

RECENT DEVELOPMENTS IN AFRICAN BOND MARKETS

BY JELENA SPASOJEVIC

WHY HAS AFRICA NOT ACHIEVED ITS DREAMS?

- Out of Africa: Modern humans originated out of Africa 200,000 years ago
- Long and complicated history
 - Scramble for Africa: 1881-1914
 - Decolonization and the beginning of the independence era
- Challenges of young nations trying to find their way to democracy
 - African solutions to African issues

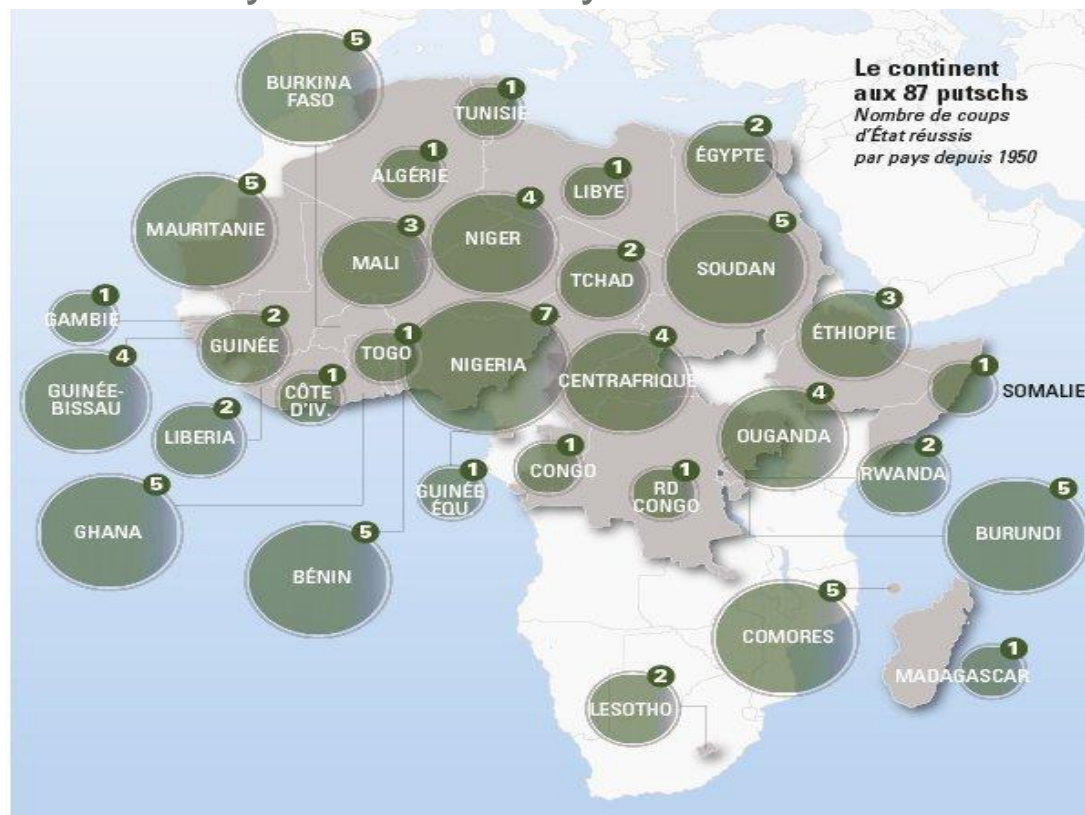


Figure 1: Number of coups by country in Africa since 1950 (via French twitter) – note their definition of a coup is most probably NOT the same as Polity IV's

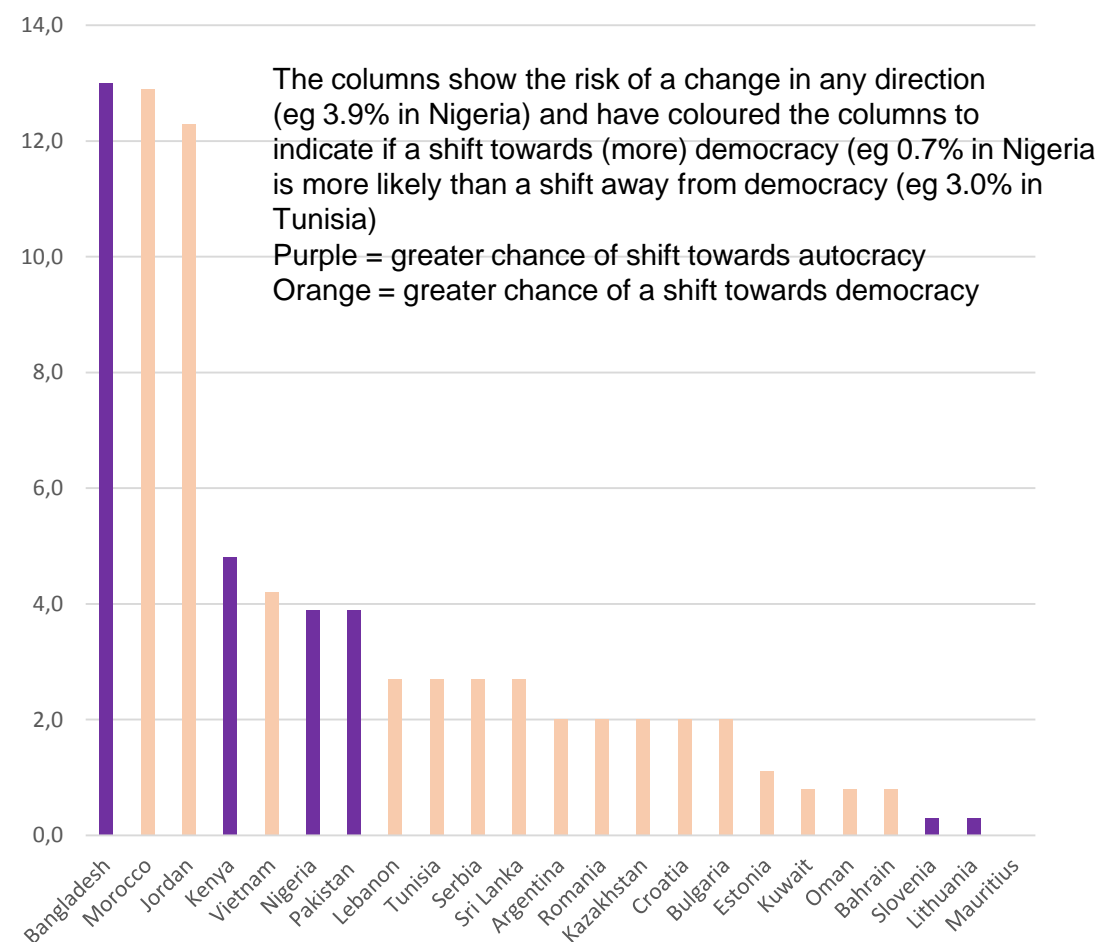
REGIME CHANGE - FRONTIER

MSCI FRONTIER	MSCI weight	Autocracy	Closed anocracy	Open Anocracy	Democracy	Full Democracy	Occupation	Failed state
Kuwait	18.1	99.2	0.8	0	0	0	0	0
Morocco	8.5	3.6	87.1	4.3	5.0	0	0	0
Oman	4.4	99.2	0.8	0	0	0	0	0
Lebanon	3.4	0	0.5	0.7	97.3	1.5	0	0
Bahrain	3.2	99.2	0.8	0	0	0	0	0
Jordan	1.2	0	87.7	10.1	2.2	0	0	0
Tunisia	0.6	0	0.5	0.7	97.3	1.5	0	0
Argentina	15.8	0	0	0.7	98.0	1.3	0	0
Nigeria	8.4	0.7	0.9	1.4	96.1	0.7	0	0.2
Kenya	5.3	1.1	0.4	1.8	95.2	0.7	0.4	0.4
Mauritius	3.2	0	0	0	0	100	0	0
Romania	3.5	0	0	0.7	98.0	1.3	0	0
Slovenia	2	0	0	0	0.3	99.7	0	0
Kazakhstan	1.8	98.0	1.0	0	0	0	1.0	0
Croatia	1.4	0	0	0.7	98.0	1.3	0	0
Estonia	0.5	0	0	0	98.9	1.1	0	0
Serbia	0.2	0	0.5	0.7	97.3	1.5	0	0
Lithuania	0.1	0	0	0	0.3	99.7	0	0
Bulgaria	0.1	0	0	0.7	98.0	1.3	0	0
Pakistan	10	0.7	0.9	1.4	96.1	0.7	0	0.2
Vietnam	4.1	95.8	3.1	0.2	0.9	0	0	0.2
Bangladesh	2.5	4.5	1.8	87.0	4.9	0.9	0	0.9
Sri Lanka	1.7	0	0.5	0.7	97.3	1.5	0	0

