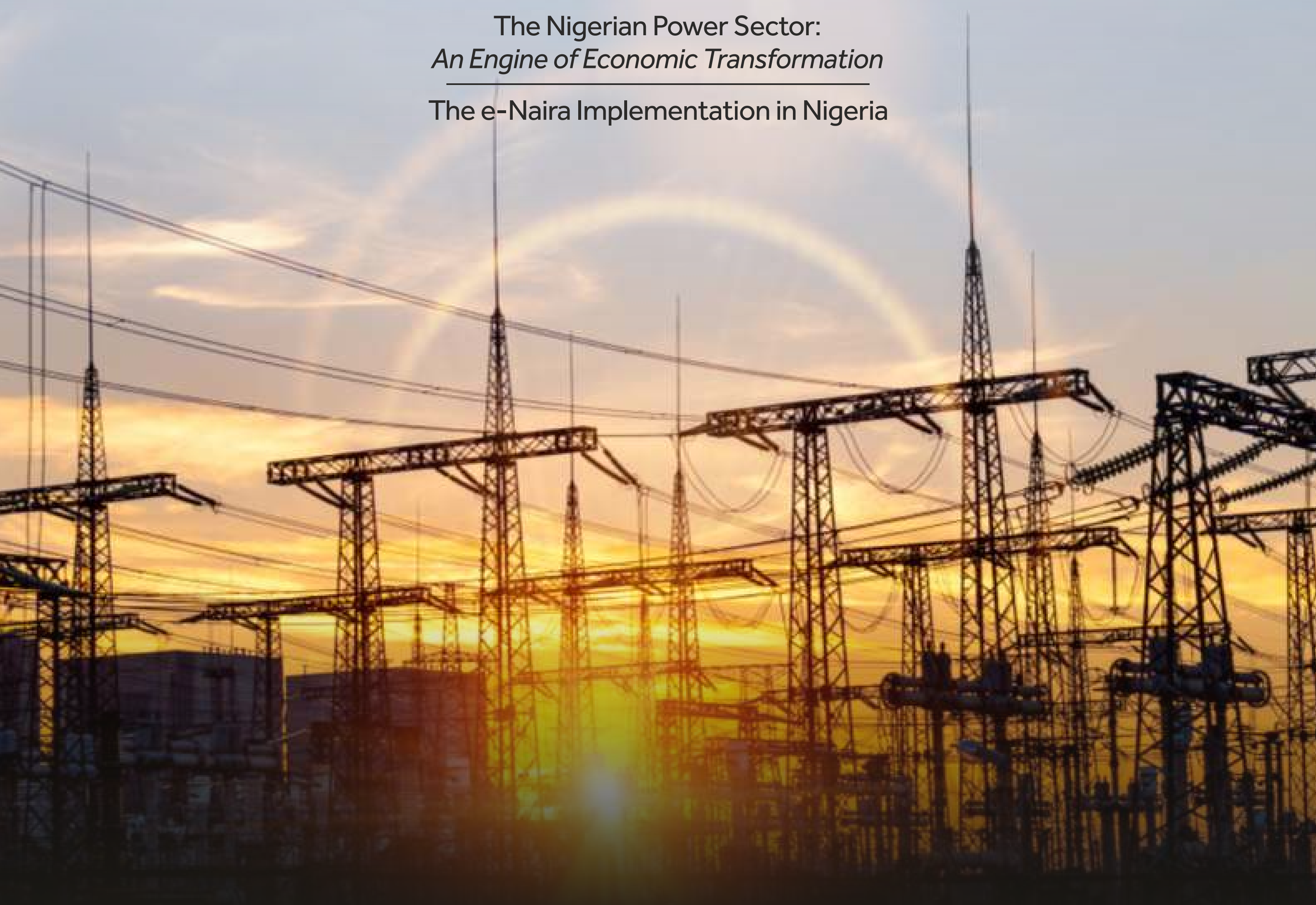
SEPTEMBER **2021** I

CORPORATE DIGEST

Macroeconomic Update

The Nigerian Power Sector:
An Engine of Economic Transformation

The e-Naira Implementation in Nigeria



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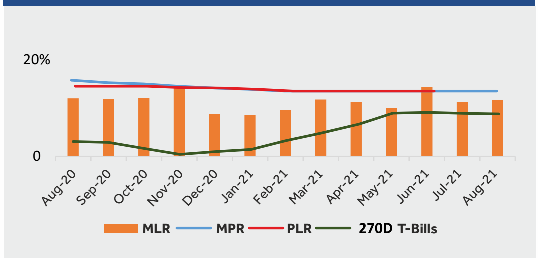
Macroeconomic Update

