INTO AFRICA

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JUNE 2019

AFRICAN BANKING: EMERGING GROWTH

CROSS-BORDER BANKING: A PAN-AFRICAN BANK MODEL

BANKING SYSTEM: ANGOLA, GHANA KENYA, NIGERIA, SOUTH AFRICA

EXCLUSIVE INTERVIEWS WITH:

MOHAMED EL KETTANI, CHAIRMAN, ATTIJARIWAFA BANK MOROCCO

ANDREW BAINBRIDGE, GROUP CEO, SBM HOLDINGS LTD MAURITIUS

ABDULMAJID MUSSA NSEKELA, CEO, CRDB BANK TANZANIA

JOAO FIGUEIREDO, CHAIRMAN & CEO, MOZA BANCO MOZAMBIQUE

REGULATING FINTECH DISRUPTION IN AFRICAN CAPITAL MARKETS

ISLAMIC FINANCIAL SERVICES IN SOUTH AFRICA

IS THE ISLAMIC FINANCE INDUSTRY IN AFRICA READY TO MOVE MAIN-STREAM?

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Welcome to the June 2019 edition of ***INTO AFRICA***, a publication written by the professionals, for professionals, investors, policymakers … Advancing and providing fresh insight into Africa's emerging markets through renowned thought leadership and peer-to-peer knowledge-sharing. The edition is titled: ***African Banking: Emerging Growth***.

African countries have made progress in strengthening their banking sectors and most have adopted several new regulations, such as the clarification of the definition of systemically important institutions in line with the Basel Committee recommendations, and the establishment of a sound emergency liquidity assistance framework. Many Africa banks are transitioning to the International Financial Reporting Standard 9 (IFRS 9). These developments will help to consolidate the balance sheets of the continent's banks and address current vulnerabilities of the region's banking sector. In addition, banks in African countries have already started to prepare for technological disruptions by upgrading banking services that are extended to retail and SME clients. Mobile banking would enable banks to retain existing clients while facilitating greater financial inclusion among the unbanked population. However, authorities would need to protect banking systems from the negative effects of technological disruption that could reduce the quality of banking services and result in weaker and more vulnerable banking systems.

African countries report strong economic growth and have low levels of banking penetration which, coupled with young and rapidly expanding populations, should combine to provide an attractive operating environment for bank development. In addition, banks will also see a growing demand for the region's infrastructure finance and regional trade finance, particularly now that 49 countries have signed The African Continental Free Trade Agreement. However, region bank risk remains elevated due to weak economic and business environments and this is putting pressure on earnings, liquidity, asset quality, and capitalisation.

JANINE DOW (Senior Director, Banks – EMEA at Fitch Ratings) starts the discourse by exploring the growing trends and operating model of the Pan-African Banking Groups. **GONCALO FALCAO** (Partner, Mayer Brown LLP, Brazil) looks at Angola banking system and stated that the banks are adopting modern technological platforms for interaction with customers, still struggles with a very fragile economy. In parallel, **ALEX BOAHEN** (Head of Research, Databank Group Ghana) and **PATRICK MUMU** (Research Analyst, Genghis Capital Limited Kenya) discuss the emerging trends, risks and potentials in the Ghanaian and Kenyan banking sectors, respectively.

Moving on, **AYOKUNLE OLUBUNMI** (Senior Analyst, Agusto & Co. Nigeria) provides a helicopter overview of the Nigerian banking system. While on a legal front, **JENNIFER DOUGLAS** (Partner, Miyetti Law Firm Nigeria) and her team feature in *"Nigerian Banking Reforms: Recent Actions and Future Prospects"*. In one hand, **COSTA NATSAS** (Banking & Capital Markets Leader, PwC Africa) and **RIVAAN ROOPNARAIN** (Banking & Capital Markets Associate Director, PwC South Africa) state that major South African banks delivered resilient earnings growth and progressed many key strategic initiatives in 2018. On the other hand, **PATRICIA AMITO** (Head Communications & Corporate Affairs, Uganda Bankers Association) offers insight on the emerging trends and opportunities in the Ugandan banking space.

CLAIRE MATHESON KIRTON (Partner, White & Case LLP) provides a probing article *"Is the Islamic Finance Industry in Africa Ready to move mainstream?"*. Similarly, **AMMAN MUHAMMAD** (Chief Executive Officer, FNB Islamic Banking South Africa) examines the Islamic financial services in South Africa and what the future holds. **NANKUNDA KATANGAZA** (Director, Hook Tangaza & Co-founder, Africa Legal & Tech Network) looks at the Fintech disruption in African capital markets from a legal and regulatory viewpoint. **GERALD GONDO** (Business Development Executive, RisCura) gives a brief on how to close Africa's infrastructure gap. Furthermore, **ATHI JARA** (Director at LNP Attorneys Inc.) answers that question should we expect more private prosecutors for environmental crimes?

And still more, we bring you exclusive interviews with the bank's Chief Executives: **MOHAMED EL KETTANI** (Chairman and Chief Executive Officer, ATTIJARIWAFA Bank Morocco), **ANDREW BAINBRIDGE** (Group Chief Executive Officer, SBM Holding Ltd Mauritius), **ABDULMAJID MUSSA NSEKELA** (Chief Executive Officer, CRDB BANK Tanzania) and **JOAO FIGUEIREDO** (Chairman and Chief Executive Officer, MOZA BANCO Mozambique).

As usual, we provide you with a summary of what analysts are saying about Africa's economic outlook and financial stability.

Tunde Akodu
Editor

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CROSS-BORDER BANKING: A PAN-AFRICAN BANK MODEL PERSPECTIVE

By **Janine Dow,** Senior Director, Banks – EMEA at Fitch Ratings

Pan-African Banking Groups – A Growing Trend; Diversification Weighs on Operating Environment

Pan-African banking groups (PABs) are growing and our assessment is that this trend will continue. Many PABs are headquartered in some of Africa's most developed economies where banking regulation is relatively sophisticated, namely South Africa, Nigeria and Morocco (see chart below). Expansion drivers vary bank-by-bank and country-by-country, but our assessment is that diversification into higher risk countries can have a negative impact on our assessment of the overall environment in which a PAB operates. This is because Fitch Ratings typically derives an operating environment 'score' by calculating a weighted average of the scores for the countries in which a bank does business. The operating environment score is often a constraining factor for a bank's standalone 'Viability Rating' due to its influence on other aspects of a bank's risk profile.

We define PABs as those which are headquartered in Africa and have a presence in a minimum of approximately 10 other African countries. PABs differ from regional African banking groups which have a more limited presence, often in neighbouring countries. This is the case of Kenyan banking groups and, more recently, the Mauritian banking groups, for example. In addition to PABs, several international banking groups have a strong presence in Africa, notably Societe Generale, BNP Paribas, Citibank and Standard Chartered.

Limited Growth Opportunities in Home Markets Drive Regional Expansion

Banks generally cite growing economic integration, and the need to support corporate customers as these expand into neighbouring countries, as the focal points which underpin their regional strategic ambitions. Over time, banks will also see growing demand for regional trade finance, particularly now that 49 countries have signed The African Continental Free Trade Agreement created in March 2018. But in our view, lack of growth opportunities in home markets is an equally important trigger. This may be surprising given that many African countries report strong economic growth and have low levels of banking penetration which, coupled with young and rapidly expanding populations, should combine to provide an attractive operating environment for bank development.

However, opportunities to successfully develop retail and SME banking in much of Africa are constrained by factors which include low GDP/capita figures, a high level of informality in many African countries' economic structures, the fragile nature of SMEs across the continent and poor 'ease of doing business' scores. As a result, competition in the prime corporate banking sector is generally fierce, which can compromise underwriting and pricing standards. Our assessment is that where market leaders feel particularly constrained by growth opportunities in their home-markets, they are most likely to turn their attention to transformation into PABs.

Major PABs and Regional African Banks

Name	Headquarters	Group Type	Number of Subsidiaries in Africa at End-2018
Attijariwafa Bank	Morocco	PAB	15
BMCE Bank of Africa	Morocco	PAB	18
Groupe Banque Centrale Populaire	Morocco	PAB	9 (in the process of acquiring 4 additional banks)
Guaranty Trust Bank	Nigeria	PAB	9
United Bank for Africa	Nigeria	PAB	19
Standard Bank	South Africa	PAB	17
Absa	South Africa	PAB	11
FirstRand	South Africa	PAB	10
Ecobank Transnational	Togo	PAB	36
KCB Group	Kenya	Regional	5
Equity Bank Group	Kenya	Regional	5

Source: Fitch Ratings

This is the case for Nigerian banks, for example, where retail lending represents less than 10% of credit extended by the country's leading banks, although retail deposits represent a far larger share of overall funding. United Bank for Africa (UBA), Nigeria's leading PAB, is a domestic systemically important bank (DSIB) in its home-market, but consumer lending represents only 8% of its consolidated gross loans.

Exceptional Drivers Underpin International Expansion at South African and Moroccan Banks

Banks in South Africa and Morocco have well developed established SME and retail franchises, the latter supported by well-functioning mortgage markets. These portfolios represent between 50% - 60% of gross loans extended by large South African banks and around 40% of domestic lending in Morocco's banking sector. Nevertheless, these countries are home to some of the largest PABs. South Africa's largest banks are the region's most sophisticated in our view, boasting strong expertise across all banking segments, plus know-how in niche advisory, capital markets and trade finance services. South Africa is also home to some of the continent's leading corporates, many of which operate on a regional basis.

Standard Bank and Absa (formerly Barclays Africa) have a long history of operating in the continent. South African banks have more recently been encouraged to expand regionally given weak domestic economic growth, at below 2% p.a. over the past five years and thanks to their strong expertise, they have been able to position themselves as niche players in some of Africa's most competitive markets. This is the case, for example, for Standard Bank's Nigerian operations, Stanbic IBTC (SIBTC). SIBTC's franchise is relatively small in Nigeria, where it serves one million customers, but its connectivity to the group network and an ability to serve large domestic and multinational corporates means it can compete with the country's DSIBs on this front.

In Morocco, the overall economic and business environment is weak, held back by poor infrastructure, low GDP/capita, poor education levels, weak governance and high youth unemployment. According to Central Bank statistics, GDP growth and banking sector loan growth are both sluggish at around an annual 3%, well below growth rates displayed by many other African countries. Under the leadership of King Mohammed VI, Morocco has increased its influence in Africa and several Moroccan companies now operate regionally. The country's three DSIBs operate as PABs and our discussions with rated Moroccan banks provide evidence that opportunities for profitable pan-African banking exist.

Ecobank – A Unique PAB Structure

Headquartered in Togo, Ecobank Transnational Incorporated (Ecobank, a holding company) was set up in 1985 specifically as a PAB with a view to contributing to the region's economic integration and development. Ecobank conducts cross-border lending and services and is the most geographically diverse PAB with fully fledged banking subsidiaries in 32 African countries and ranks among the top three banks in 19 of these countries (by assets). The subsidiaries provide wholesale, retail, investment and transaction banking services under a single brand, policies and processes. One of Ecobank's strengths is its digital banking platform which gives it a competitive advantage in mobile banking and cash management and payments.

Mauritius Banks – Not Traditional PABs but Heavily Exposed to Africa

Mauritius' small economy, excessive liquidity in the banking sector and low domestic credit demand has resulted in a banking sector dominated by two DSIBs and highly exposed to regional African markets. This is the case for The Mauritius Commercial Bank Ltd, which controls a 40% domestic market share and which has overcome domestic growth constrains by developing international energy and commodities lending and international project finance mainly to other African countries which represents approximately 30% of consolidated gross lending.

International Expansion Boosts Profitability and Strengthens Franchise

International expansion supports profitability at the PABs, as highlighted in the chart below which shows that contributions from African activities outside home-markets almost always exceed the share of assets invested in these countries. Net interest margins and fees in many countries targeted by the PABs are high, reflecting low funding cuts and relative lack of sophistication in those markets. Some PABs also achieve synergistic cost savings which can boost performance metrics due to centralisation of risk management and reporting systems, for example. Brand recognition strengthens franchise and brings intangible

African Subsidiaries' Contribution to Assets and Income

Name	% Consolidated Assets (End-2018)	% Income (2018)	
Attijariwafa Bank	23	35	Income refers to net income
BMCE Bank of Africa	33	52	Income refers to net income
Groupe Banque Centrale Populaire	16	24	Income refers to net income
Guaranty Trust Bank	16	11	Income refers to pre-tax profit
United Bank for Africa	29	42	Income refers to pre-tax profit
Standard Bank	18	23	Income refers to gross revenues (headline earnings)
Absa	13	21	Income refers to gross revenues (headline earnings)
FirstRand	4	11	Income refers to pre-tax profit
Ecobank Transnational	76	82	Income refers to pre-tax profit
KCB Group	12	5	Income refers to pre-tax profit
Equity Bank Group	Not available	Not available	

Source: Fitch Ratings

benefits, including potentially easier access to international capital markets and greater negotiating power with bilateral and international creditors. Geographic diversification can boost a PAB's franchise by adding stability, reducing exposure to highly cyclical, often commodities- dependent, African economies. However, common branding also heightens reputation risks.

Lack of Consolidated Regulatory Oversight is the Major Risk

Consolidated supervision allows regulators to obtain a full picture of a PABs' risk profile. In our view, the lack of formal regulatory oversight for PABs and the evolving nature of regulations for PABs are major risks. Home regulators are challenged by the complexity of monitoring different, and often rapidly changing, prudential requirements and reporting standards. Bank Al-Maghrib, Morocco's bank regulator, the South African Reserve Bank, Central Bank of Kenya and the Central Bank of Nigeria cooperate with several of their African counterparts which we view positively, but it will take time to harmonize regulatory frameworks across the region, particularly when dealing with complex cases such as bank resolution.

Foreign Exchange Risks can be Severe

PABs are structurally exposed to foreign exchange risks as investments in African subsidiaries are generally made in currencies which differ from their reporting currency. Some African currencies, such as the CFA franc (XOF and XAF) used in WAEMU and CEMAC region countries, maintain stable exchange rates compared to major international currencies, but others are highly volatile. Ecobank's Nigerian subsidiary represents approximately 30% of group assets. Devaluation of the naira in 2016 eroded the PAB's consolidated core capital by around 40% and triggered effective recapitalisation of the group. The steady depreciation of the dinar has also impacted the value of Attijariwafa Bank's Tunisian investment. Further, African banks frequently operate with open foreign currency CFC positions and exchange rate depreciation can impact regulatory capital adequacy ratios as the value of FC-denominated risk weighted assets is 'inflated' compared to regulatory capital which is denominated in local currency.

Fitch Ratings' African Coverage

Fitch assigns ratings to 23 African sovereigns and 51 African banks and non-bank financial institutions in 12 African countries.

"Banks generally cite growing economic integration, and the need to support corporate customers as these expand into neighbouring countries, as the focal points which underpin their regional strategic ambitions."

Contributor's Profile

Janine Dow is a Senior Director with Fitch Ratings' EMEA financial institutions division in London, and head of francophone African banks coverage. She joined Fitch in 1992, and was previously responsible for rating financial institutions in Turkey, France, Portugal and Latin America. Prior to joining Fitch, Janine was involved in corporate finance advisory and brokering services to emerging European countries. Janine earned a degree in history from the University of Sao Paulo, Brazil, and a BA in modern Iberian and Latin American regional studies at Kings College, University of London.

ANGOLAN BANKING SYSTEM: AN ECONOMIC DIVERSIFICATION THRUST

By **Gonçalo Falcao,** Partner, Mayer Brown LLP, Brazil

Background

It is common knowledge that the Angolan economy is driven by its Oil & Gas industry which accounts for approximately 1/3 of the country GDP and 90% of exports. As the country recently experienced following the 2014 drop in oil prices, this status quo exposes Angola making it extremely vulnerable to this commodity uncontrollable (for Angola) price variations. The crisis that followed the 2014 oil price drop was so violent that the political agenda since then (albeit the 2017 election of the new President Mr. João Lourenço) has been dominated by the jargon **"economic diversification"**.

For those less familiarized with the history of Angola, it might be difficult to imagine that prior to independence Angola was self-sufficient in terms of food production and a major exporter of coffee, cotton and other products. The exodus and destruction caused by the post-independence civil war eliminated all those productive industries that used to dominate the Angola economic landscape, leaving no other alternatives than relying on the oil activities (mostly offshore) to ensure the country's survival throughout the war times and the decade that followed the peace treaties.

The steady increase of oil prices throughout the 2010's up to 2014 (with peak prices well above USD 100/barrel) created the false impression of an Angolan booming economy with occasional 2 digits growth rates, notably between 2002 and 2013. The economy did grow during those years, but not on solid grounds as the oil money flooded the wallets of an emerging Angolan elite that boosted internal consumption rates to new levels and attracted several foreign investors focusing mostly on the construction sector. Luanda skyline changed fast and dramatically, but easy access to oil cash made the country to import the vast majority of its needs, from water (!!) to food and medicine.

Although all the known production potential of the country (notably on the Agricultural sector), nothing was done during this recent "golden" year to diversify the economy and abandon the oil dependence. Cumbersome and highly demanding foreign investment laws combined with bureaucracy and corruption made it difficult for private investors (even domestic) to take risks on long - term productive investments. Such economic diversification should rely on the capacity of foreign and local entrepreneurs to invest and rebuild such a diversified Angola economic sector and, as in most countries, banks have a pivotal role in the process by making cash available for such investments.

Where we are and the vicious circle?

However, the Angola banking system, although having a large number of banks increasingly adopting modern technological platforms for interaction with customers, still struggles with a very fragile economy. As noted by the 2018 IMF report, "financial sector vulnerabilities have been rising with the economic slowdown, and financial soundness indicators show a mixed performance. Some banks faced liquidity challenges in 2018 due to tight monetary policy and exchange rate depreciation. The Central Bank has implemented policies to address financial sector vulnerabilities, including a threefold increase in the minimum share capital requirement for banks. In the beginning of 2019, the BNA has ordered the closure of three commercial banks for failing to meet the new minimum capital requirements."

Since elected in 2017, President João Lourenço Government has been working hard on restoring macroeconomic stability through fiscal consolidation, exchange rate flexibility and reduction the public debt-to-GDP ratio. Banks have been benefitting from this exchange rate flexibility, but access to hard currency has been a great restriction to their activity. Banks suffer from subdued lending and the economy's heavy dependence on oil is a challenge for banks.

Although playing a pivotal role re economic diversification, Angola banks' business models also have been relying on the oil sector. As the 2018 World Bank outlook for Angola reported: "Oil price volatility generate liquidity issues, leading to windfalls for some banks while building vulnerabilities for others, especially state-owned banks. Weak performance of real and financial variables tends to be associated with oil price downturns. Increasing government financing needs during oil price downturns leads banks to increase their exposure to the government through purchases of T-bills, leaving some vulnerable to sovereign distress".

Tackling Anti-Money Laundry /Combating the Financing of Terrorism ("AML/CFT") issues has become critical following the loss of direct U.S. dollar correspondent banking relationships (CBRs) in October 2016. Angola Central Bank has been actively participating in making internationally public the enforcement of its increasing supervisor requirements and keeping open channels of communication between domestic and foreign banks and regulators. The Angola banking system has managed to mitigate the loss of CBRs, including using euro and nested U.S. dollar CBRs that are costly and suboptimal, this is not sufficient to guarantee access to hard currency and subsequent liquidity.

What needs to be done/improve?

Both the World Bank and the Angola Central Bank agree that the following actions would strengthen further the banking system and gave him the pivotal role in the diversification of Angola economy:

1. Intensify banks' asset quality reviews, with a view to identify banks' capitalization needs, and reduce exposure to non - performing loans, making for stronger balance sheets and position the banking sector to play a more supportive role to the economic diversification;
2. Raise the efficiency of state-owned banks, by fully implementing their restructuring plans;
3. Monitor banks closely, including their liquidity position in both foreign and local currency, and take prompt corrective action when problems are identified;
4. Require banks to align their forex availability to potential forex deposit outflows; strengthening crisis management and emergency liquidity assistance frameworks;
5. Ensuring enforcement of loan provisioning and monitoring loan restructuring; and certifying that banks respond promptly to capital shortfalls;
6. Sustaining efforts to monitor pressures, maintain existing CBRs, and eventually regain CBRs, by taking a lead in aggregating metrics on the extent of the problem;
7. engaging parent jurisdictions of the correspondent banks;
8. Fully enforce the existing and well drafted AML/CFT Angola regulations, including with respect to risk-based AML/CFT supervision and to address corruption-related risks.