Source: IMF

% annual chance of change in political regime label this year

- Polity IV, Renaissance Capital



Source: IMF

REGIME CHANGE – BEYOND FRONTIER

BEYOND FRONTIER	Autocracy	Closed anocracy	Open Anocracy	Democracy	Full Democracy	Occupation	Failed state	Sample	Reliability
Iran	98.0	1	0	0	0	1	0	127	Medium
Iraq	0	0.5	0.7	97.3	1.5	0	0	411	High
Saudi Arabia	99.2	0.8	0	0	0	0	0	127	Medium
Azerbaijan	98.0	1	0	0	0	1	0	127	Medium
Georgia	0	0.5	0.7	97.3	1.5	0	0	411	High
Ukraine	1.7	0.9	87.9	8.6	0.9	0	0	116	Medium
Angola	3.6	87.1	4.3	5.0	0	0	0	139	Medium
Botswana	0	0	0.7	98.0	1.3	0	0	154	Medium
Ethiopia	4.2	91.7	1.7	1.7	0	0	0.7	286	Medium
Ghana	1.1	0.4	1.8	95.2	0.7	0.4	0.4	275	Medium
Ivory Coast	4.5	1.8	87.0	4.9	0.9	0	0.9	223	Medium
Mozambique	2.6	3.9	85.7	5.2	0	0	2.6	153	Medium
Rwanda	4.2	91.7	1.7	1.7	0	0	0.7	286	Medium
Tanzania	4.5	1.8	87.0	4.9	0.9	0	0.9	223	Medium
Uganda	4.2	91.7	1.7	1.7	0	0	0.7	286	Medium
Zambia	1.1	0.4	1.8	95.2	0.7	0.4	0.4	275	Medium
Zimbabwe	2.6	3.9	85.7	5.2	0	0	2.6	153	Medium
Jamaica	0.7	0.9	1.4	96.1	0.7	0	0.2	444	High
Venezuela	1.7	0.9	87.9	8.6	0.9	0	0	116	Medium

Source: IMF

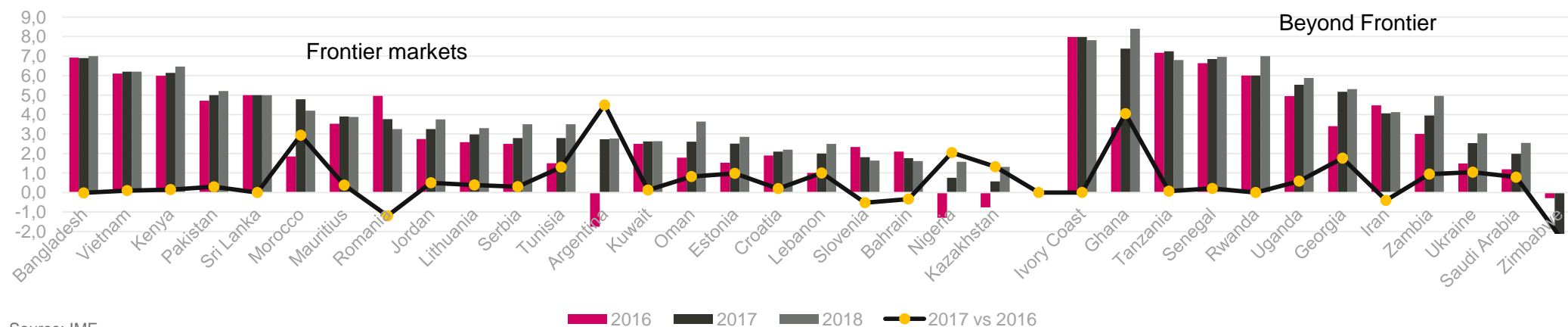
WHERE ARE AFRICAN CAPITAL MARKETS NOW?

	Outstanding	Q2 Volume	Q2 Volume as Percentage of EM	Q3 Volume	Q3 Volume as Percentage of EM	EMBI	CEMBI
South Africa SVGN+Corp	\$29.4bn	\$11.3bn	2.27%	\$11.2bn	2.25%	2.50%	1.00%
Sub Saharan Africa SVGN+Corp	\$33.9bn	\$9.6bn	1.93%	\$9.8bn	1.97%	5.34%	0.87%

Attracting more attention:

- High growth area of the world both in population and GDP terms
- **High yields to investors** compared to the rest of the EM

GDP real % change - ranked by 2017 forecasts

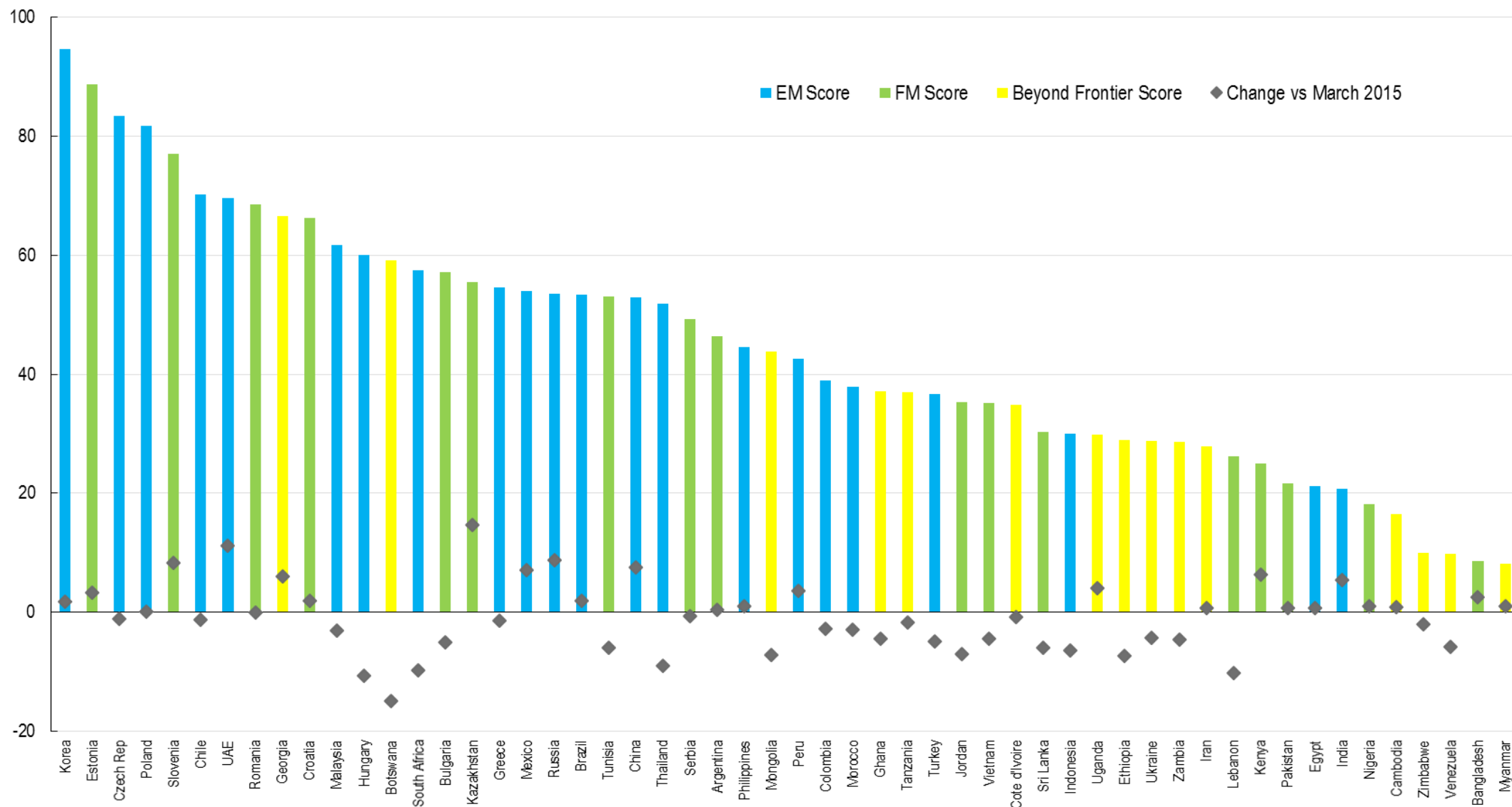


Source: IMF

- ## BUT THINGS ARE NOT AS BAD AS MANY THINK...



