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Economic Outlook for H2 2015

Sustainable Path to Economic Recovery and Growth


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Foreword

Welcome to the 2nd edition of *The Corvus*, a financial and economic publication of Guaranty Trust Bank plc. We would like to thank everyone for the emails and letters on the successful publication of the 1st edition. The positive feedback received from our readers and the warm acceptance of the magazine has propelled us to add more articles to this edition.

2015 has been a challenging year for most economies as the twin impacts of a rising dollar and a fall in oil prices have resulted in a downward revision of global growth for 2015. According to the International Monetary Fund, global growth is projected to slow to 3.3 percent in 2015, marginally lower than in 2014, with a gradual pickup in advanced economies and a slowdown in emerging markets and developing economies.

Commodity-exporting developing countries have had to deal with the decline in commodity prices and shifting investor sentiments. Most governments have however responded with a spate of economic reforms and revenue diversification plans, in order to adjust their economies to the tightening financial conditions, and signal their commitment to the protection of long term growth prospects to investors.

Nigeria has not been left out of the pervading weakness as the decline in crude oil prices, Nigeria's major commodity export, negatively impacted the health of the economy. The implications for our financial market are that yields on fixed income securities will remain "relatively high", there will be sustained pressure on the Naira in the near to medium term, and corporate profit growth and returns in nominal terms will be constrained to growth rates well below normal trends.

Investors, on their own part, are increasingly focusing on opportunities presented by the diverging growth rates among regions, countries, and economic sectors. Armed with a renewed optimism spawned by the slow but gradual acceleration of global economic recovery, investors are now taking a closer look at critical regional trends and risks, their sensitivity to key economic indicators and government policy responses taken to address them so far.

While these are not the best of times, the optimist always finds a way in the vagaries of life to make the seemingly impossible, possible. The efforts of the newly elected Government of Nigeria to address fiscal, structural, and financial challenges highlighted by low oil prices and weak capital inflows is expected to open up new growth and investment opportunities.

Against this backdrop, this edition of *The Corvus*, focuses on the aftermath of the declining commodity prices on emerging and frontier markets and examines the recovery process of these economies. It also identifies specific sectors which have the potential of attracting long-term investments by both international and local investors.

I hope you enjoy this edition.

Segun Agbaje

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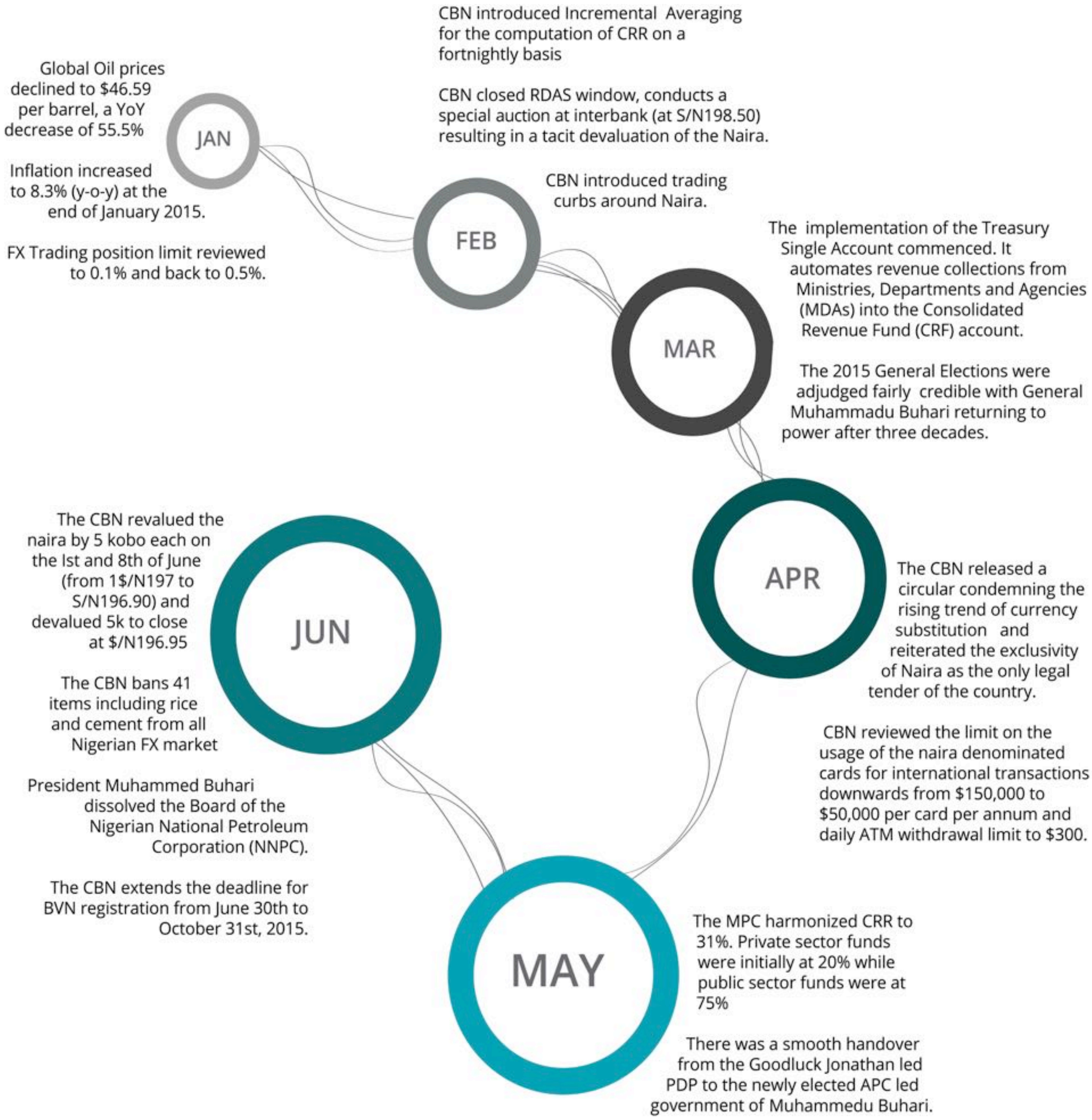
Economic Outlook for H2 2015

Highlights of first half of 2015



A REVIEW OF H1 2015

The global economy was somewhat sluggish in the first half of 2015. This malaise has its roots in deteriorating demographics as well as an overhang of consumer and government debts. The Nigerian economy has not fared any better. The decline in crude oil prices, Nigeria's major commodity export, has dealt viscious blows to the coffers of the government and the health of the economy.

Besides oil, politics dominated the first half of the year. The presidential elections, which was initially scheduled to hold on February 14, was probably Nigeria's most unpredictable election for a generation. On the 8th of February it was postponed and the uncertainties this created spawned volatilities in the financial markets. Yields on fixed income securities climbed to all year highs across all tenors traded in the secondary market.

On the 28th of March, the elections held and they belied the negative sentiments purveyed by numerous political and social commentators and were adjudged by most to be largely free and fair. The transition to the newly elected government was also seamless and hitch-free thus, indicating the coming of age of the country's democracy.

Amidst these welcomed developments, the country was battling with a continuous haemorrhage in fiscal revenues and a supply gap in the FX space. In response, the federal government cut capital expenditure and adjusted monetary and exchange rate policies to relieve pressures on the public finances and the currency.

The CBN devalued the Naira in February and subsequently continued its defence of the currency and this resulted in the implementation of more tightening measures including the closure of the RDAS window, the capping of spreads charged by banks on purchase and sale of Foreign Exchange (FX), the harmonization of the CRR for both public and private deposits to 31%, and the restriction of access to the FX market to finance the import of certain products.

While these measures have resulted in a reduction of the initially swelling demand for FX, it has negatively impacted the supply side. Portfolio investments which could have served as additional supply sources have recorded a continuous decline as the investors, research firms and rating agencies remain firm in their expectation of additional devaluation of the Naira.

On the contrary, the CBN revalued the Naira by 5 kobo in June 2015 and helped strengthen the Naira against the Dollar in the order-based inter-bank market. This was however belied by the continuous depreciation of the Naira in the parallel market as it suffered a 27% loss in value from the January position of $/N190.5.

This depreciation as well as the continuous increase in inflation (up 130 bps this year), reduction in YoY GDP growth rate and the palpable apathy of Foreign Portfolio Investors for Nigerian assets are precursors to an eventful but challenging second half of the year.

OUTLOOK FOR H2 2015– MACROECONOMIC ENVIRONMENT

We believe the second half of 2015 will be different from the experience so far. Already, the real GDP growth projection for the year has been revised downwards by 60bps to 4.2% because of the lack of clarity in the macro-economic policy direction of the new administration. We expect this to worsen as the increased difficulties in the operating environment of businesses, resulting from the knock-on effects of recent monetary policies, as well as the persisting FX scarcity lead to a continuous rise in inflation rates from the present 9.2% to about 10% by the end of the year.

EXCHANGE RATES

The direction of exchange rates in the second half remains a tough call given the prevailing uncertainties. On the one hand, the CBN remains poised in its resolve to defend the Naira whilst we, on the other hand, believe this stance might not be

sustainable. We expect these two views to meet mid way. Given the stance of the CBN, the devaluation of the Naira will be explored only as an option of last resort and the journey towards it will be a long and arduous one. If it happens though, it will probably not be more than 5-10%, against the general expectations of 15-25%.

Devaluation of the Naira, if it happens, will firm up the interest of portfolio investors given the attractive yields offered in the fixed income space and near-rock bottom prices in the equities market. Portfolio Investments will trickle back into the economy and the current dearth of supply of FX will be significantly addressed. If, however the initial devaluation exceeds 10%, we expect that portfolio flows will help in strengthening the Naira back to a 10% range from current levels.

Irrespective of the eventual outcome, one thing remains certain: While seeking a long term solution, the quickest way to plug the existing demand-gap and indeed, to address the lingering lethargy of economic activity will be to encourage the portfolio inflows. Two policy thrust can be employed in this regard. First, the CBN can, once and for all, clear the current back-log of FX demand and subsequently allow the return of the interbank FX market to its 2-way quote trading. While, this will surely lead to an initial devaluation of the Naira, we think that it will be a much safer landing given that the extant demand has been cleared out. Price discovery would address the concerns of skeptics and the portfolio flows will find their way in. This will eventually lead to the strengthening of the Naira.

A second alternative would be to increase the yields on fixed-income securities. This is apt given that beyond the investors' concerns surrounding the appropriateness of the price of the Naira lies the real worry that available returns cannot offset the impact of devaluation in the event that they play out. This coupled with the imminent increase in U.S. rates as well as the impressive returns offered by other emerging market economies dent the attractiveness of Nigerian assets. Increasing the rates will encourage foreign portfolio and direct investments and strengthen the Naira in the short to medium term. Eventually, the increased demand would lead to a decline in yields and a moderation of interest rates.

The CBN should consider these alternatives as they remain very feasible. Also, its current drive to ensure the return of NNPC USD deposits, estimated at over $5billion may, if deployed, clear accumulated demand, shore up the reserves and enhance the ability of the CBN to defend the currency.

INTEREST RATES

The interest rate environment will come under significant pressure in the second half of 2015 and three factors duly explain this. The first, is largely fiscal. Upon his resumption, the president mourned the absence of funds in the Nation's treasury. This, coupled with the level of funding required to implement the promised change agenda would lead to increased borrowing in the second half and an attendant upward pressure on rates.

Second is the fact that Investors have already begun demanding better returns for their fixed income investments. This is obviously unsurprising given the recent climb in inflation rates, the uncertainties surrounding the direction of exchange rates and their debilitating effects on real returns- both realized and potential.

Third is the fact that returns still remain the primary determinant of the direction of foreign portfolio flows ceteris paribus. Given the impressive returns offered by other emerging market, the CBN would need to improve its return offering so as to attract portfolio flows which are at this point vital to the bolstering of the foreign reserves and the increase of domestic FX supply

Given the foregoing, we expect a minimum of 100 bps rise in interest rates in the second half of the year. This will put additional pressure on cost of funds as customers begin to demand more interest on their deposits. Banks will also tweak their strategy to accommodate more play in the fixed income space as it would provide enhanced but risk free returns.

REFORMS

We expect that the Buhari led administration will continue its push for reforms of the Oil and gas industry with a view to plugging the leakages in the sector. Already, the Presidency has dissolved the Board of the Nigerian National Petroluem Corporation (NNPC) and this was seen by many as the timely move towards the sanitization of the Industry.

We also expect that this wave of reforms would likely lead to the deregulation of the downstream sector in the medium to long term as the President recently said he is yet to find a compelling reason to end subsidy on petroleum products. The liberalization of the downstream oil sector will mark an end to the subsidy payment on petroleum products by the government and make it more attractive for credible investors to transform the industry into a competitive one as was the case in the telecoms sector in 2001.

Also, we expect the release of a comprehensive plan to revamp refineries. As of today, the country has four local refineries with a combined capacity capable of meeting 60% of local consumption. We expect that given the drive to manage the burgeoning demand for FX, the government will prioritize the revamping of the refineries to reduce the demand for FX induced by the excessive dependence on imported petroleum products.

TAXATION

The government is also expected to aggressively drive tax administration and compliance to augment the lower revenues from depressed oil prices. Nigeria's Value Added Tax (VAT), presently at 5%, is believed to be the lowest in the world and the government has expressed its intention to increase VAT by an additional 5%, as well as an increase in luxury taxes on private jets, yachts, cars, champagnes, wines and spirits. In the second half, We expect the government to commit resources into plugging loopholes in the tax collection process. This will signal the coming to an end of tax evasions by businesses and households as they would be brought to their bearest minimum, if not eliminated.

SECURITY CHALLENGES

Security challenges still persist in the North East region as the assaults of Boko Haram insurgents have not abated. In addition to the appeal to the international community during the G7 Summit, the government has proferred strategic measures to address the insurgency. The Service Chiefs have been replaced and the Military Central Command has been moved to the epicentre of the insurgency. These steps, if complemented with a collective regional effort as well as intelligence from the G7 would go a long way in bringing the insurgency to an end.

