The 2014 guide to Sub-Saharan Africa

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Continent on the rise

After years of exploitation or neglect by the outside world, Africa is mastering its destiny – and investors are taking notice of impressive growth rates and tempting demographics.

Once a region whose fate lay in the hands of others, Sub-Saharan Africa is now in charge of its own destiny. Economic growth has boomed since the financial crisis. Global funds flocked to the region in search of higher-yielding securities. Commodity-hungry Chinese corporates arrived in search of energy, minerals and new markets for manufactured products, driving Sino-African trade to new heights.

Technology, confidence and demographics are changing the way investors of all stripes view the region. Intra-regional trade has surged, due in large part to the rapid take-up of mobile banking services, boosted by the spread of mobile money transfer services such as M-Pesa in East Africa. Retail spending is soaring, notably in eastern and western African states, as infrastructure and supply chains improve.

Leading lenders such as pan-regional Ecobank and the expansion-minded South African financial services major Nedbank are extending their operations across the region. A host of leading banks are building out their services to cater to fast-growing corporates and an increasingly affluent and mobile populace, including Nigeria’s GTBank, Mozambique-based Millennium bim, and pan-African investment advisory group African Alliance.

The next big growth story

Global corporations, some eagerly, some belatedly, are coming to terms with the fact that Sub-Saharan Africa’s growth story is here to stay. Multinationals are honing plans to take into account the region’s long-term potential as a hub for finance, commodities, logistics, people, and energy, just as they once tailored their strategies to accommodate the rise of China or Brazil. “Investors are starting to realize that Sub-Saharan Africa, not Latin America or Asia, is the world’s next big growth story,” says Kevin Whitfield, head of African treasures, carbon, and financial products at Nedbank Capital.

Investable assets remain at a premium in many markets. Few corporate bonds exist, while issuance of sovereign bonds has lagged since the US Federal Reserve announced the tapering of its quantitative easing programme last year, trimming global demand for emerging-market debt. Zambia’s $1 billion dollar-denominated print issued in April was the first international debt sale by an African sovereign this year.

Yet, in many other ways, the market is maturing rapidly – beyond the hopes and expectations of even the most ardent Africapilifies. Hard-bitten global bankers and investors are arriving for the long haul. Former Barclays chief executive Bob Diamond made waves by first creating a new Africa-focused banking venture, Atlas Mara, then using it to buy controlling stakes in Development Bank of Rwanda and Botswana-based BancABC. Buyout groups are also testing the waters. US-based private equity major The Carlyle Group in April capped and closed its maiden African private equity fund after raising $698 million, 40% more than its original target.

Accelerating growth

Africa’s economic and financial transformation is best summed up by Mike Brown. “Investment is all about risk and reward,” says the chief executive officer of Nedbank. “In the past Africa has often had difficulty in satisfying on either, but that has been changing. Economic growth has accelerated and is now second only to Southeast Asia, with investment rising significantly. The region will remain a top performer over the next decade.”

Brown points to a combination of factors underscoring the region’s potential. Surging commodity exports, notably to feed China’s economic and infrastructure boom, have helped, creating new sources and forms of regional wealth. Prices may have eased in recent months, but exports as well as regional consumption of hard and soft commodities will remain a “strong driver” of growth over the next decade, Brown says.

Other dynamics at play include relatively low regional indebtedness and rising levels of political, social and economic stability, notably in oil-rich states such as Angola and Nigeria, as well as outliers such as Democratic Republic of the Congo (DRC). Intra-regional trade meanwhile is gaining momentum as infrastructure improves, confidence rises and border tariffs are lowered or scrapped. Many African entrepreneurs still prefer to trade with US or European firms than with potential partners just the other side of a land border. But that picture, too, is changing.

Rise of the middle class

The final factor is regional economic diversity. Growth in the region is not restricted to mining and energy any more, notes Nedbank’s Brown. Sub-Saharan Africa now has a large and growing middle-class, estimated by the African Development Bank at 326 million in 2013, many of whom are young and well educated, up from 115 million three decades ago. Economic prosperity is pushing wealth into sectors including construction, manufacturing and services, drawing in more foreign investment. “Today, international trade and institutional investors are not questioning whether Africa should be on their growth agendas,” said Albert Essien, CEO of pan-African lender Ecobank Transnational. “They are asking: ‘How do we expand into Africa; and how do we minimise our risk.’”

Africa is not guaranteed success, of course. Nor are investors pumping capital into the region assured of securing annual double-digit returns on capital. It’s this high-growth, high-risk environment, though, that attracts so many of the world’s leading corporates, from Unilever and Nestlé to SAB Miller and Olam International, to the market. Sub-Saharan Africa is roughly where Latin America was a decade ago, or
China 20 years back – not a bad place to be at all. “Entering a frontier market that is changing so quickly is not without its difficulties, but the rewards can be significant,” notes Nedbank CEO Brown.

Growth stars and laggards

Let’s start by looking at growth predictions, the base indicator of any nation or region’s potential. Sub-Saharan Africa can be roughly hewn into three, equal chunks: oil exporters, low-income countries and middle-income countries. The latter group is broadly speaking the fastest growing: the likes of Ethiopia, Tanzania, Mozambique and the DRC are tipped by the International Monetary Fund (IMF) to see their economies expand by more than 7% in 2014 and 2015.

Oil exporters, notably Republic of Congo and Nigeria, should also do well, growing by upward of 6.5% this year, with Angola and Gabon not far behind. Nigeria grabbed global headlines in early 2014 by rebasing the data on which it estimates the size of its economy. Nigerian gross domestic product (GDP) thus overnight expanded to around $500 billion, from $263 billion, overtaking South Africa as the continent’s largest economy for the first time. Only Equatorial Guinea in this list is acting like the ‘old’ Africa, with its economy expected to shrink by more than 10% during the course of 2014 and 2015.

Then there is the middle-income bracket, largely dominated by established, sizeable economies like Cameroon, South Africa and Ghana. GDP growth here is slower, but these nations offer other factors coveted by investors. Ghana and South Africa in particular boast solid infrastructure, an investor-friendly business climate and rising levels of political, social and structural stability, according to March 2014 data from Euromoney Country Risk. The IMF was broadly upbeat on the region in its latest World Economic Outlook, published in April. It notes that growth in Sub-Saharan Africa remains “robust” and is “expected to accelerate in 2014” to around 5.5%, reflecting positive supply-side developments, a strengthening global recovery, rising agricultural production and new investments in natural resources and infrastructure.

Problems remain, including tight global financing and the impact of a slowdown in emerging market leaders such as China, the IMF notes. Homegrown risks include potential regulatory missteps, poorly coordinated monetary policies, and an inability, in fast-growing nations, to adopt pro-cyclical fiscal policies. A few countries have suffered from a recent dollar liquidity crunch, notably Zambia. Ghana’s authorities in February set limits on foreign exchange withdrawals to curb the slide in the value of its currency, the cedi, against the US dollar.

Sensible investors know the risks, but they also see the rewards. Ecobank’s Essien points to two main pillars upon which much of the region’s economy is now built: commodities and consumers. “Each provides opportunities in different sectors,” notes the bank’s chief executive. He cites as an example the “huge potential to invest in Africa’s commodity value chain”. Around 70% of the region’s cotton, 93% of its oil and more than three-quarters of its cocoa, is exported in raw or non-refined form, generating little for African traders, and undercutting potential domestic earnings from precious commodities.

That’s changing, though, with increasing amounts of hard and soft commodities being retained to satiate the appetites of an increasingly wealthy and well-fed populace. African governments are also joining forces to boost the regional processing capacity of everything from coffee and sugar to cotton and petroleum. That “will require heavy and sustained foreign investment,” from far-sighted investors, adds Essien.

Chain reaction

There is money to be made building and managing supermarkets. Major pan-regional chain stores are emerging, such as South Africa’s Shoprite, and a brace of Kenya-headquartered retailers, Nakumatt and Tuskys. Global consultancy McKinsey reckons that African sales of apparel, consumer goods and food will rise by around $185 million by 2020. But with Africans spending a larger share of their budgets on food and groceries than counterparts in Brazil, China or Russia, there’s even more profit waiting to be realized in cold-storage units, supply chains and logistics, as infrastructure improves and consumption rises.

Age is another factor on the region’s side. Much is made of India’s so-called demographic dividend, but that dynamic is even more prevalent in Sub-Saharan Africa. The region has the world’s fastest-growing

“Today, international trade and institutional investors are not questioning whether Africa should be on their growth agendas”

Albert Essien, Ecobank Transnational
population, with Africa on target to produce four out of 10 humans born between 2010 and 2030, according to the United Nations, putting the continent’s working-age population on target to overtake China’s.

Moreover, Africa’s dependency ratio – the number of elderly people and children supported by each worker - will consistently fall over the next 30 years, an advantage found almost nowhere else. Africans will, unlike those in Europe, North America, Japan and China, need to spend less to support the needs of older generations, and will thus have more to spend on themselves and their families, further boosting growth. Such structural trends, believes Ecobank chief Essien, should enable Sub-Saharan Africa to “weather any market conditions”, and underscores the huge opportunities awaiting investors in the financial services space.

“The continent has favourable demographics to promote economic growth, with almost a billion people, two-fifths of whom are less than 20 years of age,” notes Funmi Akinluyi, investment director, Sub-Saharan Africa, at Silk Invest, a London-based frontier market investor. Tapping this demographic dividend, which should boost consumption, production and prosperity, turning Africa into a developed continent by mid-century, will be crucial. The long-term economic success of the region, says Nedbank CEO Brown, lies in “better economic policies, a stronger involvement of private sector resources and better regional integration through better infrastructure and freer trade”.

Where to go
A key question for investors is where to channel their capital most profitably. This is not easy to answer. Political and operational risk, while much reduced, still exists across the region. Graft is a particular problem, just as security issues remain in nations like Central African Republic and, increasingly, Nigeria and Kenya. Countries once considered regional darlings have lost some of their lustre while formerly no-go areas, such as the southern DRC, are now welcoming investors with open arms.

Brown believes the countries that offer the greatest potential are those “that have seen a widening of economic inclusion through stronger growth and better policies”. Kenya, Ghana and Nigeria fall comfortably into this category, he adds, pointing to the latter’s recent important decision to privatize electricity generation. Private capital is being diverted to building new power plants, with the Dangote Group, headed by Aliko Dangote, Africa’s richest man, investing hundreds of millions of dollars in new gas power plants in Nigeria and Zambia.

If that privatization plan succeeds in addressing the country’s energy deficit, adds Brown, “it will be a major breakthrough that could spur Nigeria - and other countries that emulate these policies - to greater heights”. Nigeria is likely to remain the great growth locomotive of Sub-Saharan Africa for decades to come, as its population soars. Perhaps the one major uncertainty, for the first time in nearly 20 years, is South Africa. Growth remains insipid – the IMF tips GDP to swell by 2.3% in 2014, slightly up on last year’s 1.9%. But despite being one of the world’s most unequal countries, it remains, notes Robert Hersov, founder and chairman of investment-and-advisory outfit Invest Africa, an “important country, even though it will be eclipsed by Nigeria in the long term”.

