Banking on Africa

Standard Chartered's social and economic impact

A report by Dr René Kim and Professor Ethan B Kapstein

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About the authors

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Unless another currency is specified the word 'dollar' or symbol '$' in this document means US dollar.

Foreword

by Peter Sands

Group Chief Executive
Standard Chartered

All eyes are on Africa. Over the past decade, the continent has consistently grown faster than the world as a whole. And unlike previous resource-driven booms, this time Africa's success is built on foundations that should be sustainable for the long term.

A new and confident African middle class is emerging, and trade is expanding rapidly, notably with Asia. Meanwhile, Africa is leapfrogging old technologies and embracing the digital revolution, leading the world in innovations such as mobile payments.

Across Africa, the opportunities are compelling. Yet, it would be wrong to deny the challenges – social, political and economic – that face the continent.

Despite Africa's strong performance, poverty and income inequality continue to be significant challenges. Job creation is not keeping pace with the continent's rapidly growing population. Lack of investment in infrastructure has left much of Sub-Saharan Africa with an insufficient and unreliable power supply, hampering long-term growth.

Jobs are essential to eradicating poverty and fostering real development in economies. And banking plays an important role in job creation. Banks fuel employment by providing credit and other financial services that help businesses set up, trade and expand – and by working with governments to remove barriers to economic activity.

We commissioned this independent study to measure the role of Standard Chartered, and of banking more broadly, in generating trade, growth and jobs across Africa, and to find out what we can do better.

In many ways, and for a long time, Africa has been home for Standard Chartered. We opened our first branch on the continent more than 150 years ago. We are investing for the long term in our African franchises, using our knowledge of different local economies, our deep and long-standing relationships and our global network, to support the people and businesses driving trade, investment and the creation of wealth across the continent. We also invest heavily in the development and training of our people – over 98 per cent of our employees in the region are African.

By measuring ripple effects through the economy, this study shows that our operations and financing support some 1.9 million jobs in 13 of the 15 markets where we operate in Sub-Saharan Africa. The bulk of these jobs are in advanced, high value-added sectors – the fast-growing manufacturing and service industries that are changing the face of Africa's economies.

The study also highlights how we help to remove barriers to job creation, by using our relationships and capabilities in Asia, Africa and the Middle East to mobilise offshore capital for crucial infrastructure investment. Last year, for example, we committed to financing $2 billion in African energy projects, as part of the five-year Power Africa initiative.

Yet, our role is by no means limited to provision of finance. We support job creation in a myriad of other ways – by training local talent, or by introducing innovations that make it easier for people and businesses to access finance, or by helping to develop financial markets and infrastructure that underpin economic activity. In the past few years, we have advised the governments of Nigeria, Ghana and Senegal on their sovereign credit ratings, and worked with Bank of Ghana on the country's national payments strategy.

Peter Sands

This is our fourth and most comprehensive impact study to date, following country-specific reports on Ghana, Indonesia and Bangladesh. As before, we are grateful to Professor Kapstein and Dr René Kim for providing their valuable insights. We will use these to guide us as we continue to evolve our business in Africa.

> We are banking on Africa, enthusiastic about the continent's potential, and committed to being part of its future

The study confirms, once again, that small and medium-sized enterprises (SMEs) are powerful job creators. We will invest more time in looking at how we can work with our large corporate clients to support more SMEs through the supply chain. This year, we committed under the Clinton Global Initiative to expand our SME training programme to 5,000 SMEs, many of them in Africa.

We will also explore how we can help create greater inter-linkages between different economic sectors, from farming to manufacturing and distribution; it is through these crucial 'transmission channels' that banking translates into real development impact.

Done well, banking is the fuel on which prosperous and healthy economies depend. Articulating what banks do and why it matters, is vital in rebuilding the trust between banks and society that was lost in the wake of the global financial crisis and, six years on, has yet to be fully restored.

In all of our markets, Standard Chartered is committed to supporting our clients and customers, creating value for our shareholders and making a broader contribution to society. We are banking on Africa, enthusiastic about the continent's potential, and committed to being part of its future.

Peter Sands
Group Chief Executive
Standard Chartered

Executive summary

Standard Chartered Bank has been operating in Africa for more than 150 years and is present in 15 African countries and active in 36 countries across the continent. Currently it serves more than one million retail customers, approximately 100,000 small and medium-sized enterprises, and has well over 6,000 corporate client relationships in Sub-Saharan Africa, providing them with a comprehensive range of wholesale and consumer banking services.