BANKING INDUSTRY – EXPECTATIONS FOR H2

The spike in the number of new regulations and the frequency of their release made the first half of the year a challenging one for the banking sector. The closure of the RDAS window, devaluation of the official exchange rate, currently at $/N196.95, and the heavy regulation of the interbank FX market were bumps the Banking industry had to deal with in the first half of the year. The direction of the unfolding of events in the second half will be greatly influenced by how things play out in the FX space during the coming months.

INDUSTRY LIQUIDITY

In the first half, an additional N501bn was sterilized as CRR from the Banking Industry. This was largely as a result of the fact that the CRR policy was amended to ensure that increments in average deposits warranted further sterilization while reductions did not result in a refund of previously sterilized funds.

While the policy had undertones of FX demand deterrence, its main effect was to put pressure on the liquidity of Banks as well as the cost of funds for the industry. The re-introduction of the normal weekly averaging and the possibility of CRR net credits which was non-existent for most parts of the first half would result in a Banking industry that is more liquid vis-à-vis the experience in the first half of the year.

ASSET QUALITY

Against the backdrop of the devaluation of the Naira coupled the adverse effect of the recent monetary policies on businesses and the exposure of banks to the Oil & Gas and Power sectors, we anticipate an increase in industry-wide Non-Performing Loans (NPL). Going forward however, Banks would exercise more caution in growing their loanbook in H2 2015 until the macro environment becomes clearer and economic activities begin to pick up.

RAISING ADDITIONAL CAPITAL

The debilitating effect of regulatory measures on the earnings of banks is likely to result in shortfalls in capital adequacy. Thus, in the second half and into next year, we foresee an increase in capital raising activities as banks shore up their liquidity positions as well as their capital in preparation for the challenging environment anticipated in the coming months.

Towards Africa's Recovery: Strategies, Policies and Implications for Business

Ayokunle Yusuf

Sequel to the cover story 'Sub-Saharan Africa in the Face of Declining Commodity Prices' published in the maiden edition of '*The Corvus*', this article explores the strategies and policies that have and are currently being implemented by major Sub-Saharan African (SSA) economies to recover from the macro-economic headwinds which defined the second-half of 2014 while also presenting a compelling business case for Africa in the current year and after. North Africa has been deliberately excluded from this article due to the socio-political turbulence pervading the region. The upheaval instigated by the Arab Spring of 2011, unfortunately, continues to dominate North Africa's political sphere till date, thus hurting business confidence, slowing growth and curtailing investment flows to the region while also shrouding in uncertainty, the region's medium-term macroeconomic outlook.

Against the backdrop of the fiscal pressures on the economies of SSA countries occasioned by the decline in commodity prices last year, the governments of the affected states in each of the four SSA regions, namely: West, East, South and Central Africa, have instituted strategies and policies to rescue their floundering economies and set their respective territories on the path of sustainable economic development. In West Africa for instance, Nigeria's (25% of Africa's GDP) apex banking regulator, the Central Bank of Nigeria (CBN) devalued Naira twice between November 2014 and February 2015 in order to reduce pressure on the fast eroding foreign reserves which fell below $30bn in the first quarter of 2015 – the lowest level in a decade.

The CBN also hiked the benchmark interest rate by 100 basis points to 13% while yields on fixed income securities have remained high since December 2014 to attract foreign capital flows. In order to stem the pressure on foreign reserves, drive demand efficiency and curb the abuses that have dogged the Foreign Exchange (FX) market for decades, the apex banking regulator in a major policy change – long overdue, unified the FX markets by suspending the official window in February 2015. This was followed by the pegging of the interbank rate at N197 to the greenback, 67% reduction in annual debit cards transaction limit to $50,000, reduction in the daily International Automated Teller Machine (ATM) withdrawal limit to $300, FX restriction on 41 items including rice and cement among other FX controls.

Complementing the monetary policy stance of the CBN is the austere approach of the Federal Government to budgetary spending for the 2015 fiscal year. While a total budget sum of N4.463tn for 2014 was predicated on a benchmark crude oil price and exchange rate of $78pbl and N160/$ respectively, the immediate past government cut the budgeted expenditure for 2015 by 4.7% to N4.425tn. The 2015 benchmark oil price was also slashed by 32.1% to $53pbl while the exchange rate for the budget was pegged at N190/$, thus indicating a depreciation of approximately 19%.

The President gave vent to his

Table 1: Nigeria's Budget - 2015 versus 2014

Parameter	2015	2014	Change
Budget Spend (N'tn)	4,425	4,643	-4.7%
Oil Price ($pbl)	53	78	-32.1%
Exchange rate ($/N)	190	160	18.8%

Source: Budget Office

belt-tightening posture when he recently sought and obtained approval from the Senate to appoint 15 Special Advisers, a marked departure from the 24 hired by the immediate past President. The Transition Committee which also recently submitted its review of the hand-over notes from the previous administration to the President is believed to have recommended a rationalization of the civil service while the newly inaugurated leadership of the National Assembly and the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) have both pledged to review the personnel budget of the Lawmakers downward.

Also in West Africa, the Bank of Ghana (1.4% of Africa's GDP) has hiked the benchmark interest rate by 100 basis points to 22% in the second quarter of the current fiscal year in order to combat inflationary pressure, stabilize the Cedi and realign interest rates in favour of domestic assets. The exciting story on Ghana, is the bail-out package of $918mn approved by the board of the International Monetary Fund (IMF) in April 2015. The three-year bail-out programme which is geared towards fiscal consolidation aims to restore debt sustainability (by cutting the ballooning public wage bill and subsidies), assure macro-economic stability, protect priority social spending, stimulate job creation and return West Africa's second largest economy to the path of broad-based, inclusive and sustainable high growth in the medium term.

In East Africa, the government of Kenya obtained approval for a $700mn contingency funding from the International Monetary Fund in February 2015. According to the IMF, the 'insurance' package which will only be drawn in the event of external sector shocks is aimed at helping the Kenyan Government further strengthen macro-economic management; pursue more inclusive growth while carefully balancing, a scaling up of investments towards critical transport and energy infrastructure on the one hand and maintaining debt sustainability and financial stability on the other hand. As a follow-up to this, the Central Bank of Kenya also tightened monetary policy in June 2015 by hiking its benchmark interest rate to 10% from 8.5%, thus representing the first rate increase in approximately two years as East Africa's largest economy attempts to rein in budding inflationary pressure and stem the tide in foreign exchange volatility.

In Southern Africa, Angola's fiscal and monetary policy adjustments in response to the decline in oil price have been sharper compared to other commodity exporters and quick compared to its delayed policy response in 2008, Angola, the third largest economy in SSA and Africa 's second biggest oil producer, revised its 2015 budget by slashing aggregate spending by 26% to Kw5.4tn ($46bn) in February 2015 while it reduced its benchmark crude-oil price forecast upon which its budget is predicated by 51% to $40pbl from $81pbl. In the revised 2015 budget, Angola slashed capital expenditure by half while it also planned to phase out state subsidies at the end of the current year. The National Bank of Angola, the apex banking regulator has also allowed the local currency (Kwanza) to free-float in order to reflect prevailing realities and more importantly, stem the depletion in fiscal buffers.

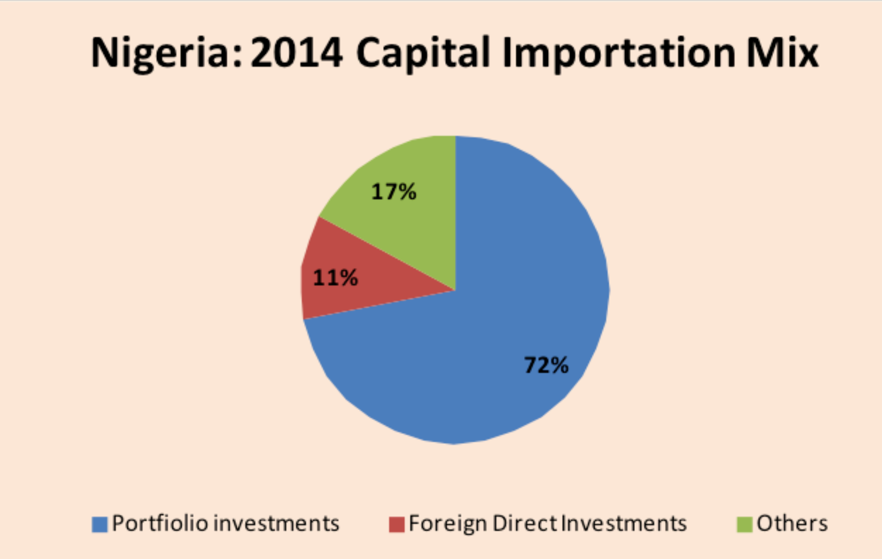
Cameroon–Central Africa's largest economy–derives most of its revenues from oil has also revised downward, its 2015 oil price benchmark, cut spending among other austerity measures in response to the fiscal challenges posed by the weak oil price.

Having explored the response strategies, fiscal and monetary policy adjustments by the selected SSA economies to the decline in commodity prices, the second part of this article presents the business case for Africa. What makes Africa attractive? Geographically, Africa is at the centre of the world as it is

Table 2: Macro-economic statistics for major SSA economies

s/n	Country	African region	2014 GDP	Population	Per Capita GDP	Real GDP growth	Inflation	Interest rate
			$'bn	Million	$	%	%	%
1	Nigeria	West	530.0	185.0	2,865	6.2%	8.0%	13.0%
2	Ghana	West	38.6	27.0	1,426	4.0%	17.0%	22.0%
3	Ivory Coast	West	31.0	22.7	1,367	7.7%	1.0%	3.5%
4	Angola	Southern	124.0	24.3	5,103	4.4%	7.5%	9.3%
5	Zambia	Southern	22.0	15.0	1,465	7.1%	7.9%	12.5%
6	South Africa	Southern	326.8	55.0	5,942	1.5%	5.3%	5.8%
7	Congo DR	East	31.0	67.5	459	9.5%	1.5%	2.0%
8	Tanzania	East	33.0	47.2	699	1.5%	4.8%	12.0%
9	Kenya	East	55.0	41.8	1,316	5.1%	6.0%	10.0%
10	Cameroon	Central	29.0	22.3	1,303	5.1%	3.1%	3.0%
11	Gabon	Central	19.0	1.7	11,377	5.1%	1.7%	3.0%
12	Burundi	Central	3.0	10.2	295	4.7%	3.8%	10.1%

Source: World Bank Data Book, NBS, Trading Economics, Statistics offices of Ghana, SA, Tanzania sandwiched between the Americas (on the left) and Eurasia (on the right). Complementing the favourable geo-positioning is its massive and easily accessible coastline which makes it more proximate to the American and European markets compared to Asia. While China has traditionally been the low-wage region of the world, this is poised to change as its per capita GDP of $8,154 is almost quadruple that of Africa at less than $2,300 – thus making Africa, the next low-wage region of the world. Besides the low-wage attraction, Africa has the youngest population in the world which translates to a massive labour force.



A study of the listed entities operating in Africa for the period 2002 -2007 found that Africa had the highest return on investment in the world compared to the returns obtained in other regions. Put succinctly, Africa is the next growth market for discerning investors as it has a plethora of natural resources which can be processed into secondary and tertiary goods for export. Also, an abundance of untapped potentials exist in critical sectors of the African economies especially in infrastructure, manufacturing and services.

For discerning investors, Africa undoubtedly represents the next phase of growth and these investors must shed their stereotypes about Africa and key into the opportunities offered by this rapidly growing market. It is not surprising that a lot of international businesses underestimate the potentials and investment opportunities in Africa – no thanks to the incessant political instability, corruption, endemic poverty among other ills which have formed the story of Africa for several decades.

Strong democratic system, a potent antidote to political instability which provides comfort for both local and foreign investments is fast maturing in Africa as demonstrated recently by Nigeria, which expectedly, will rub-off on other countries on the continent. Serious-minded investors can enjoy first-mover advantage in many of the virgin economic sectors of the SSA states while also benefiting from favourable concessions, tax holidays among a host of other investment promotion initiatives of the SSA governments.

As opposed to flooding Africa with portfolio flows, which are short-term in nature, it is time investors demonstrated greater commitment to the development and transformation of Africa by bringing in the more permanent Foreign Direct Investments (FDIs) and deploying them to the real sectors of the SSA economies.

Without a doubt, the most fundamental investment window in majority of African states is infrastructure. Long-running pronounced infrastructural deficit has held back African States from realizing their true economic potential. According to The Africa Competitiveness Report 2013, a World Bank publication, 'inadequate infrastructure has raised transaction costs of business in most African economies. Today, African countries exhibit the lowest level of productivity of all low-income countries and are among the least competitive economies in the world. With adequate infrastructure, African firms could achieve productivity gains of up to 40%'. That infrastructure is the bedrock of inclusive growth cannot be over-emphasized. The Programme for Infrastructure Development in Africa (PIDA) estimates that Africa will need to invest in excess of $90bn annually through 2020 to plug the infrastructure gap.

In the energy sector for instance, Nigeria – Africa's largest market - produces less than 4,000MW for its teeming 185 million population compared to South Africa which generates over 40,000MW, 95% of

Table 3: Nigeria: 2014 Capital Importation Mix

	2014 FY Distribution		2013 FY Distribution	
	$'bn	%	$'bn	%
Portfolio Investments	14.9	72%	17.4	81%
Foreign Direct Investments	2.3	11%	1.3	6%
Others*	3.6	17%	2.7	13%
Total	20.8	100%	21.3	100%

**Loans, deposits, claims and trade credits*

Source: NBS

which comes from coal – despite its population being less than one-third of Nigeria's. Ghana few years ago, was near self-sufficient in power generation but as at 2015, the narrative has changed completely as the country battles incessant power shortages. At a cost of $1.48m per Mega Watt, Nigeria will need $50.4bn to ramp up its generating capacity to the current level of South Africa. The transmission infrastructure, distribution and metering are other critical segments of the electricity value-chain requiring critical investments. Still in the energy sector, Nigeria's vast gas potential is yet to be harnessed as Africa's largest economy sits on proven reserves in excess of 5.11tn cubic metres, enough to last more than a century at current production levels.