Ecobank’s Essien believes the “vast majority” of regional states will enjoy sustainable growth in the decades to come. But along with Nigeria – “probably the most interesting economy due to the size of the population and the market” – he also highlights untapped potential in Ethiopia, assuming the private sector is allowed to flourish, and Kenya, on the back of reforms encouraging new inflows of investment capital into energy, transportation and food production.

Hersov points to the potential to be found in Senegal and Ivory Coast, as well as Zambia, blessed in recent years by rising commodity sales to China. He also points to the region’s great untapped frontier state, the DRC, and in particular to the nation’s “shining political light”, premier Augustin Ponyo.

Both the DRC and Mozambique are “large, untapped resource basins that could offer interesting returns to investors,” says Essien. Extracting enough returns from them will take time, however, and, he adds, “addressing stability and infrastructure challenges are critical. It will take time to realize the potential from these two interesting but somewhat marginalized economies.” Stephen Rahn, head of equities at Johannesburg-based investment bank African Alliance, points to “exciting growth prospects” on the eastern half of the continent, notably in Kenya and Tanzania, a region offering “an excellent foundation for innovation-led growth”.

“The region will remain a top performer over the next decade.”

Mike Brown, Nedbank
The way in
Gaining access to the region can still be tricky. By far the easiest way to tap into internal markets is through lenders like Ecobank, where Essien flags up the bank’s “robust technology platform” and “unparalleled footprint”. Ecobank’s market coverage is indeed unmatched, with operations in 35 African states including Nigeria, from where it draws the lion’s share of its earnings. Nedbank is more focused on southern African states, notably its home market of South Africa, a leading hub for infrastructure and project finance. The two lenders also work together in a highly profitable six-year-old joint venture, designed to give clients across the region and around the world the best possible investment guidance, with Ecobank focusing on central and western Africa, and Nedbank specializing in more southerly states.

Corporate debt issuance remains a rarity outside Nigeria: most stock exchanges are shallow and thinly traded, while the secondary bond market is illiquid, with investors often forced to hold on to paper to maturity. Physically speaking, large parts of the DRC are virtually impenetrable, while infrastructure remains a primary concern for miners or manufacturers seeking to get products to market or port. Africa’s highway and rail system is either non-existent or decrepit; flying, given the propensity of governments to support inefficient, pricey state-run airlines, can be a chore and a cost burden, though budget carriers such as Fastjet, serving eastern Africa, are starting to emerge.

Building partnerships
This makes it increasingly important for investors to build up a strong network of trusted partners and counterparties across the region. “If you need liquidity you need a strong relationship with local banks, and you can only get that through a trusted local counterparty,” notes Chris Becker, a market strategist at South African investment advisory firm ETM Analytics. Ecobank’s Essien flags up the importance of recognizing the “significant variations in local policies, regulations and payments infrastructure”, not to mention language and cultural barriers. “It’s important to take into account country-specific nuances and avoid the temptation of a ‘one size fits all’ approach,” he says.

Borders also remain an impediment to regional commerce. Tariffs, legal and illegal, are still in place at many crossing points, and regional commerce often remains underdeveloped, in large part because traders in one country are unaccustomed to using, or trusting, tenders or lenders based on the other side or a river or mountain chain.

Hopes for the creation of common currencies, most notably the eco, a shared currency planned for West Africa, have so far come to nought. Yet Angus Downie, head of economic research at Ecobank, reckons that the creation of shared currencies would “reduce barriers to intraregional trade” and help to ensure “further progress on promoting customs unions and trade blocs”.

Private equity route
Foreign investors can plough cash into Sub-Saharan African in other ways. One route passes through private equity firms. Where Carlyle Group goes, others will follow. Indeed, the emergence of one of the world’s leading buyout firms as an influential deal-maker from Abuja to Nairobi may fundamentally change how mainstream global investors view the region. Despite lacking a deep well of listed securities on the equity and debt side, the region is stocked to the gills with family-run businesses boasting dominant local positions in profitable markets. Many remain secretive, yet are increasingly determined to raise capital – whether from buyout firms, emerging market funds, the private equity arms of investment banks or high-net-worth individuals, to expand into new territories.

The most solid bet for major investors is to channel capital in the direction of leading corporates, or fast-growing industries. Consumer spending is just at the start of a very long growth curve, so expect regional and global supermarket chains to expand into, or enter, most major retail markets in the years to come.

Telecoms is another route to market for corporates and institutional investors as the use of smartphones, already one of the leading ways of processing cross-border trade in Sub-Saharan Africa, becomes widespread. In March, Goldman Sachs and two buyout firms, Wendel of France and Washington-based Emerging Capital Partners, joined forces on a $500 million capital raising by Lagos-based mobile infrastructure firm IHS Towers. Private equity groups are invested in other leading African mobile infrastructure firms, including Helios Towers, Eaton Towers and New York-listed American Tower Corporation. Vodafone is a leading investor in Kenya’s Safaricom, one of the region’s best and most innovative telecoms players.

Others are looking to invest in the region’s rising conglomerates. This list tends to be headed by Dangote Group: in December 2013, the firm revealed plans to invest $16 billion in 18 countries over the next five years, including $4.7 billion in cement production, and $2.3 billion in agriculture, mainly sugar and rice. Ecobank’s Essien points to the potential in key sectors from consumer goods to clothing and footwear to processed food, and to the rise of regional corporates such as Nigeria-based Saro Group.

This is a continent on the rise. Its fate once lay in the hands of others. Investors would channel cash into the region, then whip it away, as quickly as possible. Increasingly, though, capital is staying, to benefit from a growth story set to last for decades. The region once struggled for traction because the world wanted to be anywhere else. But now, after decades of absence, the world is returning to African shores.
Capital markets ride out US taper

Like other emerging markets, African capital markets took a step back with news of the Fed’s tapering process. But the demand, and the opportunities for investors, are still there.

This has been a curiously stop-start year for Sub-Saharan Africa’s capital markets compared to recent years. Activity began in 2013 at an almost frenetic pace, with nations such as tiny Rwanda issuing sovereign bonds, following a trail blazed in recent years by other regional countries including Namibia and Zambia. African leaders, central bank governors, and investors, could be forgiven for believing that the country’s upward march was inexorable.

Then came the announcement in May 2013 that the US Federal Reserve was planning to begin tapering its $80 billion-a-month quantitative easing programme. Capital fled emerging markets, some more than others. Hardest hit in the region was South Africa, tagged due to slowing growth, inflation and a chunky fiscal deficit, as one of the so-called ‘fragile five’ along with the likes of Brazil and India.

Regional equity capital markets issuance slowed almost instantly. Volumes inched down to $4.2 billion in 2013, much of which was completed in the first half of the year, from $4.6 billion in 2012, according to data from financial information provider Dealogic.

Debt capital market activity also slowed sharply in the second half of 2013. Major bond issuances over the past 18 months include South African power utility Eskom’s $1 billion July 2013 print, and a brace of sales by Mozambique state agency Ematum in September and October 2013, together raising $850 million. Mergers and acquisitions activity also rose last year, with total volumes hitting $38.2 billion in 2013, up from $27.2 billion, driven by the purchase of African energy interests by Chinese state enterprises, and a renewed push by global investors into sectors such as telecoms and mining.

Biding their time

This year started slowly; global investors remained on the sidelines in the first few months of the year, gauging the impact of the Fed tapering. Issuers bid their time, with the market finally showing signs of life in April, when Zambia launched a successful $1 billion dollar-denominated bond, raising $1 billion, the year’s first international debt sale by an African sovereign. Nigerian lender Zenith Bank then raised $500 million in its debut five-year US dollar-denominated debt sale, drawing orders of more than $1.3 billion.

Africa remains a tricky challenge for many. A paucity of investable regional equity and debt capital markets instruments doesn’t help. Nor does the shallow, illiquid nature of most regional stock markets outside the likes of Nigeria, Kenya, and South Africa, though even those bourses have their own intrinsic problems. South African stocks have struggled in the face of the Fed’s tapering process, while Nigeria’s stock exchange, notes Stephen Rahn, head of equities at Johannesburg-based investment bank African Alliance, regularly falls victim to the sort of wild swings often suffered by emerging market bourses.

The Nairobi Securities Exchange in Kenya also remains thinly traded, though there are signs of light here, with regulators looking to introduce derivatives trading in the near future, as well as pushing for a new batch of listed real estate investment trusts, notes Funmi Akinluyi, investment director, Sub-Saharan Africa, at Silk Invest, a London-based frontier market investor. Nigeria’s stock exchange, she adds, is also tacitly ‘encouraging a number of products such as exchange-traded funds to help promote liquidity within the markets’.

“The African markets are not easy to invest in,” notes Patrick Gutmann, group head, transaction services, at Ecobank. “Some markets still lack the regulatory stability that many investors look for and, though I feel that this has generally improved quite a bit in many markets, there is still room for continued improvement.” Albert Essien, chief executive officer of Ecobank, notes that “while Africa’s strong economic growth prospects present many opportunities, the expansion of any business across the continent remains challenging”. Everything from regulations to payments services, and monetary policies to capital adequacy ratios, varies from nation to nation.

Local knowledge

Key to understanding the region, then, is to secure a reliable banking provider and guide, able to provide an overview of regional markets and, where necessary, to double up by securing a well-known counterparty in more marginal, frontier states. Global investors tend to plump for major lenders such as Nedbank, South Africa’s fourth-largest lender by assets, and Ecobank, headquartered in Togo but, with a presence in 35 African markets, still the only truly pan-African lender.

The two banks have in place a fruitful working partnership, now in its sixth year. Each gives the other’s clients advice and investment backing in core home markets, with Nedbank stronger in southern Africa, and Ecobank specializing in central and western Africa. Both lenders separately offer guidance to African companies looking to tap offshore markets for capital, and to global investors looking to benefit from the African story, through the purchase of local assets, equities or Eurobonds. Together, they cover pretty much every Sub-Saharan African country, from Nigeria and South Africa down to tiny states like Burundi, Swaziland and Gambia.

Investors can opt for specialist advice from the likes of pan-African investment advisory outfit African Alliance, which boasts exchange memberships in 11 countries across Africa, built up over the past 15 years, along with a respected body of research. Or they can
choose lenders with specialist knowledge of frontier states. Examples here are Mozambique-based Millennium bim, Banco Angolano de Investimentos in Angola, Nigeria’s GTBank and Maurttius Commercial Bank, a leading provider on the island state.