RENAISSANCE LEGAL SCORE



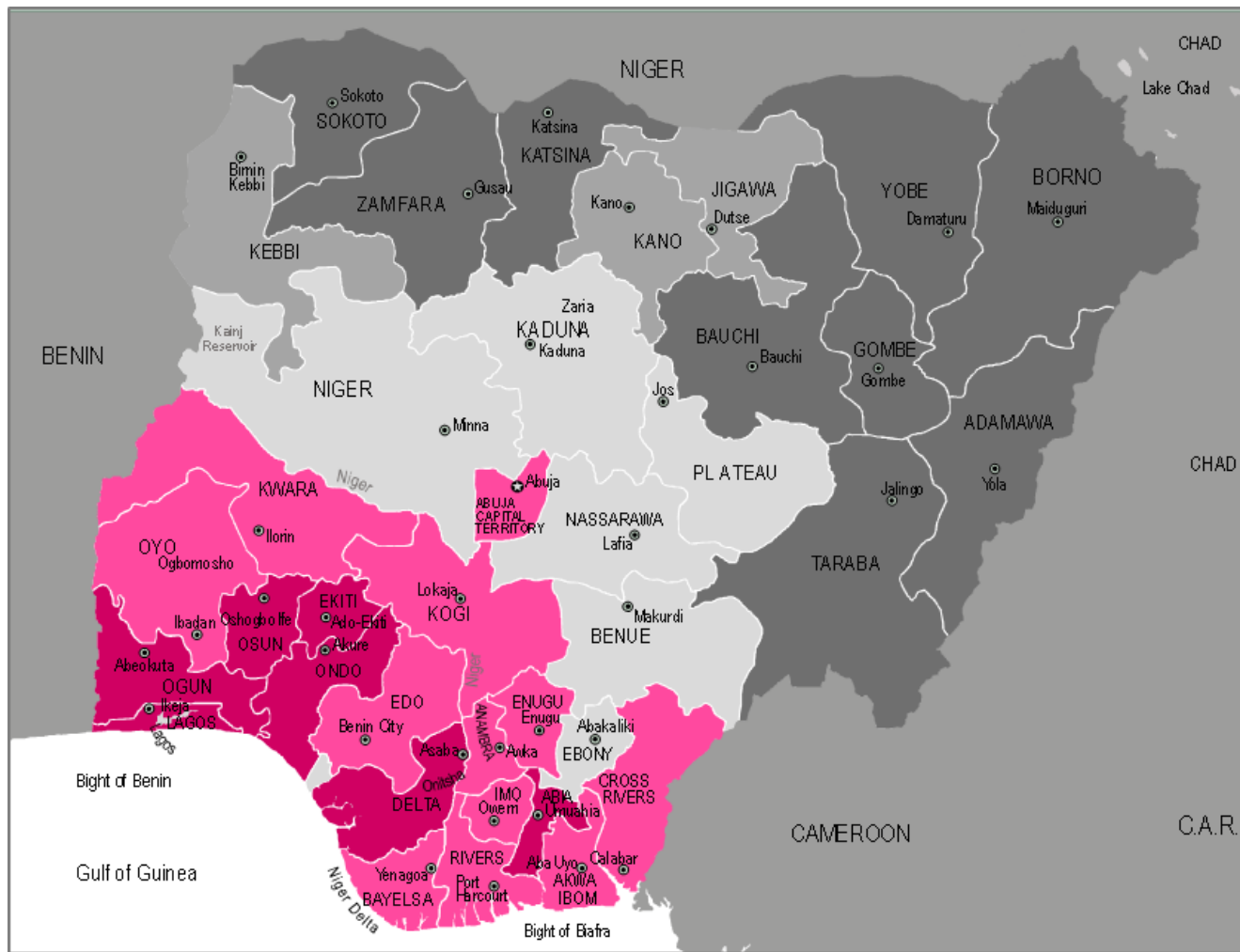
Source: IMF

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STRUCTURAL CHALLENGES

Population:

- fast growing: young
- low education: lack of skilled labour



Net secondary school attendance rate

Over 75.0%

60.1 – 75.0%

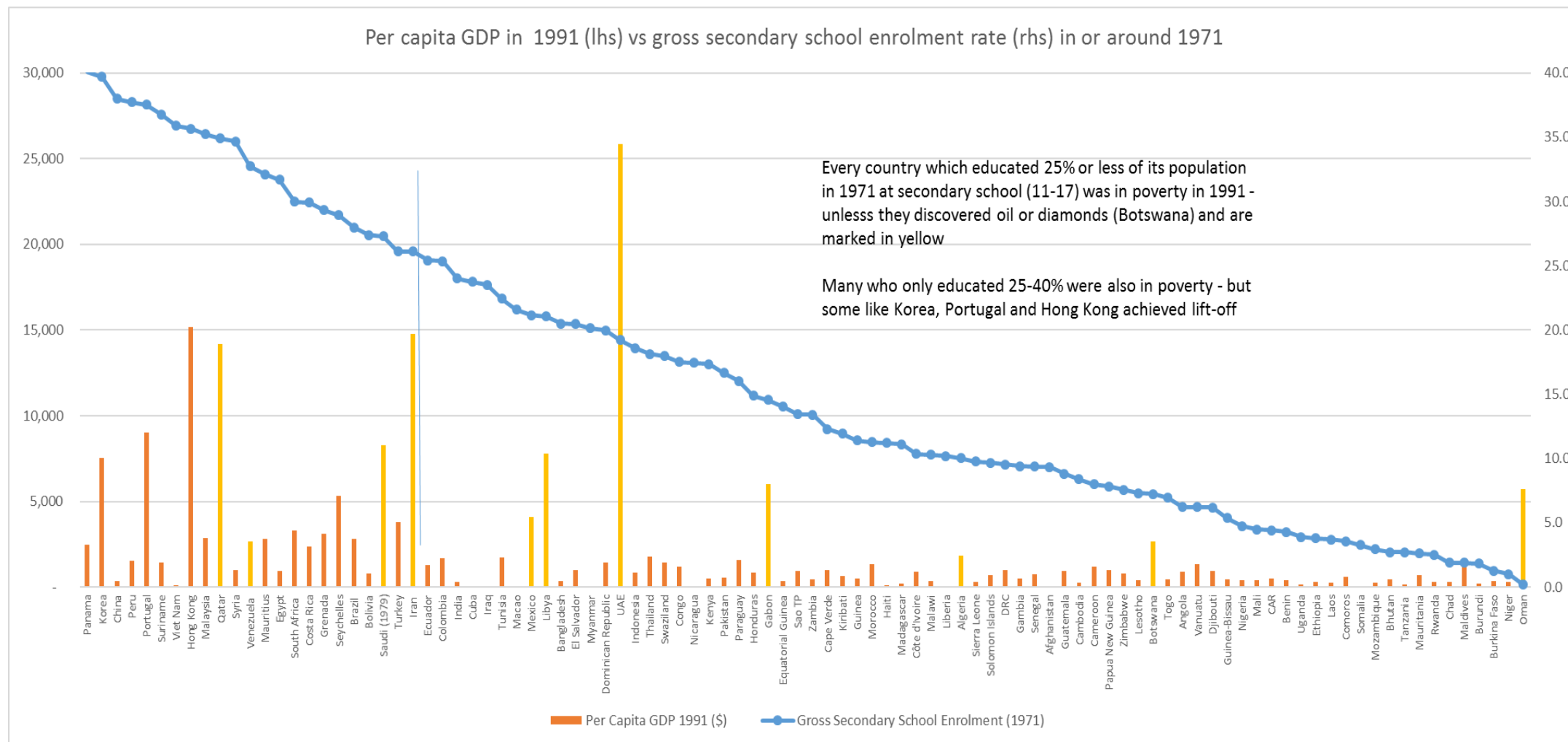
40.1-60.0%

20.1-40.0%

20% and below

YOU WILL BE POOR IF YOU DON'T EDUCATE 25% OF YOUR KIDS

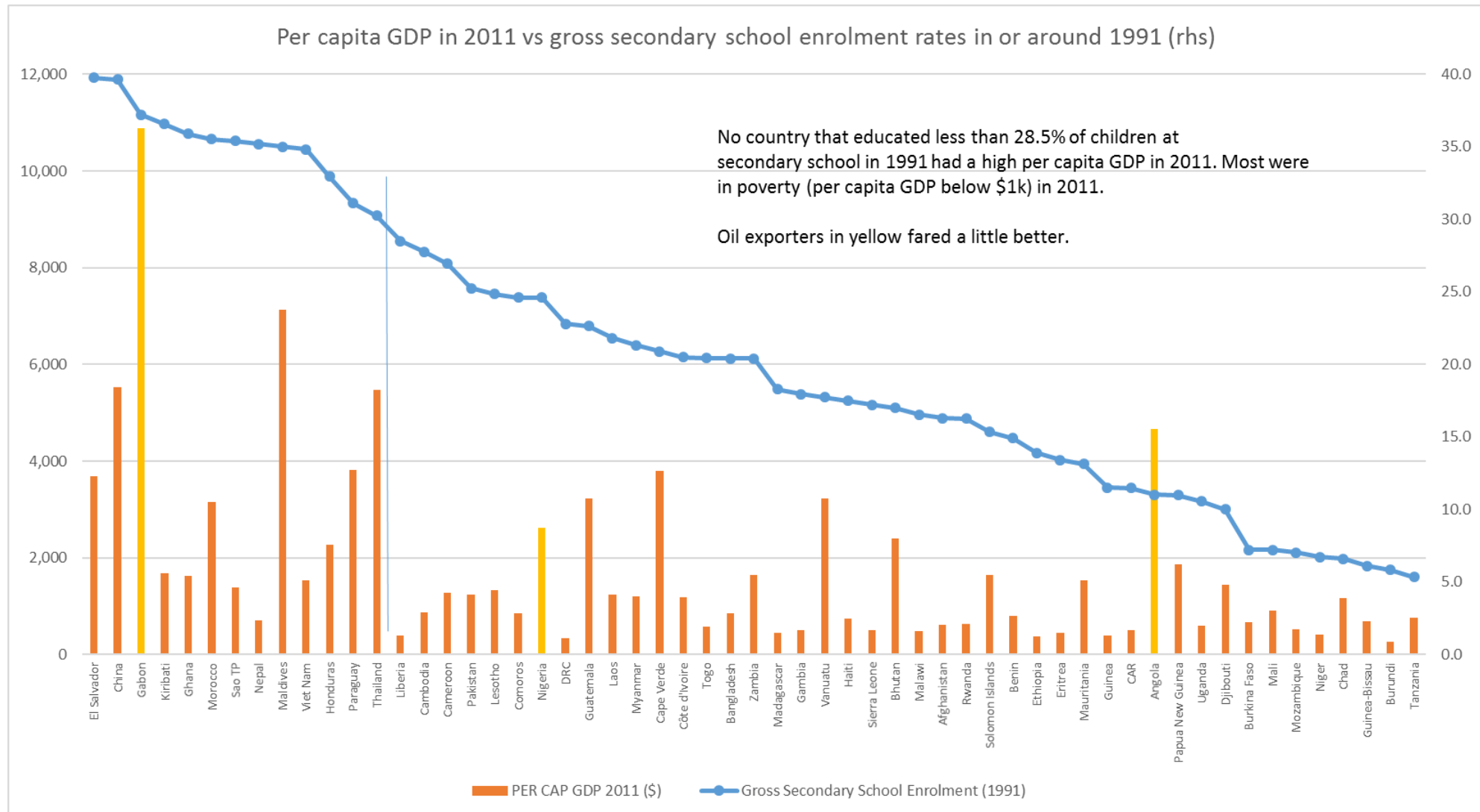
EXHIBIT A – 1971-91 (TO BE CONTINUED...)



Source: IMF

YOU WILL BE POOR IF YOU DON'T EDUCATE 28.5% OF YOUR KIDS

EXHIBIT B – 1991-2011

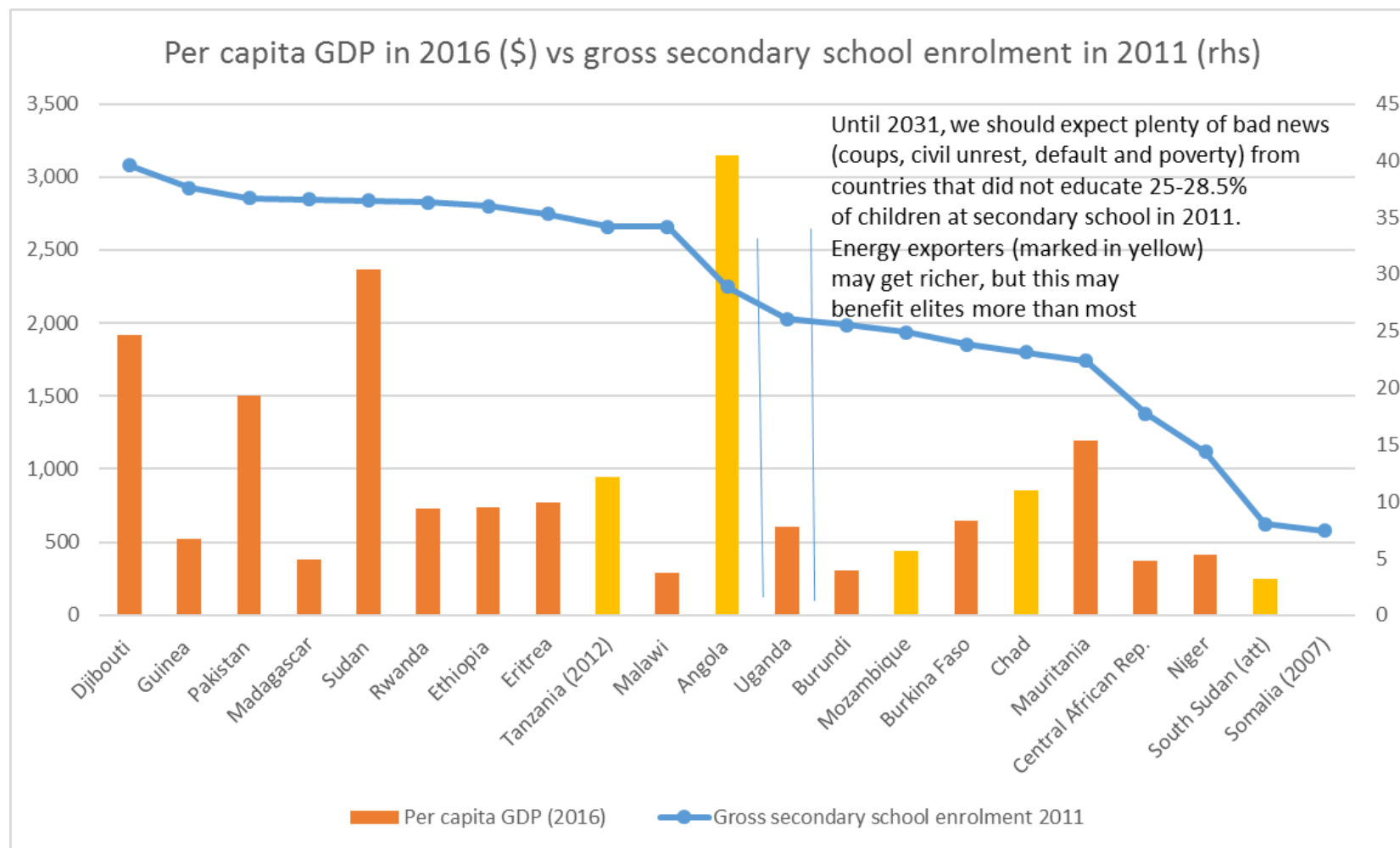


Source: IMF

The frontier and emerging markets investment firm

TODAY JUST 6 COUNTRIES ARE DOOMED FOR NEXT 20 YEARS?