Table 4: Electricity Production by major SSA economies

S/n	Country	Output (MW)	Population (Million)	Output per Capital (per 1 million persons) (MW)
1	South Africa	44,851	55.0	815.5
2	Nigeria	4,500	185.0	24.3
3	Zambia	1,986	15.0	132.2
4	Ghana	1,910	27.0	70.6
5	Congo DR	1,366	67.5	20.2
6	Kenya	1,334	41.8	31.9
7	Ivory Coast	1,028	22.7	45.3
8	Cameroon	1,026	22.3	46.1
9	Angola	965	24.3	39.7
10	Tanzania	896	47.2	19.0
11	Gabon	298	1.7	178.5
12	Burundi	24	10.2	2.4

Source: World Bank, EIA, CIA

Foreign and local investors can key into the much vaunted economic diversification objectives of the Nigerian government. Under its Vision 2030 strategic macro-economic development plan, Kenya hopes to construct over 600 kilometres of road, expand two international airports and the Mombasa sea port, construct a new sea port, new railway lines, a new technology city and 30 Information and Communication Technology (ICT) centres. In Tanzania, the government hopes to undertake investments in critical sectors such as electricity, transportation and ICT. The African Development Bank (AfDB) put the infrastructure plans for South Africa, the bulk of which is targeted towards the energy and transport sectors, at R3.2tn ($196bn) over the next several years.

The Nigerian solid minerals sector is virtually an uncharted territory begging for investments. According to the Nigerian Investment Promotion Council, Nigeria currently has over 3 billion metric tonnes of iron-ore, 10 million tonnes of lead/zinc, 42 billion tonnes of high quality (i.e. low-sulphur and environmentally-friendly) bitumen deposits, about 3.6 billion tonnes of coal reserves, more than 2 billion tonnes of kaolin deposits, vast deposits of gemstones, talc, bentonite and barite, gold and rock salt all of which are spread across the country. Investments in tolled road on a Public Private Partnership (PPP) basis, mass housing for a growing middle-class are key investments needed in the country.

Nigeria's transport sector (rail, road, water and air) harbours boundless opportunities for investments. Roads linking multiple urban areas together and also linking rural areas with urban areas are critical to opening up new markets. This will link production with distribution and market hubs thus cutting costs and facilitating rapid urbanization of rural areas. Engendering broad-based and inclusive growth will require critical investment funding from both the public and private sectors. The water and rail sub-sectors are essentially uncharted territories thirsty for private sector-led investments.

As the ring tone of economic diversification and increased investment push gets louder and more vigorous due to the weak fiscal position African economies have found themselves today, it is a truism that the SSA governments will drive tax administration and compliance more aggressively than ever in order to augment revenue shortfall and fund their respective budgets. Besides streamlining activities in order to drive operating efficiency, cost cutting and exploring new growth markets, firms and businesses currently operating in the SSA economies must brace up for the aggressive tax generation drive of the revenue authorities.

In conclusion, a recent report by Rencap's Global Chief Economist, Charles Robertson projected Africa's GDP to rise to $29tn by 2050, larger than the 2012 combined GDP of the United States and Eurozone if propelled by adequate investment funding to unlock its potential. The GDP estimate indicates an annual growth of approximately 7% through the forecast period for the world's new growth frontier.

A sizeable number of foreign firms and multinationals have made inroads into Africa in the last few decades and are generating superior returns over and above the returns in their home economies. For other prospective foreign investors, multinationals, private entrepreneurs, private equity and venture capital firms and other investment boutiques desirous of diversifying their income source and base, locking into new opportunities for sustainable earnings growth and generating superior returns above what is obtainable in other regions of the world, Africa is the next port of call; the waiting game is over; the right time is now!!!

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Does Government have a role in Business?

Meksley Nwagboh

In most developing countries, every time the word government is mentioned, what comes to mind is the idea or perception of a distant and isolated entity charged with the responsibility of postulating regulations (often ineffective) geared at improving the quality of life for its citizenry. For some in developed countries, the word government eulogizes the welfare packages and social benefits enjoyed under the guise of intervention funds, free education, meals, transportation and government shelters. All over the world, the primary functions of government remain the same which is to cater for the welfare of its citizens as well as protect them from internal/external aggression. In achieving this perfunctory function, government often crosses the boundaries of public-private dichotomy. With Government's increased participation in the business of the country and reducing private partnerships often comes gross inefficiency which overhauls the intention however noble they may be on the long haul. The purpose of this article is to critically examine the efficacy of government in business as against promoting the concept of privatization in creating free markets

All over the world, markets are shifting more and more away from government ownership into a free enterprise system where commodity prices are determined by the forces of demand and supply and not the machinations of government. This growing financial adumbration clamours for a reduction of the role of government in the economy and an increase in private participation so as to enhance efficient allocation of resource in the country through the deregulation of key sectors of the country. Governments all over the world are realizing the need to cede ownership of public enterprises to privately owned companies for efficient management.

Privatization has been defined by economic scholars and jurists "...to encompass a wide range of options for involvement of private capital and management in the running and operations of public enterprises..." It may involve the total transfer of public ownership and assets structures to private companies or conversion of public enterprises to private entities or incorporation of new private entities in place of public enterprises or public-private participation in the running of public enterprises, which can be by management transfers, leases, operational concessions, development leases or build operate

and transfers (BOT).

The idea of privatization is globally favoured because of the dual benefits it provides. On one hand, it allows government focus on running the affairs of the country while encouraging private sector participation in the real sector of the economy on the other hand. The argument for privatisation is based on the fact that unlike government agencies which are set up primarily to provide welfare at reduced cost (often at the expense of quality service delivery), the ultimate aim of private companies is profit making. Hence, with privately run establishments, service delivery is of paramount importance as customers are attracted and retained by the quality of service being provided. Also, history is in favour of privatisation as in the case of NITEL; a public telecommunications company characterised with gross ineptitude and epileptic services until it was eventually privatised and gave way to the emergence of both local and international telecommunication companies such as MTN, Glo, Etisalat, Airtel.

Privately run firms are often better poised to succeed as they increase the quality of goods and services, eliminate government bureaucracies, reduce state monopolies, equitable redistribution of wealth through the empowerment of the real sector, promote international trade and technology transfer, enhance efficient utilization of company's assets, frees up government funds for infrastructural developments, creates employment and increases foreign direct investments to the country. The benefits of privatization are seemingly limitless which is why I have always wondered, why we waited this long to pursue it if it is supposedly the panacea for economic stimulus or why government has belaboured itself with the day-to-day formalities of running a business as against governing the affairs of the country. Why then has the government, knowing the attendant demands of nationalization allowed industries such as NITEL, MTEL, NEPA, Oil Sector, Power Sector, Shipping Ports, Ajaokuta and Delta Steel, Daily Times, Unity Schools, Trade Fair Complex to mention a few become moribund. To answer that question, we would have to go back in time to the point when government chose nationalization over privatisation and consider what has happened over the years that have led us to this point.

Upon gaining independence in 1960, buoyed by the legitimisation of her identity as a geographical entity and free from colonial rule, Nigeria set out on a journey to harness the many resources it was naturally endowed with by investing about N36 billion in form of loans, equity and grant in over 500 companies between the period of 1973 - 1990. By the first military coup in 1966, the economic landscape of the country had metamorphosed into a hybrid of state capitalism and socialism wherein the government assumed the role of the private sector in promoting growth of local businesses in the country.
All government functions and responsibilities were gradually delegated to ministries, departments, and agencies (MDAs) as government was now faced with the herculean task of running multi billion Naira corporations in addition to coordinating the affairs of the country. By establishing statutory corporations and private investment companies the federal government became active business players in the economy.

Then came the promulgation of the indigenization Decree of 1973 which empowered government ownership of privately owned companies. The media was also not spared in this draconian move of government as the establishment and management of television stations remained in the hands of federal government through the NTA decree of 1978 which bared anyone from owning a TV station. Rivers State TV became NTA Port-Harcourt. The establishment, running and management of television stations would remain in the hands of the federal government until Decree No.38 of 1992 which deregulated broadcasting media and established

the National Broadcasting Commission (NBC). This paved the way for private ownership of the electronic media of radio and television stations especially in the southern parts of the country. The 1973 decree ensured the conversion of private controlled international corporations in Nigeria to state owned corporations. The consequence of this act was the creation of over 1,000 state owned corporations in virtually all sectors of the economy operating as monopolies without competition from the meagre and impoverished private sector.

The scope of operations for government owned enterprises in the country covered Oil & Gas, Agriculture, Banks, and Mass transit, Housing, Power, Security, Education and Manufacturing. At this point, we could conveniently say that government was relatively the largest business entity in the country and enjoyed unfathomable monopoly of the market. Coincidentally, Nigeria at the time was also experiencing an oil boom which made government awash with capital to excessively fund these nationalized companies without duly monitoring the management and operations of the companies. A survey by the Technical Committee on Privatisation and Commercialisation (TCPC) showed that an estimated 1,500 public enterprises in Nigeria accounted for about 30% - 40% of fixed capital investments and the same proportion of formal sector employment. Also, Government's investment in the private sector as at 30 November, 1990 was estimated at over N36bn. Returns from these investments however never exceeded 2% p.a - a figure less than 25% of the annual subventions from government to keep such businesses afloat. Government was bleeding and bleeding very fast through the decadence that had permeated publicly owned enterprises despite government continued funding for the sector.

By the early eighties, the crash of international oil prices ensured that the usual billions of Naira perennially ploughed into these public enterprises could no longer be sustained by the Federal Government due to a decline in its crude proceeds. At the same time, annual profits of these corporations plummeted as a result of egregious levels of corruption and inefficiencies that had become entrenched in the corporations. There were also the issues of operational problems of excessive bureaucracy, defective ownership structures, gross incompetence in management, complacency, defective capital structures, lack of effective control and external monitoring by the Government, outdated technology, nepotism, international competition and misappropriation of government funds. By the late eighties, these factors exacerbated the already stunted and stretched Nigeria private sector market. It became imperative to encourage private participation in the national economy and expand the Nigerian economy by direct deregulation.

The alternative option was the truncation of economic activities in the country. It became necessary to establish and build a private sector driven economy. The introduction of private participation to run and own government owned companies would ensure the provision of efficient and quality services to the citizenry, improve infrastructure, improve local manpower development while freeing up the already stretched Government revenue for core public services such as defence and security. Privatization of public corporations, firms, companies and services became the most viable economic solution.

Public Enterprises in time became infested with problems such as misuse of monopoly powers, defective capital structure resulting in heavy dependence on the government treasury, bureaucratic red tape in their relations with supervising ministries, mismanagement, corruption and nepotism.

As government could no longer continue to support the monumental waste and inefficiency of the public enterprise sector, the programme of privatisation and commercialisation was developed to address the peculiar socio-economic and political conditions in Nigeria. The legal framework for the programme was the Privatisation and Commercialisation Decree No. 25 of 1988, and the implementation agency set up by government was the Technical Committee on Privatisation and Commercialisation [TCPC] – an eleven-member body drawn from both the public and private sectors. It was vested with wide powers to monitor and supervise the implementation of the programme. Its obligations and goals were the disposal of Government equities in the Nigerian capital market and the privatization of commercial and merchant banks. The International Monetary Fund (IMF) and the World Bank in 1988 recommended to the federal government to discontinue funding of loss making enterprises owing to the burden of such enterprises on the governments which required borrowing to re-finance their losses. This recommendation of the IMF would subsequently lead to the adoption of the Structural Adjustment Programme (SAP).

Under President Olusegun Obasanjo led government of 1999, the concept of privatization gained prominence under the auspices of the Privatization and Commercialization Act 1999 which classified government owned enterprises and earmarked some of them for privatization. The enterprises were grouped as follows;

Finance

The group included enterprises such as NICON Insurance, Nigerian Reinsurance, Nigerian Bank for Commerce and Industry, Assurance Bank, FSB Bank, Afribank BIAO shares.

State Owned Industries

The group contained Sunti Sugar Company, Bachita, Paper Manufacturing Company Limited, Peugeot Automobile Nigeria Limited, Nigerian Sugar Company, Volkswagen Nigeria Limited, Ashaka Cement, Federal Super Phosphate Fertilizer Company Benue Cement Company, Calabar Cement, Nigerian Machine Tools, Nigerian Leyland, NAFCON.

Power & Steel

The power and steel group comprised Oshogbo Steel Rolling Mill, Jos Steel Rolling Mill, Delta Steel Rolling Mill, Ajaokuta Steel Rolling Mill, Aluminum Smelter Company Limited, National Iron Ire Mining Company Limited etc. Solid minerals comprised Nigerian Mining Corporation, Nigerian Coal Corporation, Nigeria Uranium Company Limited etc.

Information

Daily Times of Nigeria, Federal Radio Corporation of Nigeria, New Nigerian Newspapers, News Agency of Nigeria and Nigeria Television Authority etc.

Other groupings included transportation, Housing, Telecoms & Postal Services, Power, Airlines etc. Federal government investment in these public enterprises were estimated at over $100bn as at May 1999 and most of them had become a shadow of themselves barely struggling to remain functional or meet the contractual obligations of its staff. The colossal inefficiencies that inundated this sector would gradually pave way for the privatisation of most of the public enterprises. By ceding ownership of most of these enterprises, government would be able to reduce the volume of unproductive investments and create avenues for private companies (local & foreign) to provide better management of the companies.

According to the TCPC, since the implementation of the privatisation programme began, the Technical Committee on Privatisation (TCPC) has been able to complete privatisation work on 62 out of the 73 enterprises slated for full privatisation, and 22 out of the 25 enterprises slated for partial privatisation. So far, the exercise has generated massive income (for the Government) as privatisation revenue, created over 600,000 new shareholders in the country, bridging both income and geo-political divides, radically changed the structure and depth of the Nigerian Capital Market and created awareness of the virtue of share ownership as a form of savings. The programme has relieved the Federal Government of what was the huge and growing burden of financing debts and deficits of public enterprises. It has improved the allocation efficiency of the national economy, and enhanced the volume of corporate taxes accruing to the national treasury. (Culled from TCPC).

