INTO AFRICA

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MANAGERS OF AFRICA'S ASSET AND WEALTH

RESPONSIBLE INVESTING IN 2020: SOME TIPPING POINTS… AND SOME NOT

RMS WITHIN THE FUND MANAGEMENT SECTOR IN GHANA

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Welcome to the August 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: ***Managers of Africa's Asset and Wealth***.

African countries have been increasing their ranks of wealthy citizens through a phase of rapid economic growth. Knight Frank's 2019 Wealth Report forecasts that there will be over 400 more billionaires in Africa by 2023. Also, it is expected that the growth in ultra-wealthy populations in Africa will outpace that of Europe and North America over the next decade, with the number of high-net-worth individuals (HNWIs) growing by 30% in Africa. The growth has been driven in part by a rising tide of tech-savvy entrepreneurs and local business owners who are transforming their ventures into larger, better-established businesses. Furthermore, there is an increasing number of diaspora or repatriates of African descent returning to the continent, starting new ventures. These growing groups of wealthy and ultra-wealthy individuals, as well as the government-incentivised shift to individual retirement plans and the demand for insurance products and the growth of sovereign wealth funds (SWFs), are fuelling a lively expansion of asset and wealth management as well as private banking across the continent.

Research from PwC projects that traditional assets under management in 12 markets across Africa will rise to around US$1,098 billion by 2020, from a 2008 total of US$293 billion. This represents a compound annual growth rate of nearly 9.6%. Although the fund industry in Africa is, in most countries, still developing and has much to prove, global and local asset and wealth managers are likely to become more active as the industry continues to flourish, evolves and adopts technology to make delivery of new products cheaper, bringing more consumers into the formal financial sector.

We bring you exclusive interviews with the asset and wealth management's Chief Executives: **KOJO ADDAE-MENSAH** (Group Chief Executive Officer, Databank Group Ghana), **KENNETH KANIU** (Chief Executive Officer, BRITAM Asset Managers Kenya), **AMR ABOL-ENEIN** (Managing Director, CI Asset Management Egypt), **OLADELE SOTUBO** (Chief Executive, Stanbic IBTC Asset Management Nigeria) and **CEASER SIWALE** (Chief Executive Officer, Pangaea Securities Zambia).

On the regulatory front, **NANA ASAFU-ADJEI** (Associate ENSafrica Ghana) provides legal and regulatory reforms in Ghana's fund management sectors. At the same time, **DEIRDRE PHILLIPS** (Partner, Bowmans South Africa) looks at the reform in South Africa's retirement fund industry. She pointed that South Africa's retirement fund industry has for many years been legally required to consider ESG factors in their investments, they are now being asked to increase the transparency of their ESG disclosure and reporting. Still on the regulatory front, **ROSA NDUATI-MUTERO** (Partner, Anjarwalla & Khanna LLP Kenya) and **KENNETH KIMACHIA** (Associate, Anjarwalla & Khanna LLP Kenya) give a high-level overview of the regulatory landscape in Kenya concerning asset management.

On a general note, **ANDREW CANTER** (Chief Investment Officer, Futuregrowth Asset Management South Africa) explains some of the fundamentals of responsible investment and advise that ESG factors should become an additional set of analytical tools on which to formulate investment ideas and identify material risks or opportunities. **AMELIA SLOCOMBER** (Managing Director - Head of Legal, Loan Market Association) explores the emerging trends, challenges and opportunities in the syndicated lending in Africa. She viewed that whilst the African loan markets can be unpredictable, it is largely resilient, and this resilience is expected to continue despite existing pressures. **SELWYN BLIEDEN** (Head of Africa Coverage, Commercial Property Finance) discusses the next phase of real estate financing in Africa.

And still more, **TEWODROS MEHERET** (Attorney, GeTS Law Office Ethiopia) dissects the revitalize privatization of state-owned enterprises in Ethiopia. **IBRAHIM ZEIDY** (Chief Executive Officer of the COMESA Monetary Institute) features a piece titled: "*Development of domestic financial institutions for inclusive growth in Africa*". While **ANNABEL BISHOP** (Group Economist, Investec Bank, South Africa) offers her view on South Africa's macroeconomic outlook for 2019-2025.

As usual, we provide you with a summary of what analysts are saying about Africa's economic outlook and credit quality as well as the prospects of the commodity markets for 2019.

Tunde Akodu

Editor

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RESPONSIBLE INVESTING IN 2020: SOME TIPPING POINTS… AND SOME NOT

By **Andrew Canter,** Chief Investment Officer, Futuregrowth Asset Management South Africa

As we trundle toward 2020 there are meaningful changes happening in the world of responsible investing.

Investors have now realised that **global warming is real**, and may be approaching the 'point of no return' – with visibly rising temperatures, melting ice, and altered climates. The ability for humanity to make adjustments has dropped from decades to mere years. Until now, humans have been willing to trade 'ecology' for 'economy'. Asset owners and fund managers are now embracing a meaningful, large-scale change in the way they view carbon (or pollution) emitting investments. Capital is shifting away from carbon emitters in favour of sustainable practices. 'Stranded assets' – the idea that coal or oil in the ground may never be used – is a phrase first coined only a few years ago, but has quickly become a real factor in company analyses.

Inequality, slow growth, corruption and mismanagement have created **growing political risk**, such as the populist backlash against 'the status quo'. Capital owners (investors) invariably represent 'the status quo', and thus face risks of uncertainty, expropriation, taxation, and protectionism. Investors' move to channel capital toward development, and to be more responsible, is both appropriate and defensive.

The rise of responsible investing is also driven by the trend for investors to seek a sense of **purpose** in their lives and with their money. As investors move toward 'making money and also being a positive force in the world', they take on a wider role and duty. This leads to more varied analyses and better decision processes. Culture is a competitive advantage in building robust decision processes, but also in attracting clients and employees.

Investors are finding new tools to be responsible and engaged. These include proxy voting policies and transparency, direct dialogue with companies, and improved reporting on sustainability issues. There is an organised global movement toward requiring more comprehensive and standardised reporting on a range of Environmental, Social and Governance (ESG) factors. Improved information flow on ESG factors is a vital first step for analysts to do their work.

In South Africa, recent corporate and public sector shenanigans, plus the rising tide of 'stewardship codes' such as the PRI, CRISA, and Reg 28, have led investors to contemplate how they can improve governance standards. 'Tick box' governance assessments are clearly inadequate. The King IV Code, for all its merits, is evidently not a panacea, and corporate governance does not begin-and-end with the board of directors. A more sophisticated view is that governance is best seen as a "web" – which includes oversite of the board, insiders, capital providers (investors and funders), regulators, auditors, ratings agents, journalists, and customers alike. The key elements for that **web-of-governance** to work are the oversite of shareholders, the empowering of insiders through whistle-blower practices, and much more reporting on governance matters so that outsiders can do their job of monitoring.

While there are positive movements in responsible investing, some challenges remain.

Some asset managers put a **veneer of ESG** on their investment processes, but investors are becoming more savvy in differentiating between 'ESG on the label' versus 'ESG in the product'.

Equity fund managers may also **fetishise their benchmarks**, in many cases leading them to be 'closet indexers' – reticent to stray too far from benchmark exposures. Thus, a manager with a strong negative view (either financial or ESG based) has a very difficult time going to 0% exposure of a large-cap share. Until their investor clients expect and encourage more bold positions (relative to benchmarks) from their asset managers those managers will be reticent to act strongly on corporate misbehaviour.

Another challenge is that investment analysts can suffer a range of **inappropriate pressures** that impair their independence or stifle their public voice. For example, there are corporate bullies who will punish analysts who make critical comments by excluding them from future conference calls or report backs. Likewise, some financial sector employers are more interested in protecting their corporate relationships than allowing their analysts to work in an unfettered manner. South Africa has seen strong evidence of the benefits of a free press, and investment analyst independence is equally vital in maintaining accountability and transparency on issuers in public capital markets.

Many asset managers see **ESG as ancillary** to their analysis or a mere screening tool for investments (e.g. negative screening). Rather, ESG factors should become an additional set of analytical tools on which to formulate investment ideas and identify material risks or opportunities – and thus build top-performing, competitive investment processes.

Investors **must seek returns as a primary goal**, and there should be no compromise of investment returns in favour of social or developmental impact. Sadly, many investors still muddle 'ESG', 'Responsibility' and 'Sustainability' with compromised returns. On the contrary, the additional analytical tools of ESG should serve to either reduce risks or increase returns over any time horizon. Once the language of asset managers and analysts clearly shifts to risk-avoidance and return-seeking we might see the end of the muddling.

Risk measures of assets and portfolios often include volatility, macro factors, industry factors, and such. Investors need a more **comprehensive set of risk measures** so as to demonstrate that ESG analysis produces superior risk-adjusted returns. It should be clear that by avoiding governance, environmental and social pitfalls, an investor can reduce portfolio risk (albeit also missing out some high-flyers, before they come to earth) over the long-term.

The world of responsible investing has seen clear forward movement – at the very least, an understanding that the choices about capital deployment have real-world consequences. To overcome the structural barriers to change, investors should start by recognising that ESG factors actually do impact risk: return considerations, and that value-adding investment processes can be built around that idea.

"Investors have now realised that global warming is real, and may be approaching the 'point of no return' – with visibly rising temperatures, melting ice, and altered climates. The ability for humanity to make adjustments has dropped from decades to mere years. Until now, humans have been willing to trade 'ecology' for 'economy'."

Contributor's Profile

Andrew Canter is a director and senior member of the Futuregrowth management team, involved in all material strategic and operational decisions. He is Chief Investment Officer and Chairman of both the Credit Committee and the Investment Committee. He oversees the investment processes, sets manager mandates, monitors compliance and reviews fund exposures and performance.

Andrew joined Futuregrowth in 1998. He was a co-founder of RMB Asset Management where he was a fixed interest dealer and fund manager from 1990 to 1998.

REFORMS WITHIN THE FUND MANAGEMENT SECTOR IN GHANA

By **Nana Akua Pokua Asafu-Adjei,** Associate ENSafrica Ghana

Introduction

Investment in Ghana continues to rise. This is in line with the government's vision for Ghana to become an International Financial Services Centre. In light of this vision, the Securities and Exchange Commission of Ghana ("SEC"), the regulator of the securities market in Ghana, is putting measures in place to reform the securities industry, particularly, fund management in Ghana.

The Enactment of the Securities Industry Act

The Securities Industry Act, 2016 (Act 929) (the "Current Securities Industry Act") which repealed the Securities Industry Act, 1993 (P.N.D.C.L.333) was considered revolutionary when it was passed. It made provision for the regulation of new regimes within the securities markets such as private equity and venture capital funds, hedge funds, derivatives and commodity exchanges, and credit rating agencies which were not featured in the repealed Act.

The Current Securities Industry Act also streamlines the core functions and operations of market operators within the securities industry. One such provision is distinguishing an investment adviser from a fund manager. Under the repealed Act, an investment adviser was able to operate as both an investment adviser – a person who advises on securities, and a fund manager – a person who manages a portfolio of securities to ensure return on investment.

The separation of the roles in the Current Securities Industry Act takes way the undue burden on an investment manager of maintaining a higher liquid capital and allows the investment adviser to focus on its advisory function. A fund manager now also focuses on investing the client's funds. This has ensured checks and balances and has created much-needed comfort for investors.

Monitoring and Supervision

The SEC has increased its monitoring activities of market operators, particularly of fund managers. The Current Securities Industry Act empowers the SEC a lot more. The additional powers include the power to direct that books be produced for inspection, the power to question persons and search any premises that the SEC may require and to issue directives and circulars on operations. In exercising these powers, the SEC, in April 2019, suspended the licences of 5 market operators.

An unpermitted activity which the SEC has had to curb is fund managers offering fixed term investments and guaranteed returns to clients, a function which is reserved for banks and specialised deposit taking institutions. In efforts to nip this non-permissible activity in the bud, SEC has issued stern warnings to fund managers to desist from such activities or risk having their licences being cancelled.

Streamlining Operations

In March 2019, the SEC announced the introduction of new asset management regulations which are yet to be released. With emerging risks in the fund management sector such as the inability of fund managers to honour redemption requests on fixed deposits issued and an increasing incidence of related party investments (with firms investing as much as 65% of their funds under Management into related parties), the asset management regulations are expected to cover corporate governance, provide guidelines on investment and financial resources to ensure properly capitalised asset management firms, and increase the minimum capital requirements for firms operating in the capital market. The SEC is also expected to strengthen its supervision and enforcement powers to ensure that fund managers deliver on their mandate to the investing public.

Despite the potential to strengthen the enforcement of the Securities Industry Act, the new asset management regulations may restrict the operations of fund management in Ghana by only protecting the integrity of the market to a limited extent.

Increasing number of fund managers

The total number of licensed fund managers operating in Ghana has significantly increased from about 51 in 2010 to about 150 in 2018. This growth is manifested in the figures: The value of funds managed in Ghana has grown from under GHS1 billion (approximately US$189 million) in 2010 to approximately GHS 34 billion (approximately US$6.4 billion) as at March 2018. This trend has obviously led to an increase in the number of fund managers over the years which means that there is a need for a corresponding strengthening in the SEC's supervision of these fund managers. However, considering SEC's current limited oversight capabilities, it has been suggested that a temporary cap be placed on the number of licensed fund managers until the SEC is sufficiently resourced to be able to monitor the increasing number of operators.

Increasing Stated Capital and Liquid Capital Requirements

There is speculation that the SEC intends to increase the stated capital requirement from GHS100,000 (approximately US$19,000) to a proposed amount of GHS5 million (approximately US$940,000) with a proposed liquidity capital of GHS1,875,000 (approximately US$354,000). With existing limitations on the SEC's enforcement capabilities, questions have been raised as to the purpose of the increase. The expectation is that the SEC will focus on strengthening its capabilities instead of merely raising capital requirements periodically. Without proper enforcement mechanisms in place, an increase in the minimum capital requirement is not likely to achieve the desired effect and increase the risk of fund managers undertaking unpermitted activities such as guaranteeing returns in order to increase their revenue.

Conclusion

Overall, the proposed changes could present new challenges for asset management companies as the changes could restrict the opportunity for large capital inflows.

It has been suggested that the SEC needs to do more to exercise its duty of care to investors. As investors demand solutions to failed investments, the onus is on the SEC to be more attentive to the activity of asset managers and responsive in addressing the concerns of investors. Hopefully, the asset management guidelines to be introduced will strengthen the SEC's surveillance capabilities over the securities market allowing it to hold operators to higher standards.

Finally, beyond regulation, fund managers should be encouraged to be more proactive and prudent in handling investors' funds. Funds are long-term investments and investors should not view them as ATMs or cash in bank savings account to meet their immediate financial needs. Management and monitoring of liquidity is a very important aspect of the role of the fund manager who must keep lines of communication with its clients open. Monitoring tools include a regular liquidity analysis to ensure that assets continue to match investors' requirements. It is also important to stress test funds' holdings to ensure that there is enough liquidity in a range of possible scenarios.