About 9 countries, or 6 countries if you exclude energy exporters, appear doomed to continued poverty for the next 15 years



OTHER STRUCTURAL CHALLENGES

• Scarcity of reliable macro economic data across the sector

• Divisions:

- Arbitrarily created borders
- Lack of unity: post independence creation of many political and economic platforms such as the African Union and many Regional Economic Communities
- Difficult trade terms even between countries geographically close

• High interest rates

- High cost of debt for private sector often set by high cost of debt by the sovereign

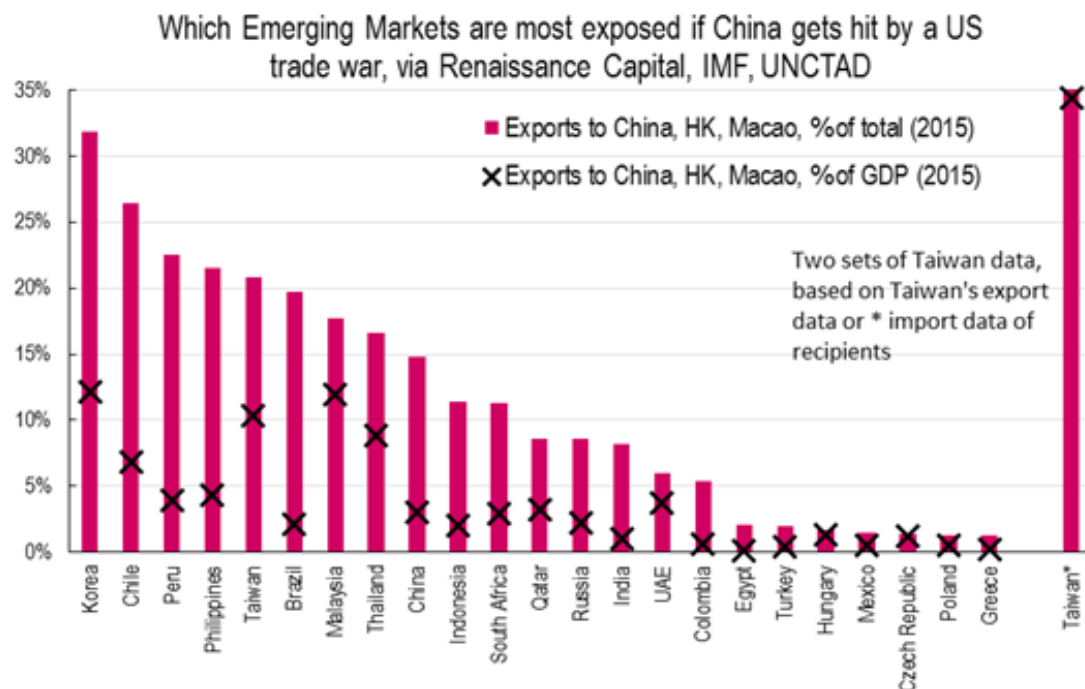


MAIN EXTERNAL FACTORS

.Trade in mainly raw products:

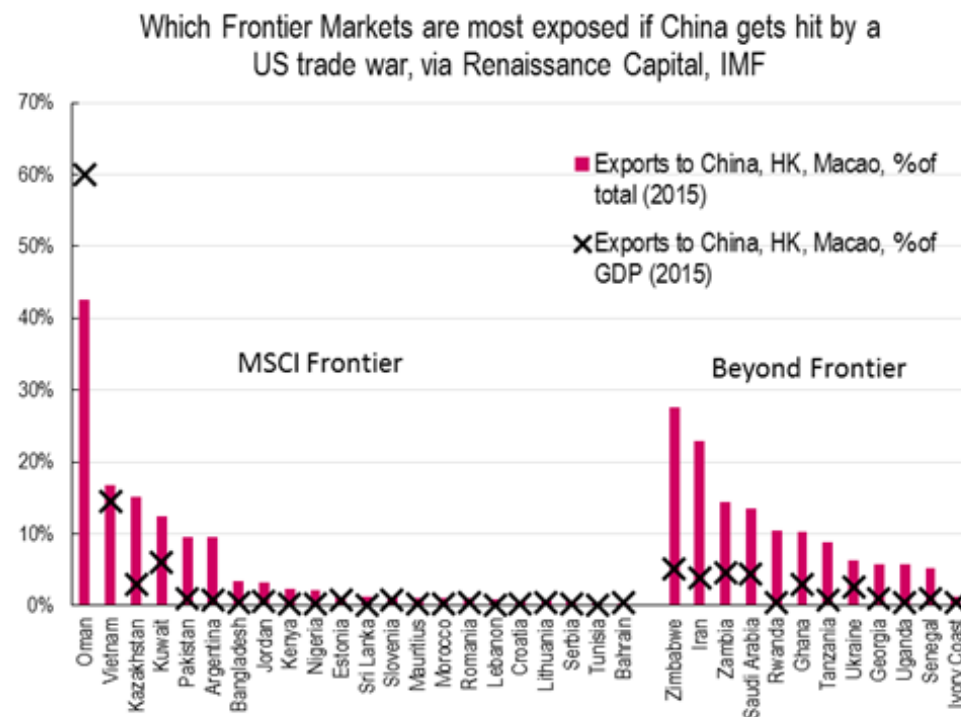
- China's second continent: trade increased from \$4bn in 1995 to \$179bn in 2015
- In 2000 trade with North America was three times larger than now (6%)
- High dependence on commodities prices

.Dependence on IMF/World Bank



Source: IMF, UNCTAD

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Source: IMF

IMF INVOLVEMENT

Member	IMF Status	Date of Arrangement	Expiration	Total Amount Agreed
Ghana	ECF	April 03, 2015	April 02, 2018	664,200
Ivory Coast	EFF	December 12, 2016	December 11, 2019	325,200
Kenya	SCF	March 17, 2016	March 13, 2018	354,629
Mozambique	SCF	December 18, 2015	June 17, 2017	204,480
Rwanda	SCF	June 08, 2016	December 07, 2017	144,180
Seychelles	EFF	June 04, 2014	June 03, 2017	11,445
Egypt	EFF	November 11, 2016	November 10, 2019	8,596,570
Morocco	PLL	July 22, 2016	July 21, 2018	2,504,000
Tunisia	EFF	May 20, 2016	May 19, 2020	2,045,625
Angola	member	entertained possibility of the loan but bailed no talks for potential financial agreement initiated discussion toward a possible financial agreement will not apply for IMF loan discussion toward a possible loan discussion toward a possible financial agreement no talks for potential financial agreement no talks for potential financial agreement completed the fifth review under the policy support instrument (Jan 9, 2017) progress made towards the USD 1.3bn loan no talks for potential financial agreement		
Ethiopia	member			
Gabon	member			
Nigeria	member			
Cameroon	member			
Republic of Congo	member			
Namibia	member			
Senegal	member			
Tanzania	member			
Zambia	member			
South Africa	member			