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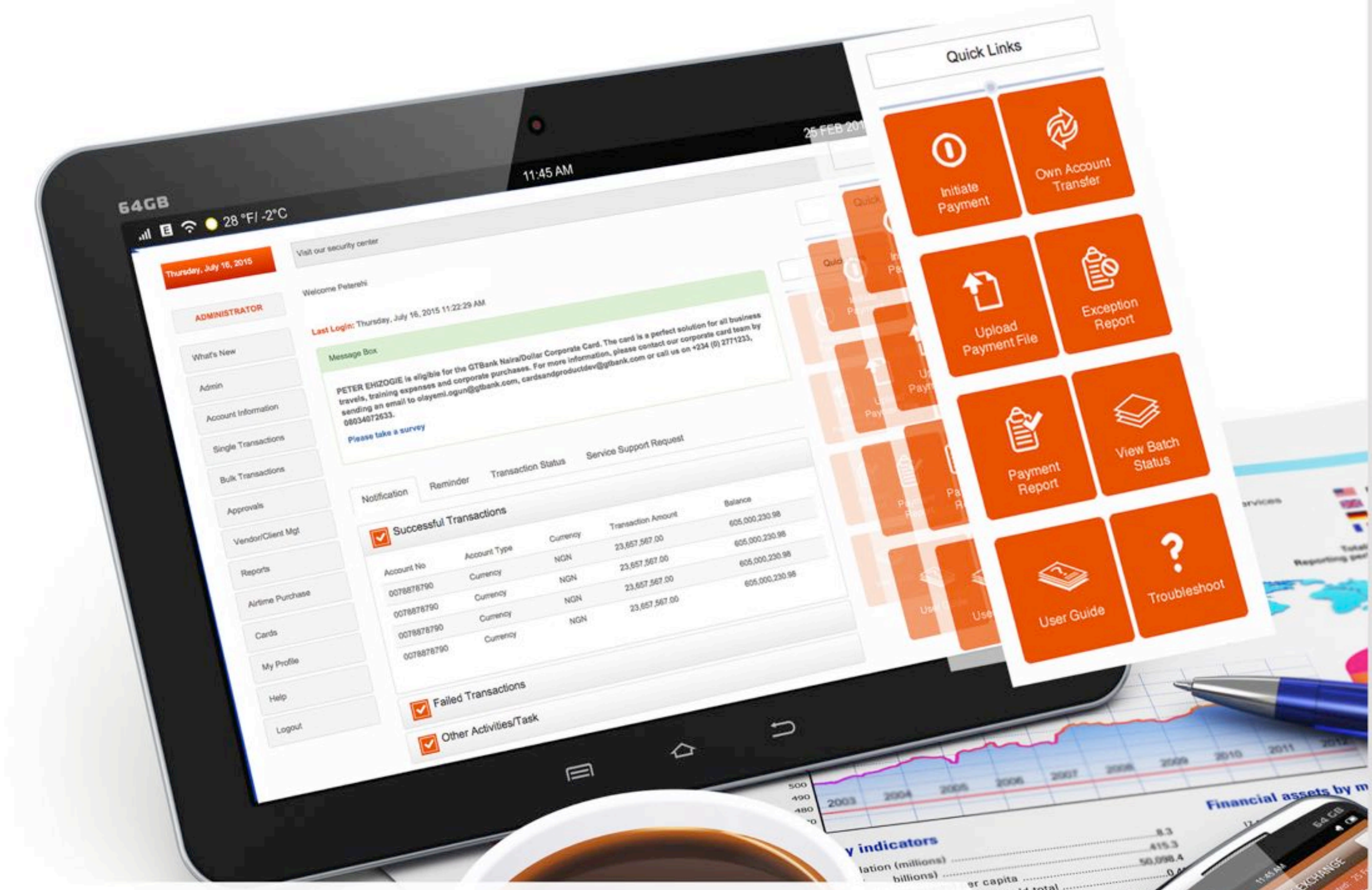

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Sustainable Path to Economic Recovery and Growth

Ayomide Okunowo

Just 7 years ago, the global economy witnessed a financial crisis that left it teetering on the brinks of recession. Around the world stock markets plummeted, a sizable number of large financial institutions collapsed while some were bought out and governments in the wealthiest nations coughed up previously unthinkable sums as rescue packages.

Central banks responded to the meltdown by introducing myriads of regulations and unorthodox policies such as quantitative easing and zero interest rate policy which left investors with cheap money as well as investment outlets with unsatisfying returns. Faced with this situation, investors rushed to pile funds in emerging markets (EM) where economies were growing at over 3 per cent p.a. Stock prices rose 46 per cent annually, more than twice the gains of U.S. equities and the EM became the jewels of investors as well as the engine of growth for a sputtering global economy and an avalanche of capital (hot money and FDIs) poured in.

As commodity prices rose to vertiginous levels, emerging economies continued to wax stronger and by late-2010, capital flows to emerging markets had risen to $825 billion – a level that exceeded the last peak in 2006-2007. Cheap liquidity, cheaper labor, fast growing populations, rapid urbanization and the expansion of the middle class continued to drive the growth of the emerging markets and according to the IMF, EM were expected to contribute over 50% of global GDP by 2014.

In May 2013, the US Federal Reserve signalled its intention to reverse its economic stimulus and this sent shivers through emerging markets. Investors scaled down their tolerance for risk and adjudged the hitherto 'okay' returns from emerging economies unnecessary. Thus, some emerging market countries, especially the fragile five (South Africa, Turkey, Brazil, India, Indonesia), subsequently experienced sharp reversals of capital inflows, resulting in sizable currency depreciation.

Structural deformities once again trumped circumstantial glitters and by late 2014, the recent emerging market darlings of the investment world—India, Brazil, Turkey, Indonesia and Russia, the drivers of global economic growth for over half a decade, have been facing challenges. While China still remains the largest contributor to global growth, the other emerging markets

(the Non-BRICS) contributed their smallest proportion to global growth in more than five years according to the Economist.

While, the impact of tapering on emerging market economies was indeed immense, empirical analysis carried out by the IMF shows that the gravity of the impact differ greatly from one emerging market economy to another. The disparities in the gravity of these impacts and the explanations provided for them are not only indicative of the fact that some emerging-market economies are weaker than others but are also prescriptive of the factors that can anchor sustainable economic recoveries and ensure lasting economic growth.

Four of these factors call for detailed scrutiny given the peculiarities of African emerging markets: Macroeconomic fundamentals, financial depth and integration, Capital-flow measures and Trade diversification. The persisting deficiencies of economies in these regards are indicators of a fiscal fragility that has not only retarded previous advancements but is sure to hamper future growth.

The first among the highlighted factors is not only the broadest but the most delicate. Macroeconomic fundamentals derive their subtlety from the fact that while weaknesses in them may not prevent exceptional economic performance, it is certain to amplify economic woes in the face of downturns and these downside risks worked against the fragile five. Straddled with onerously high current account deficits as well as other macroeconomic difficulties, the fragile five were defenceless against the spate of capital reversals that followed the announcement of QE tapering. Turkey, for example, was heavily reliant on short-term capital inflows to service more than 80 per cent of its massive current account deficit which amounted to $64.7 bn. Thus, in spite of its small fiscal deficits and relatively low government debt, it remained extremely vulnerable to capital reversals. The South African story, though very similar, was compounded by domestic risks such as labour market tension and high unemployment.

Following the announcement of the US Federal Reserve's intention to taper, these economies were left in the line of fire and their currencies suffered heavy losses. While the Turkish Lira, for instance, fell by as much as 9% in less than 3 weeks and was only saved by a 550bps hike in the benchmark one-week lending rate for banks from 4.5 per cent to 10 per cent, the South African Rand did not fare as well. It continued its free fall in spite of the fact that the Central Bank raised its benchmark interest rate to 5.5 percent from 5.0 percent for the first time in almost six years and in just one month; it had lost 7.5% of its value.

Ironically, 3 years earlier, the world unanimously reckoned with the realized and potential growth of South Africa and added the country to the BRIC acronym of leading emerging markets. In just 5 months, structural frailty knocked off the gleam of a hitherto shining star.

A second ailment bedevilling African emerging markets is the hollowness of the financial system. Ideally, economies should be hinged on diversified financial systems and developed capital markets. This would provide alternative funding sources for the economy as businesses would be able to assess the equity and bond markets and the banking sector, thus diversifying credit risk concentration away from the banking system. This however is not usually the case with African financial markets.

The equity and debt markets are generally lacking in depth and liquidity is usually concentrated in the hands of Banks. This concentration stifles the development of industry by reducing the channels from which funds can be sourced, makes the attainment of allocation efficiency and proper risk diversification difficult, and the ability of the economy to absorb capital flows. The capacity of this disorder to contribute to the ruin of an economy was amply seen in the Malaysian experience of the 1997 Asian Financial Crisis.

In the years leading up to the crisis, the economy had grown at an annual average of 9.6% but the financial system was largely Bank-dominated. This inevitably led to moral hazards, concentration of lending to the stock and real estate markets and massive NPLs. The economy nearly collapsed and Malaysia began attracting attention not for its extraordinary performance but for the scale of the crisis it was battling.

The ringgit plunged from RM2.4 to a low of RM4.9 to US$1 in January 1998, Net portfolio investment shrunk RM22 billion, from positive RM10.3 billion in 1996 to negative RM12.9 billion in 1997, GDP growth plunging from positive 7.7 per cent in 1997 to negative 6.7 per cent in 1998 while the stock market plummeted by over 70 per cent. African economies need not experience a crisis of similar scale to put their houses in order.

Third is the selective utilization of capital control measures. Whilst developed economies do not entertain the idea and have not done so since the 1980s, the usage of capital controls remains a controversial issue for emerging market economies. On the one hand, proponents of free capital flow point to the immense benefits it holds for the investors and the beneficiary economy. While the investors' access to new and attractive markets help them to enhance their returns, diversify their portfolio and thereby reduce risk, the beneficiary economies benefit from cheaper access to funds for development, technological spill over and increased allocational efficiency. Proponents of capital controls however note that this is not usually the case especially for emerging market economies.

Large volumes of capital inflows can cause currencies to appreciate, undermine export competitiveness and limit the country's ability to pursue independent monetary policy. Moreso, overtime emerging market economies became reliant if not addicted to foreign financing and ultimately became more vulnerable to seizures in capital flow. In this regard, history shows two things: First, that dislocations of this kind can spiral into a financial crisis as in the case of Mexico in 1994 and second, that proponents of free capital flow reconsider their positions only after a crisis.

Moreover, the OECD economies that have more-or-less achieved an open economy without capital controls today were not always this way. Before gaining the competitive edge that keeps them at the forefront of economic discourse, they had gone through stages in their economic evolution that would have been ruptured if exposed to the spasms of capital flows that emerging markets face today.

While the free flow of capital should remain the eventual destination of macroeconomic policy thrusts, the journey, in the interim, must be guided by a careful employment of capital controls. African emerging market economies need capital controls to plan and without a plan or the capacity to create one, the pursuit of sustainability is only a botched cause ab initio.

The last factor borders on Trade diversification. As in any other case of concentration, trade concentration holds risks that undermine the economic health of a country and this deficiency is probably one of the most pronounced structural defects of African emerging market economies. Nigeria, like most other African emerging economies, already has a product concentration risk in that over 90% of its exports are oil related and until some months ago, this was aggravated by the fact that the US alone accounted for 40% of country's total oil exports. Furthermore, the US in addition to China and India account for almost 40% of the country's entire imports. This concentration poses a significant risk to the Nigerian

economy.
Empirical analysis shows that exposure to other economies like China provided buffers when the market volatility stems from FOMC (Federal Open Market Committee) announcements. Thus, emerging market economies without equally significant exposure to China were significantly more susceptible to the shocks of the tapering announcement.

Conscious strategic efforts must therefore be made by African emerging economies to diversify their trade affiliations and exposures so as to minimize the effects of the shocks that can come from any single counterparty.

Charting the Way forward

It is clear from the foregoing that sustainable growth cannot be achieved by economies with structural defects and while superior performance may be recorded in the short term, such are bound to come to abrupt ends when the chickens come home to roost. To bring a decisive end to this plight, a three-pronged framework should be employed. The first must address the leaders, the second, the environment and the third must address the structural defects.

First and foremost, Leaders of African economies must first have a paradigm shift so as to see the dangers inherent in their current economies. Without an appreciation of the imminent menace of the underlying issues, appropriate strategies cannot be created. Corruption and the appearance of it must be stamped out, structural defects of the economies must be identified, comprehensive plans to address the problems must be marshalled and the commitment to execute the plans must be unwavering. Without these, the quest for sustainable growth will be botched ab initio.

Secondly, African economies must create and maintain an environment that fosters sustainable economic recovery. Governments must design strategies to re-engineer public infrastructure, the regulatory environment, and the judicial system to encourage the setting up of new businesses and to support existing business. Governments must also set SMART (Specific, Measurable, Achievable, Realistic and Time bound) but ambitious targets in their overall plan to improve the business environment. These would result in thriving businesses which will in turn create thriving economies.

These changes provide the backdrop of resolution of the four factors identified.

African Governments must begin by cutting down on their spending. The structure, size as well as the recurrent expenditure of the usually unwieldy governments must be trimmed so as to conserve funds to power economic growth. Also, populist policies and welfare programs sold to the populace to secure the seats of power must not remain the fulcrum of the economic agenda of governments as they only address the immediate needs but cannot secure the future of the economy. Curtains must be drawn on the days of whimsical spending predicated on the desire for instant gratification; African economies must now begin spending with the end in mind.

Thirdly, African economies must begin to produce what they consume. To do this, local industries should be subsidized under an import substitution program so as to improve their global competitiveness in an increasingly integrated world. Over time, these industries will become the passport of emerging market economies out of current account deficits.

Next, African emerging economies must make the development of the financial system a strategic priority. A blueprint of the envisioned financial system over a time horizon, say 7 years should be created and the plan should begin with the building of the institutional capacity of the domestic intermediaries. Emphasis should be placed on consolidation of fragmented Banking institutions where they exist as well as the development of other non-Bank financial institutions so as to diversify credit risk concentration away from the banking system.

Strategic alliances with foreign institutions must be created to enhance integration and domestic financial infrastructure must be developed to foster financial stability, diversify sources of long-term financing and ensure the successful operation of financial markets as a whole. Robust surveillance, regulatory & supervisory framework should be put in place and players in the financial space should be nudged towards strengthened corporate governance and risk management practices. These would contribute to the deepening of the financial system over the time horizon.

