

LUCID AFRICA CONSULTING INC.

NEWSLETTER # 3 JUNE 2013 / JULY 2013

Lucid Africa Consulting Inc.

To the Esteemed Clients of Lucid Africa Consulting Inc.:

Greetings and welcome to the third edition of Lucid Africa Consulting Inc.'s (Lucid Africa) newsletter.

This edition focuses on Africa's emergence as a frontier market for international investment. It includes three articles that will be of interest to international investors interested in investing in frontier markets. The first article discusses the emerging positive story from sub-Saharan Africa, while the second and third articles highlight developments in Africa's Eurobond and Stock Markets, respectively.

Article 1: *Sub-Saharan Africa's Emerging Positive Story* – This article highlights sub-Saharan Africa's improving economic, governance and capital market performance. In addition, the article outlines key risks facing international investors when making investments in sub-Saharan Africa and recommends areas that require focused due diligence

Article 2: *Africa's Sovereign Euro Bond Market* – This article focuses on Africa's booming Eurobond market and explains why there has been strong international investor appetite for these bonds. Moreover, it briefly outlines key risks specific in the African context to these debt instruments that potential investors should consider.

Article 3: *Africa's Stock Markets* – This article outlines the state of Africa's stock markets and explains the reasons for the superior performance of some of these stock markets over other emerging and developed stock markets. It also discusses the lingering factors constraining Africa's stock markets. It concludes with a rather optimistic prediction for most of these stock markets over the next three years.

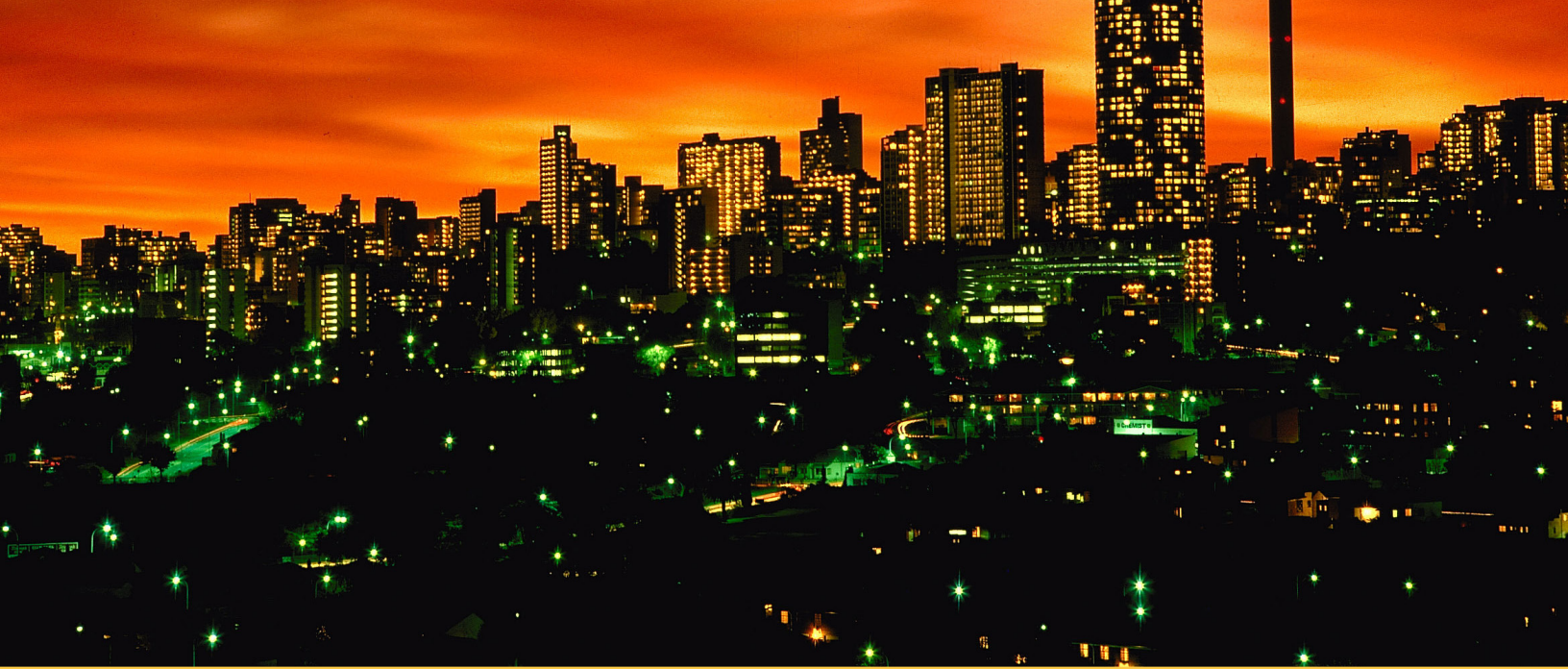
Lucid Africa remains committed to ensuring that our clients succeed in Africa by providing in-depth advisory services on political risk, country economics, and industry.

Thank you.

Sincerely,

David Shiferaw

Sub-Saharan Africa's Emerging Positive Story



A positive story is emerging in sub-Saharan Africa, reflected in the changing, more upbeat narrative on Africa in the world's leading financial and economic publications. The Economist, for example, shifted 180 degrees on 3rd December 2011 when it had as its cover "Africa Rising".¹ On 11th May 2000, the same publication had the cover "The Hopeless Continent" in reference to Africa.² Moreover, Barron's had as its cover on 2nd August 2010 the title "The Final Frontier" in reference to its cover story on the huge investor opportunity in a vibrant and changing Africa.³ And earlier in 2010, the Financial Times ran an optimistic article titled "Africa's Frontier Market Ready to Score."⁴

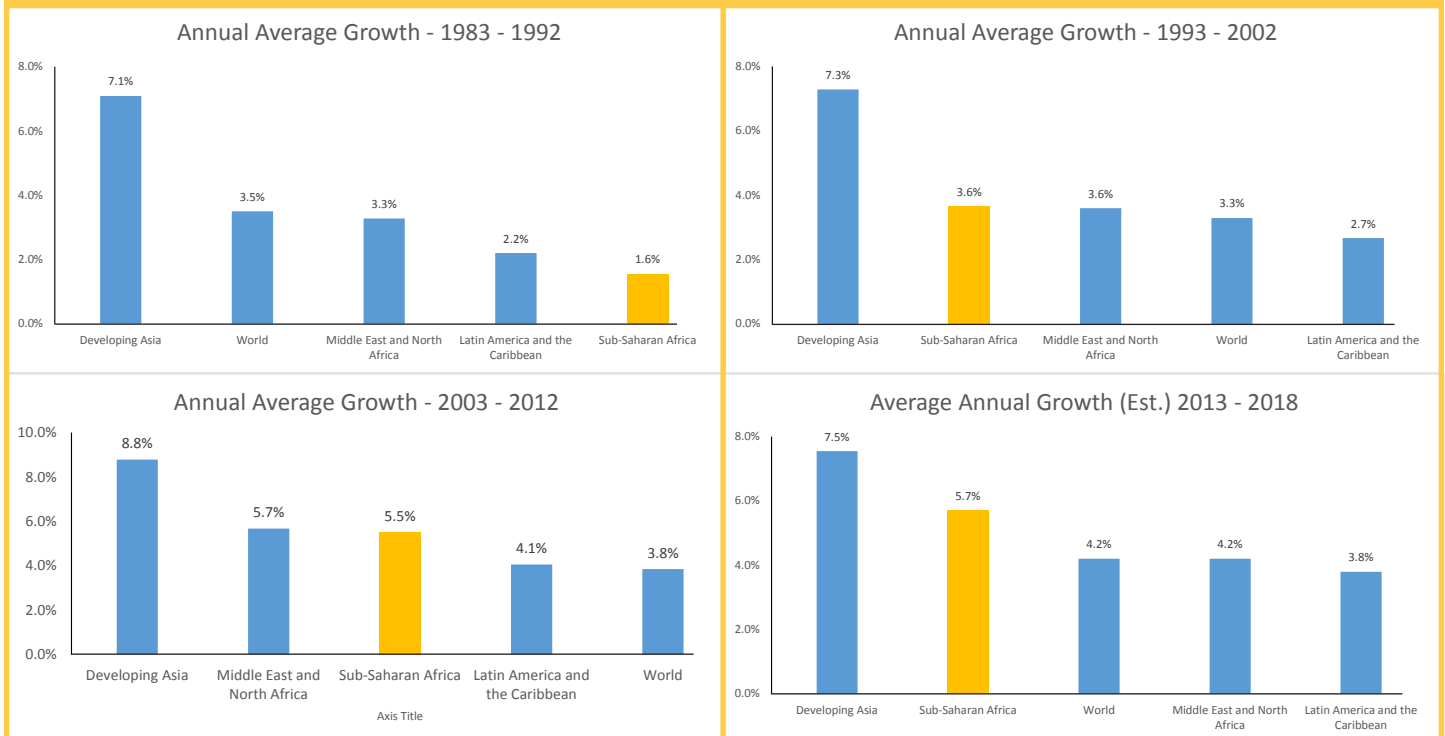
In an attempt to clarify this emerging positive story, this article will highlight sub-Saharan Africa's improving economic, governance, and financial performance. In addition, the article will outline key risks facing international investors when making investments in sub-Saharan Africa and recommend areas that require focused due diligence. A discussion of the factors that underlie this improved