The bank contributes to Sub-Saharan Africa's development in a number of ways. As well as channelling the most efficient use of local savings and investment, Standard Chartered plays a vital role in financing cross-border trade and investment, while bringing much-needed innovation in financial services.

But what is the wider impact of Standard Chartered's business on Africa's economies? How has the bank contributed to employment, personal incomes, business profits, and tax generation in the countries where it operates and across the region as a whole? With a number of countries in Sub-Saharan Africa overcoming significant challenges to enjoy strong economic growth in recent years, how can Standard Chartered help the economies in Africa remain on a positive trajectory in the future?

This report draws on quantitative and qualitative assessments to answer these questions, examining the bank's direct and indirect impact in 13 of its 15 Sub-Saharan Africa markets (excluding South Africa and Mauritius). In particular, the report focuses on four countries – Nigeria, Zambia, Kenya and Ghana (markets representing over half Standard Chartered's African revenues). It assesses the impact of the bank's operations in terms of economic value added and employment supported. In particular, it assesses Standard Chartered's impact on Africa's trade, deploying its global network spanning 68 markets, and as the only international bank with a major presence across both Africa and Asia.

The report also makes a qualitative assessment of other ways in which Standard Chartered contributes to local communities in Africa, including its financial innovation, risk management tools, business practices and community investments.

The main findings are:

- **Total exposure:** As of 31 December 2012, Standard Chartered provided financing to businesses, consumers and government agencies within Sub-Saharan Africa worth $10.6 billion[1]. This includes $3.5 billion of international finance.
- **GDP contribution:** Through its lending, Standard Chartered is directly and indirectly associated with $10.7 billion of value added in Sub-Saharan Africa. This equals 1.2 per cent of the region's GDP and 1.8 per cent of the combined GDP of the countries in which Standard Chartered is present.
- **Households:** $6 billion of the value added associated with Standard Chartered comes in the form of salaries to households in Sub-Saharan Africa.
- **Taxes:** Standard Chartered supports some $1.8 billion of tax payments to governments in Sub-Saharan Africa, equivalent to 1.1 per cent of total receipts of governments in the region. Out of this, $1.3 billion is paid directly by Standard Chartered and its clients.
- **Employment:** Through its lending, Standard Chartered directly and indirectly supports some 1.9 million jobs in Sub-Saharan Africa. This is equivalent to about 0.6 per cent of the region's total workforce and 1.2 per cent of the workforce in the countries where Standard Chartered is present.

[1] This excludes exposure in South Africa and Mauritius and includes $2 billion of trade contingents

- **Trade:** Through its general and trade finance, Standard Chartered supports Sub-Saharan trade worth $7.2 billion. The bank therefore contributes to 1.2 per cent of Sub-Saharan Africa's total international trade. It supports 1.7 per cent of total imports to the region and 0.8 per cent of its exports. For the countries in Sub-Saharan Africa where Standard Chartered is present this amounts to 1.6 per cent of total trade, 2.2 per cent of imports and 1.0 per cent of exports.
- **Capital mobilisation and convening power:** As a leading international bank, Standard Chartered can channel capital from the rest of the world into Africa (historically the world's most capital-constrained region). The bank can therefore finance deals that are too large for local banks, partly through international finance, or convene other banks in syndicated financing for major projects. In 2012, Standard Chartered's international finance[2] to the region amounted to $3.5 billion.
- **Underwriting:** In addition to its $10.6 billion exposure, in 2012 Standard Chartered underwrote financial transactions for clients in Sub-Saharan Africa, thereby mitigating their financing risk. For the deals outstanding as per year-end 2012, Standard Chartered has underwritten an additional amount of $1.8 billion. The economic impact associated with this underwriting is $1.6 billion of value added and 206,000 jobs. Not all this impact is attributable to Standard Chartered because syndicate partners assume part of the credit risk.
- **Market deepening:** In many of the countries where it is present, Standard Chartered is an important trader in secondary markets, actively deepening local capital markets. This in return enables better pricing of financial instruments and thus better allocation of capital in these economies.
- **Risk management:** In addition to its international capital base, the bank uses its international human capital and expertise to develop complex financial products that diversify risks.
- **Human capital:** The bank attracts and develops some of the best talent in Africa. Over 98 per cent of its employees are African. Thirteen of the bank's 15 country Chief Executive Officers are African. In addition, more than 300 African staff work outside their home market in the bank's global network, helping to transfer international best practice into and out of Africa. Standard Chartered also helps to strengthen human capital in the financial sector. Currently six Kenyan banks, four Tanzanian banks and two Ghanaian banks have CEOs who are ex-Standard Chartered employees.
- **Innovation:** The bank has used its expertise to introduce new banking technology and advanced financial structures to the region. For example, it was the first bank to introduce interest rate swaps, and currency and interest rate hedging to Ghana. Standard Chartered also introduced ATMs in Uganda and Kenya, and recently launched the first-ever digital branches in Kenya and Ghana.
- **Business practices:** Standard Chartered acts as an important catalyst in improving the corporate governance standards of its clients.

