

## ***Quotes from West Africa***

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**O**n a recent trip in West Africa with the 20-20 Investment Association<sup>1</sup>, we experienced a cross section of the highs and lows of African food, hotels and traffic. Our trip was oriented

*"On the Road  
Again..."*  
Willie Nelson,  
November 1980



Source: Google Maps

towards the macro side rather than the company level that is the focus of Frontier Global Partners' regular research trips. We are bottom-up stock-pickers, because we admit that our crystal ball is murky on politics and much else at the macro level. The following quotes and reflections are windows we looked through onto the changing landscape of the African economy.

We traveled to Nigeria, Ghana, Cote d'Ivoire and Morocco. We heard 36 panel discussions and speeches. We met with ministers who ranged from Prime (Cote d'Ivoire) to Finance (Ghana) to Industry and Trade (Nigeria and Morocco). In addition, we had site visits in cocoa refining (Niche Cocoa in Ghana) and bottling (Solibra in Cote d'Ivoire). It is hard to distill all of this into a few pearls of wisdom, but some quotes stand out.

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<sup>1</sup> Author's note: The 20-20 Investment Association includes plan sponsors and money managers.

## Nigeria

### Quotable

### Reflection

*Three things Nigeria needs?*

**"Power...power...power"**

*local private equity manager*

Nigeria has huge oil and gas production and reserves, yet electricity per capita is only 165 kWh versus 276 kWh in Cote d'Ivoire, 355 kWh in Ghana and 901 kWh in Morocco.

*The key to economic success?*

**"Literacy & Electricity"**

*Charlie Robertson, Renaissance Capital*

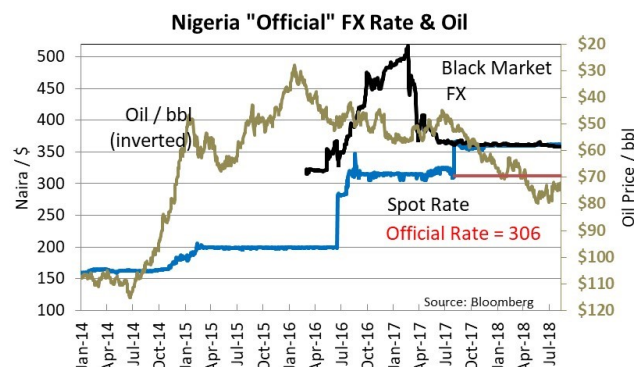
Charlie says that 300 kWh of electricity per capita is the threshold for developing the manufacturing sector in a country. And literacy should be 70% or higher, whereas it is only 41% in Nigeria and 37% in Cote d'Ivoire, versus 71% in Ghana, 60% in Morocco and 94% in South Africa.

The naira spot rate is at 360/USD, but the official rate is 306.

*Nigeria's FX rate?*

**"The official rate is for officials"**

*Nigerian lawyer*



Maybe the "official" rate will go up to the spot rate in the spring, after the February election.

*Corruption in Nigeria?*

**"Anything for the boys?"**

*Nigerian lawyer*

Nigeria ranks at only 27 on Transparency International's Corruption Index versus 36 for Cote d'Ivoire, 40 for Ghana, 40 for Morocco and 43 for South Africa. Meanwhile, New Zealand ranks at 89, Canada at 82 and the US at 75.

**"We can 'fast-track' it for you..."**

*Nigerian petroleum executive*


*Has Nigeria improved in recent years?*

**"Well, there are more signs at the airport, so you don't have to pay people to get around"**

*former ex-pat resident of Lagos*

Unfortunately, Lagos looks the same as it did ten years ago - but with worse traffic. Meanwhile, Accra in Ghana has become more developed, with bright new buildings and cleaner, better streets.