Sub-Saharan Africa is far from the no-go area it was in the 1980s and 1990s, when the region was largely the preserve of suitcase bankers and a few branches providing financing to mining and energy firms in western Africa. Retail spending is rising fast, as are wealth and appetites: consumer-gared firms are growing fast, from agribusiness giants like Nigeria-based Saro Group to Kenyan retailers Nakumatt and Tuskys to genuine regional conglomerates such as cement-to-real estate giant Dangote Group.

Unique opportunities
And investors want to be part of the story. Clearly, says Ecobank’s Gutmann, “the investment opportunities, and particular the opportunity for significant growth, is unique in today’s environment of a depressed US and European investment climate”. Stuart Culverhouse, chief economist and global head of research at frontier-market investment banking boutique Exotix, points to a surplus of investment opportunities available to foreign investors, including Eurobonds, which offer decent yields beyond the high single-digits, and which, through their established nature, ‘provide some comfort for global investors’.

Culverhouse says he likes the prospects for bonds issued by Seychelles and Democratic Republic of the Congo, a rising star of central Africa that overtook Zambia as the continent’s biggest copper producer in 2013. “A lot of money is competing for a very small number of opportunities,” he notes. “The African story has become very strong and very promising, thanks to a series of regulatory reforms that have catalysed interest in the region.” Yields could be higher, to reflect higher regional risk, but exposure to the region, for emerging-market investors, offers a ‘diversification from mainstream markets’, he adds.

And while primary and secondary equity markets, as well as debt markets, often remain locked in an embryonic phase, in other ways, the region also boosts increasingly sophisticated capital markets. “Outside the Johannesburg Stock Exchange in South Africa, local bourses offer vast investment opportunities often with high returns despite the lower volume of daily trades,” notes Thulani Vilakazi, executive head, strategy, marketing and communication, rest of Africa, at Nedbank. “The days of ‘suitcase banking’ are numbered. Banks need partners on the ground to make inroads into the investment dividend.”

Local currency bonds are also becoming slightly more available, notably in Nigeria, where yields can be as high as 15%. This though remains, in investment terms, a frontier within a frontier. “You’re taking higher risks because this is a far less liquid market,” making it harder to sell notes to a fellow investor, notes Exotix’s Culverhouse. But this will change. Local currency bonds will become as prevalent in Sub-Saharan Africa in five or 10 years’ time as they are now in, say, Southeast Asia or Latin America, trimming risk and yield.

There is, bankers say, huge interest from global and regional investors in debt issued by the region’s largest corporates and financial services institutions. Mike Brown, chief executive officer of Nedbank, points to the “numerous” regional industries offering significant prospects for the willing investor. He highlights the potential presented by thriving firms - financial services, retail chains and telecommunications – “that take advantage of growing consumer power”. In its Middle Africa Quarterly Strategic Report, published on 30 April, Ecobank’s research team pointed to the “renewed interest in government bonds” driven by the strengthening of Nigeria’s currency, the naira, in the second quarter of the year, a reasonably promising short-term inflation outlook and robust liquidity management by the central bank.

Ratings deficit
The main drawback for investors looking to invest in regional debt products in recent years has been the almost total lack of in-depth information available from ratings giants like Moody’s Investors Service and Standard & Poor’s. Few African corporates, even industry leaders or regional giants, are willing to stump up capital to be rated. That’s slowly changing, as transparency and higher corporate governance permeate capital-hungry institutions keen to diversify their shareholder base and draw on new global capital streams. “Investors want to see ratings on the companies they invest in, and not many corporates have one – it’s probably the biggest prevailing issue still unaddressed out there,” said Nedbank’s UK country head Johann van Zyl. The bank is “trying to engage on that issue” with existing and prospective clients:

Global investors, notably US-based funds, endowments and high-net-worth individuals seeking a fast-track into Africa, are also looking to take part in private placements, another fast-growing capital-markets niche, bankers say. Bruce Stewart, head of debt capital markets origination at Nedbank in South Africa, notes the “sudden growth” in a slice of the financial services space long used by institutions in the US and Europe but, until the recent introduction of stringent rules on the listing of debt-market securities in South Africa, more sparingly used in Africa.

Most activity in the space still takes place outside the region, with global investors hunting for undervalued proxy investments through which to explore the African growth story. Take the $450 million October 2013 brokered private placement completed on the Toronto Stock Exchange by Africa Oil, an oil and gas firm with assets in Somalia, Kenya and Ethiopia that has joint ventures with the likes of London-based Tullow Oil.

Other global investors are seeking to access Africa-based assets via private equity firms. This is another fast-growing corner of the financial services space, albeit one offering a higher level of both risk and potential reward. Buyout firms, according to data from the Emerging Markets Private Equity Association, invested $1.6 billion in Sub-Saharan Africa in 2013, up from $1.1 billion the previous year, and the highest pace of investment since 2008.

In April 2014, Carlyle Group capped its debut African buyout fund at just shy of $700 million, having planned to raise $500 million. The Washington-based private equity firm, which has offices in Johannesburg and Lagos, is looking for investment opportunities, including in family-run firms, in several countries including South Africa, Nigeria, Kenya, Botswana, Mozambique and Zambia, the company said.

Family businesses
Private equity firms are particularly interested in buying stakes in well-run but secretive family-run businesses, wary of listing shares on bourses and opening themselves to investor scrutiny but keen to raise capital to grow in new territories. Buyout firms, deal-hungry and cash-rich, are perfect partners in that sense, stump up capital that allows family firms to generate new revenue streams, tap fresh forms of funding and diversify their shareholder base.
Indeed, buyout firms such as London-based Actis have become regulars on the local scene, with many looking to boost their exposure to the region as wealth rises and retail spending soars. One recent shift has been the rapid build-out of regional buyout firms such as Johannesburg-based Ethos, whose South African roots, notes Nedbank UK's Van Zyl, provides global investors with “that extra level of certainty and management support”. The innate risk in any private equity investment is tripled in frontier African states, and doubled even in the region's larger economic hubs. Saddling up with the likes of Ethos is designed to lessen the fear of the unknown. “Our private equity is a South Africa-based team focusing largely on South African investments, but there are more and more investment opportunities being presented to us across the continent and it’s something we’re considering at the moment,” says Brad Maxwell, executive head of investment banking at Nedbank Capital.

Tackling on towers
Private equity deals have, indeed, become so regular that it's sometimes easy to overlook them, notably in fast-growing sectors like mobile technology. The towers business has become key to doing business across the region, thanks to the spread of mobile phones and the rise of the likes of M-Pesa, the world's leading mobile banking-and-trading technology, co-developed by Nairobi-based carrier Safaricom.

Global investors are piling into telecom towers. In March 2014, Goldman Sachs and a group of investors including African Infrastructure Investment Managers, a joint venture between Australian lender Macquarie and South African financial services giant Old Mutual, invested $500 million in Lagos-based IHS Towers, the continent’s largest mobile infrastructure firm. Three other African towers companies, Helios Towers, Eaton Towers and New York-listed American Tower Corporation, are also backed by private equity capital.

Beyond the buyout world, the region’s bond markets are also becoming deeper each year thanks to the growth and spread of local pension funds. Not so many years ago, regional institutional investors rarely ventured beyond their own borders. Most countries struggled (many still do) to create sizeable pension funds and insurers. Even if they did, they would find little in which to invest: the region boasts more than 30 bourses, yet only around 13 can realistically be considered destinations for foreign equity investors. Most funds seeking to gain access to the region via the equity markets still prefer in the main to hedge risk levels for foreign equity investors. Most funds seeking to gain access to the region via the equity markets still prefer in the main to hedge risk levels for foreign equity investors. Most funds seeking to gain access to the region via the equity markets still prefer in the main to hedge risk levels for foreign equity investors.

But even that is changing. The regional securities-trading powerhouses remain the same group that would have made this list five or 10 years ago. South Africa remains the powerhouse in southern Africa, with Nigeria and Kenya dominating stock trading in eastern and western Africa.

Yet others are now emerging. What investors want in terms of access to the African growth story, notes Exotix’s Culverhouse, is liquidity, and they are finally finding that in once super-marginal bourses in Zambia, Rwanda, Ghana or Uganda. Even the Indian Ocean island state of Mauritius is moving to position itself as an offshore financial hub and the gateway to Sub-Saharan Africa. “Mauritius is already pretty reasonable in terms of size,” notes Culverhouse. The island may have a population of just 1.3 million, but like any successful financial haven in the Caribbean or around the British Isles, it successfully mixes tourism with finance, boasting 21 banks, including global names such as HSBC, Deutsche Bank and Barclays, and a welter of asset managers and reinsurers, from Munich Re to South Africa’s Investec.

Pensions on the up
The rise of regional pension funds has taken place relatively quickly. Legislation has certainly aided the process, notably South Africa’s decision to allow its local pension funds to vest up to 20% of their capital in non-domestic assets. This move was both logical and, in the best possible way, self-serving. It pushed South African insurers and pension funds to boost net income by investing in higher-yielding regional assets, many in frontier states grateful for the fresh injection of capital, as much as for the vote of confidence.

But it also aided South African corporates, many of which, from power firm Eskom to financial services provider Nedbank to retail chain Shoprite, are now starting to push north with intent and purpose. The new legislation provided them with new funding streams from well-known financing providers. Probably the most aggressive investor outside its South African stronghold has been Public Investment Corporation (PIC).

Other countries have rushed to catch up. Nigeria’s pension funds have expanded exponentially in recent years, going from zero to $28 billion in assets under management in less than a decade. Many are leading investors in higher-yielding local-currency debt, and are starting to test the investment waters in other leading regional markets, notably Ghana. Pension funds are even emerging in relatively tiny markets like Botswana.

This is a huge step-change in Africa, as vital to its long-term financial and economic stability as the peaceable transformation of a region once associated with conflict and crushing poverty. Global interest in regional debt products is higher than ever, says Nedbank UK’s Van Zyl. But cross-border interest in debt securities is also surging within the region for the first time, generating the sort of liquidity that investors crave, transforming the region’s image in the minds of emerging market-focused investors. “In terms of buying and selling government and corporate bonds, an increasing chunk of the demand is coming from within the region, not just from traditional global investors and funds,” notes Van Zyl.

He points to the classic example set by PIC in 2012, when South Africa’s largest pension fund manager bought $250 million worth of Ecobank’s shares, a move that has turned out very nicely for all parties. Ecobank benefited from the cash injection, while PIC profited from the dividends handed out by a thriving lender with access to virtually every Sub-Saharan African market. “Other asset managers across the continent will do more of those sorts of cross-border deals going forward,” says Van Zyl.

