Investing in Africa: Beyond Risk Perception to Pragmatic Risk Management

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1 First Port of Call

Managing perception of risk in Africa

- Poor vs. savvy (Elite African investors vs. others)
  - Obsession with the downside of risks & amplification of risk
  - Extreme events shape perception of a continent of 54 countries!
  - Investing paralysis
  - Elite African investors have better/accurate perception of risks
    - Example: Mobile telecommunications industry – In 2001 when Nigeria auctioned its mobile phone licenses – all the three winners were all African (from Nigeria, SA, & Zimbabwe. The market has proved to be very lucrative
    - MTN case

2 Accurate Risk Identification

Types of Risks – Focus on business specific exposure (Risk Matrix)

- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Legal & regulatory risk
- Systemic risk

1	2	3	4	5
A	B	C	D	E

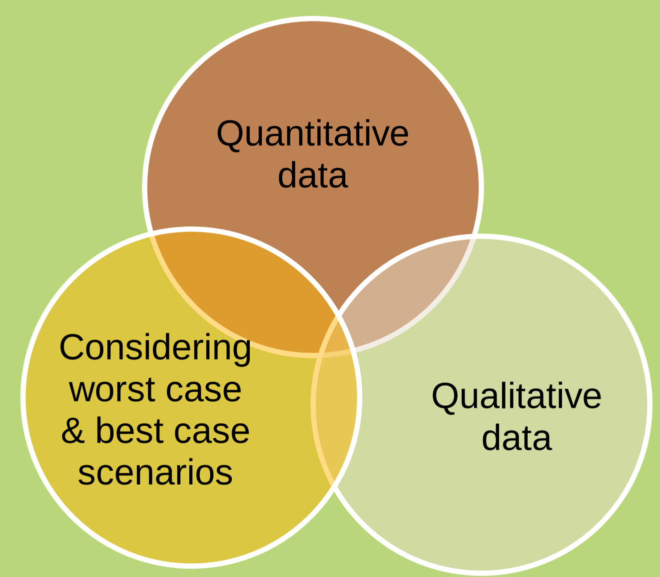
Note that for those economies with relatively higher level of integration into the global economy like SA – subject to level of exposure to currency risk (FX), it might be be necessary to hedge against the Rand currency

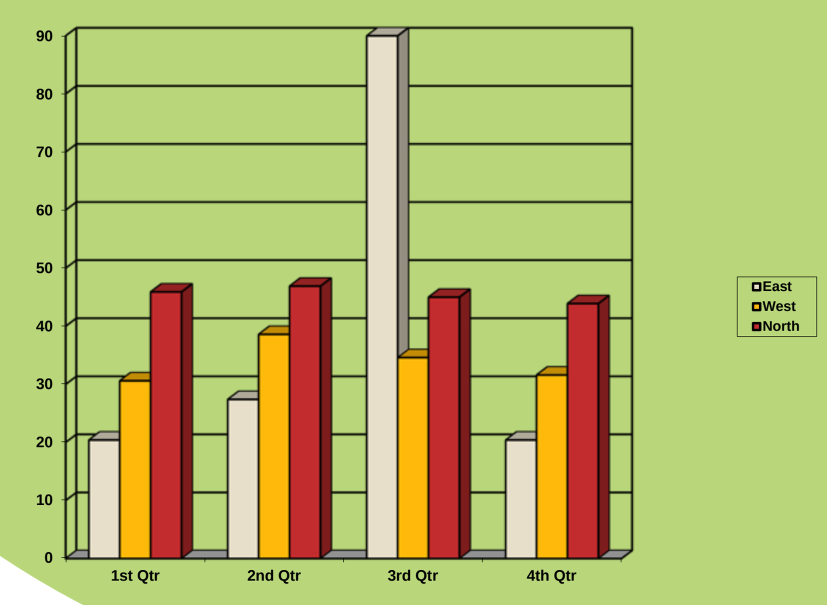
3 How to manage Risk?

- Local-knowledge-competence – Can be gained by using the services of reputable professional service firms with good knowledge of local markets. Such firms must have credibility with both domestic and international clients, and thus must be willing to stand behind their DD & risk analysis and risk management recommendations
- Benchmarking successful African investors (Intra-African investing firms) – learn from successful African firms

4 Data

Rich Context – where there is a story behind quantitative data





5 Conclusion

- **Manage your perception of risk & rid yourself of any bias**
- **Don't let extreme events distort your understanding of risks in the continent**
- **Don't aggregate data across more than 50 African countries and let it inform your risk assessment**
- **Gain local-knowledge-competence through the use of services of reputable professional firms**
- **Learn from successful African firms – already quite savvy at risk assessment and management**
- **Doing the above allows you to profitably use standard modern financial techniques for risk measurement and effective management**

THANK YOU!

* Assumptions

1. That firms considering investing in Africa are familiar with modern financial techniques and tools for risk assessment & measurement
2. That key investment decision makers are aware we cannot eliminate risk, but rather manage it by right allocation/transfer, avoidance or reduction of risk effect
3. Awareness that some investors may prefer higher level of risk i.e. speculators targeting abnormally high yields