Contributor's Profile

Nana Akua Asafu-Adjei is an associate at ENSafrica, Ghana. She has acted for local and international clients in a range of industries, including financial institutions and those in the food and beverage industry.

Nana Akua's experience includes advising clients on a number of M&A, as well as on commodities exchange transactions.

In addition, she is experienced in advising on matters relating to dispute resolution, employment, intellectual property, financing law and corporate governance.

REGULATOR MOVES TO SHARPEN SUSTAINABILITY FOCUS OF SA RETIREMENT FUNDS

By **Deirdre Phillips,** Partner, Bowmans South Africa

As international attention on climate change and sustainable development intensify, financial systems worldwide are being reformed to focus more strongly on sustainability and build environmental, social and governance (ESG) factors into decision making. While South Africa's retirement fund industry has for many years been legally required to consider ESG factors in their investments, they are now being asked to increase the transparency of their ESG disclosure and reporting.

The industry regulator, the Financial Sector Conduct Authority (FSCA), recently released a guidance notice that calls on boards of retirement funds to disclose how their investment philosophies and objectives seek to ensure the sustainability of assets and investments. This should be detailed in each fund's investment policy statement, which should, in turn, be shared with members so that they can see how the fund approaches sustainability, specifically around ESG, in its investments.

Such disclosures appear to be voluntary at this point, in that funds are merely 'encouraged' to comply, but there are hints that this could change in the future. In a communique that accompanied the release of its guidance notice on 14 June 2019, the Authority said it had taken note that various stakeholders had called for more 'intrusive' requirements, while others had called for some flexibility and several had emphasised the importance of applying similar sustainability principles across other sectors, specifically in the asset management sector.

'The FSCA takes note of these submissions and agrees that the requirements relating to sustainability, including disclosure and reporting of issues surrounding sustainability, require further refinement,' the Authority said. 'The FSCA will, therefore, continue to work on refining the regulatory framework insofar as it relates to issues of sustainability...'.

This could potentially lead to more detailed and refined disclosure and reporting requirements.

For the time being, however, the boards of funds are being 'encouraged' to adopt the practices described in the Authority's guidance notice, titled 'Sustainability of investments and assets in the context of a retirement fund's investment policy statement'.

ESG and funds' investment policy statements

The purpose of the June 2019 guidance notice is to guide boards on how to comply with existing regulations on their investment policy statements and the obligation to consider ESG factors before investing in an asset.

Regulation 28 of the Pension Funds Act, 1956 limits the extent to which funds subject to the PFA may invest in certain categories of assets. Regulation 28(2)(b) provides that every fund must have an investment policy statement and Regulation 28(2)(c)(ix) requires the board, before making an investment in and while invested in an asset, to consider any factor that may materially affect the sustainable long-term performance of the assets. Such factors should include those of an environmental, social and governance character. Thus, boards are already obligated to consider ESG factors before making an investment and while being invested in an asset. What the new guidance notice does is set out the FSCA's expectations of what boards of funds should be disclosed in their investment policy statements.

First, a fund's investment policy statement should describe its general investment philosophy and objectives in relation to sustainability. This should include describing the extent to which it has considered ESG factors – which in the South African context, in relation to South African assets, includes broad-based black economic empowerment. Details that should be included are when the investment policy statement was approved and by whom, how often it will be reviewed, and how it intends to monitor and evaluate the ongoing sustainability of the asset.

Second, where a fund holds assets that 'limit the application of ESG factors', its investment policy statement should explain how this limitation is to the advantage of both the fund and its membership. If this limitation is not to their advantage, the investment policy statement should set out remedial action that the fund has taken or intends to take to rectify the position. Where no remedial action has been taken or considered, then the fund should give the reasons for this.

Apart from encouraging funds to disclose their approach to ESG, the guidance notice recommends that they share their investment policy statements with their members. A fund can do this by providing copies of its statement to members on request – at no cost – and by posting a copy on the fund's website. Funds are also encouraged to make a copy of their investment policy statements available to stakeholders, such as participating employers and unions, once a year. In this way, members will be able to see what, if any, ESG factors were considered in making a certain investment. All of these are in the interest of transparency, accountability and the fair treatment of fund members, the guidance notice says.

Reporting on sustainability

Another important element of the latest guidance notice is that it encourages boards of funds to report in their annual financial statements on the extent to which their investment policy statements reflect the matters covered. This should include details of any significant changes to its investment policy statement in the year reported on.

It would also be 'prudent', the guidance notice says, to include a note in the annual financial statements confirming that every fund member who requested a copy of the policy statement did, in fact, receive one. Similarly, it recommends that funds report on the assets and asset classes held in relation to sustainable investment, as well as the value of these assets.

It will be interesting to see how retirement funds respond to the FSCA's guidance on what they should be disclosing and reporting on when it comes to investment sustainability and what they are doing to take ESG measures into account. While the contents of the latest guidance notice have been pointedly phrased as 'guidance' and encouragement, funds would probably be prudent to follow this guidance as closely as possible, disclosing more rather than less. After all, the Authority has already indicated that more detailed and refined disclosure and reporting requirements could be in the offing.

"South Africa's retirement fund industry has for many years been legally required to consider ESG factors in their investments, they are now being asked to increase the transparency of their ESG disclosure and reporting."

Contributor's Profile

Deirdre Phillips is a partner in Bowmans' Johannesburg office Banking and Financial Services Regulatory Practice. She has significant knowledge and experience in all aspects of pension law, medical schemes and employee benefits law, having specialised in pensions and employee benefits since 2009. Deirdre provides legal opinions and training to retirement funds, their boards, principal offices, administrators and other providers of products and services to retirement funds. She also advises employers on their rights and obligations in relation to occupational retirement funds to which their members or employees belong. She has an LLB degree from North-West University and a Certificate in Pensions Law from the University of the Witwatersrand.

DATABANK TO BE DOMINANT INVESTMENT BANK IN GHANA, BIGGER PRESENCE IN OTHER AFRICAN COUNTRIES

KOJO ADDAE-MENSAH, GROUP CEO, DATABANK GROUP GHANA

CAPMARKETSAFRICA: *Firstly, let's talk about you. Please tell our readers more about your background and what motivated your choice of career path?*

KOJO ADDAE-MENSAH: My first degree was in Economics and then I did an MBA in Finance, all at the University of Ghana. That was where I developed my interest in investment banking. After school, I started out my career at Databank in 1998. I spent only 2 years there as the capital market activities were not vibrant enough. I then moved to Standard Chartered, where I worked for almost 10 years, did 2 years at Barclays Bank, another 2 years at GCB bank and then I got the call that brought me back to Databank to lead the Group.

CAPMARKETSAFRICA: *Let's find out a little more about DATABANK GROUP. What led to the creation of DATABANK?*

KOJO ADDAE-MENSAH: The founders of Databank, which includes the current Minister of Finance, Ken Ofori-Atta worked on wall street for a while and had the vision to establish a capital market in Ghana. In 1990, Ken was instrumental in the development of the Ghana Stock Exchange and Databank was set up as Ghana's premier Investment Bank. It has evolved as the capital market has developed and as the laws and regulations have been reviewed.

CAPMARKETSAFRICA: *Okay, what does DATABANK do? Which areas of financial services is it engaged in? What category of clientele and any major recent or upcoming transactions?*

KOJO ADDAE-MENSAH: The Group comprises three subsidiaries. Through Databank Asset Management Services Limited (DAMSEL), we manage a range of mutual funds, pension funds, institutional funds (including corporate, endowment and benefit funds) as well as customized portfolios for our high-net-worth clients. DAMSEL manages funds for close to 300,000 institutional and retail clients, with total assets under management of GHC 4.81 billion (US$ 916 million). Databank Brokerage Limited (DBL) trades stocks and fixed-income instruments for private clients, governments, and corporations. DBL is a leader on Ghana's primary market in the broker-dealer category having raised about GHC 1 billion (US$ 190 million) for Government of Ghana in medium-to-long term debt securities on the Ghana Fixed Income Market (GFIM). DBL holds a dominant market share of stock market activities (49% as at March 31, 2019) on the Ghana Stock Exchange. The third subsidiary is Databank Financial Services Limited, which is the parent.

CAPMARKETSAFRICA: *It is obvious, that politics affects the financial sector a great deal. What strategic plans do you have in place to maximize profitability as well as enhance shareholders' value? And where do you see DATABANK in five years from now, please?*

KOJO ADDAE-MENSAH: The extent to which politics would affect the financial sector, and by extension Databank, would be the impact of government's decisions on the disposable income of Ghanaians, which is what people bring to us to invest. Databank will turn 30 years in 2020 and, as such, has operated through different political regimes. Our client base consists of Ghanaians who are loyal to the varied political parties. However, that really has no bearing on our business as our commitment is to manage all funds that we receive and generate the best returns we can for our clients in a sustainable manner, irrespective of which political party is in power.

In the next five years, I would like to see two things. First, I would like to see Databank as the dominant investment bank in Ghana – not just in assets under management, but in our ability to reach individuals in every corner of Ghana. Currently, most of the investment banks have concentrated their business in Accra, and in a few cases expanded to Takoradi and Kumasi. However, Ghana has 16 regions and over 29 million people. If we truly intend to deliver on our mission of helping ALL Ghanaians achieve financial independence, then we MUST necessarily have a presence in every region. Until recently, we were in 8 out of 10 regions, with a total of 19 locations across these regions. However, with the addition of 6 new regions in 2018, it means we have more work to do. The second thing I would like to see within the next 5 years is for Databank to have a bigger presence in other countries in Africa. While we have a presence in The Gambia currently, the financial services industry in Africa is woefully underserved, and I believe that Databank is well-positioned in terms of expertise, technology, and product base to make a difference in other African countries.

***CAPMARKETSAFRICA:** Now, let's talk on broader issues, but still on finance. In your view, what are the key areas requiring improvement in order for the Ghanaian wealth management industry to attain its full potential?*

KOJO ADDAE-MENSAH: I believe there are three key areas that we need to see improvement if we want our wealth management industry to achieve its full potential. They are Capital market development, Financial inclusion, and Financial sector stability.

(1) Capital market development

There is a serious lack of liquidity in the market. We also see the ability for small trades on the GSE to significantly impact the market cap. For example, earlier this year, a small trade of 100 shares with a value of GHC 75 was able to add over GHC 700 million to the company's market capitalization and cut GSE's year-to-date loss from -9.46% to -6.13% in one day. This is a big RED FLAG for the industry. We also need more listed companies. The investment universe is extremely small, which means that in the coming years we will have a huge overconcentration of money flowing into only a few companies, significantly increasing the risk to the investor should the company develop issues and potentially be delisted. The lack of companies to invest in will ultimately push the majority of funds to government securities, which is not a healthy model for the industry over the long term. We also need more investment products in the mutual fund space to cater to a broader range of investor needs.

(2) Financial inclusion

We need more widespread communication/education – companies and educational efforts tend to be focused in Accra, and at best Takoradi and Kumasi, but are not reaching the other regions. We also need education on the difference between different types of financial institutions (e.g., commercial banks, investment banks, microfinances, savings, and loans) – all of these companies purport to do investments, but not all are regulated by the SEC or are held to the same standards. We need more systems in place to allow Ghanaians to be able to invest from any corner of the country. I believe technology will be key in achieving this goal. There also must be a focus on making the licensing of sales representatives/investment advisors accessible throughout the country. This is key to growing our industry.

(3) Financial sector stability

I think we need to improve our corporate governance structures and ethics in the market to give the investing public more confidence in what we do. Recently, there has been a spate of closures of commercial banks, microfinances and investment banks – all of which have significantly eroded the confidence on the investing public. It is therefore imperative that the industry regulator, the Securities & Exchange Commission, is well resourced to monitor and drive the growth of the industry and ensure greater transparency and accountability among the players. This will be critical to attracting more investor funds from both local and foreign participants.

CAPMARKETSAFRICA: *In a more specific term, what are the biggest challenges and opportunities you see in the corporate banking sector in Ghana? And in what ways does your corporate banking division assist clients in managing their risk and enhance their revenue?*

KOJO ADDAE-MENSAH: Databank is not a commercial bank and so we do not have a corporate banking department. However, the challenge facing that sector in my view is the high level of Non-Performing Loans and the difficulty in realizing collateral to pay off the debts. The legal environment in which we operate can be slow and frustrating.

CAPMARKETSAFRICA: *Beyond the extractive industries, what makes Ghana an attractive area for investment? And what are some of the issues investors should be aware of when looking to invest in Ghana?*

KOJO ADDAE-MENSAH: There are loads of opportunities in Ghana. It is a very safe country with very liberal policies for investors. There are tax incentives, a stable political environment, and an educated hardworking workforce. Infrastructure could be better, but it is still good enough to establish a business. I would recommend a visit to the Ghana Investment Promotion Centre for more information. It is always important to deal with official channels when doing business in Ghana. It can be frustrating sometimes and there is the temptation to use 'middle' men, but I will strongly advise against that.

CAPMARKETSAFRICA: *How has technology changed the wealth management industry in Ghana — for example, firms' use of social media to reach current and prospective clients?*

KOJO ADDAE-MENSAH: It has completely changed the landscape, especially for a retail-oriented company like ours. We would not have been able to reach the number of clients we have today had it not been the use of technology and the ability for them to transact with us using the various channels we have like our mobile app and the online platform. Additionally, the rapid growth of mobile money as a means for transacting has also redefined the investment landscape in terms of how easy it is to deposit into an investment account and also the frequency and quantum of money that can be deposited. This is especially key for the informal sector, where many people do not have a steady source of income or have the ability to leave their businesses to visit a Databank location to invest.

CAPMARKETSAFRICA: *Impact investing and ESG investment are becoming popular globally. Do you feel that your firm is currently doing enough in the space, please? And also, do you have much presence in these areas?*

KOJO ADDAE-MENSAH: No. I am not sure we will ever reach the point that we are doing enough in this space, but I consider Databank to still be at the forefront of impact investing within the investment industry in Ghana. Databank currently has the only ethical mutual fund in Ghana, which does not invest in companies that produce or sell alcoholic beverages, tobacco products or arms and ammunition. Through this Fund, we have also initiated several social responsibility projects that have included renovating the children's ward at the Korle Bu Burns Unit as well as donating medication and medical supplies to burn victims. Through our Databank Foundation, we do a lot of work in Entrepreneurship, Mental Health and improving literacy in Ghana.

CAPMARKETSAFRICA: *To bring the interview to an end, what do you do in your spare time, when not busy managing DATABANK?*

KOJO ADDAE-MENSAH: I have two passions outside the office: sports and education. My outside-the-office life is therefore very busy. I play squash 4 times a week and soccer once a week, and then there are times I am a pundit on national TV (e.g., Africa Cup of Nations). I also spend a lot of time helping students. I am a Director of the Changing Lives Endowment Fund – a foundation that I and a few friends started in 2007. We started out helping to pay school fees for bright and needy children at the secondary school level but realized that many of them who graduated still needed financial assistance through tertiary education as well. To date, we have helped over 50 students. I have also undertaken a similar project over the past three years in my hometown of Abetifi to improve JHS results.