Africa’s growth story, then, is being underpinned by a desire to boost intra-regional trade, and create deep and liquid markets for debt and equity securities. Problems may persist, notably the lack of local currency funding, notes Ecobank’s Gutmann, and the paucity of corporate bonds, particularly those denominated in local currencies. But Sub-Saharan Africa’s capital markets have never been better placed to benefit from what even many mainstream investors believe will be a bright and bountiful future.
Back on an upward path

Kenya is pushing ahead with much-needed reforms and its economy is responding with renewed energy

Kenya, the locus of economic, financial and regulatory activity in eastern Africa, has long been seen as a rare exemplar of order and stability in a region racked by trouble and strife.

In recent years that implicit certainty has been upended. While much of Sub-Saharan Africa has enjoyed a stellar half-decade, benefiting from rising wealth and soaring growth levels, Kenya's relatively open economy, strongly linked to the troubled eurozone, stuttered. Gross domestic product (GDP) growth slowed to 1.5% in 2008 and 2.7% in 2009, before slowly recovering. Even at the height of the financial crisis, Nigeria's GDP growth rate remained north of 6%. Worse, violent unrest followed the disputed 2008 elections while recent times have seen terrorism visited on an upscale Nairobi shopping mall.

Safe bet
Yet Kenya appears to have weathered the worst of the storm. Patrick Gutmann, group head, transaction services, at pan-regional African lender Ecobank, describes the country as a “safe bet” for investors, along with the likes of Tanzania and Ghana. Investors, broadly speaking, know what they are getting: a relatively wealthy, urban and upwardly mobile population scattered across a mid-sized country with solid (but still far from first-rate) infrastructure.

A fresh-faced, more socially inclusive government, headed by president Uhuru Kenyatta since 2013, is pushing ahead with much-needed reforms, and reaching out for funding to Western and Asian governments. Mike Brown, the chief executive officer (CEO) of South Africa-based Nedbank, points to a “renewed energy that is making Kenya a strong prospect” thanks to “a widening of economic inclusion through stronger growth and better policies”.

Reforms spanning a number of industries, from construction to telecoms to energy transmission, are sucking in more investment. Ecobank CEO Albert Essien flags up the country’s “sizeable potential, due to ongoing institutional reforms, especially under the new decentralized administrative system”. He highlights the “enhanced investment appeal of sectors including transport, power production and transmission, and food production.

A broad-based economy, spanning tourism, agriculture, insurance, banking and mobile telecommunications, is also becoming increasingly diverse. Oil exploration in the northwest is likely to be another feather in the economy’s cap. British oil firm Tullow Oil reckons the country could have 600 million barrels of recoverable oil, but that number is likely to rise.

Kenya’s economy should also expand massively this year, due to a long-overdue rebalancing of GDP. The central statistics office is expected to carry out the rebasing in September, a process likely to increase the size of the country’s $37 billion economy by several billion dollars. In April, Nigerian authorities resized their own economy upward, expanding GDP by $490 billion overnight. While likely to be less eye-catching, Kenya’s rebasing is nonetheless essential, designed to generate a more realistic assessment of key sectors including mobile telephony and mobile money transfer services.

Kenya is likely to remain that rarest of commodities for years to come: a genuinely diverse Sub-Saharan African economy offering global institutions and corporates a relatively safe, open, legally scrutable and transparent place in which to invest. The country boasts a score of 36.89 in the latest Euromoney Country Risk survey, carried out in March. Its bank stability rating has risen steadily over the past two years, according to ECR data, hitting 4.8 in the third quarter of 2013, while its monetary policy and currency stability rating is also on an upward path.

Quiet innovation
Very quietly, the country has become a stronghold of technological innovation in eastern Africa. At the heart of this process is the rapid take-up of M-Pesa, a mobile banking platform co-created by Nairobi-based carrier Safaricom. Ian Carter, head of transaction banking, electronic banking, and payments, Africa, at Nedbank, describes M-Pesa’s impact on the region as “significant”. The platform allows millions of regional traders of all sizes to do business across the region on a platform they know and understand. It has slashed the cost of cross-border remittances and financial services transactions. Kenya’s government is working hard to ensure that it builds on its clear regional – and, some would say, global - advantage in mobile banking services.

There are negatives, to be sure. Terrorism is back on the agenda at the highest level. A yawning current account deficit is likely to widen further in 2014, to 9.6% of GDP, from 8.3% last year, while inflation, tipped by the IMF to end the year at around 6.5%, is also a concern. But growth has returned; the IMF expects the economy to grow by 6.3% this year and next, having expanded by 5.6% in 2013. Underlying the growth, too, are the certainties. Steady-as-she-goes is the message emerging from Kenya as its safe-bet economy regains its footing.
Troubled giant tests its strength

At last beginning to move away from its dependence on the oil industry, Nigeria is exploring the potential offered by a domestic market of 180 million people. But problems, notably inadequate infrastructure and widespread corruption, still stand in the way.

Nigeria’s big moment this past year – probably its biggest economic event in decades – occurred in early April. Officials and regulators had long toyed with plans to draw up a more accurate picture of the scale of the economy. When they finally did, it caught even seasoned economists on the hop.

Rebasing the economy, it was widely believed, would boost gross domestic product (GDP) by as much as 60%, to $424 billion. But even that ceiling was shattered when the real figure came in on 7 April. Nigeria’s economy was actually more than 75%, or around N80 trillion ($490 billion), larger than previously assumed. Overnight, the country jumped to 26th in lists of the world’s largest economies as measured by nominal GDP, up from 38th. The World Bank and the CIA Factbook now place it as high as 23rd, above Norway and within touching distance of Switzerland and Saudi Arabia.

Statistics can be a poor way to sum up any country, but with Nigeria, they help explain the sheer scale of the country – and why it holds huge appeal for investors seeking outsized returns, while deterring many others fearful of outsized risks. Nigeria’s population is set to hit 180 million this year, and is on track to top 400 million in the early 2030s. The average Nigerian moreover is startlingly young – a teenager in fact, and roughly half the age of the average Chinese, Pole or Australian.

Big spenders
Nigerians are more likely than their peers in any other African country to spend money on non-core items such as holidays, music and clothing, the consultancy McKinsey found in a 2013 consumer survey. The country’s economic growth rate is tipped to be 7.1% this year, according to the International Monetary Fund (IMF), up from 6.3% in 2013, while the current account deficit is set to inch down to 4% of GDP in 2015, from 4.7% in 2013. Inflation, running at 7% in 2014, is high but manageable. In its latest World Economic Outlook, published in April, the IMF said growth would continue to rebound strongly this year as “major oil pipelines in the energy-rich country were repaired, boosting production”.

Nigeria is also, slowly but surely becoming better run. The country ranked fifth in Sub-Saharan Africa in the latest Euromoney Country Risk (ECR) survey, published in March, up two places, boasting a score of just over 40. The broader regulatory and policy environment has improved steadily over the past 18 months, ECR data shows, with its infrastructure score also rising sharply.

Rising star
There are many reasons to be optimistic. Analysts and bankers are quick to sing the praises of Sub-Saharan Africa’s rising economic star. Mike Brown, chief executive officer (CEO) of South African lender Nedbank, sees “considerable potential” in a country that continues to suck in investment from foreign and regional corporates and institutional investors.

Patrick Gutmann, group head, transaction services, at pan-African lender Ecobank, describes the country as a “prime investment destination” now that its economic rebasing process is complete. Togo-headquartered Ecobank is just one of many regional corporates to have invested heavily in the country, buying Abuja-based Oceanic Bank in 2011 for an undisclosed sum. Nigeria accounted for 40% of the revenues generated by Ecobank in 2013, and more than two-fifths of total regional assets and deposits. “This is definitely a country that is open to investment,” notes Funmi Akinluyi, investment director, Sub-Saharan Africa, at Silk Invest, a London-based frontier market investor.

Nigeria’s capital markets are broad and active, in some ways surpassing even South Africa’s. Corporate bond issuance, mainly emanating from Nigeria’s deep bench of lenders, is on the rise. In April, Zenith Bank took advantage of a tightening of emerging-market spreads to raise $500 million through a debut five-year bond sale. Global interest was underlined by an order book that topped $1.3 billion.

Alongside Mozambique, another energy-rich (but far smaller) sovereign, Nigeria has the most active mergers-and-acquisitions market in the region, drawing in investment from Europe, the US, and China over the past two years. By far Africa’s largest initial public offering over the past 18 months was completed in 2013, when leading conglomerate UAC raised $190 million through the listing of its UPDC real estate investment trust.

New ways to invest
Investors are increasingly being offered new ways to invest in the country. Nigeria is a regular issuer of both dollar-denominated and naira-denominated bonds at the sovereign, financial institution and corporate level. Its pension funds industry now boasts $28 billion in assets under management, notes Bolaji Balogun, CEO at Lagos-based investment house Chapel Hill Denham, up from virtually zero eight years ago.

Global investors also have the option of investing in the country’s growth story via two leading industries: retailing and food production. Leading local conglomerates such as Dangote Group and Saro are investing heavily in agribusiness, chemicals, pesticides and...
cement, as appetites rise for everything from a protein-based diet to a new storey on your house.

Regional retailers are also pushing into the region, including Kenyan chain stores Tuskys and Nakumatt, competing with domestic players such as Artex Group, which owns the domestic franchises of international retailer Spar, and Park ‘n’ Shop. Measures to broaden the economy in recent years, by diversifying away from oil revenues, have met with “some success”, notably in terms of boosting manufacturing, industry, services and retailing, notes Stephen Rahn, head of equities at Johannesburg-based investment bank African Alliance.

Another burgeoning sector is financial services. Leading local lenders such as Ecobank and GTBank, along with the likes of First Bank and Zenith Bank, are investing aggressively in new technology, reflecting a broad government push to promote electronic banking in the hope of cutting corruption. In the five years to end-2012, the number of Nigerians with bank accounts grew to 28.6 million, from 18.3 million, according to an industry body, Enhancing Financial Innovation & Access. Banking sector revenues grew in 2013 at just shy of 15% year on year, or roughly double the rate of economic growth.

Nigerian pension funds, regular buyers of debt issued by the sovereign and by local lenders, are now permitted to deploy up to 10% of their assets outside the country, slowly bringing Nigeria in line with South African pension funds. Many hope this will lead to Nigerian institutions becoming major investors across Sub-Saharan Africa, boosting regional trade and commerce.

The Nigerian Stock Exchange, one of the region’s most widely and actively traded bourses, has also been tweaking its regulatory model, encouraging the listing and trading of new products such as exchange-traded funds. “That move has certainly helped to promote liquidity within the markets,” notes Silk Invest’s Akinluyi. Investor relations have also improved radically since the financial crisis. Investors once had almost literally to prise annual reports out of companies; now, it’s not unusual for listed companies to hold conference calls, and to print and send lengthy annual reports to leading regional investors.

