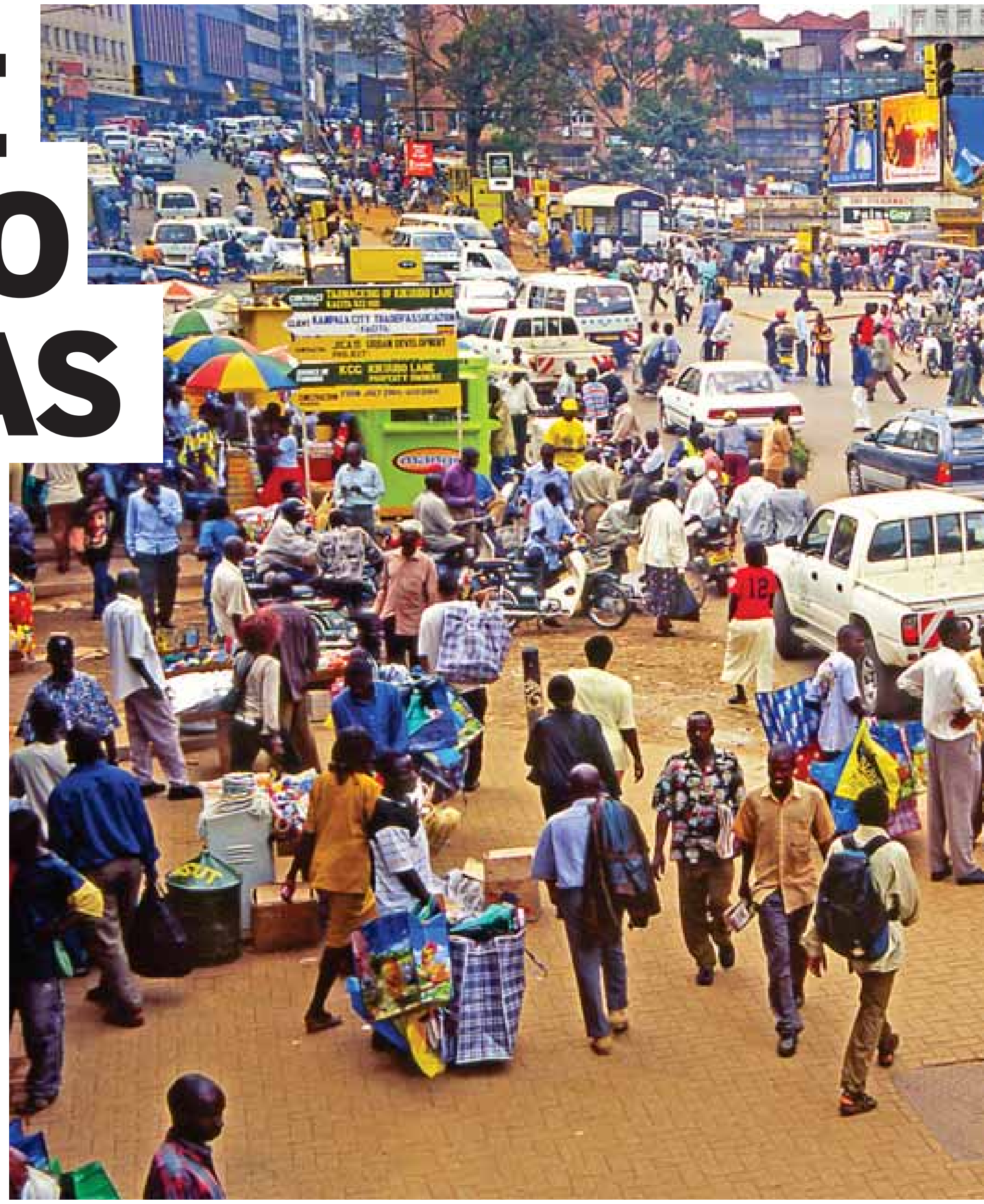
INTERNATIONAL

A TALE OF TWO AFRICAS



What can business do to help parts of the continent hit by stalled or falling growth?

LAST YEAR, Sub-Saharan Africa saw its lowest growth rate in more than two decades, according to estimates from the International Monetary Fund (IMF). The IMF's report on the region says that growth for 2016 is likely to be just 1.4 per cent and, for the first time in many years, GDP per capita is set to fall.