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

KENYA INVESTMENT MANAGEMENT: REGULATORY OVERVIEW

By **Rosa Nduati-Mutero,** Partner, Anjarwalla & Khanna LLP
Kenneth Kimachia, Associate, Anjarwalla & Khanna LLP

Investment management or portfolio management is the process of managing money.[1] It may be summarised as the analysing, selecting, maintaining, protecting and evaluation of the performance of a collection of securities with the objective of achieving set investment goals. This article gives a high level overview of the regulatory landscape in Kenya with respect to investment management.

More commonly known as asset management in Kenya, investment management is regulated under various laws depending on the specific asset under management. The primary regulatory laws are the Capital Markets Act, the Retirements Benefits Act and the Insurance Act. The respective regulators established under these laws are the Capital Markets Authority (**CMA**), the Retirements Benefits Authority (**RBA**) and the Insurance Regulatory Authority (**IRA**).

These Regulators operate within the confines of their respective constitutive and subsidiary laws and their own published rules or guidelines.

The CMA

The CMA, among other things regulates asset management in Kenya and supervises capital markets intermediaries. The design of the regulatory framework encourages self-regulation to the maximum practical extent.

The regulatory functions of the CMA as provided by the Capital Markets Act and the regulations under it include, among others:

- licensing and supervising all the capital markets intermediaries;
- ensuring proper conduct of all its licensees;
- regulating the issuance of capital market products (such as bonds and shares); and
- promoting market development through research on new products and strengthening of market institutions.

It is a requirement of the Capital Markets Act that all capital market intermediaries must obtain approval or licensing from the CMA. The CMA will only grant a licence or approval if the applicant meets the licensing criteria and the CMA is satisfied that the applicant is 'fit and proper' to carry on the licensed activity.

Some of the capital market intermediaries with respect to investment management in Kenya are investment advisers, fund managers, investment banks, collective investment schemes and custodians.

Investment advisers and fund managers are market professionals who analyse and research on capital markets securities and advise investors on such securities at a commission. They also manage portfolios of securities on behalf of clients pursuant to a contract. Investment banks engage in fund management of collective investment schemes and provide portfolio management services.

Collective investment schemes (CIS) include mutual funds, unit trusts, investment trusts and other forms of specialised collective investment schemes such as real estate investment trusts (REITs).

Custodians are licensed under the Banking Act and approved by the CMA to hold custody funds, securities, financial instruments or documents of title to assets registered in the name of investors under an investment portfolio. Every investment adviser and fund manager that manages discretionary funds is required to appoint a custodian for the assets of the fund.

The CMA has the power to take disciplinary action against any of its licensees including:

- issuing a public reprimand;
- suspension from trading for a specified period;
- revoking or imposing restrictions on the licensee's licence; or
- levying financial penalties and reversing of any gain made or loss avoided.

Recent developments

The CMA has stepped up its policing role particularly on insider trading by, among other measures, closely monitoring compliance, pushing through changes in law and taking appropriate action where necessary. In terms of enforcement, the CMA recently imposed a financial penalty on a bonds trader for engaging in insider trading with respect to treasury bonds. Further, with respect to trading of shares in an oil marketer, the CMA recently banned two stock broking agents and imposed financial penalties on them for engaging in insider trading.

1. Gordon, A., Sharpe, W., & Bailey, J. (2001). Fundamentals of Investments. New Jersey: Prentice Hall

The RBA

The RBA was established for the regulation and supervision of the establishment and management of the retirement benefits schemes and the promotion and development of the retirement benefits sector.

The Retirement Benefits Act and its regulations prescribe the registration procedure for managers of retirement benefit schemes. The fund manager of a retirement benefits scheme is required to be appointed by the scheme's trustees from among licensed fund managers for purposes of the scheme's investment management activities. Part of the RBA's mandate, which also covers asset management supervision, includes:

- monitoring and supervision of the operation of the Retirement Benefits Act and retirement benefits schemes ;
- issuing guidelines on the duties and responsibilities of trustees of schemes;
- advising the relevant cabinet secretary on all matters relating to the functions assigned to the RBA and pensions generally.

The RBA has also issued investment guidelines on the maximum percentage of the aggregate market value of the total assets of a retirement benefits scheme or of a pooled fund that can be invested in specified ways. For instance, managers can only invest up to 30 % of scheme funds in the quoted equity of any one company.

Recent developments in law

The law has recently been amended to remove an early retiring employee's right to receive payment of 50% of their employer's contribution (and accrued interest thereon) to the employee's retirement benefits scheme.

Further, the amendments now mandatorily require occupational retirement benefits scheme rules to provide for the payment of retirement benefits by way of an income drawdown, as an alternative or in addition to the purchase of an annuity for members who have attained retirement age.

The amendments also require umbrella retirement benefits scheme rules to allow scheme members to make additional voluntary contributions to a post-retirement medical fund. The medical fund is required to be a segregated fund and invested according to the investment policy of the fund. Umbrella scheme rules are now also required to provide that where a member is unable to accumulate a sufficient post-retirement medical fund, they may transfer a portion of their benefits to a medical cover provider.

The IRA

The IRA bears a licensing and approval regulatory mandate over insurers and insurance intermediaries.

Through its guidelines, it requires insurers to develop an investment management framework supported by an effective and efficient governance mechanism. The IRA also requires the board of an insurer, among other things, to develop and regularly review its investment policy in line with issued guidelines and to ensure that internal control mechanisms are in place and that investment management is handled by competent and experienced persons. The guidelines require that investments be made in a sound and prudent manner taking into account the IRA's basic parameters of investment, that is, security, liquidity, diversification and return.

Conclusion

As stated above, investment management in Kenya is not governed by one specific law or regulator but by a myriad of rules and regulations which require investment managers to ensure they comply with the requirements of multiple regulators where they deal with various products. The Financial Markets Conduct Bill, 2018 which is still under consideration by Parliament seeks to create an effective financial consumer protection environment through the supervision of the conduct of providers in relation to retail financial customers, all under one supervisory or regulatory roof. The market awaits the impact of this bill as it would, upon enactment, represent a significant change in the regulation of investment management in Kenya.

Contributors' Profiles

Rosa Nduati is a Partner in the Corporate department at Anjarwalla & Khanna LLP. Rosa specialises in corporate M&A, capital markets, corporate governance and employment. Rosa is a frequent speaker at international legal and business conferences and has published various articles on the Companies Act in Kenya. Rosa was rated as one of the region's "top women under 40" by Business Daily, Kenya's leading business newspaper. She is also rated as a Leading Lawyer by Chambers Global, IFLR1000 and Legal 500.

Kenneth Kimachia is an Associate in the Corporate department at Anjarwalla & Khanna LLP. He specialises in corporate and commercial law, M&A, competition, private equity and legal compliance. He has considerable experience in corporate matters and has advised domestic and international clients on a variety of commercial transactions and regulatory matters.

TURNING OPPORTUNITY INTO REALITY: THE TRENDS AND CHALLENGES OF SYNDICATED LENDING IN AFRICA

By **Amelia Slocombe,** Managing Director - Head of Legal, Loan Market Association

In the first quarter of 2019, the syndicated loan market experienced a 59% dip in African loan volumes (US$7.67bn), as compared to the first quarter of 2018: a theme consistent with other emerging and developed markets across EMEA. Of this volume, US$1.5bn was raised solely by Sonangol, indicative of the fact that the market was dominated by a relatively small number of active borrowers. South Africa accounted for the largest proportion of volumes in Africa, with deals totalling US$2.23bn. Kenya, meanwhile, took second place with one US$1.25bn deal, and Egypt third with US$1.15bn[1]. The key drivers underpinning this trend of historical low issuance may be explained by recent macroeconomic and geopolitical challenges, both across the continent and globally, making underwritten syndicated deals less attractive. Overall, however, whilst the African loan market can be unpredictable, it is largely resilient, and this resilience is expected to continue despite existing pressures. That said, the general slowdown in activity has been experienced across all sectors and countries worldwide. This is relatively unusual - normally institutions are able to "hedge" their exposures on a geographic/sectoral basis, due to spikes of activity in certain places.

In 2014, the fall in commodity prices negatively affected a number of African oil-producing countries, particularly Nigeria. Since then Africa, economically speaking, has undergone something of a transformation, from being an export-led market to a consumer driven economy, as evidenced by the substantial growth of the middle classes and GDP growth acceleration in countries such as Ethiopia and Ghana. However, whilst business continues to grow (such growth not necessarily translating, however, directly into syndicated loan statistics) and whilst governance may be seen to be improving, there continues to be a large financing gap. Recent estimates by the African Development Bank suggested that the continent's infrastructure needs amounted to US$130bn to US$170bn a year, with a financing gap in the range of US$67.6bn to US$107.5bn a year. This gap is particularly obvious in countries such as Uganda, Rwanda, Madagascar and Zimbabwe. Rising populations in Africa, meanwhile, continue to add to these pressures - an estimated 20 million additional jobs are likely to be required by 2035 in order to sustain the demands of the rapid population growth.

A large proportion of the financing gap in Africa may be attributed to the fact that many investors are reluctant to conduct business on the continent, not because of a calculated assessment of actual risk, but on the basis of fears that are not always entirely rational. Whilst a number of loan market practitioners have noted the ongoing rise in the presence of African and international banks actively engaged on the continent (especially in the bigger economies of Nigeria, Kenya, South Africa and Egypt), closing the gap between actual and perceived risks will be key to reducing the financing gap going forward.

In reality, investing into Africa is not necessarily as "risky" as people perceive, assuming of course that you truly understand the environment into which you are lending. A 2016 report released by Moody's, for example, noted that project finance defaults on the continent were amongst the lowest in the world (although it should be noted that the nature of project finance means that investments are inherently strategic, and this could explain the low default level). Notwithstanding low levels of default, African infrastructure projects are nevertheless faced with numerous challenges that still need to be overcome – primarily underinvestment caused by a lack of government engagement in support of public/private partnerships, a lack of institutional capacity, and a lack of an enabling regulatory environment. Despite these challenges, however, the overarching view is that the market should remain optimistic about the opportunities offered by Africa in an infrastructure context.

Particular challenges

Although little discussed specifically in the African context, all loan market participants should prepare for the discontinuation of LIBOR (the interest rate benchmark upon which the majority of syndicated loans into Africa are based) and a transition to

1. According to Refinitiv data

alternative near risk-free reference rates ("**RFRs**") ahead of the end of 2021. As RFRs differ substantively to LIBOR both from a commercial and an operational perspective, and there is not yet an obvious alternative to transition, market participants are urged, via industry associations such as the LMA or otherwise, to keep up to date with progress and to provide feedback to any relevant regulatory consultations. Such feedback will be important in deciding upon a suitable way forward for the syndicated loan market (both new and legacy deals). Whether participants engage or not, it should be understood that LIBOR discontinuance will have a direct impact on all loan market participants, particularly in Africa where US Dollar lending and long-tenored project finance transactions are rife.

New opportunities for Africa

Financial technology ("**Fintech**") is increasingly becoming more sophisticated and user friendly and is seeing widespread adoption in Africa. This is primarily driven by the ownership of mobile phones, which has grown astronomically in Africa in the last seven years as compared with developed markets, which has seen very little change in the same timeframe.

The general consensus is that Africa's Fintech potential is unquestionable, especially given the considerable and continuing growth offered by that market. In addition, the adoption of Fintech across Africa via mobile technology has contributed substantially to giving consumers without bank accounts access to financial markets and payment systems for the first time. By facilitating data sharing, Fintech has also helped to solve certain issues with respect to proof of identity. Nonetheless, market participants should also be cautious as consumer right issues (which have been largely ignored in Africa to date) are expected to rise in magnitude along with the growing sophistication of Fintech. The issue of consumer protection against the backdrop of a growing data economy age will raise key issues for businesses going forward, and in particular, how they collect, process and disseminate data.

China has been instrumental in facilitating greater availability of Fintech in Africa and is responsible for the majority of African digital infrastructure over the last 10-15 years. Indeed, China has started to emerge as the largest Fintech "hub" and is driving innovation. Chinas 'BAT' group (Baidu, Alibaba and Tencent) are some of the most valuable companies in the world and control messaging and payment channels used by over 1.5bn consumers. Furthermore in 2018, We Chat Pay and M-pesa entered into a deal which is set to transform payment systems in Kenya. China's role in Africa is therefore becoming increasingly influential, not only in terms of political importance and within the world of infrastructure, but also as the key driving force for future developments in the Fintech space.

Looking to other opportunities, the renewable energy sector has also seen increased focus as environmental concerns become increasingly publicised and firms see the reputational and financial benefits associated with doing "green" business. In turn, this is expected to exacerbate the demand for renewable energy more widely. Equally, greater emphasis on climate change in the future could see even more emphasis on green lending and sustainable finance more broadly.

Contributor’s Profile

Amelia Slocombe joined the LMA in October 2010, establishing the in-house legal team and working on the Association’s documentation projects, education and training events and regulatory and lobbying matters.

Amelia was also responsible for contributing to and editing the LMA's four most recent books: “The Loan Book”, "Developing Loan Markets", "The Real Estate Loan Book" and "20 Years in the Loan Market" (published in 2011, 2013, 2015 and 2016 respectively) and wrote the LMA’s Guide to Regulation.

Prior to joining the LMA, Amelia was a banking and finance solicitor at Pinsent Masons LLP, where she acted for numerous domestic and international corporate banks and a variety of UK and international borrowers, focusing on general syndicated finance, leveraged and investment grade acquisition finance and real estate finance. Amelia also spent time on secondment in the FI, NBFI and Insurance teams at Barclays, where she gained experience of cash management, structured finance products, and clearing and settlement systems.

Amelia is a regular speaker at both LMA and external training events, seminars and conferences, focusing on real estate finance, private placements and developing markets (specifically Africa).

WHAT ARE WE BUILDING? THE NEXT PHASE OF REAL ESTATE FINANCING IN AFRICA

By **Selwyn Blieden,** Head of Africa Coverage, Commercial Property Finance

For a long time, the most prominent players in the African property sector have been private equity or other institutional investors. It is also true that there has been an obvious gulf between demand and supply in all property sectors (commercial, industrial and residential) across many markets on the continent.

The investment proposition, often-repeated to prospective funders, regulators and local partners, was that by pioneering landmark projects international investment and development teams would go some way to bridge this gulf. But few of those presenting this thesis have shown the success they predicted for themselves and their investors.

Asset realisations have taken longer and have been less profitable than expected. Some institutions have chosen to exit direct African real estate investment entirely. With few exceptions, large South African REITs that expressed broader African ambitions have either closed their African operations or indicated that they intend to do so. Given its uneven performance record, an observer of the market might question the market-theses that seemed to be so alluring only a few years ago.

Despite this, we still believe that there is evidence to show that the African property market has evolved, just not in the way and for the segments previously expected. It is up to investors, financiers and other stakeholders to adapt their approaches to pursue the opportunities this market offers.

For the past years we at Absa have been tailoring our business approach to cater for the range of real estate investment activities that we have seen taking place in our target markets. This has meant that we have been monitoring a wider market than that represented by the large multi-jurisdictional players that for some years dominated African property media coverage and were most visible at industry conferences.