Lastly, African emerging economies must make conscious strategic efforts to diversify their trade affiliations. They must set a threshold beyond which concentration in trade affiliations must be scaled down. Deliberate efforts must be put into diminishing reliance on major trading partners to ensure long term financial stability.

Conclusion

Today, African emerging economies today are burdened with legacy structural issues. They however, still hold the promise of becoming the go-to economies on the global scene if appropriate actions are taken to unleash the latent potentials of their respective economies.

Correction of the defects highlighted in this article would increase the tolerance for shocks of emerging market economies and the increased threshold would make sustained recovery and growth more feasible in the face of a dynamic and increasingly integrated global financial system.

Demystifying the Nigerian MSME Sector: An Overview of Current Challenges & Opportunities for Growth.

Ololade Fadoju

Defining SMEs

Large enterprises are few in Nigeria, yet account for a disproportionately large share of the Nation's Gross Domestic Product (GDP). Micro, Small & Medium Size Enterprises (MSMEs), on the other hand, represent an overwhelmingly higher percentage of businesses, yet contribute just under half of the Country's GDP.

The latest data from the Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) indicates that there are presently over 37 million SMEs in Nigeria, with an overwhelming majority of these being "micro" SME's. Additionally, MSMEs employ over 84% of the total workforce, but contribute to only 48.5% of the Nation's GDP, and 7.3% of exports.

These businesses, which span the entire range of economic industries, represent the lifeblood of the Nigerian economy. Although still a developing sub-sector, MSMEs are inarguably integral to generating and sustaining employment, economic empowerment, and poverty reduction in Nigeria.
A few of the challenges existing for MSMEs in Nigeria include limited access to financing and credit alternatives, infrastructural gaps leading to high running costs, power availability, inadequate business development and capacity building services, and slow adoption of technology. As a result of these combined factors, most MSMEs in Nigeria have historically operated below optimum capacity.

Current Review of Governmental Support

Within the past 15 years, the Nigerian government has made investment and policy decisions around the objective of developing the MSME sector. The Central Bank of Nigeria has identified MSMEs as critical to the development of the Nigerian economy as they possess great potential for employment generation, output diversification and entrepreneurship.

In 2003, SMEDAN was created with the single objective of accelerating the development and modernization of MSMEs. Furthermore, the National Enterprise Development Program (NEDEP) in partnership with the Bank of Industry (BOI), focuses on providing affordable financing, business development services, and trainings for MSMEs. To date the BOI has granted loans in excess of N692 billion, both directly and through intervention funds. Of this amount, N235 billion was specifically allocated for the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS).

In 2010, the Federal Government also launched the Youth Enterprise with Innovation in Nigeria (YouWiN!) program, which is jointly implemented by the Federal Ministries of Finance, Youth Development, Communication Technology, Women Affairs and Social Development; with support from the World Bank, UK Department for International Development and the Organized Private Sector. The aim of YouWiN! was to create jobs by encouraging Nigerian youths to employ others through innovation and enterprise. The program gives grants to businesses through an annual Business Plan competition that culminates in the selection of 1,200 award winners in each cycle.

Understanding Funding Alternatives

Banks have experienced several challenges in lending to MSMEs. "Higher perceived risk", alongside lack of specialization and understanding of unique sector characteristics have generally discouraged risk appetites. For example, creative businesses tend to be based primarily on Intellectual Property (IP), with significant intangible assets. Some banks may have less experience and confidence lending against such assets. Furthermore, over 70% of the entrepreneurs in Nigeria do not hold patent rights, hence increasing the riskiness of their business profile.

The interests of lenders will always revolve around being able to

THE NIGERIAN MSME LANDSCAPE

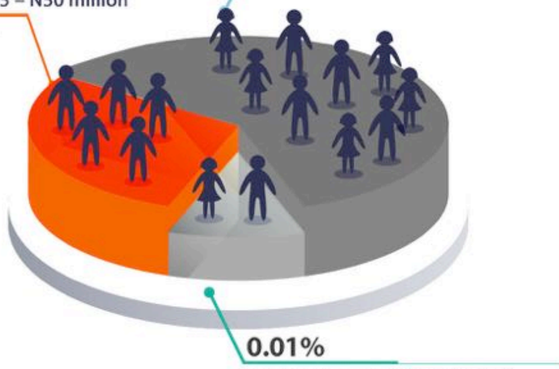
NUMBERS

36,994,578	68,168	4,670
MICRO ENTERPRISES	**SMALL** ENTERPRISES	**MEDIUM** ENTERPRISES

CATEGORIZATION

MICRO ENTERPRISES
Less than 10 employees
Assets : < N5million
99.80%

SMALL ENTERPRISES
10 - 49 employees
Assets : N5 – N50 million
0.18%



0.01%
MEDIUM ENTERPRISES
50 – 199 employees
Assets : N50 – N500 million

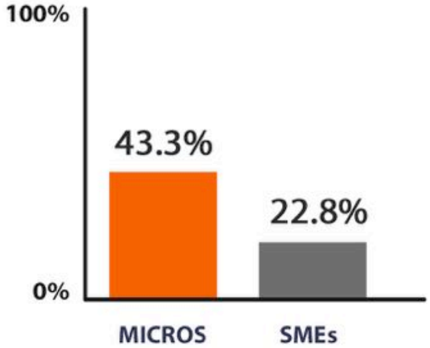
STATE DISTRIBUTION

- **LAGOS** state has the highest number of micros **(3,224,324)** and SMEs **(11,663)**
- **OYO** state has the 2nd highest number of micros **(1,864,954)**
- **KANO** state has the 3rd highest number of micros **(1,794,358)**
- **ABUJA** has the 2nd lowest amount of micros (482,365)
- **NASARAWA** state has the lowest number of micros **(382,086)**
- **KWARA** state has the lowest number of SMEs **(226)**

JOB CREATION

- Total number of persons employed by the MSME sector: **59,741,211**, (**84.02%** of the total labor force).

FEMALE ENTREPRENEURS



AGE BRACKET

Entrepreneurs
age : 24-50 dominate

AVERAGE START-UP COST

MICRO ENTERPRISES	SMALL & MEDIUM ENTERPRISES
N50,000	**<N10million**

Source: SMEDAN and National Bureau of Statistics MSME Survey (Published 2014) establish a correlating relationship between risk and return. Although every business would naturally vary in scale and output, the more sizeable and established a business is, the more attractive it would become to potential lenders. Unfortunately, a majority of MSMEs in Nigeria have struggled to provide the requisite evidence to validate both the business (financial records, operating history, business plans etc.), and the individual (professional history, experience, collateral and guarantees) behind same.

The combination of these factors has resulted in a structural financing challenge for the Nigerian MSME sector, which has caused many businesses to migrate towards more informal sources of funding as outlined below:

The Evolving Role of Banks

In recent years, Banks have embraced non-traditional roles in supporting the MSME industry. With the sector becoming increasingly more competitive, banking strategies have evolved to focus more on alternative means of value creation, rather than focusing solely on plain vanilla lending. The advent of new technology, media and information has created a modernized iteration of the banking customer, which is more sophisticated, aware, and highly expectant. This development has challenged institutions to think

Business Stage - Risk Level	Characteristics	Funding Options
Concept Stage Risk Level: High	Businesses in this stage would usually require some proof of concept, which signifies a considerable level of risk. The support of those who believe in your idea is the first stage to validating the individual and the idea. It is also important to note that future risk-takers in your business will use this early funding track record to gauge the level of investments to make in your business	• Self (personal savings) • Friends • Family
Start-up Stage Risk Level: Medium / High Risk Level: High	By the start up phase, your business idea has been tested and proven to be feasibly attractive to a desired target audience. Although revenue might be minimal at this stage, a reasonable amount of demand can be established to project a positive growth trend. More importantly, risk factors can now be appropriately identified, measured and mitigated.	• Grants • Seed Funding • Crowd Funding • Angel Investors • Domestic and international institutions like the Central Bank of Nigeria, International Finance Corporation, and African Development Bank.
Growth Stage Risk Level: Medium	By the growth stage, the business should have created an established brand with market share. Emphasis is now centered on sales growth and product diversification. As we all know, banks would most often grant loans to businesses with established and successful operating records and histories.	• Bank Loans • Venture Capital • Investments
Maturity / Expansion Stage Risk Level: Low / Medium	At maturity, businesses tend to experience sales stabilization, however challenges include maintaining market share, profit maximization, and structural efficiencies.	• Public Markets • International Funding

creatively about new ways to service customers.

So what are new ways to add value? Firstly, grow revenues, and not expenses. Older banking models relied on providing loan support to businesses to cover operational and expansion related activities. Although necessary for growth, this sometimes creates a new problem. For smaller businesses that may lack the discipline and expertise required to manage leverage, loan expenses may prove burdensome and ultimately cripple profitability. With this in mind, forward thinking organizations have focused on driving MSME profitability through top line growth strategies. Some of these include creating new, and expanding existing business lines to cover:

1. Knowledge & capacity building
2. Business toolkits & resources
3. Sales & marketing support
4. Advisory & specialized services
5. Technology & E-channel services

Technology Growth & Trade Globalization

The European Commission estimates that the 28 member states comprising the European Union collectively have 21.6 million SMEs employing 88.8 million individuals (66% of workforce) and contributing approximately €3.7 trillion of value to the economy. The United States, on the other hand, is estimated to have 18.2 million SMEs employing 48.7 million individuals (52% of workforce) and contributing over €3.3 trillion (44%) of value to the economy.

One of the driving factors for global MSME growth in recent years is online trade, which has been facilitated through platforms such as Amazon, Alibaba, and E-Bay. These platforms have successfully democratized online selling to make it cheaper and more accessible to traditionally smaller businesses. With these tools, small businesses can now conveniently sell to individuals and businesses worldwide. Additionally, more businesses have grown to embrace social media as a low cost avenue to drive brand / product awareness, and generate new sales.

In today's world, having an online presence is the most minimal requirement to remaining competitive, attracting new customers, and retaining existing ones. According to Optimisa Research, over 90% of MSMEs in Nigeria have no websites. Of those that do, a large majority lack functionality to support engagement and trade. With the continued prevalence of digital technology and platforms, more opportunities abound for Nigerian businesses to gain positioning within the global marketplace.

The GTBank Story

In addition to traditional banking products and advisory services, GTBank's value proposition for MSMEs has also evolved to provide pioneering value-added services to support business growth. In 2013, GTBank became the first Nigerian bank to launch an online marketplace / e-commerce platform (The SME MarketHub) designed specifically for small businesses to gain visibility and promote online trade. The SME MarketHub enables business owners create free online storefronts to promote and sell their products / services to an audience of buyers near and far. With this, businesses can reduce overhead expenses, while also bridging the gap to establish digital and global footprints.

Customers also enjoy access to industry leading E-Channel services that cover online banking, auto-pay, POS & web acquiring services. All of these initiatives align with the broader objectives of adopting world class technology, experience and knowledge to grow the MSME market. Future strategies include the creation of more customized services for sector specific needs, expansion of tailored credit / risk products, partnerships with governmental / multilateral financial institutions, and continued growth of marketing channels to promote awareness within the MSME space.

Industry Horizon

Despite the existing financing and infrastructural challenges, the future of the Nigerian MSME sector remains hopeful. Firstly, more businesses are gaining empowerment and embracing alternative strategies for growth and relevance. Secondly, private sector and NGO involvement continues to increase with more attention being placed on creating long term economic value.

Although the new administration is yet to communicate specific policies or strategies around fostering MSME growth, the current CBN Governor, Godwin Emefiele, in 2014 reiterated his agenda on sustaining growth within the space. During his inaugural press briefing, the Governor proposed a new framework for MSME funding that would require deepened collaboration with the private sector, while focusing on resolving challenges such as access to collateral, business development, and credit scoring. Furthermore, several MSME related interest groups continue to lobby the Presidency persistently in support of expanded government programs. With this, the upcoming months should reveal a clearer direction of the current administration towards promoting growth of MSMEs in Nigeria.

For information on current government related MSME programs and support, please visit the following websites: SMEDAN (http://www.smedan.gov.ng/), YouWiN! (https://www.youwin.org.ng/), and NEDEP (http://nedep.boinigeria.com/).

Foray in the International Capital Markets

Lara Ogunlaja

A lot has been written and said about the African Renaissance, the continental ideology of rebirth that continues to attract keen interest and investments from all over the world. This African renaissance however comes with substantial requirements not only to achieve the ambitious growth and developmental plans but also to sustain competitiveness and investor interest in the continent over the foreseeable future. These requirements span the provision of high quality infrastructure (health, education, transportation, communication, energy, etc.) and solid organizational underpinnings to exemplary governance standards in both public and private sector entities.

By way of an illustration of the scale of these requirements, the Programme for Infrastructural Development in Africa (PIDA) estimates that the continent will require US$ 93 billion expenditure on infrastructure annually until 2020 for both capital investment and maintenance[1]. This level of funding cannot be sourced solely from government revenues (which, as is the case in Nigeria, has been significantly impacted by falling oil prices in recent times) nor raised from domestic investors through traditional means (issuance of government securities in form of bonds, treasury bills, etc.) or multilateral/developmental finance institutions.

In addition, corporate entities seeking to actualize medium-to-long-term strategies and growth aspirations to maximize stakeholder value and create/maintain a competitive advantage in an increasingly complicated and demanding marketplace also require substantial financing on a scale that, more often than not, exceeds the absorptive capacity of their domestic financial markets.

Against this backdrop, the international capital markets continue to beckon as a veritable source, and limitless pool, of capital.

The International Capital Markets (ICM)

The ICM is the amorphous term used to define the global financial markets from where long term capital is available to sovereigns and companies on a scale and size not readily available within the confines of a domestic market. Conservatively estimated at US$ 283 trillion in size, three times world's GDP in 2013[2], the ICM offers the deepest sources of capital and an extensive and diversified investor base vide a wide array of investment products.

The ICM is broadly segmented into two markets: the equity capital markets (where equity securities e.g. ordinary shares or equity-linked securities like global depository receipts (GDRs) are issued and where investors of such instruments acquire "a proportional ownership" of the issuing entity) and the debt capital markets (where debt securities e.g. Eurobonds or notes are issued and investors of such instruments become "creditors" of the issuing entity).