Lending & Investment Rates(%)

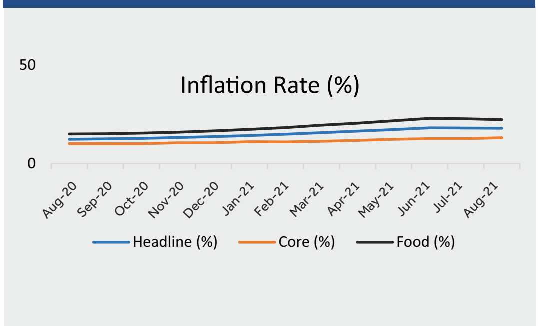


- The Monetary Policy Rate (MPR), which is the benchmark rate, was maintained at 11.5% in August 2021 with the aim of driving sustainable economic recovery.
- The 270-Day Treasury Bills (T-Bills) declined further in August 2021 slowing down to 6.05% from 7.63% recorded in July 2021

Bonny Light Oil

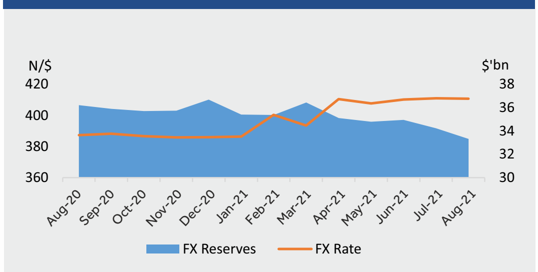
- Oil prices declined further in August 2021, dropping by $5.82 per barrel (/b) to reach $71.25/b compared to $77.07/b posted in July 2021
- The emergence of Delta variant of COVID-19 has slowed down the demand for oil globally as countries put restrictions in to place to curb the virus spread.
- Weakened oil prices depresses accretion of the external reserves and fiscal revenue. This negatively impacts businesses.

Inflation Rate (%)



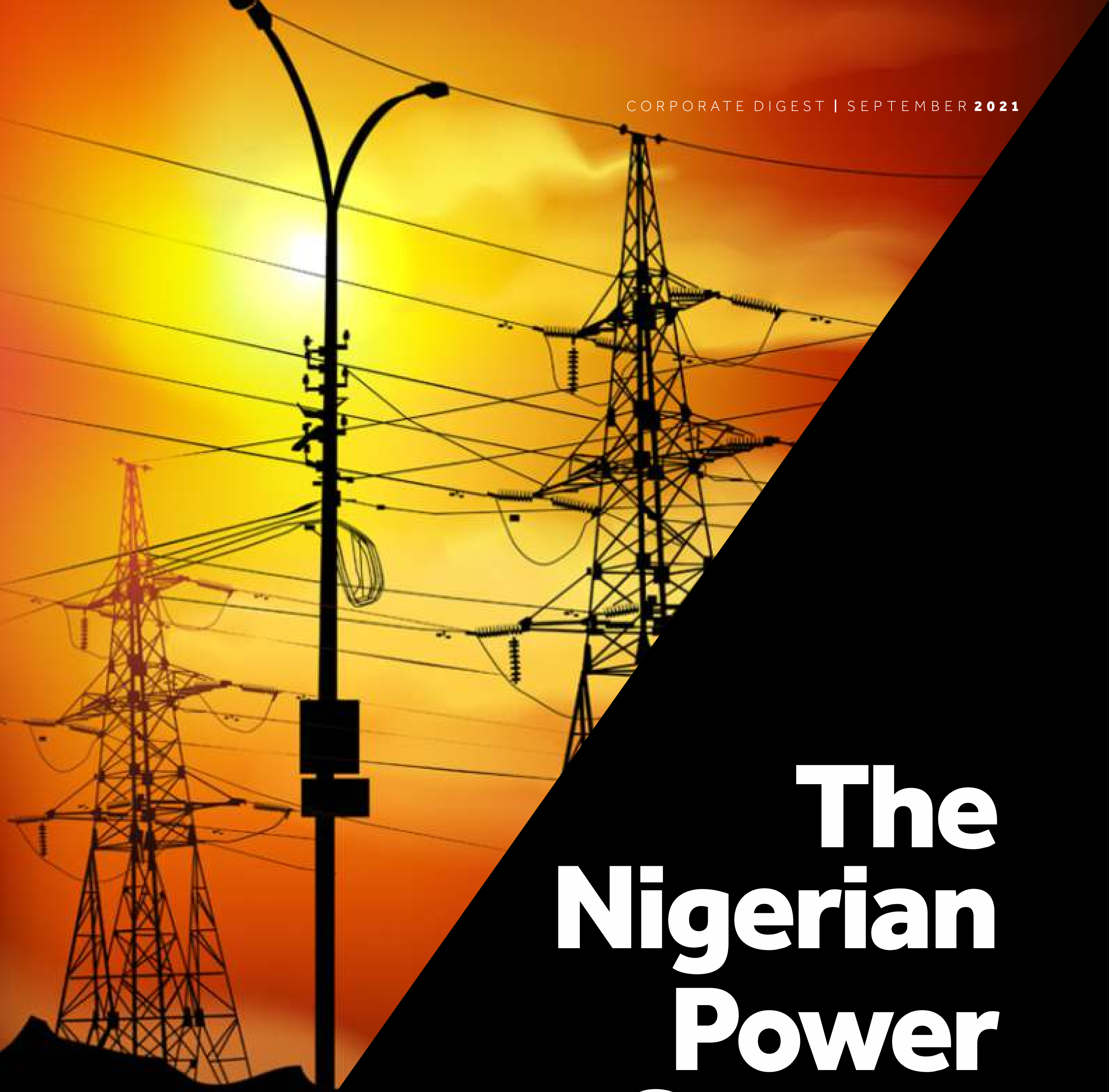
- Inflation rate declined by 0.37% to settle at 17.38% in July 2021 from the figure reported in June 2021.
- Food inflation rate declined to 21.03% from 21.83% while core inflation rate rose to 13.72% from 13.09% for the reference period, respectively.
- The decline in July's inflation rate could be partly attributed to CBN's interventions in growth-stimulating sectors of the economy.
- However, residual effects of COVID as well as worsening insecurity, amongst others, keeps inflation rate far away from CBN's target range between 6% and 9%.