Conclusion

Considering all the above, our conclusion is that the Angola Banking system is struggling to take a lead role on the process of economic diversification. Such role will only be higher and decisively contribute to such process to the extent Angolan banks open their activity to the word transparently, adopt best practices on a multitude of issues (from IFRS to AML/CFT policies) and regain the rest of the world confidence deemed necessary to have more access to international capitals and, with that, finance local economy at a much larger scale. There is still a long way ahead, both the Central Bank and the Government having a pivotal role in the process by putting pressure on the banks, but at the same time helping them through the approval and enforcement of effective laws and regulations (most of them already exist) necessary to have a healthy Banking environment.

Contributor's Profile

Gonçalo Falcao is a partner in the International Tax Matters and Corporate & Securities practices of Tauil & Chequer Advogados in the Rio de Janeiro office. He represents clients around the globe and particularly throughout Africa, including Angola, Mozambique, Cape Verde, Equatorial Guinea, and São Tomé & Príncipe. Much of his work in these countries involves representing oil and gas exploration and production companies and service providers. Gonçalo also has substantial experience in oil and gas, corporate, foreign investment, labor and immigration, and foreign exchange matters. He is licensed to practice law in both Brazil and Portugal.

Gonçalo Falcão is a Mayer Brown LLP partner affiliated with Tauil & Chequer Advogados in Brazil. Before joining that firm, he practiced law for five years at offices in Portugal and Brazil as a member of the Miranda Law Firm. He also practiced in Portugal from 1998 to 2004 with several other firms, including KPMG (as Tax Manager), Castro Silva & Associados and Arthur Andersen. Gonçalo is fluent in English and Spanish as well as Portuguese.

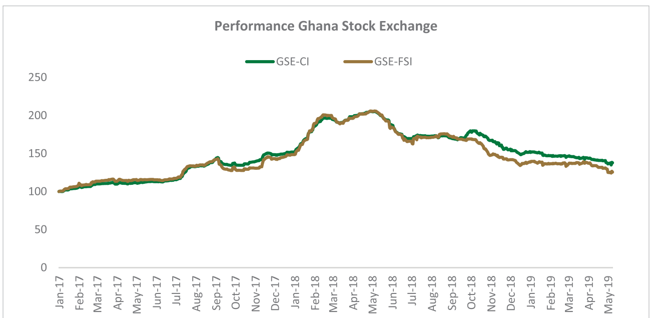
GHANA BANKING SECTOR: EMERGING TRENDS AND STOCK MARKET PROSPECTS

By **Alex Boahen,** Head of Research, Databank Group Ghana

Background: 2018 in a Nutshell

Investors will remember 2018 as the year when Ghana's equity market witnessed one of its highest periods of volatility in recent times. The benchmark Ghana Stock Exchange Composite Index (GSE-CI) started the year on a strong footing. By April 30, 2018, the index had returned approximately 35% but closed the year flat at -0.29% in local currency terms. In May 2018, the market was rocked by a multitude of adverse factors, led prominently by weaker corporate earnings and rising interest rates in the US, which partly explained the selloffs witnessed on Ghana's bond market. Bond yields rose in line with a broad-based sell-off amid the rate hikes by the US Federal Reserve Board. Consequently, the Ghana Cedi weakened against its trading pairs, and the equity market started to tumble. Sentiment towards equities dropped as the sell-off continued with investors cashing in on lofty market valuations.

Fast-forward to 2019, the stock market still remains in a correction mode as the GSE-CI seems to be declining steadily without any interruptions. The GSE-CI has lost 9% year-to-date in Cedi terms (as at 10th May 2019) and about -13% in USD terms. This makes it the worst performer among its African peers. While the GSE has underperformed its peers, it must be looked at in context. In 2017, the GSE emerged as the second-best performer in Africa (after Malawi) in USD terms, posting a return of approximately 43%. The Financial Stock Index returned approximately 40% (in USD) during the 2017 calendar year. The GSE then climbed further by approximately 35% (in USD) as at April 30, 2018, sending valuations skyrocketing and making Ghana's market more vulnerable to a correction.



Source: Databank Research, GSE

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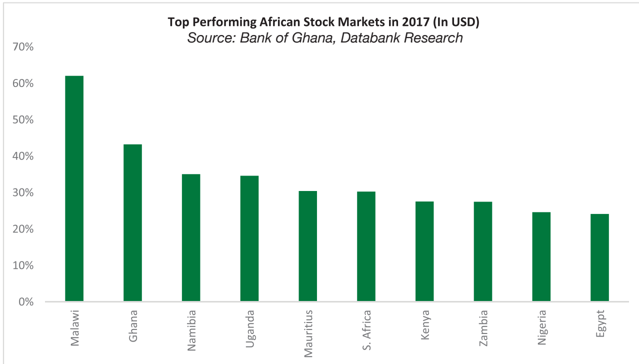
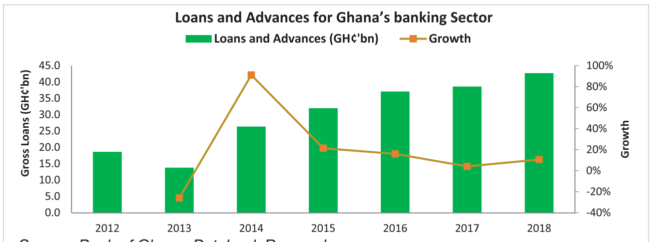


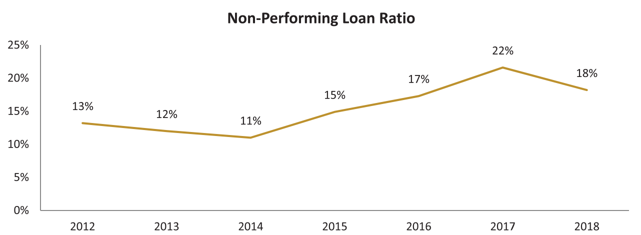
Asset quality issues continue to weigh on bank stocks

Being the most dominant and actively traded stocks on the Ghana Stock Exchange, the performance of banking stocks largely moved in tandem with the broad market. Following the stellar performance in 2017, stock prices for listed banks embarked on a steady decline. Currently, most banks trade at discounts to their book values against the backdrop of heightened investor concerns. Understandably, investors remain concerned about the health of the banking sector in view of the sector's questionable asset quality. The ratio of non-performing loans (NPL) to gross loans, which is a key metric for assessing the health of a bank's financial position, remains at an undesirable level when compared with historical levels. Nonetheless, the industry NPL ratio has improved over the past year, attributable to write-offs of toxic loans along with improved credit expansion.

"The Ghanaian stock market still remains in a correction mode, declining steadily without any interruptions".



Source: Bank of Ghana, Databank Research



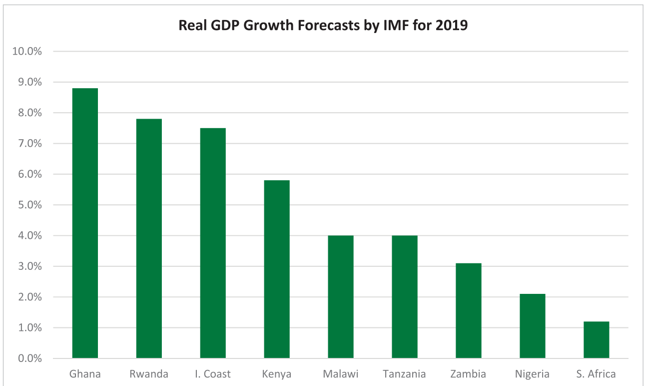
Source: Bank of Ghana, Databank Research

Banks profitability set to recover following the clean-up of the sector

Fundamentally, however, the Ghanaian banking industry is in its best shape ever. Balance sheets have become much stronger and banks may now be able to withstand negative shocks in the economy and financial markets, thanks to the recapitalization of the sector. In 2017, the Bank of Ghana raised the minimum stated capital requirement for banks to GH¢400 million from GH¢120 million. In the process, nine (9) banks were liquidated by the Bank of Ghana for various reasons ranging from insolvency to breaching the Banking Act. The liabilities and selected assets of seven (7) out of the 9 liquidated banks were consequently taken over by the newly established Consolidated Bank Ghana through a Purchase and Assumption agreement. GCB Bank took over the deposit liabilities of the remaining two (2) banks under a similar arrangement. Currently, the number of banks has been pruned down to 23, out of the 36 banks that existed before 2017.

To meet the new capital requirement, most of the listed banks undertook rights issues while others suspended dividend payments in order to capitalize their retained earnings. The sector also witnessed several mergers and acquisitions (M&As), which became a survival tactic by mostly small banks with weaker fundamentals. Notable M&As involved GHL Bank and First National Bank, Energy Commercial Bank Ghana and First Atlantic Bank, and Sahel Sahara Bank and Omni Bank.

The government, in a bid to preserve local content in Ghana banking sector, vowed to support solvent and well-run indigenous banks that were having difficulties meeting the new minimum capital requirement. In this context, the government last year set up the Ghana Amalgamated Trust (GAT), a special purpose vehicle designed to help recapitalize the local banks that needed some capital top up. The GAT is expected to inject up to approximately GH¢2 billion of equity into five indigenous banks that were considered undercapitalized but solvent banks.



Source: IMF, Databank Research

What the outlook holds for the banking sector on the GSE

We hold a positive outlook for the Ghanaian economy in the coming years. The IMF forecasts Ghana's real GDP to grow by 8.8% for 2019 with low inflation and a stable currency, barring any global shocks. By comparison, Ghana is among the fastest growing economies in the world and its projected GDP growth is far ahead of the regional average GDP growth 3.5% as well as its peers in the Sub-region.

Banks are now well-positioned to leverage the strong economic growth to drive credit expansion and profitability. Strictly speaking, with strengthened financial positions along with ameliorating asset quality, earnings are poised for accelerated growth. Already, banks' earnings have seen a notable recovery from the results reported for the first quarter of 2019, where most listed banks registered double-digit growth in bottom-line. In terms of stock price performance, most bank stocks continue to trade at attractive valuations as the improved earnings have failed to enthuse investors. Banks now trade at P/B multiples that are below their historical levels as investors take a wait-and-see attitude and focus intensely on the asset quality trends in the coming quarters. Investors with an appetite for more risk may want to take a position now in a few of the high-quality banks in anticipation of solid numbers from the upcoming earnings reports for Q2-2019.

THE KENYAN BANKING SECTOR: TRENDS AND PROSPECTS

By **Patrick Mumu,** Research Analyst, Genghis Capital Limited Kenya

The Kenyan Banking Sector has experienced headwinds over the past three years, especially following the enactment of the Banking (Amendment) Act 2016 that capped interest rates, adversely impacting profitability at the onset. Despite this, the banks have proved resilient as evidenced by fairly stable net interest margins in 2018 (averaging at 8.0% from 8.5% in 2015) and the subsequent recovery in profitability. Investment in government securities has increased, shifting to an average of 23.8% of the asset base from 20.1% pre rate cap, and the loan book has remained relatively mute since. The declining yield curve, as demand for government paper rises, hasn't helped on the revenue front but operational efficiency has served to cushion profitability.

However, the interest rate caps somewhat portray a red herring, as the slump in asset quality, coupled with lending to the private sector, had begun way before caps were implemented. There is no better way to demonstrate this than the Private Sector Credit Growth (PSCG), recorded at 5.4% when the capping law came into effect, highlighting more pressing concerns on the state of the banking sector in the country. In fact, the interest rate caps were meant to solve this problem upon enactment. While much has been said with regards to the interest rate caps, it is clear that the law has only worsened an already mire situation, as the Monetary Policy Committee (MPC) has noted on multiple occasions through surveys carried out.

The Kenyan banks have proved resilient, occasioned by the adjustment of business models through cost efficiency and revenue diversification, though growth has toned down as banks mellow to the low yielding government securities. A risk exists in the possibility of Central Bank Rate (CBR) cuts by the MPC (given lending is tied to the key rate), coupled with a gradually downward shifting yield curve. However, with inflation expected to pick up, albeit on the supply side, coupled with indications of an economy operating close to full potential as per the MPC latest guidance, downside risk remains subdued.

The High Court ruling in March rendered the interest rate cap law unclear and unconstitutional, presenting some form of reprieve. Give a drowning man a straw and he will clutch at it. Consequently, this serves as an opportune time for the National Assembly to address the interest rate cap law and we could see a modification of the rate cap, though Parliament will likely place more emphasis on addressing the provisions in the law. A modification of the caps would serve to boost the banking sector performance and positive sentiment would reflect on the listed counters. However, there should be room for cautious optimism as increased bank lending to the SME segment and risky borrowers may not be fully actualized with the implementation of IFRS 9, coupled with the challenging business environment.

While the application of IFRS 9 is bound to adversely affect profitability in 2019, the accounting adjustment with respect to provisioning is just but a timing constraint. In 2018, while migrating from IAS 39, banks were required to pass off expected credit losses on historical loans through capital, which had the effect of cushioning profitability, making banks seem more profitable than they actually were. A wolf in sheep's clothing as some may put it. The reason these expected credit losses were passed through the balance sheet is because, ultimately, the shareholders should bear the full brunt of any past loans issued that were not properly provisioned (as per IFRS 9). In this case, depositors were sheltered from the accounting treatment and banks experienced significant deterioration on capital ratios, though the pre-existing buffers were sufficient to quell the impact. Going into 2019, credit losses will be accounted for through the income statement, as is customary, and this should lead to constrained profit during the year. Provisions are expected to rise by an average 52.9% y/y in 2019 as the base effect brought about by the day one write-off will have already come into effect, meaning provisions (and coverage levels) are expected to rebound to the FY17 levels.

Banks should get some reprieve from the application of the Effective Interest Rate (EIR), which requires fees and commissions on loans be evenly spread over the term of the loan as opposed to immediate recognition. There's an anticipated boost to earnings in FY19 given a portion of fees on loans from 2018 are set aside to be accrued in future periods. Again, this is only a timing constraint. The asset quality in the banking sector has been deteriorating over the past 3 years with the average NPL ratio recorded at 12.0% in December 2018 compared to 6.8% at the end of 2015, driven by a challenging operating environment. The growth in NPLs in the sector is expected to ease going forward on account of (i) increased allocation to government securities (which are considered risk free) over the past couple of years, and (ii) more prudent risk assessment within the banking sector on account of the challenging operating environment.

M&A activity is beginning to pick up in Kenya, with the two largest banks in terms of asset base, KCB Group and Equity Group, announcing acquisitions in 2Q19. These two announcements come after the forthcoming merger of CBA Group and NIC Group, which is set to conclude in 3Q19, following approval by the shareholders. Consolidation could go a long way in solving some of the inherent risks prevalent in the banking sector related to capital and liquidity. Some of the smaller banks in the country already operate below the statutory requirements and continue to pose systemic risks. As a case study, Nigeria underwent reforms in 2005 and studies suggest the banking sector is more stable, in addition to promoting increased competition, efficiency, and a platform to enhance economic growth. Kenya should follow a similar path and this could be achieved by increasing the core capital requirement to KES 5.0Bn from KES 1.0Bn (a proposal previously rejected in parliament), which would reduce the number of banks by half (c. 20). Additionally, consolidation would serve to strengthen the capital market.

Regional expansion has been a leading theme, with Kenyan banks already established in a number of regional markets, namely Uganda, Tanzania, Rwanda, Burundi and South Sudan, just to mention a handful. Equity Group, through the share swap with Atlas Mara, is also geared towards this direction, where the Group will achieve entry into Zambia and Mozambique. For quite some time, the Kenyan banks have been eyeing the Ethiopian market. Currently, there is huge potential for growth in the Ethiopian banking sector. Ethiopia has a population of 102.4mn and it is estimated that 35.0% of Ethiopians hold a financial institution account (82.0% in Kenya), compared to 22.0% in 2014. Further, only 0.3% of adults in Ethiopia have mobile money accounts (73.0% in Kenya), depicting the vast potential the country is yet to tap into, with a country possessing over 34.7mn mobile subscribers. It is not hard to see why Kenyan banks will be particularly eyeing this market. But why has this interest fizzled out like a Dothraki horde in the long night? Regulation in the country prohibits foreign ownership in a bank, and certain key sectors enjoy state protection, with foreign banks only allowed to open representative offices, which has hampered efforts on regional expansion. Reforms by the current Prime Minister, who has been pushing for multi-sector reforms, though, will no doubt have the Kenyan banks with one eye on the going-on at their East African counterparts.

The Kenyan economic environment continues to provide a platform for the Kenyan banks to thrive and the business environment is expected to steadily improve. The banking space is expected to be rife with M&A activity, regional expansion to access distinct markets and more prudent lending to accommodate regulation. In terms of relative valuation, Kenyan Banks remain relatively undervalued compared to their Sub-Saharan Africa (SSA) counterparts despite being more profitable. SSA banks, excluding Kenya, have an average Return on Equity (ROE) of 13.4% compared to Kenya at 15.4%, despite trading at 1.4x Price-to-book (P/B) multiple with Kenya at 1.0x P/B. In particular, KCB Group, the largest bank in the country, trades at 1.1x P/B with an ROE of 21.9%, the highest in the sector. The banking sector in the country remains strong and resilient, which not only bodes well for financial stability but also investors looking to take advantage of the cheap valuations in the market. Remember, opportunity does not knock, it presents itself when you beat down the door.

Contributor's Profile:
Patrick Mumu is a Research Analyst at Genghis Capital Investment Bank covering the Banking, Insurance and Manufacturing sectors. He previously worked as an Investment Analyst at Cytonn Investments and his experience widely ranges from equities, fixed income analysis and private equity, primarily in the financial services industry. He holds a Bachelor of Science Degree in Actuarial Science from the University of Nairobi and is currently a level II candidate in the Chartered Financial Analyst (CFA) program.

ATTIJARIWAFA BANK'S LONG-TERM GOAL

LEADING, DIVERSIFIED AND INTEGRATED BANKING PLAYER

MOHAMED EL KETTANI , CHAIRMAN & CHIEF EXECUTIVE OFFICER, **ATTIJARIWAFA BANK MOROCCO**

CAPMARKETAFRICA: *Firstly, congratulation on your recently award as the 2019 African CEO of the year at the 7th edition of the Africa CEO forum. Can you tell our readers, what life experiences have influenced your leadership style and what is the most rewarding and challenging aspect of your job?*

MOHAMED EL KETTANI: Let me first thank you for this opportunity to share our experience as a global pan-African bank. I have started my career in Banque Commerciale du Maroc (former name of Attijariwafa bank) 34 years ago at a time when our operations were mainly domestic, and the competition was relatively moderate. Since then, Attijariwafa bank has successfully engaged in a deep transformation, extending successfully its operations in 26 countries and upgrading its business model and profitability in every market of presence.

My personal belief is that leadership is a matter of attitude over the long run. I have always considered that the impossible can be achieved if we combine constant engagement, long term view, highly committed teams, and attention to details. More specifically, the most rewarding and challenging aspect of my job is to help our teams being fully empowered and make them « internal entrepreneurs » full of positive energy and boldness throughout the organization.

CAPMARKETAFRICA: *You champion the south-south cooperation, to catalyse opportunities for trade and investment on the continent you convey an annual International Africa Development Forum. What is the motivation behind the initiative and what are the achievements since its inception, please?*

MOHAMED EL KETTANI: Since 2005, our group has engaged into an international strategy in order to grow our business in the Maghreb region and also francophone Sub-Saharan Africa, thanks to the strong support of our strategic shareholder, the pan-African investment Fund, Al Mada. It is also important to mention that the Moroccan private sector as a whole, has benefited from the vision of His Majesty King Mohammed VI in favour of the south to south cooperation, which has enabled many Moroccan companies to grow successfully their business in sub-Saharan Africa.

Our strategy has been successfully implemented in a timely manner and resulted in the acquisition of fourteen banks during the 2005-2016 period. Since then, we have started the second phase of our strategic plan, which is to grow our positions in anglophone Africa, and have initiated the first move thanks to the acquisition of Barclays Egypt (now AWB Egypt).

The vision behind this growth strategy is that Africa offers tremendous opportunities related to various factors: demography and urbanization that translates into the emergence of a sizeable middle class, need for infrastructure and in particular in energy – transports – logistics sectors, industrialization imperative with opportunities to upgrade value chains. But Africa does also desperately need enhanced integration in terms of trade and investment, that may offer investors larger markets and economies of scale.