performance, however, is beyond the scope of this article but can be broadly summarized as being related to improvements in sub-Saharan Africa's policy and institutional environment, as well as the growing global importance of sub-Saharan Africa's natural resource sector.

Sub-Saharan Africa's economic performance has been improving

Sub-Saharan Africa's economic performance has demonstrated a sustained level of improvement over the past 30 years. From its lagging 1.6% annual average growth rate over the 10-year period 1983-1992, sub-Saharan Africa's annual average growth rate increased to 3.6% over the 10-year period 1993-2002 and 5.5% over the 10-year period 2003-2012.⁵ Moreover, the most recent IMF estimates indicate that between 2013 and 2018, sub-Saharan Africa's annual rate of growth will average 5.7%, which will place it as the region with the second highest annual rate of growth, after that of Developing Asia (see Box 1).⁶

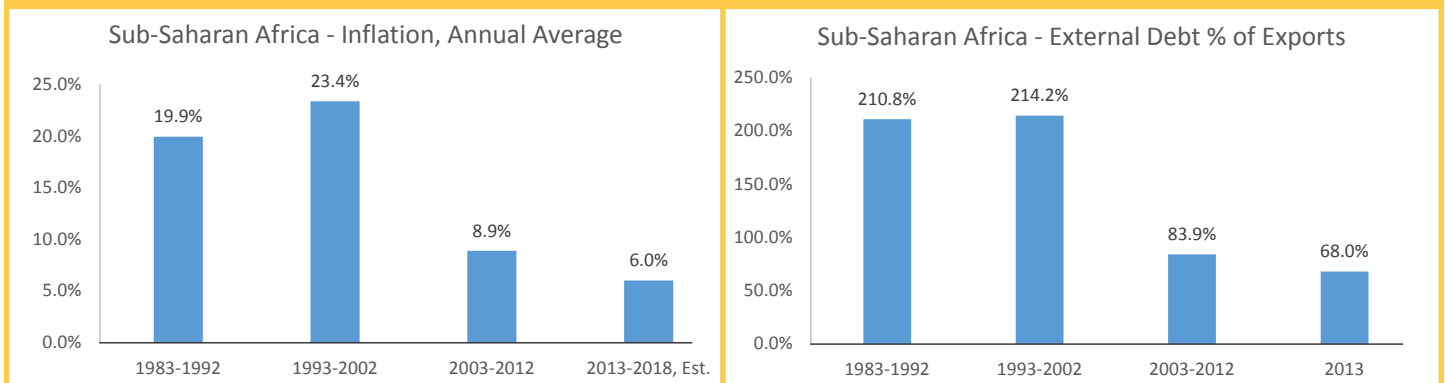
Box 1. Africa's Improving Economic Growth



Source: IMF World Economic Outlook

Even in the areas of inflation and external debt levels, sub-Saharan Africa has demonstrated significant improvements. Annual inflation, for example, averaged 8.9% in sub-Saharan Africa over the period 2003 to 2012, down from 19.9% over the period 1993 to 2002.⁷ In addition, sub-Saharan Africa's external debt as a share of exports averaged 84% over the period 2003 to 2012, which was down from 211% over the period 1983 to 1992 (see Box 2).⁸

Box 2. Sub-Saharan Africa's Improving Macroeconomic and External Debt Performance