## Nigeria (continued)

Quotable	Reflection
<p><i>eCommerce challenges?</i></p> <p><b>“Nobody has a real address... you get things like ‘behind the first building and go to the number 3 gate that is white – not the yellow one’</b></p> <p><i>entrepreneur/founder of Mall for Africa (website for access/delivery from foreign eCommerce sites)</i></p>	<p>With delivery issues, low credit card penetration and concerns over internet security it will take a while for eCommerce to replace traditional retailing.</p>
<p><i>How strong is rule of law in Lagos?</i></p> <p><b>“No Parking...”</b></p> <p><i>Sign at the Kalakuta Republic Museum in Lagos, honoring the Afrobeat King Fela, who relentlessly attacked government corruption</i></p> <p><a href="https://en.wikipedia.org/wiki/Fela_Kuti">https://en.wikipedia.org/wiki/Fela_Kuti</a></p>	<p>Often laws and signs are optional...</p> 

## Nigeria and Ghana



*High end shopping at Nox in Lagos*




*And fine dining at Urban Grill in Accra*

## Ghana

Quotable	Reflection
<p><i>Are electric power needs being met now?</i></p> <p><b>“When a village went from no power to power, we had to upgrade the transformer within a month, because everybody bought a fridge and a TV. There is a lot of ‘latent demand’ for power in Ghana”</b></p> <p><i>Volta River Authority</i></p>	<p>Accra has gone from blackouts to reliable power over the past ten years, whereas in Lagos a third of the people still rely on expensive diesel generators.</p>
<p><i>How bad is corruption?</i></p> <p><b>“In Ghana, Rule of Law is always attained... in the end”</b></p> <p><i>local private equity manager</i></p>	<p>Ghana still has a way to go...</p>
<p><i>Why has infrastructure lagged in Africa?</i></p> <p><b>“Most countries didn’t develop infrastructure on the private sector, but Africa is being asked to do that ... “</b></p> <p><b>“A lot of people make money from dysfunctional infrastructure”</b></p> <p><i>Ghana Infrastructure Investment Fund (GIIF)</i></p>	<p>Government revenues are low across Africa, so a lot of quasi-government agencies are stepping in to do infrastructure partnerships with private investors. The GIIF is working on a fiber project, a new airport and turning flared gas into power.</p>
<p><i>Is the US Millennium Challenge Corporation (MCC) helping?</i></p> <p><b>“The MCC \$500 million Energy Compact provides essential ‘air cover’ for Ghana to make hard decisions to privatize many segments of the power industry when it would be otherwise difficult to cut off a government enterprise.”</b></p> <p><i>Volta River Authority</i></p>	<p>Millennium Challenge Corporation has been very successful by providing targeted funding to fix critical bottleneck issues. In the first \$500 million five-year Compact in Ghana, MCC built a highway through Accra so agricultural produce wouldn’t spoil on the way to the port, a refrigerated warehouse at the airport and a ferry across Volta Lake to connect the north and south of Ghana. These are good examples from a successful aid program.</p> <p><a href="https://www.mcc.gov/where-we-work/country/ghana">https://www.mcc.gov/where-we-work/country/ghana</a></p>
<p><i>How can the government improve tax revenues?</i></p> <p><b>“Digitize the economy”</b></p> <p><i>Ken Ofori-Atta, Ghana Finance Minister</i></p>	<p>A digital Africa is changing the landscape by bringing people on the grid to establish and then protect their identity.</p>

## Cote d'Ivoire

Quotable	Reflection
<p><i>How can the government improve tax revenues?</i></p> <p><b>"Digitizing tax payments on-line"</b></p> <p><i>Amandou Gon Coulibaly, Prime Minister Cote d'Ivoire</i></p>	<p>No need for tax collectors if computers can do the work.</p>
<p><i>What is the African Development Bank doing in the power sector?</i></p> <p><b>"We have a renewables preference because of our shareholders ... We are not in favor of large scale hydro power (because of our shareholders)"</b></p> <p><i>AfDB team</i></p>	<p>France and Germany are imposing first world ideals on the African Development Bank at a time when Africa is desperately short of power and is rich in coal and potential hydropower. Furthermore, the AfDB is evidently slow-moving and hard to work with. Unfortunately, they seem to relish catchy terminology such as "High 5's" (power, infrastructure, food, integration and quality of life) and "SGDs" (sustainable development goals). Only one of their half dozen representatives in our meeting was concise and to the point. The good news for Cote d'Ivoire is that they moved their African headquarters back to Abidjan after the war, bringing 1,500 professionals.</p>
<p><i>Is the US Millennium Challenge Corporation (MCC) helping in Cote d'Ivoire?</i></p> <p><b>"The MCC \$500 million Compact is targeted at fixing the road from the airport, fixing a bridge from the port, building parking for trucks at the port and building 80 schools"</b></p> <p><i>MCC official</i></p>	<p>This is another good MCC program.</p> <p><a href="https://www.mcc.gov/where-we-work/program/cote-divoire-compact">https://www.mcc.gov/where-we-work/program/cote-divoire-compact</a></p>
<p><i>What's the best way to get around in Nigeria, Ghana and Cote d'Ivoire?</i></p> <p><b>"A police escort - it costs only \$600 a day"</b></p> <p><i>travel planner</i></p>	<p>And well worth it. It is awesome to watch the acrobatic maneuvering of these skilled riders, who wave and kick at cars in their way, even while looking backwards to see if we are following. They make good money on their days off from police duty, and we got to feel like minor potentates.</p>  <p><i>Mr. Nsae Braimah, Dispatch Rider, Accra</i></p>



