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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. 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

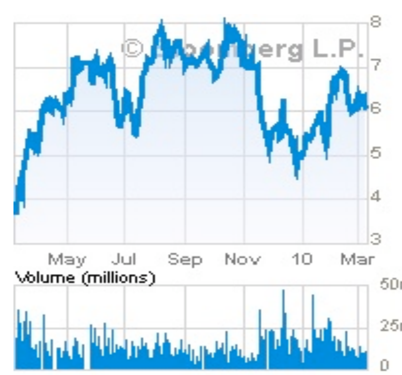
In Southern Africa as confidence in President Zuma wanes and the rand continues to strengthen, cries from labor and exporters against inflation targeting increase. We think the monetary regime will remain though September though Finance Minister Gordhan may not. In Central Africa, Sudan's elections next month loom large, and the message from US special envoy Scott Gration and the UK's Michael Oneil to the 6-nation IGAD summit meeting indicates those quarterbacking upcoming elections are now entertaining the possibility that Southern Sudan will secede. In Northern Africa Morocco's thriving property market is seen as continuing into the foreseeable future, an opinion we don't share due to fundamental macroeconomic factors. In East Africa Toyota Tsusho's planning of a pipeline in a possible joint venture with China is another sign of the continued Asian assault on growth opportunities. But the big story may be its potential to improve Kenya's wealth distribution. In West Africa, the planned foray of South Africa's FirstRand into Nigeria is a sign of things to come as more regional players in financial services realize the growth potential in the sector is in having a pan-African presence. In Company Watch have our eyes on Egypt's Orascom Telecom, weathering legal decisions this month. We expect Orascom to be bought up soon by a non-African telecommunications giant seeking to enjoy and exploit the continent's phenomenal potential. Finally, at the Nexus point we react to U.S. Senator Feingold's message to President Obama on Uganda and how it typifies the economic dilemma created by shifting U.S standards on human rights and democracy for African nations - increasingly viewed as self-serving by the continent's leaders and electorate.

Company Watch

Orascom Telecom (ORTE: Cairo Stock Exchange)

Profile (Yahoo Finance): Orascom Telecom Holding (OTH) provides wireless communications services in the Middle East and beyond. Its serves about 80 million subscribers with GSM-based mobile networks in Algeria (market-leading Djezzy), Bangladesh (Banglalink), Egypt (Mobinil), Pakistan (Mobilink), Tunisia (Tunisiana), as well as in central and southern Africa, North Korea, and Canada. Orascom's mobile service operations account for the majority of its revenues, but the company also provides Internet service and other wired communications services, as well as network installation and support, procurement, and distribution services. The family of company founder and executive chairman Naguib Sawiris owns a controlling stake in Orascom.

APB Assessment: The news this week that Orascom Telecom lost an appeal against claims made by the Algerian government that it owed back taxes and penalties from 2004 to 2007 did not drop the stock's price significantly because the ruling was already discounted. Win or lose (they just need to be rendered) the rulings have virtually no bearing on the fact that the company remains one of the most attractive in the global market (Orascom is the 8th-largest mobile company in the world) and is highly likely to be bought by a foreign competitor, within this calendar year. We would not be surprised by a similar price movement later this month when an Egyptian court is expected to render a final ruling on the shareholding dispute between Orascom and France Telecom over mobile operator Egyptian Company for Mobile Services (MobiNil). Once the hurdle of legal dramas are cleared, speculation over the likely suitor will intensify. We like **Russia's VimpelCom (NYSE:VIP**) to take Orascom to the altar.



REGIONAL NEWS COMMENTARY

SOUTHERN AFRICA

Source: Bloomberg
Headline: 'IMF Says Devaluing Rand Not a Solution for S. Africa'

- South Africa's inflation targeting policy which keeps the rand within a target of 3 percent to 6 percent may have led to a stronger currency, said IMF Managing Director Dominique Strauss-Kahn, who warned against an attempt to devalue the currency.