Source: IMF, Debtwire

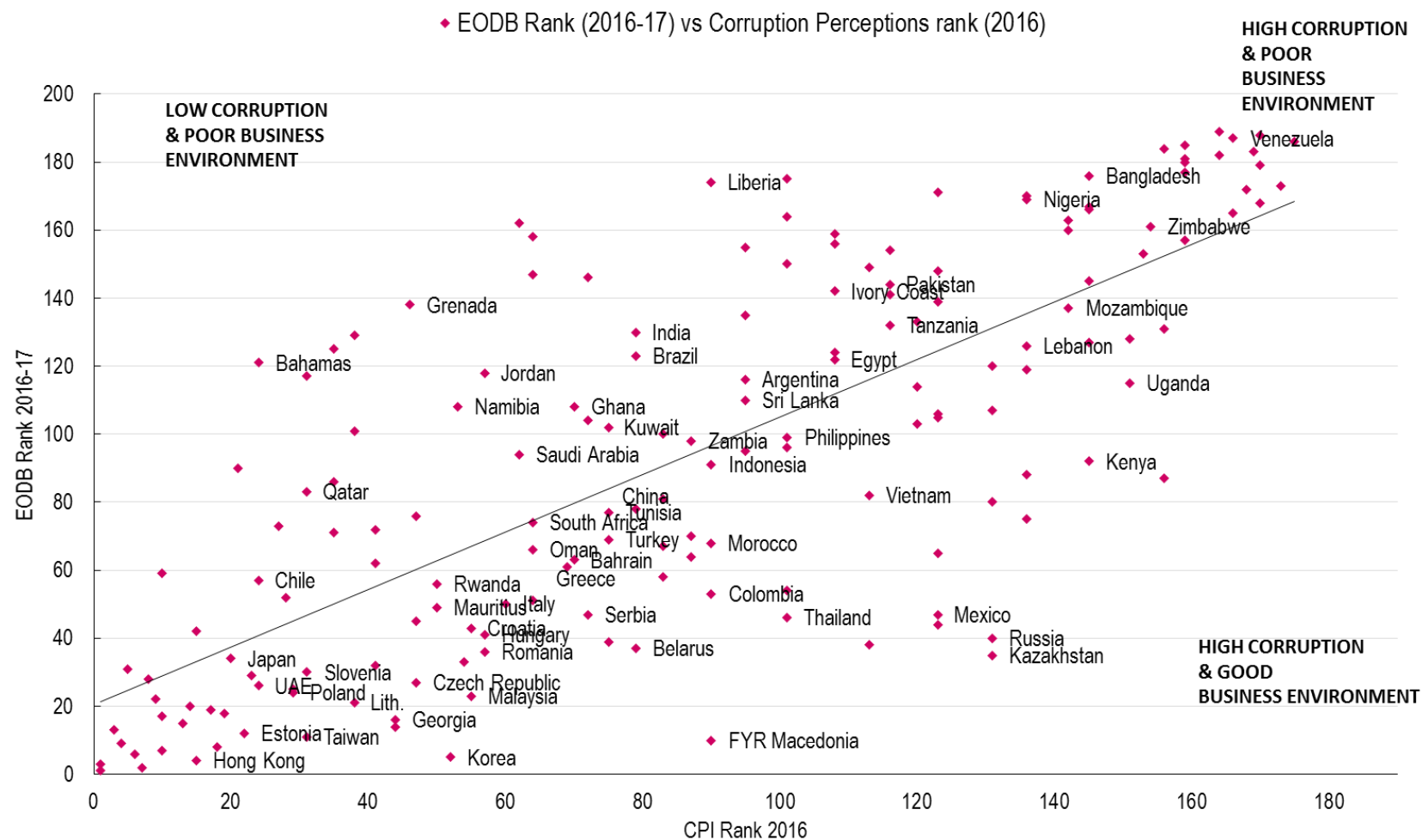
WORLD BANK INVOLVEMENT

Member	World Bank
Ghana	\$ 1.2bn support, IDA partially guaranteed Ghana 30 bonds issues in 2015
Ivory Coast	\$325m financing for the Electricity Transmission and Access project
Kenya	\$250m financing for agricultural productivity program
Mozambique	\$2bn to finance 25 projects across 17 sectors
Rwanda	Ongoing Land Husbandry, Water Harvesting and Hillside Irrigation project (total cost of \$35m)
Seychelles	
Egypt	\$1bn second tranche of the loan received
Morocco	\$150m financing to enhance social programs
Tunisia	\$100m financing to protect the environment and promote development
Angola	\$200m financing to help increase water service
Ethiopia	Final stages of consultation with World Bank regarding Country Partnership Framework (CPF) approach
Gabon	\$50m to upgrade the statistical system
Nigeria	\$200m credit for agricultural productivity + possible \$150m loan for mining sector development
Cameroon	\$26.9m additional financing for the Mining Sector capacity building project
Republic of Congo	\$10m Lisungi Safety Nets project
Namibia	
Senegal	Ongoing Water and Sanitation Millennium project
Tanzania	\$2.4bn financing for the Ubungo Interchange
Zambia	\$36.5m financing to diversify electricity generation through scaling solar
South Africa	\$93m financing to support emerging farmers

Source: WorldBank, Debtwire

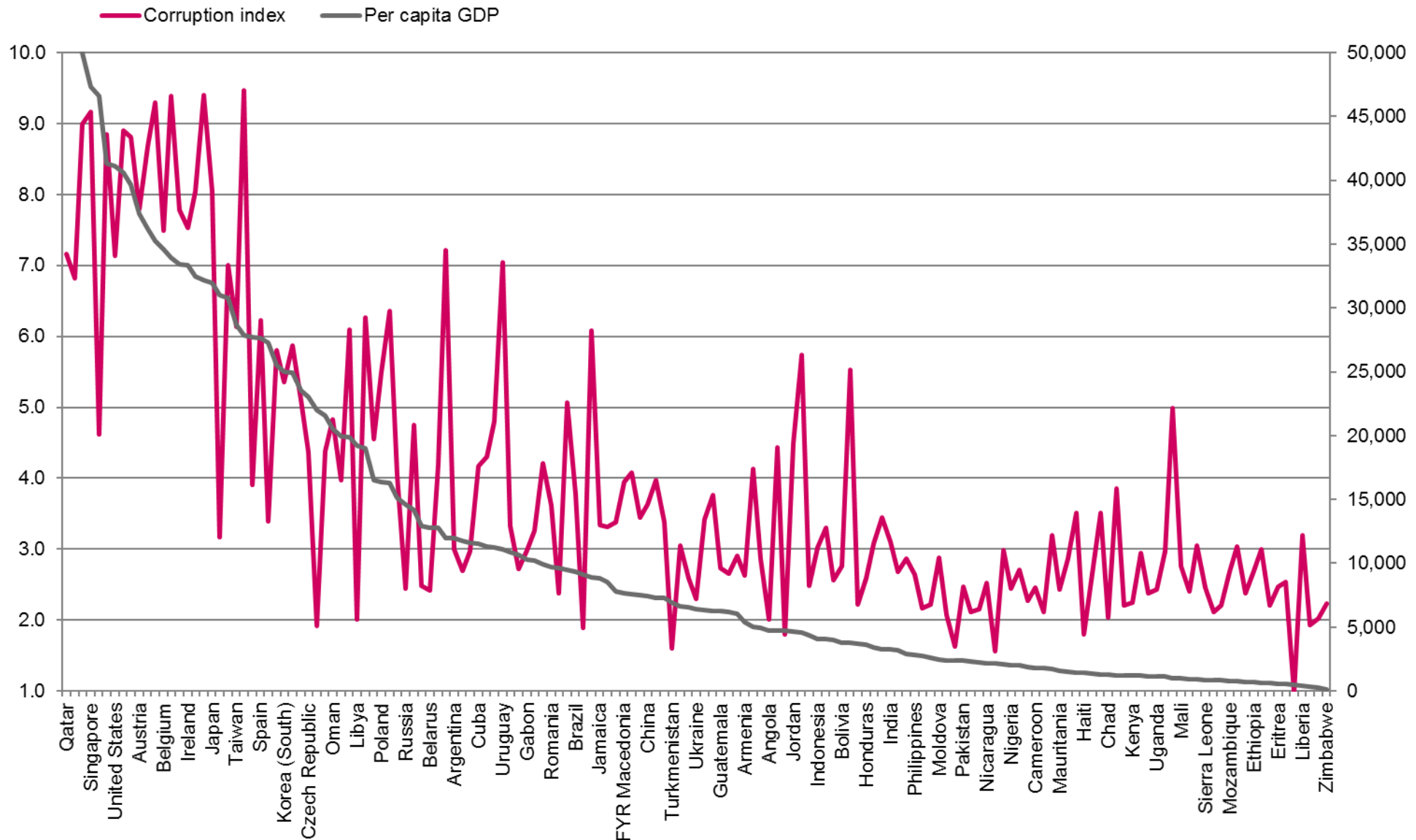
INTERNAL CHALLENGES

Corruption: Nigeria may have lost \$100bn (roughly 20% 2015 GDP) in 2010-2015 period from theft and disadvantageous production and trade deals