As a pan-African bank, we value all these opportunities and help our clients achieve growth scenarios in new territories, by putting ahead our capabilities in corporate and investment banking as well as in retail banking, and also provide investors tailored-made business platforms such as Africa Development Forum, which has gathered during the 2019 edition more than 2000 companies from 34 countries in order to seize business opportunities.

As a result, various success stories have emerged in renewable energy, infrastructure, industry, agribusiness among other sectors, with valuable impacts on local economies, trade, and jobs creation.

CAPMARKETAFRICA: *Let's us be more specific. In the FY2018 Attijariwafa Bank reported strong growth, driven by continued improvement in loans growth and asset quality. Please, could you explain to our readers the fundamentals behind these performances?*
MOHAMED EL KETTANI: Attijariwafa bank reported in FY2018 a solid growth of its net income group share (up +6%) despite challenging economic conditions in some of our main countries of presence. This performance was driven by strong loans growth, stable and resilient margins thanks to a careful optimization of the cost of funding and continued focus on cost control and risk management on a consolidated basis. In addition, our profitability improved with RoE standing at 15.4% in line with best standards as a result of an ambitious strategy and a diversified business model.

CAPMARKETAFRICA: *Arguably, the geographical expansion strategies of African banking groups have recorded limited success. Some pioneers are now partly backtracking. What is the Attijariwafa Bank pan-African banking strategy and are there in any current/future expansion to or exist from any African countries, please?*
MOHAMED EL KETTANI: Our experience as investors highlights some key success factors: holding majority stakes in subsidiaries in order to achieve successfully the post-acquisition transformation process; close monitoring of risks; material organization in order to share expertise and maximize synergies between subsidiaries in specific areas such as project finance, capital markets …

Moreover, the growth strategy needs to be implemented according to straightforward prioritization criteria, with a pace that needs to be consistent with the capacity of the group both in financial terms and also in terms of capacity to monitor the transformation in key sensitive areas such as IT. Cultural change is also a key and decisive issue that needs constant dialogue and adaptation among teams.

As I have previously mentioned, we are now implementing the second phase of our strategic acquisition plan dedicated to anglophone Africa. New opportunities in eastern Africa may be considered after achieving the final transformation of our Egyptian subsidiary.

CAPMARKETAFRICA: *Looking ahead, what strategic plans do you have in place to maximize profitability as well as enhance shareholders' value? And where do you see Attijariwafa bank in 10 years from now?*
MOHAMED EL KETTANI: Attijariwafa bank is implementing an ambitious long-term strategy aiming at positioning the bank as a leading, diversified and integrated banking player across Africa and Europe.

This strategy is creating a significant value to our shareholders, clients, and economies of presence through the roll-over of our successful business models (e.g.: Immigrant banking, mass-retail banking, consumer finance, SMEs and VSMEs banking, transaction banking, investment banking and capital markets, insurance and "bancassurance"…) in fast-growing and low-penetrated African banking markets.

On the other hand, our strategy in our different countries of presence is transforming our local subsidiaries into "customer-centric" banks meeting specific clients' needs and taking advantage of new digital and Big Data technologies.

Finally, the main important pillars of our strategy are developing our human capital, which is our most valuable asset and promoting Corporate and Social Responsibility to create value to our communities.

CAPMARKETAFRICA:*As the CEO of one of the Moroccan vibrant banks, what might our readers be surprised to learn about the Moroccan banking/financial sector?*
MOHAMED EL KETTANI: The Moroccan banking sector has achieved an impressive transformation over the two last decades, thanks to aggressive investment strategies in terms of branches network expansion and retail marketing that has led to banking penetration ratios at levels exceeding 60%. In the same time, the Moroccan banks have been involved in the massive infrastructure and industrial projects dynamic that has taken place in Morocco in ports, airports, highways, energy, automotive and aeronautical sectors among others, thanks to project finance and capital markets capabilities.

The expansion in Sub-Saharan Africa has also opened new development perspectives for both national and international investors, which has enhanced the status of Morocco as a major recognized African Hub.

All these developments have been achieved in a context where regulation has been constantly strengthened under the supervision of the Moroccan Central Bank (Bank Al Maghrib) in accordance with Basel / IFRS standards. Moreover, thanks to the proactive and courageous policy of Bank Al-Maghrib, the Moroccan banking sector has benefited from tremendous improvements in terms of governance, monitoring standards, and enhanced capacity in order to support and grow the economy.

CAPMARKETAFRICA: *Many recent conferences focused on Africa discuss "inclusive growth" and expanding prosperity to all Africans. How do you suggest this can be accomplished?*
MOHAMED EL KETTANI: As you know, the African population will double over the two next decades.

Every year, more than 30 million African people enter into the job market and it seems now obvious that salary jobs, whether public or private, will not be able to offer opportunities for everyone.

Of course, Africa will need to produce more salary jobs thanks to further industrialization and integration, but also, will need to promote more entrepreneurship and very small companies, by upgrading education, professional training and a more effective risk-taking culture.

As a pan-African bank, we have implemented a global strategy in several directions.

One aspect is low-income banking. Our low-income banking subsidiary, Wafacash, has massively developed its network in order to welcome new populations in the banking sector and enable them afterward to be eligible to credit.

Another aspect is to set up dedicated programs for very small companies, thanks to our Moukawalati initiative that consists of free access training programs in favour of young entrepreneurs.

I may also mention our specific scoring models that help customize financings for the small companies or our insurance programs targeting the individual entrepreneurs.

CAPMARKETAFRICA: *What obstacles must small and medium-sized enterprises (SMEs) in Africa overcome in order to gain access to long-term financing?*
MOHAMED EL KETTANI: The main obstacles may be related to transparency, debt/equity ratios, and management culture. In order to address these challenges, our branches networks and business lines are very much engaged in providing advisory and support to SMEs. In this regard, the results are encouraging, since loans grow significantly in several markets. Actually, we are convinced that economic growth and job creation can only suffer from the lack of a strong and dynamic private sector; this is the reason why governments need to sustain and accelerate key reforms in terms of institutional governance, doing business, education and professional training.

CAPMARKETAFRICA: *Disruptive social, technological, economic, environmental, political and regulatory changes are megatrends reshaping the competitive environment for banks and the markets they operate. How are you leveraging the positive impacts and mitigating against the negative influences of these megatrends, please?*
MOHAMED EL KETTANI: My personal belief is that these disrupting megatrends may be an opportunity for performing and agile organizations.

Digitalization is already transforming our banking business model, by reshaping the customer experience, « commoditizing » a wide range of basic financial services and upgrading the level of expectation of our clients.

Economic volatility is another megatrend, that may jeopardize in many cases business plans and pluriannual budgeting programs. In this environment, agile organizations will be more needed, with « cooperation centric models » based on material organizations, that help generate more resilience to external shocks.

Regulation is also a strong trend that implies constant process reengineering, comprehensive dialogue between risk/finance departments and business lines, in order to constantly adjust our commercial approach in accordance with solvency, ALM and other evolving regulatory constraints.

Finally, environmental challenges will have more and more impact on our business models and need to be addressed properly with a sense of responsibility towards the next generations. In this regard, Attijariwafa bank has been accredited by the Green Climate Fund of the United Nations - the largest fund for climate worldwide - as the first commercial bank in Africa/MENA and the 7th commercial bank worldwide during the last GCF Board held in South Korea in 26/28 February. This accreditation will enable us to channel concessional financings in favour of green projects in all our countries of presence in Africa.

Addressing simultaneously all these challenges needs more than technical skills. It requires a strong cooperation culture within the organization, an open innovation culture, and a highly motivated workforce. This is the core of our strategic transformation plans.

CAPMARKETAFRICA: *On a personal note, what do you do in your spare time, when not busy managing Attijariwafa Bank?*
MOHAMED EL KETTANI: Managing AWB is a 24/7 job because our primary responsibility - as risk sellers - is to protect our customers' deposits, and therefore make sure those risks are constantly and properly managed and controlled. However, I try whenever possible to dedicate some time for reading, walk, and family.

CAPMARKETAFRICA: *To bring the interview to an end, how would you like to be remembered?*
MOHAMED EL KETTANI: I always try to act in accordance with some key values such as hard work, humility, respect, and patriotism.

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

THE NIGERIAN BANKING SECTOR: A HELICOPTER OVERVIEW

By **Ayokunle Olubunmi,** Senior Analyst, Agusto & Co. Nigeria

The Nigerian Banking Sector has evolved to be a significant segment of the Nigerian Financial Sector with gross revenue accounting for 3.2% of the Country's GDP in 2018. Over the last decade, the Sector has remained resilient through boom and bust cycles largely driven by macroeconomic headwinds with total assets of ₦34.7 trillion ($96.4 billion). Innovatively tailoring the 'business of banking' to the operating terrain has led to strong banks with footprint in other African countries and international financial hubs (London, New York, Hong Kong, Dubai and China).

The Sector has been invaluable to the Nigerian economy, extending loans and advances to individuals and corporates. As at 31 December 2018, the Sector's gross loans stood at ₦15.3 trillion ($42.5 billion) with gross earnings of ₦4.1 trillion ($11.5 billion).

Impact of Macroeconomic Environment

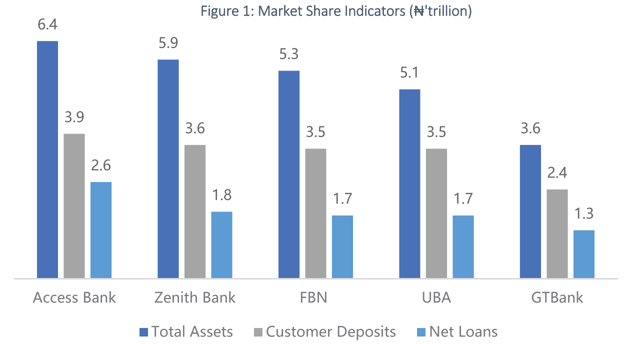
The Nigerian Banking Sector continues to be influenced by the macroeconomic environment. In 2016, with the drop in global crude oil prices – Nigeria's largest export, the country's finances deteriorated with the country going into a recession. Although Nigerian economy rebounded from recession in the second quarter of 2017, GDP growth has remained lower than population growth. Further compounded by weak consumer purchasing power alongside high unemployment rate. These factors coupled with an elevated cost of doing business for corporates have resulted in a high loan default rate. Therefore, most banks have shied away from growing risk assets, resulting in a stagnant loan book in 2018. Expanding government borrowings to fund the perpetual budget deficit provided additional revenue source for banks. Given the associated high yields, the Sector committed more funds to risk free government securities. However, most banks were forced to increase interest rates on term deposits as customers are using the high interest rates on government securities as a bargaining tool. The crash in crude oil prices also exerted pressure on the exchange rate as the external reserve plummeted. Various foreign currency demand measures were initiated despite the fact that the country imports a significant proportion of raw materials and finished goods. Consequently, the exchange rate became volatile, inflation spiked to highest levels since the consumer purchase index (CPI) was revised in 2009. Interest rates were also elevated due to aggressive government borrowing and the desire to attract portfolio investors to shore up the foreign reserves. Although oil prices have improved, the interest rates and inflation rates remain elevated (albeit with marginal decline in 2018) as more demand containment policies were introduced.

Sector Players and Five Dominant Banks

There are currently twenty-six players in the Nigerian banking sector; twenty-one commercial banks and five merchant banks.

The Nigerian Banking Sector is dominated by the top five banks namely; Access Bank Plc, Zenith Bank Plc, First Bank Nigeria Limited, United Bank for Africa Plc and Guaranty Trust Bank Plc which together accounted for 75% of the Sector's total assets, 74% of customer deposits and 63% of loans & advances respectively. Following a merger with the defunct Diamond Bank Plc, Access Bank Plc emerged the largest bank in Nigeria with total asset footing of ₦6.4 trillion as at 31 March 2019. Zenith Bank Plc is the second largest with total assets of ₦5.9 trillion while First Bank Nigeria Limited is third with total assets of ₦5.3 trillion. These banks have consistently maintained the top 5 banks position in the last six years and we do not envisage any new entry in this category in the near term. These banks are all commercial banks and hold the international license. United Bank for Africa Plc operates in 23 countries, Guaranty Trust Bank Plc in 11 countries, Zenith Bank Plc in 8 countries while Access Bank Plc and First Bank Nigeria Limited operate in 12 countries and 9 countries respectively. The top 5 banks are "strategically important" banks with strong brand equity amongst the Nigerian banking populace.

Figure 1: Market Share Indicators (₦'trillion)



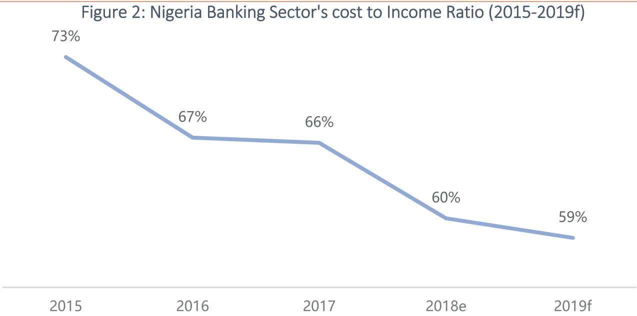
Source: Agusto & Co. Research

Non-Interest Income and Cost Management to Boost Profitability

Nigerian banks prioritise profitability and brand equity preservation for continued shareholders support. Given the challenges in the macroeconomic environment which constrained loan growth, different initiatives were adopted to improve profitability. Non-interest income grew to ₦1.1 trillion ($3.1 billion) in 2018 from ₦660 billion ($1.8 billion) in 2015. Increased investment by banks on various digital initiatives on the back of the Nigeria Payments System Vision 2020 developed by the Central Bank of Nigeria to make the country's electronic payment channels nationally utilised and internationally recognised spurred income from digital channels (electronic banking income). In 2018, electronic banking income was the largest contributor to non-interest income; representing about 36% (FY 2017: 24%) of the Sector's total non-interest income. Account maintenance fees (funds transfer/withdrawal charge) has also been a major earning source and accounted for 19% of the Sector's non-interest income in 2018. We expect electronic banking to continue to be a bright spot for the Sector with regards to its non-interest income.

Cost optimisation has taken centre stage in the Sector as a means of improving profitability. In addition to providing additional income, digitalisation is also used to optimise costs. The Sector also embraced renewables and energy conservation measures to minimise its energy costs. Some banks have begun enforcing closing time so that staff vacate the branches to conserve energy costs. Alternative power sources (such as solar and other renewables) are used to power automated teller machines (ATM) and in some cases business offices. Consequently, the Sector's cost to income ratio (operating expense to net earnings) maintained a decline to 60.3% in 2018 from 72.7% in 2015. We anticipate further improvement in the near term as other revenue enhancing and cost management initiatives are adopted.

Figure 2: Nigeria Banking Sector's cost to Income Ratio (2015-2019f)



Source: Agusto & Co. Research

Lingering Asset Quality Challenges

The Nigerian Banking Sector contends with various asset quality challenges. The impact of the 2014-2016 crude oil price crash and the associated devaluation of the naira has lingered in the Sector's loan book. While oil prices have rebounded, oil and gas companies particularly those with weak corporate governance and defective structures are yet to recover. As a result, the oil and gas obligors contributed about 40% to the Sector's impaired loans. Due to the various asset quality challenges as well as the impact of the macroeconomic environment, most banks adopted a waned appetite for loan growth as seen in a flat loan portfolio in 2018. The Sector's impaired loans to gross loans (NPL ratio) maintain an upward trajectory to 9.7% in 2018. Following significant write offs on the back of IFRS 9 induced loan loss charges and anticipated (marginal) improvement in the economy, we expect expansion of the loan book in 2019, circa 10%. While we believe the volume of impaired loan in the Sector will increase in 2019, this will be masked by growth in the loan book, resulting in a marginal improvement in NPL ratio to 9.2%.

Impact of IFRS 9 Adoption

The adoption of IFRS 9 accounting standard transformed accounting for financial instruments including loans. With the adoption, the Nigerian banking sector has recorded impairment charges of approximately ₦900 billion which was charged directly to capital in financial year end 2018. Given that net carrying amount is used as basis for computing interest income on stage three loans, banks with significant loans in this category recorded marked decline in interest income.

Overall, the impact of IFRS 9 on the Sector capitalisation was lower than anticipated. Regulatory risk reserve where additional provisions stemming from the relatively stringent prudential guidelines were hitherto warehoused, absorbed the bulk of IFRS 9 charges. In addition, banks with IFRS 9 induced charges above the regulatory risk reserve were allowed to amortise the excess over a four-year transition period. Nonetheless, most Nigerian banks have outline capital raising plans in the short to medium term largely through long term borrowings which will qualify as tier II capital given the lukewarm appetite for Nigerian equities by investors. These borrowings will provide a capital buffer vis-à-vis risk weighted assets.

SOUTH AFRICAN BANKS AMIDST
GEOPOLITICAL AND ECONOMIC UNCERTAINTIES


Costa Natsas, Banking & Capital Markets Leader, PwC Africa


Rivaan Roopnarain, Banking & Capital Markets Associate Director, PwC South Africa

Every six months we produce our SA Major Banks Analysis publication*, which aggregates the combined local currency results of Absa, FirstRand, Nedbank and Standard Bank. This article summarises the key aspects of our latest publication for the results period to 31 December 2018.

External developments
Against the backdrop of a relatively supportive global economic environment over the first half of 2018, offset by a weak South African economy in technical recession during the same period and a modest recovery over the second half, the major banks delivered resilient earnings growth and progressed many key strategic initiatives in 2018. However, banking conditions and the broader operating environment remained challenging amidst a benign local economy and a range of strategic and regulatory imperatives confronting the banks and their management teams.

Domestically, the second half of 2018 saw the South African economy recover some of the weaknesses experienced in the first half, with modest annualised GDP growth of 0.8% recorded for the year off a low base. Despite modestly increased consumer spending in the second half, household income growth remained subdued, while business and consumer confidence continued to be depressed as a consequence of, among other factors, higher fuel inflation, increased electricity and water tariffs and the effects of a higher VAT rate.

Capital expenditure on the part of corporate SA, state-owned enterprises (SOEs) and government slowed over the second half, reflecting continued policy uncertainty over a number of key issues which remain unresolved. This uncertainty was amplified as a result of significant strategic, operational and financial pressures within some SOEs, which weighed on wholesale credit appetite in key sectors.

An increasingly relevant and positive theme that we continue to observe in the major banks' results is the significant contribution from their operations in the wider African continent. Economic growth in sub-Saharan Africa came in at a resilient 2.9% in 2018, with recoveries experienced in key West African territories, including Nigeria and Cote d'Ivoire. Meanwhile, Uganda, Tanzania and Kenya recorded robust growth upwards of 5%, driven by a recovery in foreign investment and strong infrastructure spend. While inflation and currency devaluations stabilised in Angola towards the end of 2018, severe currency shortages and inflationary pressure in Zimbabwe heightened as 2018 drew to a close.

SA's major banks therefore benefitted from their broader African strategies which they have focused on and set in motion in prior periods. Another contribution to their results is their ability to leverage enabling technologies and the execution of their digital strategies which now clearly support increased transaction volumes on digital platforms. This continued digital and customer-centric focus will make competition with more nimble new entrants into the local banking market especially interesting, with the customer as beneficiary through potentially richer service offerings and more competitive pricing.

Highlights from the major banks results:
Combined headline earnings up 5.1% since 1H18 (up 8.7% on an annualised basis since FY17), combined ROE of 18.9% (18.8% in 1H18), net interest margin of 4.36% (4.36% in 1H18) and cost-to-income ratio of 56.8% (55.1% in 1H18)

- Although there were unique performances between the individual banks, on a combined basis the four major banks posted full-year headline earnings of R82.75 billion, which grew 8.7% year on year (against FY17) and 5.1% against 1H18.
- Transactional volume growth supported by a sharp focus on digital strategies and richer mobile capabilities led to non-interest revenue growth of 4.6% against 1H18 (6.3% against FY17).
- From a capital adequacy perspective, the

"*Investec and Capitec, the other major players in SA banking, are not included due to their unique business mix and different reporting periods."

major banks remain robustly capitalised, comfortably above regulatory minima across all capital tiers, while generating commendable returns. Combined ROE grew 10bps to 18.9% against 1H18 (18.6% at FY17).
- The aggregate loan book registered growth of 5.1% against 1H18 (and 13.4% against FY17).
- The major banks' continued focus on credit quality resulted in a resilient combined credit loss ratio of 0.65% and a total impairment coverage ratio of 73.5% (compared to 0.72% and 65.8% respectively at 1H18).
- Cost management remained top of the agenda of almost all bank management teams as they balanced investment with growth in 2018. In spite of this, the current period continued the theme of "negative jaws" (as total costs grew faster than operating income). At 2H18, the combined cost -to-income ratio was 56.8% (compared to 55.1% and 55.7% at 1H18 and FY17 respectively).
- Staff costs comprise the majority of overall group costs, reflecting both the inflationary environment that persisted in 2018 as well as the demand for critical talent in response to increasing specialisation in the areas of risk, compliance and IT.

