INTO AFRICA

A publication from Capital Markets in Africa

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POWERING AFRICA'S ENERGY PROJECTS

ATTRACTING GREEN INVESTMENT TO POWER THE AFRICAN CONTINENT

FINANCING ENERGY PROJECTS IN AFRICA

ARBITRATION IN AFRICA - MANAGING RISKS IN A GROWING MARKET

MANAGING POLITICAL RISK WHEN INVESTING IN AFRICA

PRIVATE EQUITY IN AFRICA: EMERGING TRENDS

GHANA'S 2017 BUDGET: HOPE OF A NEW DAWN, OR ILLUSION

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Welcome to the April edition of INTO AFRICA, the publication with fresh insight into Africa's Emerging capital markets.

Africa has one of the fastest growing populations, by the year 2050, annual increases will exceed 42 million people per year and total population will have doubled to 2.4 billion, according to the United Nations Population Division. Of the 2.37 billion increases in population expected worldwide by 2050, Africa alone will contribute 54%. Nevertheless, electrification rates are among the lowest in the World and the main inhibitor to growth on the African continent is the lack of access to reliable and cost effective power supply for homes and businesses. In quantifying the impact, the World Bank Group reported that load shedding costs the continent 2.1 percent of its GDP on average per year.

This revelation prompted President Obama to launch Power Africa in 2013 via an executive order and was reinforced when U.S Congress passed the Electrify Africa Act of 2015. The act ensures U.S. involvement in power projects until at least 2020 and the Power Africa aims to double Africa's energy output by 2030.

To emphasise the urgency, African Development Bank Group President Dr. Akinwumi Adesina, in his address at Emerging Markets Forum, Abidjan stated:

"Some 645 million people in Africa do not have access to electricity. Power must be at the top of everyone's to-do list." To solve this, he said the Bank Group has committed to invest $12 billion over the next five years in Africa's power sector. "We expect to leverage another $45-$50 billion in co-financing for energy projects in the region during the same period".

We at Capital Markets in Africa are of the opinion that African governments and their partners need to move faster to bridge the continent's huge energy gap by adopting every available solution, on and off the grid. At the same time, governments need to make power projects viable, feasible and bankable by providing an enabling environment for private sector participation.

This month's edition titled: *Powering Africa's Energy Projects* and we start the discourse with *Attracting Green Investment to Power the African Continent* by **ANA HAJDUKA**, Founder & Chief Executive Officer, Africa GreenCo who explores the innovative options for attracting green investment to energy projects.

ADAKU UFERE, Energy Practice Head, **KESEENA CHENGADU**, Associate Attorney, **CYNTHIA YAV**, Associate Attorney and **LESLIE MAMOUAKA**, Intern, from Firm Centurion Law Group provide their views in *Complexities in Financing Energy Projects in Africa* while **INAL HENRY**, Head of Export Financing and **KHETHA RANTAO**, Infrastructure Finance, Rand Merchant Bank, South Africa give an insight in *The Role Of Commercial Debt In Infrastructure Funding*. **MICHELLE DAVIES**, Partner and **LYNNE WELLS**, Principal Associate, Eversheds Sutherland, LLP, London, give insight into untapped potentials in the East African energy market.

DR. MARKUS BURIANSKI, Partner, White & Case LLP, Frankfurt and **DR. FEDERICO PARISE KUHNLE**, Associate, White & Case LLP, Frankfurt review the process of arbitration in *Arbitration In Africa: Managing Risks In A Growing Market* while **RODDY BARCLAY**, Head of Intelligence and Analysis, Africapractice Group delves into the key risks to watch for in Africa in *Managing Political Risk When Investing In Africa*.

ELIZABETH LITTLEFIELD, Former President and CEO, Overseas Private Investment Corporation (OPIC), New York outlines three foremost issues that could hasten or hamper investment flows into Africa in *Potential Investment Potholes To Watch For In 2017* while **KENNETH BARRY**, Partner, White & Case LLP, London and **NDIDI ESEONU** Associate, White & Case LLP, London expand on the emerging opportunities within the African Private Equity ecosystem in *Private Equity In Africa: Emerging Trends*.

In our Exclusive interview, we asked **DUNCAN SMITH** and **JEAN-LOUIS BERNARDO** of Societe-Generale Bank, London and South Africa where they shared a vital message in *The Development Of Market Infrastructures Is Key To Improving Africa's Market Attractiveness*. At the same time, **COURAGE KWESI BOTI**, Economic Analyst, Databank Group, Ghana reviews Ghana's Budget in *Ghana's 2017 Budget: Hope Of A New Dawn, Or An Illusion?*

We round off with *The Fintech Revolution: Driving Innovation In Payment Services* by **KINSUK MITRA**, Principal, Risk & Compliance UK & Ireland, Financial Services practice, HCL Technologies.

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ATTRACTING GREEN INVESTMENT TO POWER THE AFRICAN CONTINENT

By **Ana Hajduka,** Founder & Chief Executive Officer, Africa GreenCo

The potential for renewable energy in sub-Saharan Africa is staggering but as noted by Akinwumi Adesina, President of the African Development Bank, during his launch of the New Deal on Energy for Africa, **"Africa cannot power its economy with potential"**.

A principal challenge for host Governments, the African and international development community and others seeking to support the deployment of grid-connected renewable energy in sub-Saharan Africa, is how best to convert this staggering potential into operational projects, which in turn can provide dependable, affordable electricity on the scale required for economic and social development of the region.

At USD 0.12/kWh, the average power tariff is almost double that of other developing regions, and this only partially covers the average generation cost of USD 0.18/kWh. In practice, the average cost of electricity for consumers is increased yet further by reliance on costly backup diesel/heavy fuel oil generators, representing up to half of total installed capacity in some countries. Furthermore, as one of the regions of the world most acutely affected by climate change, Africa also faces a particular imperative to minimize its potential impact by moving away from fossil fuels as the main focus of the region's new investments in generation capacity.

This challenge is of course well recognised. The UN's SE4All initiative calls for a doubling of renewable energy generation by 2030, in September 2015 the UN's member states adopted the latest Sustainable Development Goals, and in the same month the African Development Bank (AfDB) announced its New Deal on Energy for Africa. Many of the Intended Nationally Determined Contributions (INDCs) submitted by African nations in connection with the Paris Agreement in December 2015 refer to policy action to scale up renewables, and the African-led African Renewable Energy Initiative launched at COP21 on 1 December 2015 aims to catalyse at least 10GW of new renewables capacity by 2020, and – as an ambitious target – an additional 300GW by 2030.

To put these ambitions in perspective, between 1990 and 2013 only 24.85 GW of new generation capacity was added across sub-Saharan Africa, of which South Africa accounted for 9.2 GW. The cost of addressing the needs of Sub-Saharan Africa's power sector has been estimated at around USD 70 billion per year between now and 2030, for power generation, transmission and distribution infrastructure. Presently, funding for capital expenditure in the power sector is estimated at USD 4.6 billion a year, of which public sources contribute about 50 per cent. Additional public funding is limited by budget constraints and a large portfolio of priorities in infrastructure and social welfare spending. Meeting the funding gap is dependent on increased private investment, including public-private partnerships. However, to date there have only been 62 IPP projects in sub-Saharan Africa outside South Africa, totaling USD11.12bn in investments and 7 GW of installed generation capacity. Recent loans from the World Bank and African Development Bank to Eskom in South Africa alone, at USD1.54 billion and USD1.14 billion respectively, exceed total concessionary DFI flows to the power sector in the rest of Sub-Saharan Africa over the past two decades; there needs to be a step change if the ambitious generation targets are to be met.

The targets may be ambitious, but they are no whimsical pipe dreams: as technology costs continue to decline, the global deployment of renewables is increasing, creating a virtuous circle that is driving a renewable energy revolution and has so far resulted in over 50% of global capacity additions in recent years coming from renewable sources. New technology, coupled with structural innovation, can unravel the paradox of a continent so rich in renewable energy resources, yet suffering such a chronic energy deficit. The question is how to tap such huge potential, unlock power markets, and attract sufficient investment to make the most of Africa's considerable resources.

For this, we need structural innovation and change on a regional level. In their Brighter Africa report, McKinsey agree that regional integration and promotion of large capacity renewable generation are game changers that could shape the energy landscape in sub-Saharan Africa over the next 25 years. The African Union and the Programme for Infrastructure Development in Africa (PIDA) also consider that regional power market integration is key for the required reduction in the cost of electricity.

Investment flows have historically been constrained for many reasons, but particularly due to the difficulty of finding sufficiently creditworthy offtakers for the long-term power purchase agreements that would make privately-financed projects economically viable and bankable. Recent World Bank, ICA and UN surveys all highlight the lack of offtaker creditworthiness as the key hurdle for private sector investment in Africa.

From the above, three important messages stand out:

1. Substantial new generation capacity is required at affordable tariffs;
2. Regional integration will create more efficient and resilient power supplies;

3. Progress requires increased investment from the private sector and this cannot be unlocked without creditworthy counterparties and bankable power purchase agreements.

In order to satisfy these three objectives, new structures need to be developed; creating lasting, scalable changes in how power markets operate. Indeed, similar messages were also outlined in AfDB's New Deal on Energy for Africa, which calls for a structural shift toward an integrated renewable energy strategy and a programmatic approach to on-grid and off-grid renewable energy development and planning, rather than the project-by-project approach we have witnessed hitherto. These new initiatives need to help strengthen utility creditworthiness rather than just guaranteeing their obligations.

Currently, financial support from the international development community is provided largely on a project-by- project basis through a combination of grants, equity investment, debt finance (often on implicitly subsidised terms) and guarantees through which to cover sovereign credit risk. This approach is piecemeal and often lacks co-ordination. It also relies on heavily indebted governments assuming very large contingent liabilities to backstop the obligations of uncreditworthy offtakers, and in many instances it can be seen to crowd-out rather than catalyse private sector finance. This is a sticking plaster, not a real cure. Covering the cracks with financial support and guarantees, whilst further indebting governments, does little to solve the underlying structural and market weaknesses that currently make the provision of finance to the sector so time consuming and expensive.

We cannot compensate for the lack of offtaker creditworthiness and the lack of a viable power market into which to sell electricity production with financial instruments alone. What we need in future is not only financial risk mitigation products but also the introduction of new principal actors in the market to help diversify, manage and reduce the underlying risks.

The innovative solution proposed by Africa GreenCo entails the introduction of an independently managed, creditworthy (targeting Investment Grade rating), intermediary offtaker and power trader to sit between renewable electricity generation companies on the one hand, and both state owned and private sector offtakers on the other. Africa GreenCo will operate as a member of the African regional power pools, aggregate offtaker credit risk and diversify both supply and demand side risks on a regional basis. Africa GreenCo will purchase power from multiple IPPs through power purchase agreements, and sell that power to a diversified portfolio of purchasers through power supply agreements. Africa GreenCo will mitigate the risk of purchaser default through an ability to secure alternative buyers on a bilateral basis or through short-term trading via the power pool. Through its participation in competitive power markets, Africa GreenCo will promote cross-border power transactions and a more dynamic and liquid short-term power market. Africa GreenCo will increase the bankability of IPPs by acting as a creditworthy offtaker and will also address inefficiencies caused by the "single buyer, single seller" model by operating on a portfolio basis.

This single change will:

- materially reduce risk and cost for project developers and financiers leading to benefits for utilities and power purchasers;
- create a more favourable investment environment for a wider universe of investors;
- reduce the fiscal burden on host Governments by reducing the probability of early termination buyout obligations crystalising;
- allow 'open access' to DFI credit support for private sectors financiers (all project companies contracting with AGC will benefit from AGC as a creditworthy counterparty) and aggregates DFIs willingness to take sovereign credit risk into a single intermediary off-taker;
- more efficiently match electricity supply and demand;
- help optimize deployment of intermittent renewable energy generation facilities on a regional basis;
- increase the liquidity and effectiveness of regional power pools through trading;
- lower transaction costs through standardised documentation and dedicated specialist team;
- provide a mechanism through which to mitigate rigid contractual positions required for bankability and thus increasing the number of bankable projects;
- increase the potential for refinancing - giving confidence to upfront lenders and helping to facilitate long-term capital market / institutional investors engagement; and
- facilitate the move towards local currency denominated PPAs by facilitating an increase in local currency lending to power projects.

With the support of host Governments, and the African and international development community, Africa GreenCo can provide a structural solution to the underlying problem of renewable energy project bankability. More importantly, Africa GreenCo will make financing the sector fundamentally more attractive and accessible to private sector sources of capital whilst at the same time reducing pressure on utilities as well as financial liabilities for sovereign governments. Accordingly, Africa GreenCo expects that it will cause a fundamental step-change in the degree to which DFI support helps mobilize private sector finance needed to light the African continent.

Contributor's Profile

Ana Hajduka is Founder & CEO of Africa GreenCo, a Green Regional Energy Offtaker.
Ana is a qualified lawyer in both England & Wales and the State of New York, and is an infrastructure and energy professional with more than 12 years' experience covering project finance, public-private partnerships and project development, and works on energy and infrastructure projects in emerging markets.

COMPLEXITIES IN FINANCING ENERGY PROJECTS IN AFRICA

By **Adaku Ufere**, Energy Practice Head, Centurion Law Group,
Keseena Chengadu, Associate Attorney, Centurion Law Group,
Cynthia Yav, Associate Attorney, Centurion Law Group,
Leslie Mamouaka, Intern, Centurion Law Group

Understanding the need for financing of projects in the African Energy Sector

The power sector is a fundamental building block for economic advancement in any country. Abundant, affordable and reliable energy is the cornerstone of growth in today's world. The great efforts undertaken by the African States to supply sustainable energy to its people have been well documented in the last number of years, along with a shift from conventional fuels to cleaner energy sources. While the need is undeniable, the means, however, remain a point of contention amongst African states and their stakeholders alike.

