers and easy lending from banks but also an informal savings culture operating in a vacuum created by the lack of a commercial banking system.

Capital informally accumulated by Nigerians, without much motivation to deposit, was therefore incentivized toward stock-picking by the country's low capital gains tax environment (10%) and the promises of riches that accompany every stock market, regardless to country. Making it harder for individuals to invest will only hurt those companies most desperate in the search for capital, and those striving to find new ways to form it in a society where there is no stable money, strong central government (capable of providing risk-free assets) or rewarding system of financial intermediation.

Establishing accountability at the level of the publicly traded company is top-down development and not what the country really needs. Nigerians weary of outside influence – even present in the push-back to Ms. Oteh's Diaspora-charged resume (resisting her selection over more supposedly 'indigenous' candidates) – will not take kindly to its capital markets currently accessible to indigenous retail capital (albeit *too* accessible) all of a sudden being re-shaped to accommodate foreign and institutional investors. The Nigerian Stock Exchange cannot be reformed until the commercial banking sector is, and that must be anchored by a stable currency and the provision of risk-free assets like sovereign Nigerian debt instruments. In that regard Central Bank Governor Lamido Sanusi matters more than Arunma Oteh.

By seeking to 'guard the entrance,' Ms. Oteh is doing her job, we guess. But until an able Nigerian politician (or critical mass of them) coordinates this step with the other three (guarding the exits; providing risk-free assets; and protecting investor rights (indigenous as well as foreign), then Nigeria is just that – only 1/4th of the way toward the goal.

Here's where we wish Nigeria's Acting President, Goodluck Jonathan well.
Cedric Muhammad/March 16, 2010

Africa Prebrief founder Cedric Muhammad was described as 'a specialist in African politics' by *The Wall Street Journal* in 2001 for his analysis of the monetary and fiscal policies of the Zimbabwe and South Africa governments and their impact on capital markets. His views were expressed in featured opinion editorials he authored, published in the prestigious newspaper. Since that time he has advised members of the United States Congress, investors, entrepreneurs, economists, journalists and opinion leaders on the nexus point of economic, politics, and culture on the continent. In 2008 he was named by the African Union as a Member of the First Congress of African Economists and is currently advising the 53-nation body on monetary, sustainable development and growth policies toward economic integration and the creation of a single common market.