Stakeholder expectations

2018 saw the first full reporting period under IFRS 9 and IFRS 15 accounting changes for which the major banks deployed large change programmes of work leading up to their implementation. While IFRS 15 had implications on, for example, loyalty programme costs now being reported as a reduction in non-interest revenue (as opposed to being expensed), the overall impact of the standard on the banks' combined results was more muted. In contrast, the implementation of IFRS 9 not only increased balance sheet impairments during the period, but also had noticeable impacts on the net interest margin and impairment charge disclosures. We anticipate IFRS 9 impairment models to continue to be refined in areas such as the determination of write-off periods, application of forward-looking macro-economic modelling methodologies and in the accumulation and refinement of data in certain portfolios.

In December 2018, National Treasury released the draft Conduct of Financial Institutions (COFI) Bill, with expectations for it to be signed into law before the end of 2019. Following the establishment of a Twin Peaks regulatory architecture in South Africa in recent years – giving rise to separate market conduct and prudential regulators across the financial services industry – COFI takes a step towards conduct reform in financial services and sets out how entities must act, through a focus on outcomes provided to customers. COFI seeks to replace the conduct provisions of most existing financial sector laws in an effort to streamline the market conduct framework for all financial institutions. As the banks reflect on the provisions of the Bill, we expect that its effect will cause industry players to think differently about compliance in a way that puts customer outcomes at the centre of their thinking.

We also observe the major banks focusing on forthcoming prudential reforms and initiating programmes to critically analyse the package of regulation issued by the Basel Committee on Banking Supervision in December 2017 – collectively referred to as 'Basel IV' by the industry. While the aggregate impact of Basel IV on individual banks will be unique, we expect these changes, which will start to take effect between 2019 and 2022, to require large programmes of work to analyse effects on banks' risk-weighted assets and the downstream implications on capital demand, product pricing, data, systems infrastructure and, potentially, overall bank strategy.

In the case of both conduct and prudential reforms, recent regulatory change programmes have shown that these changes have long lead times, and projects invariably have unforeseen tail risks. It will simply not be enough for banks to anecdotally conclude that they have the resources or capacity to absorb these changes as business-as-usual. Leading banks will be those who reach their conclusions on the basis of rigorous impact analyses, independent validations and robust checks and challenges.

Internal responses

South Africa's retail banking landscape is undergoing a process of unprecedented change driven by the disruptive impact of fintech challengers and the emerging technologies powering their business models.

Overall, as we expected in prior periods, the major banks diversification strategies across franchises, regions and portfolios has been central to their ability to achieve growth against difficult trading conditions. At the same time we expect the banks to be acutely focused on the continued evolution of their strategies in the context of heightened competition and the exciting digital journeys they are on - all of which focus on putting the customer at the heart of their business models.

The deep and rapid impact that technological progress is set to have on the global banking industry cannot be understated. Globally and domestically, banks are becoming more strategically focused and technologically advanced to respond to customer expectations while deploying defensive strategies to protect market share against traditional competitors and new entrants.

As such, the importance of product and channel innovation and developing new solutions that take advantage of this progress – in data, advanced analytics, digital and new delivery platforms – has never been more important.

Key trends expected to see the major banks continue to focus on in 2019 include:

- Highly customised experiences for more granular sub-sets of customers based on common characteristics that leverage data-driven insights (for example common spend characteristics).
- A greater number of global regulators are embracing efforts towards "Open Banking" – which implies the ability to securely share data with third parties based on customer consent – through democratising account and payment data through secure application programming interfaces (APIs). As this happens, customers stand to have greater freedom and control in how they interact with their financial service providers, leading to even greater innovation from non- traditional players and increased personalisation.
- This is arguably one of the most compelling prospects on the horizon as banks seek to leverage their skills, resources and trusted social status to strategically respond to this new competitive environment. As The Banker described in an opinion[1] earlier this year, "With the arrival of open banking and the challenge of fintechs, banks need to up their game. Welcome to the idea of the self-driving bank account that uses artificial intelligence (AI) to predict when and in what format a customer will need funds; that takes care of routine financial transactions; that finds interest-earning opportunities for cash balances left idle for even the shortest time; and that adjusts loan rates to changing circumstances. In some scenarios, the self-driving account starts listening and talking, advising on investment opportunities, the cheapest airline seats, the best supermarket deals and so on."
- These changes are not limited in their impact to retail banking. For corporate clients, it might be using bank data to provide proactive insights to support strategic planning, or cash flow analysis that feeds into working capital and broader treasury management solutions.
- Beyond cost discipline, we expect to see relentless focus on optimising operational efficiencies within banks, as they continue to rationalise their IT architectures, standardise and simplify core banking operations and reduce operational complexity. Advancements in robotic process automation will have an increasing role to play on the process optimisation imperative.
- Meanwhile, a strong focus on further strengthening cyber risk monitoring and mitigation capabilities are likely to persist in 2019, as banks face a growing volume and sophistication of cyber threats against their systems and data.

The findings of PwC's 22nd Annual Global CEO Survey[2] released in January highlights a number of key developments relating to banks' strategic and digital transformations. In particular, nearly 80% of the 235 banking and capital markets CEOs who participated in the survey see skills shortages as a threat to their growth prospects (35% are 'extremely concerned' and 44% are 'somewhat concerned'). Most believe that this skills gap is undermining their organisations' ability to innovate effectively and provide a winning customer experience, prompting them to question: How do we put people back at the heart of a successful enterprise transformation?

It is clear from the results of the survey that there is a strong awareness that it is people – not systems – that drive innovation and help realise its full commercial potential. Consequently, we believe that it's important for banks to progress a mature conversation within their organisations that deals

1 https://www.thebanker.com/Comment-Profiles/Editor-s-Blog/Will-self-driving-accounts-crash-and-burn
2 https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2019/gx.html

frankly with how they are going to operate in the digital era, what roles might come under threat and how automation can augment rather than eliminate people's work.

Ultimately, leading banks will be those who harness technological and digital change to better anticipate and manage emerging risks within a rapidly evolving risk landscape.

"Banking conditions and the broader operating environment remained challenging amidst a benign local economy and a range of strategic and regulatory imperatives confronting the banks and their management teams."

Competitive landscape

2019, in South African banking, may be heralded as the 'year of the customer': a year in which the industry anticipates the launch of three retail banking operations – TymeDigital, Discovery Bank and Bank Zero – following the granting of new banking licenses (a mutual banking licence in the case of Bank Zero) after more than a decade. At the same time, other major players including African Bank, SASFIN and Bidvest Bank have also recently highlighted their intent to focus on broader retail transactional banking offerings.

In the business and corporate banking sectors, Capitec closed out 2018 with its deal to acquire a majority stake in Mercantile Bank, while Investec outlined ambitions to reinvigorate its corporate banking offering. Across the retail and wholesale banking sectors, the customer is poised to benefit from greater choice and increased competition in the domestic banking market.

The South African customer, both banked and unbanked, across the LSM scale, and clients spanning households, small businesses and corporates, are expected to be targeted through the business model and strategic choices which these new entrants intend to focus on.

While the unique customer segments they target – at least initially – will be varied, the common characteristic that they all share is a distinct and laser-sharp focus on being truly 'digital' in their product and channel innovation strategies.

This change in landscape will hopefully provide customers with easier access to digital banking, greater choice in choosing preferred providers and ultimately greater value – which could take the form of greater and different types of rewards, more competitive pricing and holistic financial services offerings.

Contributor's Profile

Costa Natsas is a chartered accountant by background. He has been a partner for 10 years and is the Banking and Capital Markets Industry Leader for PwC in South Africa and Africa. He has broad Financial Services audit and consulting experience in the South African market and abroad. Costa is a member of the Global Financial Services Risk and Regulatory and Banking and Capital Markets executive teams. He is the Deputy Chairman of the model matters South African Institute of Chartered Accountants group that provides guidance to the industry in South Africa.

He regularly provides consulting services in the areas of risk and regulation across the African market. His skills are often used in due diligence assignments on the continent. He currently serves as the audit partner on 2 listed banks in South Africa.

Rivaan Roopnarain is an Associate Director in PwC's Banking & Capital Markets Assurance practice and has technical subject matter expertise across a range of areas spanning external audit, enterprise risk management, internal controls, financial reporting (IFRS), prudential regulation and risk and regulatory reporting.

Rivaan was seconded to PwC UK's Financial Services Risk and Regulation Practice in London during 2016/17, where he focused on prudential regulatory and risk management consulting – across both enterprise risk management and individual risk types (predominantly credit and counterparty credit risk). Since returning from secondment, his current role within PwC SA's Banking & Capital Markets practice spans complementary experience deployed across external audit, risk and regulatory consulting.

UGANDAN BANKING SECTOR: EMERGING TRENDS AND OPPORTUNITIES

By **Patricia Amito,** Head Communications & Corporate Affairs, Uganda Bankers Association

2018 review of Ugandan banking sector

In 2018, Uganda's banking sector 2018 witnessed good credit growth supported by a steady decline in the ratio of non-performing loans to total gross loans of 3.4 percent in December 2018 compared to 5.6 percent in the prior year. Credit growth was further supported by a decline in lending interests which dropped to an average of 19.9 percent in 2018 compared to the 21.3 percent average registered in 2017. The number of accounts in commercial banks increased from 7.4 million in June 2017 to 12.1 million in December 2018. Although this represents a decent growth, it is low considering Uganda's population of nearly 40 million people and only half the number of mobile phone accounts which is estimated to be over 23 million. Year-end loan balances were recorded at UGX 12.7 trillion as at December 2018 compared to UGX 11.3 trillion the same time in 2017. Deposits were reported at UGX 19.6 trillion in December 2018 compared to the 18.2 reported in 2017. Total Industry Assets grew to UGX 28.1 trillion as against the UGX 26.6 trillion reported in 2017.

On the downside, the cost to income ratio remained high at an average of 68 percent with several banks above 73 percent. Total profit after tax dropped to UGX 751 billion compared to UGX 762 billion reported in 2017 with five out of twenty-four banks reporting losses. Overall the banking sector's profitability ratios dropped while the average return on equity (ROE) and return on assets (ROA) improved from 16 percent to 14.7 percent and from 2.7 percent to 2.5 percent respectively.

Emerging Trends and Opportunities in Uganda Banking Space

Developments in the Payments Space

The payments space is evolving from the use of paper notes, and cheques among others to digital or e-payments with customers increasingly demanding for 24/7 secure and integrate payments experience with control in their hands.

The fast pace and developments in the payment's arena have seen the emergence of several players including Fintech, Telecoms aggregators and cybersecurity actors among others. Financial Institutions are collaborating with Fintech and Telecom aggregators in the delivery of cost-effective financial services to their clients and customers continue to benefit from lower opportunity cost while transacting.

In light of these developments and as part of its strategy to regulate this space, the Central Bank of Uganda drafted a National Payments Policy to streamline regulation on digital payments and to provide for safety and efficiency of the payment system. Once this bill is passed into law, it will provide for a more modern, efficient and flexible payment system for players in the financial services and the general public.

Agent Banking

Technology continues to transform the sector due to its potential to bring down costs while delivering convenience for the customer.

The sector is witnessing expanded points of presence through Agent Banking with 8805 approved. Of these, 6584 are active agents with monthly value transactions of 738 billion.
In April 2018, as part of the efforts to reduce costs of doing business, Uganda Bankers Association launched the Shared Agent Banking system (SABs) which to date has enabled access to a total number of 5200 agents compare to just under 600 branches in 2017. The Shared Agent Banking System enables Agents of one bank to serve customers of another bank. This is a good opportunity for banks to collaborate which is a critical component under the National Financial Inclusion strategy 2017-2022 pillar number (i) that focuses on reducing financial exclusion and barriers to access of financial services.

With the Shared Agent Banking System, customers don't have to access the traditional banking halls to transact and banks do not have to set up branches to serve customers. Through SABs customers can deposit cash, withdraw cash, pay bills, schools fees and money transfers at their convenience. Such Initiatives that involve shared technology platforms will help bring down the costs of delivering financial services while increasing outreach /footprint/presence.

Furthermore, regarding driving operational efficiencies for cost saving, financial institutions continue to explore possibilities of minimizing duplication/rationalization of common/shared service channels like ATMs, Agent points, cash management services, data centers among others. UBA is working with BOU to finalize & deliver connectivity & interface to NIRA database for re-registration of all existing customers using national I.D and E-KYC authentication to support the new individual accounting opening process.

The above provides good opportunities to promote financial inclusion as an industry. Positioning agent banking and all its related technology, products therein as the wider sector financial inclusion initiatives and channels.

Alternative Dispute Resolution Framework

In 2018, a private sector-led Alternative Dispute Resolution and Arbitration framework were unveiled during a banking and law symposium that was organized by Uganda Bankers Association and Uganda Law Society.

This initiative seeks to address the challenge of case backlogs that have greatly affected the banking sector. 730 Billion is tied up in court cases and process. This staggering amount of capital sitting on the banks' collective balance sheets is paralyzed and inaccessible to the wider economy. In April 2019, the International Center for Arbitration and Mediation Kampala (ICAMEK) was officially launched in Kampala and will complement existing arbitral bodies as well as supplement the efforts of the formal judicial system has taken to reduce case backlog and promote access to justice.

In 2018, UBA also embarked on consolidation of the Asset Reconstruction Company (ARC). With support from the World Bank & IFC, a capacity building training for Bank Heads of Credit and Legal as well as the Assets Reconstruction Company (ARC) Team. This session focused on the management of stressed portfolios, other insights on the management of Asset Management Companies. UBA is currently working on having operational guidelines and regulations finalized and bringing onboard institutional investors to ARC to assist banks in the management of toxic debt restructure /reconstruct /reinvestment to turnaround companies under stress.

Contributor's Profile

PATRICIA AMITO is the Head of the Communications and Corporate Affairs at Uganda Bankers Association (UBA), where she is providing strategic leadership in the areas of stakeholder engagement and management and ensuring implementation of strategic communication initiatives that support the UBA mandate.

Patricia is also the Communications Manager at the Agent Banking Company of Uganda, providing technical support to the development and execution of the Agent Banking Communication strategy, coordinating stakeholder interests, management and documentation of progress in implementation of the project and driving awareness of the service among the public.

Patricia has extensive working history in the banking sector and experience working in other sectors such as Nonprofit Organizations, supporting diverse communication initiatives, project management, and partnership management.

She holds a master's degree in Business Administration and Management from ESAMI and a Bachelor of Science degree in Quantitative Economics from Makerere University.

SBM GROUP'S STRATEGY

REBUILDING CROSS-BORDER AND SOLIDIFYING MAURITIUS BUSINESSES

ANDREW BAINBRIDGE, GROUP CHIEF EXECUTIVE OFFICER, SBM HOLDINGS LTD MAURITIUS

CAPMARKETAFRICA: *Thanks for granting this interview. Please, could you tell our readers more about your background, what motivated your choice of career path and what life experiences have influenced your leadership style?*

ANDREW BAINBRIDGE: I am originally from the UK and entered banking in the UK in the late 1980s. I had studied law at University but decided that it was not for me. I joined Barclays as a management trainee and worked in many different areas before becoming the CFO of the Africa business in the late 1990s. I fell in love with the excitement and the ability to make a difference in emerging markets and worked as the MD for Sub-Saharan Africa and the COO for Emerging Markets for Barclays. I subsequently worked for Standard Chartered as the Chief Risk Officer for the Western Hemisphere and then as the Global Head of the Commercial Clients business.

I am incredibly lucky to have done some great roles in fascinating places. I did not start out with a clear career plan or a burning ambition, but with a desire to make a difference and to do interesting things. I have not been disappointed by this path!

Two small events really stick in my mind from my early career. I once asked a former manager of mine, after I had stopped working with him, to mentor me. His immediate reply was that he would be happy to do so but that I must commit to doing the same for others in the future. The second one is about another former manager of mine, who, when I was complaining about something, turned to me and said, "Andy, no one comes to work to do a bad job!". It is a phrase that has stuck with me ever since and have learned from both of these events helps me to temper my natural impatience by asking myself what I can do to help others around me to do a better job.

CAPMARKETAFRICA: *Now, let's talk about SBM Group's performance. The 12 months of 2018 saw some strong growth figures, compared with the same period in 2017.*

What are the main factors that you can attribute this growth to, please? And how well positioned would you say SBM Group is to maintain such growth rates going forward, please?

ANDREW BAINBRIDGE: Obviously, our figures in 2018 reflected the growth of prior years in our cross-border business, as well as our newly acquired business in Kenya, and the benefit of the carved-out assets and liabilities taken over from Chase Bank Limited (in Receivership). We have spent some time in 2018 rebuilding our cross-border business to give it stronger foundations and, after pausing growth in the second half of 2018 in this business, we are expecting growth to resume, although at lower rates than 2016-18. We still see good growth opportunities domestically in Mauritius as well.

We expect the group to carry on growing strongly, albeit at lower rates than 20%+ per annum. This reflects the fact that we are building a strong business in Kenya and a proper full-service bank in India, having become the first foreign-owned Wholly Owned Subsidiary in India last year. Combined with our Indian Ocean franchise of Mauritius, where we are one of the leading franchises in the market, Madagascar and, with effect from Q3, Seychelles, this gives us an excellent network to leverage, serving clients across the India – Africa corridor and around the Indian Ocean rim.

CAPMARKETAFRICA: *Arguably, the geographical expansion strategies of African banking groups have recorded limited success - some pioneers are now partly backtracking. What is the SBM Group pan-African banking strategy, please? And are there in any current/future expansion to or exist from any African countries, please?*

ANDREW BAINBRIDGE: As you said, we have seen banking groups establish presences across Africa, only to withdraw from many places a few years later. Our strategy is not to be a pan-African banking group, but to develop our presence and capabilities in selected markets where we believe that we are advantaged and can help our clients to develop. We like the growth potential of the Indian Ocean rim and the forecast growth in trade across this region. Being positioned as a leading bank in Mauritius, with a bank in India and a bank in Kenya, enables us to help clients looking to invest into Africa and India via Mauritius or to trade along the Mauritius - India, India – Kenya and Kenya – Mauritius corridors.

We only acquired and integrated the Kenyan business last year but already see the evidence that supports the good potential that we saw in the market. Similarly, we converted our branches in India into the first foreign-owned Wholly Owned Subsidiary last year and see clear potential in the market through a focus on affluent customers and commercial businesses.

As we prove that our strategy works and we start to build some scale and depth in our operations, we will look at further geographic expansion, but within the ambit of our strategy and only as our existing operations start to demonstrate resilience and profitability. We do want to expand our presence in Africa, but in a measured way in selected geographies where we believe that we can accompany and help our clients to grow and succeed.

CAPMARKETAFRICA: *Looking ahead, what strategic plans do you have in place to maximise profitability as well as enhance shareholders' value? And where do you see SBM Group in five years from now, please?*

ANDREW BAINBRIDGE: Again, our strategy is relatively simple. We have selected geographies that we believe are positioned well for growth as domestic economies and in terms of trade and investment with and through each other. Within this footprint, facilitating the flow of trade and investment for our clients is a key aim. By serving clients with their working capital, transactional and savings requirements across our footprint, we can also provide their investment financing needs, either domestically or via our cross-border banking business in Mauritius. Our aim is to enable our clients to access all of their needs through a 'one-stop' shop with us.

Coupled with traditional commercial banking capabilities, we also offer full DCM, ECM and trading and advisory services through our Capital Markets arm, with SBM Securities Ltd recently awarded the prize of Best Stockbroker Indian Ocean by Capital Finance International for the second consecutive year.

Combining these capabilities with a single brand and culture should help to power a strong regional bank over the coming years, capable of helping its clients to grow, helping economies to grow, creating jobs and changing lives.