## Morocco

Quotable	Reflection
<p><i>Are Chinese welcome in Morocco?</i></p> <p><b>“Chinese? Go, Go!”</b></p> <p><i>Agent at baggage screening station</i></p>	<p>While the rest of us dutifully placed our bags on the belt to run through x-ray screening, the agent beckoned to a Chinese couple among our group to bypass this step. The Chinese are indeed welcome.</p>
<p>Why are Moroccan stocks so expensive?</p> <p><b>“They are 36% owned by pensions and insurance companies, 34% by mutual funds and 10% by local institutions, all of whom are forbidden from investing more than 10% outside Morocco – and most are well below that.”</b></p> <p><i>Karin Hajji, Casablanca Stock Exchange</i></p>	<p>With a lot of local money bottled up in the Moroccan stock market, foreign investors have found stock picking to be a challenge. Foreigners hold only a 1.4% Moroccan weighing in frontier funds versus 7.7% in the MSCI Frontier Index.</p>
<p><i>Why was Morocco dropped from the MSCI Emerging Market Index in 2013?</i></p> <p><b>“Low trading volume”</b></p> <p><i>Karin Hajji, Casablanca Stock Exchange</i></p>	<p>No wonder liquidity is low, when so much is locked up in local institutions.</p>
<p><i>Was the overseas tax amnesty program successful?</i></p> <p><b>“We expected to get back \$500 million ... we got \$3.5 billion. Because people trusted that the cybersecurity and the banks would afford total anonymity”</b></p> <p><i>Abdelmalek Alaoui, Guepard Group</i></p>	<p>Morocco has made a big push into cyber security and worked to create public trust in electronic documents.</p>
<p><i>Do the courts understand business?</i></p> <p><b>“No, the judges do not understand. For example, the courts support dismissed employees 22% of the time in litigation. Morocco uses the French legal system which is not friendly to business”</b></p> <p><i>Abdelmalek Alaoui, Guepard Group</i></p>	<p>The Anglo-Saxon legal system, based on court precedents, may have evolved in better ways than the French codified law, that has evolved from the Napoleonic Code.</p>
<p><i>When will Morocco rejoin ECOWAS (Economic Community of West Africa)?</i></p> <p><b>“West Africa needs a large free trade zone to be an efficient location for business. Why import a car when it could be manufactured in the zone?”</b></p> <p><i>Moulay Hafid Elalamy, Minister of Industry and Trade</i></p>	<p>Morocco dropped out of ECOWAS when it allowed Western Sahara to join (Morocco considers that to be its own territory). Now Morocco wants to rejoin, but manufacturers in ECOWAS, especially in Nigeria, fear that Morocco would steamroller their nascent industry. Probably a realistic concern...</p>

<sup>2</sup> Morocco produces 650,000 cars for Renault and Groupe PSA (Peugeot and Citroen)

## Morocco (continued)

Quotable	Reflection
<p><i>What's the culture like?</i></p> <p><b>"Attention, Monsieur!"</b></p> <p><i>woman on the street in Casablanca</i></p>	<p>When we were in Cote d'Ivoire a couple of days earlier, I was talking with an old friend when suddenly a person bumped him and rushed on. "Pardonnez-moi (pardon me)" said my friend, although he was not at fault. But in Morocco, as I dodged a pedestrian coming towards me, a woman cut in front of me, gave me a sharp look and said "Attention, Monsieur (watch out, mister)". A small thing, but perhaps manners are better in West Africa than in the Maghreb.</p>

## Economics:

Below is a sampling of economic data for the four countries we visited, plus South Africa for comparison:

	Nigeria 2017	Ghana 2017	Cote d'Ivoire 2017	Morocco 2017	South Africa 2017
GDP Growth	0.8%	8.5%	7.8%	4.1%	1.3%
GDP / cap (PPP)	\$5,861	\$4,641	\$3,953	\$8,217	\$13,498
Market Cap (\$ bil)	\$37	\$3	\$9	\$67	\$1,231
Population (mil)	191	29	24	36	57
% Literate Female	41%	65%	37%	59%	93%
Infant Mortality < 5 yrs/1,000	104	59	92	27	43
% Urban	49%	55%	56%	61%	66%
% Banking Penetration	40%	58%	41%	29%	69%
% Safe Drining Water	19%	27%	46%	NA	NA
Electricity %	59%	79%	64%	100%	84%
Electricity/cap kWh	144	355	276	901	4,198
GINI Ratio	43	42	42	41	63
Corruption (Transparency Intl)	27	40	36	40	43

Source: World Bank WDI database, Transparency International, 2018

Nigeria has the slowest GDP growth because it is still struggling with recovery from the oil price decline. It also has the largest population, worst infant mortality, lowest availability of safe drinking water, lowest supply of electricity and worst corruption. Lots of room for improvement...

Ghana has the highest growth, good banking penetration and electricity supply, but its stock market is small, and liquidity is low.

Cote d'Ivoire is recovering from its 2011 civil war, which impacted education and hence literacy, but it has high growth and a decent supply of safe drinking water.

Morocco has surprisingly low banking penetration, but it is good on the other measures. Morocco is more developed than most frontier markets, and it was only moved down from emerging market status in 2013 by MSCI because of its low liquidity.

By comparison, South Africa is a big, relatively rich emerging market that has an unfortunately high GINI Ratio, reflecting severe inequality between rich and poor.

## The Bottom Line

After a second full day in Morocco and a sleepless night flight to Frankfurt, it was with relief that I sank into my seat on Lufthansa's mid-day 12-hour flight home. With a vow never to take that routing again, I tried to unscramble my thoughts from this 10-day odyssey.

*"Homeward Bound"*  
Simon and Garfunkel,  
January 1966

**Ghana.** I love this country. After a binge of government miss-spending (including hiring "ghost workers") after the discovery of oil, a new government has built up power generation, brought down the deficit, brought down inflation and achieved the first trade surplus in years. Moreover, the Ghanaian people are the friendliest of any country. In Ghana, one feels a level of normalcy and comfort that is absent in its edgier neighbors. The stock market is small and liquidity is episodic, but the stocks are cheap. Banks sell at 4-6 times earnings and consumer stocks at 12-15x, half what they would be in Nigeria.



*La Tante Restaurant, Accra*

**Nigeria** has the same gritty scrappiness that it has presented on every visit. Yet there are Harvard MBAs everywhere (perhaps a good thing...), and entrepreneurship is evident across the spectrum including the energy, financial services and consumer sectors. The stock market is liquid, but valuations are bipolar. The banks sell at 3-6x earnings, while they struggle with low loan growth, while consumer companies in beer and household products sell at 25-35x PEs. Before the peak of oil prices, Nigeria was 15% of MSCI Frontier. Now it is 7%, and most foreign fund managers are slightly underweight. Perhaps there is an opportunity.

**Cote d'Ivoire.** Although I want to root for the underdog doesn't make Cote d'Ivoire a compelling opportunity at this point, despite its 8% GDP growth on the recovery from civil war. We hope for a peaceful presidential election in 2020 that would include a credible opposition candidate, but things may be a bit bumpy along the way. Add to that the fact that company disclosures are sketchy and often only in French makes investing a challenge for foreigners.

**Morocco.** Here investors can afford to be picky. Because of the captive investments of local institutions in the stock market, PE multiples are around 20x, versus half that in some of the other frontier markets. At a time of rising interest rates worldwide, local institutions could shift out of stocks into local fixed income, and that could provide us a better entry point in the stock market. A longer-term concern is global manufacturing competitiveness, given that Morocco's work ethic is anchored by the same 35-hour workweek as France.

This was an intense trip; and despite sleep deprivation, the unique flavor of each country was clear to everyone. Hopefully the first-time visitors will come back. And hopefully everyone will spread the word that Africa is open for business.



*At the Grande Mosquée Hassan II in Casablanca:  
Mother and child with \$1 that I gave them...then she  
asked for \$5*



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