Africa is undergoing a sustained period of economic growth and transformation with both an ever-growing population and diversifying economies, which undoubtedly requires a massive investment in energy.[1] Consequently, providing greater and more reliable access to energy is one of Africa's most pressing needs and greatest opportunities. The African continent is relatively underexplored and is today experiencing a modern-day renaissance across various sectors. It currently presents some of the best investment opportunities in the world, attributable to among others, its vast untapped energy resources which, if harnessed and processed efficiently, can provide energy at an affordable cost.

Accordingly, African governments, international organizations and private companies are actively promoting investment in energy projects to supply energy to underserved markets and remote territories in most African developing countries.

The prevalence of project finance continues to gain traction in Africa, but not without its share of challenges and complexity. In their quest to develop their economies and infrastructures, numerous African countries have engaged in various energy projects on their own and through other structures such as public-private partnerships.

Complexity in Financing Energy Projects in Africa

Projects financing is tending to diversify and move away from public lending, which was historically the major source of funding, towards more equity financing, or a balance of both. However, equity financing remains challenging in the absence of reliable power off takers and adequate, stable local regulation. The large funding gap for new energy projects cannot be met by the public finances of African countries alone, and governments are struggling to fund their power needs as they are unable to raise sufficient debt at affordable rates and most utilities have low investment grade ratings. The success of power projects depends on the ability of African governments to negotiate, implement and maintain them, yet, despite the enforcement of training of local employees in national content regulations, there is still a lack of local skills needed to ensure the sustainability of power plants built by private companies. As a result, more resources have to be spent on capacity building in the regions to develop stronger regulatory frameworks, including streamlining and speeding up the IPP and Power Purchase Agreement (PPA) processes, and most financial markets in African countries are newly established or non-existent.

It is widely acknowledged that the private sector can play an important role in tackling Africa's energy crisis, and to meet its growing demand for power, African governments now need to attract greater levels of private investment to scale up generation capacity by providing a sound investment climate and enabling environment, including legal, fiscal and political stability. Fortunately, trends have shown that private investment in Africa is growing, especially with Independent Power Projects (IPPs) and investment from China, predominantly thermal and hydro, respectively, now being the fastest growing sources of funding for power projects in Africa. Despite evident private sector involvement, projects in Africa's energy sector are still often difficult to finance and to reassure potential investors, their legal structures are generally rigid and tend to include more securities instruments than one would normally expect.

African state-owned companies in power supply are often drained of resources because of subsidised fuel prices and competition from other spending priorities, as in Nigeria and Mozambique by way of example, and face the challenge of financial participation in huge capital-intensive projects. In many parts of Africa, tariffs are either too high for consumers or too low in relation to the costs of supplying them with power. The risk is that this locks the power sector into a cycle of low revenues, high debts, inadequate maintenance, under-investment and poor quality of service.

African currencies and the risks in the global market economy

The cycle of economic and financing uncertainty

1.International Renewable Energy Agency, "Africa's Renewable Future: The Path to Sustainable Growth", www.irena.org/documentdownloads/publications/africa_renewable_future.pdf

concurrently with Africa Governments propensity to make unpredictable policy changes in respect of currency movements have elicited a sentiment of unreliability of African currencies among some investors, risk which some African states have sought to mitigate through measures such as the FCFA which is fixed to the Euro under the CEMAC regulations in order to accommodate currency fluctuation. In light of this, companies in the process of acquiring power facilities tend to include provisions in the protection of such risks drafted in the power purchase agreement.

Regulatory uncertainty and a lack of political commitment
One of the major barriers to investment in the African energy sector is the absence of certainty with regards to legal frameworks for investors, which make decisions on whether or not to invest in a particular jurisdiction difficult. The knowledge that the rule of law is being abided by all stakeholders is fundamental to investors, because in situations where investors live in fear of key legislation being consistently subject to review, proper decisions on investment cannot be taken. The prevalence of long lead times between the decision to invest and the granting of the authorisations impacts and enhances the uncertainty even further.

In Africa, as is elsewhere in the world, clear energy sector policies in combination with reliable, predictable regulations are the key to unlocking investment, improving efficiency and significantly increasing energy access. Having appropriate and updated regulations and a well-designed regulatory strategy is important for governments, companies and investors. The maturity level of the energy sector in Africa differs widely. Numerous countries have implemented regulatory change in recent years to improve overall sector performance, but many others have kept their energy sector regulations and market design unchanged. Concerns about regulatory uncertainty could include government implementing clear, conducive energy sector policies and structures, stable regulatory environments, framework which clearly specifies market structure as well as roles and terms for private/public sector investments, transparent, predictable licensing and tariff framework to improve investor confidence, and procurement/bidding practices which are transparent and competitive.

The drawbacks and benefits of the bidding process

Competitive biddings are particularly noteworthy in the energy sector as they guarantee that power projects are carried out at the lowest possible cost while promoting the development of bankable projects in the renewable energy sector. Nonetheless, one of the main issues of this intricate process is the fact that most African governments fail to provide project developers and funders with strict standardized long-term contracts and reliable timelines. In this regard, the process is marked by negotiated deals. These factors are detrimental to the energy sector as it pressurizes investors and lenders to withdraw from deals due to the uncertainty and unfairness of the process. Pre-selection may, to some extent, deny opportunities for several sources of investment which reinforces the need for the implementation of a clear regulatory framework.

Sovereign Guarantees and Power Purchase Agreements
It is often the case that IPPs require the host government to issue a sovereign guarantee, however, with the current trend of increasing public debt of African governments, the challenge is always whether or not a government should accept the obligations imposed by the investors.
On one side, a sovereign guarantee is an attractive tool for the government to reassure potential investors because, unlike conventional public spending, it does not require immediate payment or explicit budgetary constraints. Sovereign guarantees are usually issued to guarantee buyer obligations under the power purchase agreement.

On the other hand, a sovereign guarantee is a contingent liability to be recorded in the host government's balance sheet. In other words, it constitutes a future and conditional financial obligation which realisation depends on the occurrence (or absence) of one or more future events potentially not under the control of the government. The risk associated with contingent liabilities is therefore not easily identifiable or quantifiable. This complexity has created significant uncertainty about the sustainability of the public debt of several countries which have contingent liabilities and has led investors to reverse the credit rating of certain countries in the recent global financial crisis. It is on this account that certain African countries such as Kenya are no longer issuing sovereign guarantees in their energy projects.

Conclusion

Few would argue the importance of having an enabling environment with clear and precise legal and fiscal regulatory frameworks, within which both the government and the private sector would be able to participate. This would be ground breaking in the financing of energy projects increasing the participation in these energy projects in pursuit of the continent’s economic growth.

It is imperative that African governments find the political will to make a number of critical decisions rapidly and transparently on developing clearer legislative and fiscal frameworks, standardising power purchase agreement models and developing more effective rating systems to name just a few. Here, generation, distribution, and pricing models could be handed to more private sector players to make vital energy supplies more competitive, and the government’s role will be to regulate the energy sector effectively, while creating and maintaining an enabling legislative environment conducive to investments which will enable African countries to tap into their rich reserves. Dialogue and collaboration between all stakeholders in this instance is an essential prerequisite.

UNTAPPED POTENTIAL TRIGGERS INVESTORS' INTEREST IN THE EAST AFRICAN MARKET

By **Michelle Davies,** Partner, Eversheds Sutherland, LLP, London
Lynne Wells, Principal Associate, Eversheds Sutherland, LLP, London

Growing energy demand, an abundance of renewable energy resources, competitive costs and strong political commitment to the sector both locally and internationally, make East Africa a promising region for the development of renewable energy projects.

Most countries in the region have published targets for increasing electrification rates: the Ugandan government is aiming for 100% by 2030, Kenya is targeting 70% by 2017 and Tanzania have set a goal of 75% by 2033. In such framework, there is huge potential for scalability (and cost efficiencies through standardisation) for investors who are willing to explore growing business opportunities across the region taking advantage of relatively low production costs.

The potential to transform and support development in East Africa comes first and foremost from decentralised and off grid opportunities: the reduction of renewable energy technology costs, more efficient O&M models and the expectation that storage technologies are likely to continue on their downward cost curve, boosting investments in the sector.

Key for many countries will be to diversify their power mix: countries like Ethiopia, Tanzania and Uganda have a potential for a wide renewable energy deployment including for solar and where possible, wind projects.

Geothermal energy also offers excellent opportunities. Targeting 5GW of capacity by 2030, Kenya is East Africa's leader in geothermal technology, aiming to become one of the largest generators in the world in the next two years.

While geothermal early development costs can be very high, solar projects are generally less dependent on a large scale grid and can provide off-grid or distributed energy solutions, which arguably allow for a quicker and more reliable market entry. Not surprisingly, the off-grid solar sector is thriving, and has been the subject to many inter-government MoUs in the last year or so.

As the sector gains traction and attracts more investment, the number and size of projects should be expected to increase significantly. It is also worth noting that small-scale biomass projects in certain communities might be very profitable for the region.

The renewable energy industry in East Africa is still facing some challenges. Creating a transmission and grid infrastructure that is fit-for-purpose in the context of an increasing demand for reliable and cost-efficient power, is one of the biggest ones.

Grid extension or upgrade projects have suffered in the past from a lack of private sector investment. These projects have had to rely heavily on public or development finance institutional funding such as the "Energy Africa Compact" agreement between Uganda and the UK governments. It remains to be seen whether there will be more private sector involvement in transmission and grid infrastructure projects although the move towards more PPPs in the region may guide governments in this direction.

The lack of a national grid infrastructure is not the impediment it once would have been for the renewable energy sector particularly given the shift towards decentralised systems which we see being deployed across Africa through various different structures and guises. It will be interesting to see if the growth of the off-grid market impacts current governmental ambitions to allow electricity trading among national grids via the East African Power Pool.

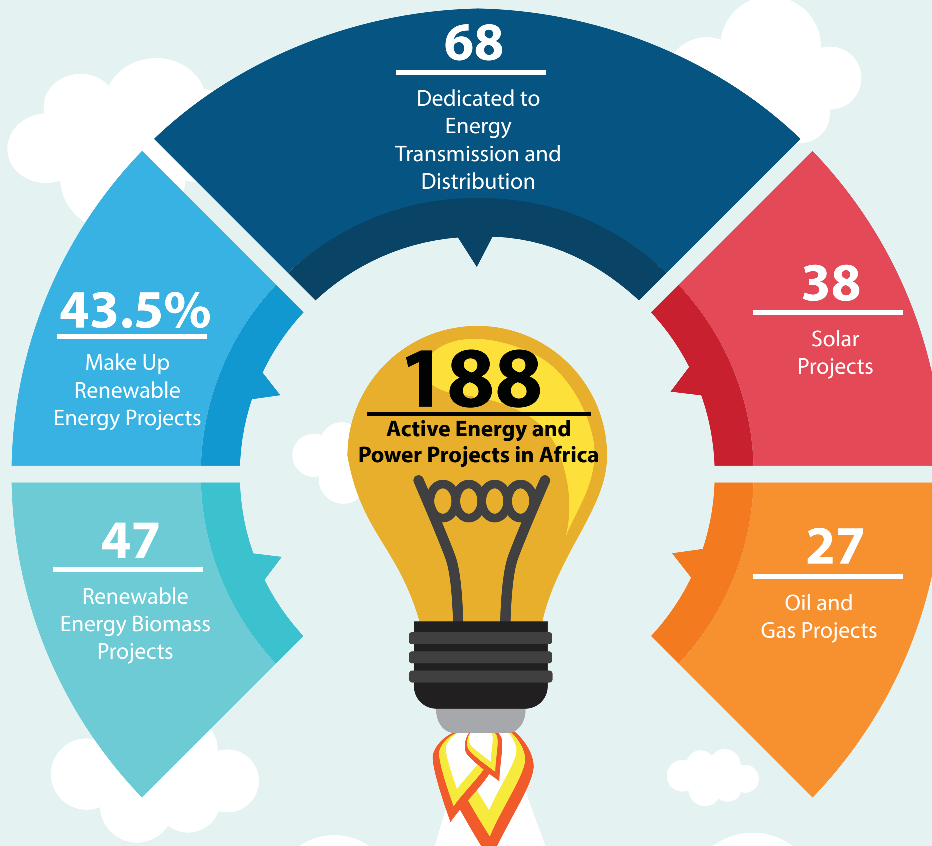
A second major challenge is financing. Whilst the region has a strong level of support from development banks and multilateral institutions, many of whom are significantly active in the sector, funding for early stage projects can be difficult to obtain, especially for local developers. International investment can be further impacted by currency challenges around liquidity and devaluation, particularly if PPA payments are made in the local currency or are unpegged.

Securing real estate rights can also be a challenge, particularly given the often large landscape of a wind or solar project. Each jurisdiction has its own specific framework in terms of ownership rights and determination, enforceability and termination of the same. Bankability in this area will hinge on being able to carry out clear and certain ownership due diligence, putting in place contractual arrangements to deal with rental payments, grid connection, site access and step in rights (if private sector investment).

In addition, there can also be practical challenges. Delays caused by local opposition to projects (for example, arising from displacement such as in the Lake Turkana project in Kenya, or compensation disputes such as in the Karuma hydro project in Uganda) and the risk of local landowners demanding exorbitant prices as soon as private investors seek to acquire land for renewables projects have been known to derail projects.

In spite of these challenges, the number of players showing interest in the East African market continues to grow. Many European and Middle Eastern developers are watching the region very closely. Doubtless, the East African renewable energy sector is not delivering to its full capacity yet. There's a huge, untapped potential for renewable energy generation, whose social and economic impacts could be truly transformational.