Bumpy road

To be sure, Nigeria has manifold problems with which to contend, including an intermittent power supply and poor road infrastructure. That increases the cost of doing business, as does corruption, which permeates every level of commercial, social and political life. The government is attempting to deal with an energy crisis that has intensified as electricity use rises in line with economic growth. Much is riding on attempts to privatize electricity generation. Private firms including the Dangote Group are looking to build natural-gas power plants, projects that should turn a profit while preventing the state grid from collapsing. If the privatization plan succeeds it will, believes Nedbank CEO Brown, be a “major breakthrough that could spur Nigeria - and other countries that emulate these policies - to greater heights”.

An African energy revolution is long overdue, as are plans to capitalize on Nigeria’s position as the trading, financial and economic hub of West Africa. That is likely to change in January 2015, when the 15 members of the Economic Community of West African States will set about integrating their economies, introducing a common external tariff structure as part of moves designed to form a true customs union.

Then there is the elephant in the room: oil production or, increasingly, the lack of it. Nigeria is facing its worst oil crisis since the financial crisis, the International Energy Agency said in a recent report. Oil production continues to decline: daily production is set to fall to 1.92 million barrels in the second quarter of 2014, down from 2 million barrels in March 2013.

Foreign reserves have held up strongly thanks to high Brent crude oil prices, Ecobank’s research team said in a report on Nigeria’s economy published on 30 April. But it’s not clear how long this can persist, particularly if prices inch down in the second half. Oil production is far below official budget projections of 2.38 million barrels a day, Ecobank warns, “due to shutdowns caused by theft, vandalism and bunkering”.

The sector recently claimed another victim, following complaints by central bank governor Lamido Sanusi, who this year revealed a huge hole in the country’s oil account. Nigerian president Goodluck Jonathan fired the respected governor, causing concern among foreign investors. Officials have yet to explain the existence of a $20 billion shortfall in oil revenues, widely believed to be caused by criminal gangs stealing anything up to 400,000 barrels of oil a day, often with the tacit consent of regional officials, from wells and pipelines. Nigeria may be a rapidly industrializing country marching proudly and confidently into the 21st Century, but its all-important oil industry remains stubbornly stuck in the past.
Becalmed in choppy waters

South Africa remains a great place to do business but its growth rates disappoint and problems of inequality, poor job creation and industrial strife loom large

It has been a troubled year for South Africa. The two decades since the end of apartheid have been generally charmed for the continent’s southernmost nation, a period of national political stability and rising wealth, particularly for society’s upper echelons. South Africa is home to several leading multinationals, spanning banking and brewing, mining and infrastructure.

Major retail names such as Shoprite are expanding apace into Nigeria and Kenya. The country is the beating heart and the thinking mind of the region, the driver behind moves to create common currencies and markets, and to drive development and capital into frontier states such as Zambia, Botswana, Mozambique and Democratic Republic of the Congo (DRC). It remains a respected, solidly-run sovereign: in the latest Euromoney Country Risk (ECR) survey, published in March, the country retained its place atop the Sub-Saharan African table, scoring a respectable mark a shade below S4.

Yet there’s something underwhelming about South Africa these days. It remains a great place to do business, blessed with a consumption-oriented populace and a strong, diverse and broadly welcoming business environment. Economically, however, its recent performance has been insipid. Growth in gross domestic product (GDP) slipped to 1.9% in 2013 and, while the International Monetary Fund (IMF) expects it to inch higher, growth forecasts of 2.3% this year and 2.7% in 2015 are far from mind-blowing.

Other negatives this past year include being marked down as one of the so-called ‘fragile five’, a list of nations, including India and Brazil, deemed most vulnerable to the tapering of the US Federal Reserve’s $80 billion-a-month quantitative easing programme. Investors fretful about South Africa’s slowing economy and twin deficits pulled cash from local securities, undermining the rand, which slipped sharply against the dollar before regaining some ground in early 2014.

Stuck in the middle

In many ways, South Africa has become becalmed in the middle. With per-capita GDP of between $11,000 and $12,000, depending on the source, it is now a middle-class country. Consumer inflation, at just shy of 6% in 2013, places it equidistant between China and India. Its current account deficit, tipped to end the year at 5.4% by the IMF, is far from great, but neither, at least compared to regional peers such as Ghana and Tanzania, is it particularly dire. Even the size of its economy, placed between Austria and Denmark, two very average European states, can be described as middling.

That’s not to say that South Africa is yesterday’s news. Far from it. Foreign direct investment (FDI) more than doubled in 2013, to $10.3 billion, making it by far Africa’s largest sovereign recipient of inward capital. It remains, notes Robert Hersov, founder and chairman of London-based investment-and-advisory outfit Invest Africa, a very important country.

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Nor can South Africa be accused of lacking capability. Key institutions from the central bank to the law courts to regulatory bodies are widely perceived as far-sighted and first-rate – note the decision to allow South African pension funds to deploy up to 20% of their assets under management in ‘foreign’ investments. Over the next decade, local funds could invest up to $20 billion in Sub-Saharan African instruments and assets.

Leisha Montgomery, an associate international economist at Chicago-based Northern Trust Company who monitors Sub-Saharan Africa, believes the country has “the strongest, most stable, and most sophisticated monetary policy on the continent”. Most regional states struggle along, undermined by underdeveloped financial systems, poor regulatory quality and illiquid markets. South Africa, notes Montgomery, is “definitely not on that list”.

Retail spending remains broadly strong, growing at north of 3% a year. For consumer-facing corporates, says Roland Botes, general manager, customized trade solutions, at Nedbank, the country remains an attractive proposition, given the credit appetite of a fast-developing, populous market. The country also boasts a coterie of leading corporates spanning industries including telecoms (MTN Group, Vodacom), media (Naspers), power and utilities (Eskom), retailing (Shoprite) and investment management (Bidvest Group).

Analysts tip South African corporates, historically reticent about regional expansion, as a logical regional expansion opportunity, “says Stephen Rahn, head of equities at Johannesburg-based investment bank African Alliance. This is notably happening in financial services, where Standard Bank, having trimmed much of its global network, is now concentrating largely on its pan-African operations; Shoprite, the country’s largest retailer, notes Rahn, “has been making steady progress in growing out its African business”.

Regional expansion

“South African corporates, many of which are struggling with mature home markets, are increasingly targeting the rest of Africa as a logical regional expansion opportunity,” says Stephen Rahn, head of equities at Johannesburg-based investment bank African Alliance. This is notably happening in financial services, where Standard Bank, having trimmed much of its global network, is now concentrating largely on its pan-African operations; Shoprite, the country’s largest retailer, notes Rahn, “has been making steady progress in growing out its African business”.

Foreign investors have long seen South Africa as the natural gateway to the rest of the continent, for good reason. China has invested heavily through South African lenders – Beijing’s largest lender by market capitalization, ICBC, owns a 20% stake in Standard Bank. Asian, North American and European investors have long seen South Africa as the natural conduit for capital seeking a home in resources projects in mineral- and energy-rich Botswana, Mozambique, Zambia and Angola.
The first phase of that process, driven by the South African Reserve Bank, also went live in the third quarter of 2013.

Looking across the continent
Nedbank, the country’s fourth-largest banking group by assets and second-largest by retail deposits, provides universal banking services across much of the SADC. Its latest foray into the region, in 2013, saw it buy an initial 36.4% stake in Banco Único, giving it full management control of the Mozambique-based lender. That acquisition, notes Nedbank’s chief executive officer Mike Brown, allows it to offer “banking solutions ranging across retail, business banking and corporate banking to trade finance,” to six SADC countries, including Namibia, Zimbabwe and Malawi.

And it’s the access to these thriving, energy-rich markets guaranteed by Nedbank that compelled Ecobank Transnational to sign a joint venture with Nedbank in 2008. With offices in 35 African states, it is hardly a bystander in the region. Yet its presence in the SADC is relatively minor, and an alliance with Nedbank, said Albert Essien, chief executive at Ecobank, allows his firm to “capitalize on operational synergies, such as joint marketing and research initiatives. We are also seeing more new business and cross-selling opportunities, particularly with South African corporates and institutions, who increasingly are looking to do business with the rest of Africa.”

The venture, Essien added, is “fast becoming the partner of choice for businesses and investors who are serious about unlocking Africa’s intrinsic value to the full.” For his part, Nedbank CEO Brown estimates that “around 60” of the lender’s leading corporate clients now work on a daily basis with Ecobank, while the two hold quarterly meetings to discuss markets, strategies and customers. “Our mutual client base now includes a significant number of domestic South African and multinational corporate names, several of which are today banking with the alliance in multiple countries,” Brown adds.

So investment continues to flow into South Africa in two forms: regional capital seeking access to the nation’s large, consumer-friendly populace and FDI from the likes of China, Europe and North America, using South Africa as a gateway to the wider region.

Yet South Africa would be wise not to rest on its laurels. Growth rates have slipped in recent years, while the central bank has struggled to rein in its twin deficits and get inflation under control. Labour disputes increasingly draw international attention, as do tales of a society widely seen as one of the world’s most unequal. South Africa doesn’t create enough electricity or jobs for its young, spend enough on education or deal particularly well with labour disputes.

Little wonder the IMF in its April 2014 World Economic Outlook warned that while trade in goods and services across the wider region was speeding up, “growth in South Africa continued to decelerate, constrained by tense industrial relations in the mining sector, tight energy supply, anemic private investment, and weak consumer and investor confidence.” Worse, it said that South Africa remained “exposed to a reversal of portfolio flows” if global financial conditions tighten further. These are troubling times for a regional giant that has in recent years become becalmed in the middle.

Setting standards
Then there’s the banking system as a whole. South African payment systems are, says Carter, widely seen as being among the best in the world. Much as, say, German engineering standards are used as the European benchmark for everything from highway barriers to window sealants, South African banking technology is becoming the de facto operating system across the Southern African Development Community (SADC), a 15-nation bloc stretching north and west through Botswana and oil-rich Angola, and north and east through the likes of Zimbabwe, Zambia and Mozambique.

SADC nations even launched in the third quarter of 2013 a payment programme, approved by all regional central bank governors, focusing on immediate credit transfers and high-value payments. The ultimate aim is to boost the speed and regularity of cross-border electronic funds transfer, an ambition that suits South African lenders, keen to remain the region’s pre-eminent financial services centre, as well as southern African states keen to boost intra-regional trade. It also helps the SADC keep pace with East African nations, notably Kenya, Rwanda, Uganda and Tanzania, which share a common trading community and, thanks to trailblazing technology provided by Safaricom and Vodacom, the most effective mobile-based micropayment system in the world.

“The SADC initiative has been progressive and is driving the decommissioning of reducing volume payment instruments, such as cross-border cheques and drafts,” says Nedbank’s Carter, who notes that South Africa is also helping to roll out new state-of-the-art balance-of-payment services across the region. The first phase of that

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Setting standards
Then there’s the banking system as a whole. South African payment systems are, says Carter, widely seen as being among the best in the world. Much as, say, German engineering standards are used as the European benchmark for everything from highway barriers to window sealants, South African banking technology is becoming the de facto operating system across the Southern African Development Community (SADC), a 15-nation bloc stretching north and west through Botswana and oil-rich Angola, and north and east through the likes of Zimbabwe, Zambia and Mozambique.