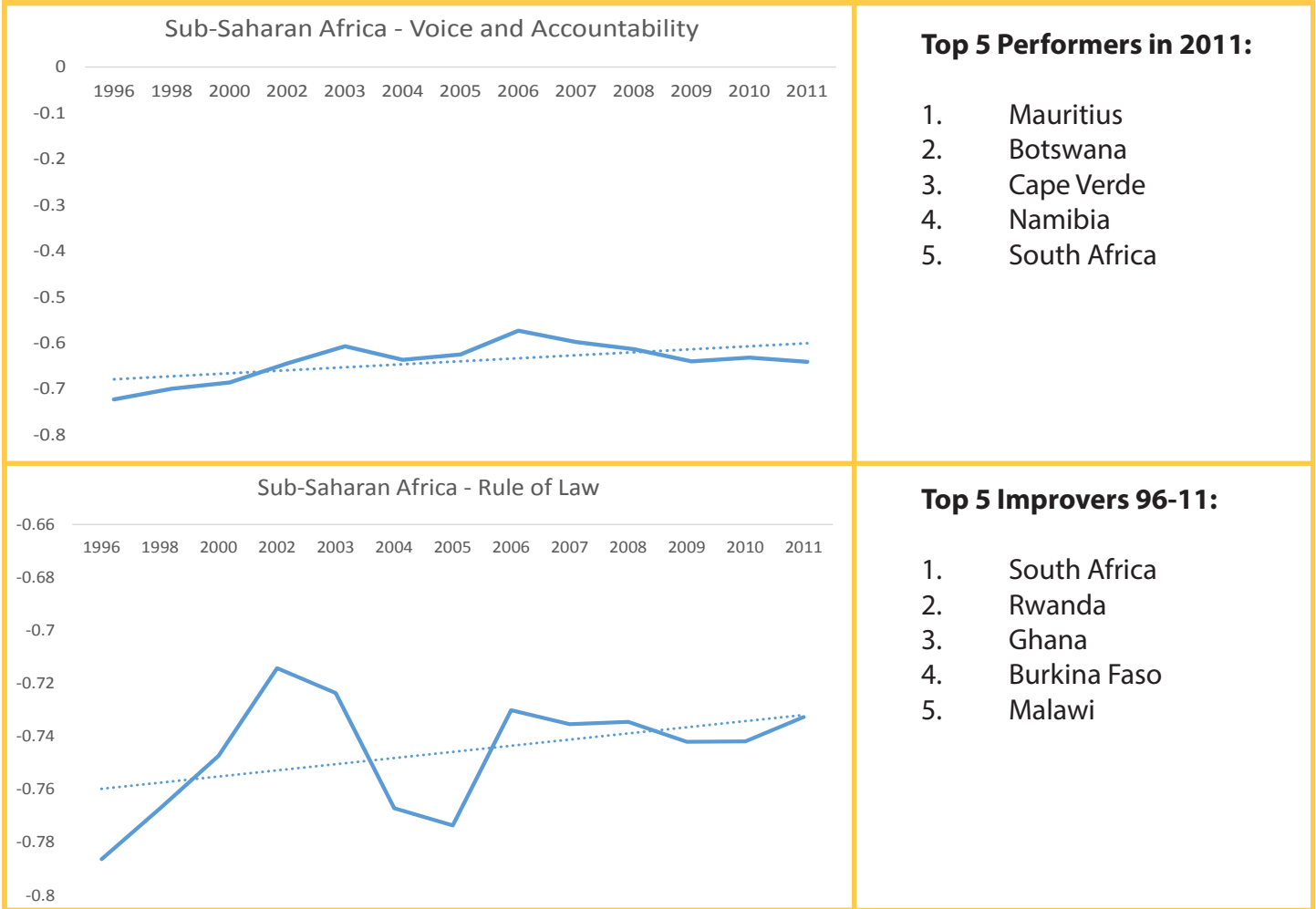


Source: IMF World Economic Outlook

Governance too has been improving

Governance in sub-Saharan African countries has also been improving. An examination of two indicators in the World Bank's Worldwide Governance Indicators (WGI) – voice and accountability⁹ and rule of law¹⁰ – shows trend improvements over the period 1996 to 2011.¹¹ Over the period 1996 to 2011, for example, sub-Saharan Africa's average score in voice and accountability and rule of law improved by 11% and 7%, respectively. Ghana was sub-Saharan Africa's top improver in voice and accountability, while South Africa was sub-Saharan Africa's top improver in rule of law (see Box 3).

Box 3. Sub-Saharan Africa's Improving Governance

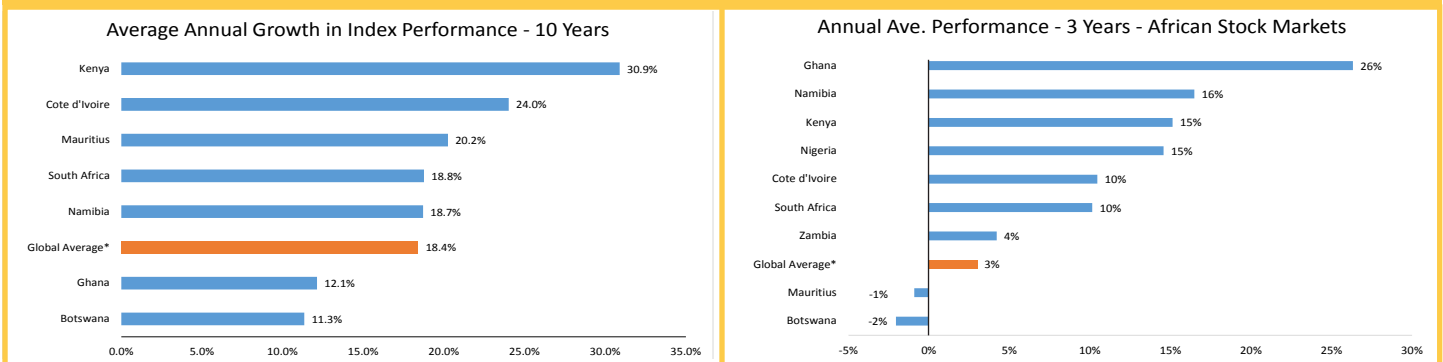


Source: IMF World Economic Outlook

Improved Capital Market Performance

In addition, sub-Saharan Africa's equity and debt markets have demonstrated resilience in the face of the global financial crisis, as well as robust levels of growth in the aftermath. Sub-Saharan Africa's stock markets have aggressively bounced back from the 2007-2008 global financial crisis (see Box 4). Over the past three years, for example, sub-Saharan Africa's top three performing stock markets, i.e., Ghana, Namibia, and Kenya, averaged annual index growth of 19.3%, while the average of all listed global exchanges was 3%.¹²

Box 4. Sub-Saharan Africa's Improved Capital Market Performance



Source: IMF World Economic Outlook

Moreover, there has been strong activity in sub-Saharan Africa's debt market. The past five years, for example, have seen very strong activity in sub-Saharan Africa's sovereign Eurobond market, with an increased number of debutants issuing very well-received Eurobonds. Moreover, in October 2012 and March 2013, select Nigerian bonds were included in J.P. Morgan's Government Bond Index – Emerging Markets (GBI-EM) and Barclays Bank's Emerging Market – Local Currency Bond Index (EM-LCBI).¹³

Areas of Risk in Investments in Sub-Saharan Africa

In spite of sub-Saharan Africa's positive emerging story, the following key risks - credit risk, currency risk, and political risk - remain areas of concern for international investors. Moreover, the significant number of independent states in sub-Saharan Africa – 49 at last count – each with their own national policies and regulations, add to the complexities of delineating an investment strategy for the region. As a result, it is recommended that international investors interested in investing in sub-Saharan Africa consider the following in their due diligence:¹⁴

- Growth outlook at the national, sector and firm-level,
- Credit risk,
- Ease of market entry and exit,
- Instrument liquidity,
- Currency risk,
- Investment Tax Impact, and
- Political risk.

Conclusion

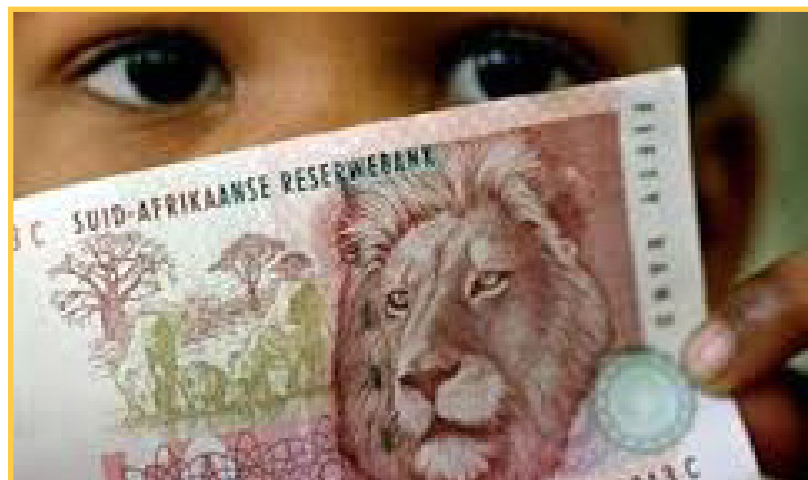
The financial and economic news emerging from sub-Saharan Africa is quite promising: economic growth rates are up, inflation levels are down, and external debt is down. Moreover, there is increased policy commitment to macroeconomic stability and improved governance. As a result, it is not surprising that sub-Saharan Africa's nascent capital markets are emerging and generating greater interest from international investors.

In spite of these improvements, however, key risks related to credit, currency, and politics remain areas of concern. Moreover, the hodgepodge of differing national policies and regulations across sub-Saharan Africa's 49 countries adds to the complexities of formulating a singular regional investment strategy.

Therefore, it is recommended that international investors interested in investing in sub-Saharan Africa conduct rigorous due diligence that considers the identified key risks, as well as the ease of entry and exit, instrument liquidity, and the tax impact of investments.