Powering Africa's Energy Projects BY NUMBERS



Source: World Bank April 2017

TOP 20 LOCATIONS OF ENERGY PROJECTS IN AFRICA

LENDING INSTRUMENTS USED TO FINANCE ENERGY AND POWER PROJECTS IN AFRICA

PROJECT LENDING INSTRUMENTS	% USAGE
SPECIFIC INVESTMENT LOAN	45.61%
TECHNICAL ASSISTANCE LOAN	12.20%
INVESTMENT PROJECT FINANCING	11.81%
DEVELOPMENT POLICY LENDING	6.50%
EMERGENCY RECOVERY LOAN	4.73%
ADAPTABLE PROGRAM LOAN	4.46%
STRUCTURAL ADJUSTMENT LOAN	3.62%
SECTOR INVESTMENT AND MAINTENANCE LOAN	3.30%
SECTOR ADJUSTMENT LOAN	2.70%
FINANCIAL INTERMEDIARY LOAN	1.75%
LEARNING AND INNOVATION LOAN	1.36%
PROGRAM-FOR-RESULTS	0.49%
PROGRAMMATIC STRUCTURAL ADJUSTMENT LOAN	0.43%
UNDISCLOSED	0.40%
POVERTY REDUCTION SUPPORT CREDIT	0.31%
REHABILITATION LOAN	0.19%
DEBT AND DEBT SERVICE REDUCTION LOAN	0.11%
SPECIAL STRUCTURAL ADJUSTMENT LOAN	0.02%

COUNTRY	Million USD	Projects
AFRICA	2,121.86	12 Projects
SENEGAL	335.77	11 Projects
KENYA	950.55	10 Projects
UGANDA	525.13	10 Projects
EGYPT, ARAB REPUBLIC OF	4,601.90	9 Projects
ETHIOPIA	597.79	9 Projects
TANZANIA	480.94	8 Projects
LIBERIA	135.47	7 Projects
WESTERN AFRICA	964.40	7 Projects
GHANA	977.80	6 Projects
NIGERIA	1,308.83	6 Projects
BURKINA FASO	224.06	5 Projects
WEST BANK AND GAZA	18.00	5 Projects
CAMEROON	552.00	4 Projects
CENTRAL AFRICAN REPUBLIC	30.75	4 Projects
GUINEA	110.72	4 Projects
MALI	182.00	4 Projects
MOROCCO	728.00	4 Projects
MOZAMBIQUE	130.46	4 Projects
RWANDA	227.28	4 Projects

Source: World Bank April 2017

THE ROLE OF COMMERCIAL DEBT IN INFRASTRUCTURE FUNDING

By **Inal Henry,** Head of Export Financing, Rand Merchant Bank, South Africa
Khetha Rantao, Infrastructure Finance, Rand Merchant Bank, South Africa

It is without a doubt that innovative, consistent, funding sources are needed to fill the estimated circa USD93 billion annual African public infrastructure shortfall over the next decade in rail, road, port, water, and power infrastructure across the continent. A lot has been written about the state of existing infrastructure and the lack of new investment and maintenance which has led to the slow and meagre generation of GDP (gross domestic product) and Trade. Africa accounts for 16% of the world's population but only generates 2.5% of global GDP [source PIDA]. An improved regulatory and investment environment in many African jurisdictions has led to the inflow of private commercial debt. This form of funding works together with and compliments the use of development finance and multilateral funding, export credit agency funding and other forms of concessional funding. Collaboration between these sources of funding is not an option but a necessity to ensure success.

The role of commercial debt funding in African infrastructure projects cannot be underestimated and is, in fact, simple – Banks are setup with their front and middle office teams to undertake these large scale in depth complex projects. In addition, Banks understand equitable risk allocation - this statement is contentious but in the context that private sector funding carries huge public accountability to depositors it is only right that certain risks are assumed by Governments, Sponsors and to the extent possible, development financing institutions. Only a limited set of risks capable of being diligenced should be accepted by Banks. It is ultimately an investment and not a gamble, one that is long term and recouped over time without loss (the last being an imperative). The role of commercial debt funding is to facilitate infrastructure investment where the building blocks stack up and the probability of successful implementation and operation is achieved.

Commercial funders are more "undiplomatic" than their counterparts and ask the difficult questions which other organisations may not be willing to ask or explore. Each project has to be put through a rigorous test to confirm bankability. At the end of the day private sector funding is more likely to demand tighter controls and risk sharing matrix to achieve this. The time invested to deeply and intimately understand transactions allows commercial debt providers to comfortably increase their risk appetite resulting in commercial lenders participating in tranches that would not necessarily be palatable to their counterparts.

The recent Amandi Energy Power Plant, a 192 MW combined cycle dual-fired independent power producer project, located in the Western Region of Ghana at Aboadze, is an excellent example of collaboration between development finance institutions and commercial banks. The development finance institutions played a significant role when it came to risk allocation to make the deal bankable. The development finance institutions also assisted and facilitated the procurement of political risk coverage for the benefit of the commercial debt providers and thus enabled participation by the commercial banks. In return, commercial banks were able to offer a unique supplier guarantee facility - a facility that the development finance institutions had limited appetite to participate in.

A major challenge that faces infrastructure projects on the continent is the rate projects are rolled out. Projects that have secured commercial debt funding are more likely to reach financial close more rapidly due to the non-bureaucratic approval procedures in banking and the adoption of a proactive approach to planning a transaction and to ensuring that these plans are efficiently and effectively executed. Where commercial debt funding plays a leading role, time frames are established and respected. Further, execution risks associated with projects are greatly reduced. Overall the abilities within the Banks contribute to the end result. Diligence risk is mitigated by experienced in house expertise and personnel applying best market practise to evaluate projects. Having the "A" Team on any financing is already a winning recipe.

The commercial debt providers' role and value add extends beyond traditional lending. Alongside the provision term funding, commercial banks are increasingly fulfilling multiple roles on transactions. The spectrum of services includes the provision of in-depth financial and commercial advisory services, underwriting meaningful debt sizes, fulfilling the roles of facility agent, security agent, interest rate and currency hedge provider, construction /supplier guarantee provider and performing the account bank role. Services development finance institutions and institutional investor would typically not offer. A key differentiator of the commercial debt offering is the ability to simultaneously perform various vital roles on a transaction and bring this together for the benefit of the project.

The role of commercial debt funding in African infrastructure projects is to fill the funding gap and bring these projects to close, in an efficient and timely manner. It will not be the biggest cheque in the project but it is strategic. The emphasis though should always be on the overall collaboration between the funding sources which in the current context and given the mammoth African infrastructure pipeline ahead, is a necessity, not an option. Further, given the greater risk appetite, in house technical expertise and commercial debt sense and checks, no transactions should be concluded in the absence of private commercial debt. With this in mind, the involvement of the commercial debt will, in all likelihood, be a key determinant a projects success.

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POWER AND ENERGY PROJECT INITATIVES IN AFRICA

Power Africa, the USAID-funded energy initiative created under the Obama administration, has announced plans to invest US$1 billion in Nigeria's energy sector.

World Bank-Funded $340m Rusumo Power Plant Construction to Begin. The facility at Rusumo Falls will take 3 years to complete, provide 80 MW for Burundi, Rwanda and Tanzania. The Project will provide 26.6 MW to each state, strengthen regional power interconnection.

A major South African firm plans to build a 235 MW power plant in Zambia costing about $1.26 billion in Zambia to help plug a power shortage. Zambia generates about 2,600 MW, mostly from hydropower stations.

The African Development Bank approved a concessional loan for a 33-megawatt solar project in southeast Mali that's being built by Norwegian renewable energy company Scatec Solar ASA and U.S. development institutions International Finance Corporation and Power Africa.

The U.S. Trade and Development Agency awarded a grant to the Ghanaian company, Buipe Solar Limited, in support of a feasibility study for a 20 megawatt solar photovoltaic plant.

Solar Capital Partner with Power Africa to achieve 175MW of power from the two-phase solar PV facility near De Aar in the Northern Cape of South Africa.

The Swedish government has provided €20 million to the Power Africa Programme to compliment Government's effort in laying power transmission lines from the main grid to districts in North-Western Province, Zambia.

Zambia, Zimbabwe are to sell $440 million equity stake in Hydro project that form the centerpiece of the proposed $4 billion dam that will straddle their border. The Batoka Gorge hydropower project on the Zambezi River between the Kariba dam and Victoria Falls, will produce 2,400 megawatts of power once complete.

The U.S. Trade and Development Agency awarded a grant to Société de Production d'Energie Solaire de Kodéni SAS for a feasibility study for two 17 megawatt solar photovoltaic plants near the villages of Pá and Kodéni in Burkina Faso.

Power Africa Partner Gigawatt Global Advances 1,000 MW in Burundi. Gigawatt Global, the leading frontier solar and social development enterprise, announced the $14 million pioneering project in one of the world's least developed nation.

ARBITRATION IN AFRICA – MANAGING RISKS IN A GROWING MARKET

By **Dr. Markus Burianski,** Partner, White & Case LLP, Frankfurt
Dr. Federico Parise Kuhnle, Associate, White & Case LLP, Frankfurt

Introduction – Navigating Africa

Today, many areas of African economy are still growing despite considerable drawbacks due to the oil crisis. Besides the industries related to the continent's natural resources, especially infrastructure projects, banking and telecommunications are on the rise. In these areas and many others, Africa has a large untapped market with relatively low penetration and great potential for investment and business.

Yet such opportunities also involve risks. So it follows that investors and businesses are increasingly looking for legal certainty to protect their interests. Most investors and businesses are still reluctant to rely on local legislation and courts. Arbitration is, thus, the most attractive option:

What is Arbitration?

Arbitration is an alternative to state court litigation with the goal of obtaining a binding and enforceable decision rendered by legal and industry experts. The end product of arbitration proceedings is an "award". As a general rule, awards are more difficult to appeal and easier to enforce than domestic judgments, in particular abroad, based on international treaties, such as the New York Convention on the Recognition and Enforcement of International Arbitral Awards (NYC) or the Riyadh Arab Agreement for Judicial Cooperation (RAAJC). Arbitration can be split into two main categories: commercial and investment arbitration.

In commercial arbitration, which is by far the more relevant category for the resolution of disputes relating to business activities, the parties agree under a contract to submit their disputes to arbitration. Most commercial arbitrations are administered by arbitration institutions, such as the International Chamber of Commerce (ICC) or the London Court of International Arbitration (LCIA). Those institutions also provide the parties with procedural rules. Commercial arbitration permits parties to opt-out from state jurisdictions and mitigate legal risks (e.g. incomplete or non-existent local law, unspecialized state courts and political pressure on judges). Another advantage is that parties can select legal and industry experts who are the most qualified to resolve their disputes as their arbitrators.

Investment arbitration is a relatively rare, but powerful creature when it comes to protecting investors against political risks. Investment arbitration permits a foreign investor to seek remedies against a state for breach of protections granted under a bilateral or multilateral treaty. Such treaties are concluded between states, whereby each state undertakes to ensure that investments made by investors of another state party to the treaty are protected against unreasonable or arbitrary state action. An investor seeking to pursue such remedy must show which specific protection guaranteed by the treaty has been breached due to state action. Investment arbitration is often relevant for unlawful state interference with large-scale projects, such as infrastructure, energy, mining, etc. An example would be the expropriation of a telecommunications provider. Just as commercial arbitration, investment arbitration permits investors to bring their disputes with sovereigns to tribunals sitting outside the affected country and to obtain a binding and enforceable decision against the state. In addition to being enforceable inside and outside the affected state, many states confronted with adverse awards choose to pay voluntarily.

Africa accounts for about 836 Bilateral Investment Treaties (BITs). Virtually all Africa-related BITs have provisions for dispute settlement, and in the vast majority they refer to investment arbitration. 45 African countries have ratified the Convention of the International Centre for Settlement of Investment Disputes (ICSID). As of December 2016, 15% of ICSID's case load of registered cases was against sub-Saharan African countries and 10% against Middle East and North African countries. ICSID recently signed a collaboration agreement with the Lagos Regional Centre for International Arbitration. By this collaboration, ICSID arbitrations can now take place in Lagos, Nigeria.

Besides these BITs, there are also regional investment agreements like the Investment Agreement for the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) Protocol on Finance and Investment, which contain provisions for investment arbitration. Other investment treaties, such as the Economic Partnership Agreement between the European Union and its Member States and the SADC States (Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland) provide only for a state to state arbitration dispute resolution system.

Concerns raised by civil society groups about transparency of investor-state arbitration proceedings and that poor and heavily indebted states are significantly disadvantaged in disputes against well-funded investors have led to questions about the balance of power in these disputes. Some countries are renegotiating and even terminating BITs to avoid investor-state arbitration. South Africa, for instance, has recently replaced its BIT regime with a new domestic law that does not permit the use of investment arbitration. The SADC Member States have also been considering changing their investment protection in the SADC Protocol on Finance and Investments by replacing investment arbitration with state to state dispute resolution.

Despite this skepticism, there has been a steady increase in investments in these areas, and an increase in the

number of bilateral investment treaties signed by African states, as well as an increasing number of investment codes that incorporate protections for investors. Investment arbitration cases involving African state respondents are significantly on the rise as well. COMESA for example plans to update its arbitration rules to enhance investment protection.

Where the disputes go

The growth of arbitration across Africa is supported by legal reforms across the continent. Several countries have modernized their arbitration laws, and 36 out of 54 African states have ratified the NYC.

Africa-related commercial disputes have traditionally been arbitrated in Paris or London under the ICC or LCIA rules. Africa-related disputes accounted for 5.5% of the ICC's case load in 2015. It is also noteworthy that Sub-Saharan Africa accounted for the highest percentage of state and state owned entities who were parties to ICC-arbitrations. Regarding the LCIA, Africa accounted for 6.4% in 2015, with disputes from Nigeria alone accounting for 2.1%. The LCIA has also entered into a joint venture with Mauritius in 2012 to create the LCIA – Mauritian International Arbitration Centre (LCIA-MIAC). The LCIA-MIAC has its own set of rules based on the LCIA Rules and it is conceived for parties who are familiar with arbitrating through the LCIA but want to resolve their disputes in Africa. It is important to note that the strong ties to Paris and London are by no means conceptually required, but may result simply from language conveniences. Parties are well advised to consider whether it is possible to obtain the same level of protection outside the traditional hubs.