Source: IMF

CORRUPTION LINKED TO PER CAPITA GDP



Source: IMF

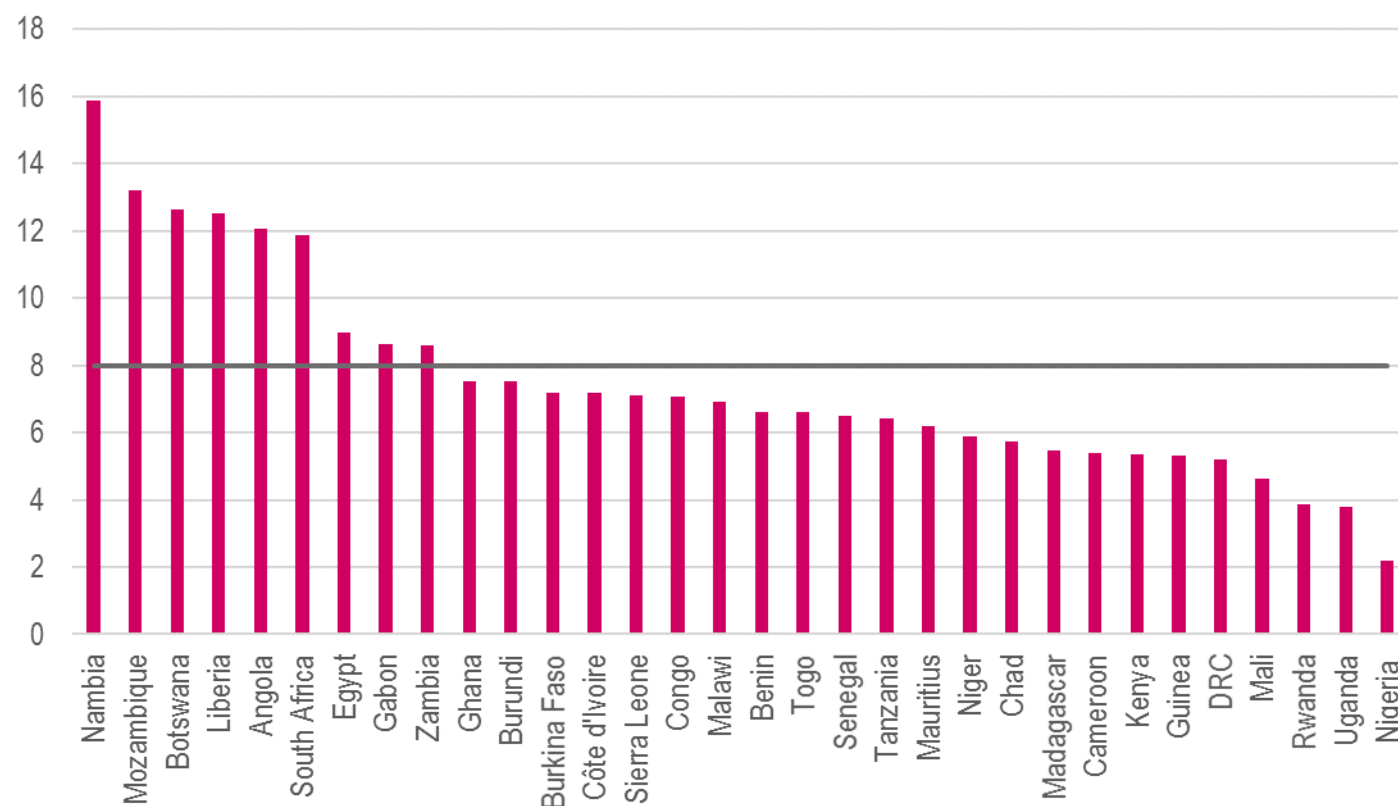
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OTHER INTERNAL CHALLENGES

- Government wages as a percentage of GDP: 8-10% is a dangerous zone
- Global Value Chains -- Africa is poorly integrated (apart from Ethiopia, Kenya, Tanzania, Seychelles and South Africa) into Global Value Chain. As per IMF all the main factors are controlled by governments: infrastructure, access to finance, governance/business environment
- Market likes reformers
- Governments need to raise more revenue going forward

Be wary of countries with wage/GDP > 8%

Figure 23: Wages/GDP, % (2016E)

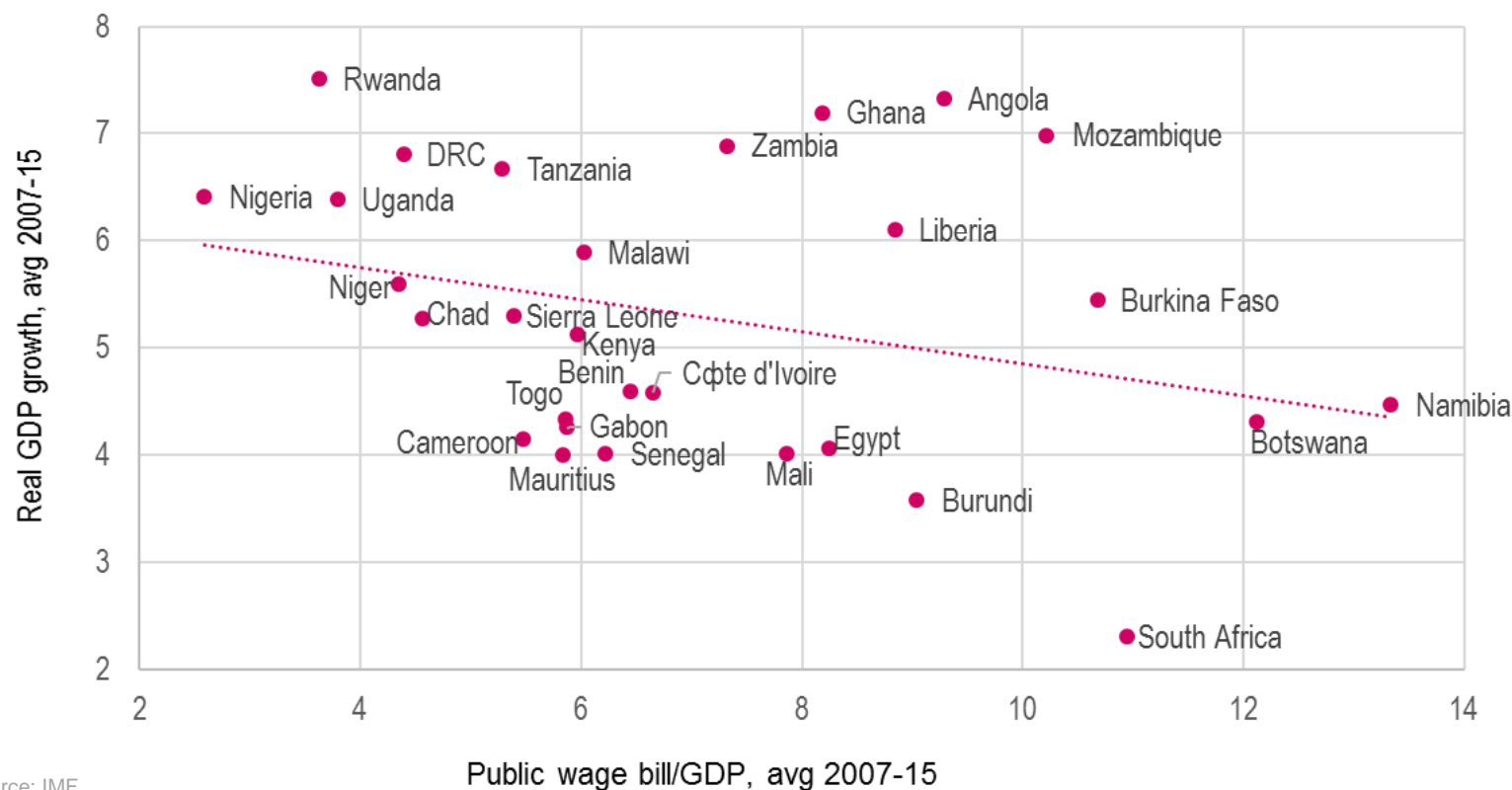


Source: IMF

Countries that have found themselves in fiscal distress and initiated discussions with the IMF, to help them correct their fiscal imbalances, have wage/GDP >8%