Sources

- ¹ See *The Economist*. 2011. *Africa Rising*. The Economist, London, U.K., 3rd December 2011 <http://www.economist.com/print/2011-12-03> 10 September 2013.
- ² See *The Economist*. 2000. *The Hopeless Continent*. The Economist, London, U.K., 13th May 2000 <http://www.economist.com/print/2000-05-13> 10 September 2013.
- ³ See Racanelli, Vito J. 2010. *The Final Frontier*. Barron's Magazine, New York, U.S. 2nd August 2010. http://online.barrons.com/article/SB50001424052970204876804575393250733995816.html#articleTabs_article%3D1 10 September 2013.
- ⁴ See Wallas, William. 2010. *Africa's Frontier Market Ready to Score*. *The Financial Times*, London, England, 2 June 2010 <http://www.ft.com/intl/cms/s/0/57214a8e-6da1-11df-b5c9-00144feabdc0.html#axzz2eVBlgjDJ> 10 September 2013.
- ⁵ Data sourced from the IMF's World Economic Outlook database on 10th September 2013.
- ^{6,7,8} Ibid.
- ⁹ Voice and accountability measures perceptions of citizens ability to participate in selecting government, see <http://info.worldbank.org/governance/wgi/faq.htm>
- ¹⁰ Rule of law captures perceptions of extent to which agents have confidence in and abide by the rules of society, see <http://info.worldbank.org/governance/wgi/faq.htm>
- ¹¹ See World Bank's World Governance Indicators <http://info.worldbank.org/governance/wgi/index.asp>
- ¹² Data sourced from the World Bank's World Development Indicators.
- ¹³ See Federal Government of Nigeria. 2013. *Barclays Bank Includes FGN Bonds in its Emerging Marketing Bond Indices*. Debt Management Office, Federal Government of Nigeria, Abuja, Nigeria <http://www.dmo.gov.ng/oci/News/docs/Barclays%20Bank%20Includes%20FGN%20Bonds%20in%20its%20Emerging%20Market%20Bond%20Indices.pdf> 10 September 2013.
- ¹⁴ Lucid Africa Consulting Inc. can supplement investor due diligence by providing in-depth advisory services on political risk, country/region economics, and industry performance in Sub-Saharan Africa.



Africa's¹ Sovereign Eurobond Market

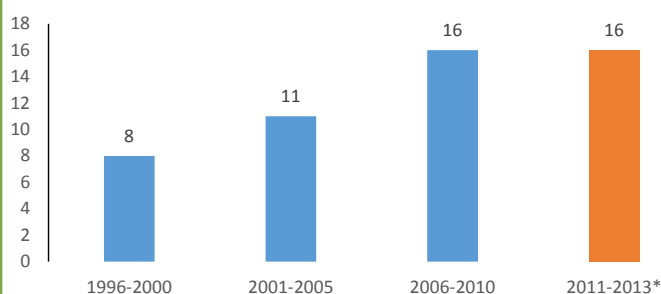


Africa's Sovereign Eurobond markets have been booming of late. The number of African countries issuing Eurobonds and the number of Eurobond placements have significantly increased. Over the five-year period between 1996 and 2000, for example, only three African countries had publicly made eight placements of Eurobond issuances. Over the period 2006 to 2010, however, ten African

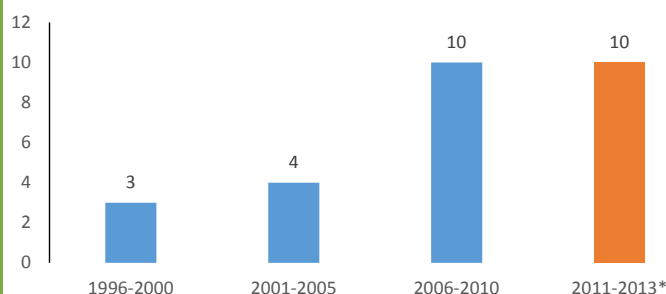
countries had publicly made sixteen placements of Eurobond issuances (see Box 1). Moreover, the dollar value of these placements increased over four-fold, from US\$ 3.6 billion in 1996-2000 to US\$ 15.5 billion in 2006-2010. Table 1 provides details on the outstanding African government Eurobond placements to date.²

Box 1. Africa's Eurobond Issuances

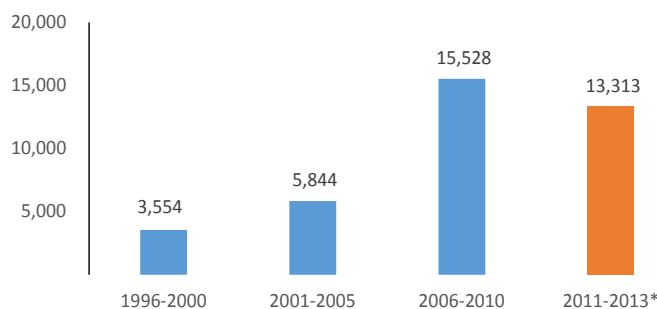
Africa - Number of Eurobond Placements by Time Period



Africa - Number of Countries Issuing Eurobond by Time Period



Africa Eurobonds - Value of Eurobonds Issued by Time Period - US\$ Millions



Sources: C Bonds and World Bank WDI.

Note: The time period 2011-2013 reflects issued Eurobonds between 1 January 2011 and 31 August 2013. Eurobonds issued in Japanese Yen or Euros were converted to US\$ using the average annual exchange rate for the year of final placement.



Table 1 - Outstanding Government Placements

Country	E/Placement	Amount	Coupon %	Payments	Maturity
Congo, Republic of*	Dec. 2007	US\$ 478 Million	2.50%	Semi-annual	30-Jun-29
Cote d'Ivoire**	Apr. 2010	US\$ 2,321 Million	2.50%	Semi-annual	31-Dec-32
Egypt	Sep. 2005	US\$ 1,250 Million	4.45%	Semi-annual	15-Sep-15
Egypt	Apr. 2010	US\$ 1,000 Million	5.75%	Semi-annual	29-Apr-20
Egypt	Apr. 2010	US\$ 500 Million	6.88%	Semi-annual	30-Apr-30
Egypt	May 2013	US\$ 2,700 Million	4.25%	Semi-annual	28-Nov-14
Egypt	Jul. 2013	US\$ 1,000 Million	3.50%	Semi-annual	July 1, 2016
Gabon	Dec. 2007	US\$ 1,000 Million	8.20%	Semi-annual	12-Dec-17
Ghana	Oct. 2007	US\$ 750 Million	8.50%	Semi-annual	4-Oct-17
Ghana	Jun. 2013	US\$ 750 Million	7.88%	Semi-annual	7/Aug/13
Morocco	Jun. 2007	€ 500 Million	5.38%	Annual	27-Jun-17
Morocco	Sep. 2010	€ 1,000 Million	4.50%	Annual	5-Oct-20
Morocco	May 2013	US\$ 1,500 Million	4.25%	Semi-annual	11-Dec-22
Morocco	May 2013	US\$ 750 Million	5.50%	Semi-annual	11-Dec-42
Namibia	Oct. 2011	US\$ 500 Million	5.50%	Semi-annual	3-Nov-21
Nigeria	Jan. 2011	US\$ 500 Million	6.75%	Semi-annual	28-Jan-21
Nigeria	Jul. 2013	US\$ US\$ 500 Million	6.38%	Semi-annual	12/Jul/23
Nigeria	Jul. 2013	US\$ US\$ 500 Million	5.13%	Semi-annual	12/Jul/18
Rwanda	Apr. 2013	US\$ 400 Million	6.63%	Semi-annual	2-May-23
Senegal	May 2011	US\$ 500 Million	8.75%	Semi-annual	13-May-21
Senegal ***	Dec. 2009	US\$ 200 Million	8.75%	Semi-annual	22-Dec-14
Seychelles****	Feb. 2010	US\$ 169 Million	3%	Semi-annual	1-Jan-26
South Africa	Jun. 1997	US\$ 500 Million	8.50%	Semi-annual	23-Jun-17
South Africa	Jun. 2000	Yen 30,000 Million	3.80%	Semi-annual	1-Jun-20
South Africa	Jun. 2001	Yen 30,000 Million	3.80%	Semi-annual	7-Sep-21
South Africa	Jun. 2004	US\$ 1,000 Million	6.50%	Semi-annual	2-Jun-14
South Africa	Apr. 2006	€ 750 Million	4.50%	Annual	5-Apr-16
South Africa	May 2007	US\$ 1,000 Million	5.88%	Semi-annual	30-May-22
South Africa	Aug. 2009	US\$ 2,000 Million	6.88%	Semi-annual	27-May-19
South Africa	Mar. 2010	US\$ 2,000 Million	5.50%	Semi-annual	9-Mar-20
South Africa	Mar. 2011	US\$ 750 Million	6.25%	Semi-annual	8-Mar-41
South Africa	Jan. 2012	US\$ 1,500 Million	4.67%	Semi-annual	17-Jan-24
Tunisia	Aug. 1997	Yen 12,500 Million	4.35%	Semi-annual	15-Aug-17
Tunisia	Jun. 2005	€ 400 Million	4.50%	Annual	22-Jun-20
Tunisia	Aug. 2007	Yen 30,000 Million	3.28%	Semi-annual	9-Aug-27
Tunisia -USAID Grnteed	Jul. 2012	US\$ 485 Million	1.69%	Semi-annual	16-Jul-19
Tunisia	Jul. 2013	Yen 22,400 Million	2.04%	Semi-annual	7/Aug/23
Zambia	Sep. 2012	US\$ 750 Million	5.38%	Semi-annual	20-Sep-22