Meanwhile, a number of home-grown African arbitration centers have also emerged. Arbitration lawyers and arbitrators are progressively calling for Africa-related disputes to be heard in Africa rather than 'exported' to international centers. The Cairo Regional Centre for International Commercial Arbitration (CRCICA) and the Lagos Regional Centre for International Commercial Arbitration are such Africa-grown institutions with an international reach. In Francophone Africa, OHADA (Organisation pour l'Harmonisation en Afrique du Droit des Affaires – the Organization for the Harmonization of Business Law in Africa) is a supranational organization aimed at harmonizing commercial law among its 17 member states and increasing investment in the West and Central African economic zone. OHADA also provides for an arbitration institution, the Cour Commune de Justice et d'Arbitrage (CCJA). Arbitral awards rendered under OHADA are final, binding and enforceable among its member states. This is particularly useful because five OHADA member states are not signatories to the NYC (Congo, Guinea-Bissau, Equatorial Guinea, Tchad and Togo).

Another popular alternative for international investors in Africa is the Dubai International Finance Centre (DIFC). One of the key attractions of Dubai for parties contracting in Africa is the availability of enforcement under the RAAJC. Eight out of the 20 RAAJC member states are African countries, and three among them are not members of the NYC (Sudan, Somalia and Libya).

Although there may be reasons to choose a local African arbitral institution, established arbitral institutions have a proven track record in efficiently administering large arbitrations: They possess the necessary infrastructural facilities required for the smooth conduct of proceedings. Moreover these international institutions have professionals with several years of experience in administering large and complicated cross-border disputes. Thus, parties are encouraged to assess carefully what institutions are best suited to handle a future dispute.

Conclusion

If a party wishes to arbitrate its disputes in Africa, it must choose a seat where the judiciary is known to be proactive and trained in the practice and procedure of arbitration, so that they support the arbitration process and enforce arbitration agreements and awards. It is also highly recommendable to arbitrate in a country with modern arbitration legislation. Security, political stability and corruption indices are other important factors that must be considered. It is equally important to choose an institution which has both adequate infrastructural facilities and technology and well trained professionals who are able to administer the dispute efficiently. Finally, the party should consider using legal counsels with experience with Africa-related arbitrations who know how to manage the dispute.

Contributors' Profile

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Burianski is the head of White & Case's German arbitration practice. He represents German and multinational clients in international arbitration proceedings. Markus has broad experience in dealing with large and complex cross-border cases. His clients come primarily from the automotive, electronics, energy (including renewable energy) and financial services sectors. Prior to joining White & Case, Markus worked in Brussels for a renowned US law firm, with a particular focus on litigation relating to competition and international trade law before the courts of the European Union. Markus is an active member of White & Case's award-winning International Arbitration Practice, which was ranked Number One International Arbitration Practice globally in 2016 by Global Arbitration Review and is consistently recognized as being at the top of its field worldwide.

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MANAGING POLITICAL RISK WHEN INVESTING IN AFRICA

By **Roddy Barclay,** Head of Intelligence and Analysis, Africapractice Group

Africa is rarely shy of reminders of the critical role that political risk can play in impacting on investments. From the headline-grabbing Arab Spring uprisings that rocked North Africa in 2011 to the sweeping changes in government witnessed in Nigeria and Tanzania following elections in 2015, politics can play a big role in determining business fortunes. And against a global backdrop of rising political uncertainty and nationalism, and a regional context of increased social accountability pressure on governments in power, Africa will likely continue to see a trend of political volatility in all its various shades in the years ahead.

With this context in mind, it is critical that businesses adopt a rigorous approach to evaluating and managing political risk from initial investment through to exit. This presents a number of challenges, even to the most hardened African investors. The Arab Spring is a stark reminder of this. Few could have predicted such a dramatic and impactful 'black swan' event that was to shake the foundations of the region. Yet all experienced the impact. More generally, the qualitative analysis and understanding that often encompasses political risk evaluation do not always fit smoothly into investment models. But when investing in frontier markets, a failure to get to terms with how political conditions are likely to impact on an investment – or to adapt effectively to change when it comes about – can prove disastrous.

Market-entry: eyes wide open

Such are the stakes and uncertainties that surround the initial investment process that political risk tends to receive greater attention at this stage. However, a basic understanding of the political status quo is not an adequate substitute for a rigorous political risk evaluation which considers three critical areas in particular:

- ***Political outlook:*** this should not only focus on political stability but also on broader trends in government management, policy and personnel likely to impact on the investment. Using a scenarios format for assessing political outlook is also generally a suitable approach to evaluate and stress-test different likely trajectories and their impact on the investment. This can help shape investment decisions, price bids and form mitigation strategies against key eventualities.

- ***Sector-specific risks:*** often some of the most challenging political risks stem from conditions within a sector regarding a legacy of regulatory challenges or commercial disputes, the interference of vested interests, or misalignment of political objectives behind the sector's management. Taking a deeper dive to consider these conditions and how they might evolve can avert a number of challenges that could weigh down the investment or subsequent operations.

- ***Business specifics:*** whether it be a politically-connected local partner or a legacy of issues around a particular project, conducing robust due diligence should not be seen as a simple compliance box tick, but rather an opportunity to identify, isolate and manage potential reputational, political or commercial risks that stem from the specifics of the deal.

For the most extreme forms of political risk such as expropriation, nationalisation, terrorism, conflict or instability, political risk insurance mechanisms have been developed to help investors manage their exposure. However, most political risks tend to be more nuanced and ambiguous requiring internal mechanisms to treat. By being eyes-open to these risks at the outset, investors can properly evaluate, price and mitigate against critical challenges, providing a more stable base for growth.

Post-investment: adapting to change

After isolating and assessing risks during the investment stage, political risk management remains an iterative process in a political situation often characterised by flux and further uncertainty. Because of some risks – like the Arab Spring – are difficult to predict and even prepare for, the emphasis should be placed on policies, plans, and responsibilities. For example, ensuring a crisis management plan exists not only on paper but has also been stress-tested by relevant staff can help ensure smoother management when that crisis does eventually occur. Equally, ensuring that proper accountability for monitoring and managing political risk exists within the organisation.

Even with accountability vested in a particular individual or department, there is also a need for effective internal coordination in manging political risk exposure. For example, we were recently brought in to advise the external affairs department of a mining firm in West Africa that was facing a number of challenges in managing critical stakeholder relations. A key failing we encountered was a lack of coordination between relevant departments so that mixed messaging was being delivered to stakeholders by operations staff, external affairs staff and others, necessitating stronger internal communications and processes to avert this state of affairs.

When political change does occur – be it in a volatile fashion such as the overthrow of Burkina Faso's president in 2014 or in a smooth electoral context such as John Magufuli's election in Tanzania in 2015 – businesses often tend to get caught out having grown comfortable with the status quo. Political risk exposure can change dramatically in response to changes in government or the operating context, and businesses need to respond with alacrity, planning engagement and risk mitigation strategies that are both premised on a strong understanding of what's going on in the market and sector, and geared towards adapting to this new reality to secure tangible and realistic outcomes. Tracking progress and perception can form an important part of measuring success and managing risk in this respect.

"It is critical that businesses adopt a rigorous approach to evaluating and managing political risk from initial investment through to exit."

Exiting a market: don't shut the door

In instances where businesses are looking to exit an investment – or even a market – managing risk and reputation goes far beyond the immediate conditions around the business exit. The successful management of this exit process can influence a company's ability to win further work not just within the relevant market but also in others, given the potential knock-on effect on perceptions of a business if it has been blighted by soured government relations or a controversial exit.

Managing political risk during an exit process requires a strong understanding of all the critical stakeholders around the process, and their interest and influence over it. Developing an engagement and communications plan that then addresses the needs and concerns of these actors and seeks a path of 'shared advantage' from the exit process will be critical to managing an orderly exit and ensuring in particular that relations with government and the regulators do not needlessly sour.

Africa in 2017: key risks to watch

The coming year sees a number of countries face uncertainties around successions or elections. In Kenya, all the floor-crossing and mud-slinging that has preceded the elections build-up points to a heated contest. While we do anticipate heightened uncertainty and some volatility around the polls, as things stand the incumbent administration likely has its nose in front to secure re-election. Unfortunately, prospects for elections occurring in the DRC before the year's end look increasingly poor and the prolonged uncertainty around this important vote will heighten the risk of instability, especially given precedent.

Elsewhere we anticipate smoother transitions – albeit still carrying notable political risks for investors. In Angola, long-standing President José Eduardo Dos Santos will stand down to make way for his appointed successor, Joao Lourenco. But the end of the Dos Santos reign could also see subtle shifts in the influence and prominence of key family members and regime stalwarts. Equally, Zimbabwean President Robert Mugabe's succession appears increasingly close as the President's health deteriorates. Although the opposition will use his eventual departure from the political scene to call for radical political change, while opportunists surrounding Mugabe's wife will call for a dynastical succession, we believe a more likely scenario will see Vice President Emmerson Mnangagwa take control of the reins in a ZANU-PF managed succession, after an initial period of contestation and volatility.

In another market that will attract much attention in the year ahead as it seeks to turn the corner on a prolonged recession, Nigeria's President Muhammadu Buhari has spent the last two months in the UK on extended medical leave. This has raised serious questions about his future tenure with Vice President Yemi Osinbajo (who governed during his absence). However, if any lessons can be learned from Nigeria's constitutional crisis in 2010 when president Umaru Musa Yar'Adua died in office, it is that the country's democracy is maturing and its institutions are far more robust than they were in the days of repeated military intervention through the 1970s-1990s. As such, a relatively orderly – if tense – constitutional succession seems likely, albeit leading to complications around party unity in the lead-up to the 2019 elections.

"If any lessons can be learned….. it is that the country's democracy is maturing and its institutions are far more robust…"

In all these scenarios, businesses will be needing to monitor developments carefully and proactively consider how different outcomes might impact on critical aspects of their business. Such steps form the foundations for managing political risk amidst the flux and uncertainty that tends to characterise the African investment context. A failure to do so can leave corporates chasing their tails and pointing fingers instead of adapting and responding to risk to limit the impact on their business.

Contributor's Profile

Roddy Barclay heads up the Intelligence and Analysis team at africapractice, a strategy and communications consultancy that specialises in managing external relations. In this role, he oversees a team of political risk analysts and business intelligence consultants spread across Africa, helping clients to mitigate stakeholder and policy risks, and manage their reputation. Roddy has worked in the political risk advisory industry for over eight years and formerly specialised on West Africa when he worked as a Senior Consultant at the multinational risk advisory firm, Control Risks. He has travelled extensively across the continent, building strong networks and knowledge in over 20 African countries.

POTENTIAL INVESTMENT POTHOLES TO WATCH FOR IN 2017

By **Elizabeth Littlefield,** Former President and CEO, Overseas Private Investment Corporation (OPIC), New York

Few could have predicted the confluence of factors that have shifted African markets in recent years. We've seen countries making earnest efforts to improve investment climates that have helped drive economic growth. We've seen large reductions in absolute poverty and growth in an African middle class with disposable income. We've seen the scale up of new technologies and the leapfrogging of legacy systems in areas such as banking, telecommunications, and utilities. At the same time, we've seen the devastation that a crash in commodity prices can bring to national budgets and some businesses. And, of course, little progress has been made on intractable corruption in many countries.

On balance, I remain more optimistic about the investment opportunities in Africa than I have been in the 30 years that I have been working with the continent, but I see three interrelated challenges that I believe will increasingly become gating issues that drive or inhibit investment flows over the next 12 months, depending on how they are addressed. These are: trust and trustworthiness, political will, and uncertainty.

First, I am concerned about persistent deep-seated public skepticism of the private sector that lies just below the surface of the welcome mat. It manifests itself in myriad overt and subtle forms in African politics and policy. Yet with aid budgets around the world flat and FDI growing, historically aidreliant countries must adapt in order to secure the capital needed to feed, educate, and power a healthy and growing citizenry. Serious investors must be sincerely embraced and considered valued clients and partners that create jobs and generate economic growth, rather than piggy banks useful for tax revenues only.

To be sure, some of this skepticism of business is warranted. The legacy of some businesses that may have prioritized short-term profits over the health, well-being, and long-term relations with local communities has left scars. But we must not lose sight of the fact that many social challenges that were once exclusively the domain of government budgets and aid groups can today be tackled with help from business. This is because innovative models have been developed that enable these services to be delivered in a financially viable, self-sustaining manner. From electricity generation to privately operated public transportation, to private medical clinics for low-income communities and for-profit schools that can cost as little as $6 per month, many critical development needs can be met with long-term private business models.

Second, distrust of the private sector can make ministers and civil servants reluctant to make difficult choices and decisions. When governments make bold decisions to eliminate energy subsidies or establish a cost-reflective tariff to attract investment in critical power upgrades, it's tempting to blame any accompanying energy cost increase on a predatory private sector. But that acts like a bucket of cold water on future investment. Trust and trustworthiness between investors and governments are needed to unlock critical capital flows for development.

"Many social challenges that were once exclusively the domain of government budgets and aid groups can today be tackled with help from business."

My final concern is around uncertainty. It is investors' worst enemy. From energy tariffs to taxation to tendering processes to land and regulatory policies, predictability is what investors crave. Yet, we are seeing many instances of governments re-negotiating the agreements struck with early pioneering investors when their countries become more popular and less risky as an investment destination. Worse, we're seeing a retreat in short-term FDI in some markets because of the chilling effect of punitive policy changes. Nothing stymies prospective investors more than seeing existing investors having to deal with retroactive taxes, renegotiated concessions, or other painful and unforeseen policy changes. The experience of investors already in a country is the best advertisement for future investors—and it can be either a positive one or a very negative one.

In many cases, a suboptimal but stable policy is preferable to a more attractive policy that might change. By sticking with a proven system with which investors and governments have practice, investors have a reliable foundation for business plans, project development timeframes shrink, and investment will flow.

Africa needs foreign investment to create jobs and opportunities, boost economic growth, drive innovation and build stable markets. It is my fervent hope, as president of the U.S. government's development finance institution that governments and investors will grow to understand each other's needs and perspectives and see each other as partners in Africa's growth. When both can trust and be trusted to carry out their roles with fairness, pragmatism, and a sense of urgency, we will see progress in meeting the enormous needs and capitalizing on the historic opportunities that Africa richly merits.