Within this overall picture, however, there are two distinct Africas. The nations that are struggling in terms of growth rate are those whose economies are dominated by exporting commodities. Nigeria, Angola and South Africa are all expected to record less than 2 per cent GDP growth. In contrast, countries such as Côte d'Ivoire, Ethiopia, Senegal and Tanzania are expected to continue to grow at more than 6 per cent for the next couple of years.

The IMF's report identifies 23 countries in the first, commodity-dependent camp and 22 in the other, faster-growing category. Clearly, the slump in the price of oil and gas is the biggest factor, but other commodities have also seen their value slide.

The IMF is critical of attempts by Nigeria, for example, to prop up its exchange rate in the wake of the oil price downturn. The IMF report also acknowledges that it is more difficult for governments that are members of monetary unions to manage their exchange rates flexibly, and that a number of countries have been hit by natural events, especially drought.

It's not all bad news, though. The IMF predicts a rebound this year to just below 3 per cent GDP growth for the region, but this, the report says, is dependent on appropriate action being taken by authorities in the area. This includes allowing exchange rates to absorb external pressures – rather than resisting currency movements – and tightening monetary policy where necessary to control inflation.

Najwa El Iraki CA is head of business development with Casablanca Finance City, based in Morocco, which was created as an economic and financial hub and a gateway for investment throughout Africa.

She says that, despite slowing growth, last year saw continued interest in the region from investors: "2016 was another year where all eyes were on Africa. Even as

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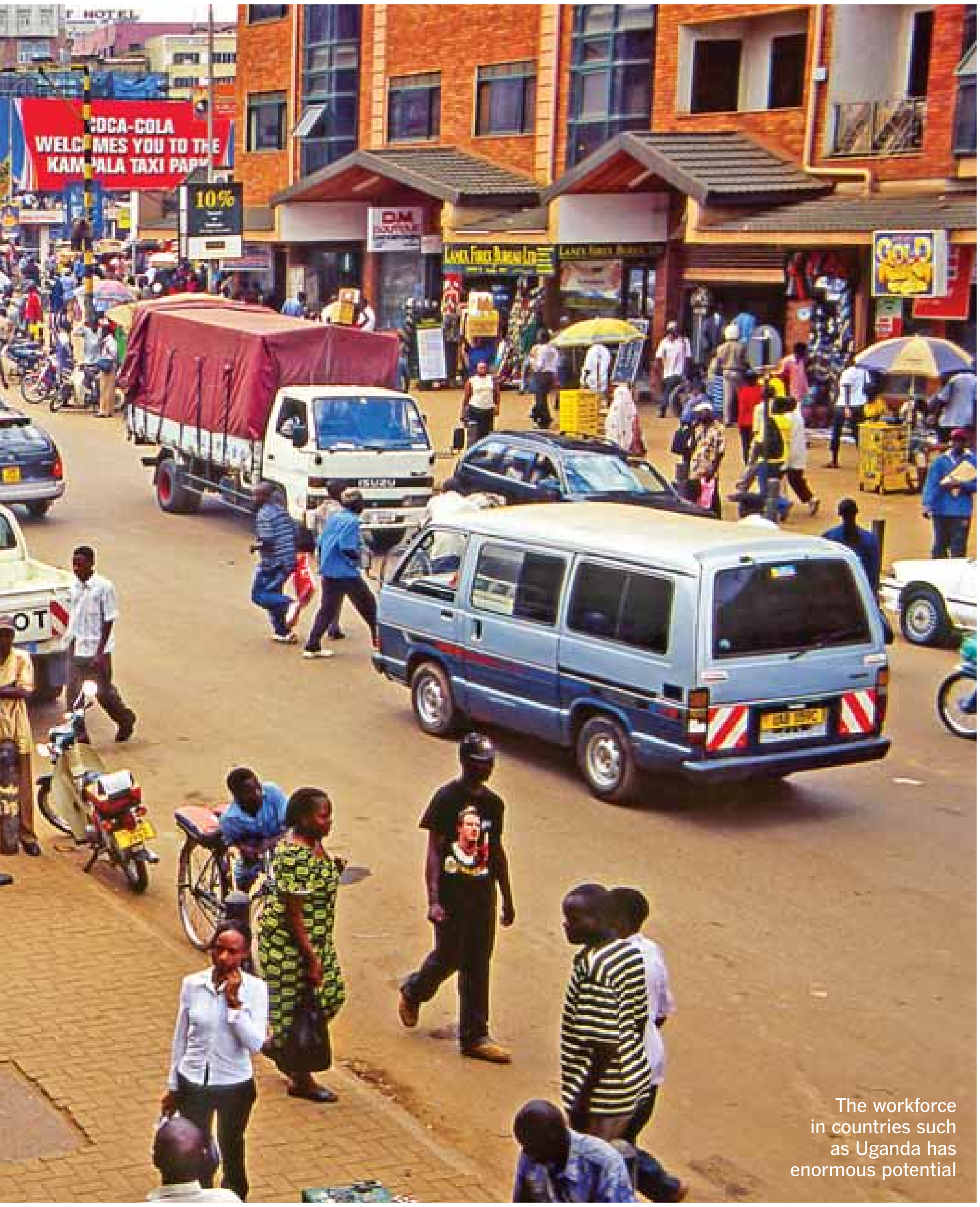