Sources: C Bonds <http://www.cbonds.info/cis/eng/>

Note: * Republic of Congo bond is an amortizing bond. ** The country defaulted on its coupon payments in 2011 as a result of post-election violence, but in June 2012 recommenced payments and made good-faith payments on its arrears. *** 75% of Senegal's bondholders agreed to exchange this bond for the bond issued in 2013. **** This discounted bond follows a default by Seychelles on its international obligations in 2010.

Moreover, this broad investor interest in Africa's Eurobonds is evident in the levels of oversubscription at issuance. The Zambian Eurobond issuance in September 2012 of US\$ 750 million, for example, was oversubscribed 15 times.³ Meanwhile, those of Namibia's in October 2011 and Rwanda's in April 2013 were oversubscribed by 5.5 times and 7.5 times, respectively.⁴

Given this increasing appetite for Africa's Eurobonds by international investors, this article will briefly outline the factors propelling this boom in Africa's Eurobond market and highlight key risks specific to these debt instruments in the African context. It will argue that a confluence of internal and external factors have resulted in strong investor appetite for Africa's Eurobonds. The article will caution, however,

that political instability and/or debt unsustainability remain factors that international investors should be wary of.

What are Eurobonds?

Eurobonds are debt instruments or IOUs that offer a fixed interest rate over a specified period of time in a currency that is different than that of the country or market where the debt instrument is issued.⁵ An example of a Eurobond, therefore, is the US\$ 750 million, 10-year bond that was issued by the Zambian government in 2012. In contrast, however, the almost weekly Zambian treasury bills issued in Zambian Kwacha are not Eurobonds, as they are issued in the currency of the country of issuance.

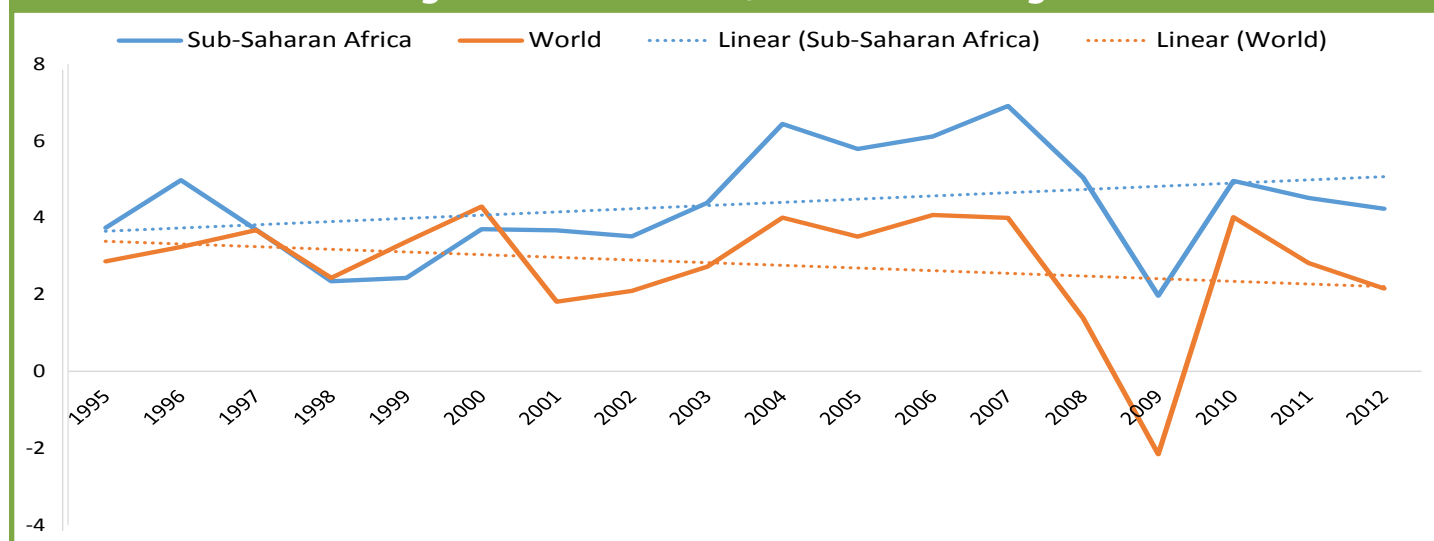
The attractiveness of Eurobond issuances internationally is that they remove the currency risk to international investors that is inherent in holding bonds that are dominated by a local currency. As a result, holders of Zambia's Eurobond will have bought the bonds in US\$, will receive the coupons in US\$, and will be paid back at maturity in US\$. These bond

holders, therefore, will not have to worry about any currency fluctuations in the Zambian Kwacha while holding the Eurobonds. The issuer, however – in this case the Zambian government – will bear all risks related to any fluctuations in currency.

Why the strong investor interest in African Eurobonds?

The strong investor interest in African Eurobonds is a result of a confluence of internal and external factors. The internal factors are related to the improved macroeconomic environment in Africa, stronger economic growth (see figure 1), and an increased number of African countries seeking sovereign credit ratings.⁶ The external factors, on the other hand, are related to higher commodity prices, very low interest rates in Western economies, and increased risk in established financial markets, particularly the Euro Zone. As a result, the past two years have provided a window for strong investor interest for African Eurobonds – even those that offer relatively low coupon rates.

Figure 1. GDP Growth, Annual % Change



Sources: Source: World Bank's WDI



What are the key risks to consider when investing in African Eurobonds?

This increasing investor appetite for African Eurobonds, however, does not come without risk. Already, two cases of default have occurred in Africa over the past 10 years. These cases include the February 2011 default by Cote d'Ivoire on interest payments on an outstanding US\$ 2.3 billion Eurobond⁷ and the October 2008 default by the Seychelles on its €54.8 million Eurobond.⁸ In the former case, post-election political strife was a factor and in the latter case debt unsustainability was a factor. As a result, key credit risks to consider when investing in African Eurobonds include a country's political risk, exchange rate risk, and debt sustainability.

Conclusion

There has been increased investor appetite for African bonds, driven by a confluence of internal and external factors. The internal factors are related to Africa's improved economic prospects, improved macroeconomic environment, and increased government efforts at obtaining sovereign ratings. The external factors include higher commodity prices, lower interest rates in developed markets, and the increased levels of risk in established financial markets. In spite of these contributing factors, however, Africa's Eurobonds are vulnerable to credit risk related to political instability, exchange rate movements, and debt sustainability. As a result, international investors interested in African Eurobonds should conduct required due diligence on country debt sustainability

levels and foreign exchange availability, as well as country political risk.

Sources

¹ Africa here includes both sub-Saharan Africa and North Africa.

² At time of printing, a Mozambican state agency – Ematum – issued a 7-year, government guaranteed, US\$500 million Eurobond. See Reuters. 2013. Mozambique Sells Debut \$500m Bond, Reuters 6 September 2013 <http://www.iol.co.za/business/international/mozambique-sells-debut-500m-bond-1.1574061#.UjC0fNdzbIU> 11 September 2013.