In conclusion, Standard Chartered has a significant impact in Sub-Saharan Africa, consistent with its standing as one of the oldest and largest banks in many of the countries where it is present. The report illustrates that the banking sector plays a key role in the development and growth of national economies. International banks are particularly significant because of their ability to mobilise international capital and to finance global trade, both of which are critical to sustained growth. Since developing nations tend to struggle to finance investments with domestic savings and consequently rely on international markets as a source of additional finance, banks such as Standard Chartered help to fill this gap as they have access to global markets in addition to mobilising local capital. The report highlights a number of ways in which the bank could deepen its impact in Sub-Saharan Africa, including by further increasing its engagement with small and medium-sized enterprises (SMEs), and by catalysing the region's economic complexity, for example through greater access to supply chain finance.

[2] This includes international general finance (assets backed finance, general lending and leverage finance) as well as international trade finance (trade contingents, structured trade finance, export finance, general trade finance). In addition, the study covers $120 million private equity finance

1/Introduction

Standard Chartered finances manufacturing, a sector that generates significant value added per job

Over the past decade, Africa has been one of the fastest-growing regions of the world – which still managed to post positive growth over the crisis period that began in 2008 and has reverberated around the globe.

Since the start of the last decade, much of its growth has been driven by world demand for the continent's commodities, but since the crisis Africa's growth is being led increasingly by domestic consumption.

A burgeoning middle class, increasing urbanisation and booming manufacturing and service sectors have driven economic growth, meaning that Africa now has a better foundation for sustained success with a reduced dependency on natural resources and global demand.

Sustainable growth requires sustainable finance. This report sets out to assess the role of Standard Chartered in providing this finance to Sub-Saharan Africa. The report follows similar studies carried out in 2012 in Bangladesh, and in 2010 in Ghana and Indonesia. With these series of reports, Standard Chartered aims at quantifying its social and economic impact on the economies in which it operates.

In addition to providing an aggregate view of Standard Chartered Group in Africa, the report focuses on several key markets, including Kenya, Nigeria, Zambia and Ghana. The bank's differing strategies in these economies – all different in structure and complexity – demonstrates how Standard Chartered adapts to local conditions.

The report also looks at Standard Chartered's role in the trade corridors that connect Africa with other regions across the world, as well as trade between African countries.

Standard Chartered and the institutions that later became part of Standard Chartered have operated in many African nations for more than 150 years. In some countries they also served as the local central bank. This report shows how the bank has accompanied Africa during its recent period of profound economic transformation.

In particular, this report focuses on Standard Chartered's role in financing trade and investment. The bank has been a significant financial player in Africa, not only due to its wholesale and retail lending products and its trade finance, but also thanks to the innovations it has introduced into financial markets.

What is Standard Chartered's impact on Africa's economy? How many Africans depend on jobs created through the bank's activities? What is the wider importance of Standard Chartered to Africa's development, and how can it deepen its participation? These are the questions addressed in this report.

Africa is at a crucial stage where access to finance remains a vital issue. As the continent continues to grow and develop, Standard Chartered can expect to extend its reach to a broader range of clients.

1.1 Methodology

This report draws on a combination of qualitative and quantitative assessments. The quantifiable elements of the study are based upon 'input-output' modelling, developed by Wassily Leontief, a Nobel Prize-winning economist. It provides a blueprint of an economy, showing how each sector depends upon another.

For example, the agricultural sector in a country provides an input into the food-processing sector, which in turn provides an input into the country's transportation and retail channels. The final output, for example a box of cereal or loaf of bread, is the result of all of these economic inputs.

The input-output model aims to measure these relationships and, in the case of Standard Chartered, it attempts to capture the extent to which the bank's financing helps clients to increase both production and domestic and foreign sales.

The model's main results are value added, i.e. the sum of salaries, profits and taxes, and employment.

The model helps us examine both the direct and indirect effects of the bank's financing. Direct effects are those that benefit just the borrower, but the model also considers the indirect, induced and leveraged impact of the financing.