CAPMARKETAFRICA: *In general, what is your outlook for the Mauritius banking sector - key challenges and opportunities as well as suggestions needed to improve Mauritius banking sector, please?*

ANDREW BAINBRIDGE: The Mauritian banking sector is stable with a low unbanked rate and well regulated, although we all suffer from excess liquidity at the present time! The sector is growing on the back of a professional and well-trained workforce across the professions, developing Mauritius as an international financial centre with one foot in Africa and one foot in Asia. The Mauritian challenge will be to continue to invest in training and developing its people, maintaining the strength of the institutions in the country and building the reciprocal business flows with many African nations. Another challenge is that the sector will also need to adapt and move quickly towards digitalisation in line with changing needs and lifestyle of its customers.

CAPMARKETAFRICA: *On the regulatory front, in your view, should African banks be required to comply with Basel capital standards, or should they develop an alternative approach that is better suited to the context of African banking sectors? Particularly, what are the challenges of applying the Basel III regulations in Mauritius, please?*

ANDREW BAINBRIDGE: Having lived and worked in many different locations over the last 30 years, I really find standardisation to be valuable. If African banks comply with international standards, it enables people to have confidence in the figures that they see and to compare them with other banks from other emerging and developed markets. In my view, local variations just make it harder for external investors to make appropriate assessments and that lack of transparency deters foreign investors.

CAPMARKETAFRICA: *Still on regulation, what are the challenges and impacts of shifting to the ninth International Financial Reporting Standard (IFRS 9) on the banking industry in Mauritius, please?*

ANDREW BAINBRIDGE: The biggest challenges have been making and automating the changes and explaining to smaller investors what the changes mean and why they have had an impact. As IFRS 9 is an attempt to be much more forward-looking, it has required the use of significant judgment by the Finance team and by our Auditors and is also, we believe, more likely to introduce future volatility into results. Going forward, it will require further recalibration as we gain greater experience of using it, but the vast majority of the work has been done and done successfully

CAPMARKETAFRICA: *Impact investing and ESG investment are becoming popular globally. Do you feel that your bank is currently doing enough, minimize its environmental impact? And, do you have much presence in these areas?*

ANDREW BAINBRIDGE: As an organisation, we are pleased with the efforts we are making on sustainability and we monitor this and report on it through our Annual Report. We are excited to have been introduced into the SEMSI (Stock Exchange of Mauritius Sustainability Index) with effect from January 2019 and see this as good recognition of our efforts and achievements. However, we recognise that sustainability is not about being satisfied with where you are but is about being constantly dissatisfied that you have not done more. That is the mindset that we want our organisation to have on this subject.

We are not as big in the impact investing or ESG areas with our clients as we want to become. As a predominantly Commercial Bank, we need to develop further in these areas as our product set and capabilities broaden out. I personally think that these are huge areas of growth for investors and for financial services providers, where a desire to achieve an appropriate blend of results and to achieve a set of results only by adhering to the right standards appeals hugely to me as an individual.

CAPMARKETAFRICA: *Disruptive social, technological, economic, environmental, political and regulatory changes are megatrends reshaping the competitive environment for banks and the markets they operate. How are you leveraging the positive impacts and mitigating against the negative influences of these megatrends, please?*

ANDREW BAINBRIDGE: We see the birth of the African Continental Free Trade Area as a significant change, which our strategy and footprint position us well to assist our clients to succeed in. Similarly, the growth in trade between Asia and Africa, and the growth in investment into Africa are two other major factors that we are well positioned for. Our sustainability credentials are good and position us well in terms of those looking to invest in indices and companies that are seeking to do things better, whilst we recognise the threat and opportunity of digitisation and are working on this. Last year, we brought Alipay to Mauritius, recognising the scale of this in China.

I think that it is hard to mitigate against the negative influences of many of these trends other than by seeking to find a way to leverage the trend and help others to do better for themselves and for others. I strongly believe that shared prosperity achieved in a sustainable way is the only way that we can really afford to work to build the future.

CAPMARKETAFRICA: *How robust are the bank's defences against cybercrime? Is this something the bank seeks to monitor and/or upgrade on an ongoing basis?*

ANDREW BAINBRIDGE: We suffered from a cybercrime against us in India last year. The residual loss was manageable, but it really brought home the risk that banks run these days. We had already worked on upgrading systems in other locations prior to the attack in India and would have completed India itself a month after the attack. Since then, we have revisited all of our standards and controls and raised them to a new level. Even so, I think any Bank CEO who does not worry about cybercrime and IT security on an ongoing basis, is failing to understand the risks inherent to modern banking.

CAPMARKETAFRICA: *On a personal note, what do you do in your spare time, when not busy managing SBM Group, please?*

ANDREW BAINBRIDGE: I am the Non-Executive Chair of the Private Infrastructure Development Group (PIDG), which is a group of companies involved in the development and financing of pro-poor infrastructure. PIDG is backed by 6 Governments and the IFC and includes GuarantCo and the Emerging Africa Infrastructure Fund as two of its companies. With nearly USD3bn of commitments from our owners, we have helped to create over 240,000 jobs and provide access to new or improved infrastructure to over 240M people over the last 17 years. PIDG is something that I am very proud to be associated with.

When not busy with SBM or PIDG, I like to spend time with my family, read and watch rugby. Equally, these are not necessarily mutually exclusive, either!

CAPMARKETAFRICA: *To bring the interview to an end, how would you like to be remembered, please?*

ANDREW BAINBRIDGE: As someone who tried to make a difference to those least able to help themselves.

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

NIGERIAN BANKING REFORM: RECENT ACTIONS AND FUTURE PROSPECTS


Jennifer Douglas, Partner, Miyetti Law Firm Nigeria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BACKDROP

The first recorded attempts at banking reforms in Nigeria covered the period between 1952 and I985. The reforms are documented in the Central Bank of Nigeria's (CBN) 2011 white paper, Banking Sector Re-forms in Nigeria.[1] According to the paper, the reforms were characterised by government intervention and ownership of banks. Subsequent efforts since then have been aimed at divesting government stakes, liberalising the sector, imposing protective restrictions on financial institutions, controlling credit and lending quality and preserving the stability of the sector.

The most recent and deliberate banking reforms date back to 2008. The measures were a response to the domestic banking crisis of that year. In a 2012 lecture[2] delivered at the University of Warwick's Annual Economic Summit, the Former Central Bank Governor, Lamido Sanusi highlighted the banking sector's role in financial intermediation and his vision for Nigerian banks "to be among global players in the inter-national financial markets" as the motivation for the reform.

Current reforms are aimed at addressing inadequacies with corporate governance, lack of investor and consumer sophistication, critical gaps in the compliance and regulatory frameworks, amongst others. The measures were aptly documented in and adopted from a blueprint titled "The Project Alpha Initiative", drafted by the CBN.[3]

Further to the above, the Assets Management Corporation of Nigeria (AMCON) was established in 2010 by its enacting legislation. As an extension of the CBN, it was legally mandated with the acquisition of eli-gible banks assets (EBAs) from eligible financial institutions. They were charged with holding, managing and disposing of the EBAs in line with the provisions of its enacting legislation. Essentially, its job is to ab-sorb Non-Performing Loans from the banks' books and the broader financial system.

Despite its many operational challenges, the CBN (via AMCON) was successful in achieving two major ob-jectives:

1. Providing a capital buffer (ideally as last resort) and respite to the banks. A number of critics argue this advantage was only temporary in the context of recent events i.e. the effective take-over of Skye Bank (now Polaris) by the CBN and governance challenges at Diamond Bank that pre-dated its eventual merger with Access Bank.

2. Enabling business lending. The CBN was equally successful in unclogging the plumbing for the flow of liquidity and credit to the broader economy. With its purchase of EBAs, banks could focus on their core business of lending and supporting industry and economic growth.

Beyond these efforts, there have been no recent attempts at deliberate banking reforms by the CBN. The CBN also hasn't announced any broad plans to overhaul the sector. On their part, a number of banks have continued to deleverage and taper their exposure to the Oil & Gas (O & G) sector in the wake of falling oil prices, the accompanying recession and devalued currency. A few other banks with stronger balance sheets are extending financing to the O & G sector only with extreme caution.

The banking sector has, however, continued to witness a number of regulator-led initiatives aimed at en-suring financial sector stability and institutional solvency. A few of the current guidelines are highlighted below.

Guidelines on Stress testing for Nigerian Banks

The CBN recently issued its Guidelines on Stress Testing for Nigerian Banks[4] and they immediately took effect on their issue date. The issuance and subsequent implementation are in line with global best prac-tices for banking and are aimed at steering the banks towards robust risk management and capital ade-quacy frameworks. It is reflective of their individual risk profiles and also consistent with the Pillar 2 ex-pectations of the Basel Capital Framework.

The guidelines are timely, considering the provisions they make for banking institutions with significant exposure to the oil & gas industry. They advise management teams to address the impact of shocks in the oil and gas industry and a broader economic slump on their loan portfolios. Other timely macroeconomic risks that banks are encouraged to take into account include; the current security challenges and geopolit-ical tensions. Under the guidelines, banks are tasked with integrating test outcomes into their Internal Capital Adequacy Assessment Process ("ICAAP").

A brief description of salient guidance notes contained in the guidelines are provided below:

Guidelines on Stress Testing Procedures

Banks are expected by the regulator, to have documented procedures to undertake, review and where applicable, react to the results of rigorous, forward-looking stress testing that identifies possible events or cyclical changes in market conditions. This could affect earnings, liquidity or asset values.[5] The CBN ad-vises on periodic assessments on the impact of banks' exposure to specific events or lockstep move-ments of economic/financial variables under adverse scenarios. The selected scenarios should be plausi-ble but present a serious challenge to profitability and capital adequacy.

Risk specific and dynamic scenarios testing

The CBN recommends bank management to undertake risk specific and dynamic scenario testing.[6] This testing should be aimed at estimating the impact of a combination of factors at different stages in the business cycle. This results in the bank's ability to meet its regulatory capital requirement on a consistent and sustainable basis.

The CBN equally recognises that the availability of reliable data from past periods of stress might be an impediment to robust scenario testing. In response, it advocates 'inherent conservatism' and extrapola-tions to address any uncertainties from data limitation.

Major goals of Stress Testing

The CBN identifies two major goals[7] of stress testing:

1. Evaluation of the bank's capacity to absorb possible losses and

2. Identification of steps to mitigate economic risk and conserve capital.

They also challenge the banks to leverage the process to foster debate and provide an environment for credible challenge of key assumptions.

Management Actions

The guidelines suggest a few corrective steps that can be taken by management in managing risks and vulnerabilities revealed in stress testing.[8]

1. Senior Management Teams and Boards are charged with giving proper consideration to the implica-tions of the test results.

2. They are also charged with formulating appropriate responses where the test results fall outside the bank's risk tolerance.

3. Suggested responses include secondary capital issues, dividend restrictions, revision of other limits impacting capital, amongst others.

IFRS 9 Implementation for other Financial Institutions (OFIS)

The Banks and Other Financial Institutions Act (BOFIA) defines 'other financial institutions' as any individ-uals, bodies, associations or group of persons other than the banks licensed under this Act which carry on the business of a discount house finance company and brokerage. Its primary business would be factor-ing, project financing, equipment leasing, fund administration, amongst others.[9]

Institutions covered under the definition include:

1. Primary Mortgage Banks
2. Micro Finance Banks
3. Mortgage Refinancing Companies
4. Development Finance Institutions
5. Bureau De Change
6. Finance Companies

In a circular to OFIS on March 5 2019,[10] the CBN issued a guidance note on the implementation of IFRS 9 (Financial Instruments). Primarily, the circular highlights the new reporting guidelines prescribed by IFRS 9 for the classification and measurement of financial assets and liabilities. The guidelines also make changes to the methodology for measuring impairment of loans.

It is important to note that under the new IFRS 9 regime, the CBN has mandated affected institutions to submit their IFRS implementation plans to its Other Financial Institutions Supervision Unit not later than June 30, 2019. Important areas to be covered under the plans include Project Governance, IFRS 9 Gap Analysis and Impact Assessment, Expected Credit Loss Model, and Classification of Financial Assets & Lia-bilities.

Other Areas of Commitment and Action

The CBN has published Codes of Corporate Governance for OFIS in its effort to strengthen governance practices.[11] They are aimed at ensuring the highest ethical conduct and providing minimum acceptable governance standards.

The codes are bespoke to each of the institutions covered under the definition of OFIS. However, they all address similar issues and concerns bordering on board and management operations, shareholder rights and functions, disclosure & transparency rules, risk management, ethics and professionalism, conflicts of interest, and sanctions.

To strengthen business lending and promote alternative platforms, the CBN is developing a Collateral Management Regime (CMR) designed specifically for fintech firms in the country.[12] The CBN has noted that the CMR is being developed in line with on-going efforts to develve a robust collateral management regime, proportionate to the transactional level of participants within the payment system.

Trends and Considerations for the Future

Future economic downturns will present a dilemma for the CBN. Essentially, policy-makers will be torn between prioritising aggressive lending to reviving the business cycle and enforcing capital preservation and balance sheet health. The latter is typically accompanied with contraction in business lending.

The emergence of Fintech is rapidly disrupting traditional banking and legacy infrastructure in Nigeria. Business models that belonged exclusively to traditional banks have effectively been hijacked by fintech companies. These companies have challenged banking orthodoxy and provided the same services albeit with innovation around service delivery.

The pace of the emergence of these fintech companies has equally been tremendous. Data from the Ni-gerian Bureau of Statistics (NBS) has revealed that transaction volume on payment platforms hit an all-time record of N86.1 trillion in 2017. This figure represents a 32% increase from the 2016 transaction figure of N65.1 trillion.

Their emergence presents a new challenge for regulators and banking institutions alike as the latter will be tasked with navigating a disrupted landscape and the former responds with new policy and regulation for a rapidly emerging sector.

1 Central Bank of Nigeria, Understanding Monetary Policy Series No 7: Banking Sector Reforms in Nigeria (Central Bank of Nigeria 2011).
2 Sanusi Lamido Sanusi, 'Banking Reform and its Impact on the Nigerian Economy' (University of War-wick's Economic Summit, Warwick, February 2012).
3 Annual Report and Statement of Account, pt 1(31 December 2009)..
4 Central Bank of Nigeria, 'Guideline on Stress Testing for the Nigerian Banks' (Central Bank of Nigeria 2019).
5 ibid.
6 ibid.
7 ibid.
8 ibid.
9 Banks and Other Financial Institutions Act (BOFIA), Cap B3, Laws of the Federation of Nigeria 2004.
10 Central Bank of Nigeria, 'Guidance Note to Other Financial Institutions on the Implementation of IFRS 9 (Financial Instruments) in Nigeria' (Central Bank of Nigeria 2019).
11 Central Bank of Nigeria, 'Exposure Draft of the Codes of Corporate Governance for Other Financial In-stitutions in Nigeria' (Central Bank of Nigeria 2017).
12 'CBN to Establish Collateral Management Regime to Regulate Fintech' Thisday (Lagos, 2 May 2019) <https://www.thisdaylive.com/index.php/2019/05/02/cbn-to-establish-collateral-management-regime-to-regulate-fintech/> accessed May 13 2019.

CRDB BANK INTENTS

TO LEVERAGE TECHNOLOGY, OPTIMISE REVENUE AND BOLSTER INVESTOR CONFIDENCE

ABDULMAJID MUSSA NSEKELA, CHIEF EXECUTIVE OFFICER, CRDB BANK TANZANIA

CAPMARKETAFRICA: *Thanks for granting this interview. Please, could you tell our readers more about your background, what motivated your choice of career path and what life experiences have influenced your leadership style?*

ABDULMAJID NSEKELA: Well, thank you too for the opportunity. I am a career banker, with more than 21 years of industry experience and a passion for banking. I have worked in various capacities in Tanzania's top Banks – started with CRDB Bank Plc in 1997 and then moved to NMB Bank Plc in 2008 and now back CRDB Bank Plc in 2018 as CEO. Literally, I have spent my entire career life in banking.

I chose Banking because I have a passion to serve. I believe that Banking, unlike many other professions requires a special skill in service, because it requires a lot of listening, understanding and making decisions that are not only balanced but also calculated. This for me is what has inspired my general approach to solving problems. Often, a customer walks into a bank looking for solutions that address their financial need and they expect you as a bank officer to solve their problem, almost instantaneously. It takes a lot of patience and an inherent desire to serve to solve the many financial problems in our economy. This is my driving force.

Growing up in rural Tanzania and gaining exposure, both my academic and career life, I have learned a lot of lessons from successful leaders, mentors as well as real-life experiences, including failures, losses, wins, and success; that leadership is a quality that must be molded. I believe leadership has a correlation with opportunity and opportunity has a direct relation- ship with preparation. In most cases, education prepares us for the opportunities that life presents to us; but it takes commitment, discipline, and dexterity to gain leadership. But leadership, as a responsibility, requires more virtues, most important of which is understanding. This is the reason why I believe that leadership is humane and as a leader, it is important to give everyone under your guidance, an opportunity to grow, excel, learn and lead, among other things.

CAPMARKETAFRICA: *Very interesting. Now, let's talk about CRDB Bank Group, 2018 saw some startlingly big numbers being posted, such as 78 percent growth in profit before tax, and about 8 percent growth in the net income. What are the fundamentals behind these headline numbers, please?*

ABDULMAJID NSEKELA: As a business, we have made a deliberate decision to optimize our service delivery by enhancing operational efficiency. This is what has unlocked the Bank's potential, because it has ironed out the shortfalls and loopholes that had, with time, become costly to the business.

The optimization involves deploying a more reliable technology and improving our core banking system, thus enabling the delivery of more convenience and flexibility for customers. We have also improved the management of our loans. Throughout 2018, we enhanced the quality of our loans and improved credit management practices. This is what has led to a significant decrease in our loan impairment charges. You will notice that, as a result of these improvements, our NPL ratio also improved significantly from 13.5 percent in 2017 to 8.5 percent in 2018, which was below the industry average. Despite that we had fully implemented the ninth International Financial Reporting Standards (IFRS 9), which has had a significant bearing on the accounting of impairments and measurement of expected credit losses.

In 2018, we also focused on offering competitive lending rates, which to a larger extent, stimulated the growth of consumer loans as evidenced by a 7.9% increase reported. Strategically, we have initiated a raft of measures to improve management of costs and launched digital transformation initiatives, which are efficient, yet cost-effective.

In the long term, we want to leverage technology and take advantage of the opportunities presented by mobility. This is the reason why we are making strategic investments in digital banking and innovation. We currently in the second year of implementing our five-year strategy, which focuses on digitization among other strategies.

***CAPMARKETAFRICA:** Let's talk more on the long-term. What strategic plans do you have in place to maximize profitability as well as enhance shareholders' value? And where do you see CRDB Bank Group in five years from now - are you looking to expand outside Tanzania, please?*

ABDULMAJID NSEKELA: We are looking at growing our business in general, especially using the alterna- tive banking channels. As you know Tanzania, like most African countries, still has a low penetration of mainstream banking services. Our intention is to leverage technology and drive banking far and wide (financial inclusion), which in the process will translate into business.

Similarly, we are working to optimize our revenues by enhancing customer experience through the various touch points. Our digital solutions have been designed to improve the cost-to-income ratio, which we believe will have a bigger impact on our bottom-line in the long run.

We also want to bolster investor and shareholder confidence and improve the share price at the bourse. Already, the recent positive results for the 2018 Financial Year and the 2019 Q1 numbers have had an impact on the market sentiments, improving trading volumes and somewhat stabilized the share price, which has shown resilience since the beginning of the year. Going by our 2018 performance and the impressive Q1 display, I see great prospects in terms of growth and general performance of the Bank.

In another five years, CRDB Bank would have taken a solid lead ahead of the pack, with a robust business portfolio, underlined by stellar financial performance (profitability, strong balance sheet, high Return on Assets and a satisfied clientele). The Bank will have a fully integrated digital banking ecosystem supported by a vibrant brand that speaks to the aspirations of its customers. I also believe we will be the leading Bank in Tanzania and Burundi in terms of assets, loan portfolio and other key performance indicators.

As for expansion, we remain committed to auctioning decisions that have been ratified by our shareholders and the board. This means that we may want to exhaust the current opportunities present in our markets (Tanzania and Burundi) before we make any major moves. But we remain open to potential business opportunities anywhere within Africa, and especially the East African region.