SADC nations even launched in the third quarter of 2013 a payment programme, approved by all regional central bank governors, focusing on immediate credit transfers and high-value payments. The ultimate aim is to boost the speed and regularity of cross-border electronic funds transfer, an ambition that suits South African lenders, keen to remain the region’s pre-eminent financial services centre, as well as southern African states keen to boost intra-regional trade. It also helps the SADC keep pace with East African nations, notably Kenya, Rwanda, Uganda and Tanzania, which share a common trading community and, thanks to trailblazing technology provided by Safaricom and Vodacom, the most effective mobile-based micropayment system in the world. SADC nations even launched in the third quarter of 2013 a payment programme, approved by all regional central bank governors, focusing on immediate credit transfers and high-value payments. The ultimate aim is to boost the speed and regularity of cross-border electronic funds transfer, an ambition that suits South African lenders, keen to remain the region’s pre-eminent financial services centre, as well as southern African states keen to boost intra-regional trade. It also helps the SADC keep pace with East African nations, notably Kenya, Rwanda, Uganda and Tanzania, which share a common trading community and, thanks to trailblazing technology provided by Safaricom and Vodacom, the most effective mobile-based micropayment system in the world.

“The SADC initiative has been progressive and is driving the decommissioning of reducing volume payment instruments, such as cross-border cheques and drafts,” says Nedbank’s Carter, who notes that South Africa is also helping to roll out new state-of-the-art balance-of-payment services across the region. The first phase of that process, driven by the South African Reserve Bank, also went live in the third quarter of 2013.

Looking across the continent
Nedbank, the country’s fourth-largest banking group by assets and second-largest by retail deposits, provides universal banking services across much of the SADC. Its latest foray into the region, in 2013, saw it buy an initial 36.4% stake in Banco Único, giving it full management control of the Mozambique-based lender. That acquisition, notes Nedbank’s chief executive officer Mike Brown, allows it to offer “banking solutions ranging across retail, business banking and corporate banking to trade finance,” to six SADC countries, including Namibia, Zimbabwe and Malawi.

And it’s the access to these thriving, energy-rich markets guaranteed by Nedbank that compelled Ecobank Transnational to sign a joint venture with Nedbank in 2008. With offices in 35 African states, it is hardly a bystander in the region. Yet its presence in the SADC is relatively minor, and an alliance with Nedbank, said Albert Essien, chief executive at Ecobank, allows his firm to “capitalize on operational synergies, such as joint marketing and research initiatives. We are also seeing more new business and cross-selling opportunities, particularly with South African corporates and institutions, who increasingly are looking to do business with the rest of Africa.”

The venture, Essien added, is “fast becoming the partner of choice for businesses and investors who are serious about unlocking Africa’s intrinsic value to the full.” For his part, Nedbank CEO Brown estimates that “around 60” of the lender’s leading corporate clients now work on a daily basis with Ecobank, while the two hold quarterly meetings to discuss markets, strategies and customers. “Our mutual client base now includes a significant number of domestic South African and multinational corporate names, several of which are today banking with the alliance in multiple countries,” Brown adds.

So investment continues to flow into South Africa in two forms: regional capital seeking access to the nation’s large, consumer-friendly populace and FDI from the likes of China, Europe and North America, using South Africa as a gateway to the wider region.

Yet South Africa would be wise not to rest on its laurels. Growth rates have slipped in recent years, while the central bank has struggled to rein in its twin deficits and get inflation under control. Labour disputes increasingly draw international attention, as do tales of a society widely seen as one of the world’s most unequal. South Africa doesn’t create enough electricity or jobs for its young, spend enough on education or deal particularly well with labour disputes.

Little wonder the IMF in its April 2014 World Economic Outlook warned that while trade in goods and services across the wider region was speeding up, “growth in South Africa continued to decelerate, constrained by tense industrial relations in the mining sector, tight energy supply, anemic private investment, and weak consumer and investor confidence”. Worse, it said that South Africa remained “exposed to a reversal of portfolio flows” if global financial conditions tighten further. These are troubling times for a regional giant that has in recent years become becalmed in the middle.
Congo emerges from the shadows

Despite its vast resources, Democratic Republic of the Congo remains the poorest country in the world. But investors are increasingly aware of the potential, if the hurdles of instability and absence of infrastructure can be overcome.

In F. Scott Fitzgerald’s classic novel The Great Gatsby, the aspirational-delusional main character waxes lyrical about a pristine United States unsullied by scruffy towns and broken dreams. (“Tomorrow we will run faster, stretch out our arms farther”, declares Jay Gatsby). If there’s one country in Sub-Saharan Africa able to replicate this dream, building a potentially great nation from scratch, it’s the Democratic Republic of the Congo.

That is the hope for the future. For now, the DRC’s 75 million people live largely in gut-wrenching poverty. It’s the poorest country in the world: according to the World Bank. The average Congolese earned just $459 in 2012. The International Monetary Fund (IMF) tags it as one of a dozen ‘fragile’ states in the region, undermined for centuries by a particularly wretched form of colonialism, then torn apart, post-independence, by internal conflict that often spilled over into neighbouring territories.

Yet hope is finally on the horizon. In its April 2014 World Economic Outlook, the IMF tipped gross domestic product (GDP) to grow by 6.9% in 2014, and to continue expanding by an average of 7.8% in the four years to end-2018. Economic growth is accelerating thanks in large part, the IMF added, to “massive investments in infrastructure and mining”.

Unimaginable resources

This is where foreign investor interest is most intense, and for good reason. Blessed with almost unimaginable resources, including vast reserves of cobalt, oil and coking coal, it also boasts some of the most fertile arable land on the planet. The vast Congo River, which swirls in an ear-shaped loop around the entire country, is the country’s lifeblood.

Leading global infrastructure contractors and investors have long viewed it as the route to true regional development, damming the Congo would overnight create enough electricity to power a large chunk of southern Africa. The DRC’s vast wilderness also acts as a natural barrier between South Africa and central Africa, and a hindrance to east-west regional trade. Protecting this pristine environment, while opening the DRC up to trade and traffic, is the challenge for everyone from regulators and officials to investors and lenders.

Turning the DRC into an investor’s paradise will take time, of course, but at least that process has finally started. Albert Essien, chief executive officer at pan-African lender Ecobank, describes the country as a “large, untapped resource basin that could offer interesting returns to investors”. But he notes that “addressing stability and infrastructure challenges is critical. It will take time to realize the potential.”

Welcoming government

For Robert Hersov, founder and chairman of investment advisory specialist Invest Africa, all roads in the DRC point to the southernmost state, Katanga, which, he believes, “has the potential to be a fantastic investment destination”. He also flags up the new DRC government, headed by premier Augustin Ponto, which he describes as “very professional and welcoming of international investment. With South Africa’s determination to make the DRC work, that country will fly. The upside there is immense and it’s good for all African countries.”

But he also adds a note of caution. The DRC is on track to have a population of more than 100 million by 2030, of whom at least 30% are expected to live in the capital, Kinshasa. Hersov notes that “without the infrastructure and support system to capitalize on this growth, a big population could actually yield more cons than pros” for a government likely to struggle with issues such as urban planning and sanitation.

There is also a clear and pressing need for international and regional lenders to get together with Congolese officials to create funding vehicles capable of meeting the country’s vast infrastructure needs. A good start has been made with the African Development Bank’s $3 billion infrastructure fund, which is likely to target the DRC. The International Finance Corporation, the private sector arm of the World Bank, is also keen to channel more capital into the country, its CEO, Jin-yong Cai, told Euromoney. But more money and help is needed from all manner of sources. Multilaterals need to help hedge risk by co-funding complex projects, while debt sold to finance highways, bridges, tunnels and railways needs to come in a range of tenors, to suit all types of investor.

Ready to fly

But all the positive signs are there for a country ready to fly. In April 2014, the DRC became a formal member of the African Export-Import Bank, a Cairo-headquartered lender that lent $3.5 billion in 2013. A month later, the country’s minister of mines Martin Kabwelulu officially opened the Kibali gold mine, operated and developed by London-listed Randgold Resources and Johannesburg-listed Anglogold Ashanti, each of which have invested more than $2.5 billion.

Global resource majors are watching the project closely: success for Kibali could drive billions more dollars into the country over the next decade. An increasing number of investors, like Jay Gatsby’s vision of America, see a country, once torn and broken, ready to run faster and stretch out its arms.
In from the margins

Largely untapped offshore gas reserves are at the heart of investors’ new focus on Mozambique

Two disparate deals over the past 12 months, drawing in a diverse range of global investors, highlight the soaring appetite for any asset or security connected to Mozambique’s growth story.

In the first, completed in September 2013, government agency Ematum priced a $500 million, seven-year amortizing bond with a yield of 8.5% and a coupon of 6.305%. What was extraordinary, above the fact that the bond itself was unrated (though Mozambique’s sovereign is rated B+ by both Fitch Ratings and Standard & Poor’s) and that UK and offshore US investors snapped up nearly 70% of the notes on offer, was the agency’s credentials.

Ematum, putatively a tuna-fishing venture, was born only weeks before the debt sale. The bonds, though, came with a guarantee from the finance ministry, a fact that, wedded to a chunky yield higher than the rate on comparable (and rated) Treasury bonds, helped secure $850 million in orders. But what investors are really buying are the country’s still largely untapped offshore gas reserves, which many believe could turn the eastern African coastal state into a regional, and even a global energy power.

Deal number two was launched in earnest in March, when Eni hired Bank of America Merrill Lynch to advise on the sale of a 15% stake in its Mozambique gas field. The sale should raise up to $5 billion for the Italian energy giant, money desperately needed to get operations underway for the firm’s slice of the northern Rovuma basin up and running. In 2013, Eni sold a 20% stake to China National Petroleum Corporation for $4.2 billion. “Oil and gas finds in the northern provinces will drive Mozambique’s economy for decades,” says Robert Hersov, founder and chairman of London-based Invest Africa.

Dynamic economy

Global corporates, investors, and bankers are all flooding into a fast-growing country with huge untapped natural resources. The International Monetary Fund (IMF) sees gross domestic product swelling by around 8% in 2014, up from 7.1% last year; the fund describes it as “one of the most dynamic economies in Sub-Saharan Africa.” Euromoney Country Risk’s latest regional survey, completed in March, ranks the country 15th regionally, its risk and banking stability rating garnered a score of more than four in the latest survey, with its monetary policy and stability score and ranking jumping sharply quarter-on-quarter in the first three months of 2014. These are further signs that capital, now flooding into the country, is being put to good structural and institutional use.