The indirect impact, which is only quantified for employment, captures the effect of the financing on the borrower's suppliers, and the suppliers' suppliers. The induced impact is the effect of individuals re-spending the income that they have earned by working for Standard Chartered and its clients as well as suppliers and their suppliers. The leveraged impact is the effect on households that are able to borrow money by using the income they have earned to increase their household expenditure.

Input-output modelling is not perfect. The model allows us to trace money as it flows through the economy, but it does have some limitations.

The model does not look at crowding-out effects, which occur if a Standard Chartered client's growth is at the expense of a competitor. This could happen, for example, where the expansion of a hotel causes another hotel to go out of business. In this case, the model would overestimate the economic impact of the hotel's expansion by simply taking into account the positive effect while disregarding the negative one. Crowding out is generally much less of a problem in emerging economies as they tend to have more limited numbers of competing companies than in more developed countries. Nevertheless, when lending takes place in one or just a couple of sectors, which can be the case in Sub-Saharan Africa, crowding out can occur.

Another limitation is that the model does not look at price differences. However, this is not overly constraining because Standard Chartered finances a relatively small slice of the economy or less than 5 per cent of GDP and the price changes related to it are likely to be small.

The third important limitation to the input-output method is that firms in the same sector – say manufacturing – are assumed to have identical production structures. We have attempted to counter this by looking at the actual relationship between the capital and the output of Standard Chartered clients.

The final two points are about the data we used. The macro-economic data used for input-output modelling are based on national and World Bank statistics (available at the end of 2012). We acknowledge that there are some limitations in accuracy relating to statistics and data available on Africa. Therefore, while we consider this data to be the best available, it is important not to be overly assertive when it comes to interpreting the results.

The local financing data we received from Standard Chartered are in complete agreement with what was reported to the various Central Banks and thus highly reliable. The same is true for Standard Chartered's international finance. The data regarding the trade flows supported by the bank's trade finance are less accurate. Where trade flows could not be traced explicitly we have used expert opinions from Standard Chartered employees. The supported trade flow results must therefore be interpreted with caution.

1.2 Non-quantifiable impact

While the methodology above allows us to quantify the economic impact on Sub-Saharan Africa, it is important to remember that there are other aspects to the bank's impact, which cannot be measured in this way. These aspects are important ingredients of the bank's economic and social impact. Examples of non-quantifiable aspects that have clear economic impacts are risk management practices, innovation of financial services, deepening of capital markets and development of human resources. Through its sustainable banking strategy, Standard Chartered aims to harness its resources to help address societal challenges. These aspects are discussed in some detail in Chapter 5.

1.3 Scope

The study is a snapshot of Standard Chartered's financial activities based on the financial year 2012 unless otherwise stated, and as such does not track the development of Standard Chartered in Africa over time. It does not benchmark the bank against other financial institutions operating in Africa. For more information on the modelling approach including assumptions and limitations, please refer to the appendix.

This report extends over ten chapters including this introduction. Chapters 2 and 3 set the context for the study, profiling Africa's economy and Standard Chartered's role within it.

The following chapters quantify the socio-economic impact of Standard Chartered on Nigeria, Kenya, Zambia and Ghana. While the focus of the report is on trade and investment, some qualitative analysis of Standard Chartered's role in the economy has also been included.

The report contains a number of client case studies, showing the bank's impact on the real people and businesses behind the numbers.

2/Africa's growth story

The opportunities in Africa are vast. By 2035 the continent will have the world's largest workforce

Nairobi, home to a young, fast growing and innovative workforce

Africa's story has changed. Twenty years ago the continent had been largely written off by many commentators, citing poverty, disease, conflict and political instability as reasons for pessimism about Africa's future.

The International Monetary Fund (IMF) even asked in 1996 "What caused Sub-Saharan Africa's marginalisation?", illustrating a general lack of hope for Africa's economic growth.

Today, however, the international business community considers Sub-Saharan Africa to be an increasingly attractive investment destination, while the IMF says Africa could lead all other developing regions in growth over the next decade. Already, the continent is home to six of the world's fastest-growing economies.

What has happened to change the region's trajectory? In the past, the continent's growth relied on demand for natural resources from other countries, but the growth story that is unfolding now stems from improvements closer to home.

In the past ten years, Africa has become less dependent on volatile commodity-driven booms for its growth. Only a quarter of GDP growth over the past decade has come from commodities. Instead, there has been a huge rise in domestic consumption and the creation of a burgeoning middle class, thanks to vast improvements in macro-economic stability throughout the region.

Trade and investment between Africa and other emerging markets has grown markedly. While Europe remains the region's largest trading partner, trade with China and India has grown dramatically in the last decade. There has also been significant growth in intra-African trade.