The largest concentration of capital deployed in the ICM resides in the United States of America followed by Europe. Asia and the Middle East regions have also emerged as substantial sources of international capital.

ICM Issuance Format

Irrespective of the type of instrument to be issued i.e. equity or debt instrument, securities issuances in the ICM are typically in two formats. These two formats – (i) *"Regulation S"*; and (ii) *"Rule 144A"* are dictated by the provisions of the U.S Securities Act of 1933 as amended (the *"US Securities Act"*). The US Securities Act provides the overarching regulatory framework in the ICM. Accordingly, when contemplating an ICM issuance, a key consideration is the issuance format to be adopted as this decision will ultimately determine access to market depth and liquidity as well as the overall geographical strategy to deploy.

A Regulation S (*"Reg S"*) issuance means that the equity or debt securities are issued in an "offshore transaction" where direct selling of said instruments in the United States of America to investors resident in the United States is restricted and for which the instruments have the benefit of a "safe harbor" under the US Securities Act. In practical terms, no roadshow or marketing activity can be carried out within the territory of the United States of

1. *The Africa Competitiveness Report 2013 | World Economic Forum*
2. *IMF Global Financial Stability Report 2014*

America and neither the provisions of the US Securities Act nor its attendant securities regulations will apply to the issuing entity or the instrument being issued in the ICM.

On the other hand, a *Rule 144A* issuance provides an exemption from the registration requirements of the US Securities Act, enabling securities to be sold directly to certain specified types of US institutional investors under the US Securities Act (defined as "qualified institutional buyers" - "QIBs" which generally are large institutional investors that own at least US$100 million in investable assets). Whilst a Rule 144A issuance grants access to QIBs in the United States of America, with aggregate assets under management in excess of US$ trillions, it also imposes substantial responsibility on an issuer in the form of additional, extensive, and sometimes quite complex disclosure/regulatory requirements as well as risks and litigation considerations.

Most ICM issuances are undertaken in dual-tranche formats i.e. a combination of Reg S and Rule 144A offerings in order to facilitate access to the US markets.

Table 1: Summary of Differences Between Reg. S Only and Rule 144A/Reg. S Offerings.

	Regulation S-only	Rule 144A/Regulation S
Investor Base	Institutional investors and high networth individuals outside the United States	QIBs in the United States and Reg S investors
Disclosure Requirements	Offering circular with risk factors, business description and recent and interim financial statements.	Same as Reg S disclosure, but typically more detailed disclosure regarding the issuer's business operations, and inclusion of an "MD & A section" providing a narrative discussion of the issuer's financial results for the most recent three years. "MD&A" means Management Discussion & Analysis.
Governing Law	Usually English Law	Usually New York or English Law
Clearance & Settlement	Clearstream, Euroclear.	The Depository Trust Company (DTC) and Euroclear/Clearstream.
Regulatory Requirements	No filings if no offer to the public in any jurisdiction except for stock exchange listing requirements.	Same as Reg S
Due Diligence	Typically involve visits to the issuer for formal meetings with its senior officers and external auditors. Scope of due diligence to be undertaken is determined by the Lead Manager(s) on a case-by-case basis i.e. well established and highly rated issuers may only require limited due diligence as opposed to extensive due diligence for new, non-regular issuers.	Same as Reg S
Legal Opinions, Comfort Letters	Issuer (or Guarantor) opinions, Enforceability Opinions, First Comfort Letter, Bringdown Comfort Letter Required.	Same as Reg S

The GTBank Experience

He who dares wins…

Raising approximately US$1.2 billion from the ICM is no mean feat. An *African corporate* with *no prior ICM track* raising this level of funding from the ICM in the same year is a considerable achievement by any measure.

2007 will remain a landmark year in GTBank's corporate history. In January 2007, the Bank accessed the ICM for the first time and became the first Nigerian company to issue Eurobonds, with its debut issue of US$350 million Notes due 2012, a milestone transaction that was undertaken without any form of credit enhancement from an international financial institution or indeed, a sovereign guarantee.

In July 2007, GTBank embarked on an unprecedented simultaneous international and domestic offering of GDRs at the completion of which the Bank became the first Nigerian company to obtain a full listing on the Main Market of the London Stock Exchange, one of the world's oldest and foremost exchanges. The Bank's admission as a member of the London Stock Exchange was a pioneering move in many respects. The seamless completion of these transactions in 2007 was a true testament of GTBank's ability to meet the stringent disclosure requirements and reporting standards in the global financial markets.

As a consequence of these milestone transactions, the Nigerian capital raising landscape changed immeasurably as the Bank's success paved the way for other Nigerian entities, including the sovereign, to fully access the ICM. GTBank's successful debt and equity ICM debut also served as a catalyst for the introduction of wide-ranging, significant changes in the securities issuance processes, procedures and practices as well as regulatory framework of the Nigerian banking sector and capital markets.

Table 2: List of Nigerian ICM Issuers (2007 - till date)

Debt Issuances (Financial Institutions – "FIs")	Size (US$'m)	Maturity
Guaranty Trust Bank Plc/ GTB Finance BV	350	Jan 2012
Access Finance BV	350	Jun 2017
Access Bank Plc	400	May 2019
Diamond Bank Plc	200	Apr 2019
Ecobank Nigeria Limited	250	July 2019
Fidelity Bank Plc	300	Apr 2018
First Bank Nigeria Limited	300	July 2020
First Bank Nigeria Limited	450	June 2021
Guaranty Trust Bank Plc/ GTB Finance BV	500	Apr 2016
Guaranty Trust Bank Plc/ GTB Finance BV	400	Oct 2018
Zenith Bank Plc	500	Mar 2019
Total ICM Issuance (FIs)	**4,000**	
Debt Issuances (Corporates)		
Afren Plc	360	Dec 2020
Helios Towers	250	Jul 2019
Sea Trucks	575	Mar 2018
Seven Energy	300	Oct 2021
Total ICM Issuance (Corporates)	**1,485**	
Debt Issuances (Sovereign)		
Federal Republic of Nigeria	360	Dec 2020
Federal Republic of Nigeria	250	Jul 2019
Federal Republic of Nigeria	575	Mar 2018
Total ICM Issuance (Corporates)	**1,485**	
Equity Issuances (GDRs)	**Size (US$'m)**	**Issue Date**
Guaranty Trust Bank Plc	824	July 2007 Listed – LSE Main Market
First City Monument Bank Plc	100	Nov 2007 Unlisted
Diamond Bank Plc	500	Nov 2007 Listed – LSE PSM*
Zenith Bank Plc	850**	Mar 2013 Listed - LSE Main Market

**Professional Services Market of the London Stock Exchange.*
***This was a technical (non-capital raising) listing following the establishment of a GDR Programme.*

The Bank's decision to embark on this epic journey was primarily driven by certain underlying factors:

Internal Considerations	External Drivers
Additional capital to fund growth and business development activities	Nigeria's improving image and creditworthiness in the international community.
Position the Bank as a regional financial institution.	Growing interest from the international investment community.
Funds to meet customer demand for foreign-currency denominated facilities.	Successful consolidation of the Nigerian banking sector and the attendant positive perception of bank risk by investors.
Capital to pursue acquisition and/or inorganic growth opportunities.	Strong global liquidity and appetite for emerging market risk.

GTBank's entry into the ICM was also largely facilitated by its reputation as a prudently managed financial institution with high corporate governance standards as well as a consistent track record of strong financial performance. The Bank also relied on a methodical and meticulously crafted execution strategy driven by its top executive management and supported by carefully selected external advisers to ensure the success of its foray into the ICM.

The Bank has since become a seasoned and trusted issuer in the ICM, an assertion that was most vividly demonstrated when the Bank made history when it achieved the lowest yield ever paid by a Nigerian corporate on an international Eurobond with its most recent issuance in November 2013.

Critical Success Factors for an ICM Issue

A number of empirical studies have been carried out over the years for the purposes of distilling the enabling factors for accessing the ICM. In summary, the following are key considerations that an issuer must necessarily bear in mind as part of a decision-making process to raise funding in the ICM:

External Factors/Sovereign Considerations	Corporate Considerations
Macroeconomic & Political Stability	Comprehensive grasp of the business, its operations and risks.
Fiscal Discipline	Well-articulated use of proceeds/growth strategy.
Good External Debt Management	Robust investor relations programme for post-issuance engagements with new investors.
Strong Reserves Accumulation	Strong and sustainable record of financial performance.

Accessing the ICM also hinges on a favourable international backdrop, in particular a reasonable level of emerging market risk appetite among international institutional investors.

Outlook

Challenges remain. Key African economies are experiencing significant stress due to global pressure on commodity prices, currency devaluation fears as well as insecurity arising from terrorism, among current realities. Notwithstanding, these realities are not peculiar to Africa.

With a young, vibrant, energetic, inquisitive and vocal population, a growing middle-class and attendant substantial resource demands, sovereigns and corporates have to be innovative in the search to diversify the sources of funding for capital to fund the continent's growth and developmental aspirations. The ICM remains a veritable source ready to welcome the well-prepared issuer into its folds.

Development Finance Institutions (DFIs) in Africa

Eyitayo Olabode

The growth outlook for parts of Africa can make developed countries such as the USA, Canada and the Eurozone full of envy. Economic growth of more than 4.5 per cent this year for Sub-Saharan Africa, rising to almost 4.8 per cent next year in terms of GDP (Gross Domestic Product), population of almost 1 billion with potentials of hitting 1.4 billion by 2030, increasing working population with the projection that working population (age 15-64) for Sub-Saharan Africa will exceed that of the rest of the world by 2035. In spite of potential GDP growth rate and a growing population, Sub-Saharan Africa is still plagued with problems of poor infrastructure which in turn has a direct impact on its actual growth and per capital income.

The poor state of infrastructure such as power, water, information and communications technology (ICT) and transportation in Sub-Saharan Africa, potentially reduces economic growth and development by 2 per cent every year and cuts business productivity by as much as 40 per cent. Further studies have shown that poor roads, rail and harbour infrastructure add between 30 and 40 per cent to the costs of goods traded among African nations. Improving intraregional infrastructure also could better connect Sub-Saharan African markets, making it possible to exploit economies of scale and boost industrialization.

Growth theories have three common factors, capital stock, labour force and the level of technology and organization currently used in production. The variation between the productive potentials of nations arises from favourable initial conditions and successful growth-promoting economic policies and structures and downright unsuccessful policies and structures.

Capital intensity measures how large a multiple of current production capacity has been set aside in the form of useful machines, buildings, and infrastructure to boost the productivity of workers, even with the same technology or organization. It therefore flows logically that capital is key to unlocking the huge opportunity in Sub-Saharan Africa.

It is estimated that US$93billion is needed every year to develop Africa's capital capacity, with about US$60 billion required for new infrastructure and US$30 billion for maintenance and operations of existing infrastructure. According to a PwC report published in 2014, infrastructure spend in sub-Saharan Africa is projected to grow by 10 per cent a year, over the next decade – exceeding $180 billion by 2025. Of the current funding need, only 27 per cent is being spent on capital expenditure in Africa, leaving a significant shortfall that needs to be financed. There is therefore need for nations in Sub-Saharan Africa to explore more financing options – beyond the traditional approaches which have proven insufficient to fund the required infrastructural development.

The focus of Development Finance Institutions (DFIs) includes maximizing profit whilst ensuring development impact. Development impact of DFIs is achieved by providing "additionality", meaning to provide finance or capital in nations and sectors where there would otherwise be limited access to capital. With Demonstration "additionality", DFIs create an in-road to an emerging sector or nation by funding profitable ventures thereby providing an incentive for private investors to

follow suit. Financial additionality implies the ability of DFIs to provide more favourable terms such as improved duration for lending. With Design additionality, DFIs are able to leverage expertise gained from years of involvement with similar sectors and transfer same to new economies. Finally, DFIs provide policy additionality as they can accelerate policy reform through the deals that they finance. Different DFIs focus on various development challenges and many integrate environmental, social and governance (ESG) standards to help achieve developmental impact. Key focus areas for DFIs include: poverty reduction, market development, food security, climate change, global and regional integration. These focus areas also help guide the administration of funds by the DFIs.

To this end, DFIs have now become significant participants in global private investment in developing economies. In 2013, private sector DFI finance reached about US$45 billion in commitments per year – a substantial growth from previous years as focus on DFIs continue to increase. 10–11 per cent of capital flows to sub–Saharan Africa comes from DFIs and about 18 per cent of all long term syndicated loans to developing nations include a DFI as one of the core investors.

The African Development Bank Group (AfDB) along with others like it in sub-Saharan Africa is a multilateral development finance institution established to contribute to the economic development and social progress of African nations, individually and collectively, by promoting investment of public and private capital in projects and programs designed to reduce poverty and improve living conditions. Combating poverty is at the heart of the Bank's efforts to assist the continent to attain sustainable economic growth.

The primary function of the Group is making loans and equity investments for the socio-economic advancement of the Regional Member Countries (RMC). Second, the Group provides technical assistance for development projects and programs. Third, it promotes investment of public and private capital for development. Fourth, it assists in organizing the development policies of RMCs. The AfDB is also required to give special attention to national and multinational projects which are needed to promote regional integration.

Over the last 10 years, AfDB has placed great emphasis on the following strategic areas: Investing in infrastructure; supporting economic and governance reforms; promoting higher education, technology and vocational training as well as promoting regional integration. The vision of the president-elect of the African Development Bank, Dr. Akinwumi Adesina expressly supports the transformation of the African continent by improving the quality of growth.

AfDB continues to drive sub-Saharan Africa towards an export led economy, economic diversification, integration to the global market and human capital development. The current developmental strategic focus of AfDB is to deepen its transformational agenda based on five (5) operational priorities; infrastructure development, regional integration, private sector development, governance and accountability and skills and technology.

The World Bank's International Finance Corporation (IFC) is the world's largest DFI investor in emerging markets, including Sub-Saharan Africa. Other DFIs with significant contributions include European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Overseas Private Investment Corporation (OPIC), European Development Finance Institutions (EDFI). EDFI comprises 15 bilateral investment organisations which include PROPARCO, Netherlands Development Finance Company, Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Germany's Development Finance Company, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and others.