***CAPMARKETAFRICA:**Recently, CRDB Bank Group partnered with United Bank for Africa (Tanzania) to support Rufiji hydro-electric power (RHPP). Can you tell us more about the credit line as well as a bit about the project, please? Any such financial syndication in the pipeline, please?*

ABDULMAJID NSEKELA: Firstly, we are proud to be part of this historic project, which will, in the long run, change the economic potential of Tanzania. By providing the Bank Guarantee, CRDB Bank and United Bank for Africa (Tanzania) have demonstrated the ability of local banks to play a role in the financing mega infrastructure projects. CRDB Bank and UBA Bank Tanzania provided a total of USD 737.5 million covering both advance and performance guarantee for the JV, is 30% of local bank guarantee portion as well 70% of the foreign portion of the bank guarantee as required by the contract.

The Stiegler's Gorge Rufiji Hydroelectric Power Project is one of its kind in Tanzania and will be the fourth largest in the region after similar projects in Uganda and Ethiopia. The Government of Tanzania has partnered with Egypt in a peer arrangement, where a joint venture between two Egyptian companies; Elsewedy Electric S.A.E and Osman Ahmed Osman & Company was awarded the contract to construct the power station. The station is expected to generate a total of 2,113 megawatts that will be added to the national grid. This will bring the total number of the Country's total grid installed capacity to 3,472.69 megawatts, making Tanzania self - sufficient in as far as power generation for both domestic and industrial consumption.

CRDB Bank is keen on augmenting government efforts in delivering on the development agenda through infrastructure. Already, the Bank is part of two other major infrastructure projects namely: Standard Gauge Railway (SGR) and the expansion of the Julius Nyerere International Airport.

We are keen on exploring all available opportunities in project funding because as a leading Bank in Tanza - nia, we believe it is also our responsibility to play a role in the economic development of our country.

CAPMARKETAFRICA: *In December 2018, you are elected as the Chairman of the Tanzanian Bankers Association. What is your outlook for the Tanzanian banking sector - key challenges and opportunities, please?*

ABDULMAJID NSEKELA: The Tanzanian Banking sector remains vibrant and has great prospects for the obvious reasons that it is at the center of the rapid economic growth being witnessed. All sectors of the economy are reliant on the Banking sector for guar-antees, loans, and funding among other services.

As Chair of the Bankers Association, I am happy that we have a supportive regulatory environment, which continues to foster the sustainability of the sector. In recent years, Tanzania has witnessed a host of positive changes about regulations, notably: licens-ing, capital adequacy, Management of Risk Assess-ment, Liquidity Management, Audit among other areas. I believe that the sector is adequately super-vised and with proper collaboration among key ey stakeholders, the future is bright.

However, with the increasing influence of technology in banking, there's an obvious growing threat of cybersecurity, especially with regard to fraud and invasion of privacy. This is because Banks are using technology, more so, internet/web-based technolo - gies in providing services. They are also custodians of valuable customer data and information.

CAPMARKETAFRICA: *Many recent conferences focused on Africa discuss "inclusive growth" and expanding prosperity to all Africans. How do you suggest this can be accomplished?*

ABDULMAJID NSEKELA: Inclusive growth is not only necessary but also a sure way of ensuring sustainability. This is because it presupposes equita - ble opportunities for all participants in economic growth and benefiting all sections of society. You will agree with me that the world today faces a huge problem of income inequality and an ever-widening wealth gap; which have led to unbalanced economic growth.

Therefore, Inclusive growth can accelerate economic development, seeing that it targets to strike a balance between economic growth and sustainable develop - ment. It prescribes a shift of focus from economic outcomes and focuses more on equity.

I believe that African governments should, through the African Union, explore ways through which the continent can achieve inclusive growth, including ensuring the success of the Continental Free Trade Area (CFTA) through integration and harmonization of trade.

CAPMARKETAFRICA: *You highlighted CFTA as a tool to foster growth, employment, and industrializa-tion. Can you talk more about on the challenges and suggestions, please?*

ABDULMAJID NSEKELA: Well, the CFTA is a timeless idea, whose potential cannot be under - stated. The African Union's decision to establish the CFTA gives the continent a unique chance to create a unified market for goods and services. With Africa's growing population, majority of whom are aged below 30, a single continental market would mean expanded opportunities for entrepreneurs, ready market for goods and an unrivalled pool of skills, drawn from various nationalities.

Personally, I believe in the magic of numbers and with a continental market, Africa would comfortably coalesce a combined market of over 1.2 billion people. With such a market, intra African trade will flourish and ostensibly change the fortunes of the continent, on account of free movement of business, people and investments.

It is, however, important to harmonize the customs regime and properly coordinate trade liberalization and facilitation regimes and instruments. Similarly, there need to be considerable efforts in building continental integration and address challenges that may be brought about by multiple or overlapping memberships to expedite the integration process.

CAPMARKETAFRICA: *Still related to inclusive growth. What obstacles must small and medium-sized enter - prises (SMEs) in Africa overcome in order to gain access to long-term financing? And what is CRDB Bank Group doing to support the SME sector in Tanzania, please*

ABDULMAJID NSEKELA: Small and Medium- sized Enterprises in East Africa face a myriad of problems. It is mostly assumed that SMEs fail due to a lack of cash flow, or not enough revenue but sometimes, there are other contributing aspects to failure; such as marketing issues, and more specifically marketing skills, which requires considerable attention.

CRDB Bank has an elaborate program of mentorship where some of our experts provide professional support through joint marketing campaigns for the opportunities in our branches with the help of relationship officers.

In terms of financing, we have developed a responsive SME product offering, which speaks to the changing needs of SMEs and provides affordable credit facilities such as loans, invoice discounting and asset financing.

More importantly, we maintain a robust KYC, which enables us to support individual businesses based on their unique needs.

CAPMARKETAFRICA: *Given the prominence of counterparty credit risk in financial markets deals, to what extent can this risk be mitigated as well as managed in Tanzania, please?*

ABDULMAJID NSEKELA: The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio, as well as the risk in individual credits or transactions.

Tanzanian Banks should consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization.

For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet.

Banks are increasingly facing credit risk (or counter - party risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions.

Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

CAPMARKETAFRICA: *Disruptive social, technologi - cal, economic, environmental, political and regulatory changes are megatrends reshaping the competitive environment for banks and the markets they operate. How are you leveraging the positive impacts and mitigating against the negative influences of these megatrends, please?*

ABDULMAJID NSEKELA: From my experience, regulation and technology remain the key drivers of change in Banking. The banking environment is fast-changing, often dictated by new digital technologies and a dynamic population.

Admittedly, digital technologies continue to influence the general business environment in Tanzania, necessitating the development of new business models, reinvention of customer experience and largely a redefinition of relationships between financial institutions and their stakeholders.

CRDB Bank Group sees this as an opportunity to transform how we do business and build deeper and more personal relationships with those we serve. This is the reason why we have embarked on an aggressive plan to enhance our customer experience, through the digital touch points and improved the responsiveness of our customer service to build better and stronger relationships.

CAPMARKETAFRICA: *On a personal note, what do you do in your spare time, when not busy managing CRDB Bank Group, please?*

ABDULMAJID NSEKELA: As they say, ‘all work and no play Jack a dull boy’. I have learned to organize my day in such a way that I get time to exercise after work and spend time with my family before they retire to bed. Despite the demanding schedules, regular travels and sometimes long working hours, I often try to catch up with my peers on social issues. But I am an avid reader, and always do squeeze in a chapter or two in between flights or in traffic as I travel.

CAPMARKETAFRICA:*To bring the interview to an end, how would you like to be remembered, please?*

ABDULMAJID NSEKELA: Well, I have no desire to be famous but I would like my work to speak for itself. I would like my friends, family, colleagues, and peers to speak for me. What matters to me is doing the right thing in the right way and at the right time.

As an employee of CRDB Bank Plc, I would like my efforts to be seen through the positive transformation I would have brought by the time I leave the office.

As a leader, I wish to serve in humility and in recognition of the reality that leadership is humane.

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

IS THE ISLAMIC FINANCE INDUSTRY IN AFRICA READY TO MOVE MAINSTREAM?

By **Claire Matheson Kirton,** Partner, White & Case LLP

For more than a decade, market commentators have anticipated a significant expansion in Islamic banking and investment products based on Islamic principles into Africa. Certainly, Islamic finance has taken hold in North Africa, but penetration into Sub-Saharan Africa has been more circumspect.

With a Muslim population in excess of 250 million[1] and a need to fund a multitude of infrastructure projects, it would be a natural conclusion to expect the Islamic finance industry to flourish across Sub-Saharan Africa. A number of political, socio - economic, legal and regulatory considerations have meant that there has been a more measured uptake. To-date, the Islamic finance industry in Sub-Saharan Africa has been opportunistic, driven principally by Sovereign Sukuk issuances. The approach by various legislature and regulators across the continent has been reactionary rather than proactively paving the way for Sharia-compliant finance.

Before we witness the rise of Islamic finance at predicted levels there needs to be a deeper domestic retail banking system providing the backbone to that industry. Deposits from retail customers form the basis on which domestic banks are then able to lend into the wholesale market in a Sharia - compliant manner. This, in turn. leads growth in the financial sector and is accretive to the economy, providing healthy competition to investment entering from international banks. Wider proactive legislative and regulatory reform that not only authorizes the use of certain financial products but enables the effective supervision of domestic banking operations as well as actively attracting inbound investment will be crucial in moving Islamic finance mainstream.

Unbanked population: Tech can be a game changer for the retail Islamic finance market

Globally, 1.7 billion adults remain unbanked. The World Bank[2] estimates that around 350 million of those are in Sub-Saharan Africa. There are many socio-economic factors behind this. From an Islamic banking perspective, it is interesting that amongst those reasons cited by adults without an account include religious concerns. In Niger, for example, where there is an almost exclusively Muslim population, around a quarter of adults without a bank account identify concerns of Sharia compliance as a barrier to them holding an account.

With rising Muslim populations across Africa, there is a clear need for domestic, Sharia-complaint retail banking. To attract new and, in many cases, currently unbanked customers, Islamic banks need to be innovative. It will not be enough to open a bank in a country; banks need to reach customers in new ways. The World Bank recently concluded that lack of proximity to a financial institution is a determining factor for the unbanked population yet two-thirds of them own a mobile phone that could help them access financial services.

By harnessing the digital space Islamic banks (or conventional banks operating through an “Islamic window”) can create opportunities to grow significant market share not only from Muslim customers but from the currently unbanked population and/or the millennial generation who can each be encouraged to bank digitally. Ernst and Young predict the emergence of Islamic Fintech in Africa may attract 150 million new banking customers by 2021.[3] The pace at which established Islamic banks in the Middle East have moved into Sharia-compliant digital banking and app-based payment platforms demonstrate that the tenants of Sharia compliance can work in tandem with technological evolution. In Kenya, the telecoms operator, Safaricom has already collaborated with Islamic Gulf African Bank to launch a Sharia-compliant mobile banking service. In an economy that is underbanked (from a Sharia compliance perspective) opportunities for launching new, easy access, digital Sharia - compliant retail products are boundless and it is this innovation which can change the map of Islamic banking coverage in Sub-Saharan Africa.
Reaching a new customer base may not be sufficient, investing in changes to the banking system will change the perception of Islamic banking from being a niche product for religious customers into a

1 https://www.pewresearch.org/fact-tank/2017/01/31/worlds-muslim-population-more-widespread-than-you-might-think/
2 https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows
3 https://www.ey.com/em/en/newsroom/news-releases/news-global-participation-banking-assets-reached-us-924-billion-in-2015-ey

mainstream accessible alternative. The IMF has suggested that a lack of separate supervisory frameworks operating in countries with Islamic banks, the absence of Sharia-compliant accounting treatments being implemented, a lack of liquidity management for Islamic banks and a fundamental absence of consumer protection in Islamic products, together with insufficient segregation of Islamic and conventional assets within conventional banks are concerning gaps in the underlying prudential systems.[4] This will need to be addressed to create longevity and robustness to the industry in Africa.

Attracting inbound Sharia-compliant funding

From a corporate finance perspective, there has been a tangible shift in the origination of investor funds into Africa. Increasingly, the Middle East based investors are bringing "new money" to the table for African sovereign and state-owned enterprises. The UAE invested an estimated US$11 billion in Africa in 2016, overtaking Saudi Arabia to become the largest GCC investor and the second largest in the world after China[5] and such levels of investment are likely to continue.

This influx of new money is a positive break to the cycle of perpetual refinancing but it can bring an expectation of using Sharia-compliant funding. Investors (be they banks, foreign States or alternative investment funds) operating in the Islamic finance space have substantial liquidity to deploy and are looking for Sharia-compliant assets in which to invest. Priority needs across Africa for expansion in infrastructure, transport, and utilities are, broadly, Sharia-compliant industries rife to attract Sharia-compliant investors. The GCC's expertise in the energy sector and ability to execute large-scale infrastructure projects is appealing to African states and in turn, for the GCC, Africa offers diversification away from the traditional oil sector as well as a strategic trading partner for commodities. Shifting the focus away from questioning whether there is a domestic demand for Sharia-compliant funding, to focus on levelling the legal, tax and regulatory playing field to give the broadest possible access to diverse investors will ultimately enable the expedited inflow of much needed liquidity – in whatever form that takes.

So far, there have been moves to do this. Kenya: a jurisdiction which is positioning itself to be a "hub" within East Africa for Islamic finance has made changes to VAT and tax legislation and has brought together an advisory committee to develop policy change. Nigeria passed various legislation to allow equivalent tax treatment and for the recognition of "interest-free banking" principles and is making significant in-roads to providing guidelines for the industry. South Africa's National Treasury has taken measures to promote Islamic finance by amending their Income Tax Act to provide for parity of treatment between conventional banking products and Islamic banking products and there are various other examples.

But, to reach the point of the "level playing field" further systemic change is needed to continue to attract finance and investment from Sharia - compliant sources abroad with a continued focus on proactive reform departing from the reactionary and individualistic legislative changes we have seen in the past.

Looking forward

There continue to be huge opportunities for the industry across Sub-Saharan Africa and momentum has gathered behind the expansion of domestic and inbound Islamic finance with the industry reaching more countries across the continent than ever before. To continue on this expansionary trajectory and for the stable and continued development of the Islamic finance industry in Sub - Saharan Africa, Governments and industry stakeholders need to focus on greater reform to the banking, legal and regulatory landscape and the continued development of education and expertise in the sector.

Contributor's Profile

Claire Matheson Kirton is a Partner in White & Case LLP's Global Bank Finance Practice, based in Dubai. She has considerable experience advising sovereigns and corporations as well as international and regional financial institutions on a variety of conventional finance transactions across Africa, as well as advising clients with respect to Sharia-compliant transactions throughout the Middle East, Europe and Africa. Claire maintains a particular focus on leveraged finance and syndicated debt finance. In addition, Claire has been involved in a broad range of asset and tax based structured finance work. Claire is regularly called upon to speak at conferences across the Middle East and Africa covering conventional and Islamic finance topics.

4 IMF Country Report No 17/145: Ensuring Financial Stability in Countries with Islamic Banking – Case Studies (June 2017)
5 Dubai Chamber Report Explores Entrepreneurs' Role in Bolstering Africa-GCC Economic Ties" Dubai Chamber of Commerce, October 28, 2017 found at http://www.dubaichamber.com/whats-happening/chamber_news/dubai-chamber-report-explores-entrepreneurs-role-in-bolstering-africa-gcc-economic-ties

ISLAMIC FINANCIAL SERVICES IN SOUTH AFRICA: WHAT THE FUTURE HOLDS?

By **Amman Muhammad,** Chief Executive Officer, FNB Islamic Banking South Africa

Participation in the South African niche Islamic banking market has proven that it certainly is an exciting place to be in. Looking back at the challenges that the industry faced, not too long ago, one can certainly be proud of the significant developments that have taken place at an industry level over the past few years. These developments have played their part towards levelling the playing field for niche Islamic financial services providers and in growing awareness of this small but growing industry.

Among some of the more noteworthy developments that were made, we were encouraged that the Islamic finance sector had finally established itself as serious player, with the SA government issuing the first draft of an amendment to the National South African Taxation laws during May 2010, which went on to become officially recognised with the provision and inclusion of Islamic financial transactions in legislation for the first time ever. This key legislative inclusion acted as the front runner in the establishment of the issuance of the debut South African sovereign Sukuk. The debut South African USD 500 million, Sukuk issuance was four times over-subscribed at the international capital markets, priced at a coupon rate of 3.90%, and according to the South African National Treasury “representing a spread of 180 basis points above the corresponding benchmark rate”. In addition, the debut Sukuk ensured that South Africa benefitted with the issuance counting as the lowest dollar-borrowing costs, and according to sovereign issuance records, appeared to have been the lowest coupon out of 14, previous dollar bond issuances since 1994.

Not too long ago, our South African Islamic finance market was viewed as nothing more than a potential Islamic financial market, where market depth and market reach was purely in an embryonic state and the market was really just exploratory around the notion of Islamic finance. The participants were working hard at building a market and confidence in their product offering, the macro market lacked sophistication and there was a significant lack of skilled resources to support any real growth.

If we fast forward back to the current date, we find the Islamic finance industry in good shape with most of the South African Islamic financial institutions delivering consistent double-digit growth, this in trying economic conditions. Furthermore, we are also witnessing new entrants to the industry, this from all the various financial disciplines, not just from the banking sector, but, also from the insurance and asset management sectors. In addition, we have noticed a fair level of curiosity from other big financial institutions looking to offer Islamic financial products and services.

The South African Islamic market can now comfortably categorise itself as an emerging Islamic financial market as opposed to being just a potential market. We have seen dedicated taxation changes to enable the market, there are plans for further legislative changes and the Sovereign has issued Sukuk, as mentioned above, to be further supplemented with a potential local currency Sukuk issuance towards the end of the year. Plans are afoot that will mark the return of the country to the Islamic debt capital market, with an eagerly anticipated local currency Sukuk, five years following the maiden USD 500 million Sukuk issuance in 2014. At this stage, not much information is available regarding this Sukuk, however, the market is expecting more news from the National Treasury clarifying the specific details regarding this issue.

The market, through the efforts of the various Islamic financial institutions, is enjoying a heightened level of awareness and we find that potential customers are better placed than before and understand what they require from an Islamic finance institution, this has been driven by a greater variety of products that have been offered to the market and of critical importance is the pricing parity that these institutions can offer customers looking for an Islamic finance alternative. We are also working on delivering Islamic finance specific liquidity management solutions and innovative ways in which to manage excess liquidity positions. At this stage, we still struggle in finding appropriately skilled resources and identifying Shari’ah scholars with a finance specialisation remains a challenge. Having said that, the various banks and the Islamic banking industry body in South Africa are working on programs to upskill individuals.

In addition, the Islamic banking industry through the South African Banking Association, are working with the various financial regulators and National Treasury to establish consistent compliance and governance standards.

The African National Congress ("ANC"), the ruling party of the country scored a clear victory at the polls with a 57.5% win at the national elections. This has provided an increased sense of confidence to the international investor and business community. This linked to the anticipated increased fixed investment spending, associated growth in production, hopefully leading to real GDP growth and resulting in jobs to offset the high levels of unemployment. There are big expectations from the newly elected President and his ability to resurrect the South African economy and rebuild its internal structures. All in all, the renewed focus at a government and business level bodes well for the Islamic financial industry.

Going forward, I anticipate that the Islamic financial services industry will evolve to become an even more relevant player in the overall South African banking industry. The key to this evolution is in the innovation that has been highlighted above. South African Islamic financial institutions have adopted Islamic banking to offer much more substantial value propositions that now boast benefits and attributes that rival the best of conventional offers.

Quoting from a previous report that I had drafted, I still firmly contend that given South Africa's highly developed financial infrastructure and sophisticated banking system, this country could just well be the launch pad that international players use to catapult themselves into the highly lucrative market that is Africa. With its enhanced capability, through an alternate funding source, in the form of Sukuk, South Africa should be even more attractive to the Muslim markets previously not tapped by this emerging economy. With the host of Islamic finance related legislative introductions, inclusions and amendments, the South African government have remained true to its word in levelling the playing fields for Islamic financial products. South African Islamic Finance Institutions have benefited from these developments and are now more easily able to develop quality Shari'ah compliant banking and investment products.

Globally financial institutions are aggressively strategising penetration plans into Africa incorporating Islamic Finance as part and package of their offerings. A few South African banks, including the Group I represent, currently successfully offer Islamic banking in countries outside South Africa, but with the success of the overall market, all eyes will be focussed on an even greater thrust into the African Muslim markets, strategically placing South Africa at the helm for such a move.