FX Reserves, FX Rate



- External reserves rose by $53 million at the end of August 2021 to close at $33.93 billion, compared to $33.4 billion posted in July 2021.
- NAFEX closed at NGN 411.2/$ in August 2021 reflecting a NGN 0.1 depreciation relative to the figure recorded in July 2021.
- Given the IMF SDR (Special Drawing Rights) inflow, Eurobond Issuance, Naira 4 Dollar scheme to boost diaspora remittance amongst others, the external reserves should rise in the near term.price.

Sources: CBN, NBS, FMDQ



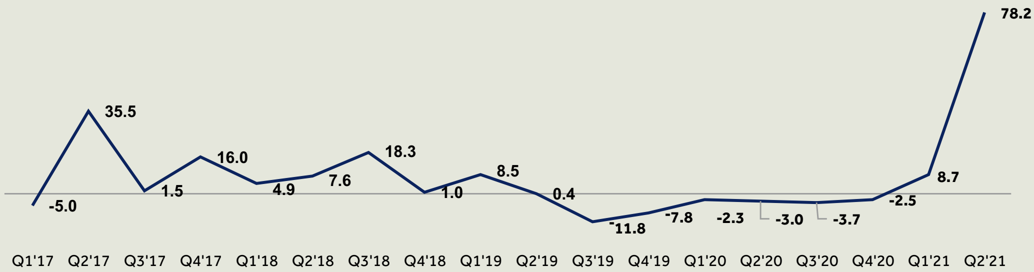
The Nigerian Power Sector:

An Engine of Economic Transformation

An Overview of the the Nigerian Power Sector

- The Nigerian Government has kept the Power sector at the top of its priority list as adequate power supply improves the ease of doing business in the country.
- The Power sector, which started out as a public entity was privatized in 2013
- Gas-fired power is the dominant source of electricity generation in Nigeria, supplying an annual average of about 80% of the country's total power output.
- The Nigerian Government plans to invest $3 billion in the Power sector between 2021 and 2022 with a goal of improving operational power capacity being transmitted in the grid from 4.9GW to 7GW.

Real GDP Growth (%) for the Electricity, Gas, Steam & Air Conditioning Supply



Resilient
Sector Characteristics*

1.15
Nominal GDP Size (N'trn)**

0.75%
Contribution to GDP (%)**

Interest Rate Sensitive	Exchange Rate Sensitive	Employment Sensitive
✔	X	X

*** - The Power sector maintained a growth in Q2 2021**
**** - Data as at full year 2020**

SWOT Analysis of the Nigerian Power Sector

STRENGTHS

- The Government has made improving Nigeria's infrastructure a top priority for national development across all sectors, particularly in the Power sector
- Nigeria's large economy offers huge demand for expansion of power infrastructure in order to facilitate growth
- The presence of large discovered hydrocarbon resource base

WEAKNESSES

- Over-reliance on the oil proceeds leaves government revenues vulnerable to global price shifts
- Nigeria's power infrastructure has been identified as one of the most neglected globally
- Gas supply disruption in the Niger Delta threatens domestic power generation.