Our analysis shows that since the end of 2015 the domestic bank-financed commercial property market in our active African jurisdictions (which we identify as Botswana, Zambia, Mozambique, Kenya, Uganda, Tanzania, Mauritius, Seychelles, Ghana and Namibia) has grown in US dollar terms at a compounded rate of 9.5% per annum. This represents an acceleration in growth since the period 2012 to the end of 2015 the same market grew by 8.3% per annum.

This means that since 2012, and even more so since 2015, growth of bank-financing to many African property markets has been faster than the growth of the underlying economies in these jurisdictions. Such growth could only have been possible if some combination of the following factors had been in place: the number and size of bankable projects and clients has increased; banks have become increasingly willing to undertake property finance; and/or the currencies in which property loans have been denominated have strengthened.

In all cases the factors mentioned above are positive for the property markets we are targeting: either the broader economies in which they are located are strengthening (as indicated by stronger exchange rates) or the property finance markets are becoming more active and formalised.

It bears repeating that not all African property markets are alike and data covering multiple markets may often conceal wide-ranging differences between those markets and nuances within markets. In the case of the countries we have been studying, there are two where the bank-financed property market has actually declined since 2015. These are Mozambique and Uganda.

In Mozambique's case the decline (of 8.8% per annum) would be expected given the broader debt-crisis in the country. In Uganda the decline has been an annual 2.1% -- less than the decline in the local currency over the period and thus indicating a market that is, at least, growing in local currency terms.

The largest property finance market on our list is Kenya which on its own holds about 46% of the total commercial property financing pool within the markets we service. Its commercial property finance growth rate has been at 9.6% over the past years. Its currency has been relatively stable, ranging only from 99 to 105 Kenyan Shillings to the US dollar over the period. The growth has achieved is largely, therefore, a function of real growth in bank funding and property investment activity. In our experience, growth in this market has been led by market participants that would in South Africa or similar banking markets be classified as commercial or local corporate clients rather than institutional players.

In conclusion, it is evident that even though the most prominent segment of the investment-grade African property market has shown signs of strain, the broader bankable property market has been growing significantly and in the case of key markets such as Kenya, the growth is the result of real property activity and risk-taking.

For banks and other financiers, future growth may require broadening their target-range of clients and adapting their credit and service models for strong local players. For equity investors, potential focus may be on finding ways to get effective exposure to this same category of market participants. Opportunities exist for those who are willing to adapt their approach and their guiding beliefs regarding this market.

"We still believe that there is evidence to show that the African property market has evolved, just not in the way and for the segments previously expected. It is up to investors, financiers and other stakeholders to adapt their approaches to pursue the opportunities this market offers."

Contributor's Profile

Selwyn Blieden manages a portfolio of investments for RMB Westport, a real estate private

equity fund operating in sub-Saharan Africa. In this role he has served as a director of several project and investment companies in Nigeria, Ghana and Mauritius. RMB Westport is part of the FirstRand group, one of the largest banking and investment groups in Africa. Selwyn has worked in Rand Merchant Bank, the investment banking division of the FirstRand group, since 2004. Before taking on his current role, he co-founded and managed Rand Merchant Bank's Opportunities in Global Real Estate business, investing into property assets in multiple jurisdiction including Japan, Germany and Eastern Europe

Prior to joining the FirstRand group, Selwyn was a consultant in the Johannesburg office of McKinsey & Company. There he served clients in multiple African jurisdictions and worked alongside several of the founders of African Leadership Academy.

Before entering commercial life, Selwyn was a member of the Faculty of Mathematics at the University of Cambridge and a Research Fellow at Wolfson College, Cambridge.

Selwyn has a PhD in Mathematics from the University of Cambridge. He won an Emanuel Bradlow Scholarship to attend St John's College, Cambridge.

KENYAN ECONOMY HAS GROWN RESULTING IN THE GROWTH OF DISPOSAL INCOME, DEMAND FOR INVESTMENT AND SAVINGS PRODUCTS

KENNETH KANIU, CEO, BRITAM ASSET MANAGERS KENYA

***CAPMARKETSAFRICA:** Thank you for granting this interview. Could you please tell our readers more about your background and what motivated your choice of career?*

KENNETH KANIU: I started off my career in 2004 in a bank as a graduate trainee. At the time, I was also studying for my CFA qualification as I was keen to join the investment industry.

An opportunity to participate in a global asset management associate program at Allianz, a German insurance and asset management company, came by and I applied. After months of rigorous oral, written and psychometric interviews, I and a gentleman from France were selected for the one-year program. This was a great achievement.

I moved to Munich and joined the team handling investment research on Pan-European equities. I was also involved in performance calculations for various funds and buying derivative options protection for portions of the investment portfolios. This experience whetted my appetite for the asset management business, and I knew then that this was the sector that I wanted to build my career in.

***CAPMARKETSAFRICA:** Let's find out a little more about Britam Asset Managers (BAM). What led to the creation of BAM? What does BAM do? Which areas of financial services is it engaged in? What category of clientele and any major recent or upcoming transactions?*

KENNETH KANIU: Britam Asset Managers is a subsidiary of Britam Holdings PLC. The Company was incorporated in April 2004 and started operations in 2006 to fill a gap in quality fund management and investment advisory services to individual and institutional investors. As a company, we have grown remarkably to become an influential player in the financial services sector with assets under management of over USD 1.7 Billion. Britam Asset Managers Company (Uganda) Limited was established in 2017 and is growing at a fast rate.

We offer investment products and solutions to customers in retail, corporate and institutional segments namely; unit trust funds, wealth management, pension and property.

***CAPMARKETSAFRICA:** Now, let's talk on broader issues but still on finance. The Kenyan socio-political climate has changed over the past several decades. In view of this, how has the wealth and asset management industry in the country* *changed?*

KENNETH KANIU: The economy has grown, resulting in the growth of disposable income hence the increase in demand for investment and savings products. The market has responded by coming up with a variety of financial products and services to meet these needs. Kenyans are also more conversant with the need to protect their future. They are keen to save for their children's future, retirement and emergencies. As a financial services company, we have had to adapt to the changing consumer needs so as to accommodate the growing market. Investments are now accessible to the mass market. For example, with as little as KES 1,000, an individual can now have access to the Britam Money Market Fund.

***CAPMARKETSAFRICA:** What are the priorities of wealthy private investors in Kenya in terms of exposure to risk and preferred asset classes?*

KENNETH KANIU: Wealthy private investors are highly exposed individuals who demand customized service. They have more bargaining power and demand higher returns from their investments compared to the average investor. They also have the capacity and ability to take greater risks. Their investment demands vary depending on individual preferences e.g. equities, property and fixed income.

***CAPMARKETSAFRICA:** What is key to investing in the Kenyan markets and what skills are needed to maintain good performance?*

KENNETH KANIU: Deep knowledge and insights into the local markets dynamics is key and is usually acquired through many years of investing locally. Britam Asset Managers has been in the market for over 15 years and we have a deep understanding of local market drivers.

***CAPMARKETSAFRICA:** The ongoing cap on bank lending rates continues to dampen credit growth. What is your view on this?*

KENNETH KANIU: It is true that before the rate cap the credit growth was at 20 percent year on year and has since dropped to under 5 percent. The rate cap significantly reduced the banks' ability to price risk and they therefore prefer to invest in risk-free government securities as opposed to lending to Small and Medium Enterprises (SMEs), who are the main drivers of economic activity in Kenya.

Both the Central Bank of Kenya and the Treasury have come out to say that the rate cap has failed to achieve its intended target and that is why the Treasury has proposed a complete repeal. In my view, there is need to re-look at the law and come up with a mechanism for banks to price risk and spur credit growth once more.

***CAPMARKETSAFRICA:** Impact investing and ESG investment are becoming popular globally. Do you feel that your firm is currently doing enough in the space? Also, do you have much presence in these areas?*

KENNETH KANIU: It is true that ESG investing has become a very significant part of investment globally. While a lot more can be done locally, we have seen investors begin to give consideration to factors like corporate social responsibility and social impact in their investment decision-making.

We are continually looking to increase our focus on investments that have positive environmental and social impact which are hinged on the promise of long-term sustainability.

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

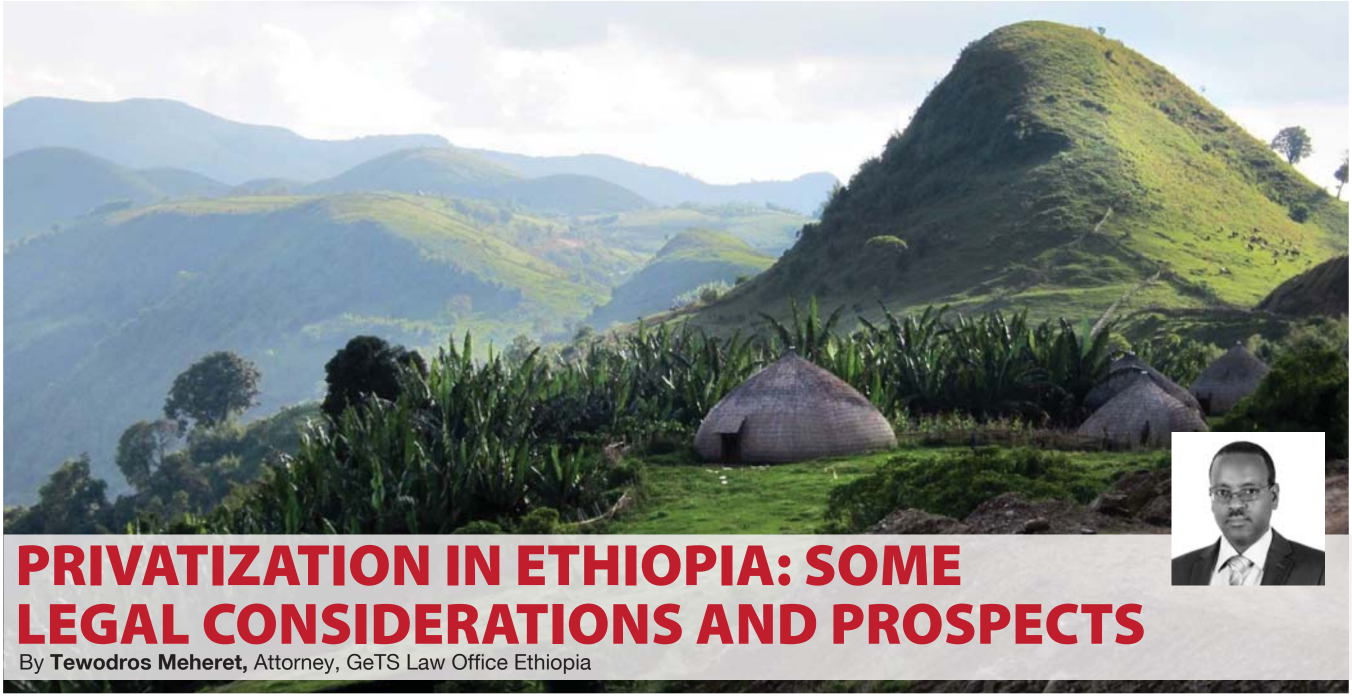
KENNETH KANIU: We are working hard to hit our assets under management target of KES 300 billion. Most importantly, we aim to continue impacting the lives of more people by driving our agenda of savings and investments.

We are also keen in diversifying our investment portfolio into alternative assets in order to enhance returns for our customers. To this end, we are increasing our focus on investments in infrastructure, property and private equity.

***CAPMARKETSAFRICA:** On a personal note, what do you do in your spare time, when not busy managing Britam Asset Managers?*

KENNETH KANIU: When I am not working, I spend most of my time with my family as well as playing golf over the weekends.

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



PRIVATIZATION IN ETHIOPIA: SOME LEGAL CONSIDERATIONS AND PROSPECTS

By **Tewodros Meheret,** Attorney, GeTS Law Office Ethiopia

With the change of leadership in Ethiopia last year, one of the off shoots was the announcement to revitalize privatization of state-owned enterprises. It was received with mixed feelings locally and it was perceived as an opportunity by many foreign investors. Hitherto, it was a paradox to witness mushrooming of public enterprises on the one hand and privatization on the other concurrently. Privatization gained and lost momentum depending on the priority of the government. It is interesting to note that the oscillation between privatization and expansion of the parastatal sector took place based on the same policy underpinning. Now, what is new is privatization has been made to encroach on sectors and affect enterprises which were favorites of the government.

Considering the direction of the fresh programme, some argue that it is against the national interest while others contend that it is necessary to relieve the economy from foreign exchange crunch and foreign debt. For developing countries like Ethiopia, the most important goal of privatization is reducing fiscal and credit pressures on the national budget.[1] With the state of the economy characterized by high budget deficit and high foreign debt, the argument holds water. Yet, it may be inquired whether the course of action is prompted by the change of ideology or that it is a reaction to the dire economic condition of the country. Rebutting the contention that it is a change of ideology, some insist that with a majority shareholding the government will retain its dominance which will enable it to be in the driver's seat maintaining its developmental policy.[2] The debate seems to be irrelevant as far as the pertinent laws are concerned as the country applied the same law during period it claimed to uphold the free market economy, revolutionary democracy and/or developmental state models.[3]

Privatization presupposes the belief that private sector enterprises operate more efficiently than their public sector counterparts, which belief may relate to a particular sector or the entire economy. The law which directs the privatization programme foresees that economic development can be achieved by encouraging the private sector[4] which is the credence underlying privatization in Ethiopia. This has been in existence side by side with the economy policy which favors the public sector. With this paradox and dubious policy direction as set out in the law and policy documents, the privatization policy has been implemented for more than fifteen years before it has lately come to its culmination affecting the giants in the national economy.

Obviously, the legal and institutional framework should be put in order to realize the privatization

1. Eshete argues that privatization is often viewed as credit-reducing and budget-relief exercise. Eshete Tadesse, The Impact and Policy Implication of Privatization in Ethiopia, https://www.eeaecon.org/sites/default/files/publications
2. Gedion G. Jalata, Ethiopia's Journey to Privatization: Demise to Developmental State? , New business Ethiopia https://newbusinessethiopia.com
3. The difference does seem easily discernible if at all they can be seriously taken as ideological given the fact that the remains the same despite the change in 'economic' policy.
4. Privatization of Public Enterprises Proc. No. 146/1998, Preamble

objectives of the Government. After the announcement made in October, 2018 to invigorate its privatization program, the government established a 12 member advisory council. Though it is a step in the direction of implementing the decision, the advisory council does not fit into the exiting legal and institutional framework. Subsequently, the Ministry of Public Enterprises was restructured as Public Enterprises Holding and Administration Agency which is made accountable to the Ministry of Finance.[5] It has a clear mandate to submit proposal to the government on the privatization of public enterprises under its supervision.[6] Therefore, the institutional framework is in place with a clear mandate. Though it does not supervise all enterprises owned by the state, the major ones which are in the list of enterprises to be floated for privatization are made under its supervision. In this list we find Sugar Corporation, Ethiopian Airlines and Ethio-Telecom and Ethiopian Shipping and Logistic Services.[7] The enterprises were under the supervision of different Ministries and the centralization of supervision makes it easier to make decisions and implement the same.