Countries with high wages, grow slower

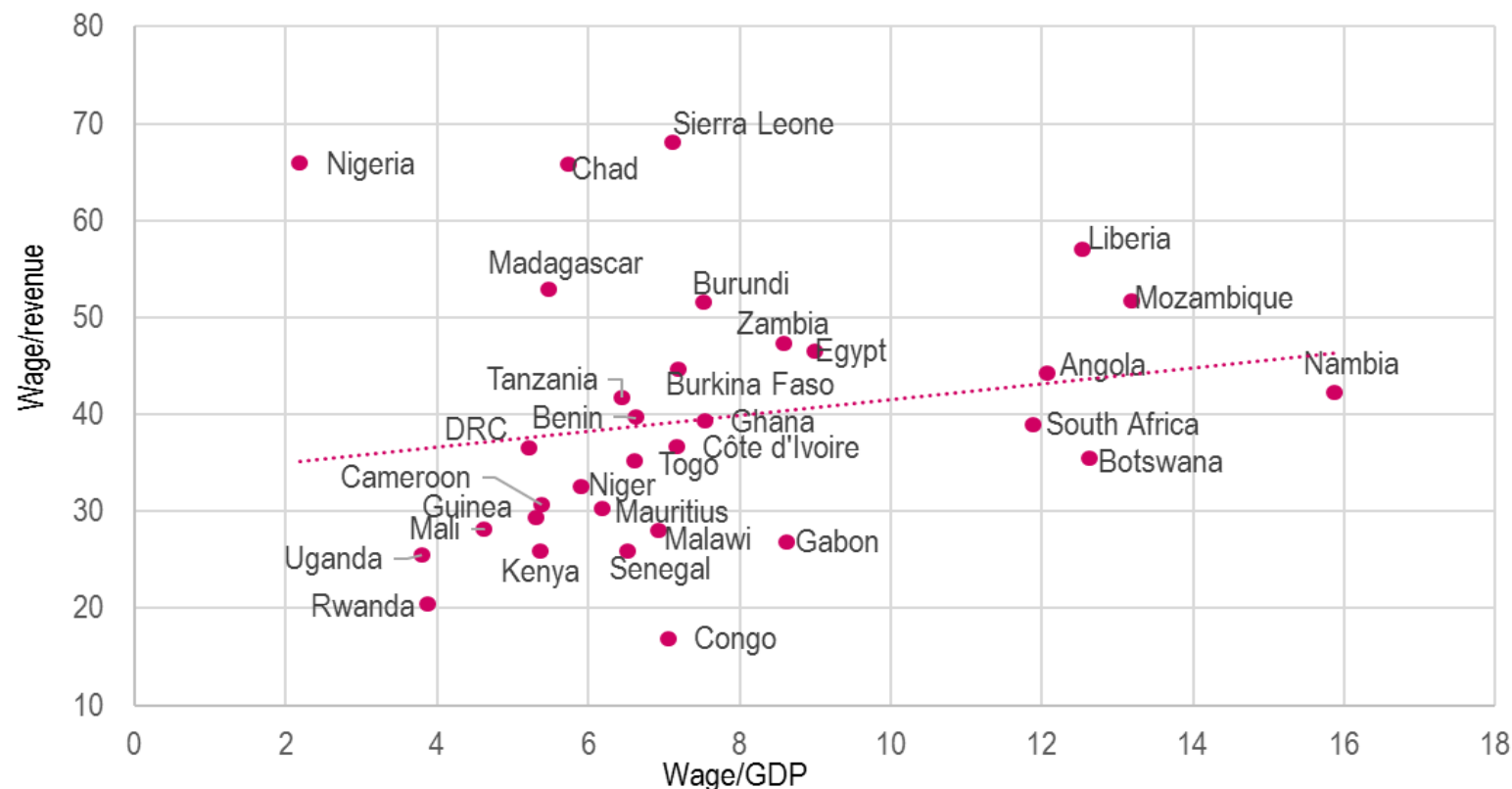
Figure 9: Public wage bill/GDP vs real GDP growth (2007-15)



A bloated wage bill often implies public investment is being crowded out by wages, which is negative for growth.

Risk of fiscal distress

Figure 26: Countries with high wage/GDP & wage/revenue are at high risk of fiscal distress, % (2015)

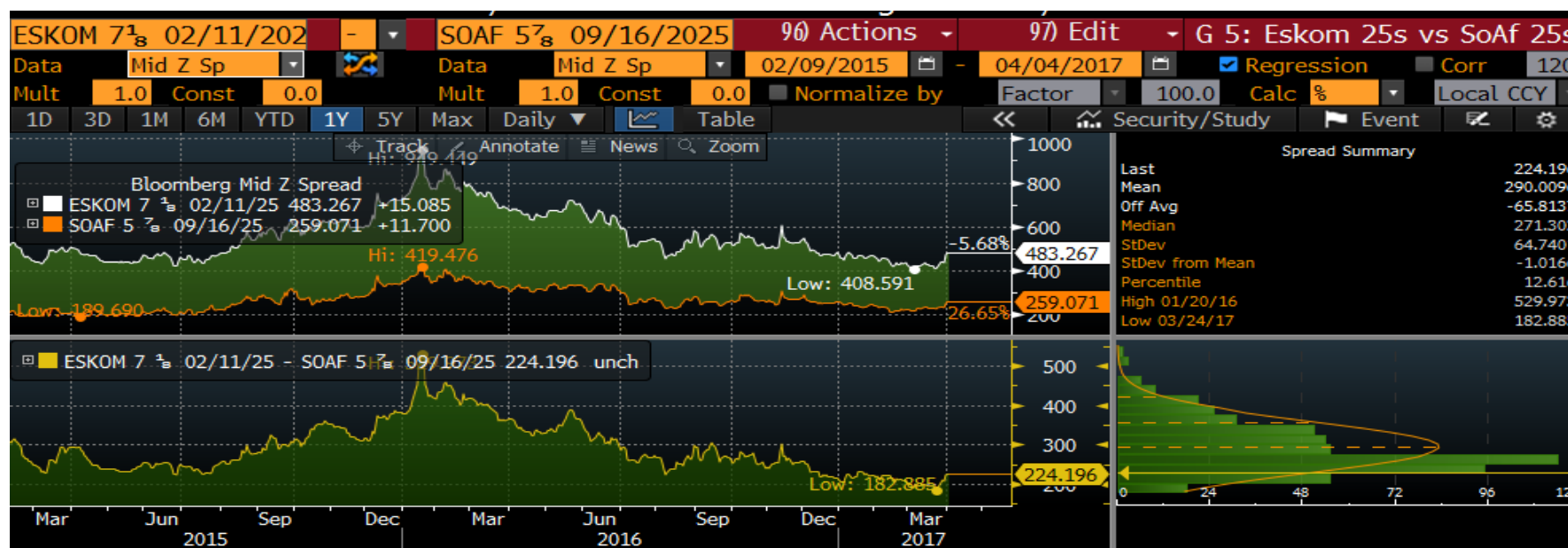


Source: IMF

Based on these parameters, we think Angola and Mozambique are at high risk of fiscal distress.

TRENDING STORIES

- Nigeria: NGN devaluation?
- Mozambique: Restructuring
- South Africa: Political risk has materialized... What happens next?
- Ivory Coast: Socio political risk remains fragile
- Ghana: Fiscal side has to be watched



Source: Bloomberg

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Renaissance
Capital

Our Platform

- 21 years of successfully providing IB services to clients in EM and Frontier Markets
- Represented by sales trading desks in the global and regional financial centres (NY, London, Moscow and Lagos)
- Deep rooted relationships with international and local institutional investors

Our Expertise



Primary Markets


- Consistently bringing issuers to the investor community across the globe


Secondary markets

- Trading idea generation and market-making
- **CIS, SSA & LATAM Eurobonds secondary market**
 - Real time quotes on Bloomberg < RENA>GO and Market Axess platform
 - Active market-making with direct access to local players
 - Block trade execution
- **CIS & SSA local bonds trading**
 - Euroclearable local bonds in RUR, OFZ/RFLB
 - Nigerian local bonds
 - Access to local flows and dealers
- **FX**
 - FX SPOT. Electronic market making of RUB crosses
 - FX Forwards/Futures. BBG <RENF>GO
 - FX Options
 - Cross-Currency Swaps
 - Dual Currency Deposits
- **REPO Desk**

First debut quasi-sovereign issuance out of Russia since 2010

Jul, 2016	Quasi-sovereign
Renaissance Capital Joint Lead Manager / Exclusive Rating Advisor	
	
US\$ 500 000 000 US\$ 500M 5.95% DUE 2021 DEBUT US\$ BENCHMARK ISSUE	
	

Apr – Sep, 2016	Banking
Renaissance Capital Sole Lead Manager	
	
US\$ 190 000 000 EUROBOND ISSUES 7.50% EUR 30M DUE 2018, 10.00% US\$ 50M DUE 2016, 9.00% US\$ 100M DUE 2018	


Oct, 2016	Banking
Renaissance Capital Joint Lead Manager	
	
US\$ 250 000 000 US\$ 250M 5.25% DUE 2019 SENIOR UNSECURED EUROBOND ISSUE	

Jul, 2015 - Mar, 2016	Metals & Mining
Renaissance Capital Joint Lead Manager	
	
US\$ 201 000 000 EXCHANGE TRANSACTION FOR THE US\$ 350M 7.75% BOND DUE 2016 INTO NEW ISSUE 10.75% DUE 2018	

Jan, 2017	Industrials
Renaissance Capital Joint Lead Manager	
	
RUB 10 000 000 000 RUB EXCHANGE BOND ISSUE	

Jan, 2017	Metals & Mining
Renaissance Capital Joint Lead Manager	
	
DEBUT EUROBOND ISSUE	

Jan, 2017	Mining
Renaissance Capital Joint Lead Manager	
	
EUROBOND ISSUE	

Mar, 2016	Oil & Gas
Renaissance Capital Senior Co-Manager	
	
CHF 500 000 000 CHF 500M 3.375% DUE 2018 EUROBOND ISSUE	

***“THOSE WHO LOVE EACH OTHER
NEED ONLY A SMALL PLACE.”
AFRICAN PROVERB FROM
UGANDA***