Leading Mozambique-based lender Millennium bim, in its March economic outlook tips economic growth to remain above 7% this year, driven by rising foreign direct investment in industries including mining, transportation and telecommunications. Inflation remains low, the bank adds, having tumbled from 6.1% in December 2011 to 3.5% two years later, helping the central bank cut its lending rate to 8.25% from 9.5% last year. Credit growth is expanding apace in key sectors such as construction (34% year-on-year growth in 2013) and transport and communications (14%). Much of the new funding was sourced by Millennium bim, founded in 1995, and with 1.2 million customers and 157 branches dotted around the country.

Bankers and corporates cannot get enough of a country that just two decades ago was in ruins. Major resource investors include mining giants such as Brazil’s Vale and London-listed Rio Tinto, as well as US oil firm Anadarko. Albert Essien, chief executive officer at pan-African lender Ecobank, sees the country offering sizable returns to investors – though as one of the world’s poorest states, the often “marginalized” economy also needs a hefty injection of infrastructure development capital.

Looking to the future

For Nedbank CEO Mike Brown, Mozambique is all about the future. Nedbank, already present in many southern African states, including Namibia, Zimbabwe, and Malawi, bought a 36.4% stake in Banco Único in 2013 with management control. The deal pushes Nedbank’s coverage north and east, increasing its exposure to a rising sovereign energy giant.

The Banco Único deal allows Nedbank, already building out its retail, business, and corporate banking in Mozambique, to provide new funding lines to expansion-minded South African corporates. Brown points to industries expected to provide hefty returns to investors, including financial services, retailing, infrastructure development, telecommunications and agribusiness.

Demand for trade finance capital and services is also rising fast, notes Roland Botes, general manager, customized trade solutions, at Nedbank. He highlights Mozambique as one of 10 countries across Sub-Saharan Africa with the greatest potential as a driver of trade finance needs. “Export-driven growth in natural resources will re-shape the economy, determining a structural shift in exports, a huge impact on the current account and vulnerability to price shocks,” said Millennium bim in its March outlook.

Problems persist. Mozambique will likely need to address currency shocks as its economy expands. It cannot remain dependent on petrodollars and debt relief (the other main funder of the national budget) in the long term: the government needs to diversify a single-track economy. And growth needs to remain north of 5% for at least the next decade, to provide the wealth and returns investors demand and the people crave.

For now though, Mozambique, a country largely isolated from the worst effects of the financial crisis, can’t get enough good news. Yet more arrived in May, when opposition party leader Afonso Dhlakama registered to vote in presidential elections slated for October 2015. Dhlakama’s Renamo movement has been perpetuating a low-frequency insurgency for years; by entering the mainstream and running for president, the one-time guerrilla could bring peace to large parts of the country. The winner of the election is expected to adopt a reformist, pro-business agenda that could drive billions of fresh investment dollars into the country.
Closing the gap

Cash management in Sub-Saharan Africa is becoming ever more complex, effective and sophisticated, as corporates move farther and faster into the region.

In years gone by, Sub-Saharan Africa was as much of a wasteland for complex financial services as the desert that bears the region’s name. Cash management was as unknown a factor, outside a few economic hubs (Nigeria, Kenya, Ghana), as foreign exchange. Trade and project finance was channelled into the region through foreign lenders, before being whisked out again when projects reached maturity. Infrastructure finance was a concept understood in South Africa, with its largely first-world infrastructure, but virtually nowhere else.

In many frontier states, to be sure, corporate banking services remain an alien concept undertaken by a handful of foreign miners and energy explorers. At the retail level, banking, all too often, is cash and cash only. Few in, say, Malawi, Central African Republic or Democratic Republic of the Congo (DRC) have chequebooks or simple bank cards, let alone life insurance and savings plans.

Yet this is to underestimate the strides that Africa has made in recent years. Viewed as a whole, or as the sum of its parts, this is a continent on the rise. Local corporates demand increasingly high-quality financial services, as they cross borders into virgin territory. As foreign investors push into ‘traditional’ sectors, such as mining and oil and gas, as well as newer, fast-growing industries, from retail services to telecommunications and agribusiness, they demand the sort of cash management services they expect in Stuttgart or Shanghai, Canberra or Chicago.

It’s not patronising to suggest that cash management in many corners of the continent once meant hiding dollars under a mattress. Nor is it stretching the boundaries of reality these days to suggest that cash management services are becoming as good as they are in any aspirational, fast-growing emerging market.

A decade back, any global corporate setting up a corporate treasury hub in Africa would have raised eyebrows. Yet greater political, economic and social stability, demonstrated by steadily improving results in quarterly surveys carried out by Euromoney Country Risk, allied to rising economic growth across the region, is driving demand for the likes of cash concentration, clearing and settlement services, and even money market funds, treasury bills and certificates of deposit.

More demand, more solutions

“The demand for more sophisticated products and services from our corporate clients is growing in this space,” says Gary Marais, divisional executive, corporate banking, at South Africa-based Nedbank. “More specifically, we are seeing our clients requiring risk management solutions which enable them to view and confirm their bank accounts and transactions and, where required, even perform their payments from a central location. Nedbank has solutions in place to provide these services and will continue to invest ensuring that our solutions meet our customer requirements.”

Albert Essien, chief executive officer (CEO) of pan-African lender Ecobank, headquartered in Togo but with offices and branches in 35 Sub-Saharan African nations, says his firm’s corporate banking services are based on “an understanding of the important role that relationships play in African business, enabling clients to access and build critical relationships with their customers, local government and regulators”. He points to Ecobank’s “unparalleled footprint and robust technology platform” as the reasons why clients trust the lender to manage accounts and payments across multiple jurisdictions.

Both Nedbank and Ecobank, the only truly pan-regional African lender, are working hard to be the bankers of choice for thousands of ambitious regional enterprises, and for a host of multinational corporates only now starting to see the entire corpus of Africa as an integral part of their broader global strategy. Nedbank and Ecobank, having inked a joint venture in 2008, now offer services to retail customers and corporate clients in more than 1,800 branches strewn across 35 countries. A host of regional banks – such as GTBank of Nigeria, Mozambique-based Millennium bim or pan-regional investment bank African Alliance - are offering more localized cash management services to foreign and rising regional corporates. Add to that mix a set of Africa-focused global lenders such as HSBC, Standard Chartered, Citi and Barclays, along with an increasing influx of peers from Japan, China, and Southeast Asia.

Spreading harmony

Ever more corporates, says Patrick Gutmann, group head, transaction services, at Ecobank, are “requesting unified and harmonized solutions across a region or even across the continent. Whereas this was not a viable option a few years ago, it now very much is a reality and it is being adopted more rapidly by large foreign corporates and institutions, and even by some of the larger regional African corporates.”

Gutmann points to the increasingly sophisticated solutions being demanded by everyone from leading pan-African conglomerates to...
local industry leaders in frontier states. Services Ecobank is starting
to offer include “regional liquidity management solutions and
SWIFT-based or full host-to-host integrations” with banking partners
across the region. “From a customer segment perspective, we have
continued to see very strong growth in our corporate bank. And
from a product perspective, both treasury services and transaction
banking has seen tremendous growth,” he adds.

Much of the impetus behind the rising demand for high-class cash
management and treasury services stems, as elsewhere in the world,
from the client. As growth and wealth levels soar – the International
Monetary Fund tips Sub-Saharan African gross domestic product
(GDP) to rise this year by 5.4% and 5.5% in 2015, from 4.9% in
2013, according to the World Bank – investors and corporates are flocking
to the region.

Much of the demand for better banking service originates within
leading commercial groups, many of them headquartered in Nigeria
and South Africa, two countries that together make up 60% of
regional GDP. Thulani Vilakazi, executive head, strategy, marketing
and communication, rest of Africa, at Nedbank, points to a “growing
demand for global transaction banking to manage cash, trade finance,
custodial services across the region”. South Africa’s leading corporates,
from power utility Eskom to private hospital group Mediclinic to
Johannesburg-, Windhoek- and Lusaka-listed pan-regional supermarket chain Shoprite, are expanding quickly away from their mature home markets in search of growth and higher margins.

Nedbank’s chief executive Mike Brown points to the benefits that the
alliance between Ecobank and Nedbank has created for South African clients seeking to establish a direct presence in the rest of Africa. “Apart from transactional banking, the alliance is providing clients with in-country financing facilities ranging from vanilla short- and medium term facilities to more specialized facilities such as supply-chain, debtor finance and asset-based finance.”

Brown adds: “Collaboration in the area of trade and trade-related
products across several sectors,” including strategic sectors such as
power, oil and gas, and infrastructure, “is continuing to deliver consistently strong annual year-on-year volume and revenue growth for both alliance partners.”

And as South Africa’s leading firms expand, they are taking their expectations of trade finance and management services with
them. “The trend”, says Vilakazi, “has moved from just corporate lending to cash management, with the group treasuries requiring a single view of their business across a variety of countries, to
trade finance, treasury and custody.” Bankers say the demand for
centralization in terms of treasury operations is roughly on a par
with other parts of the world. Shared service centres are growing in popularity, while regional treasury hubs are being set up both in
commercial centres such as Nigeria, Kenya and South Africa, but also
in the more wild-and-woolly reaches of eastern and western Africa,
from Mozambique to Angola.

Work to do
To be sure, it is a work in progress. Plans to create shared currencies
across the region have stalled – a reflection both of the struggles
incurred by fast-growing countries in forming a stable, progressive monetary policy and of fears of replicating the sort of shambles
suffered in Brussels over Europe’s single currency. But shared tenders
should appear over time, helping to bring cohesion and consistency
to monetary policy regimes across the continent. Cash management services will become cheaper, more advanced and easier to run, once
regional and foreign corporates alike learn to know and trust shared
African currencies.

To an extent, this has already happened within the five-nation East
African Community (EAC). Here, the mobile banking platform M-Pesa,
developed by Vodafone and Nairobi-based Safaricom, has been adopted by millions of corporates and small traders. Probably the
world’s leading mobile business platform, M-Pesa has become, within
a few short years, a symbol of trust when settling even the tiniest
trades in Kenya, Tanzania, Uganda, and beyond.

The key for any company seeking to profit from the fruits of its
African strategy is to secure the best banking partner possible. Local
lenders, notably in frontier states, are usually the best sources of
liquidity in local currency. Pan-regional lenders, such as Ecobank and,
increasingly, Nedbank, thanks to the duo’s six-year-old alliance, offer
world-class services spanning everything from cash management to
foreign exchange to trade finance.

And as restrictions set out by regional regulators that prevent
standard treasury tools from being used are lifted, intra-regional
trade should move to the next level. Notes one leading regional banker: “When you enter a new market, the advice that your banking
provider gives you is absolutely essential to your success in that
market. You need to choose your provider carefully – you want
someone with local geographic presence, as well as the global
technical and strategic know-how in cash management.”