In addition to the overarching power it has to oversee the privatization of public enterprises, the Ministry has the specific responsibility to prepare documents needed to privatize public enterprises and facilitate privatization process in collaboration with the relevant government bodies.[8] The implementing entity is the agency which is empowered to execute privatization program as per proclamation No. 146/1998 as amended. The proclamation is the pertinent law which provides the legal framework for privatization. No new law or an amendment to the existing ones has been issued lately leaving the Agency to count on the law which has been in force for more than two decades. In other words, the same law will be employed to privatize those giant public enterprises pursuant to the new drive.

Accepting that the existing legal framework and institutional set up are more or less responsive, one may wonder why the pace of privatization is not swift. This was the concern expressed by Budget and Finance Standing Committee of the Council of Peoples Representatives.[9] The size of the enterprises up for privatization and the complexity of the sector in which they operate, require preparation which includes revisiting the law governing that particular sector to the extent it is necessary to realize privatization. The telecom sector is a case in point. Communication Service proclamation has been issued which will establishes a regulatory agency for the sector considering that there will be several players in the market. Similarly, sugar Proclamation is in the pipeline which will regulate the sector with many private sector actors. In fact, the reform is not restricted to privatization which can be achieved by transferring shares to private entities. Usually, such reforms may involve not only privatization but also liberalization of some sectors which were monopolized. For instance, the telecom sector which was not only dominated by a state owned service provider but also a monopoly. Not only does the reform involve transferring stakes in the state owned telecom service provider but also opening up the sector to other service providers.[10]

Currently, the Ministry of Finance is actively involved in the privatization course as can be gathered from the announcements made so far. One can only guess how the two organs apportion the responsibilities in the privatization programme though it is not doubtful that the Agency is the implementing authority under the supervision of the Ministry. The latter made public that the government has issued request for information (RFI) to privatize about five sugar factories and is making preparation to privatize Ethio-telecom. It is interesting to observe that the RFI enables potential buyers to express their interests on the reform and privatization progresses process. The reform of the telecommunications sector, the enactment of the Communications Services Proclamation, and a review of the privatization options of Ethio-telecom and opening the sector to competition are the steps that have been taken so far. More is to come with the spreading out of the effort to other enterprises which will be privatized wholly or partly in the near future.

5. Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proc. No. 1097/2018, Article 33/7/a
6. Council of Miniseries Regulation No. 445/2019, Article 5/7
7. Council of Miniseries Regulation No. 445/2019, Annex
8. Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proc. No. 1097/2018, Article 16/h
9. The Reporter, English Weekly reported that the Committee maintained that the planned privatization of the selected state-owned enterprise is not going "as fast as it was required. "Law makers push gov't to speed up privatization" which appeared in https://www.thereporterethiopia.com/article/law-makers-push-govt-speed-privatization
10. http://www.mofed.gov.et/web/guest/-/completion-of-preparati

EGYPTIAN FINANCIAL SECTOR HAS A GOOD STRUCTURE AND BALANCE SHEETS, WITH GOOD GROWTH POTENTIAL, DECENT MARGINS

AMR ABOL-ENEIN, MANAGING DIRECTOR, HEAD OF ASSET MANAGEMENT AND CI ASSET MANAGEMENT

***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?*

AMR ABOL-ENEIN: Joined CI Capital in December 2012 as the managing director and head of asset management of CI Asset management with more than 20 years of previous experience in the field of banking and investment, starting as a treasury analyst in National Societé Generale Bank (now QNB) in 1992 and moved thereafter to Arab Bank in the corporate banking as a corporate credit officer after pursuing Chase Manhattan Credit Course. However, with the emergence of the stock market in Egypt and as I was attracted to this field due to its dynamism and aspirations of growth, I have decided to not only to leverage on my previous background in financial and credit analysis, cash flow modelling and management, derivatives and money management edge, which all acquired and developed through my both treasury and corporate banking hands-on experiences, but also to build on them through pursuing specialized investment-focused studies. I joined Birmingham Business School, UK in 1997 and pursued an on-campus MBA in International Banking and finance with a core focus on Investment Management. I am also a CFA charter holder, CAIA charter holder, and a certified FRM.

Since I returned bank, I have joined and worked in a number of regional and global investment banks including ING Netherland as head of MENA equities, HC (an affiliate to Morgan Stanley back then at that time) as head of equity research, and co-managed Dubai-based DAMAC Invest's prop funds in MENAT (MENA + Turkey) region. I have also been exposed to government-owned entities working in both Banque du Caire as GM and Head of Investment and in Central Bank of Egypt as senior investment consultant (Banking reform unit – with the focus on banks' M&As). I have also been appointed in Egypt's supreme committee for privatization in a number of economic sectors (including financial institutions, industry, chemicals, and Tourism). I have been also an investment committee head/member and/or board member in a number of investment firms in the fields of private equity (Africa), asset management, Venture Capital.

I am always challenged with beating market returns and have proven a strong track record in beating peers' returns and benchmarks across all managed asset classes.

***CAPMARKETSAFRICA:** In general, what is your outlook for the Egyptian financial sector – key challenges and opportunities as well as suggestions needed to improve Egypt's wealth and asset management sector, please?*

AMR ABOL-ENEIN: Let first look at the CI Asset Management's Outlook on Financial Sector says:

Banking Sector:

- From a stock market perspective, CIB largely dominates the banking sector representation in Egypt bourse and other banking stocks are too illiquid.
- "The sector has a good structure and balance sheets, with good growth potential, decent margins and a healthy return on assets and equity. The banking indicators are all attractive, and with also low non-performing loans and a high coverage ratio, and still with good growth prospects. We also have a strong and very dynamic Central Bank that adopts best international practices in managing both business and risks and I am always very optimistic on the CBE's financial inclusion and digitalization initiatives.
- From a valuation perspective, the sector's profitability versus risk equation suggests an attractive proposal, but valuations now aren't attractive enough for us. For those bank stocks with more appealing valuations, illiquidity is an evident issue that justify being traded at a discount. The banks are good companies, but

mostly not attractive enough for us as stocks at current market valuations.

- ⇨ We've also started to see negative news flow on banks that can put some pressures on their margins and profitability due to the implementation of taxes on TBs, which would cut in banks' profits in 2019 at least before having the able to pass it by to depositors and/or be able to change their funds' utilization mix by growing faster in their loan books.
- ⇨ Moreover, if there's a slowdown globally, banks will be hurt – a significant part of their fees and commissions comes from funding international trade transactions.
- ⇨ "Banks are in good shape, but relative to other emerging market banks they're mostly fairly valued and we see better opportunities in the Egyptian market."

Non- Banking Financial Sector:
On the other hand, CI Asset Management sees great potential in the leasing and microfinance sector insurance, mortgage finance, consumer finance and forfeiting due to their low penetration rates and huge growth prospects then. We see a double-digit growth on average in these sectors, which is driving market players and new entrants to significantly expand in these sectors.

We are also optimistic about the prospects of Egypt's asset management industry with increased awareness of institutional and pension funds' of equity markets long term return and hence more allocations' potentials into the capital markets.

Next, what are the key opportunities in the financial sectors?

- ⇨ Global and domestic easing, expected decline in inflation and the interest rates and yield curve going forward will boost the Egyptian equity market.
- ⇨ Improved macroeconomic picture, overall with accelerated GDP growth rates and more disciplined public finance would positively reflect on equity and capital markets. This includes, among other indicators:
- The removal of subsidies will enhance the Government's Balance sheet.
- The expected decline of Inflation debt/GDP and unemployment rate.
- Growth in healthcare, industry and tourism sectors, in addition to energy sector.
- More focused strategies towards a pronounced improvement in trade balance and BOP.

All of the expected improvements in the macro level as well as we are approaching towards a more accelerated caped cycle with more focus on financial inclusion and sustainable growth will be positively reflected on the financial sector and the overall investment attractiveness of Egypt as an investment destination.

Then, let look at the key global and sector-specific challenges and these are:

- ◆ **Uncertainty and volatility which mostly a function of global markets as we see:**
  - ⇨ European and U.S. markets appear vulnerable, with corporate earnings likely to show a mixed bag.
  - ⇨ The ups and down in the China-U.S. trade war (including technology cold-war) could have a domino effect across countries and industries.
  - ⇨ Geopolitical risks.

In brief we see global markets aren't very attractive from a "return vs. risk" perspective and we see Egypt won't rally when global markets are so uncertain, but could still outperform, thus CI Asset Management is cautious, but still selectively buying in industries that offer deep value and are less vulnerable to global shocks.

In general, we see Egypt could outperform other markets, but that doesn't necessarily mean positive returns.

And from a very specific perspective, we see the decline in Fees and Commissions in the Asset Management sector as a big challenge for the operating asset managers.

Some of the suggestions needed to Improve Egypt's Wealth and Asset Management's sectors are:

- ◆ **Legislative approvals to introduce a new financial product in the Egyptian market:**
  - ⇨ Sharia Compliant Sukuk
  - ⇨ IPO Funds, carry trade and Sectorial Funds
  - ⇨ market makers and short selling
  - ⇨ Derivatives: options, and futures

- ◆ **Changes to the current legislations:**
  - ⇨ Removal of the restrictions imposed on Money Market and fixed Income Funds' sizes
  - ⇨ Assurance of not imposing any Capital Gains Tax to remain competitive on regional and EM space

- ◆ Banks to start introducing and supporting Wealth Management divisions

- ◆ Easing of the restrictions imposed on subscribing and redeeming mutual funds' from abroad
  - ⇨ Approving the online subscriptions and redemptions
  - ⇨ Approving automatic signature
  - ⇨ Approving Online KYCs

This comes of course in addition to a more awareness of institutional clients in Egypt about the importance of external asset managers in delivering superior consistent returns, as well as to have asset managers not competing mostly on the basis of fees but rather on the basis of performance and the value creation to their clients.

***CAPMARKETSAFRICA:** In a more specific term, what are the biggest challenges and opportunities you see in the corporate finance sector in Egypt? And in what ways does your corporate banking division assist clients in managing their risk and enhance their revenue?*

AMR ABOL-ENEIN: CI Asset Management does not offer corporate finance services, but this is rather offered through the investment banking arm of CI Capital to both government and private sector clients. However, when it comes to asset management clients, we are concerned with helping our clients determine their returns objectives as well as their risk capacities and tolerance.

***CAPMARKETSAFRICA:** What do wealthy private investors in Egypt tend to prioritize the most in terms of exposure to risk and their preferred asset classes, please?*

AMR ABOL-ENEIN: Unfortunately, Wealth management in Egypt is still an untapped area. Wealthy private investors are still preferring banking products, especially considering the high interest rate environment. CI Asset Management believes that wealthy investors, once they will be offered professional wealth management services where they will be assisted in identifying their risk profile through risk profiling systems, will be able to diversify their wealth to more risky asset classes. CI Capital is working with two Egyptian banks to expand their wealth management divisions, which are relatively under- developed, in order to create more savings and investment products for high net worth individuals. This also comes in line with the development of new products in the market to broaden the products' platforms offered to HNWIs. We are also optimistic here as a number of Egyptian banks are currently working hard to develop this area of business and are putting some good weight in its development.

***CAPMARKETSAFRICA:** How has technology changed the wealth management industry in Egypt — for example, firms' use of social media to reach current and prospective clients?*

AMR ABOL-ENEIN: Technology has enhanced the investment knowledge in the Egyptian market thus not to its full potentials. As discussed above, technology may play a greater role once online KYC and opening of bank accounts and subscriptions and redemptions of mutual funds investment certificate are approved. As for CI Asset Management's use of technology in marketing the company and its outperformance, CI asset Management is constantly updating its website and company's accounts on social media with the Funds' performances and international awards won in addition to press releases both on social media, news wires, and in papers. Software programs that help managers in their investment decisions (e.g. Asset allocation, portfolios' optimizations, etc.) are also amongst merits of technology we benefit and will continue to benefit from.

***CAPMARKETSAFRICA**: On a final note, what is your outlook for Egypt in 2019 and beyond, given the current fuzzy global economic outlook as a result of slow growth in US-China trade war and protectionist policies, please?*

AMR ABOL-ENEIN: We are optimistic about the progress of Egypt's economic reform program and its prospects. Egypt managed to surpass a few bottlenecks and structural reforms in its public and monetary finance. Egypt's reform story is one of the most profound, bold and successful stories in the last ten years. Accelerated GDP growth rates, floatation of the local currency, subsidy cuts, controlling inflation and unemployment rates as well as a more disciplined public finance are among the positive indicators we see now. This comes with a noticeable improvement in Egypt's infrastructure, energy and tourism sectors. We are also very encouraged by Egypt's GDP growth rates now and the acceleration in its pace. We see the current valuation level attractive to us continue buying in the market. EGX30 is trading at significant discounts (30%- 40%) to both frontier and EMs' averages, and we see some 25% upside adjustment purely on multiple expansion (leave alone future and performance of corporates growth rates vs. regional and EMs' peers).

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

AMR ABOL-ENEIN: We will continue to maximize our market positioning in Egypt's AM business as we leverage on our superior performance and new products initiatives. Moreover, we are also keeping an eye on both regional and African continent space, which both represent a logic growth dimension for CIAM in both MT and LT horizons.

***CAPMARKETSAFRICA:** To bring the interview to an end, what do you do in your spare time, when not busy managing CI CAPITAL?*

AMR ABOL-ENEIN: I am seizing any spare time in spending more time with both my family and friends, and in watching old movies and listening to old music & songs. I also enjoy watching football matches of different local and Europe's leagues, and that eats up a big portion of my spare time.

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

THE WEALTH MANAGEMENT INDUSTRY HAS BECOME MORE SOPHISTICATED, DIGITIZED AND MORE INFORMATION DRIVEN

OLADELE SOTUBO, CHIEF EXECUTIVE, STANBIC IBTC ASSET MANAGEMENT NIGERIA

CAPMARKETSAFRICA: *Firstly, let's talk about you. Please tell our readers more about your background and what motivated your choice of career path?*

OLADELE SOTUBO: I graduated about 26 years ago from Lagos State University and got my first job in 1995. The dream of most fresh graduate then was to work in a bank. However, for me, rather than a bank, I got my first job in a Stock Brokerage firm and that set my path in the Capital Market. With sound mentoring, self-discipline, Great Institutional support in organisations that I have worked for and above all divine Grace from the Almighty God, I am where I am today.

CAPMARKETSAFRICA: *Let's find out a little more about Stanbic IBTC Asset Management Nigeria. What led to the creation of SIAML? What does SIAML do? Which areas of financial services is it engaged in? What category of clientele and any major recent or upcoming trans-actions?*

OLADELE SOTUBO: SIAML is licensed as a Fund/Portfolio Manager and Investment Adviser and offers its numerous clients' products and services ranging from traditional asset classes (i.e. equities, fixed income securities, and mutual funds) to alternative investment options such as unlisted equities and private equity opportunities. SIAML also offers financial advisory to a wide range of clients and make recommendations to help them plan towards meeting their investment goals and objectives

CAPMARKETSAFRICA: *Now, let's talk on broader issues but still on finance. As Nigeria's socio- political climate has changed over the past several decades, what are some ways that the wealth management industry in the country has changed as well?.*

OLADELE SOTUBO: The wealth management industry has become more sophisticated, digitized and more information driven. Investments options available to clients are increasing away from the traditional money market and equities to structured investment vehicles, derivatives, etc. Clients are becoming more aware and are making more demands on their portfolio managers.