OPPORTUNITIES

- Greater exchange rate flexibility could boost investment in the power sector
- The Government's deal with Siemens to improve the electricity grid and boost power capacity could strengthen the sector
- Amidst lower oil prices, infrastructural investment remains at the forefront of the Government's development plans.

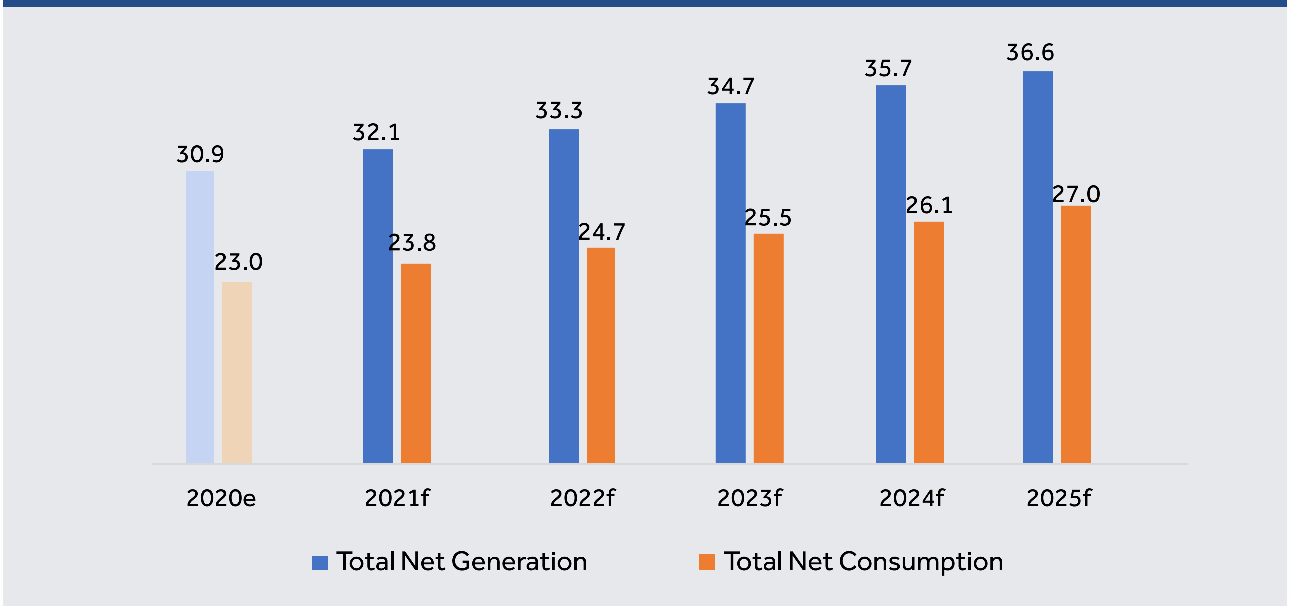
THREATS

- Independent power producers might be deterred from entering the market due to neglected grid infrastructure and gas supply disruptions.
- Tariffs increment will continue to meet widespread public resistance
- A lack of cash liquidity in the distribution segment is a major threat to the whole supply system.

Outlook of the Nigerian Power Sector

- Gas-fired power is expected to remain the dominant source of electricity output in Nigeria, followed by hydropower and non-hydropower renewables, for the forecast period.
- Power generation remains higher than its consumption due to power losses from the country's ageing and inefficient Transmission and Distribution (T&D) network.
- Gas supply constraints, inefficient T&D infrastructure and delays to the construction of new capacity will continue to weigh on generation growth, thus impacting the power available for consumption.
- The gas-fired power generating capacity has grown at the expense of new investment into hydropower in the recent years, but the Federal Government is advancing plans to bring a significant amount of new hydropower capacity online
- Nigeria has substantial coal reserves and is estimated to be able to develop over 50GW of coal power capacity, however, projections for coal power generation remain bearish due to increasing international pressure for the use of cleaner energy, hence funding in this segment might become limited.
- In December 2020, the Nigerian Government re-affirmed its commitment to developing nuclear source of power. However, this isn't expected in the medium term considering the high cost and lengthy construction period associated with building nuclear power plants.
- The Solar Home Systems Project, proposed in the Economic Sustainability Plan (ESP), will serve up to 5 million households. This provides a headroom for the development of renewables, if implemented successfully