The financial tombstones of their projects and initiatives are a delight,

90MW Rabai Power project in Kenya, 50km Lekki toll road in Nigeria, Gas Independent Power Production project in Ghana, 300MW coal-fired power plant in Zambia and the list continues of key projects that DFIs have been directly or indirectly involved in raising capital.

These development finance institutions have had such an influence in raising capital in Africa with about half of all private equity funds and infrastructure funds in Sub-Saharan Africa having DFIs as core investors. Actis private equity and real estate funds (over US$3billion), Helios Investment Partners (over $3billion), Emerging Africa Infrastructure Fund -EAIF (over US$1billion), African Infrastructure Investment Managers - AIIM (over US$1billion) and African Capital Alliance –ACA are some of such funds.

Overall the DFIs, aside financial intermediation and capital formation functions, add a lot to the market place with their level of discipline and capacity to entrench a higher level of corporate governance. The concept of financing the future of Africa will see these institutions playing a key role.

From the foregoing, the role of AfDB and other DFIs in African development cannot be over emphasized. There is however still a huge opportunity for expansion of their activities in the region. Political interference, dearth of managerial skills, low capitalization, and poor corporate governance has led to some instances of poor performance in recent years.

Many economies in sub-Saharan Africa have experienced and are still experiencing the important contribution of DFIs to economic growth. Governments, banks, and other stakeholders in African nations are now focused on exploring ways in which potential benefits can be derived from AfDB and other like institutions. With this improved financing and technical expertise available for sub–Saharan African countries, the growth potentials of African nations and collectively as a continent will become actualised. With great need comes great opportunity. Huge employment opportunities, increase in government tax revenues and increase in production capacity.

GTBank

Guaranty Trust Bank plc
RC 152321

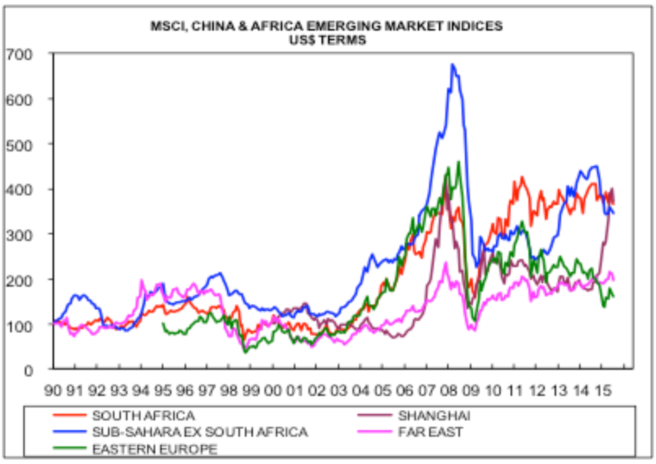
GTBank
Cares

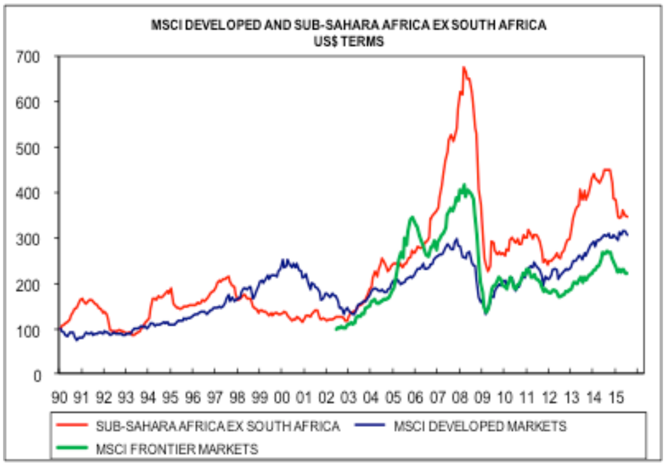
African Investments: Sustained long-term out-performance

The next few months should provide buying opportunities

Christopher Hartland-Peel

Sub-Saharan Africa ex South Africa (SSA ex SA) stock markets are successful with a market capitalisation of US$121m as of June 2015. Out-performance? Yes. First of all, SSA ex SA stock markets in US$ terms have out-performed the MSCI Developed World (USA, Europe, Japan & Australia) index since 2003 and the MSCI Frontier Index except for a few months in 2005-06. While the Chinese stock markets have soared in 2015, their recent retreat has been so rapid that the Chinese government has had to intervene to support the market. Eastern Europe and the Far East are laggards.





Aside the favourable impact of commodity prices, these successes can be attributed to improvements in corporate disclosure, increased involvement of indigenous private sector players, the creation of an enabling environment by Government, relatively low inflation rates and attractive interest rates.

The table below is a summary of SSA markets giving details of valuations and investor returns.

2012-13 were stellar years for investors irrespective of which country you invested in (South Africa excepted) and in spite of the fact that 2014-15 have had losses, they have not erased the gains of 2012-13.

SUB-SAHARA AFRICA - STOCK MARKETS: JUNE 2015

Jun-15	--- Market cap --- US$ bn	%	P/E Historic	---- Dividend ---- yield	cover	Price/ book	--- US$ returns --- 2015	Month	2014	2013	2012	2011	2010	2009
South Africa	961.5	88.8%	17.7	3.0%	1.88	4.50	(0.8%)	(0.6%)	(2.6%)	(4.5%)	16.8%	(18.4%)	29.2%	61.5%
Nigeria	57.1	5.3%	19.1	3.7%	2.78	5.27	(11.2%)	(2.4%)	(26.7%)	43.7%	40.8%	(21.6%)	17.0%	(38.1%)
Kenya	22.7	2.1%	16.8	3.4%	2.70	5.34	(7.6%)	(0.4%)	13.6%	43.7%	34.8%	(32.6%)	28.3%	2.9%
BRVM Cote d'Ivoire	8.8	0.8%	21.2	5.9%	1.13	4.46	(0.7%)	5.6%	(2.3%)	45.6%	21.8%	(15.5%)	12.7%	(23.5%)
Mauritius	6.2	0.6%	15.4	2.5%	2.97	1.55	(13.2%)	2.6%	(4.5%)	23.0%	(11.9%)	(1.4%)	19.2%	46.9%
Botswana	5.0	0.5%	16.1	3.8%	2.26	3.74	8.4%	2.8%	0.1%	7.0%	3.4%	(6.1%)	(8.6%)	16.7%
Tanzania	5.0	0.5%	17.2	3.8%	1.78	6.78	(12.9%)	3.8%	50.5%	98.4%	25.1%	20.2%	(14.4%)	(6.1%)
Zimbabwe	4.1	0.4%	13.4	2.7%	2.75	2.31	(8.8%)	(3.0%)	(19.5%)	32.6%	4.5%	(3.6%)	(0.5%)	52.0%
Zambia	3.7	0.3%	15.0	3.9%	1.57	3.95	(19.1%)	(4.3%)	2.0%	31.6%	(11.9%)	17.5%	14.9%	15.2%
Ghana	2.5	0.2%	10.7	4.6%	2.26	4.25	(23.3%)	(7.1%)	(22.5%)	44.0%	6.6%	(12.1%)	27.4%	(52.7%)
Namibia	2.0	0.2%	14.9	3.1%	7.77	3.91	6.5%	1.3%	7.5%	(2.8%)	15.8%	4.9%	24.2%	23.0%
Malawi	1.6	0.1%	9.9	4.3%	2.65	3.42	13.5%	(1.2%)	10.0%	62.2%	(45.5%)	(0.5%)	(7.1%)	(18.2%)
Uganda	1.1	0.1%	14.5	4.2%	2.16	4.81	(16.1%)	(6.5%)	9.7%	37.1%	1.2%	(34.4%)	23.3%	(0.4%)
Rwanda	0.8	0.1%	21.3	3.4%	1.70	6.49	(8.2%)	(7.1%)	(10.3%)	17.1%	52.4%	113.6%	n.a.	n.a.
Cameroon	0.3	0.0%	14.6	7.0%	8.24	5.83	1.0%	1.7%	4.0%	24.6%	11.4%	12.7%	(1.6%)	(9.9%)
Seychelles	0.1	0.0%	14.2	5.0%	1.41	1.78	14.5%	2.1%	19.9%	(3.6%)	n.a.	n.a.	n.a.	n.a.
Sub-Sahara ex SA	121.1	11.2%	17.7	3.8%	2.63	4.82	(9.1%)	(0.8%)	(13.3%)	41.0%	26.2%	(17.6%)	15.1%	(20.9%)
Sub-Sahara Africa	$1,082.6	100.0%	17.7	3.1%	1.97	4.54								

P/E < 10.0 times, Dividend yield > 5%, Price/book < 1.5 times   > 20% US$ return in year

As expected, these returns have their accompanying risks and some of them are outlined below:

1. Company earnings and dividend growth. This, in part, is a function of GDP growth.
2. Management, corporate governance and sustainability.
3. Brands and the ability of companies to grow their value. This blunts the impact of competition.
4. Company financial structure. Debt/equity, working capital and interest coverage.
5. Quality of reporting and frequency of earnings releases.
6. Regulation, especially valid for the banking industry.
7. Taxes both direct and indirect. Indirect taxes affect the brewing industry especially.
8. Exchange rates - currency depreciation affects investor returns.
9. Security - Boko Haram in Nigeria and Al-Shabab in Kenya have remained a threat to lives and properties

Two of these risks call for a further examination: growth and exchange rates risk

SUB-SAHARAN AFRICA GROWTH

The Top 30 Companies in SSA ex SA as of June 2015 are set out below and have a market capitalisation of US$72.6bn. 15 companies have a ROE above 25% and all are dividend paying (see ROE/Price Book graphs). Nigeria and Kenya, being the biggest economies in the region, have the highest representation and many are household names. Attributable earnings in 2014 were US$4.1bn and they paid dividends of US$2.7bn.

SUB-SAHARA AFRICA ex SA - TOP 30 COMPANIES 30-Jun-15
(Ranked by market capitalisation)

------- December ------ 09	10	11	12	13	14	June 15		Country listed	L/C Share price	Issued shares million	Market capitalisation US$ millions	% of total	P/E Trailing 12 months	--- Dividend -- yield	cover	Price to book value	ROE last 12 months
-	1	1	1	1	1	1	Dangote Cement	NIG	180.00	17,041	15,421	21.2%	19.1	3.3%	1.57	5.22	27.3%
4	7	11	10	5	3	2	Safaricom	KEN	16.45	40,000	6,630	9.1%	20.6	3.9%	1.24	6.31	30.6%
2	2	2	2	2	2	3	Nigerian Breweries	NIG	149.98	7,929	5,979	8.2%	26.7	3.2%	1.18	6.92	25.9%
3	3	4	7	7	5	4	SONATEL	BRVM	24,000	100	4,076	5.6%	12.5	6.7%	1.20	4.05	32.4%
6	6	3	3	6	6	5	GTB	NIG	27.01	29,431	3,997	5.5%	8.9	6.5%	1.74	2.16	26.6%
13	10	7	5	3	4	6	Nestlé Nigeria	NIG	857.00	793	3,415	4.7%	30.6	3.2%	1.02	18.90	61.9%
5	4	5	4	4	7	7	Zenith Bank	NIG	19.25	31,396	3,039	4.2%	6.1	9.1%	1.81	1.09	18.0%
16	17	16	13	13	10	8	ETI	NIG	22.50	22,563	2,552	3.5%	6.2	0.0%	n.a.	1.04	16.7%
8	8	9	9	9	8	9	East African Breweries	KEN	304.00	791	2,422	3.3%	35.9	1.8%	1.54	18.26	50.8%
28	24	17	16	11	18	10	Lafarge Africa	NIG	101.99	4,404	2,258	3.1%	13.8	3.5%	2.05	2.64	19.1%
-	-	-	-	17	9	11	Tanzania Breweries	TAN	14,500	295	2,144	3.0%	20.6	3.4%	1.41	7.14	34.6%
25	14	21	17	20	11	12	Equity Bank	KEN	47.50	3,703	1,772	2.4%	10.3	3.2%	3.09	2.76	26.9%
29	26	25	18	15	12	13	KCB Bank	KEN	55.00	2,950	1,635	2.3%	9.6	3.6%	2.86	2.15	22.3%
11	12	10	11	12	14	14	MCB	MAU	217.00	250	1,555	2.1%	11.3	2.9%	3.02	1.62	14.3%

15	15	12	30	19	15	15	Stanbic IBTC Bank	NIG	27.00	10,000	1,357	1.9%	9.2	3.0%	3.66	2.36	25.6%
1	5	8	6	8	13	16	First Bank of Nigeria	NIG	7.94	32,634	1,303	1.8%	3.1	1.3%	25.45	0.50	16.0%
-	30	15	14	14	19	17	Delta Corporation	ZIM	1.01	1,235	1,247	1.7%	13.6	3.6%	2.04	2.73	20.1%
9	9	6	8	10	16	18	Guinness Nigeria	NIG	162.81	1,506	1,233	1.7%	35.3	1.9%	1.47	5.44	15.4%
-	22	-	-	-	27	19	Co-op Bank	KEN	21.75	4,889	1,071	1.5%	13.3	2.0%	3.83	2.45	18.5%
-	-	-	-	-	17	20	Forte Oil	NIG	188.22	1,092	1,034	1.4%	88.5	2.1%	0.54	16.53	18.7%
14	-	13	22	23	26	21	FNB Botswana	BOT	3.93	2,564	1,021	1.4%	14.4	4.1%	1.71	4.45	30.9%
-	-	-	-	-	21	22	Seplat Petroleum	NIG	340.06	553	946	1.3%	3.4	5.9%	4.95	0.67	14.1%
10	13	27	23	26	20	23	Standard Chartered Kenya	KEN	298.00	309	928	1.3%	9.0	5.7%	1.95	2.45	27.3%
-	-	-	-	-	25	24	Nat Microfinance Bank	TAN	3,470.00	500	870	1.2%	11.1	3.0%	2.97	3.06	27.5%
20	16	14	19	25	23	25	Barclays Bank Kenya	KEN	15.55	5,432	851	1.2%	10.1	6.4%	1.54	2.21	22.0%
-	-	-	24	28	-	26	Union Bank Nigeria	NIG	9.79	16,936	834	1.1%	6.5	0.0%	n.a.	0.76	11.8%
7	1	-	21	16	-	27	United Bank for Africa	NIG	4.99	32,981	827	1.1%	3.5	2.0%	14.26	0.63	18.1%
-	-	-	-	-	22	28	BAT Kenya	KEN	741.00	100	747	1.0%	17.4	5.7%	1.00	9.12	52.4%
-	-	-	-	-	-	29	FNB Namibia	NAMIBIA	32.78	268	723	1.0%	10.0	4.2%	2.40	3.19	32.1%
-	-	-	-	-	-	30	Letshego	BOT	3.20	2,168	703	1.0%	10.2	3.9%	2.50	1.76	17.2%
							Total/weighted average				$72,589	100.0%	17.8	3.8%	2.23	5.41	27.9%
							Median						11.3	3.4%		2.73	25.6%
							Mean						16.4	3.6%		4.64	25.9%

= P/E <10.0, Dividend yield > 5.0%, Price/Book < 1.50, ROE > 25%

As the companies have grown, so have their returns. For example, GTBank has been one of the best performing stocks, up 4,200% in US$ terms over 15 years. Nestlé Nigeria, East African Breweries, Nigerian Breweries are up substantially.