However you view it, cash management in Sub-Saharan Africa
is becoming ever more complex, effective and sophisticated.
Regulators and lenders are working together, driven by the profit
motive, as corporates move farther and faster into the region.

Heavyweight pan-national institutions are adding heft and weight
to the process. The IMF is working with finance ministry and central
bank officials from 12 southern African countries on a long-term
initiative to improve cash management services. “Poor cash
management,” notes Dev Manraj, financial secretary of the Mauritius Ministry of Finance and Economic Development, which in April 2014 convened an IMF-sponsored cash management talking shop on the Indian Ocean island, “exerts a cost on public finances and on monetary policy.” The IMF now boasts five technical centres across Sub-Saharan Africa, aiding local firms looking to improve their cash and financial management skills.

Private bankers are starting to enter the region in earnest. Many tread lightly: wealthy Africans still often prefer to squirrel their cash away in Switzerland or London. But more wealthy individuals – and this is a rising region blessed with vast resources, burning ambitions and a naturally entrepreneurial populace – means more money to both spend and invest.

Access at the retail level
Banking at the retail level is changing too, and for the better. In Nigeria alone, the number of people with access to banking services jumped to 28.6 million at end-2012, from 18.3 million five years before, according to financial inclusion consultancy Enhancing Financial Innovation and Access. Nigerian lenders such as GTBank, as well as First Bank and Zenith Bank, are creating dozens of electronic-banking branches in a push to reach wealthier retail customers around the vast country. The number of ATMs has mushroomed, from a handful at the turn of the century to more than 12,000 at the end of 2013.

Electronic banking makes good sense here – and indeed, is being tacitly encouraged by leading regulators. Few individuals have a landline, or indeed wireless internet access. But many have smartphones, and mobile banking is as natural to urban citizens in the likes of Nigeria, Kenya and South Africa as fixed-line or internet banking is to customers in, say, the US or Germany. With wealth rising across the continent, and people willing both to spend and to invest more, it also helps lenders to reach new, upwardly mobile and consumption-oriented customers. “The number of mobile users in South Africa is twice the amount of internet users,” notes Ian Carter, head of transaction banking, electronic banking and payments, Africa, at Nedbank. “The mobile users are following the typical ‘Y generation’ trends in South Africa, where mobile devices are being used for more than voice or text.”

Cashless transactions create other knock-on effects. Each transaction made electronically or digitally leaves a footprint, a genuine benefit for central authorities seeking to boost national tax take – long a problem for regional governments keen to swell depleted coffers. The process also helps clamp down on corruption, explaining why the Central Bank of Nigeria, among other leading regional authorities, is such a vociferous proponent.

Electronic or digital banking “is a key strategic driver” for banks and for the wider region, says Nedbank’s Carter. “Be it through mobile phones, or via mobile ATMs, or through our branches or agents”, new distribution channels are driving the industry forward, helping Nedbank increase its footprint across the region, reaching the unbanked.

At the forefront of technology
Many see Africa as at the forefront of banking technology, in large part due to the success of the Kenya-driven mobile banking platform M-Pesa. That technology is now spreading across western and southern Africa, driving intra-regional trade, notably among smaller traders, at a speed few thought possible. M-Pesa has also helped slash the cost of expensive remittances into the region and also across local borders. Nedbank’s Carter sees the next wave of digital banking coming in the business-to-business space, in the arena of electronic invoicing, where Nedbank, he notes, “has developed a solution called e-billing that can be used by all the banks and offered to any biller. Additionally, there is the dematerialization of paper-intensive flows with workflow and digital signatures such as custom and trade transactions.”

Nedbank and Ecobank are at the forefront of providing high-quality electronic banking across the region. Nedbank CEO Brown describes the “new and exciting joint product initiatives” being created by the two lenders. When completed, these “will enable the parties to leverage their complementary capabilities and product skills to the mutual benefit of both institutions and their respective clients”.

Carter notes that Nedbank has in recent times “invested significantly in wholesale electronic banking to meet transactional needs and to provide the breadth of secure innovative services that go beyond traditional banking services for our clients”. Nedbank is now able to provide a host of services, including wholesale electronic solutions across cash and liquidity management, foreign exchange and money market dealing, custodial services and fleet management.

Both lenders see the revenues and income to be made through high-end corporate banking services as key to their future. “Increasing labour mobility and regionalization are driving demand for accessible and convenient retail banking services across Africa,” says Ecobank CEO Essien. The bank is at the forefront of cross-border retail transactions, he says, pointing to products such as RapidTransfer, a service that transfers funds instantly across the bank’s regional network, which stretches from Kenya to Nigeria and South Africa to Somaliland. Ecobank’s Regional Card allows customers to convert cash seamlessly and instantly across the continent, and to withdraw it at any bank-branded ATM, while its Diaspora Account, grants African expatriates access to an Ecobank account in their home country.

Branching out across the continent
Nedbank’s Vilakazi points to the bank’s plan to build a pan-African branch network, building out from first southern and, in the medium term, eastern Africa. Corporates across the region require a network that has the global reach, the sophistication to address their
aspirations to grow, and the local knowledge required to understand local markets. The pan-African banking network that Nedbank is building offers critical mass and presence required to support clients optimally as they pursue their growth strategies.

Then there's foreign exchange, a tool increasingly central to doing business on the continent. The US dollar continues to dominate the international trading landscape across Sub-Saharan Africa (though the Chinese Renminbi is slowly making inroads, particularly where mainland state firms are involved). Pressure points exist in highly indebted states such as Zambia and Ghana. The former is experiencing a dollar liquidity crunch, while the latter, another leading African commodity exporter, has seen its currency, the cedi, slump 30% against the dollar since the second quarter of 2013. In February 2014, Ghanaian officials set strict limits on foreign exchange withdrawals.

Authorities have also moved in recent years to improve their monetary policies, and to synchronize them between regions. The region's most advanced regional bodies, notably the Common Monetary Area spanning southern African countries including South Africa, Namibia and Swaziland, have been particularly far-sighted in terms of harmonizing monetary and exchange rate policies. In eastern Africa, the EAC, encompassing nations including Kenya, Tanzania and Uganda, plans to have a full monetary union in place within a decade. Some nations are further ahead than others: Kenya has seen the use of its currency, the shilling, expand dramatically in recent years.

Leading lenders are rushing to provide high-quality foreign-exchange services both for regional corporates seeking to trade across multiple borders and for global firms seeking to hedge their exposure to a set of prime new frontier markets. "We have the capability to do foreign exchange into most local currencies" in sub-Saharan Africa, says Johann Van Zyl, UK country head at Nedbank. "This is clearly a capability that we are looking to grow over time."

This remains a major challenge for everyone, from local lenders to pan-regional megabanks. Local currency funding remains "an issue", Van Zyl adds. "International banks can provide finance in dollars or euros or sterling, but local currency funding is often hard to come by. Most leading non-local banks don't have a local deposit base." Thanks to its alliance with Ecobank, though, Nedbank is one of the few that do. Term funding, or the lack of it, also remains a hindrance in many jurisdictions, and cross-border liquidity is clearly a serious challenge.

Financing projects

Trade finance is also growing apace. Roland Botes, general manager, customized trade solutions, at Nedbank, says the key markets from a trade finance perspective are the leading southern and western African economies, along with rising oil-rich states such as Mozambique and Angola. Brad Maxwell, executive head of investment banking at Nedbank Capital, says the greatest demand for project finance is emerging in several key sectors, including infrastructure, telecommunications, mining, and oil and gas.

Consumer-facing industries are growing fastest in the likes of Tanzania, Kenya and Ethiopia, the latter now a genuine rising sovereign star offering genuine potential and well-run corporates such as Ethiopian Airlines. Notes Botes: "I don't believe that any market in Africa can be regarded a 'slam-dunk' market due to the political risk that exists in most of the countries and the speed with which competitors assess an industry, develop capacity and launch a product."

Botes describes trade finance requirements across the region as relatively simple. "African countries require solutions that are common in developed countries, and which are easily fulfilled with standard financial solutions. Trade finance solutions rest more on risk appetite of the financial institution or investor in question, rather than the complexity of the transaction." Typical services provided by local and regional lenders include overdrafts, term loans, documentary credit-based solutions, structured finance solutions, invoice discounting and letter of credit discounting. "We are talking to clients who are venturing into or currently have operations in Africa to capture their trade flows," notes Botes.

Infrastructure finance is also of increasing interest to investors and lenders, if not yet in terms of actual dollars put to use on the ground. Sub-Saharan Africa desperately needs capital to build new highways, railways and airports, without which intra-regional trade can only grow in fits and starts. Even the region's mobile telecommunications network, its sole infrastructure-related redeeming feature, vacillates between strong, patchy and enfeebled.

The desire is clearly there. Africa desperately needs around $95 billion in fresh funding each year to close its infrastructure gap, yet annual investment is currently running at less than $50 billion. Capital supply is growing. The African Development Bank said in May that it was planning to launch a $3 billion infrastructure fund alongside regional and non-African pension funds, insurers and institutional investors, scaling up to $10 billion over time.

Yet investors have in the past shied away from investing in infrastructure-oriented African funds, chased away by high risk and relatively low yield, and a frustratingly narrow range of tenors on debt securities. Without world-class infrastructure in place, notes Robert Hersov, founder and chairman of London based Invest Africa, "the intrinsic value of a large population" can never be realized. "You have to source opportunities for investors that, regardless of the quality of infrastructure in place, will still be able to generate returns."
### Best Managed Companies in Sub Saharan Africa

**By sector**

#### Agribusiness
No. of companies cited: 39

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#### Airlines & Aviation
No. of companies cited: 12

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#### Banking and Finance
No. of companies cited: 83

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#### Construction /Cement
No. of companies cited: 12

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### Best Research Houses in Sub Saharan Africa

**Overall Best Research House**

2014

1. African Alliance
2. Standard Bank (SBG Securities)
3. Renaissance Capital
4. Imara
5. BPI Africa
6. Exotix
7. Morgan Stanley
8. J.P. Morgan
9. Standard Chartered
10. Standard Investment Bank

**Economics**

No. of companies cited: 51

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**Strategy**

No. of companies cited: 50

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### Best Financial Exchange

2014

1. Johannesburg Stock Exchange
2. Nairobi Securities Exchange
3. Nigeria Stock Exchange
4. Renaissance Capital
5. Imara

**By sector**

#### Agriculture

No. of companies cited: 25

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#### Banking & Finance

No. of companies cited: 37

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#### Consumer Goods/Retail

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### Telecoms

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### Food/Drink/Tobacco

No. of companies cited: 18

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### Oil/Gas/Chemicals/Petrochemicals

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Entrepreneur of the Year in Social Responsibility 2008


Best Local Bank in Africa 2011


Best Corporate Social Responsibility Program 2010


Bank of the Year 2012, 2013

Entrepreneur of the Year in Social Responsibility 2008

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