PRIVATE EQUITY IN AFRICA: EMERGING TRENDS

By **Kenneth Barry,** Partner, White & Case LLP, London
Ndidi Eseonu, Associate, White & Case LLP, London

Private equity in Africa has come a long way since the early 1990s, which saw development financial institutions (DFIs) investing in government initiated development projects across the continent. The period that followed was characterised by the emergence of a limited number of South African focused PE funds, which over the next decade started to invest more widely across the continent. By 1997, there were 12 private equity funds that had collectively raised US$1bn to invest in Africa.

As we fast forward to 2017, the African PE ecosystem has significantly matured with over 200 PE funds managing upwards of US$30bn targeting Africa and unprecedented capital formation in 2014-2015 which saw over US$7bn raised to invest in Africa, including the first billion dollar sub-Saharan African funds, Helios Investors III and Equatorial Guinea Co-Investment Fund.

With the new narrative of ‘Africa Rising’ that pervaded the media from 2000 and in the aftermath of the 2008 economic crisis, PE funds increasingly turned to emerging markets for levels of growth that were unattainable elsewhere. Although certain countries on the continent have experienced headwinds in recent years, one thing we can be certain of is that African PE has significantly evolved over time. Many features typically reserved for PE transactions in Europe and North America are becoming increasingly prevalent in African PE.

Stronger exit opportunities

In the past, a key concern for PE funds and their LPs regarding African PE investments was the quality and availability of exit routes. Illiquid domestic exchanges and political and foreign exchange risk have historically contributed to a limited number of exit paths. However, with the maturation of the African PE market, the number and scope of exit opportunities have notably improved with AVCA reporting a record number of PE firms in Africa exiting in 2014 and 2015 (31 and 28 respectively). Furthermore, the majority of respondents in a 2016 Deloitte report expected the volume of exits in the next 12 months to increase or remain the same, despite increasing challenges in the debt funding environment.

Trade sales

Trade sales to strategic investors continue to be the most dominant exit route, constituting over 50% of exits in 2015. This is expected to continue to be the case in the next 12 months. A notable feature of the evolving market, is the increased prevalence of auction sales such as the sale of Brandcorp in June 2016 by Ethos Private Equity to The Bidvest Group. Given the strong fundraising by Africa focused funds in recent years and the competition for quality African assets, it is likely that auction processes will become increasingly common.

Secondary transactions

After trade sales, secondary buyouts (sales to other PE funds) such as the sale of Algeria-based manufacturer Cellulose Processing by Mediterrania Capital Partners to Abraaj in 2016, account for the next largest proportion of exits, at 18% of deals surveyed in 2015. With strong fundraising by domestic, international Africa focused and global funds such as Carlyle and KKR (who made their maiden African investments in 2014), we expect that secondary buyouts will continue to be a growing feature in the African PE market.

As the quality of assets and deal sizes gradually increase over time, we would also expect to see more sophisticated secondary transaction structures, such as ‘portfolio’ deals which package up several assets together to be sold to another fund, or deals which involve the breaking up of larger investments into smaller divisions for sale. Given that 75% of deals in the first half of 2016 were below US$250m, it may be some time before the market develops to such a point.

IPOs

Although public listings remain as one of the most attractive exit routes in the global PE industry, the converse has historically been true in African PE. Fragmented regulation, underdeveloped capital markets and low levels of market capitalisation compared to the developed world, result in low usage of IPOs as a PE exit route: only 1% of all 83 PE exits in Africa during 2014 – 2015 took place through IPOs.

The suspension of Nigerian fintech company Interswitch’s IPO plans to raise as much as US$1bn, due to fears over the further weakening of the Naira and a shortage of foreign currency, is a good example of the challenges faced by African PE investors attempting to use IPOs as an exit route. While opportunities outside the Johannesburg Stock Exchange, Cairo and Alexandria Stock Exchanges and Lagos Stock Exchange remain limited, the Abraaj Group’s exit of Unimed via an IPO on the Tunis Stock Exchange in May 2016 and Actis’s exit of Ugandan electricity company, Umeme Ltd, via the Ugandan and Kenyan capital markets in December 2016 shows that viable options do exist.

A number of initiatives have been introduced to improve the listing of shares in African companies such as: (i) the East Africa Community (EAC) stock markets integration project, (ii) the introduction of the Growth Enterprise Market Segment by the Nairobi Securities Exchange (NSE); and (iii) new mechanisms to trade and settle ordinary shares of London listed or dual listed Nigerian

companies. As such initiatives come to fruition, we expect that exit options on a limited number of exchanges will become more viable.

> *"Many features typically reserved for PE transactions in Europe and North America are becoming increasingly prevalent in African PE."*

International and domestic pensions funds as new sources of funds

Although DFIs continue to play an essential role in African PE, traditional institutional investors such as insurance companies and pension funds are becoming an increasingly common source of funds. More recently, global funds such as Helios and KKR have invested Western pension money in Africa.

Pension funds in 10 African countries have an estimated US$379bn of assets under management, of which $29bn could potentially be directed towards PE, according to the Emerging Markets Private Equity Association (EMPEA). Economist Charles Robertson of Renaissance Capital estimated that pension funds in the 6 largest sub-Saharan African markets will grow to US$622bn in assets under management by 2020 and to US$7.3 trillion by 2050. Such pension funds present a significant opportunity for alternative asset classes such as private equity.

Private equity is currently a rare feature of African pension portfolios, however, Africa's emerging pension fund industry could become a valuable source of funds for PE investments in the future. Pension reforms across the continent support this proposition: Nigerian pension regulations have been amended to include PE as a specified asset class for pension fund investment and in South Africa, the percentage of total assets under management that pension funds can invest in PE has been increased from 2.5% to 10%. Significant participation remains unlikely until African pension fund trustees become less risk averse and more familiar with this asset class, however, the opportunity in this area means that, like Western pension funds, we expect domestic pension funds to become a future source of funds for African PE.

Increasingly sophisticated features and capital structures

Equity and debt instruments

The illiquidity of domestic capital markets, as described above, presents challenges for companies seeking funding. The small size and conservative nature of many African banks, result in African PE deals being significantly less leveraged than equivalent deals in the developed world. As a result, the primary source of funding in African PE has historically been equity finance with a simple capital structure.

As the market matures and aims to close the funding gap, mezzanine debt is becoming a key component in the capital structures of African companies, and there are a number of dominant South African funds in the mezzanine debt market. While specific forms of 'mezzanine debt' in a European context are generally clearly defined, in African countries it refers more broadly to subordinated debt or unsecured senior debt.

A number of PE funds, such as Helios Investment Partners, Abraaj and TLG Capital, have raised credit funds specifically targeting these types of investments in Africa. Going forward, we expect to see an increasing number of such funds being established.

The challenges posed by the African funding market and the increased complexity of companies' investment needs, means that we also expect to see an increase in the use of tiered capital structures, with a broader range of share classes and debt instruments, including convertible instruments, loan notes, warrants, high yield instruments, and payment in kind (PIK) notes.

Warranty and Indemnity Insurance

Private equity has been a driving force in the increased use of warranty and indemnity ("W&I") insurance on global M&A transactions, particularly on the buy-side. Such policies are beneficial for buyers with limited recourse against sellers who have poor covenant strength. It also allows PE and institutional sellers to achieve a clean break and distribute proceeds to their LPs.

Historically, insurers' have been wary of emerging markets, however, AIG reports that this is a growing area. Before offering W&I insurance, insurers assess the legal, political and regulatory risks in the relevant jurisdiction, and reflect the level of risk through pricing and exclusions. We expect that the trend to take out W&I insurance, and the increased appetite to underwrite W&I policies on African PE transactions, will continue.

Contributors' Profiles

Kenneth Barry is a Partner in the EMEA private equity team of White & Case LLP, within the Global Mergers & Acquisitions Practice. Ken's practice focuses primarily on private equity, with extensive experience advising private equity houses and financial sponsor clients on a range of complex cross-border acquisitions, divestitures, joint ventures, leveraged buyouts and public offerings in Africa, Europe and the Middle East.

Ndidi Eseonu is an Associate in the Global Mergers & Acquisitions Practice of White & Case LLP. Ndidi's experience includes advising on a wide range of corporate transactions, including private equity, cross border mergers and acquisitions, disposals, joint ventures and co-investments in Africa and Europe.

THE DEVELOPMENT OF MARKET INFRASTRUCTURES IS KEY TO IMPROVING AFRICA'S MARKET ATTRACTIVENESS

An Interview with Duncan Smith and JL Bernardo of Societe - Generale Bank, London and South Africa

Duncan Smith - Senior Sales and Relationship Manager, Emerging Markets, SGSS. Duncan is based in London and holds a Bachelor of Commerce Degree from the University of the Witwatersrand, South Africa. He has more than 25 years' experience across asset management, stockbroking and investor services in New York, London, Johannesburg and many markets in Africa. He has held numerous senior management positions, working extensively in Africa, and was the Head of the Absa Investor Services business in South Africa for many years where he represented the business on a number of market committees.

Jean-Louis Bernardo - Country Manager, South Africa, SGSS.
Jean-Louis Bernardo began his career in 1995 with Citibank Capital Markets in Paris, where he held various positions in operations. In 2000, he joined SGSS' Global Sales and Relationship Management Team as Product Manager, before being appointed in 2007 Head of Operations and Deputy Head of SGSS in Spain. He then went on to manage the launch of SGSS' custody platform in Egypt in 2009. Since September 2011, he was Deputy Head of SGSS in Russia, where Societe Generale operates via its subsidiary, Rosbank, one of the largest privately owned banks in the country.

Since 2014, he has been the Managing Director of Societe Generale Johannesburg Branch and SGSS Country Manager for South Africa. Jean-Louis Bernardo has a Masters in Economics and a Post-Graduate Degree in Banking Finance and International Trade from Bordeaux University.

***CAPMARKETSAFRICA:** The African Continent has witnessed significant turbulence over the last 18 months. However, Custodians operate in most African countries today and have a long and deep history on the continent. Please could you give us your view on Africa and where you see growth Markets amidst the present condition? How are Custodians responding to Investor needs?*

Duncan Smith: From an SGSS point of view we have seen a significant increase in activity in Africa, accompanied by SGSS setting a number of initiatives in motion across the last couple of years - the first is the establishment of a sub Saharan Africa custody hub out of Johannesburg for local clients, and the second one was working with the regulatory authorities in Mauritius to be approved as the first remote Custodian in the jurisdiction. These initiatives have been backed by significant flows from our clients investing into these markets.

Jean Louis: We are actively engaged in all market infrastructure changes, obviously last year with the move to the T+3 settlement cycle for equities, and this year with the new STRATE Bonds settlement platform implementation, but we are also exploring new avenues. For example, we will shortly become the custodian of a new Exchange that is being set up in South Africa, and we will also remain attentive to development in Trade such as in the Blockchain area and the proof of concepts that are currently under study. The developments in Mauritius are mostly due to the particular fact that we have more and more clients that are Mauritius based, especially in the Collective Investment space.

***CAPMARKETSAFRICA:** Where do you anticipate increased interest in Africa and what Funds or Asset Classes are gaining Investor interest?*

Duncan Smith: In South Africa, SGSS has been appointed by local and international clients to provide services in multiple geographical locations across our network. SGSS in South Africa has a broad-based representation of clients including trustee services for Collective Investment Schemes.

> *"We have seen an increasing interest in Mauritius with both Collective Investment Scheme funds and Exchange Traded Funds being established."*

Coreshares, an issuer in the South African market, has recently listed two ETF's in the market tracking indices in developed markets. SGSS provides a fully comprehensive service for these in South Africa and Mauritius.

At the recent NEMA Africa conference in London, during a panel debate I was fortunate to moderate, we talked about Market Advocacy and the fact that the sub custodian in the market is the entity that should be driving the development in the market, developing the underlying Regulation and the subsequent underlying processes and procedures to meet the needs of their investor clients.

CAPMARKETSAFRICA: *Please could you give us your view on the Local/multi-local vs regional approach as a network strategy for Africa?*

Duncan Smith: In the sub Saharan region there is generally development happening at a different pace in each market. The pace of development could well influence the decision of a client to appoint a regional versus local custodian or vice versa. I think the important thing for any provider going forward is to make sure that they understand each client's requirements and that they are able to translate the client's strategy into reality on the ground.

CAPMARKETSAFRICA: *When Investing in any market there are always a number of Risks ranging from Currency Liquidity to Regulatory. What approach would you suggest Investors take in navigating current market developments in Africa and managing those Risks that are likely to have an impact on their portfolios in 2017?*

Duncan Smith: The most pragmatic approach for investors to take is to work with their providers and custodians to make sure they understand the regulatory framework in the market, any proposed regulatory changes in the pipeline, any requirements related to exchange controls and/or currency liquidity and how they can manage those risks in the most appropriate way. In the same way their providers are able to provide feedback to the local regulatory authorities which enables market development and increased interest from investors.

CAPMARKETSAFRICA: *What key message would you have for Investors or corporates interested in Africa's growth opportunities?*

Duncan Smith: As a longstanding advocate of the opportunities in Africa, and in my personal opinion, I believe that the most important thing to consider at the start of the journey is that investing in Africa is a long term strategy, like a 5 day test match. It's not a playing field where one can invest today and try to run for the gate tomorrow like in a 20/20 Limited Overs match. Ongoing market education and patience are key in deploying capital for the long term with the appropriate levels of risk management.

CAPMARKETSAFRICA: *The Where do you see emerging opportunities and what do you expect the focus to be over the next 12 months? How can investors weather the current volatility and illiquidity (FX) environment in Africa?*

Duncan Smith: The best thing that investors could do over the next 12 months is to work with the providers and the custodians to make sure they understand the regulations in the market, understand the requirements around exchange controls or the liquidity around the FX environment and how they can manage those in the most appropriate way. I think the important thing is to consider that it's a long term strategy I think it's probably something that you won't invest in today and try and run for the pool tomorrow and I think try and understand it and deploy your efforts in the most appropriate way.