Power Generation & Consumption Outlook (TWh)



79.4%
Natural Gas: % of total generation (2021f)

20.3%
Hydropower: % of total generation (2021f)

0.3%
Non-Hydropower Renewables: % of total generation (2021f)

Sources: FITCH

The Nigerian Power Sector – Post COVID-19

Recovering Economy

As vaccination rate in Nigeria improves and economic activities gradually return to normalcy, economic performance improves. Real GDP growth for Nigeria rose to 5.01% in Q2 2021 from 0.51% posted in Q1 2021. The recovery in economic activities will provide a growth boost for the Nigerian Power sector.

AfCFTA

Business expansion, larger market base, job creation, amongst others are benefits expected to be derived from the AfCFTA (African Continental Free Trade Area) pact. The free movement of people and businesses across member countries will improve the demand for the services of the Power sector.

Income Levels

Household income is expected to increase over the medium term as economic activity improves. An increase in disposable income would be beneficial to the Power sector as one of the biggest challenges faced by the sector is low cashflow owing to poor payments from electricity consumers.

Forex Supply

Volatile oil prices and consistent Dollar demand which outweighs its supply, continues to put pressure on the Naira. The CBN recently stopped the sales of forex to BDCs in a bid to keep the exchange rate relatively stable. A lower exchange rate is beneficial to the sector to improve ease with meeting foreign denominated loans.

Government Support

The Government made provision for solar home systems that would serve about 25 million individuals in the Economic Sustainability Plan (ESP). The Siemen's deal with the government will also support construction and upgrade substations in Nigeria.

CBN's Intervention Funds

The CBN continues to contribute its quota in growing the Power sector. As at July 2021, N156.33 billion has been disbursed to Discos, under different programs, to provide liquidity and stimulate critical infrastructure investment needed to improve service delivery and collection efficiency.

Sources: Fitch

Business Advice for players in the Power Sector

- Players in the Power sector need to remain innovative. The model for power transmission needs to be re-thought and the entire value chain needs to be incentivized to encourage more investment, especially from the private sector.

- Key stakeholders in the sector should work together to develop coherent policies and measures to address current challenges faced by the industry.

How Discos Can Facilitate Improvement

- Ensure more competitive pricing strategy to meet prevailing economic realities and the other alternatives of power especially for businesses

- Continuous evolution of its online services offerings to consumers for a boost in revenue collection.

- Ensuring that closing the metering lacuna is a top priority, as this would help boost public confidence in the sector.

Private Sector - Led-Accelerated Agricultural Development Scheme (P-AADS)

The Private Sector-Led Accelerated Agricultural Development Scheme (P-AADS) is a new CBN initiative designed to complement the existing State Government led Accelerated Agricultural Development Scheme (AADS).

The broad objectives of P-AADS are to facilitate increased private sector agricultural production of staple foods and industrial raw materials, as well as support food security, job creation (for a minimum of 370,000 youths directly) and economic diversification.

Features

- Target Market:
  - Agro-processors of agricultural commodities engaged in backward integration
  - Prime anchors and commodity associations participating under the Anchor Borrowers' Programme (ABP) with evidence of contiguous land readily available for clearing and cultivation of agricultural commodities
  - Other companies and individuals with evidence of ownership of contiguous land readily available for clearing and cultivation of agricultural commodities.
- **Focal Commodities:** Rice, Maize, Cassava, Cotton, Wheat, Tomato, Poultry, Fish, Sorghum, Livestock/Dairy, Oil Palm and Cocoa.
- **Single Obligor Limit:** ₦2bn
- **Term loan only**
- **Maximum interest rate:** 5% per annum, inclusive of all charges (till February 2022). Interest rate reverts to maximum 9% p.a. thereafter.
- **Tenor:** 1 year for Annual Crops, 10 years for Perennial Crops (with maximum 1year moratorium period as may be applicable).
- **Repayment:** Based on the cash flow of the financed commodity
- **Collateral:** Title of the cleared land and other acceptable collateral prescribed under the ABP. CBN shall bear 50% of the credit risk in the event of default by the participant.

