Africa Bond Markets Conference

“Bond Market Development in Africa - Strategy and Issues”

Intercontinental Hotel, Nairobi, 7 November 2011

Evans Osano, Head, ESMID Africa - IFC/World Bank
• Status of the Bond Markets in Africa

• Importance of Government and Nongovernment Bond Markets

• Critical Areas for Development

• Case Studies – Nigeria and Kenya

• ESMID Africa’s experience developing bond markets in Africa

• Conclusion
Status of Bond Markets in Africa
### Size of Equity and Bond Markets in Selected SSA Countries, 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Equity Market Cap to GDP (%)</th>
<th>No. of Listed Companies</th>
<th>Govt Bonds Outstanding (USD Mn)</th>
<th>Govt Bonds to GDP (%)</th>
<th>Non Govt Bonds Outstanding (USD Mn)</th>
<th>Non-Govt Bonds to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>29.3</td>
<td>410</td>
<td>53,752</td>
<td>22</td>
<td>45,201</td>
<td>19</td>
</tr>
<tr>
<td>Nigeria</td>
<td>21.4</td>
<td>216</td>
<td>15,982</td>
<td>10</td>
<td>847</td>
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<tr>
<td>Kenya</td>
<td>36.6</td>
<td>55</td>
<td>4,753</td>
<td>16</td>
<td>767</td>
<td>3</td>
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<tr>
<td>Mauritius</td>
<td>75.7</td>
<td>89</td>
<td>2,244</td>
<td>25</td>
<td>0</td>
<td>0</td>
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<tr>
<td>UEMOA</td>
<td>2.3</td>
<td>38</td>
<td>1,244</td>
<td>2</td>
<td>1,051</td>
<td>2</td>
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<tr>
<td>Zambia</td>
<td>48.0</td>
<td>20</td>
<td>1,094</td>
<td>8</td>
<td>6</td>
<td>0</td>
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<tr>
<td>Ghana</td>
<td>73.7</td>
<td>35</td>
<td>1,341</td>
<td>9</td>
<td>4</td>
<td>0</td>
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<tr>
<td>Tanzania</td>
<td>18.4</td>
<td>15</td>
<td>557</td>
<td>3</td>
<td>103</td>
<td>1</td>
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<tr>
<td>Uganda</td>
<td>20.9</td>
<td>11</td>
<td>739</td>
<td>4</td>
<td>40</td>
<td>0</td>
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<tr>
<td>Mozambique</td>
<td>3.3</td>
<td>9</td>
<td>147</td>
<td>1</td>
<td>55</td>
<td>1</td>
</tr>
<tr>
<td>Botswana</td>
<td>29.8</td>
<td>31</td>
<td>465</td>
<td>4</td>
<td>608</td>
<td>5</td>
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<tr>
<td>Namibia</td>
<td>1775.0</td>
<td>31</td>
<td>776</td>
<td>10</td>
<td>243</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Country Authorities, OECD, African Stock Exchanges Association, and ESMID Estimates

**Bond Markets at nascent stage – Only 7 markets with Treasury bonds above US$1 bn.**

**Corporate bonds underdeveloped compared to bank loans and Treasury bond markets**
# Example of Issues in SSA ex-SA

## Infrastructure
- Water Utilities – Botswana
- Road Fund Administration – Namibia
- Port Autonomie de Dakar – Senegal
- Cabo Verde Fast Ferry – Cape Verde
- KenGen – Kenya
- Comunaute Electrique - Benin
- Inyatsi Construction – Swaziland

## Housing
- Housing Finance - Kenya
- Shelter Afrique – Kenya, West Africa
- SEMA - Mali
- Botswana Housing Corp
- Home Finance – Ghana
- Farmers House – Zambia
- Housing Finance – Uganda
- IFH – Cape Verde

## Sub-National
- Lagos State – Nigeria
- Niger State - Nigeria
- City of Doula - Cameroon
- Municipality of Sal – Cape Verde
- Municipality of Praia – Cape Verde
- City of Dakar - Senegal

## Telecoms
- Safaricom – Kenya
- Mcel Cellular – Mozambique
- Gt Ghana Telecom – Ghana
- Uganda Telcom – Uganda
- Onatel – Burkina Faso
- Celtel – Burkina Faso
- CITelecom – UEOMA
- Telecel Faso – UEOMOA
- Togo Telecom - Togo

## Agri-business
- Botswana Vaccine Institute
- SOCAPALM – Cameroon
- Sasini Tea- Kenya
- Fan Milk – Togo
- Nesko – UEOMOA
- Palmci – Cote d’Ivoire

## Microfinance
- Faulu - Kenya
- Pride -Tanzania
- Bayport Financial - Zambia
Importance of Nongovernment Bond Markets
Benefits of Non-Government Bond Markets

• **Non-government bonds definition:**
  The term “non-government” is used to encompass bonds and asset-backed securities issued by entities other than the federal government, including:
  - corporations,
  - municipalities,
  - project finance companies created for specific infrastructure projects.