- The rand strengthened 28 percent against the dollar last year undermining export industries, raising concerns from Finance Minister Pravin Gordhan and Trade Minister Rob Davies.

- Labor unions, which helped sweep President Jacob Zuma into office in May, want the government to peg the rand.

APB Assessment: We agree with the IMF's position against currency devaluation. However rand strengthening is more a result of dollar weakness, a factor the SARB can't control. The proposal of labor unions and exporters to tie the rand to the dollar would only import policy blunders of the Federal Reserve. Inflation targeting is inherently flawed (see APB March 4, 2010 issue) and offers no long-term solution. President Zuma's hand is weakening due to domestic problems, scandals, and COSATU and ANC charges that he is weak in support of labor but he will probably maintain the public support of the ANC until its national general council meeting in September where he could face a vote of no-confidence. The monetary regime survives at least until then. It is more likely that unions could force the resignation of Finance Minister Gordhan. We anticipate a managed weakening of the rand this year, as telegraphed by SARB Deputy Governor Daniel Mminele's Jan. 28th speech (see APB March 4, 2010)

Link: http://www.bloomberg.com/apps/news?pid=20601116&si

CENTRAL AFRICA

Source: Business Daily (Kenya)
Headline: 'Balanced Growth Key To Ending Conflict In Sudan'

- Economic and infrastructure development could help speed up the peace process should South Sudan opt to break away from the North in the coming referendum, US and UK said. The two countries pointed out that irrespective of the outcome of the referendum, the current imbalance in the distribution of resources may trigger new conflict. "A potential post-independence South Sudan must be accorded support," US special envoy to Sudan, Scott Gration said in Nairobi. The UK's special envoy to Sudan Michael Oneil says, "The elections must be successful and credible because even after the elections there are still challenges to be addressed," he told delegates attending the Igad ministerial summit meeting.

- The disbursement of more than $5 billion pledged by donors to help in the implementation of reforms under the agreement has been slow. Some analysts even warn that the national elections and the referendum in the South might flop unless sufficient cash is availed.

APB Assessment: The remarks by Gration and Oneil (made before the IGAD nations Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda – the neighbours that stand to lose the most by another Sudanese civil war) are an evolution in the narrative being written by the U.S. and U.K. Behind the scenes these two nations have been logistically planning the Sudanese elections in the hope that they would be considered free and fair *enough* by anti-Sudanese activists abroad and by the Southern Sudanese at home for sanctions on Khartoum to be lifted. The allies have been outmaneuvered by China, India, and Malaysia in particular in accessing Sudanese oil and a successful election won by President Bashir's NCP, along with a PR campaign to clean up his image is far less messy than Southern Sudan seceding. However, these remarks indicate both nations are preparing for the worst - that this underfunded objective may fail. Putting the emphasis on the wealth distribution and badly needed infrastructure endears the US and UK to the Southern Sudanese who have yet to reap the rewards of oil exploration from Asian nations. Again, things look good for Chevron accessing oil in the South either way. But can secession happen non-violently? We don't think so.

Link:http://www.businessdailyafrica.com/Company%20Industry/Balanced%20growth%20key%20to%20ending%20conflict%20in%20Sudan%20/-/539550/875592/-/2sqsho/-/

NORTHERN AFRICA

Source: Al Bawaba
Headline: 'Prime Real Estate In Morocco Offers A Solid Investment'

- Knight Frank's international research department in London has found that the residential real estate market in Morocco performed well, with home prices rising by 35 to 40 per cent in the five years leading up to 2008. Since then, prices dropped by up to 20 per cent in the early half of 2009 but have now stabilised and are forecasted to grow again.

- CBRE, the world's leading commercial real estate advisor reports that investors in prime Moroccan residential property in 2010 may double their money within 10 years. The reason for this is widely due the Moroccan Government's ambitious "Plan Azur", a €2.2 billion masterplan to generate investment, high quality real estate and tourism to the Kingdom, which will in turn create a property boom in Morocco.