For more information about accessing this facility, kindly engage your Relationship Officer or send an email to AgricBusinessGroup@accessbankplc.com

The e-Naira Implementation in Nigeria

- The drive for e-Naira Implementation
- Lessons from China, a CBDC Pioneer
- Impact and Complexities of an e-Naira World

The drive for e-Naira Implementation

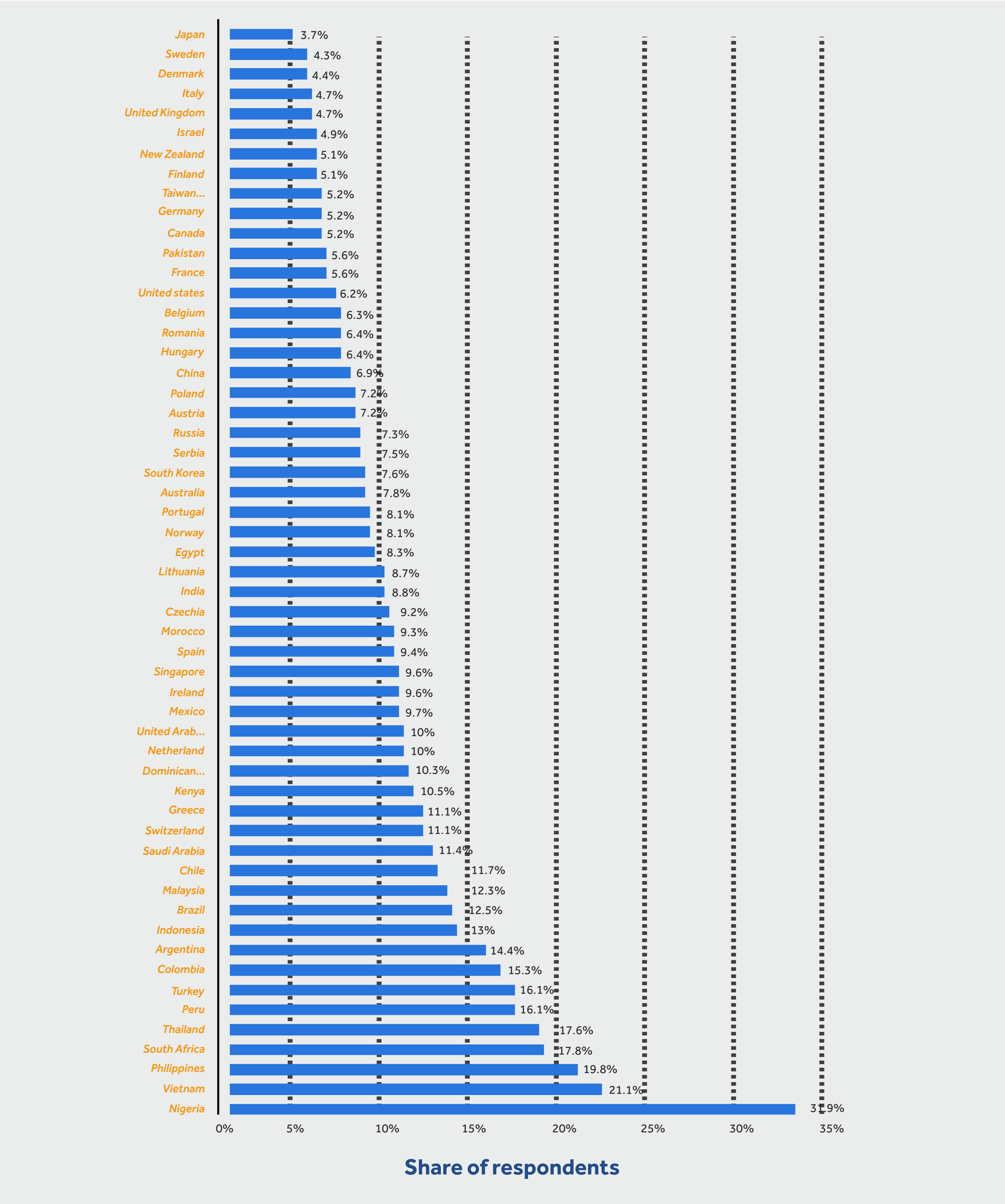
- Nigerians' increasing migration to digital currencies for obvious reasons such as devaluation and ease of transactions flow, is potentially disrupting the financial equilibrium, the CBN's hold on the economy and ability to effect monetary policies and oversight.

- The CBN launched its Central Bank Digital Currency (CBDC) under a project GIANT named e-Naira. This currency initiative is expected to revolutionize money dynamics in the country and across the continent.

- A total adoption of a digital currency outside the e-Naira will see the CBN lose its relevance as a regulator and a monetary policy body. Thus, the e-Naira affords the Apex Bank an avenue to quench that thirst whilst strengthening its grasp on the economy.