Jean Louis Bernard: In addition to what Duncan has mentioned, I think that the local market authorities play a key role in maintaining the attractiveness of the market. Good levels of liquidity (improved by T+3 implementation), clear and transparent governance, ease foreign investments.

So I think for me it is part of the responsibility of the market authorities and market infrastructures to try to improve market attractiveness.

"The local market authorities play a key role in maintaining the attractiveness of the market."

Duncan Smith: To add more to it, in my personal opinion one of the biggest challenges may well be that something that you have not anticipated arrives out of the blue. This might be due to sudden regulatory or policy change which was unexpected. As a result, and with some of the liquidity challenges, it may take longer to react than expected.

"The most pragmatic approach for investors to take is to work with their providers and custodians to make sure they understand the regulatory framework ..."

Your provider should be close to the market, understand how the market works and how to translate this knowledge to help you support your specific strategy and meet your needs.

CAPMARKETSAFRICA: *Thank you very much for granting this interview!*

GHANA'S 2017 BUDGET: HOPE OF A NEW DAWN, OR ILLUSION?

By **Courage Kwesi Boti,** Economic Analyst, Databank Group, Ghana

Ghana's 2017 budget statement outlined an ambitious first step towards transforming the structure of the economy. The budget, christened: "Sowing the Seeds for Growth and jobs" is grounded within the framework of the Ghana Shared Growth and Development Agenda II (GSGDA II) and within the context of the Extended Credit Facility (ECF) with the IMF. The budget targets accelerated and inclusive growth through a modernized agriculture sector, private sector led industrialization with focus on value addition and equitable distribution of social infrastructure within the confines of the Sustainable Development Goals (SDGs).

In keeping up with his campaign promises, the president cut a raft of taxes and extended budgetary allocations to fund some flagship programmes including the "Free SHS", "one-village one-dam", and a million dollars per constituency among others. Low revenue mobilisation, expenditure overruns & corruption, high wage bill, high debt service cost and rigidities in the fiscal structure remain a threat to the fiscal targets. However, the government hopes to resort to fiscal discipline, accountability, transparency and an improved tax administration in overcoming these limitations.

We present our views on the 2017 budget statement and economic policies of the government of Ghana as follows:

Growth in Crude Oil Production Underpin 6.3% Projected GDP Growth in 2017

Ghana's projected growth for 2017 could be undermined if any of the three oil fields experience prolonged production interruptions. The growth target is mainly driven by an expected increase in oil and gas production from the new oil fields, despite the country's history of persistent shortfalls in production targets since the onset of oil production.

Outturn of Key Macroeconomic Indicators in 2016

Indicators	2016 Target	2016 Outrun
Real GDP Growth	4.1%	3.6%
Inflation Rate	10.1%	15.4%
Fiscal Deficit - Cash	5.3%	8.7%
Primary Balance	+1.2%	-1.4%
Debt-to-GDP Ratio	<70%	72.5%
Current Account Deficit	7.4%	6.6%
Gross Foreign Assets	≥ 3 months	3.5 months

Source: Databank Research, Ghana Statistical Service

Fiscal Performance in 2016 (GH¢ Billion)

Indicators	2016 Target	2016 Outrrun	Variance	y/y change
Total Revenue	37.89	33.68	-11.10%	+5.12%
Tax Revenue	29.13	25.73	-11.67%	+6.6%
Non-Tax Revenue	6.82	4.88	-34.10%	-0.81%
Total Expenditure	43.98	51.13	+16.26%	+32.5%
Empl. Compensation	13.73	14.17	+3.20%	+17%
Interest Payments	10.49	10.77	+2.67%	+18.6%
Grants to other Govt. units	10.49	8.61	-17.92%	+26.6%
Capital Expenditure	6.39	7.68	+20.18%	+7.71%

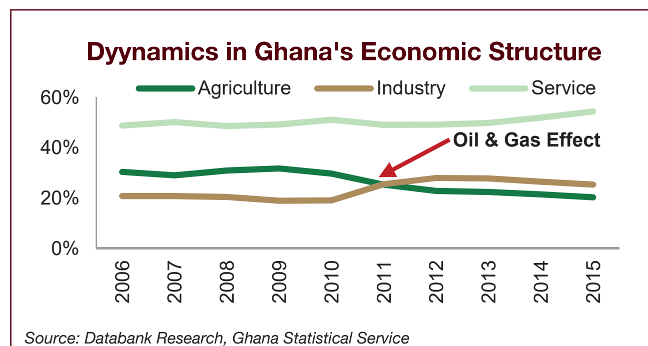
Source: Databank Research, Ghana Statistical Service

Average daily crude oil production slumped to 88,400 bopd (target: 106,115 bopd) due to a technical fault on the Jubilee FPSO in Q2-2016 (amidst lower crude oil prices). As a result, the petroleum sector contracted by 13.5% in 2016, which underpinned the 11% and 1.2% y/y contraction in the mining and quarrying sub-sector and the industrial sector respectively.

In 2017 however, the government expects higher crude oil output [Crude oil: 120,208 bopd (+36%); Natural gas; 30,672.17 mmscf] as production ramps up at the TEN and the SGN fields. Though realistic, this expectation may be missed as unanticipated halts in production at the oil fields are well documented.

Meanwhile, the onset of oil production has concealed fundamental weaknesses in the industrial sector. Despite rising above the agriculture sector as the second largest contributor to GDP since 2011, the industry's growth has tapered off in recent years as the base effect of oil production eases out (see the chart below).

Dyynamics in Ghana's Economic Structure



Source: Databank Research, Ghana Statistical Service

To this end, the industrial sector is expected to be the main driver of growth (2017 projection: +11.2%),

underpinned by the expected increase in crude oil production from the TEN and SGN fields.

2017 Projections			
Indicators	2017 Target (GHS'bn)	y/y change	% of GDP
Total Rev + grants	44.96	+33.5%	22.1%
Tax Revenue	34.38	+33.6%	16.9%
Non-Tax Revenue	6.67	+36.6%	3.3%
Total Expenditure	58.14	+13.7%	28.6%
Empl. Compensation	16.01	+13%	7.9%
Interest Payments	13.94	+29.4%	6.7%
Grants to other Govt. units	9.73	+13.1%	4.8%
Capital Expenditure	7.12	-7.20%	3.5%

Source: Databank research, MoFEP

While the impact of the local industrialization drive such as the tax incentives and the agriculture sector initiatives, could anchor sustainable economic growth, their impact would be most evident in medium-to-long term. In the near-term however, the projected growth prospects appear highly susceptible to shocks in hydrocarbon production. Any unanticipated shock to crude oil production will have far reaching consequence for the economy.

Revenue Performance Hinges on Increased Tax Compliance and Efficient Tax administration

Provisionally, total revenue for 2016 (GH¢33.7bn) was 11.1% below target (GH¢ 37.9bn). This underperformance stemmed from low productivity due to irregular power supply, shortfalls in petroleum revenues due to lower-than-projected benchmark crude oil price & output and lower-than-projected tax revenue. Tax revenue was about 11.7% below target (GHs 29.13 billion) with income and property tax together with trade tax nearly accounting for the entire shortfall. On a y/y basis, total revenue grew by 5.12%, a far cry from the average annual growth rate of 28% between 2013 and 2015.

In spite of this revenue underperformance, the government abolished eight (8) taxes in all and reduced four (4) others but projected a 33.3% growth in total revenue in 2017 (tax revenue: GH¢34.8bn; +33.6% y/y). To achieve these revenue targets however, government needs to stringently push through its revenue administration strategy by curbing corruption and tightening the various channels of revenue leakages. In the immediate term, the government must strengthen the tax administration, reduce tax exemptions, plug the revenue loopholes and combat tax evasion.

To this end, the re-launch of the national identification and property listing projects are a necessary preliminary step towards roping in the informal sector and other undocumented members of the working class. The merits of this project are however in the medium-to-long term. To make up revenue losses though, the government would have to swiftly stabilize the macro economy to attract private investments, expand the tax net and strictly enforce tax compliance in order to compensate for revenue losses from the tax cuts.

Anti-Graft Campaign, Fiscal Prudence as Tools to Achieve Fiscal Stability

The budget expresses government's commitment to the full implementation of the IMF program. The fiscal deficit is expected to fall to 6.5% of GDP in 2017 and further down to 3% in the medium term. Key approaches to achieving these targets include:

- Strict implementation of the National Anti-Corruption plan
- Strict implementation of the Public Financial Management (PFMA) and the Public Procurement (PPA) Acts
- Revising portions of the Criminal Offenses Act,1960 (Act 29) to make corruption a felony instead of a misdemeanour
- The establishment of a fiscal council which will adopt and implement rules to anchor fiscal policy implementation
- Streamlining the public sector wage bill through a biometric validation of public sector workers
- The establishment of the office of a special prosecutor who shall scrutinize and prosecute public officials culpable of financial malfeasance
- Prudent public financial management strategies

A full implementation of the PFMA and the other anti-graft measures bodes well with the investor community. Government's commitment to rolling out key social intervention programmes however pose a threat to the fiscal consolidation process.

At 73% debt-to-GDP ratio, there is limited fiscal space to roll-out most of the flagship programs. Effective compliance with the cap on transfers to earmarked funds and avoiding unbudgeted expenditures are therefore critical for a successful attainment of the fiscal targets. An extension of the current IMF programme to Dec-2018 will boost government's efforts to contain prevailing fiscal risks, improve investor confidence and restore macroeconomic stability.

"The budget targets accelerated and inclusive growth through a modernized agriculture sector, private sector led industrialization with focus on value addition and equitable distribution of social infrastructure"

Recurrent Expenditure Accounts for 68% of Total Expenditure in 2017

The government proposed to spend GH¢ 58bn (including arrears and clearances) in 2017, which is 13.7% above the provisional outturn in 2016. This will result in an overall budget deficit of GH¢ 13.18 billion (6.5% of GDP), to be financed from domestic and foreign sources.

Recurrent expenditure however weighs heavily on the budget, limiting budgetary allocation to capital expenditure (-7.2% y/y). While the decrease in capital expenditure is a source of concern for a nation lacking basic infrastructure, it falls in line with government's overall strategy to partner with the private sector to build critical infrastructure. Besides, most state sponsored capital projects outlined in the budget are on-going and have already been fully funded, providing the government room to substitute public funds away from capital spending to finance flagship social intervention programmes.

The high level of recurrent expenditure however leaves the government constrained in its efforts to slow the public debt growth (2016 debt/GDP: 73%; 2017 target: 70.9%). The government therefore needs to expedite programmes that stabilise the macro economy, as this will reduce fiscal risks, attract off-shore investors and steady the growth in interest obligations in the medium-term.

In conclusion, Ghana's best option towards sustainable development is to reduce reliance on the extractive industry. The agriculture sector offers great potential for growth, given the right investment. Commodity exports are mostly in their crude form because industrial capacity remains woefully inadequate. Against this backdrop, the 2017 budget represent the best commitment towards industrialising the economy in the 4th republic. The emphasis on agriculture and rural industrialisation represents Ghana's best options for diversifying the economy and the proposed shift from taxation to production resonates well with the overall strategy of a private sector led growth.

That notwithstanding, evidence from Ghana's recent economic history suggests that most of the transformational blueprints in previous budgets have not been executed to expectation. The prevailing doubts about the government's ability to execute the 2017 budget is therefore justifiable.

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Leadership

THE FINTECH REVOLUTION: DRIVING INNOVATION IN PAYMENT SERVICES

By **Kinsuk Mitra**, Principal for Risk & Compliance UK & Ireland, Financial Services practice, HCL Technologies.

In the current tech savvy age, it's refreshing to find that a new revolution is taking place within banking which will mean consumers no longer have to rely on the "old" ways of paying for services.

The underlying driver for consumers today is having quick access to their funds, being able to make payments between accounts or simply trying to ensure security and continuity of payment services when paying for goods and services.

Out of the ashes of the old banking services model we are now seeing the evolution of new technologies of the FinTech's. After almost a decade, the FinTech's have become innovative service providers offering alternative services to the Banks on new Payment platforms.

Banks are being forced to see how they can compete by either replicating or adding to their own business models through acquisition.

At the heart of the revolution are the customers, where as consumers we are demanding more and more sophisticated services. As a result the FinTechs are delivering new services where they have spotted gaps in the market and are now challenging the traditional banks positioning. As an indication of the size of the market, the payments industry in the UK is huge with £2.2m of faster payments made every minute and £450bn of purchases made with debit cards.

Mobile Payments

Long before mobile payments became popular in the developed markets of the UK, US and Europe, Africa started the revolution in mobile money. Service providers such as M-Pesa a mobile money platform for Africa created by Vodacom the African arm of Vodafone and Safaricom based in Kenya allowed its African customers to make payments via their mobile phones and execute money transfers. The convenience of the mobile application has been embraced by its customers based in the African continent who originally did not have easy access to traditional banking services or bank accounts. In Kenya it is estimated that 43% of its GDP has been facilitated by the M-Pesa platform. This innovative solution has generated enormous benefits for consumers even in remote towns in Southern Africa where often other small businesses sprout up next to the mobile shops using M-Pesa. In the UK Barclays have rolled out Pingit a mobile phone payments service which has 3 million customers.

Real time payments

In a response to FinTech innovations, clearXchange a U.S. based platform was set up by BAML, WellsFargo, JPMorgan Chase, Capital One and US Bank. Its customers can use the platform to make real time payments without the need for clearing and having to wait. Although once the preserve of banks and credit card companies, payments have quickly evolved into internet and digital solutions such as PayPal. PayPal and Visa are also working together to allow users of PayPal and Venmo application to access their money transfers instantly.

Contactless payments

Smartphones are also taking part in the evolution of payments. Payment channels such as Apple Pay and Android Pay have introduced yet another innovation to the market known as proximity payments. Employing near field communication chips which favourably meet consumer tastes, Smartphone users can make payment for coffee and goods at EPOS terminals using the contactless channel. Statistics show that Contactless cards payments have grown 250% in 2016. A sign of its popularity includes an application from Starbucks which also allows ordering of the coffee without human interaction at the EPOS terminal. The industry has found that the convenience of smartphone payments have replaced the card for small value payments with $450bn of revenues recorded in 2015.