APB Assessment: Morocco's 20% cap gains tax, no estate tax, and nothing paid on property taxes for 5 years does make its real estate sector attractive. But we are not as bullish because of two factors – 1) the economy's dependence upon agriculture (15% of GDP) and 2) its high marginal income tax rates which we believe will stifle capital formation and spending. Morocco's current boom is largely the result of great weather, heavy rains in 2009, which of course cannot be expected to last. In 2007 Morocco had the highest individual income tax rate of all Mediterranean and Northern African countries at 44% kicking in at Moroccan dirham 60,000 which at the time approximated the poverty line of $10,000 in U.S. dollars. That top marginal rate today is at 40%. The real growth opportunity on real estate is in housing for its middle class population who are most affected by the agricultural, forestry, and fishing sectors and income tax rates. Riads for the more wealthyare nice but the government's goal of 1,000,000 homeowners is where the emerging demand in real estate lies. If the market can provide it without getting entangled in messy affordable housing schemes, the biggest boom is yet to come.

Link: http://www.albawaba.com/en/countries/Morocco/262218

EAST AFRICA

Source: Financial Times
Headline: 'Japan Group Eyes Pipeline Plan'

- Toyota Tsusho, the trading arm of the Japanese carmaker, said it was developing plans to build the $1.5bn pipeline, which would run for 1,400km from Juba, the capital of south Sudan, to the Kenyan island of Lamu, where an oil export terminal would be constructed.

- If south Sudan achieves independence, the views of its government on who should build the pipeline will be crucial. The geopolitics of east Africa could be reshaped in January, when south Sudan will hold a referendum on independence. If it chooses to secede, a new country will emerge with about three-quarters of all the oil presently possessed by Sudan.

- Japan is the only big industrialised country that buys Sudanese oil and the China National Petroleum Corporation, a state-owned company, has the largest foreign stake in Sudan's oil industry Kenya supports the proposed pipeline as a way to bring development to its northern territories. The ownership of a pipeline with a capacity of 450,000 barrels a day, and an export terminal would revert to Kenya after 20 years.

APB Assessment: We agree with the thrust of this report regarding the influential role a new nation created by Southern Sudan could play - but for a reason not stated in the article. There is growing dissatisfaction inside the country with the lack of infrastructure promised by Asian nations in exchange for the right to explore oil. The continuation of the relative dominance of China, India, Malaysia and Japan in that region is not guaranteed and it would probably take a joint Japanese-Chinese effort to get this deal done. Kenya is also central to this discussion due to the fact that it would essentially be the dominant player in pipeline politics, long-term. It could go a long way toward addressing its own wealth distribution concerns if it properly manages the riches produced by this project. We will keep an eye on whether or not the Norwegians become influential advisers of the Kenyan government (as has been the case with Angola, Nigeria, and Uganda), and the shape of oil revenue sharing schemes are debated among Kenyan policymakers. If this pipeline project coincides with one capable of bringing oil from Uganda's lake Albert region the complexion of East Africa changes completely, and the outlook for Kenya turns more bullish.

Link: http://www.ft.com/cms/s/0/a583d4ea-272d-11df-b84e-00144feabdc0.html

WEST AFRICA

Source: Dow Jones
Headline: 'FirstRand Targets Nigeria, Other African Markets'

- FirstRand Ltd. (FSR.JO), facing subdued business volumes at home in South Africa, has identified a number of countries on the continent for expanding its financial services franchise, including Africa's most populous nation – Nigeria

- FirstRand said it is interested in all areas of the industry in Nigeria--where the central bank last year injected capital and forced out executives at struggling banks--including corporate, investment and retail banking, and insurance. "Key markets that offer good prospects are Nigeria, Zambia, Mozambique, Tanzania and Angola," FirstRand said in its first-half earnings statement.