Mode of reporting has changed over the years, looking for one view of their portfolios and reporting, increasing for a one relationship management point which is leading to the advent of family offices in some instance depending on the affluence of the customer

CAPMARKETSAFRICA: What do wealthy private investors in Nigeria tend to prioritize the most in terms of exposure to risk and their preferred asset classes, please?

OLADELE SOTUBO: From interactions, we have observed that investors as a matter of priority first check the risk involved in any investment option as risk appetite varies, this is then followed by the yield (interest income) involved for them to fully dimension the risk Vs reward conversation. After which, tenor and the asset class might be the last question to ask.

CAPMARKETSAFRICA: *Impact investing and ESG investment are becoming popular globally. Do you feel that your firms is currently doing enough in the space, please? And also, do you have much presence in these areas?*

OLADELE SOTUBO: Impact investing and ESG investment is gaining prominence in the Nigerian market and other developing countries. The Federal Government of Nigeria ("FGN") debuted a Green Bond in December 2017 and recently issued a series II Green Bond this year. The FGN has also issued two Shari'ah compliant bonds specifically to fund the development of roads across the 6 Geo- political zones of the country. The Corporate sector is also embracing the trend with the recent issuance of two Green Bonds. Stanbic IBTC served as the Joint Issuing House to the issuance of the second FGN Green Bond and one of the Corporate Green Bonds.

We also manage portfolios that have invested in these Bonds and other impact-driven investments. We collaborate with our clients to manage Foundations and Endowment portfolios. In recent times, we have included Environmental, Social and Governance ("ESG") requirements as one of the key indicators to assess when evaluating opportunities from various promoters. SIAML just concluded the Initial public offering ("IPO") of the Stanbic IBTC Shari'ah Fixed Income Fund whose primary objective is to invest in asset-backed instruments and Shari'ah compliant. We are committed to investing our clients' funds in opportunities that would not only generate sustainable returns but also result in a positive impact on society and our environment.

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

OLADELE SOTUBO: The operating environment for financial services providers is always evolving. As such, SIAML adopts an agile approach in creating value for all its stakeholders as well as maintaining its position as the preferred Fund Manager in Nigeria. There have been significant advancements with data analytics, artificial intelligence, and technology in the last decade. Consequently, customers are now on-boarded without visiting Brick and Mortar offices or filling any hardcopy form. Customers are also seeking products that are aligned to their lifestyle needs. Furthermore, the rise in terrorism, money laundering and misappropriation of public funds have culminated in stricter regulatory requirements for financial services firm. SIAML continuously surveys its ecosystem to maximize the positive impacts of these developments.

Recently, Stanbic IBTC collaborated with Co-Creation Hub to pilot the Stanbic IBTC innovation challenge that received over 150 proposals from young and established indigenous technology companies. Stanbic IBTC funded the eventual winner with $15,000 in the development of a digital solution. SIAML's array of Mutual Funds also provides clients a wide range of options to select from irrespective of the economic cycle. We continue to deploy technology and data analytics to enhance the experience of our customers at every touchpoint. As the foremost end-to-end financial services provider in Nigeria, our customers have access to other financial services products such as Insurance, Wills, Banking, Stockbroking amongst others. These and many more have endeared us to the public irrespective of the negative influences of some of these trends

***CAPMARKETSAFRICA:** It is obvious, that politics affects the financial sector a great deal. What strategic plans do you have in place to maximize profitability as well as enhance shareholders' value? And where do you see SIAML in five years from now, please?*

OLADELE SOTUBO: Our guiding principle is to do everything we do following the set rules and regulations. Our values as an organisation drives and guides how we operate. Now and always, we will continue to innovate both in our process and products with a focus on delivering value to all stakeholders.

***CAPMARKETSAFRICA:** On a general note, Nigeria's demographics are astounding. Presently, about 190 million people are living in Nigeria and this is expected to increase to c400 million by 2050, the majority of whom will be young people. This is two-sided coin opportunities and threats. Do you have any suggestions on what governments and policymakers should be doing to manage the threats and capitalize on the opportunities?*

OLADELE SOTUBO: They should simply keep creating an enabling environment for all to express their capabilities.

***CAPMARKETSAFRICA:** To bring the interview to an end, what do you do in your spare time, when not busy managing SIAML?*

OLADELE SOTUBO: Very simple, that is the time for my family.

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

DEVELOPMENT OF DOMESTIC FINANCIAL INSTITUTIONS FOR INCLUSIVE GROWTH IN AFRICA

By **Ibrahim Abdullahi Zeidy,** Chief Executive Officer of the COMESA Monetary Institute

Introduction

Domestic financial markets can play a critical role in promoting inclusive growth. The savings-investment-growth link remains central to the question of financial sector development and the ability of financial institutions to fully play their intermediary role. Putting in place well-functioning domestic financial infrastructure is, therefore, crucial for catalyzing domestic and foreign resources for growth and investment.

Development of domestic financial institutions to ensure inclusive growth has, however, remained a global challenge with as much as 54% of adults worldwide being financially excluded. Sub-Saharan Africa is the region with the lowest share of banked households[1]. This worrisome level of access to finance in Africa poses a serious challenge to inclusive growth. This necessitates pragmatic efforts by policymakers to remove barriers for the development of domestic financial markets in order to enhance inclusive growth.

Given this context, the objective of this paper is to examine the efforts so far in Africa in developing domestic financial markets for the purpose of achieving inclusive growth, the challenges therein; the need for Regional Financial Integration (RFI) and the way forward.

Theoretical and empirical evidence on the causal relationship between domestic financial development and inclusive growth

Economic theory suggests that finance shapes the distribution of economic opportunities. The financial system affects the degree to which a person's economic opportunities are defined. It influences who can launch a new business venture and who cannot, who can acquire education and who cannot, who can live in a neighborhood that fosters the cognitive and non-cognitive development of their children and who cannot, who can pursue one's economic dreams and who cannot.

A more competitive, better functioning financial system exerts a disproportionately positive impact on relatively low-income families. According to the extent that the financial system performs these functions well, economies tend to grow correspondingly faster. For example, when banks screen borrowers effectively and identify firms with the most promising prospects, this is a first step in boosting productivity growth. When financial markets and institutions mobilize savings from disparate households to invest in these promising projects, this represents a second crucial step in fostering economic growth.

When financial institutions monitor the use of investments after financing firms and scrutinize their managerial performance, this is an additional, essential ingredient in boosting the operational efficiency of corporations, reducing waste and fraud, and spurring economic inclusivity. There is a robust positive relationship between financial development and both poverty alleviation and reduction in income inequality. It is not just that finance accelerates economic growth, which trickles down to the poor; rather, finance exerts a disproportionately positive influence on lower-income households. Building on the finance and poverty connection, there is a direct link between finance and human welfare. When policy reforms foster the development of the financial system, financial services improve, accelerating economic growth, which ultimately leads to ending extreme poverty and boosting shared prosperity.

Research has established the robust positive impact of financial sector deepening on economic development in many countries. There is a well-established body of empirical evidence which shows that countries with higher levels of credit to the private sector relative to GDP experienced higher average annual real GDP per capita growth. Recent research has also pointed to a significant indirect impact of financial deepening on poverty alleviation. By changing the structure of the economy and allowing more entry into the labour market by previously unemployed or underemployed segments of the population, finance helps reduce income inequality and poverty, as evidence

1. U. Kama, M. Adigan: "Financial Inclusion in Nigeria: Issues and Challenges". Central Bank if Nigeria. August, 2013.

from Thailand and the US[2]. A study[3] employed the trivariate causality test to examine the dynamic relationship between financial development, growth, and poverty in South Africa. The study reported that financial development and economic growth granger cause poverty reduction. The paper also found economic growth to granger cause financial development and, in the process, lead to poverty reduction in South Africa and a similar result was found on Ghana[4].

Determinants of Performance of the Financial System to ensure that they contribute to inclusive growth

The Level of Financial Intermediation: This has to do with the depth of the financial system or its size as measured by several indices such as the ratio of the financial system's assets to gross domestic product; ratio of financial system's liabilities to gross domestic product, claims of the financial intermediaries on the private sector, relative to the gross domestic product; and the ratio of bank credit to the private sector relative to total credit in the system.

The Efficiency of Financial Intermediation: The efficiency of financial intermediation has to do with the quality of financial services. Such quality varies depending on several variables. Where workers in the financial system (e.g. bank-staff) lack requisite skills-set, which may lead to poor analysis of projects; inappropriate oversight of borrowers, and sub-optimal levels of financing and inefficient capital allocation.

The Composition of the Financial Intermediaries: In the financial structure, there are financial intermediaries known as Non-Bank Financial Intermediaries. This category includes, Pension Funds, Insurance Companies, Mortgage Finance Institutions, Mutual funds, Unit Trusts, Stock Exchange etc. when the banks are unable to give long-term finance, (if they have only mobilized short-term funds) the Pension Funds and Insurance Companies can make such long-term funds available in a well-diversified financial system.

The Features of the Financial Sector in Sub-Saharan African Countries

As a result of the reform program in the last two decades, the financial system in most Sub-Saharan African countries has transformed despite being highly dominated by the banking system. Even though there are many other institutions, including finance and leasing companies, they are often linked to banks through ownership. The financial system was also becoming more stable, mostly due to addressing loan losses in state-owned banks, increasing provisioning and increase in minimum capital. The NPL ratio in many Sub-Saharan African Countries reduced in recent years while the risk-weighted capital/asset ratio rose.

The resilience of the banking system in most countries to the recent global financial crisis reflects the improved personnel and institutional capacity, including risk management and loan procedures, as well as the stronger regulation and supervision of the Central Banks as well as limited connections with the international financial system. There has also been progressed in many countries in the financial infrastructure, most notably through the establishment of the Credit Reference Bureau and improvements in the payments system. In payments, the RTGS payments system became operational in many countries. This reduces the problems of default in payments that have proved very costly in some countries. However, there is evidence of low intermediation efficiency, despite high savings mobilization capacity of the banking system in most countries. The explanations are numerous.

Government's financing needs crowd out credit to the private sector, reflecting the (perceived) lower risk of government securities. Credit is concentrated among a few borrowers, with most of the enterprise population being left out. There is also little competition from outside the banking system, consistent with the bank-based nature of the financial system in most countries. There is very limited physical outreach of the banking sector. Microfinance in most countries has remained limited in size, with only a small portion of the potential market being served. Additionally, Microfinance institutions are restricted by the lack of a proper regulatory framework and the prohibition to take deposits in some countries. As well, non-bank financial intermediaries and securities markets are less developed.

Given the importance of SMEs in creating employment, the lack of credit supporting their activity in Sub-Saharan African Countries financial systems is a major drawback for development. International financial indicators show that in Sub-Saharan African countries' businesses, in general, are

2. Giné, Xavier, and Robert M. Townsend. 2004. "Evaluation of Financial Liberalization: A General Equilibrium Model with Constrained Occupation Choice." Journal of Development Economics 74, 269–307
3. Odhiambo M. N (2009): "Finance, Growth and Poverty Nexus in South Africa". A Dynamic Causality Linkage. The Journal of Socio-economics, 38 pp.380-325.
4. Quartey P. (2005): Financial Sector Development Savings, Mobilization and Poverty Reduction in Ghana" UNU-WIDER Research paper No. 71, United Nations University, Helsinki.

disadvantaged through less access to finance than competitors in other regions.

In an effort to increase the level of participation of financial institutions to finance small and medium enterprises, the African Development Bank (AfDB), is implementing a number of initiatives designed to encourage the participation of financial institutions. One notable initiative is the African Guarantee Fund (AGF). The AGF is owned by AfDB, AECID and DANIDA with contributions of US$10 million, US$20 million and US$20 million, respectively[5]. Over the next 3 to 5 years, this share capital is expected to increase to US$ 500 million, giving the institution capacity to guarantee up to US$2 billion worth of SME loans. The additional capital will be coming from bilateral donors, private investors as well as from DFIs.

Innovations in financial system development to ensure inclusive growth in African countries.

Africa is innovating in new and exciting ways. The best example of this is Africa's mobile revolution. Kenya is the global example of how cellular technology can be leveraged to offer financial services at great scale and low cost. The M-PESA (M for "mobile" and PESA, Swahili word for "cash money") otherwise "mobile cash money" mobile money service in Kenya stands out as a model (for other African nations) of how consumer access to financial services can be revolutionised through technology. The service provides the average Kenyan without a bank account the opportunity among others to transfer cash; purchase airtime credit; pay bills, and purchase goods and services without the use of cash by simply transferring value from one individual to another through float balance on the phone. With a significant portion of the Kenyan population depending on money transfer from the employed, the introduction of M-PESA provided a cheaper, safer, more efficient means of transferring money to their dependents in the remote villages[6]. Even the business population with traditional banking accounts adopted the channel to pay wages, bills, salaries and pay for services provided in the remote part of the country. The populace was able to overcome the challenges of illiteracy, documentation bureaucracy, minimum balance requirement, and limited traditional banking distribution channels all of which limited the ability of the majority to open the conventional banking accounts.

The factors which are peculiar for the success of mobile in Kenya include wide usage of mobile phones which provided a ready potential market for mobile money service, the creation of the right government regulatory environment; the liberalization of the telecom sector, and prompt granting of mobile money transfer service license among others. The government of Kenya ensured the creation of the right environment for innovation while at the same time ensuring the stability of the financial system. Many African countries have also in recent times stepped-up the campaign for banks to invest heavily in other low-cost branchless channels such as ATMs, point-of-sale (POS) and mobile banking, etc.

Existing challenges for technology-based financial services in many African countries including among others, stringent regulations that govern the activities of technology-based financial services, limited interoperability; and low level of financial literacy and income among others.

Fostering and improving the microfinance institutions (MFIs) in Africa is also a top priority across the continent. Ministers of Finance and Economic Development of member countries made recommendations to the African Union Commission (AUC) in 2009 to consider minimum standards and policies concerning microfinance. Currently, microfinance specific legislation and regulations exist in almost all African countries.

Existing challenges for Microfinance development in many African countries including among other high costs of outreach, high transaction costs, Know Your Customer (KYC) and security challenges and insufficient resources, which limit MFIs their capacity to purchase world-class banking solutions that can help them fulfill their requirements and support their growth targets.

How Regional Financial Integration can support growth, development and poverty reduction in Africa.

African countries have been strengthening and modernizing their financial systems as part of their domestic reform programmes, recognizing that strong financial systems will deliver dividends in terms of growth and poverty reduction. However, despite these efforts, African financial systems lack depth and deliver only a limited range of products, at a relatively high cost, with the result that the expected benefits have not materialized to the full. Many studies have concluded that the disappointing outcome in Africa reflects, inter-alia, the small scale of the operations of most African financial

5. African Development Bank (2012) "African Guarantee Fund for Small and Medium Sized Enterprises Information Memorandum, Tunis.
6. Ngugi Benjamin and Pelowski Matthew (2010): "M-PESA: Case Study of the Critical Early Adopter's Role in the Rapid Adoption of Mobile Money Banking in Kenya".

system, and that this deficiency could be corrected through promoting regional financial integration (RFI).