Contributor's Profile

Amman Muhammad is the Chief Executive Office at FirstRand Islamic Finance Services and FNB Islamic Banking, South Africa. Amman is an active advocate for progressive and constructive changes across the South African ("SA") Islamic banking industry. He is a member of the SA Banking Association's Islamic Banking Sub-Committee and a founding member of the SA National Treasury Working Group, responsible for the amendment of the SA National Taxation Act which introduced Islamic financial structures for the very first time.

During his time at FNB, Amman initiated a complete revamp of the Islamic banking product offering across the Group, the reformation of the Shariah Advisory Committee and established an award-winning group-wide ring-fenced Islamic banking treasury model.

Prior to joining FNB, he was Managing Director of another prominent SA Islamic banking window. He launched Islamic Banking through their Tanzanian business and managed their Islamic banking operations across the African continent.

Before switching to banking Amman spent 10 years at Deloitte. He completed his articles with the SA Financial Services Team and thereafter headed up the Banking Regulatory, Compliance and Governance team and established the Deloitte SA "Islamic Financial Services" unit offering various Islamic advisory services.

Amman has been acknowledged on the global stage, winning the Global Islamic Finance Awards - "Upcoming Personality in Global Islamic Finance for 2015", "Best Islamic Banking Window" globally in 2017 and 2018 and the strongest "Islamic Retail Bank" for 2015 and 2016 in SA.

MOZA BANCO'S STRATEGY

CUSTOMER-FOCUSED RELATIONAL MODEL, SPECIALISED SERVICES, INNOVATION AND TECHONOLOGY

JOAO FIGUEIREDO, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MOZA BANCO MOZAMBIQUE

CAPMARKETSAFRICA: *Thanks for granting this interview. Please, could you tell our readers more about your background and what motivated your choice of career path, please?*

JOAO FIGUEIREDO: My whole life has been dedicated to Banking. Perhaps the fact that my father was a great banker and he has always been my reference in life, so has influenced me to follow his path.

I started in Portugal, where I finished my studies and after a few years working in the branch banking services, and then I stepped into an international banking career. At first, I did an internship at NatWest Bank, London in 1987 and after a few years of experience in Lisbon, I worked as Deputy General Manager and General Manager at the BTA branches in London and Macau.

In 1998, I returned to Mozambique, my homeland, where I worked as Managing Director of Standard Totta Mocambique, and then became the CEO of an Investment Bank - BIM Investimento and Deputy Chairman and CEO of Banco Internacional de Mocambique, the country´s largest bank.

In 2010, with a group of investors, I created a startup bank, the UNICO Bank, which, years later, the NED Bank Group entered its shareholder structure, and is currently the main shareholder.

In 2016, the Central Bank of Mozambique, after undertaking an intervention in one of the largest banks in the country, MOZA BANCO, appointed me as its Chairman in order to manage the institution in a scenario of crisis that it was going through. It was, in fact, a huge challenge that culminated in a financial sanitation operation. This involves injecting capital as well as the entry of a new shareholder. Since then, the MOZA BANCO has undergone a major restructuring not only in terms of its balance sheet and equity structure but also in terms of functional and operational aspects. Today, we can say that MOZA BANCO is on a very positive trajectory occupying its own space in the national financial system and acting in harmony with the best international standards. In our shareholder structure, we now have two reference shareholders, namely, Kuhanha (a national Pension Fund) and Arise (an Equity Fund owned by Norfund, Rabobank, and FMO).

CAPMARKETSAFRICA: *You started talking about MOZA BANCO. Please share with our readers the latest financial results of the MOZA and what are the fundamentals behind these results, please?*

JOAO FIGUEIREDO: 2018 was characterized by a difficult economic environment, of contraction, affecting the business sector. Considering the increase in the number of non-performing loans, the financial system was forced to increase its impairments as well as to adopt a much more conservative lending approach.

Despite this economic environment, MOZA BANCO maintained its growth trajectory, with the loan portfolio growing at 20%, giving us a market share of 8.66% (December 2017: 7.42%). The same happened to the deposits, which grew 39%, thus consolidating our fifth position in the ranking of banks operating in the country with a 5.92% share (December 2017: 4.74%). Associated with this evolution, there is also the opening of two other banking branches (bringing us to 55 branches), the growth in the number of customers (16%) and transactions in direct and self-banking channels.

The favorable evolution of these indicators has resulted in an improved bank's net profit by 47% compared to 2017, totaling MZN 768 million negatives (December 2017: MZN 1,459 million negatives). It should be noted that during 2018, MOZA BANCO continued to demonstrate an adequate solvency situation, with the solvency ratio at 21.70%, above the regulatory limit of 12%)

CAPMARKETSAFRICA: *Looking ahead, what strategic plans do you have in place to maximise profitability as well as enhance shareholders' value? And where do you see MOZA BANCO in five years from now, please?*

JOAO FIGUEIREDO: As a universal bank and with a very distinctive DNA that we better describe as a "Relational Bank", our strategy is to consolidate the culture oriented to commercial objectives and continuous improvement of service levels and quality, based on four pillars, namely:

a) Customer-focused relational model: which has the customer as a focus and source of inspiration;
b) Focused and specialized offer: MOZA BANCO will design an approach and differentiated offer around the different market segments.
c) Innovation and technology: Innovation and the use of new technologies should be a permanent aspect of expanding our activity and service to the customer.
d) Quality and excellence in services, as a fundamental aspect of the Bank's performance.

These pillars should result in a better intervention in the economy, strengthened capacity to serve the Client and the building of a solid Institution that adds value to its Stakeholders.

It is our ambition to take a comprehensive dimension in the provision of financial services that we offer to all niche market, thus playing a prominent place in the panorama of the national financial system, always striving for the quality of our offer of products and services.

CAPMARKETSAFRICA: *In general, what is your outlook for the Mozambique banking sector - key challenges and opportunities as well as suggestions needed to improve Mozambique banking sector, please?*

JOAO FIGUEIREDO: In terms of outlook, the banking sector will continue to face pressure on the margins of its operating activities as a result of tight credit growth.

Reports estimate credit growth of 6.1% to 2019, remaining markedly below the 2010-2016 average of 20.6% due to a combination of previously higher interest rates and structural challenges faced by the economy after recent economic crises in 2016. Sectoral contractions in 2018 were under construction (with average annual growth of credit of -18.5%, trade (-14.5%), transport and communications (-13.2%) and agriculture (-12.0%).

Despite the monetary easing cycle of 2017 and 2018 of the Bank of Mozambique, by reducing the MIMO rate by 750BP between April 2017 and December 2018, while reducing its interest rate for loans to banks from 700 PB to 19.25% during 2018, asset quality will remain weak in 2019.

According to the IMF, default on loans (NPLs) as part of total loans doubled to 11.4% in September 2017 over the previous year. With GDP growth remaining weak in 2018, estimated at 3.3%, compared to the average of 7.0% in 2010-2015, asset quality has not improved noticeably, which would be necessary if we are to grow. This will keep banks cautious about lending.

The banking sector in Mozambique continues to face major challenges, the main ones being the low levels of banking penetration and/or financial inclusion; low levels of financial education / literacy; use of physical money in place of other convenient and secure means to carry out transactions, and limited networks of branches and ATMs, mainly due to the size of the country and the dispersion of the population.

Most of the Mozambican population is not yet banked. Approximately only about 9.3% of the approximately 28 million people are formally included financially (Census 2017). There is also a relatively small supply of products and services specifically created and marketed to meet the needs of certain social and business segments with weak or non-existent access to financial services such as small farmers, low-income families living in urban and peri-urban areas.

MOZA BANKCO particularly considers these challenges a huge opportunity for innovation and further growth. That is why MOZA is standing out in the Mozambican financial sector in the search for innovative ways to promote greater access to financial services, consolidating its position among the main players in the Mozambican financial sector.

We currently have the 3rd largest branch network in the country, with growth prospects for rural areas under the "Um Distrito, Um Banco" project; However, we understand this process of financial inclusion cannot be achieved only through the physical expansion of bank branches. It is rather a combined process, with a strong focus on digital banking, and through widening the offer of affordable products and services that meet the needs and concerns of local populations.

Financial inclusion goes beyond access to or availability of financial services, it also involves the effective use of these services, and that is why we are also committed to promoting financial literacy, as we consider essential for financial inclusion.

CAPMARKETSAFRICA: *On the regulatory front, what are the challenges and impacts of shifting to the ninth International Financial Reporting Standard (IFRS 9) on the banking industry in Mozambique, please?*

JOAO FIGUEIREDO: IFRS 9 basically specifies how an entity should classify and measure financial assets and liabilities. One of the fundamental changes that IFRS 9 introduces is the concept of Expected Credit Loss (ECL) provisioning. This new rule replaces the previous incurred losses model with material impact in the way in which banks are required to approach and account for impairments for credit losses. The standard now requires that loss provisions be raised earlier and take into account not only past and present information but also forward-looking information, which emphasizes the future probability of credit losses in determining them.

The main impacts of the introduction of this standard in Mozambique should not differ much as observed elsewhere. However, taking into account that our economy is relatively small and the banking system reflects the same, we can expect a higher pressure on the capitalization needs of the banks due to the predicted rise of credit impairments. Consequently, we can expect that the Core Equity Tier (CET) 1 ratio will decrease, with smaller banks, which mainly use the standardized approach to measuring credit risk, to estimate a larger impact on their own fund ratios than the larger banks. The implementation of IFRS 9 is also likely to impact on the pricing of products which may thus impact on overall credit extension within the economy and ultimately consumption and hence economic growth.

On the other hand, the actual implementation process was of a great challenge especially in face of the shortage of skilled and trained staff, the technical complexities and costs related to the need of updating the existing accounting software, information system, and information technology of the banks and so on.

CAPMARKETSAFRICA: *How serious a threat does you consider money-laundering to be within Mozambique's banking sector? And what specific measures does MOZA BANCO have in place to combat it?*

JOAO FIGUEIREDO: The Bank of Mozambique has already defined the regulation, which is duly formalized on the subject in reference, intended to mitigate the risk of any instances of money laundering cases in Mozambique banking sector. Additionally, there are also rules in the banking sector, issued by internationally competent bodies, which are also known to the banking sector in Mozambique and whose implementation is mandatory. Despite the required controls, there are still some challenges to overcome in order to mitigate the risk.

MOZA BANCO has implemented a significant part of the controls defined by the regulator and by competent international bodies, applicable to the entity, as well as to the corporate bodies, directors and employees. However, this is a dynamic process and requires constant updating and improvements to ensure the existence of an adequate control environment in line with what is required.

Under this assumption, and due to the publication of diverse legislation, in 2018 our compliance services performed a transversal effort of internal adaptation to the new legal and regulatory requirements, applicable to the Bank through the adequacy and operation of the internal processes, revision of internal regulations and risk analysis of Compliance in the scope of new Products and Services.

On the other hand, and in view of the growing importance of combating money laundering and/or terrorist financing crimes, the Compliance Department has also reinforced its actions in the context of instruments to detect and prevent the Bank from being used as a vehicle for activities linked to these phenomena. In this sense, greater care was taken to identify weaknesses and areas of greater exposure to the Bank, in order to ensure the existence of adequate methods of control and mitigation of risks inherent in transactions and counterparties.

CAPMARKETSAFRICA: *Disruptive social, technological, economic, environmental, political and regulatory changes are megatrends reshaping the competitive environment for banks and the markets they operate. How are you leveraging the positive impacts and mitigating against the negative influences of these megatrends, please?*

JOAO FIGUEIREDO: In general, the global banking system and in particular Mozambican banking system, have undergone substantial changes in the last decades due to a combination of several factors. In our case, there has been a marked increase in the number of credit institutions and financial companies, which strengthen competition and the competitiveness of the sector, instigating innovation and demanding quality and greater diversification of services and products offered.

MOZA BANCO, which, being a relatively “young” bank, was born in this new environment and was able to adjust to these changes in both the macroeconomic and regulatory environment. We live today with a generation of more informed and therefore more demanding clients, with new expectations and needs. On the other hand, the financial world is increasingly regulated by international standards. Thus, MOZA BANCO has sought to adopt new approaches and competitive strategies in order to remain relevant among the major banks operating in the country as well as simultaneously operate in line with the best international practices.

Since inception, MOZA BANCO has demonstrated its agility, flexibility, and capacity for innovation, focusing on quality in our processes and products and services offered and investing in information technology. The focus on modernization and digital transformation, in addition to accelerating expansion with greater cost efficiency, ensures greater accessibility, speed, convenience and security in transactions and banking, and availability of banks anytime, anywhere.

We do our best to ensure that we are also at the cutting edge of technology and that our services are available to everyone whenever they need it. For this reason, in this new cycle, we reiterate our commitment to innovation and the use of new technologies to expand our business and improve customer service.

But the investment in technology cannot jeopardize the human contact which is our distinctive feature in the market. We will still always there to help and assist our customers whenever they need while putting at their disposal more convenient, quicker and easily accessible platforms.

In parallel, we invest heavily in upskilling our staff and sending people for training. Innovation is a key motivation so is motivation a driver to innovation. Aside from everyday hard work, we push people and strive to think outside the box and come up with solutions to the everyday problems we face on and off the bank. We are making a lot of effort to push the bank forward, to make ourselves better each day.

Another clear example of how MOZA BANCO is taking the lead and anticipating new market trends is the recent acquisition for the incorporation of BTM. As is public knowledge, the Central Bank of Mozambique, in the context of regulatory reforms in the sector, recently imposed new minimum capital requirements and solvency indices. The spirit of this new regulation allows a gradual change in the sector towards a greater selection and concentration of the institutions that operate in the market. This is definitely the way forward, a greater selection, greater competition for the assertion of those who can keep up with the demands of a new era.

CAPMARKETSAFRICA: *On a personal note, what do you do in your spare time, when not busy managing MOZA BANCO S.A, please?*

JOAO FIGUEIREDO: I am a family man, and what I appreciate most in life is to enjoy some quality time with my family and friends. Music and sports are the two other elements that always accompany me in my spare time. Apart from that, I do all common things like any other Human Being does.

Thank you very much for granting this interview!

REGULATING FINTECH DISRUPTION IN AFRICAN CAPITAL MARKETS

By **Nankunda Katangaza,** Director, Hook Tangaza & Co-founder, Africa Legal & Tech Network

Africa's first tech start-up announced its arrival on the international investment scene launching on the New York Stock Exchange in April. Jumia's historic initial public offering was met by widespread delight - naturally accompanied by a healthy dose of scepticism relating to its African provenance, the mixed track record of tech companies accessing capital markets and the specific challenges in the African e-commerce market.

Nonetheless, Jumia's IPO marks a coming-of-age of the African tech story and illustrates the growing need for enabling regulatory environments on the continent to facilitate further innovation and growth across the sectors and access to capital and investment. This is particularly important where technological innovation has disrupted highly regulated sectors such as financial services, healthcare, education, legal services and others. New products and services underpinned by distributed ledger technology, data analytics, machine learning and other applications have the potential to alter business models and give the public greater access to new services. They also pose a new challenge to legislators and regulators who are running to catch up with the fast-evolving, tech-savvy market for new services and products.

Tech disruption in capital markets

In their 2019 report 'FinTechs in Sub-Saharan Africa: An Overview of Market Developments and Investment Opportunities', EY reports that the African fintech sector has grown by approximately 24% over the past decade. The combination of a less developed regulatory framework and a large unbanked population – 60% - means the opportunities for domestic and international fintechs to increase financial inclusion and transform the financial services sector are significant. In Africa, the fintech sector remains dominated by mobile payments services but increasingly moving into investment and financial infrastructure development.

One such innovative investment platform is South African company, The Sun Exchange, which is also taking advantage of the increased uptake of cryptocurrencies. Using the platform, people can use cryptocurrencies like bitcoin to buy solar panels, which The Sun Exchange then leases to businesses and communities in Africa. Users earn income from these panels paid in bitcoin or the currency of choice.

In a recent interview, founder and CEO Abraham Cambridge said, "We have built a blockchain based solar energy finance platform which fills a huge funding gap for commercial and industrial solar energy projects in Africa. Traditional financial institutions are becoming increasingly risk averse, which means that investments into start-up businesses and innovative concepts, such as projects built around cryptocurrencies, find it extremely hard if not impossible to raise capital through these traditional means."

African capital markets are increasingly turning to technology to make investing more transparent and accessible to a younger, tech-savvy generation.

The Nigerian Stock Exchange's X-GEN trading platform was launched in 2013, offering better access to real-time data. By 2017, the average daily value of trade had increased by approximately a third, to over $14 million. Other capital markets across the continent followed suit adopting tech to make investing more transparent and accessible. The Nairobi Securities Exchange rolled out its Automated Trading System in 2014 swiftly followed by a mobile app designed to provide quick and easy information for would-be investors and allowing investments to be made in real time.

The Nairobi exchange followed this up with the launch of its own mobile app in 2018 which provides quick and easy information for potential investors and makes investing on capital markets accessible to those already using apps for their banking needs.

Raise, a Bahamian and Kenyan start-up has built an asset ownership platform to manage compliant blockchain-based digital securities in frontier markets. The Raise platform with a decentralized, public ledger of all cryptocurrency transactions makes it easier for people to invest in private companies through their phone. Beyond security, it creates digital assets that Raise users can buy, sell, or hold on their own terms, from their phone, whenever they want, wherever they want. The digital infrastructure creates essentially a large - scale crowdfunding campaign that enables anyone to create and manage digital shares and debt, automate capitalisation tables, create customised templates and organise their organisational finances. Critically, it makes it easier for the African diaspora to invest in their own country/s, a fundamental element of the company's mission.

A recent article in Kenya's Business Day (8th April 2019) outlined the potentially transformative effects of technology, specifically, Artificial Intelligence (AI) in African capital markets. The author posited that the use of AI would simplify the deal-making process using predictive analytics and automation; improve investment performance through smarter, contextual, AI-driven insights; and deploy advanced capital and risk management solutions by leveraging AI-powered solutions.

These initiatives and innovations that seek to deepen capital markets and increase public access to investment opportunities, coupled with a fast growing fintech sector, have accelerated the need for African legislators and regulators to create equally innovative frameworks to facilitate this growth.

Why regulate?

Among the key consumer trends identified in the EY 2017 Fintech Adoption Index was that fintech had achieved initial mass adoption in most markets, and, that emerging markets were driving adoption. The report also observed that progressive regulation played a part in enabling new market entrants and was critical to building a competitive environment for new services and products.

There is no doubt that the rise of fintech has led to a matching need for financial sector regulators to provide clarity to market operators and to the public. Tried and tested regulatory principles and practices have to be adapted to technological innovations and regulators are under pressure to understand the new products and services in order to ensure compliant products are available and adopted by the public. Policymakers also have a vested interest in ensuring appropriate and facilitative regulatory frameworks for fintech are in place given its potential to contribute to wider economic growth objectives especially financial inclusion and more accessible financial services.

How technology should be regulated is an issue which polarises opinion, whether in genetic science, law or financial services. In the initial stages, two camps tend to emerge - the pro - innovation lobby, which favours an approach of zero or minimum control by regulation – arguing that regulation may unwittingly kill off potentially beneficial technologies before we have had a chance to see what they could do. This thinking, generally supported by new entrants to the industry, tends to prioritise the potentially transformative effect of technology above all other considerations. Some regulators also feel they must take a hands - off approach because they do not have the authority or technical competence to get involved.

In the opposite corner, there is the "manage or minimise risk" camp which, not surprisingly, is where many regulators are often found. This school-of-thought prioritises the regulator's duty to protect public health, safety, security, the environment and human rights. This does not always imply a desire to stop technological innovation in regulated markets but does imply a strong desire to control the pace, scope and extent of innovation.

In the financial services sector, regulators' mandates vary from country to country but always include maintaining market integrity, financial stability and taking measures to protect consumers and investors. In some cases, promoting the financial industry and facilitating innovation is an additional regulatory objective.

Further, as fintechs rely on the collection, processing and storage of data the regulatory environment also requires robust and clear data protection laws and regulations. There are currently only a handful of African countries with data regulation frameworks and enforcement mechanisms in place.

Regulatory initiatives elsewhere

Perhaps the most robust and proactive regulatory responses to fintech have been the creation of sandboxes which essentially facilitate speed and flexibility in regulatory decision-making.