APB Assessment: This is a good first step for FirstRand as we strongly believe their will be a boom in financial services in West Africa this decade as a result of the E Zwich card in Ghana, and oil redistribution schemes that we are confident will take root in Nigeria and Ghana. Therefore the play is pan-African. FirstRand's focus in Angola is another great move with that country's standard of living set to rise as a result of massive infrastructure projects and a relatively more wealthy immigrant population from Portuguese growing exponentially, with laborers from that nation sending remittances back home. But if we had to choose a single company as the shining star of the continent's banking sector we would pick United Bank of Africa (UBA) – already positioned in 14 African countries.

Link: http://online.wsj.com/article/BT-CO-20100309-703932.html?mod=WSJ_earnings_MIDDLETopHeadlines

Nexus: Movements and Markets

Democracy: America's Ball and Chain

With the perspective of history it is a strange sight indeed to watch American officials lecture African governments about the proper manner in which to hold elections, the benefits of multi-party democracy, and the inviolability of human rights.

Strange not because such exhortations are not without merit, but rather because the United States has so rarely allowed such governance models to hinder the pursuit of its strategic interests, as has been the case with Africa. It is striking to see governments, said to need what America has to offer, rejecting, even mocking strongly worded declarations and directives from U.S. Embassies, the Secretary of State and members of the United States Senate.

"Democracy is a process. Even in the USA, 100 years ago women were not allowed to vote, and until recently the blacks were marginalised in politics. Uganda got independent 40 years ago and has so far scored a lot of achievements in building its democracy," Advisor to Ugandan's President Museveni, Mr. Moses Byaruhanga, has stated. "Stop meddling in Uganda's internal affairs," we've heard Information Minister Kabakumba Masiko firing back at the U.S. Ambassador to his country.

What is happening?

Quite simply, the amplification by American government officials of demands made by special interests groups in the United States, however sincere they may be, are increasingly seen as disingenuous by African countries. The criticism of African governments is aimed at obtaining a strategic or tactical objective, more and more Africans believe, and therefore any legitimate aspects of it fall on deaf ears. And did we mention these countries can find in Europe and Asia what America offers so arrogantly?

Case in point, Uganda.

Last week, Chairman of the U.S. Senate's Sub-Committee on Africa, Russ Feingold, made the following statement, directed at President Obama:

"Mr. President, finally I would like to talk about Uganda, which is set to hold elections in February 2011. Uganda, like Rwanda, is a close friend of the United States, and we have worked together on many joint initiatives over recent years. President Museveni deserves credit for his leadership on many issues both within the country and the wider region. However, at the same time, Museveni's legacy has been tainted by his failure to allow democracy to take hold in Uganda. Uganda's most recent elections have been hurt by reports of fraud, intimidation and politically motivated prosecutions of opposition candidates. The Director of National Intelligence stated in his testimony that Uganda remains essentially a 'one-party state' and said the government 'is not undertaking democratic reforms in advance of the elections scheduled for 2011.'

Uganda's elections next year could be a defining moment for the country and will have ramifications for the country's long-term stability. The riots in Buganda last September showed that regional and ethnic tensions remain strong in many parts of the country. Therefore, it is important that the United States and other friends of Uganda work with that country's leaders to ensure critical electoral reforms are enacted. In the consolidated appropriations act that passed in December, Congress

provided significant assistance for Uganda, but also specifically directed the Secretary of State 'to closely monitor preparations for the 2011 elections in Uganda and to actively promote…the independence of the election commission; the need for an accurate and verifiable voter registry; the announcement and posting of results at the polling stations; the freedom of movement and assembly and a process free of intimidation; freedom of the media; and the security and protection of candidates.'"

Does Uganda have challenges and problems where democracy is concerned? Yes. Is that what a focus by President Obama on what Senator Feingold would ultimately be aimed at correcting? Of course not. To the chagrin of many a sincere American human rights activist, or anti-Museveni Ugandan, the elevation of this critique of Uganda to presidential status would be aimed at closing the enormous gap that is developing between the United States and European countries, and especially between America and Asian nations where oil and mineral exploration and concessions are concerned.