• **Benefits:**
  - Expanded Infrastructure and housing finance
  - Better risk management for borrowers (reduced refinancing mix, reduced currency mismatch, lower interest rates)
  - Financial sector diversification
  - Accelerated private sector development

This generates growth, creates jobs and reduces poverty
Africa’s infrastructure financing needs are enormous

Bulk of infrastructure undertaken by the public sector using foreign currency loans
- Currency risk passed on to consumers – utilities
- Timing of financing may not be synchronized with national priorities
- Funding inadequate to meet all requirements

Private Sector can contribute in bridging the financing gap

Capital Markets can be used to raise long-term local currency financing for infrastructure

Source: Africa’s infrastructure: WB, 2009
Ingredients for a Vibrant Bond Market

**Enabling Environment**
- Macro Economic Environment
- Legal & Regulatory
  - Issuance Process
  - Market Rules
- Tax Regimes

**Market Place**
- Trading, Clearing, Settlement, Depository
- Pre-trade and post-trade transparency
- Bond Market Structure

**Capacity & Institutions**
- Bankable Projects & Sponsors
- Informed Intermediaries
- Informed Investors
Impediments to Corporate Bonds in Africa

**Regulatory Environment**
- Issue costs (direct and indirect) – relatively high
- Issuance process – relatively long
- Onerous requirements – equity-type requirements applied to bonds

**Investor Base**
- Professional investor segment underdeveloped
- Limited capacity for fixed income analysis (mindset is equities oriented)

**Project Preparation Gap**
- Limited packaged and bankable projects
- Weak sub nationals – limited ability to issue bonds without government guarantees
- Limited private sector participation in infrastructure development
Macro economic environment is becoming more favorable for debt capital markets

- Better macroeconomic management
  - Lower Inflation
  - Lower interest rates
  - More stable exchange rates
- Development in government bond markets
  - Tenor extension
  - Flatter yield curves

Africa Government Debt (% of GDP)

Africa Consumer Prices (%)

Source: IMF
Case Study
Nigeria
Restructuring of Domestic Debt in Nigeria

- 2003 – Restructuring of external and domestic debt
- 2003 – First FGN Bond issued
- 2005 – Regular monthly issuance of FGN bonds
- 2008 - Tenor extended to 20 years
  - Reduces roll over and refinancing risks
  - Reduces interest rate volatility in the money market
  - Ensures better asset/liability match
- 2010 – Renewed priority for corporate bond market development

Nigeria Profile of Domestic Debt 2003
- Over 10 Years: 24%
- 5-10 years: 6%
- 2-5 years: 7%
- Up to 2 yrs: 63%

Nigeria Profile of Domestic Debt 2007
- Over 10 Years: 18%
- 5-10 years: 11%
- 2-5 years: 38%
- Up to 2 yrs: 33%

Source: Central Bank of Nigeria
Bond Issues in Nigeria (US$M)

**Corporate Bonds**

Market has grown significantly but is dominated by the banking sector.

**Sub-National Bond Market**

10 out of 36 states have issued

All but one (Lagos State) guaranteed by Federal Government.
Role of Pension Fund Reforms in Nigeria

- 2004 - Pension reforms in Nigeria.

- Assets under management have grown rapidly (average 30% p.a.) to US$13.3 billion in 2011.

- Assets growing at US$ 100 million per month - would triple to US$30 billion in next five years - increased compliance (coverage ratio still low).

- Pension funds becoming important investors in the bond market. Share of the market rose from 6% in 2008 to 22% in 2009.

- New investment guidelines in 2010 - Pension Assets expected to increase funding for infrastructure and other corporate bond issues.

Source: AFRINVEST West Africa
Case Study
Kenya
Restructuring of Domestic Debt in Kenya

- 1997 - First floating rate T-bond issued
- 2001 - Lengthening of domestic debt maturity gains momentum
- Significant change in domestic debt profile in 10 years
  - Share of domestic debt to total debt rose from 33% in 2000 to 54% in 2010.
  - Share of T-bonds rose from 28% in 2001 to 82% in 2008
  - Maximum tenor extended from 6 years in 2002 to 30 years in 2011
Cumulative New Corporate Bond Issues in East Africa (US$M)

Broad range of sectors have tapped the bond market

Markets have recorded significant increase in issues since 2007 but from a very low base - US$ 949 million raised in new bond issues

Marked slow down in 2010 & 2011 due to rise in interest rates

<table>
<thead>
<tr>
<th>Country</th>
<th>USD (M)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>865.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Uganda</td>
<td>57.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>94.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Rwanda</td>
<td>1.7</td>
<td>0.1</td>
</tr>
<tr>
<td>East Africa</td>
<td>1,019</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Role of Pension & Insurance Sectors in Kenya

Pension reforms effected in 2001 – significant growth in assets under management to date

Assets estimated at 25% of GDP

Pension & Insurance funds accounted for 68% of Investments in Corporate bonds in 2011

Kenya: Corporate Bond Holding by Investor Class June 2011

Institutional Investor Assets 2010 (Ksh.Bn)
Role of ESMID Africa Program
ESMID (Efficient Securities Markets Institutional Development) started in 2007 as a partnership between Sida and World Bank Group. Pilot operations in Africa were extended to Latin America. Current Donors: Sida and SECO.