With use of RBS's contactless application, 455,000 transactions a day were recorded in 2015. Other applications on the UK market include Paym database linking UK bank accounts to mobile phone numbers and MasterCard's Qkr! used to settle food and drink bills at restaurants. In South Africa, consumers currently have the choice to pay for their electricity at supermarkets like Pick 'n' Pay at the EPOS terminals. Contactless payments for Energy providers can easily be developed in this way across the African continent.

Wearables for payments

Following the success of contactless payments channels and initial apprehensiveness about its security, the concept of wearables has quickly taken off. The watch like technology is being used as fitness trackers and smart watches with other devices used in cufflinks, clothes and jewellery. Often they play a role in 2nd line of defence authentication allowing the user to pass a security sensor used in public transport or to gain access to an office. Estimates by Tracita show transaction volumes of $500bn annually.

Revised Payment Services Directive (PSD2)

PSD2 was released by the European Commission (EC) to promote competition in the European payments market bringing transparency and innovative solutions from the

improved use of technology and data.

The EC wants PSD2 to change the payment value chain by driving innovation, protecting customers' privacy and opening up account access directly to each account holder. There are two roles that third-party service providers (TPPs) will be expected to offer. AISPs will provide read access to bank account data, while Payment Initiation Service Providers (PISPs) can directly access the customers bank account and able to initiate payments on behalf of users. P2P transfers and bill payments are the first PISP services that are currently being developed.
The TPPs will gain access via banks to customers on line bank accounts and payment service using Application programme interfaces (APIs) following consent by the customer. APIs facilitate the communication between systems without any human action necessary which is particularly helpful within the payments space. Consequently, customers will soon be able to use TPPs from checking their account balances, to making money transfers and payments.

PSD2 will cause massive disruption as acquirers and card issuers lose valuable revenues from market fragmentation. Fortunately, customers and merchants will benefit from lower merchant fees and reduced liquidity risks compared to traditional card payments. It is predicted by Accenture that £1.45 billion of card transaction revenues is projected to be earned between 2017-2020. This means the revenues normally earned by Banks will be disrupted by PISPs taking a 16% share of this on line retail payments market.

Blockchain

With the advent of Bitcoin in 2009 that uses the Blockchain technology platform, the uptake of Blockchain is gradually gaining prominence.

Blockchain has been defined in Wikipidia as "a transaction database shared by all nodes participating in a system based on the Bitcoin protocol". In its simplest terms the blockchain is a digital ledger of transactions, agreements and contracts. The blockchain is a distributed ledger meaning that the ledger is spread across computers in multiple locations across the world. Digital records are grouped together in blocks and then packaged cryptographically into a historical chain using complex algorithhms. Due to its transparency, anyone who is in the network can access the latest version of the ledger. The ledger is updated in synch with each computer within the network and each block has its own unique digital signature guaranteeing an audit trail which cannot be tampered with. The integrity of the transactions and security of the chain means it can operate without administration by a central party.

"Smart contracts" another feature of blockchain, can be executed once pre-programmed conditions are fulfilled and without third party management necessary. The beauty of Smart contracts means the block chain opens up a wealth of opportunities from smart appliances able to purchase their own goods, to machine to machine business and bartering.

However, it is recognised that the use of blockchain shared ledgers will involve agreeing new infrastructure operating models such as how we replace core networks such as Swift, Visa and the DTCC, than simply the technology itself.

Although the concept of blockchain is an attractive one the decentralised nature of the system means transactions do not need to pass through banks or clearing houses and are unregulated. Whilst the system appears to be immutable with the notion of trust defunct, it still raises issues by the Financial system of its position in mainstream regulated markets.

That said, it hasn't escaped the interest of Regulators and Central Banks. The bank of England (BoE) is keen on engaging FinTechs in exploring the value of the block chain technology. The Central Bank has recently partnered with Ripple a San Francisco-based startup to test a blockchain-based technology. The aim is to make cross-border payments and the movement of currencies instantaneous. By improving speed, it will make the payments process more efficient and lower settlement risk.

"By improving speed, it will make the payments process more efficient and lower settlement risk."

Contributor Profile

Kinsuk's career spans 25 years across the Investment Banking sector starting at Citigroup in London as a Financial and Product Controller tracking Global Fixed income and Equities markets. During the dot com era Kinsuk helped to build e-business Trading platforms for UBS and Credit Suisse in Switzerland as a Risk Manager. Following tighter regulation in Banking, Kinsuk assisted as a Management Consultant to deliver major Regulatory and Risk management change programmes and IT implementations. As a Programme Director, Kinsuk has helped achieve compliance for financial services clients faced with demanding EU competition rules and regulations driving Mergers and acquisitions transactions.

Major successes included advising the German stock exchange in its $7.4bn ambition to tie up with the NYSE and also NBNK in its £1.5bn bid for the Lloyds branch network. Kinsuk has successfully driven international teams, delivering Basel 2 and Basel 3 with Investment Banks Fortis, BNP Paribas and HSBC in London and at Standard Bank Group in Johannesburg. More recently Kinsuk was a Risk COO at Deutsche Bank supporting the CRO in strengthening the Banks Risk & Compliance framework. Kinsuk is a Chartered Accountant and a member of the Southern African Venture Capital Association SAVCA.

INVESTMENT RISK AND RETURN FUNDAMENTALS

"Smokey, this is not 'Nam. This is bowling. There are rules." *– Walter Sobchak, The Big Lebowski*

Excerpted from Barclays Wealth and Investment Management by **William Hobbs, Head of Investment Strategy, Europe.**

The rules…

The idea that there is an observable relationship between risk and return is central to investing. The textbooks tell us that for each unit of incremental risk we take on, we should be paid accordingly. Otherwise why would anyone want to own an asset that was riskier but didn't compensate for it? This neat idea underpins much of the thinking on long-term asset allocation within the industry, but also naturally informs the way that we think of valuations today.

The equity risk premium

The equity risk premium – the percentage return in excess of the "risk-free" or low risk asset (US government bonds) supposedly demanded by rational investors – is one embodiment of the above-described concept, helping to explain why a historically more volatile asset class – equities – has returned more than others over the long sweep of history.

Our first problem comes with the notion of risk and how to measure it. Risk is not a well-defined concept in the first place – does it refer to the probability of experiencing a loss, the magnitude of those losses, or indeed the chances that such losses could be permanent? Even if there were objective answers to these questions, they would still vary dramatically according to an investor's holding period. In the absence of satisfactory answers, the industry has mostly opted to use volatility – the degree to which returns vary from their average – as shorthand for risk.

Volatility and risk

However, there are many things that can be volatile without being particularly risky. Government tax receipts are an oft-cited example – they can fluctuate substantially in the short run within economic cycles, but in the long run they tend to rise as growth and inflation boost takings reasonably reliably. Meanwhile those who came to trust the Euro/Swiss franc exchange rate earlier in the decade as a stable low risk benchmark were rudely awakened by the Swiss National Bank's unexpected move away from its peg in January 2015.

Nonetheless, it is this framework for understanding prospective returns that dominates both the tactical and strategic investment debate at the moment. If bond yields rise over coming quarters as more are starting to expect, amidst gently firming inflation and less aggressive monetary policy, this should start to reduce the present value of corporate cash flows/dividends, all else being equal – if bond yields rise, stocks should fall. This may place too much weight on the concept of the equity risk premium. Interestingly, if you expand your definition of risk to the chances of experiencing a real loss over a decade long holding period, stocks show up a little better than cash or bonds in the period since 1929. Happily, it is possible to circumvent a lot of this if we view excess returns through the prism of dividend yields and prospective dividend growth.

Rising bond yields a threat?

Over time we would argue that bond yields and nominal growth should be more or less the same, while dividend growth has more recently tended to keep pace with nominal GDP growth. If your excess returns are derived from the available dividend yield added to any growth in that dividend payment minus the yield on the safe asset, we can infer that the dividend yield represents your excess return from stocks on the above assumptions, even if lower growth is here to stay.

Right now, the dividend yield available from developed world stocks – with a more or less tenable aggregate payout ratio – is roughly consistent with the excess return available from stocks over long bonds over the last century.

> *"The textbooks tell us that for each unit of incremental risk we take on, we should be paid accordingly. Otherwise, why would anyone want to own an asset that was riskier but didn't compensate for it?"*

Investment conclusion

None of this is to argue that investing in equities is without risk. In the short term, the risks (and volatility) can be considerable, and terrifying even to the initiated. Unlucky investors have, in the past, hit upon longer periods of real losses – a further hint at the fickle nature of this risk premium. However, the further out we can look as investors, the better whatever trade-off that does exist becomes.

CENTRAL BANKS IN AFRICA KEEP RATES AMDIST FED RATE HIKE IN MARCH

Tanzania's central bank cut its discount rate to 12 percent from 16 percent on Monday 6th March 2017, to help spur lending and boost economic growth, the first time it has lowered borrowing costs since 2013. The cut, which the central bank said in a circular to commercial banks becomes effective on Monday, follows a steep drop in private sector credit growth last year. "The discount rate which is applicable to banks borrowing from the Bank of Tanzania as a lender of last resort will also be used to discount Treasury securities," the circular said.

Morocco's central bank maintained its key monetary policy rate at 2.25 percent on Tuesday 21st March 2017, and raised its forecast for inflation and growth slightly this year due to improved domestic demand and a rise in imported inflation. The Bank Al-Maghrib , which cut its rate by 25 basis points a year ago in response to declining inflation, added monetary conditions tightened slightly last year due to an appreciation of the real effective exchange rate of the dirham but this should moderate from a smaller increase in the nominal exchange rate compared with trading partners.

Nigerian Central Bank Keeps Key Policy Rate Unchanged at 14 percent on Tuesday 21st March 2017. The benchmark interest rate has been left unchanged for a fourth consecutive meeting to balance lifting the economy out of its worst slump in 25 years with fighting inflation that's at almost double the government's target. The slowdown in inflation in February was partly due to base effects, Emefiele said. Price pressures continue, and "loosening would exacerbate" them while tightening would portray the bank as "insensitive" to concerns about growth, he said. Nine of 10 MPC members voted to keep borrowing costs unchanged and one favoured increasing the rate.

Reserve Bank of Malawi cut the policy rate, by 200 basis points from 24 percent to 22 percent on Friday 24th March 2017, a development buoyed by a sharp fall in inflation. It is the second time in five months that the monetary authorities have slashed the policy rate following a 300 basis point cut, from 27 to 24 percent, in November 2016. In a statement released on Friday, Governor Charles Chuka said the committee also agreed to maintain the amount of money commercial banks maintain with the central bank without earning interest, technically known as the liquidity reserve ratio, at 7.5 percent.

Ghana's central bank slashed its benchmark interest rate on Monday 27th March 2017, by two percentage points to 23.5 percent, noting signs inflation was trending downwards, in a move that may help spur lending and business activity. The size of Monday's rate cut came as a surprise. It was the biggest by the bank since December 2006 and follows a 50 basis-point reduction in January.

Kenya's central bank left its Central Bank Rate at 10 percent on Monday 27th March 2017. The Central Bank of Kenya, which cut its rate by 150 basis points last year, also said it remains concerned about current uncertainties, including the impact of the government-imposed cap on lending and deposit rates by commercial banks on the effectiveness of monetary policy.

Rwanda's central bank held its benchmark repo rate at 6.25 percent on Wednesday 29th March 2017. The National Bank of Rwanda (BNR), which cut its rate by 25 basis points in December in the first easing since June 2014, added that keeping its benchmark KKR rate at 6.25 percent for the second quarter of this year would "cement the outcomes of its previous decisions." Rwanda's economy grew by 5.9 percent in 2016 and should continue to perform well in the first quarter of this year based on a 5.8 percent rise in the composite index of economic activities in the first two months of the year with total turnover up 15.9 percent in the same period.

Reserve Bank of South Africa held its benchmark rate unchanged for a sixth straight meeting on Thursday 30th March 2017, and said it may have reached the end of its policy-tightening cycle, even as the rand remains a risk to inflation. Five of the six Monetary Policy Committee members voted to keep the repurchase rate at 7 percent, and one favoured a 25 basis-point cut, Governor Lesetja Kganyago told reporters Thursday in the capital, Pretoria.

Egypt's central bank kept its key interest rates unchanged on Thursday 30th March 2017 at a meeting of its Monetary Policy Committee, it said in a statement. The bank kept its overnight deposit rate at 14.75 percent and its overnight lending rate at 15.75 percent, the fourth consecutive meeting where it kept rates on hold since it aggressively hiked them in November. In a statement following the rate decision, the central bank said annual inflation was expected to ease as monthly inflation rates moderate.

Ghana names monetary policy expert Ernest Addison as central bank governor on Thursday 30th March 2017, a day after his predecessor resigned for personal reasons. Ernst Addison, who in the early 2000s was a leading architect of Ghana's monetary policy, worked as a lead economist at the African Development Bank. His predecessor Abdul Nashiru Issahaku tendered his resignation after a year in the job and three months after the president who appointed him lost power.

FEBRUARY'S INFLATION TRENDS ACROSS THE AFRICAN CONTINENT

Angola's consumer inflation edged down to 39.45% year-on-year in February from 40.39% in January, data from the statistics office showed. On a monthly basis, consumer prices increased 2.59% compared to 2.25% in January.

Botswana's consumer inflation quickened to 3.4% year-on-year in February from 3.1% in January. Prices rose 0.2% month-on-month compared to 0.4% previously, Statistics Botswana stated.

Burundi's year-on-year inflation rate climbed to 20.7% year-on-year in February from 12.9% in January, driven by rising food prices in local markets. Food inflation accelerated to 34.4% year-to-year in February from 20.1% year-to-year in January.