RFI's contribution to growth comes through four different channels; (i) it provides further powerful stimulus for domestic financial reforms; (ii) it increases the scale of operations and cooperation, thereby increasing the system's efficiency and productivity; (iii) it induces foreign direct investment (FDI) inflows and (iv) it enables the African systems to grow into regional and ultimately global players in financial markets. A major new circumstance favouring RFI is the renewed, and credible, efforts towards fostering African Continental Free Trade Area (ACFTA). Increased Intra-Africa trade requires a higher level of financing and increased access to financial services and products, which may be more efficiently provided by regional institutions, services, and products. The expected progress in the implementation of ACFTA will no doubt increase the demand for financial services and may, thus, induce a demand-led regional Financial integration within Africa

Proposed Solutions to Establish Well Functioning and Inclusive Financial Markets

a) Address regulatory bottlenecks and allow mobile phone services to thrive;

b) Taking a strategic approach by developing a national financial inclusion strategy which brings together diverse stakeholders, including financial regulators, telecommunication, education ministry, etc.

c) Paying attention to consumer protection and financial capacity to promote responsible and sustainable financial services;

d) Provision by governments, development banks, and financial institutions partial loan guarantees to commercial banks that lend to SMEs. This approach would be particularly useful in sectors such as agriculture, for which credit is difficult to access due to lack of collateral and important climate risk.

e) Put in place credit reference bureaus and rating agencies responsible for providing banks with information on their clients, this would help reduce risk thereby lowering interest rates and facilitating businesses' access to credit;

f) Provision of financial (and managerial) literacy training, particularly for micro-enterprises that would otherwise not have the ability to present a viable business plan to secure a loan;

g) It is necessary for MFIs to be integrated in the formal financial system in order to scale-up their activities while retaining their comparative advantage in their relatively lower interest rates. Several MFIs have successfully made the transition to formal financial institutions in a few African countries.

h) Provide microfinance institutions with hedging instruments as well as risk management and mitigation tools. The goal is to offset currency risks faced by MFIs (which might borrow in dollars or euros and lend in local currencies).

i) Given the importance of financial services to the economy and the reality that SMEs are not only less likely to access credit and to pay more for it, but it is also necessary for policymakers to design innovative financial products geared towards SMEs.

Conclusion

Innovation and a wide spread of public and private activities and partnerships can contribute significantly to the development of African financial markets. However, access to finance is still a challenge for most Africans. Overcoming this bottleneck is critical if Africa is to increase its investment rate and its growth potential, as financial intermediation is the key to channeling resources into productive activities. Making African financial markets work for investment and development will require significant efforts aimed at among other things, creating and maintaining a stable macro-financial environment; establishing an incentive framework and a business climate supportive of entrepreneurship and private sector development; strengthening legal and regulatory environment; diversifying the supply of financial products and resources; regionalizing financial markets through legal harmonization and cross-listing at regional level and fostering an all-out national training effort in managerial and technical skills related to financial operations and use of proper accounting procedures and adequate auditing and financial information dissemination.

"African countries have been strengthening and modernizing their financial systems and will deliver dividends in terms of growth and poverty reduction."

SOUTH AFRICA'S Q3 20219 MACRO-ECONOMICS OUTLOOK 2019-2025: SOUTH AFRICA MARKETS, RAND FOLLOW GLOBAL, IGNORES GDP WHICH STUTTERS ON STRUCTURAL (REGULATORY) IMPEDIMENTS TO GROWTH

By **Annabel Bishop,** Group Economist, Investec Bank, South Africa

With once again showing a lower real GDP outturn in Q1 (-3.2% qqsaa for Q1.19), South Africa's economic growth outlook for the rest of the year has dimmed again, and consensus for 2019 now ranges between 0.6% y/y to 0.8% y/y, from closer to 1.5% y/y at the start of the year. Such persistent mild growth (2018 0.8% y/y) does not necessarily absorb all incoming labour market entrants, and risks the unemployment rate ticking up towards 30%, if it persists. The IMF recently concluded "South Africa's subdued economic growth could be reignited if the pace of structural reform implementation accelerates. Robust actions are needed to reduce the fiscal deficit and reverse the increase in public debt. The government has a renewed opportunity to press ahead with policies to further strengthen governance, encourage competition, increase labour market flexibility, and, more generally, reduce the cost of doing business." With regulatory blockages, specifically the ease of doing business hampered by an onerous regulatory burden that is suppressing economic activity, government cannot move fast enough to unlock these impediments to economic growth, marked reindustrialisation and job creation. Such structural reforms are urgently needed to boost confidence and so production and output, with economic growth unlikely to lift sustainably to 3.0% y/y in the absence of this. The IMF additionally warns "(a)mid challenging global economic conditions, (SA's) growth outlook will depend critically on the pace of implementation of reforms that address long- standing structural constraints. If reform implementation accelerates sufficiently to lift business confidence and jump-start private investment, growth would be reignited. However, if reforms are delayed, investment would fail to pick up, economic growth would remain weak in the medium term, and per-capita income would continue to decline."

President Ramaphosa recently identified the need to "reimagine our industrial strategy, to unleash private investment and energise the state to boost economic inclusion. It requires the State to effectively play its role as … a regulator that sets rules that create equitable opportunities for all players …." However, the South African economy can no longer-afford to wait for the longer-term adjustments to improve its ease of doing business.

With South Africa achieving little in reducing unemployment over the past ten years on a sustainable basis, household are constrained financially, and household expenditure growth in real terms is weak, resulting in low GDP growth, as household consumption expenditure accounts for two thirds of GDP. Indeed, demand is weak in South Africa, and is also influencing inflation outcomes, with CPI inflation modest at 4.5% y/y, well below its historic average since 2009 of 5.4% y/y. With services indeed accounting for over 70% of the economy, up from 62% in 1993, a heady deindustrialisation trend has occurred in the SA's economy, while the economy has also matured. Reindustrialisation of SA will do much to boost economic growth and job creation in South Africa, while SA's mature, sophisticated services sector can be leveraged to make this happen if, and likely only if, government severely reduces its regulatory burden placed on business activity, particularly in the manufacturing and mining sectors. Demand is weak in South Africa, with high administered price inflation of 8.2% y/y severely eating into disposable incomes and so weakening household consumption expenditure and economic growth.

CPI inflation in SA excluding administered prices is 3.7% y/y, evidencing the weakness of demand side price pressures in SA. Households have seen the pace of growth in debt rise, to 6.5% y/y from around 3.5% y/y in early 2017 as they have increasingly resorted to debt in a constrained environment (household debt has reached 72.5% of disposable income from 71.3% in 2017). Growth in disposable income has slowed materially over this period, from 11.3% y/y at the beginning of 2017, to 4.0% y/y currently, while compensation of employees has seen growth falter too, down to 4.3% y/y from around 7.0% y/y at the beginning of 2017, with the historic average since 1994 of around 10% y/y. Indeed, even in real terms, disposable income growth has slowed, to 0.8% qqsaa in Q1.19, from around 3.0% qqsaa in Q1.17. Households' net wealth improved in Q1.19, to 366% of disposable income, from 356% of disposable income in Q4.18 as equity prices improved, although debt did increase. Household savings as a % of disposable income is negative, while the cost of servicing debt as a percentage of disposable income remained at 9.3% in Q1.19, with the SARB cutting interest rates at the MPC meeting on 18th July. The SARB (South African Reserve Bank) shows a forecast for CPI inflation of 4.5% y/y in 2020 and that "(t)he overall risks to the inflation outlook are assessed to be more or less evenly balanced." The SARB has also warned that the "current challenges facing the economy are primarily structural in nature and cannot be resolved by monetary policy alone." With political pressure escalating and disruptive in SA, the recent reemergence of threats to SARB independence has been damaging, causing marked rand weakness. Globally, concerns over economic growth persist, and monetary policy has become dovish, resulting in the US expected to cut its interest rates by 50bp this year, likely resulting in a weaker US dollar and underpinning the rand.

The rand, and other emerging markets, have benefitted from financial market expectations that the US will cut its interest rates this year by 50bp, while expectations that the ECB could ease policy are rising, and SA is likely to join the dovish direction.

The rand is likely to continue to gain from perceptions, and particularly the occurrence, of global monetary policy easing. We have revised our forecast for world GDP growth down again, to 2.6% y/y for 2019, versus the forecast we made in Q2.19 of 2.9% y/y in line with the World Bank which highlights that "(g)lobal growth has continued to weaken and momentum remains fragile. … Downside risks to growth predominate, including rising trade barriers, a build-up of government debt, and deeper-than expected slowdowns in several major economies." "U.S. growth is expected to slow to 2.5 percent in 2019 and further decelerate to 1.7 percent in 2020 and 1.6 percent in 2021, as the effects of recent fiscal stimulus wane." While the rand could see further strength this year, this may be more likely to be sustained in the last quarter, as global financial markets tend to be less risk averse in that period (the last and first quarters of the year), while the third quarter tends be a quarter in which financial markets often experience risk-off. Longer-term the rand is expected to return to its purchasing power parity valuation (in the expected case), absent a further escalation in trade tensions between the US and China, and absent also a Moody's credit rating downgrade and a prolonged global financial markets risk-off environment.

"South Africa's subdued economic growth could be reignited if the pace of structural reform implementation accelerates. Robust actions are needed to reduce the fiscal deficit and reverse the increase in public debt."

Contributor's Profile

Annabel Bishop joined Investec in 2001, and has worked in the macroeconomic, risk, financial market and econometric, among others, fields for around 25 years. Annabel is the holder of the Sake/Beeld Economist of the Year title for 2010 and has won numerous monthly Reuters Econometer awards, and various Focus Economics (Economic Forecasts from the World's Leading Economists) categories for correctly forecasting a range of economic variables. She has authored a wide range of in-house and external articles, published both abroad and in South Africa. She has also lectured at Gibbs, the University of Pretoria, Wits, UJ and other academic institutions, and has presented at various national and international conferences.

ZAMBIA HAS UNTAPPED INVESTMENT OPPORTUNITIES IN FINANCIAL SECTORS, RENEWABLE ENERGY, AGRI-PROCESSING AND MANUFACTURING

CEASER SIWALE, CEO, PANGAEA SECURITIES ZAMBIA

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?*

CEASER SIWALE: I was born in Zambia and grew up in various parts of the world namely Botswana, Malta, Italy, the United Kingdom and parts of North America. I attended University in the United Kingdom and graduated with a degree in Economics. I decided to come back to Zambia because I saw an opportunity to fill in the gap in the market that foreigners saw potential in and pursued. At that time Zambian participation in businesses was low. In Zambia I also secured a professional qualification as a Fellow Certified Chartered Accountant.

The passion to pursue a career in financial securities began when I was in England. I had an experience on the London Underground. Whilst on the train, I read a headline that stated that a bank [Barrings] had been acquired for £1.00. I found this fascinating. Having read that article myself, I got more involved in learning more about this sector. When I returned to Zambia I firstly worked for Deloitte and Touché ("Deloitte") as an auditor. After a short stay at Deloitte, I decided I wanted to pursue something more forward looking rather than a career based on certification of the historical financial performance of a business. To my advantage, I met Bruce Bouchard who was then the Chief Executive Officer ("CEO") of Pangaea Securities, who offered me a job as a senior analyst. A few years down the line I was appointed the CEO of Pangaea.

CAPMARKETSAFRICA: *Let's find out a little more about PANGAEA SECURTIES ZAMBIA. What led to the creation of PANGAEA? What does PANGAEA do? Which areas of financial services is it engaged in? What category of clientele and any major recent or upcoming trans-actions?*

CEASER SIWALE: Pangaea was formed in 1994. The founder of Pangaea, Eric Pastel, was involved in the creation of Zambia's capital market and offered brokerage services in the country from that time. In 1998 Pangaea merged with EMI Securities, an investment banking and financial services group also based in Zambia. The combined company became known as Pangaea/EMI Securities. In 2008, the shareholders behind Pangaea/EMI sold the business to Moscow based Renaissance Capital [RenCap]. The firm was renamed Pangaea Renaissance Securities. In 2012 I led a management buy-out of Pangaea Securities which is now wholly owned. That being said, it wasn't an easy journey, the team worked through various challenges that required organisational restructuring that led us to where we are today.

Pangaea Securities deals in brokerage, corporate finance transactions and has a strong investment banking component that focuses on financial advisory services in debt and equity capital markets, as well as mergers and acquisitions. Pangaea has strategic international and local partnerships that puts it in a unique position to deliver client-focused solutions. It has access to the largest pool of international fund managers seeking investment opportunities in Zambia and the broader SADC region.

Recent corporate finance transactions that Pangaea has concluded are:

- disposal by Copperbelt Energy Corporation PLC ("CEC") of its 50% shareholding in CEC-Liquid Limited, Zambia's leading broadband wholesaler;
- USD74mn conversion of mezzanine debt into CEC ordinary shares; and
- USD65mn investment into Zambeef Products PLC by CDC Group Plc.

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 PANGAEA in five years from now, please?*

CEASER SIWALE: Pangaea has evolved over the years from providing capital market services to a full range of other products. The business has always been entrepreneurial in nature and always seeking bespoke solutions for clients. We have always considered ourselves to be ahead of the local market and in touch with developments in the more advanced markets. Our strategy for the coming years will really be to incorporate more financial technology into our business and increasingly focus on mid-tier Zambian businesses.

We are already the only brokerage firm in Zambia with a bespoke trading software that is integrated into the Lusaka Securities Exchange ("LuSE"). In late 2018, we started developing our own mobile trading application, which can be utilized for primary market transactions; and secondary market trading. Our intentions are to enable the application to trade both equities and debt instruments over the LuSE and Bank of Zambia. We anticipate that the utilization of the application can be launched before the end of 2019.

Pangaea is also the only financial advisory firm in Zambia that utilizes the Bloomberg Terminal for its advisory activities. Although a standard tool in the global financial markets, Bloomberg is not common in Zambia even with the commercial banks. In order to leverage off the accessibility that Bloomberg provides, we have developed a bespoke advisory application. The application, Dilsence, allows for the investment banking team to onboard clients, upload the various stages of the transactions according to the firm's policies and connect the transactions to the appropriate potential providers of capital; and all in real time.

Finally Pangaea is committed to exploring opportunities in the SADC region with a bias towards medium sized businesses that are scalable.

CAPMARKETSAFRICA: *In general, what is your outlook for the Zambian financial sector - key challenges and opportunities as well as suggestions needed to improve Zambian wealth and asset management sector, please?*

CEASER SIWALE: The key challenges affecting the Zambian financial sector centre around the deepening of access to different forms of capital by the investing public. At present, Zambia's financial services market is heavily dependent on borrowing from commercial banks, who in turn have limitations on the form of lending they can do. The market has considerable scope for new entrants to provide asset management services; access to private equity/debt financing; amongst others.