ESMID aims to foster development of well-functioning securities markets to:

- Broaden availability of local-currency investment instruments
- Enable private sector development
- Improve financing for priority sectors e.g. housing, infrastructure, microfinance
- Create jobs and improve livelihoods
ESMID Overview

Country Operations

East Africa
- Kenya
- Rwanda
- Tanzania
- Uganda

CURRENT
- Regional Approach Implementation

West Africa
- Nigeria

Country Approach Implementation

Latin America
- Peru
- Colombia

Regional Approach Implementation
Comprehensive but Targeted Approach

Programs draw on full range of WB/IFC tools:

- Global product expertise + in-country knowledge/presence
- Public and private engagements
- Targeted and implementation oriented interventions

Enabling Environment

- Regulatory Assistance
- Strengthening the Marketplace
- Capacity Building
- Regionalization

Transaction Support
East Africa Milestones

**Regulatory Assistance**
- New full disclosure issuance framework drafted – in Kenya
- Time taken to approve issues down to 45/60 days from 270 days – Kenya and Tanzania
- New ABS regulations developed – in Kenya & Uganda
- New Prospectus Law in Uganda

**Capacity Building**
- Certification curriculum designed and rolled out
- Securities Industry Training Institute (SITI) established
- 1,400+ participants trained

**Strengthen Market Infrastructure**
- Implementation for OTC market structure underway in Kenya and Tanzania
- Laws to facilitate OTC market in Kenya parliament

**Regionalization**
- Regionalization strategy & road map adopted
- Framework for regional bonds approved by EASRA – draft exposed for public comment in Kenya and Uganda.

**Transactions Support**
- Leveraged US$ 1.1m from PPIAF to support upstream transaction work for Kenya Airports Authority, Kigali City and Nairobi Water
- Supported first equity linked bond issue in Kenya (US$22 Mn)
- Supported first Microfinance issue in Tanzania (US$10 Mn)
- IFC local currency issue in Kenya approved
- Cooperation agreement with Shelter Afrique
Supporting integration of Market Infrastructure in East Africa

Option 1
- Interconnecting CSDs

Option 2
- Communication Hub

Shared Solutions
- Holding Company
- International services
- IT Center Shared CSD system

Link Up Solutions
- Communication Hub
- Joint Daughter Holding Company
- International services
- IT Center Shared CSD system

Shared and Link Up Solutions

IFC

Sida
Training Market Participants in East Africa

Recent SITI training advert – Siti is now self-sustaining

+1,400 market participants have benefited from the securities markets training in East Africa

Recent SITI Certificates Award Ceremony
<table>
<thead>
<tr>
<th>Nigeria Milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Markets</strong></td>
</tr>
<tr>
<td>• Primary issuance framework under reform - shelf registration (rules approved)</td>
</tr>
<tr>
<td>• New tax rules for corporate bonds announced</td>
</tr>
<tr>
<td>• Statutory issuance costs reduced</td>
</tr>
<tr>
<td>• ABS regulations drafted</td>
</tr>
<tr>
<td><strong>Pension Funds Investment Guidelines</strong></td>
</tr>
<tr>
<td>• New investment guidelines implemented to allow pension funds’ diversification (Dec 2010)</td>
</tr>
<tr>
<td>• Higher asset allocation for corporate bonds and broader range of ratings</td>
</tr>
<tr>
<td>• Assisting in implementation of multi-funds (by 2012)</td>
</tr>
<tr>
<td><strong>Capacity Building</strong></td>
</tr>
<tr>
<td>• Pension Fund Managers and Insurance companies trained on bond &amp; portfolio management</td>
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<tr>
<td>• Over 200 participants trained</td>
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<td><strong>Secondary Markets Transparency &amp; Regionalization</strong></td>
</tr>
<tr>
<td>• Post-trade transparency under implementation</td>
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<tr>
<td>• East Africa lessons shared – MOU between NSE, GSE and BVRM signed</td>
</tr>
<tr>
<td><strong>Impacts</strong></td>
</tr>
<tr>
<td>• US$ 1.2 billion raised by Lagos State and corporations since program launch – from a very low base</td>
</tr>
</tbody>
</table>
## East Africa Mid Term Review – Receives Strong Ratings

<table>
<thead>
<tr>
<th>Component</th>
<th>Relevance</th>
<th>Additionality</th>
<th>Effectiveness &amp; Efficiency</th>
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</thead>
<tbody>
<tr>
<td>Regional Integration</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Legal &amp; Regulatory Assistance</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Transactions Support</td>
<td>A</td>
<td>B</td>
<td>B</td>
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<tr>
<td>Strengthening the market Place</td>
<td>A</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
</tbody>
</table>

*ESMID has been very successful in laying the foundation for implementation of reforms in the area of non-government bond market development*”

*Program highly dollar efficient – delivering between US$1.33-3.47 in value for every dollar of donor funding dedicated”*

*Source: CARANA Corporation, Mid Term Review 2009*
Thank You