³ See Tossin Sulaiman's article dated 5 October 2012 titled "Zambia Eurobond could be African Tipping Point" on The Globe and Mail <http://www.theglobeandmail.com/report-on-business/international-business/african-and-mideast-business/zambia-euro-bond-could-be-african-tipping-point/article4592068/> 6 September 2013.

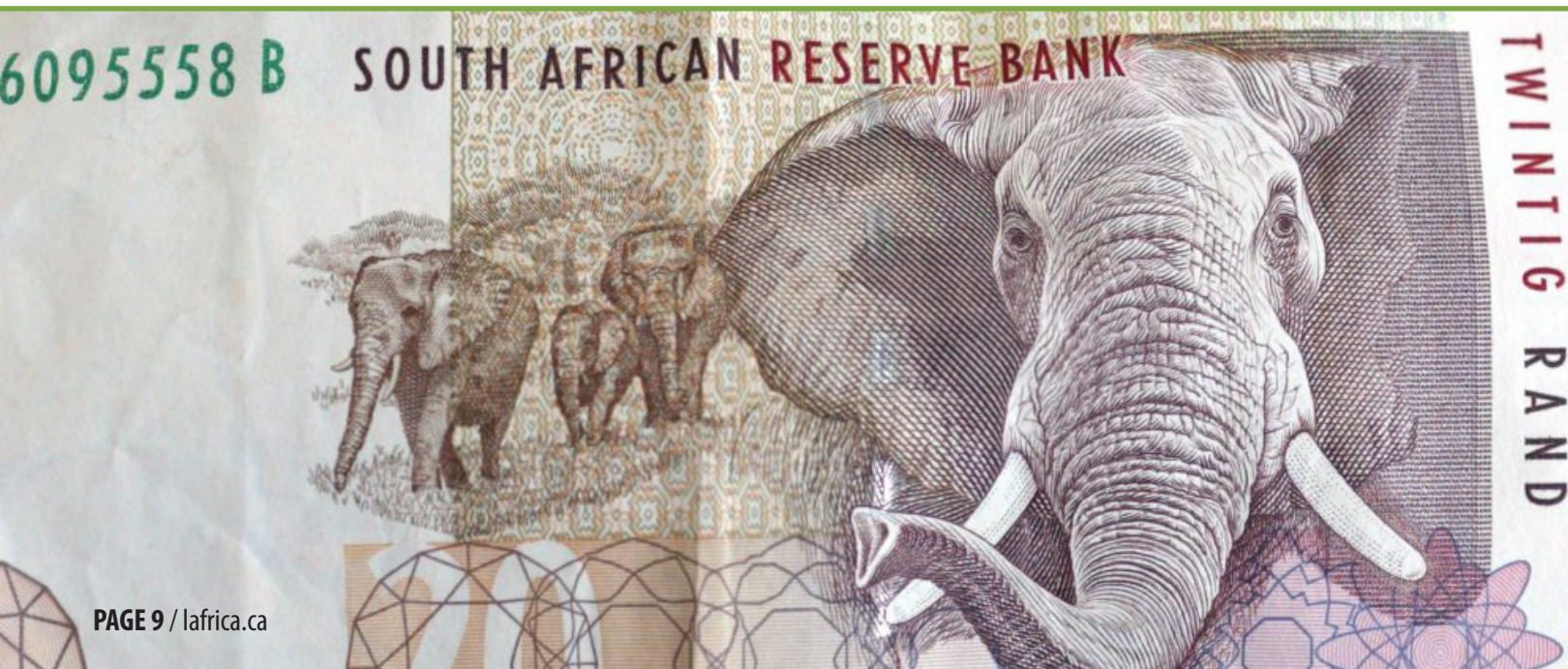
⁴ See Tossin Sulaiman's article dated 25 April 2013 titled "Update 1 – Rwanda Sees Heavy Demand for Debut \$400 Million Eurobond" on Reuters US Edition <http://www.reuters.com/article/2013/04/25/rwanda-eurobond-idUSL6N0DC0EL20130425> 6 September 2013.

⁵ See the Association of Financial Markets in Europe's (AFME) online article titled "Types of Bonds International Bond Issues - Eurobonds, Global Bonds, Foreign Bonds" <http://investinginbonds.eu/pages/learnaboutbonds.aspx?id=6368> 9 September 2013.

⁶ See Stephen Eisenhammer's article dated 3 March 2013 and titled "Credit Ratings Boost Investor Flows to Africa" <http://www.businessdailyafrica.com/Credit+ratings+boost+investor+flows+to+Africa/-/539552/1710080/-/6b51e1z/-/index.html> 9 September 2013.

⁷ See Tom Minney's article dated 1 February 2011 and titled "Cote d'Ivoire Defaults on \$2.3Bn Eurobonds" <http://www.africacapitalmarketsnews.com/889/cote-divoire-defaults-on-2-3bn-eurobonds/> 9 September 2013.

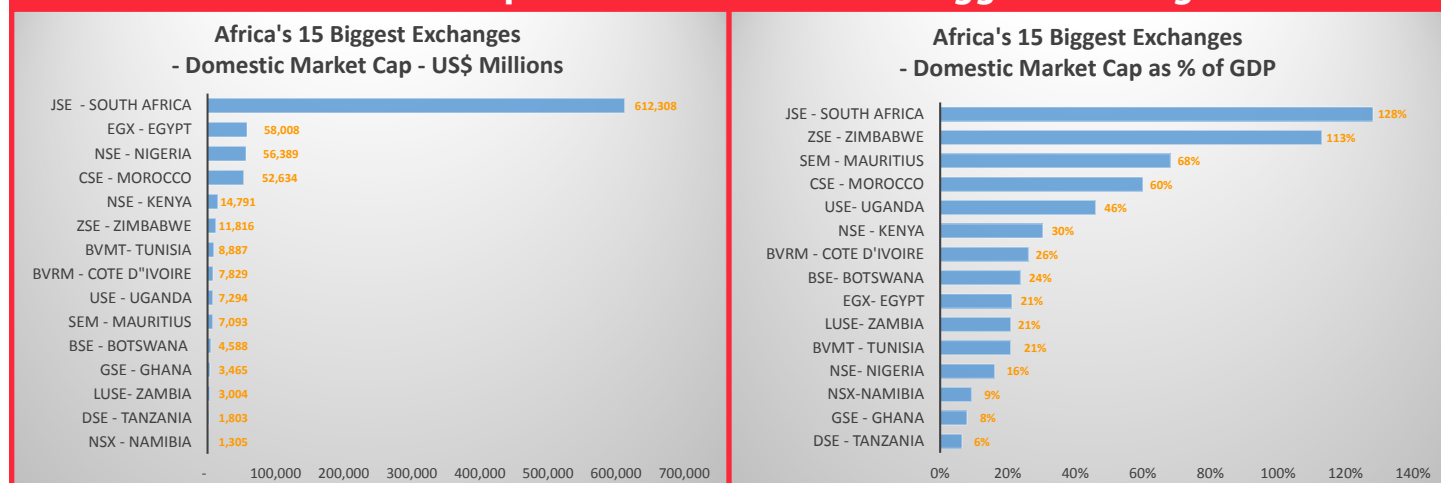
⁸ See Kim-Mai Cutler's article dated 5 September 2008 and titled "Seychelles to Hold Talks with IMF Following Default on Notes" <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=akaeJUGZ7a.s> 9 September 2013.



Africa's Stock Markets

Africa has a very nascent and fragmented securities market. In total, there are 27 stock exchanges in Africa, of which two are regional exchanges. Of these 27 stock exchanges, the stock exchanges of South Africa, Egypt, Nigeria, and Morocco constituted 90% of the market cap of domestically-listed companies in December 2012.¹ Box 1 provides the market cap of domestically-listed companies for Africa's top 15 exchanges and the market cap/GDP ratio of these stock exchanges.