The workforce in countries such as Uganda has enormous potential

growth rates have entered into a more sober period compared with the start of the 21st century, African countries continue to attract foreign investment in sectors such as power, construction and ICT [information and communications technology]."

She adds: "There is also increasing investor interest towards north-west and east Africa as the next growth engines for the continent, which has created some interesting opportunities for increased synergies and interregional cooperation."

The obstacles to growth, says El Iraki, have come particularly from lower commodity prices and also the slowdown of Africa's primary trading partners, including China and Europe.

She says: "The main challenge for our field has been to maintain investor interest and to offer them appropriate tools to address the challenges and opportunities that Africa offers as a continent. We believe that financial markets can play a key role in tackling fragility and building resilience in Africa."

In South Africa, sluggish economic performance and political challenges have created a difficult environment for business. Ian Bain CA is chairman of Fulcrum, which provides financial services to the insurance industry. With brokers increasingly under cash pressures, Bain says his company's ability to help fund working capital is in high demand.

He says: "The growth rate in South Africa is almost zero, but because of our unique position, we are doing well. We are also borrowers of funds and the relatively low interest rates work for us… our expectation for 2017 is again positive, but for the country we have at best a neutral view."

Bain adds that Fulcrum is now also looking at expansion into Ghana and east Africa, although regulation and access to foreign currency are challenging issues.

Richard Lyon CA, CFO of South Africa-based technology group Axiz, a leading IT infrastructure and software distributor, agrees that 2016 was not an easy year.

He says: "Business has been tough in all parts of the economy. The IT sector, though, due to its resilient nature, has performed better then most sectors."

Challenges, he says, have been both economic and political. He is reasonably optimistic for the coming year, however: "Expectations are for a moderate improvement in 2017. Challenges will be for the country to avoid a downgrade and the opportunity may be to acquire businesses at the bottom of the cycle."

Najwa El Iraki says energy, particularly renewable energy in which Morocco is a regional leader, creates some very interesting investment opportunities. The African Development Bank is prioritising investment in energy and, through its ambitious "Light Up and Power Africa" initiative, aims to invest $12bn over the next five years in order to provide energy access throughout the continent by 2025.

Demographics are also on Africa's side. With 70 per cent of the population under 30 years old, Africa's workforce has enormous potential.

What can western governments and institutions do to help Africa realise that potential? El Iraki says that states, development partners and international bodies should play a role as "investment catalysts", especially as regards infrastructure, where less than half of estimated investment requirements are being met from existing sources.

She adds: "Supporting the efforts of African governments to strengthen their institutions should be maintained, especially efforts towards regional integration… Providing strong legal and institutional frameworks and corporate governance in particular are critical for creating an environment in which the financial sector, for instance, can develop and thrive. African countries increasingly recognise that you can only have sustainable growth with robust regulation and easier cross-border business." CA

Regional Economic Outlook: Sub-Saharan Africa is available to download from www.imf.org