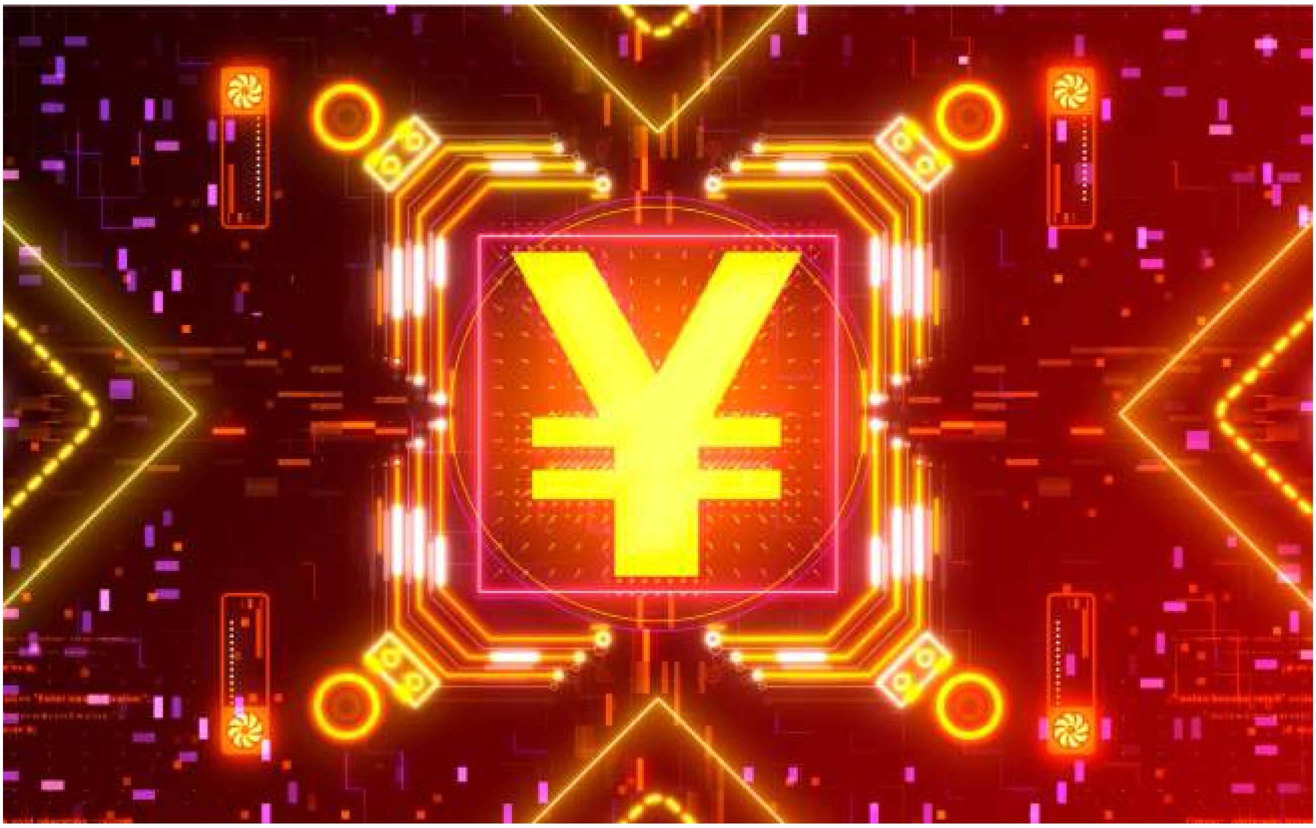
- The adoption of cryptocurrency is high amongst developing economies due to instability of fiat currencies. The e-Naira however doesn't address the primary drivers for cryptocurrency, thus, the domestic appetite for digital currency will not wane regardless of its implementation.

Cryptocurrency Adoption: Respondents who used Cryptocurrency in 2020



Sources(s): ***Statista Global Consumer Survey; (https://www.statista.com/statistics/1202468/global-cryptocurrency-ownership/)***

Lessons from China, a CBDC Pioneer



The scramble for Central Bank Digital Currencies (CBDC) is coming on the back of the threat posed by cryptocurrency and the need to maintain money supply by Central Banks. Many countries have rolled out their CBDC initiatives such as China, Sweden, the Bahamas, France, Japan, the Philippines, Switzerland, Turkey, Eastern Caribbean

China's use case has been the most pronounced due to its demographic scale and speed of deployment. CBDC adoption in China will be more effective due to their political governance structure.