Egypt's annual urban inflation soared to 30.2% year-on-year in February, its highest level in more than three decades, the statistics agency CAPMAS reported. Also, it is the highest inflation rate since November of 1986 and was the fourth consecutive jump since November 2016.

Ethiopia's consumer inflation gained 7% year-on-year in February, from 6.1% in January. On a monthly basis, consumer prices rose 0.7%, compared with a 0.6% gain in January

Ghana's annual consumer price inflation fell to 13.2% year-on-year in February from 13.3% in January. The February inflation rate was the lowest since December 2013. Food inflation rose to an annual 7.1% in February.

Kenya's inflation rate jumped in February to 9.04% year-on-year from 6.99% in January. Month on month it rose to 1.80% from 1.00%, the Kenya National Bureau of Statistics (KNBS) stated.

Malawi's consumer inflation slowed to 16.1% year-on-year in February from 18.2% in January, official data from the National Statistical Office showed.

Mauritius consumer inflation rose 1.27% year-on-year in February, from 1.75% increase in January. It was the lowest inflation rate since September 2016. On a monthly basis, consumer prices rose 1.3%, after increasing 0.8% in January.

Morocco's consumer price inflation eased to an annual 1.3% in February from 1.6% in January, the High Planning Authority, stated. On a month-on-month basis, the consumer price index edged up to 0.4% in February from 0.3% in January.

Mozambique's consumer inflation edged up to 20.88% year-on-year in February from 20.56% in January, according to data from the statistics agency.

Namibia's consumer inflation slowed to 7.8% year-on-year in February from 8.2% in January, which was its highest level since October 2009, Namibia Statistics Agency stated. Due to slowdown in price increases for alcoholic beverages and tobacco.

Nigeria's inflation rate bucked the trend in February to fall to 17.78% year-on-year, its lowest level in 15 months, driven by a slower rise in general price levels, the National Bureau of Statistics stated. Inflation had risen to 18.72% in January, highest level in more than 11 years.

Rwanda's inflation rose to 8.1% year-on-year in February from 7.4% a month ago, the National Bureau of Statistics stated. Month-on-month, consumer prices went up 1.9% compared to 0.3% drop in January.

South Africa's headline consumer inflation slowed to 6.3% year-on-year in February from 6.6% in January, data from Statistics South Africa stated. On a month-on-month basis, inflation rose to 1.1% from 0.6% in January.

Sudan's annual rate of inflation rose to 33.53% in February from 32.86% the previous month, as food and energy prices kept rising after subsidies were cut in early November, the Central Statistics Office reported.

Seychelles' year-on-year inflation was at -0.6% in February, unchanged from the previous month, the statistics office stated. An increase of 0.04% was recorded in the month on month inflation in February 2017 compared to January 2017.

Tanzania inflation rises to 5.5% year-on-year in February from 5.2% in the previous month, the statistics office said. On a monthly basis, headline inflation rose by 1.0% in February from an increase of 0.8% a month ago.

Tunisia's consumer inflation stagnates at 4.6% year-on-year in February, after an increase in the last four months, the National Institute of Statistics (INS) stated. Food and beverages group prices rose by 4.9% year-on-year during the month of February.

Uganda's inflation rose to 6.7% year-on-year in February from 5.9% a month earlier, the statistics office stated. It was the highest inflation rate since February of 2016, and on a monthly basis, prices went up 0.8% after being flat in January.

Zambia's inflation slowed to 6.8% year-on-year in February from 7.0% in January, the statistics office reported. The monthly inflation rate rose to 1.0% from 0.9% in January.

Zimbabwe's consumer inflation was recorded at 0.06% year-on-year in February, from -0.65% in January. The month-on-month inflation was 0.61% in February against 0.23% a month ago.

SOUTH AFRICA'S PRESIDENT ZUMA SACKED FINANCE MINISTER GORDHAN: MARKET REACTIONS AMIDST POLITICAL UNCERTAINTY

South African CEOs see severe consequences after cabinet reshuffle. South African President Jacob Zuma's decision to dismiss Finance Minister Pravin Gordhan has severe consequences for the economy and is a setback to the work done to avoid a credit ratings downgrade, a group of business leaders said on Friday. "This decision, and the manner in which it was taken, is likely to cause severe damage to an economy that is in dire need of growth and jobs," said the CEO Initiative, an organisation that includes the chief executives of Nedbank, Standard Bank, the JSE and Investec.

South Africa CDS jump 24 basis points after Finance Minister exits. The cost of insuring South African government debt against default hit the highest level in 15 weeks on Friday 31st March 2016, after President Jacob Zuma sacked his Finance Minister Pravin Gordhan as part of a wider cabinet reshuffle. Five-year credit default swaps (cds) jumped 24 basis points to 223 bps from Thursday's close of 199 bps, according to data provider IHS Markit.

Fitch says South Africa's cabinet reshuffle heightens political risk. Fitch said on Friday South Africa's President Jacob Zuma's cabinet shake-up heightened political risk and signalled policy change, an outcome that risks the country's sovereign investment-grade credit ratings. Zuma's midnight sacking of Pravin Gordhan as finance minister shook South African markets, undermining his authority and threatening to split the African National Congress (ANC) that has governed since the end of apartheid.

South Africa local debt rating downgrade could spark $10 bln outflow. The sacking of South Africa's respected finance minister leaves the country risking a two-notch downgrade on its local currency credit rating, which would see it ejected from a key bond index and cause up to $10 billion in outflows, UBS said on Friday. Investment outflows at that level would effectively double South Africa's current account gap, UBS said.

South Africa's credit rating downgraded to junk by S&P. S&P Global Ratings downgraded South Africa's sovereign credit rating to BB+ from BBB- grade on Monday, saying the recent firing of its internationally respected finance minister posed a risk fiscal policy. The downgrade reflects our view that the divisions in the ANC-led government that have led to changes in the executive leadership, including the finance minister, have put policy continuity at risk," S&P said in a statement.

Moody's pushes back South Africa credit rating decision. Moody's said on Tuesday it will not issue a sovereign credit rating decision on South Africa this Friday, as previously planned, but will do so after a review that could take 30 to 90 days. Moody's announced on Monday that it had placed South Africa on a review for a downgrade after a cabinet reshuffle that saw a respected former finance minister dismissed from his post. Moody's currently has South Africa's sovereign at two notches above non-investment grade at Baa2.

Rand tumbles after S&P downgrades South Africa to "junk. South Africa's rand fell more than 2 percent on Monday to its weakest in almost three months after S&P Global Ratings cut the country's credit score to sub-investment grade with a negative outlook after last week's dismissal of the South African finance minister. Stocks were higher on the day, led by gold shares, as demand for the safe-haven asset rose globally in response to worries U.S. President Donald Trump will use trade to pressure China in security talks.

Standard Bank says South African lenders can withstand downgrades. South African banks are financially sound and well-positioned to withstand the impact of sovereign credit rating downgrades, Standard Bank, the country's second largest lender by value, said on Tuesday. Ratings agency S&P cut South Africa's credit rating to junk status on Monday, saying the dismissal by President Jacob Zuma of a respected finance minister heralded a damaging policy shift.

Nedbank in "good shape" to deal with South Africa credit downgrade: South Africa's No.4 bank by value Nedbank said on Tuesday it was in good shape and well-prepared to deal with the volatility and pressure of sovereign rating downgrades. S&P cut South Africa's credit rating to junk status on Monday, saying the dismissal by Zuma of a respected finance minister heralded a damaging policy shift.

South Africa must work harder to grow economy after S&P downgrade, South Africa's new Finance Minister Malusi Gigaba said on Tuesday. Gigaba said South Africa's rand denominated debt was still rated as investment grade and that the government's fiscal policy remained unchanged despite the switch in finance ministers following the reshuffle last week. S&P cut the country's credit rating to BB+ with a negative outlook from BBB- in an unscheduled review, saying the dismissal of respected Pravin Gordhan as finance minister raised the risk a damaging policy shift.

AFRICAN EQUITY MARKET INDICATORS AS AT 31-MARCH-2017								
Country Name	Index Name	Index at 31-March	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	9,225	1.90	-1.87	-9.58	9,006	10,318	3.348
BRVM	IC Comp	286	-0.91	-2.14	-9.08	264	320	11.774
Egypt	EGX 30	12,995	8.86	5.26	72.69	6,832	13,544	17.991
Ghana	GSE ALSI	1,866	0.62	10.47	-2.41	1,508	1,914	7.663
Kenya	FTSE NSE15	131	4.50	-2.12	-11.48	120	148	14.769
Malawi	MSE ALSI	14,578	6.91	9.44	8.63	12,478	14,602	10.491
Mauritius	SEMDEX	1,933	0.55	6.91	7.58	1,738	1,934	1.836
Morocco	MORALSI	11,380	-4.58	-2.27	22.00	9,269	12,951	13.012
Namibia	Local	1,067	-1.41	-0.17	7.52	925	1,144	18.974
Nigeria	NIG ALSI	25,516	0.74	-5.05	0.83	24,547	31,073	12.174
Rwanda	RSEASI	128	0.13	0.50	-1.99	127	131	0.568
South Africa	JSE ALSI	52,056	1.78	2.77	-0.37	48,936	54,704	11.749
Swaziland	SSX ALSI	386	0.64	1.44	15.14	335	386	1.397
Tanzania	DAR ALSI	2,315	0.48	5.31	-4.81	1,979	2,830	30.980
Tunisia	TUNIS	5,543	-1.14	0.99	2.25	5,273	5,627	4.815
Uganda	USE ALSI	1,558	10.29	5.43	-13.59	1,331	1,808	12.171
Zambia	LuSE ALSI	4,414	4.38	5.21	-20.24	4,010	5,721	7.071
Zimbabwe	IDX (USD)	138.96	2.70	-3.85	42.36	93	150	4.909

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 31-MARCH-2017								
Country Name	Currency Name	Index at 31-March	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	109.84	0.13	0.50	-1.32	107.75	112.17	3.604
Angola	Kwanza	167.26	-0.38	0.61	-2.01	158.66	169.65	11.246
Botswana	Pula	0.10	-0.83	1.71	3.14	0.09	0.10	10.078
CFA Franc	CFA Franc	615.92	1.56	2.28	-4.78	567.51	636.39	7.004
Egypt	Pounds	18.18	-13.04	-0.18	-51.17	8.77	19.67	21.871
Ethiopia	Birr	22.86	-0.52	-2.05	-5.56	21.40	23.00	9.748
Ghana	Cedi	4.33	8.55	-2.08	-11.45	3.73	4.82	15.910
Kenya	Shillings	102.98	-0.08	-0.46	-1.51	100.18	104.18	2.082
Malawi	Kwacha	725.23	-0.11	0.31	-5.67	677.50	747.50	1.588
Mauritius	Rupee	35.20	1.72	2.19	0.09	34.40	36.50	12.615
Morocco	Dirham	10.03	0.64	0.94	-3.98	9.23	10.32	5.021
Mozambique	Metical	67.42	3.17	5.87	-23.38	46.46	79.38	10.317
Nigeria	Naira	307.02	2.68	2.71	-35.17	197.00	350.25	11.645
Rwanda	Franc	825.00	-0.39	-0.36	-9.52	715.50	839.18	7.093
South Africa	Rand	13.43	-2.22	2.34	9.99	12.31	15.98	18.413
Tanzania	Shilling	2,234.00	0.00	-2.37	-2.13	2,170.05	2,919.14	4.656
Tunisia	Dinar	2.32	-1.06	-0.22	-13.15	1.98	2.37	8.406
Uganda	Shilling	3,615.00	-0.79	-0.51	-6.69	3,307.35	3,634.00	2.043
Zambia	Kwacha	9,670	-0.6174	2.7663	13.24	9,110	11,265	11.233

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 31-MARCH-2017								
Country Name	Maturity	Price at 31-Mar	Mid-Yield at 31-Mar	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	103.324	8.935	-0.320	6.216	86.206	104.679	USD
Cameroon	19-Nov-25	113.217	7.397	-0.250	4.842	93.600	114.502	USD
Congo	30-Jun-29	73.443	9.684	-1.009	14.427	63.766	74.626	USD
Cameroon	19-Nov-25	113.217	7.397	-0.250	4.842	93.600	114.502	USD
Egypt	30-Apr-40	94.155	7.407	0.016	7.516	82.391	100.290	USD
Ethiopia	11-Dec-24	96.333	7.253	-0.273	4.046	87.394	100.503	USD
Gabon	16-Jun-25	97.900	7.292	-0.136	3.874	81.349	100.319	USD
Ghana	14-Oct-30	117.611	8.530	0.021	-1.049	95.572	123.374	USD
Kenya	24-Jun-22	99.609	6.942	-0.174	4.897	90.961	101.130	USD
Ivory Coast	31-Dec-32	93.223	6.832	0.188	0.307	88.498	101.499	USD
Morocco	11-Dec-42	107.029	5.010	-0.095	4.783	100.880	118.426	USD
Namibia	29-Oct-25	101.023	5.101	0.100	2.649	96.783	108.052	USD
Nigeria	12-Jul-23	101.775	6.029	0.255	4.807	89.886	103.574	USD
Rwanda	02-May-23	101.201	6.382	0.020	1.551	93.652	102.978	USD
Senegal	30-Jul-24	101.131	6.055	0.036	0.954	92.173	105.956	USD
South Africa	24-Jul-44	98.352	5.492	0.331	-0.277	91.188	116.008	USD
Tanzania	09-Mar-20	105.738	5.314	0.029	0.437	101.488	105.993	USD
Tunisia	19-Sep-27	108.920	7.030	0.001	2.510	98.311	110.396	USD
Zambia	30-Jul-27	104.356	8.330	0.192	5.223	79.324	107.205	USD

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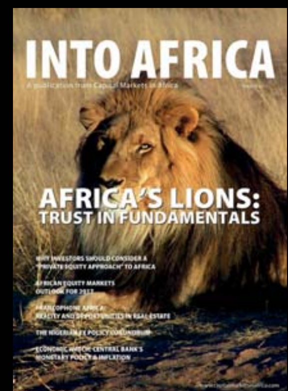

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