CAPMARKETSAFRICA: *In a more specific term, what are the biggest challenges and opportunities you see in the corporate banking sector in Zambia? And in what ways does your corporate banking division assist clients in managing their risk and enhance their revenue?*

CEASER SIWALE: The immediate challenge is the tightening of liquidity, higher interest rates, introduction of IFRS 9 and a volatile fiscal environment all of which has led to a shift of capital from traditional lending activities by the banks and capital market trading by the asset managers to low risk assets such as government treasury bills and bonds. Hence, companies have been priced out of the market therefore causing constraints in accessing finance. Furthermore, due to a lack of alternative sources of finance, corporate banks cannot offer flexible solutions to businesses. This has impacted growth prospects that need different forms of funding in the short to medium-term.

We work toward providing innovative solutions for our clients that take into account the different market dynamics, limiting factors and opportunities. Our expertise in understanding the market and having a global network, aids us to better match the needs of clients and get the best deals at the right price. This enables us to manage risks and identify opportunities that enhance clients' revenue and give them access to local and international funding.

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

CEASER SIWALE: At Pangaea, having access to the largest pool of international fund managers seeking investment opportunities and the broader SADC market we find it vital to carry out extensive due diligence to mitigate credit risk. On a local level we carry out site visits and ensure we gather extensive information and understand the financial position of our potential clients in order to make well informed decisions. On an international level, we adhere to Anti-Money laundering procedures and international standards that are provided by regulators to ensure mitigation of credit risk exposure.

According to the Zambian Banking Industry PWC Survey 2018 managing credit risk is one of the most significant problems faced in the financial industry. Stringent policies have been implemented by the Bank of Zambia to reduce counterparty credit risk and the International Accounting Standards Board provided a framework in International Accounting Standards 9 (IFRS9) financial instruments, to account for expected credit losses. This standard enables entities to have a better view of the consequences of lending practices.

CAPMARKETSAFRICA: *Beyond the extractive industries, what makes Zambia an attractive area for investment? And what are some of the issues investors should be aware of when looking to invest in Zambia?*

CEASER SIWALE: Apart from the extractive industries, Zambia has untapped investment opportunities in financial services, renewable energy, agri-processing, and manufacturing. Zambia is an attractive area for investment because it has a strategic location in the region, neighboring eight (8) nations. Further, the country is peaceful and relatively politically stable. In relation to the agriculture sector, only 14% of arable land is under cultivation despite 58% of the landmass being arable – thus presenting opportunities in the agriculture and agribusiness sector. Further, Zambia has access to about 40% of the water in Southern African which could be beneficial for various sectors. Investors will also be interested to know that for companies listed on the Lusaka Securities Exchange, there are no restrictions on shareholding levels, no capital gains tax on the sale of shares, and no dividend withholding taxes.

Some of the issues that investors should be aware of are changes in fiscal policies, the current level of government debt, and challenges such as energy shortages, lack of advanced technology, weak infrastructure and lack of adequate transportation, all of which impede productivity. Investors should also be aware that there are limitations on expatriates who can be employed, such as only those with critical skills that are recognised and needed in Zambia.

CAPMARKETSAFRICA: *On a personal note, what do you do in your spare time, when not busy managing PANGAEA?*

CEASER SIWALE: I believe a work-life balance is critical to a fulfilled life. In my spare time I enjoy spending time with my kids, watching and playing basketball. I thoroughly enjoy living a healthy lifestyle and being active in the gym is one of the ways I do so. I also enjoy travelling and seeing new places whenever I get the chance.

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

CEASER SIWALE: I would like to be remembered as someone who made an impact by contributing to the expansion of the financial services and assistance to the growth in not only companies but also individuals that needed support in achieving their ambitions.

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

"Pangaea has evolved over the years from providing capital market services to a full range of other products."

WHAT ANALYSTS ARE SAYING

AFRICA'S ECONOMIC OUTLOOK AND FINANCIAL STABILITY

EAST AFRICA: Debt sustainability concerns to accelerate fiscal consolidation. IHS Markit indicated that Kenya, Rwanda, Tanzania, and Uganda increased their fiscal consolidation efforts in their national budgets for the fiscal year that ends in June 2020, in order to improve debt sustainability. It anticipated that the degree of fiscal consolidation and sustainable debt management will vary across East Africa, due to the authorities' different political interests and agendas in each country. It added that East African governments adopted a more selective approach to infrastructure development in their budgets for FY2019/20.

ANGOLA: Real GDP to contract by 0.7% in 2019. IHS Markit expected Angola's real GDP to contract by 0.7% in 2019 due to fiscal tightening under the IMF program, low oil pro- duction and constrained external liquidity conditions. It indicated that real GDP contracted by 0.4% year-on-year in the first quarter of 2019, compared to a growth rate of 2.8% in the fourth quarter of 2018, due to a slowdown in the hydrocarbon and retail trade sectors, which together generate 46% of economic activity. It added that Angola's foreign currency reserves declined by $353m in the covered quarter amid the fall in oil and diamond export receipts, and high external debt servicing.

EGYPT: IMF calls for stepping up structural reforms. The International Monetary Fund indicated that Egypt has successfully completed the three-year arrangement under the Extended Fund Facility and realized the main objectives of the reform program. It considered that deep reforms achieved macro- economic stabilization, supported a recovery in growth and employment, and put the public debt level on a downward path. It noted that monetary policy is anchored by the authorities' target of reducing the inflation rate to single digits in the medium term, but it stressed that the Central Bank of Egypt should remain cautious despite a well-contained core inflation rate.

NIGERIA: Economic recovery facing structural constraints. BNP Paribas projected real GDP growth in Nigeria to slightly recover from 1.9% in 2018 to 2.5% in 2020 and to stabilize over the medium term. It anticipated that the hydrocarbon and non-hydrocarbon sectors will face challenges that will constrain growth prospects. It expected the authorities' reform efforts in the hydrocarbon sector, which have been ongoing for more than a decade, to be complex. Also, it said that the country's poor infrastructure, significantly low investment levels, subdued FDI in- flows, and weak governance are obstacles to the development of the private sector. It pointed out that, given the expected growth of the country's population, real GDP per-capita will continue to contract.

WORLD: Nearly 54% of rated sovereigns have investment-grade rating, S&P Global Ratings indicated that 53.7% of the sovereigns that it rates had an investment grade rating as of July 19, 2019, relative to a low of 51.5% in June 2017, and a recent high of 55.8% at the end of 2014. However, it said that sovereigns rated in the 'B' category or lower reached a record high of 34.3% of total rated sovereigns relative to 24.6% at the end of 2008. It noted that the global average sovereign credit rating declined from 'BBB' at the end of June 2009 to 'BBB-' currently, while the GDP weighted average sovereign rating declined from 'AA-' to 'A+' over the past 10 years. It expected domestic politics and geopolitical tensions to be the main factors behind changes in sovereign ratings over the next six months.

External debt issuance up 22% to $412bn in first seven months of 2019. Figures compiled by Citi Research show that emerging markets (EMs) issued $412bn in external sovereign and corporate bonds in the first seven months of 2019, up by 21.5% from $339bn in the same period of 2018. The debt issued in Asia excluding Japan reached $211bn or 51.2% of the total, followed by bond issuance in the Middle East & Africa (ME&A) with $82bn (20%), Latin America with $61bn (14.7%), and Emerging Europe with $57bn (14%). Further, EM corporates issued $300bn in bonds in the covered period, or 72.8% of total sovereign and corporate bond issuance. Asia ex-Japan issued $197bn, or 65.6% of total corporate issuance in the first seven months of 2019, followed by the ME&A region with $40bn (13.5%), Latin America with $39bn (12.9%), and Emerging Europe with $23bn (7.8%).

2019 | COMMODITY PROSPECTS
CRUDE OIL, BASE AND PRECIOUS METALS

Oil prices below $60 p/b amid escalating trade tensions. ICE Brent crude oil front-month prices reached a seven-month low of $56.2 per barrel (p/b) on August 7, 2019, constituting a drop of 13.7% from $65.2 p/b at end-July 2019. The decline in oil prices was mainly due to the re-escalation in trade tensions between the U.S. and China, which is raising concerns about a slowdown in global economic growth and its impact on global oil demand. The sharp decrease in oil prices was also caused by a rise of 2.4 million barrels per day (b/d) in U.S. oil inventories in the week to August 2, following nearly two months of declines in oil stocks. However, oil prices partially recovered by about 2.8% to $57.8 p/b in intra-day trading on August 8, driven by expectations that OPEC may reduce further its production to stabilize prices. Goldman Sachs considered that demand and supply fundamentals in the oil market do not justify the recent drop in prices. It indicated that global oil supply is tightening amid lower-than-expected U.S. oil output, shortages in Libya's oil production, as well as a record low level of Iranian oil exports and a decreasing OPEC output.

Precious Metals: Gold prices at six-year high of $1,503 an ounce. Gold prices averaged $1,322 per troy ounce in the first seven months of 2019, increasing by 1.2% from an average of $1,306.5 an ounce in the same period of 2018. Prices also rose from an average of $1,360 an ounce in June 2019 to $1,414 an ounce in July, and to a six-year high of $1,502.6 an ounce on August 7, 2019. The increase in prices has been driven by persistent U.S.-China tensions, concerns about a slowdown in global economic activity, expectations of a continued easing in U.S. monetary policy, as well as by the ongoing purchase of the metal by central banks worldwide. Overall, gold prices are projected to further increase to $1,600 an ounce over the coming six months.

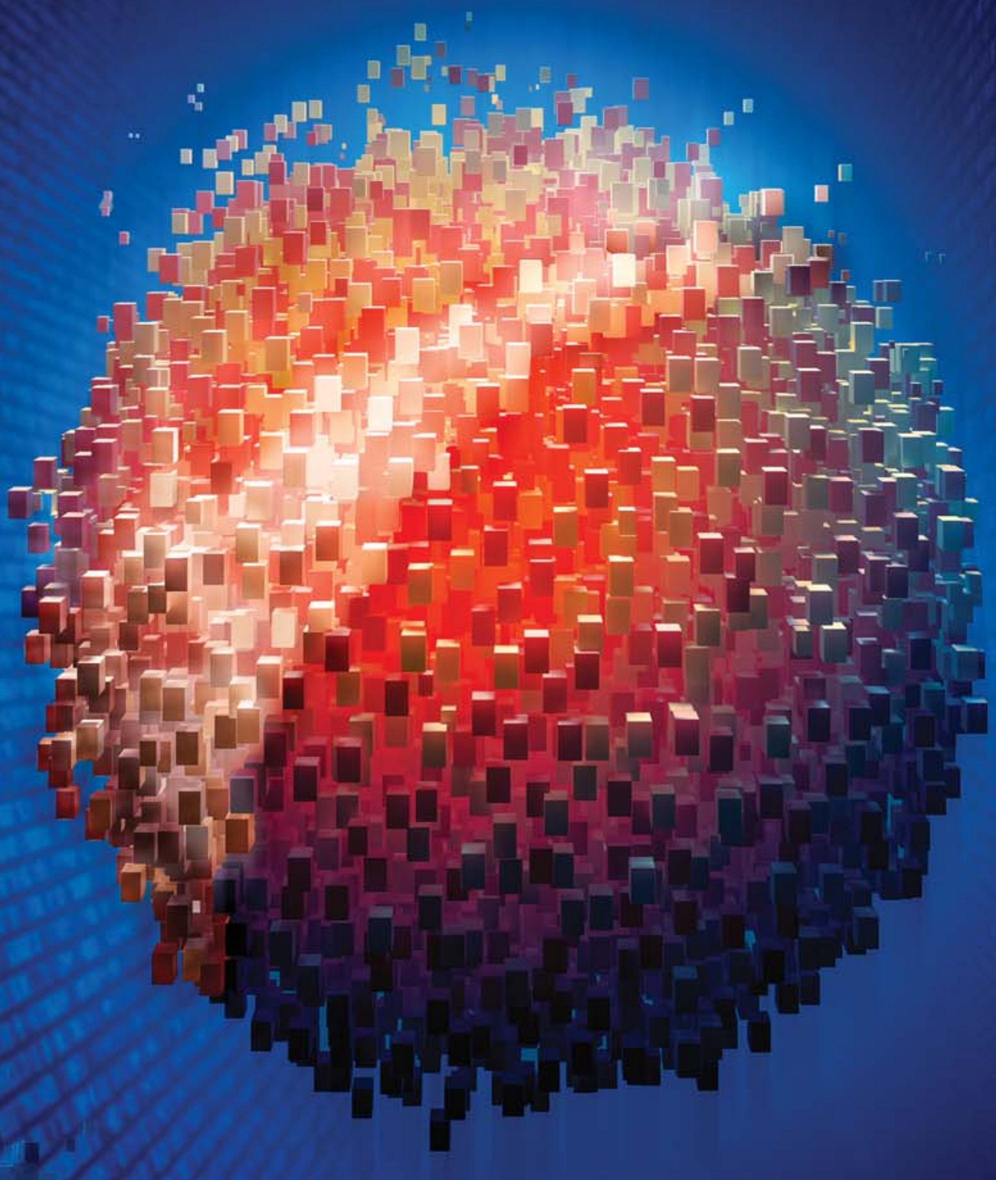
Precious Metals: Silver prices to increase to $18 per ounce by the end of 2019. Silver prices averaged $15.3 per troy ounce in the first seven months of 2019, down by 7.3% from an average of $16.5 an ounce in the same period of 2018, due to subdued investor de- mand for silver exchange-traded funds (ETFs) at the beginning of 2019 amid a strengthening US dollar, as well as to lower-than- anticipated Chinese demand for the metal. However, prices have been on the rise in recent months, increasing from an average of $14.7 per troy ounce in May 2019 to $15 an ounce in June and $15.7 an ounce in July 2019.

Base Metals: Copper prices reach two-year low on reescalation of trade tensions. LME copper cash prices have been gradually declining from a recent high of $6,055 per metric ton reached on July 19, 2019 to close at $5,656 per ton on August 6, 2019, their lowest level since June 2, 2017. The 6.6% decline in prices since July 19 was mainly due to the reescalation of the trade dispute between the U.S. and China, with the U.S. imposing new tariffs on $300bn of imports from China. The trade tensions have been weighing on global economic growth and have increased concerns about demand for metals. In addition, the deterioration in global manufacturing activity, as a result of the trade war, has affected the demand for base metals and their prices.

Base Metals: Nickel prices to average $12,780 per ton in 2019. The LME cash price of nickel average $13,546 per metric ton in July 2019, constituting an increase of 13.4% from $11,944 per ton in June 2019. The increase in prices is mainly due to higher demand for the metal from speculators and from industrial firms, amid concerns about potential future supply shortages in the nickel market. The rise in prices in July reversed the monthly declines in the price of the metal since April 2019. In parallel, prices averaged $12,495 per metric ton in the first seven months of 2019, constituting a decrease of 9.8% from an average of $13,850 per ton in the same period of 2018.

KEEPING PACE WITH INNOVATION

WE ENABLE BANKING RENAISSANCE



path
solutions
Powering Islamic Financial Markets