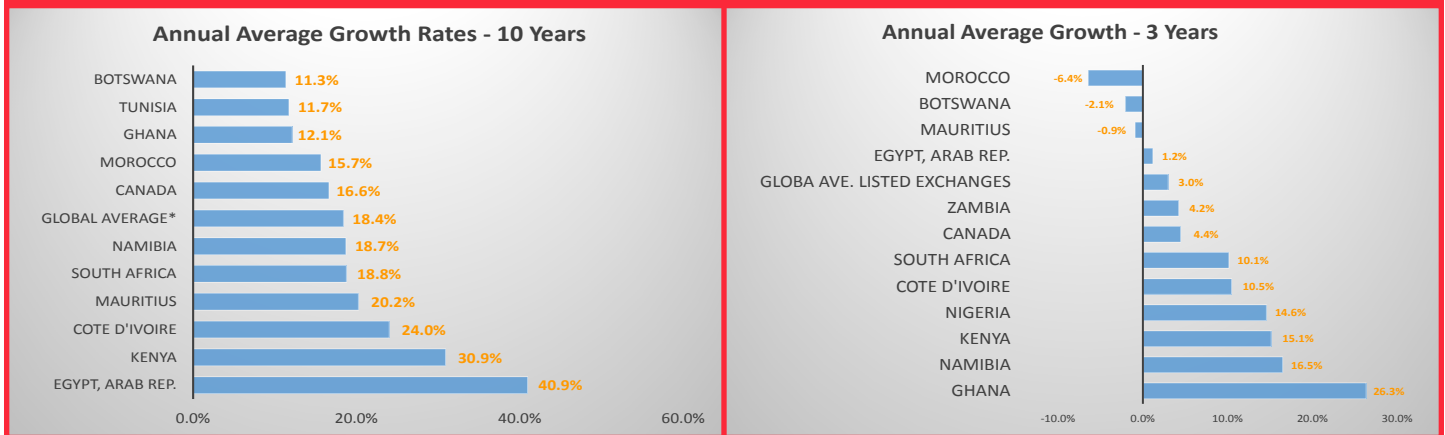
Box 1. Market Capitalization of Africa's 15 Biggest Exchanges



Source: World Bank's World Development Indicators Database

In spite of the nascent state of Africa's stock markets, they have recently been performing very well in comparison to other emerging and developed countries' stock markets. Over the past three years, the values in US dollars of the stock markets in Ghana, Namibia and Kenya, for example, registered annual average increases of 26.3%, 16.5%, and 15.1%, respectively. In comparison, the annual average increase in U.S. dollar values of the 82 emerging stock markets with data available² was 3.0%, while that of Canada was 4.4%. Box 2 provides the annual average increases in the U.S. dollar value of listed African stock markets, as well as that of Canada and the global average.

Box 2. Performance of Africa's Stock Markets



Source: World Bank's World Development Indicators Database

Explanation of this improved stock market performance:

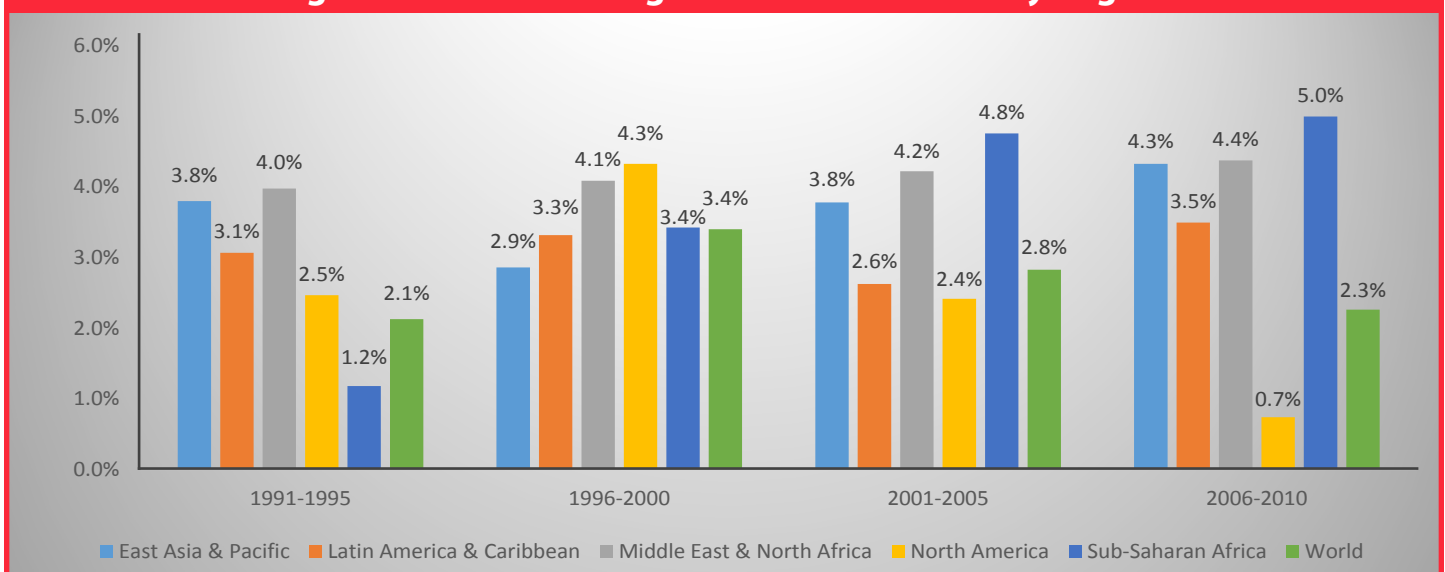
The recent positive performance of Africa's burgeoning stock markets is explained by a number of key factors, including the political will to build national stock markets, improved economics and regulatory policies, and low interest rates in the West. These key factors are briefly outlined below.

Political will to build national stock markets: The efforts of many African governments to develop and promote national stock markets have been instrumental in the improved performance of Africa's stock markets. These efforts have included the provision of significant tax incentives to list and trade in the stock market, as well as the privatization of

state-owned enterprises through stock markets. As a result of these efforts, the number of listed companies and levels of market capitalization in Africa's stock markets have trended upwards.

Improved economics and regulatory policies: Overall improvements in Africa's economics and policy environment have been important in sustaining the positive performance of Africa's stock markets. The economic policy adjustments that started in the 1980s, as well as the resource sector boom of the past decade, have contributed to improved business performance and significant increases in the average growth rates in Africa (see Figure 1). Consequently, there has been a marked improvement in optimism concerning Africa's economic future, as well as an increased demand for equity financing.

Figure 1 - 5-Year Average GDP Growth Rates by Region

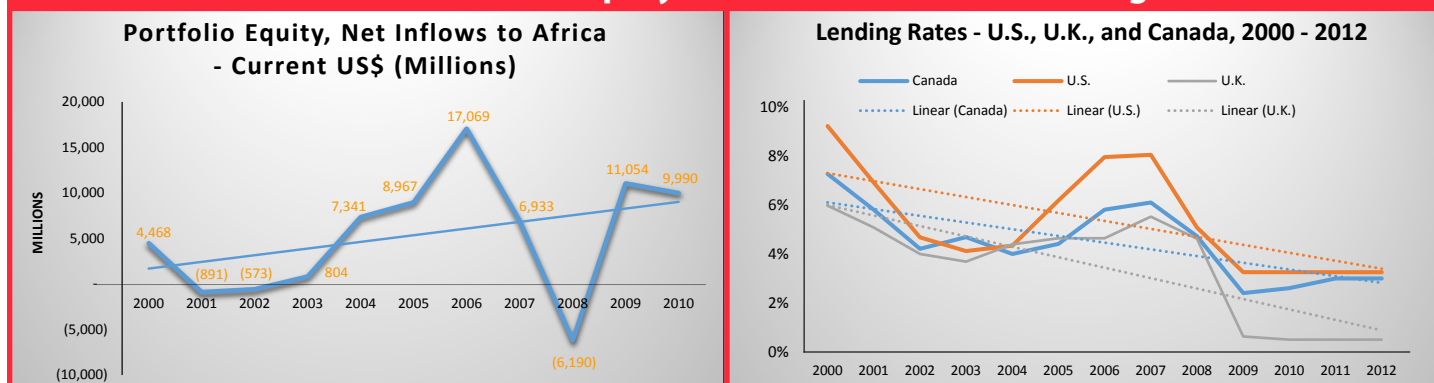


Source: World Bank's World Development Indicators

Low Interest Rates in the West:

The recent sustained low interest rate levels in the West have encouraged interest in equity investments in Africa. As lending rates in key Western economies dropped, net portfolio equity inflows to Africa increased (see Box 3). These increases, however, were negatively impacted in 2011 and 2012 by the labor strife in South Africa's mining sector and the political turmoil in Egypt.