SSA ex SA TOP 30 COMPANIES
US$ SHARE PRICE PERFORMANCE

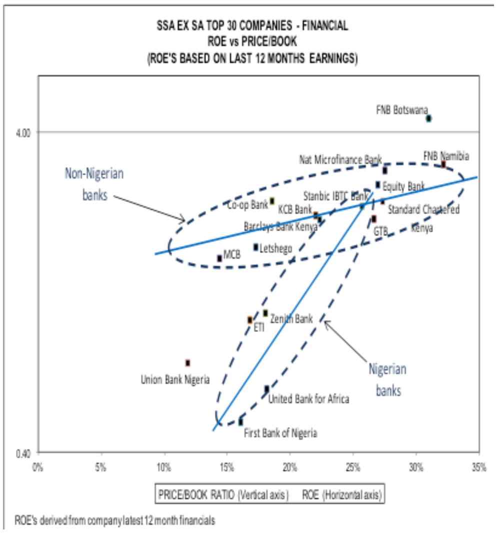
Rank		Country listed	L/C Share price	Mkt cap US$ millions	Share price performance up/(down) 1 year	5 years	10 years	15 years
1	Dangote Cement	NIG	180.00	15,421	-39%	18%	1297%	1628%
2	Safaricom	KEN	16.45	6,630	17%	133%	not listed	not listed
3	Nigerian Breweries	NIG	149.98	5,979	-29%	79%	291%	1412%
4	SONATEL	BRVM	24,000	4,076	-11%	62%	301%	976%
5	GTB	NIG	27.01	3,997	-24%	53%	525%	4213%
6	Nestlé Nigeria	NIG	857.00	3,415	-39%	115%	531%	2947%
7	Zenith Bank	NIG	19.25	3,039	-37%	5%	102%	not listed
8	ETI	NIG	22.50	2,552	9%	2%	not listed	not listed
9	East African Breweries	KEN	304.00	2,422	-5%	38%	88%	2518%
10	Lafarge Africa	NIG	101.99	2,258	-25%	97%	568%	667%
11	Tanzania Breweries	TAN	14,500	2,144	24%	522%	136%	957%
12	Equity Bank	KEN	47.50	1,772	-9%	62%	not listed	not listed
13	KCB Bank	KEN	55.00	1,635	-2%	150%	524%	2008%
14	MCB	MAU	217.00	1,555	-13%	39%	349%	845%
15	Stanbic IBTC Bank	NIG	27.00	1,357	-15%	8%	105%	not listed
16	First Bank of Nigeria	NIG	7.94	1,303	-58%	-55%	-8%	233%
17	Delta Corporation	ZIM	1.01	1,247	-22%	110%	227%	477%
18	Guinness Nigeria	NIG	162.81	1,233	-33%	0%	59%	779%
19	Co-op Bank	KEN	21.75	1,071	1%	-2%	1%	45%
20	Forte Oil	NIG	188.22	1,034	-25%	804%	1301%	not listed
21	FNB Botswana	BOT	3.93	1,021	1%	6%	125%	499%
22	Seplat Petroleum	NIG	340.06	946	-60%	not listed	not listed	not listed
23	Standard Chartered Kenya	KEN	298.00	928	-14%	12%	78%	172%
24	Nat Microfinance Bank	TAN	3,470	870	-28%	246%	not listed	not listed
25	Barclays Bank Kenya	KEN	15.55	851	-19%	-18%	25%	310%
26	Union Bank Nigeria	NIG	9.79	834	-20%	48%	-45%	57%
27	United Bank for Africa	NIG	4.99	827	-47%	-56%	24%	47%
28	BAT Kenya	KEN	741.00	747	1%	183%	157%	918%
29	FNB Namibia	NAMIBIA	32.78	723	24%	79%	200%	632%
30	Letshego	BOT	3.20	703	26%	21%	368%	not listed
	Total/weighted average			$72,589	-20%	63%	450%	1140%

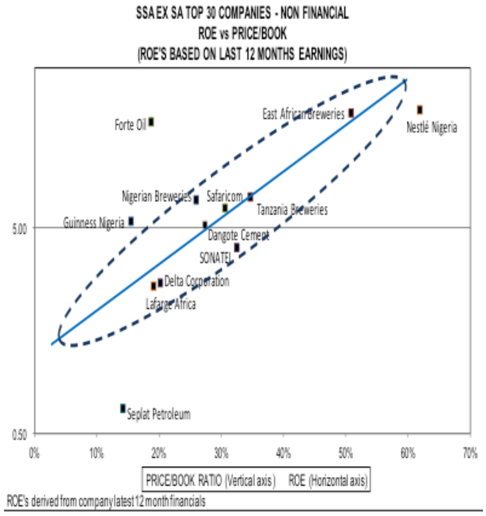
= >100% US$ return

Sources: Country stock exchanges. Exchange rates IMF and Financial Times, London.
Share price all time high refers to month end share price in US$ terms.

Following the 20% average fall in prices over the past 12 months, we believe that later on this year, there will be a buying opportunity as issues regarding commodity prices will be more than a year old and exchange rate expectations will have stabilised. Thereafter, the opportunity may have elapsed. Thus, one option is to buy those stocks which have fallen the most and which have a solid business. Risk is reduced as the share price has fallen enough to compensate the risks.

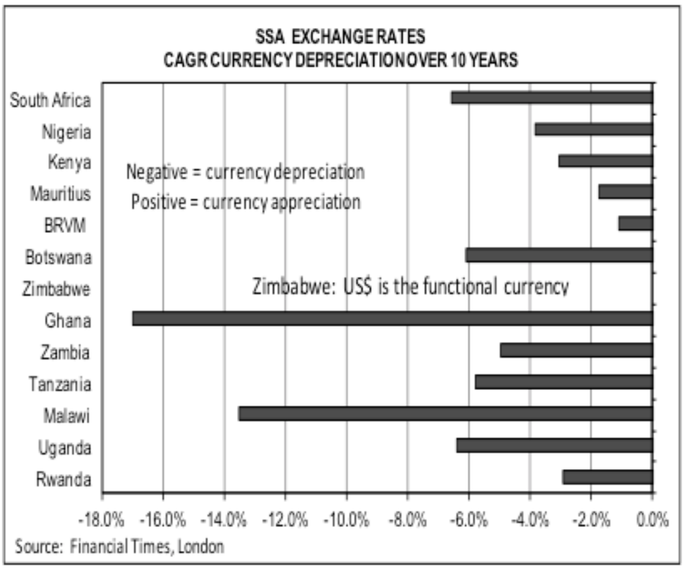
SSA ex SA TOP 30 COMPANIES
VALUATIONS: PRICE/BOOK vs ROE
ROE's generally exceed the cost of capital and inflation
Higher ROE's are rewarded with higher valuations





SUB-SAHARAN AFRICA EXCHANGE RATES

SUB-SAHARAN AFRICA EXCHANGE RATES vs. US$
Compound annual depreciation over 10 years



Exchange rate risk is an under-rated risk until it arrives. Few would know that South Africa's compound annual depreciation at 6.5% over the past ten years is greater than Nigeria (3.8%) or Kenya (3.0%). Botswana's currency depreciation at 6.1% is high on account of its link with the Rand.

The moral here is to avoid weak currencies. Imbalances are the key. High and/or rising public sector deficits, current account deficits, rising inflation all point to future exchange rate weakness. This is exaggerated for commodity exporters. Ghana, we feel, falls into this category.

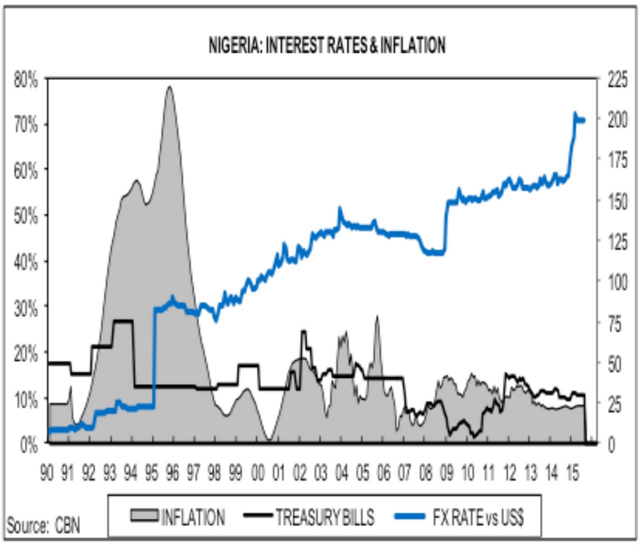
For investors, it is difficult to deal with currency headwinds. It is best to avoid countries with large macro-imbalances. As history has shown, the best time to enter the stock market is after a major currency fall.

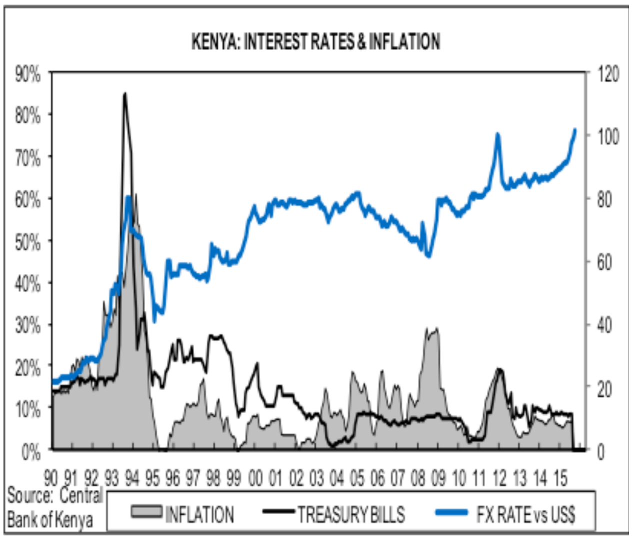
SSA ex SA INFLATION AND INTEREST RATES: 1990-2015
Markets rise with lower inflation, interest rates and rising commodity prices. This is particularly pronounced in Nigeria.

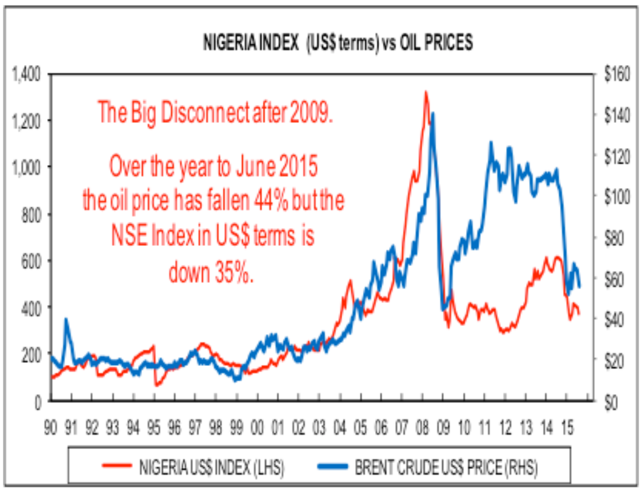
As we mentioned in the exchange rate discussion, identifying macro imbalances are important as to the future trends of exchange rates. Inflation and interest rates, under normal circumstances, are low when these imbalances are modest.

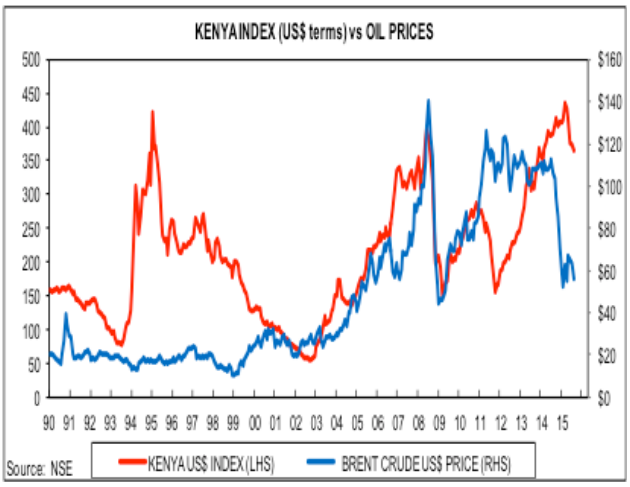
Since 1990 the trend of inflation and interest rates in Nigeria and Kenya has been down. The early to mid-1990's were characterised by high inflation and managed interest rates with sharply negative real interest rates. From 2000-08 inflation was lower, but still high, and real interest rates in Nigeria were positive, part of the time whilst in Kenya they were negative. From 2011, interest rates were positive in real terms in both countries.

What is noteworthy in Nigeria is that currency weakness manifested itself in 2008 and 2014-15 when oil prices fell. Interestingly, Kenya's stock market rose 2002-08 as oil prices rose. This we believe is a casual relationship as Kenya was included in "emerging/frontier" markets as investors included Kenya in the same asset category as oil producers.







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