

Africa – between perception and reality



Nick Price is the portfolio manager of Fidelity Funds Emerging Europe, Middle East & Africa (EMEA) Fund.

Nick joined Fidelity in 1998 as a research analyst. He spent the next six years covering pan-European chemicals, food manufacturing, tobacco and the telecommunications sectors before being promoted to the role of assistant portfolio manager of FF European Growth Fund in 2004. He has managed FF EMEA Fund since its launch in June 2007.

Nick has a Bachelor of Commerce & Accounting from the University of Natal and is a Member of the South African Institute of Chartered Accountants. He is also a Certified Financial Analyst.

AT A GLANCE

- Negative perception of Africa is not matched by experience on the ground
- Real demand is higher than already strong GDP figures suggest
- Demographics are strongly positive
- Chinese investment is beneficial

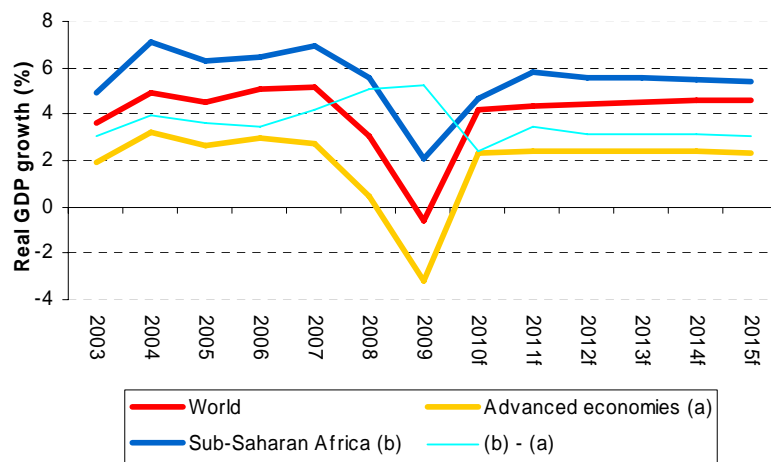
Despite widespread Afro-pessimism I remain unapologetic about the prospects for the “dark continent”. The negative perception of Africa – shaped by images of poverty, famine and conflict – has kept the region off the radar screen of many western investors. But the conventional view is not matched by my experience on the ground. To me, Africa is a classic example of the gap between perception and reality which leads to investment opportunity.

One of the least-remarked aspects of the financial crisis was the relative resilience of Africa to the global economic downturn. Economic growth in sub-Saharan Africa remained above that of the advanced economies before, during and after the crisis. Limited integration into the global economy may have helped (less reliance on exports than Asia, for example) but as important were the strong fundamentals of many countries (low national debts and lower inflation than in the past). As the table below shows, Africa provided six out of the world’s ten fastest growing economies between 2001 and 2010 and over the next five years is expected to contribute seven of the top ten.

Much of Africa’s economy is actually unrecorded. This is clear when you see the huge amount of cash-based activity taking place at taxi ranks in Africa - from unlicensed bars (shebeens) to hairdressing. All of this informal business is before you even consider the continent’s subsistence farming (agriculture still accounts for around a quarter of Africa’s GDP). It is this unreported economy that lies behind the recent upwards revision in Ghana’s GDP by a staggering 70% in 2010! This has an extremely positive impact on credit ratings as ratios like Debt:GDP start looking considerably better, which in turn has an impact on the cost of funds in a country.

The cash-based nature of Africa’s economy has profound implications for assessing real demand in the region. When the credit crisis hit the western World, we quickly discovered that some of the demand was illusory (US automobile sales, for example, fell from 17m units to 10m units as much of the earlier spending had been funded by credit that should never have been granted). In Africa, the demand numbers stand up far better to scrutiny because there is practically no personal credit. The potential for consumption in Africa is also a reflection of rapidly-rising incomes. According to the UN, GDP per capita for the region as a whole rose from less than \$700 in 2002 to over \$1,500 in 2008 and could double again by 2013.

AFRICA’S RESILIENCE TO THE FINANCIAL CRISIS



Source: IMF Africa Regional Economic Outlook (April 2010).

The impact of mobile telephony in Africa has been profound. Consider that 10 years ago Nigeria, home to 150m people, had 450,000 fixed telephony lines. Today it has nearly 70m mobile phone users. That has had a profound impact on productivity, which in turn is reflected in strong GDP performance. It is this virtuous circle that underpins the consumer opportunity in Africa, with cumulative revenues from sales of goods and services expected to outpace revenues from the resources sector by almost three to one over the next decade.

Demographics are the Achilles Heel of the western World. Indeed much of the blame for Japan's anaemic economic performance can be placed on its ageing, and now shrinking, population. This is increasingly a concern in Europe too. Africa, by contrast, has a fantastic demographic profile, with around half of the continent's billion-strong population of working age currently. Africa's labour force is expected to more than double by 2040, keeping its dependency ratio low and ensuring that the various age-related concerns prevalent in the West will not be a problem for years to come.

The African story is, of course, not one of unalloyed opportunity. It would be remiss not to talk about politics and corruption for which many of Africa's "Big Men" have in the past been synonymous – Idi Amin, Mobuto and, more recently, Robert Mugabe. These leaders have indeed been a blight on the continent but, looked at in the round, there is no doubt that these aberrations are becoming rarer. Peaceful democratic transfer of power is becoming the norm.

There has long been a reticence to invest in Africa by western companies – a result of the poor perception of the continent (although there are increasing signs that the global consumer goods companies are waking up to the opportunity). In contrast, much has been made in the press of the Chinese "colonisation" of Africa, but I see this largely as a positive for a number of reasons. First, investments have led to massive improvements in efficiency, from Nigeria's ports to the re-building of the old "Luanda" railway; second, Chinese investment is increasing the competitive tension in the region, to everyone's benefit; and third, it is creating significant employment across the continent.

Africa benefits from an unrivalled endowment of natural resources, which is helping to boost investment trade flows and economic growth. But the greater opportunity lies in its domestic consumption prospects, I believe. An already huge population is growing steadily wealthier and, with low levels of credit, the potential for growth is vast. Other more fashionable and established emerging markets have been getting all the attention recently and I think the time has come for Africa to have its moment in the equatorial sun.

World's ten fastest-growing economies, annual average GDP growth (%)

Country	2001-2010*	Country	2011-2015**
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	Ethiopia	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	Tanzania	7.2
Kazakhstan	8.2	Vietnam	7.2
Chad	7.9	Congo	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	Nigeria	6.8

Source: Economist, IMF, January 2011. Excludes countries with less than 10m population and Iraq and Afghanistan.

* 2010 is an estimate. **IMF forecast.



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