Box 3. Africa's Increased Portfolio Equity Inflows and the Low Lending Rates in the West



Source: World Bank's World Development Indicators

Improvements in Technology Adoption:

In order to benefit from the growing interest by international investors in frontier markets, African stock markets have exerted great efforts at instituting electronic trade platforms and increasing automation.³ To date, at least twelve national and regional stock exchanges in Africa have introduced electronic trading platforms.⁴ These platforms have allowed African stock markets to improve their transparency and accountability by generating an electronic trail and to solicit interest from investors beyond national boundaries.

Lingering Factors that Constrain Africa's Stock Markets:

In spite of the improved performance of Africa's stock markets, structural factors related to market size and levels of liquidity continue to constrain market development. These structural factors are briefly outlined below.

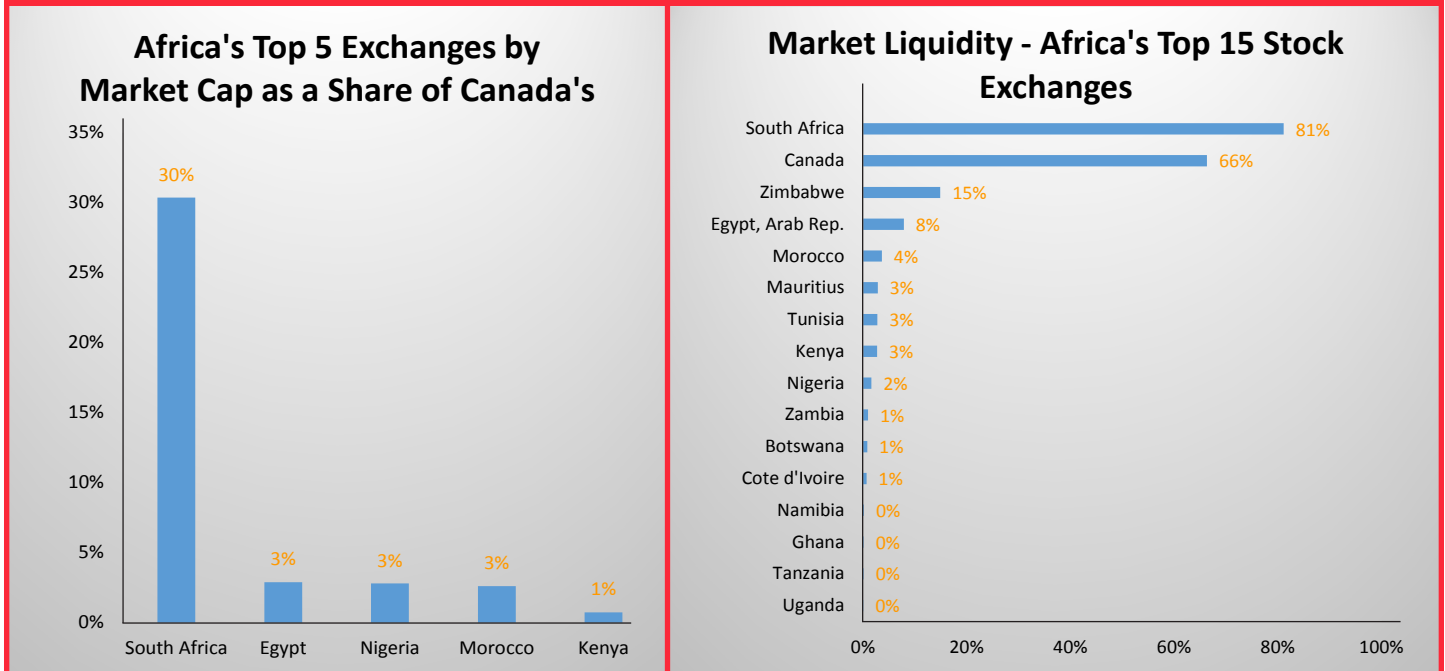
African stock markets are generally small, the exception being the Johannesburg Stock Exchange (JSE). In 2012, the JSE had a market capitalization of US\$ 612 billion, which was one third the market capitalization of the Toronto Stock Exchange (TSE) but ten times greater than the next largest African stock exchange, the Egyptian stock exchange (see

Box 4). Moreover, some of these stock markets are dominated by only a few firms, e.g., the Dangote Group in Nigeria constitutes 30% of the Nigerian Stock Exchange's market size.⁵

Moreover, African stock markets, with the exception of the JSE, have low levels of market liquidity (see Box 4). As a share of GDP, the value of stocks traded on the JSE was 81%. In comparison, those of Zimbabwe, Egypt, and Morocco were 15%, 8%, and 4%, respectively (see Box 4). As a result, Africa's more illiquid stock markets have an increased level of index volatility and significantly less interest from institutional investors.



Box 4. Comparative Market Cap of Africa's 5-Largest Stock Markets, and Market Liquidity Measures of Africa's Stock Markets



Source: World Bank's World Development Indicators

In addition, African stock markets are susceptible to political risk. Political turmoil, for example, has had a deleterious impact on the stock markets of Zimbabwe, Cote d'Ivoire and Kenya. Moreover, the Arab Spring

has significantly impacted the performance of North Africa's principal stock exchange, the Egyptian Stock Exchange.

Conclusion

Africa's stock markets have experienced strong positive performance of late. The numbers of stock exchanges have increased, the numbers of listed companies have increased, the levels of market capitalization have increased, and the overall performance of the listed stock markets has been positive. This positive performance has been grounded in active political interest in stock market development, improved economics, low interest rates in the West, and an increased level of technology adoption by the stock markets. In spite of these improvements, however, African stock markets remain constrained by structural factors that include their relatively small market sizes and low levels of market. In addition, political risk continues to negatively impact Africa's once stellar stock markets, e.g., the Egyptian Stock Exchange and the Zimbabwe Stock Exchange.

In spite of these structural bottlenecks and heightened levels of political risk, it is expected that over the next three years, Africa's stock markets will be buoyed positively by predicted positive and sustained levels of economic growth and consumer spending. However, accentuated levels of political uncertainty in key countries – particularly Egypt and Nigeria – could pose some risk to this positive trajectory.

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- 1 This estimate was derived from the World Bank's World Development Indicators' database for December 2012.
- 2 Data availability is as per the World Bank's World Development Indicators on 5 September 2013.
- 3 See article titled *African Stock Markets Modernize* by Oxford Analytica, U.K. dated 5 January 2010 <http://www.forbes.com/2010/01/04/africa-electronic-trading-business-oxford-analytica.html> 11 September 2013.
- 4 Ibid.
- 5 See article titled *Dangote Commits Billions to Proposed Refinery* at News24 Nigeria dated 28 August 2013 <http://m.news24.com/nigeria/Business/News/Dangote-commits-billions-to-proposed-refinery-20130828> 11 September 2013.



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