While most Americans are likely to hear some version of Senator Feingold's criticism before February 2011, they are far less likely to hear or see reported on cable news that last Fall it was announced that Europe's largest independent oil producer, Tullow Oil of the UK discovered 800 billion barrels of oil in western Uganda valued at $50 billion. This discovery has been followed by others in the country's oil rich Lake Albert region. As America is played out of position, everyone from China's CNOOC to Libya's sovereign wealth fund are negotiating deals with the Ugandan government. Is it any wonder that U.S. Ambassador to Uganda, Jerry P. Lanier, recently suggested that President Museveni has past his prime?

But while Uganda receives increased pressure and bristles (just as Kenya did last year with Prime Minister Raila Odinga openly rebuffing the criticisms of Hillary Clinton), the universally criticized undemocratic environments of Morocco and Egypt experience a grace period from condemnation. Obviously Morocco's possession of rare phosphate and its importing of wheat, and Egypt's critical role in Middle East politics have something to do with that (after all, in Egypt, democracy gave the Muslim Brotherhood 20% of the vote).

The acknowledgment that many African nations accused of democratic and human rights 'abuses' and 'violations' have also been successful in making important or progressive economic reforms (Egypt, Rwanda) that improve the overall quality of life for their citizenry (consider the reforms of Morocco's monarchy directed at women) has no place in the public rhetoric U.S. officials must speak for the consumption of a domestic constituency, and as propaganda for or against African leaders. That many African cultural traditions lend themselves to the election of leaders and their being vested with strong central authority is also a fact that is incompatible with the democracy/human rights first approach to U.S. foreign policy that is contributing to the United States crashing the party of oil exploration, well after it has started, or more frequently being the last one invited to attend.

The desperate scurrying by U.S. officials in Sudan to prop up sagging logistical planning in support of a man – President Bashir - they have tarred and feathered as not only an enemy of democracy and human rights but also *a perpetrator of genocide* speaks volumes to how badly America has been geopolitically outflanked. The soft glove version of a regime change campaign, now underway in Uganda, speaks almost as loudly.

Things were so much simpler in the 19th century when the disdain that U.S. commercial interests had for European-style colonialism never allowed their economic objectives to be confused by messy politics. The result: the annexation of Mexico, the ousting of Spain from Cuba and the Philippines, and the domination of Central American 'republics.' In that era American commercial forces avoided the chores of administration and the pretense of egalitarian governance – empowering often charismatic authoritarian leaders who were hawkish with their own people, but who behaved like doves toward Washington.

The apparently uncomfortable question today is two-pronged – does democracy really produce a higher standard of living and does history show that an insistence upon it serves external economic interests?

A recent editorial in Kenya's *Daily Nation* framed it well when it stated in part:

"What's the essential difference between China and the US? One is a dictatorship while the other is a democracy. You can take everything above, replace the words China and America with Rwanda and Kenya and you won't need to change much else. For the last decade and a half Rwanda, under President Paul Kagame, has enjoyed remarkable progress. The economy has grown at an average of 8 per cent since 2001 and wages in key sectors that employ a large majority of Rwandans have risen by an average of 30 per cent. Rwanda has a bigger percentage of women in Parliament than almost anywhere else in the world. The World Bank's Doing Business report rated Rwanda this year as the world's top reformer. The government has made it easier to start businesses, register property, protect investors, trade across borders, and access credit. These changes have obviously translated into a higher quality of life for ordinary Rwandans. Mr Kagame has brought a measure of political stability to Rwanda although he has also suppressed free speech and is accused of being intolerant to criticism. Kenyans, by contrast, live in one of the freest countries in Africa. There is a free press, vigorous competition between political parties and anybody can say anything they please. Kenya is also hopelessly politically unstable and hard won economic gains evaporate almost every time an election comes around. So would Kenya be better off with a benevolent dictatorship like Rwanda's or China's than with the free-for-all multi-party system we have at the moment? There are no easy answers."

Or, maybe the answers are *easy*, while what is difficult, is asking the questions that generate them.

Cedric Muhammad/March 10, 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.