The sandbox concept was first launched by the UK Financial Conduct Authority in 2015. The objectives of the sandbox are to enable firms to test products and services in a controlled environment; reduce the time, it takes to develop new services and at potentially lower cost; ensure that appropriate consumer protection safeguards are built into new products and services and to provide better access to finance for innovative types of service. The financial businesses that have entered the FCA's sandbox have covered the spectrum of the financial sector, from pensions and insurance through to wholesale and retail banking.

Since 2015, the principal financial regulators in Australia, Hong Kong, Indonesia, Malaysia, Thailand, Singapore, Korea, Beijing (Fangshan district), the Netherlands, Denmark, Arizona, to name a few, have launched their own variants of the sandbox concept.

African responses

In 2018, the Kenyan Capital Markets Authority (CMA) became the first financial services regulator in Africa to create a regulatory sandbox for testing innovative products and services that had the potential to deepen Kenyan capital markets. In launching the sandbox in March 2019, the Chief Executive of the CMA, Paul Muthaura announced his vision for a single financial services regulatory sandbox and aspirations for the sandbox to "accelerate CMA's understanding of emerging technologies, support adoption of an evidence-based approach to regulation and facilitate deepening and broadening of Kenya's capital markets".

In Africa's biggest economy, Nigeria, regulators have been more tentative in their responses, largely avoiding any overt efforts to either facilitate or restrict fintech innovation. However, the establishment of the Fintech Association of Nigeria and various circulars and guidelines issued by the Central Bank of Nigeria (CBN), and other regulators, the fintech market in Nigeria continues to grow at a rapid pace. Although there are no fintech-specific laws in Nigeria, new regulations and enactments of regulatory laws that could affect the fintech market are anticipated. Commentators anticipate regulations that will facilitate the leveraging of technology to promote financial inclusion and enhance wider access to financial services.

Similarly, South Africa has no fintech specific laws or regulations in place, however, it too has struck a pro-innovation tone with the South African Reserve Bank's 2009 position paper calling for greater technological innovation in financial services and subsequently establishing a Fintech Programme. The programme aspires to reviewing fintech innovation and assisting policymakers and regulators to better understand new technologies and create appropriate regulations. SARB launched Project Khoka in 2018 specifically to assess the application of distributed ledger technology for inter-bank payments settlement in South Africa.

Beyond traditional institutional responses, an innovative community-driven initiative of three companies recently launched the African Digital Asset Framework (ADAF), the world's first transnational, open-source project to self-regulate digital assets and establish and harmonise legal, regulatory and technical standards across Africa. ADAF is supported by the African Digital Asset Foundation, a non-profit organisation which aims to support digital trade across the continent and with the diaspora. ADAF published its first guidance for initial coin offerings (ICO) in March 2019 prepared by an open-source community of 17 companies representing 14 countries. ADAF is now working on guidance for land titling systems with oracles and smart contracts, a security token framework and a self-sovereign identity.

Conclusions

As fintech growth continues apace in African capital markets, African regulators have the opportunity to be global leaders in regulatory innovation building sustainable digital ecosystems that yield the predicted substantial returns but also deliver much-needed public benefits.

Contributor's Profile

Nankunda Katangaza is co-founder of the African Legal & Tech Network (ALT Network). The ALT Network was born in response to the technological and innovation needs of law firms and legal services and the legal and regulatory gaps required to support the tech sector on the continent. It is an online community of African tech entrepreneurs, regulators, legal services providers, policymakers and investors.

CLOSING AFRICA'S INFRASTRUCTURE GAP

By **Gerald Gondo,** Business Development Executive, RisCura

Never before has the need for infrastructure felt so immediate and acute. This became apparent to me as I travelled to Nairobi, Lagos, Lusaka and Gaborone during the first three months of this year.

A commonality I saw across all these African cities — the yellow metal equipment either excavating, tilling, scooping or pouring inputs — could result in an improved outcome for Africa's infrastructure. According to the World Bank, closing Africa's infrastructure quantity and quality gap has the potential to increase GDP per capita by as much as 2.6% per annum.

Historically, governments have borne the responsibility for infrastructure development as infrastructure is typically considered a "public good". However, in most African states, governments are struggling to keep up with the level of development required.

To combat the continent's infrastructure deficit, alternative sources of funding are needed, and institutional investors are increasingly seen as natural funding partners given their long-dated liabilities that seek inflation-linked assets.

But, not all infrastructure assets offer the virtues of inflation hedging and it is important for investors to understand the different categories of infrastructure assets, as well as the different life-stages of their development, as these result in different cashflow profiles. There are two main types of infrastructure investment – greenfield and brownfield.

Greenfield infrastructure investment refers to investments that create new infrastructure – new development and construction. For an investor, some inherent risks of these projects include construction risk, performance risk and off-taker risk. The creation of the asset primarily involves funding the project, with risk of the project not reaching a stage of being commercialised. At this stage of development, the infrastructure asset would not manifest any inflation-hedging features.

Brownfield infrastructure investment refers to investments in existing and ready to operate infrastructure assets. These assets can (potentially) generate revenues. Given that the infrastructure now exists and is in use, the risks of investing into this project are substantially less than in a greenfield project where the future cash generation is uncertain. Because many infrastructure assets feature monopolistic features (e.g. a toll road that all road users must utilise to access a specific town), cash generation for such assets is easy to model. Brownfield infrastructure investments are also often scalable; by enhancing the facilities, greater output can be produced and therefore greater cashflows. These features allow for the cashflows emanating from brownfield infrastructure investments to be modelled to escalate or be linked to inflation and the cashflows can be used to match against long-dated liabilities because of the long-dated nature of the operating capacity of most infrastructure assets

With an understanding of the fundamental merits of the asset class, it is important to appreciate how institutional investors in Africa would traditionally approach the asset class. Prudential investment requirements might preclude them from taking up exposure to a single asset (e.g. one toll road) and they could invest in a diversified portfolio of infrastructure assets. This can be achieved by investing in a fund, where the fund is able to give investors diversified exposure to the asset class. However, it is important to appreciate that most infrastructure investments would be classified as unlisted investments.

Most institutional investors are relatively risk averse and may not have investment mandates allowing for investing in unlisted instruments. Thus, for long-term savings to be channelled towards African infrastructure assets, the investment mandates (inclusive of the regulatory thresholds) would need to be revised to accommodate investments in unlisted instruments and more specifically, infrastructure assets.

In addition to revised mandates, institutional investors would benefit from a performance index for infrastructure investments in Africa. This would improve their ability to evaluate the available investment opportunities, monitor the performance of infrastructure investments and make better informed decisions on asset allocation.

RisCura has partnered with Africa Investor to launch Africa's first infrastructure performance benchmark. The first results are expected later this year and will provide much needed insight into investment in this sector, which should in turn facilitate increased investment into African infrastructure projects. In time, this should contribute towards closing Africa's infrastructure gap and help boost economies across the continent.

SHOULD WE EXPECT MORE PRIVATE PROSECUTIONS FOR ENVIRONMENTAL CRIMES?

By **Athi Jara,** Director at LNP Attorneys Inc.

Private prosecutions for environmental crimes has always been a thorny issue in South African environmental law. In the recent case of *Uzani Environmental Advocacy CC v BP Southern Africa (Pty) Ltd*, the Gauteng Division of the High Court in Pretoria found BP Southern Africa (Proprietary) Limited ("**BP**") guilty of contravening the provisions of the National Environmental Management Act, 1998 ("**NEMA**") which require fuel retailers to obtain environmental authorisations prior to commencing with any construction of filling stations, which trigger certain listed activities.

In this case BP was prosecuted by Uzani Environmental Advocacy CC ("**Uzani**"), a private environmental advocacy group. BP was charged with the unlawful commencement with 67 listed activities in respect of 21 filling stations without the requisite environmental authorisation. The High Court found BP guilty on most of the charges. Perhaps before we consider the arguments put forward in the court proceedings, it is worth looking at the applicable regulatory framework.

Although the charges brought were for the contravention of the Environment Conservation Act, 1989 ("**ECA**"), the ECA has effectively been replaced by NEMA. Section 24(2) of NEMA empowers the Minister of Environmental Affairs to publish a list of activities which impact or are detrimental to the environment and which may not commence without an environmental authorisation. Pursuant to these empowering provisions, the Minister published the Environmental Impact Assessment Regulations ("**EIA Regulations**") together with Listing Notices. The EIA Regulations and listed activities have been amended over time with the most recent versions being published as GNR 982, 983, 984 and 985 of Government Gazette 38282 on 4 December 2014. Depending on the listed activity triggered, the EIA Regulations provide for two types of processes to be following in the application for an environmental authorisation, namely: a shorter basic assessment process or a lengthier scoping and full environmental impact assessment process. Both processes require public participation to be undertaken by the applicant as well as specialist studies.

Of relevance to petroleum companies such as BP, listed activity 14 of Listing Notice 1 lists the development of facilities for the storage of "a dangerous good" – which includes petroleum products – in containers with a combined capacity of over 80 cubic metres but not exceeding 500 cubic metres as an activity which requires an environmental authorisation and that a basic assessment process be followed in the application for the authorisation. Furthermore, listed activity 4 of Listing Notice 2 lists the development of facilities for the storage of dangerous goods in containers with a combined capacity of over 500 cubic metres as an activity which requires an environmental authorisation and for which the lengthier scoping and EIA process must be undertaken.

Commencing with a listed activity without an environmental authorisation is an offence in terms of section 24F of NEMA. However, section 24G of NEMA provides for a rectification application to be

submitted by a person who commits an offence in terms of section 24F. An applicant for a rectification application would essentially be liable to payment of an administrative fine. Many environmental law writers have pointed out the fact that a section 24G application may be construed to essentially be an admission of guilt. Although not expressly stated, this line of reasoning appears to be followed by the High Court in the BP case.
In this case, Uzani sought to privately prosecute BP for its unlawful commencement with listed activities without the requisite environmental authorisations. Uzani relied on the private prosecution provisions in section 33 of NEMA, which allow any person acting in the public interest or in the interest of the protection of the environment to bring legal action against anyone who contravenes a provision or duty in environmental legislation, which duty is concerned with the protection of the environment.

BP denied that Uzani was entitled to institute private prosecution proceedings against it and entered a plea of not guilty against the environmental law contravention charges. BP contended that Uzani was required to have consulted with the Director of Public Prosecution ("DPP") prior to instituting the proceedings. BP also denied that the private prosecution was in the public interest or in the interest of protecting the environment. BP argued that only the National Prosecuting Authority could prosecute applicants who had submitted a section 24G rectification application.

During the trial, Uzani called an expert to present evidence on the environmental degradation and contamination which results from filling stations and how a rectification application in terms of section 24G of NEMA post-commencement with a listed activity is not as effective and is of an "qualitatively inferior" status to an environmental authorisation application made prior to commencement with the listed activity. This is primarily because refusing the section 24G application post commencement is not an option as this could lead to job losses. The expert testified that only a small volume of fuel could pollute a large area of groundwater and that such pollution is effectively irreversible. This is particularly the case with underground fuel storage tanks.

In a judgment by Judge Spilg, the court held that the consultation with the public prosecutor prior to initiating private prosecution proceedings need not be an extensive process, done face-to-face or in order to reach consensus. To this extent, the court found that Uzani had sufficiently consulted with the DPP. The court also found that Uzani was acting in the interest of the protection of the environment. This was despite BP's submission that there was no evidence that filling stations pose a risk to the environment and that its sites were not located in ecologically sensitive environments. BP also made the point that it took precautions to ensure environmental protection and undertook environmental audits on its sites every three years. Lastly, the court found that the submission of a rectification application under section 24G of NEMA and imposition of penalties on the applicant does not preclude such applicant from being prosecuted.

This judgment should serve as a caution to other petroleum companies who commence with listed activities without the requisite environmental authorisation. In addition to being required to submit a rectification application under section 24G and paying administrative penalties, the applicant may also be criminally prosecuted - especially by the often highly motivated and sometimes even financially capable environmental advocacy groups. Companies should therefore ensure that they obtain the necessary environmental authorisation prior to commencing with any listed activity under NEMA.

Contributor's Profile
Athi Jara is a Director at LNP Attorneys Inc. She heads up the Mining and Environmental Law practice group.

She holds an LLB Degree from the University of the Witwatersrand, Johannesburg and an LLM Degree (with merit) from the University of Sussex, United Kingdom. She has over 10 years' experience in Mining and Environmental Law.

Her experience within the mining practice area includes involvement in mergers and acquisitions transactions, conducting mining due diligences, compiling mining title reports, undertaking mining litigation, black economic empowerment structuring in compliance with the provisions of the Mining Charter, giving advice on mining royalties and drafting technical mining agreements.

She has acted for a wide range of mining companies in all mineral commodity sectors, including base and precious metals, coal, gold and platinum group metals. She has also assisted a number of clients with regards to their environmental compliance requirements under South African Law.

WHAT ANALYSTS ARE SAYING
ABOUT
AFRICA'S ECONOMIC OUTLOOK AND FINANCIAL STABILITY

AFRICA: Banking sector frameworks improve. The International Monetary Fund indicated that Sub-Saharan African (SSA) countries have made progress in strengthening their banking sectors. It said that the economies of the Central African Economic and Monetary Community (CEMAC) adopted several new regulations, such as the clarification of the definition of systemically important institutions in line with the Basel Committee recommendations, and the establishment of a sound emergency liquidity assistance framework. Also, it noted that countries of the West African Economic and Monetary Union (WAEMU) adopted new prudential regulations aligned with Basel II and Basel III principles, which should help consolidate the balance sheets of the region's banks and address current vulnerabilities. In parallel, the Fund noted that the decline in correspondent banking relationships (CBRs) in some SSA countries has resulted in a higher concentration among the CBRs that remain, which increases the risk to financial stability.

AFRICA: Debt vulnerability varies across region. IHS Markit assessed the total debt vulnerability of 53 African countries in the 2019-23 period based on several indicators that include growth in real GDP per capita, debt-to-GDP ratios, reliance on commodity exports, roll-over debt needs, political risks and concessional debt holdings, among others. It placed 15 countries in the ''high debt vulnerability'' category, 23 economies under the ''medium debt vulnerability'' group and 15 sovereigns in the ''low debt vulnerability'' segment. In parallel, IHS considered that African economies should maintain high real GDP growth rates in order to limit their debt vulnerability, given that a higher potential growth path would facilitate the countries' repayment capacity.

AFRICA: Growth is expected to accelerate to 3.3% in 2020. The World Bank Group projected Sub- Saharan African (SSA) region to growth to 3.3% in 2020 , assuming that investor sentiment will improve toward some of the large economies of the region, that oil production will recover in large exporters, and that robust growth in non-resource-intensive economies will be underpinned by continued strong agricultural production and sustained public investment. While per capita GDP is expected to rise in the region, it will be insufficient to significantly reduce poverty. Even in areas where pushing back poverty has made inroads, economic growth has been concentrated in urban areas, providing little benefit to the rural poor. Growth in South Africa is anticipated to rise to 1.5% in 2020, in Angola is anticipated to accelerate to 2.9% in 2020, and in Nigeria is anticipated to edge up to 2.2% in 2020.

ANGOLA: Central Bank's review may expose capital shortages at banks. Fitch Ratings expected that the Banco Nacional de Angola's upcoming review of asset quality at Angola's 12 largest banks will highlight capital shortages at some banks. It noted that the review will assess the quality of loans, placements, securities and real estate assets at Angolan banks, which would give a comprehensive analysis of potential capital shortfalls. It added that the review would improve the consistency of how banks classify their assets and report asset quality. Fitch considered that the banks' capital could come under pressure, given the banking sector's high impaired loans-to-gross loans ratio of 28%, the deficiencies of some banks' valuations of collateral, and the track record of difficulties in realizing collateral. But it expected the banks' capitalization to remain weak, due to the volatile operating environment, which would affect the debt-servicing capacity of borrowers, as well as to the high exposure of most banks to large single-name obligors and foreign currency risk.

EGYPT: Banks' ratings upgraded; outlook 'stable'. Moody's Investors Service upgraded the long-term local currency deposit ratings of National Bank of Egypt (NBE), Banque Misr (BM), Banque Du Caire (BdC) and Commercial International Bank (CIB) from 'B3' to 'B2', as well as the rating of Bank of Alexandria from 'B2' to 'B1'. It also upgraded the five banks' long-term foreign currency deposit ratings from 'Caa1' to 'B3'.

The agency revised the outlook on the banks' long-term local currency deposit ratings from 'positive' to 'stable'. It noted that the upgrades follow a similar action on the sovereign ratings and reflect more favourable operating conditions for the banks, given the economic recovery and the implementation of structural reforms. It added that funding conditions, mainly those related to foreign currency, have normalized following the liberalization of the exchange rate. However, it said that the banks' credit conditions remain challenging, mainly due to gaps in the legal framework for secured lending, high borrower concentrations and the significant increase in higher-risk loans to small and medium-sized enterprises.

ETHIOPIA: External debt sustainability is main risk to outlook. European credit insurance group Credendo considered that the sustainability of Ethiopia's external debt continues to be one of the largest risks to the country's medium and long-term outlooks. It attributed this trend to Ethiopia’s heavy borrowing in recent years to fund multiple infrastructure projects. It said that these projects supported the country's economic development and contributed to stronger economic growth. But it pointed out that the infrastructure projects have also increased the country's debt levels in recent years. it indicated that China announced that it will restructure part of Ethiopia's debt.

KENYA: Banks grow via mobile products in broader market. Kenyan banks are now working with Safaricom's M-PESA mobile payments service to offer saving and loan products, a credit positive, Moody's Investors Service says in a report published today. "Banks have piggybacked on a successful model, partnering with M-PESA to offer services, like loans and deposits, and improving their cost efficiency," said Christos Theofilou, VP-Senior Analyst at Moody's. "M-PESA is a fintech disruptor and has dominated payments in Kenya since 2007. Mobile payments adoption has broadened financial inclusion and expanded the banking population, increasing banks' customer base and revenue pool, and strengthening demand for banking products."

MAURITANIA: Structural reforms to maintain favourable economic outlook. The International Monetary Fund indicated that Mauritania's economic activity continues to be favourable, supported by the Extended Credit Facility arrangement with the IMF. It estimated real GDP growth at 3.6% in 2018 and projected it to accelerate to 6.7% in 2019 due to the robust growth in non-extractive sectors, more favourable terms of trade, and the upcoming development of a large offshore gas field. It said that the implementation of planned structural reforms has maintained macroeconomic stability, created some fiscal space, reduced the external debt level, and boosted foreign currency reserves. In parallel, the Fund noted that the government plans to use the potential fiscal space on priority social spending and on public infrastructure, and to seek concessional financing to improve debt sustainability.

NIGERIA: Central Bank to maintain tight monetary policy. Barclays Capital considered that the reappointment of the Central Bank of Nigeria's (CBN) governor, Godwin Emefiele, for a second five-year term would allow the CBN to continue implementing its current policies and to prioritize the stability of the multiple exchange rate system. It said that the CBN introduced in 2017 a new foreign currency window for investors and exporters, which led to a resurgence in portfolio inflows and improved foreign currency liquidity domestically. It noted that the increase in foreign currency liquidity allowed the parallel exchange rate to converge with the Investor & Exporters' exchange rate of between NGN360 per US dollar and NGN365 per dollar. But it pointed out that the CBN's policies have crowded out lending to the private sector and considered that the difficulties faced by some domestic sectors in accessing foreign currency constitute a constraint on Nigeria's economic growth.

RWANDA: Higher capital buffers improve banks' resilience to shocks. Moody's Investors Service considered that the increase in the total capital adequacy ratio of Rwanda's banking sector from 23.7% at the end of March 2018 to 25.5% at end-March 2019 will strengthen the banks' resilience to potential shocks and provide them with greater capacity to absorb losses. It noted that the sector's non-performing loans ratio reached 6.4% at end-2018 and that the provision for these loans is around 68%, which exposes the banks' capital to unexpected loan losses. Further, it said that higher capital buffers will protect the banks from tail risks arising from the property market, given that mortgages account for 37% of the banks' total loans as of June 2018. In parallel, it indicated that the system's liquidity coverage ratio (LCR) stood at 215% and the net stable funding ratio (NSFR) reached 174% at end-March 2019, both above the Basel III liquidity standards minimum requirement of 100%. It noted that the banks' funding profiles remain constrained, as about 98.5% of their deposits have maturities of less than one year.