The China CBDC, called Digital Yuan, started its pilot phase with same motive as other CBDCs which was to have its own digital currency so that regulatory authorities can better track how money is used by its citizens and in turn, a revolutionization of the ability of China's regulatory authorities to scrutinize the nation's payment and financial system.

To Successfully Launch a Digital Currency, Central Banks must:

- Be well-versed in technology and have advanced technologies in place
- Have a reliable team of professionals as well as secure infrastructure
- Invest in getting citizens to use the digital currency

The Central Bank of Nigeria (CBN) has solicited the services of a top consultant to guard the technical aspects and we believe that Federal Civil service salaries and contractor payments, licenses and passport payments, will be used as a channel to introduce e-Naira to the economy.

The Impact of e-Naira Implementation

Here we take a look at the several effects the e-Naira implementation may pose to the Nigerian economy:

S/N	IMPACT
1	**Effective Monetary Policies** This tool offers CBN a direct path to impact targeted sectors and populace like the Agriculture, Entertainment, palliative initiatives intended to spur economic growth and prosperity.
2	**Financial Inclusion** The e-Naira will help boost financial inclusion goals making the currency more accessible and supporting transaction enablers more attainable.
3	**Africa Trade** The e-Naira is not applicable to cross border transactions but if the AFCTA becomes a success in promoting intra-regional trade, we could see the e-Naira scale into cross border payment usage and become a dominant trade currency due to Nigeria's bargaining and supply power across the continent. This scenario will elevate the demand for Naira and increase valuation.
4	**New Entrants into the Financial Services sector** The culmination of e-naira and Open Banking will see competition shift from traditional players extending to Telcos (MTN, Airtel etc.) and Big Tech companies (Facebook, Google etc). These new competitors have a head start due to their tech savviness and infrastructure. The Big Techs and Telcos are increasingly moving into the Financial Services sector as a new frontier for diversification and expansion; giving rise to products like Libra currency by Facebook, Alipay etc. The penetration into this space will be accelerated.
5	**Improved World Trade** The current limitations of cross border payments which include – legacy technology platforms, fragmented and truncated data formats, Unclear FX rates and incoming fees, complex processing of compliance checks, long transaction chains and limited operating hours, could be overcome by the e-Naira implementation via these CBDC arrangements:

Model 1– CBDC arrangement based on compatible CBDC systems	Model 2– CBDC arrangement based on interlinked CBDC systems	Model 3– Single CBDC multi- currency system
Compatible systems allow for efficiency gains in existing banking relations	A common clearing mechanism could reduce the number of relationships and provide economies of scale	A single system does not require such relations (however, a single system may add to operational costs)
Compatible message standards allow payments to flow without data loss or	The message standard (e.g. ISO 20022) adopted by the interlinkage would act to harmonise standards across systems	Single message standard across the system eliminates mismatches
Compatibility requirements for wallet providers could enable users to calculate fees and rates prior to a payment	Common calculation of rates and fees for transfers using any interlinkage would aid transparency	A single system would likely be designed to include options for FX conversion
Compatible compliance regimes reduce uncertainty and costs	Interlinking systems do not impact multiple or conflicting compliance requirements	Single set of access requirements means compliance could be equivalent across the system

The CBDCs could settle instantly, which reduces the need for status updates and also be open 24/7, eliminating any mismatch of operating hours.

Sources: IMF mCBDC: Multi-CBDC

The Complexities of an e-Naira world

Threat of Breach of Privacy	• The Apex Bank and the Government will have a greater control of citizen's monetary flows, lives and transactions with direct access afforded it by the CBDC • The Government's immediate desire to make monetary policies more impactful and monitor illicit monetary flows will lead the Apex Bank to delve a bit more directly into customers privacy, circumventing the fiduciary obligations of banks.
Threat of e-Kidnapping	• The e-Naira affords incentives to criminal organizations for increased acts to hack and capture customer data, hijack the CBN and bank systems. A hijack of the system supporting the e-Naira and holding it for ransom could see the economy crumble if the total money supply reaches 80% CBDC adoption.
Reduced Lending Potential	• The CBDC will be valued at 1:1, which translates that paper money is just being switched for digital money. • The adoption of e-Naira could translate to proliferation of DeFi (Decentralized Finance) platforms e.g. Aave coin. As the name suggests, it operates a decentralized structure performing current traditional banking functions void of banks on blockchain technology. Increased deposits volatility could disrupt treasury management, forecasts and lending potentials.
Threat of Censorship	• A CBDC will present CBN the ability to censor certain channels by programming the e-Naira not to be applicable for certain transactions.