Looking to the future, Africa's growth opportunities are becoming increasingly evident. Rapid population growth will help to drive the economy. Nigeria, for example, is expected to become the third most populous country in the world after China and India by 2050. By 2035, the continent will, depending on labour force participation by women, have the world's largest workforce, with more than half of the population currently under the age of 20. The agricultural sector represents one opportunity for growth, with the region holding more than 60 per cent of the world's arable land, only 15 per cent of which is currently under cultivation.

60%

of the world's arable land is held in Sub-Saharan Africa

Trade and investment between Africa and other emerging markets has grown markedly. There has also been significant growth in intra-African trade

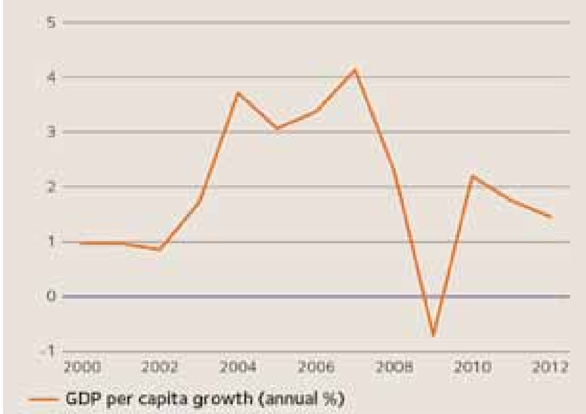
Exhibit 1 shows that Africa's income was impacted by the financial crisis of 2008, but rebounded strongly. For its growth story to continue, however, a number of challenges that must be overcome include poverty reduction, continued rising incomes, and economic growth rising at levels well above its population growth rate of 2.3 per cent.

43%

of the population is 14 years old or under

Exhibit 1

SUB-SAHARAN AFRICA'S PER CAPITA INCOME GROWTH, 2000-2012[3]



Economists continue to debate the relative importance of various factors in Africa's economic rise, but it seems certain that some combination of a growing middle class, increased world appetite for Africa's resources, democratisation and economic liberalisation, urbanisation, conflict resolution, and macro-economic stability and globalisation have all played a part.

2.1 Reduced reliance on resources

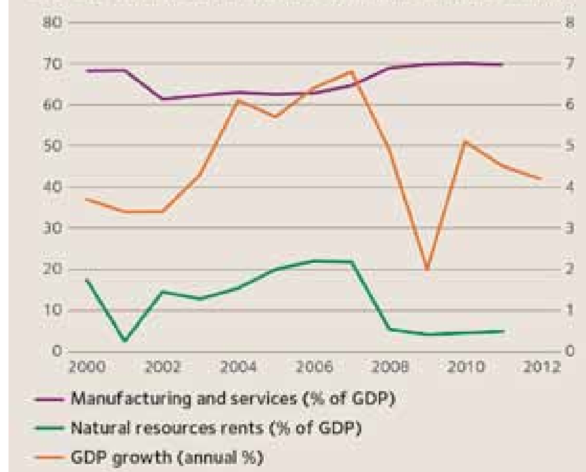
While it is well known that demand for the continent's natural resources has helped to drive economic growth over the past decade, this has been declining in importance since the financial crisis of 2008.

Although Nigeria and Zambia are dependent on oil and copper, which contribute 36 per cent and 27 per cent of GDP respectively, inflows from natural resources dropped from 20 per cent of Sub-Saharan Africa's GDP to 5 per cent in the aftermath of the financial crisis.

As the graph in Exhibit 2 shows, the manufacturing and services sectors make up 70 per cent of GDP, up from 60 per cent during the commodities boom. This indicates that other factors are at play in Africa's continued economic growth.

Exhibit 2

CONTRIBUTION OF NATURAL RESOURCE RENTS AND THE MANUFACTURING AND SERVICES SECTORS TO GDP IN SUB-SAHARAN AFRICA (DEVELOPING COUNTRIES ONLY). GDP GROWTH IS SHOWN FOR COMPARISON (RIGHT AXIS)



2.2 Economic fundamentals

Another factor in Africa's favour is that Sub-Saharan Africa has the youngest population in the world. Although birth rates are declining, 43 per cent of the population is 14 years old or under. The workforce is also expanding rapidly relative to the non-working population.

As a result, the ratio of economically dependent people versus those who are in work is improving. Provided that the young people can be adequately educated, this factor, often referred to as the demographic dividend, will drive consumption and production in the future.

Sub-Saharan Africa's workforce is forecast to grow faster than the workforce in all other economies, meaning that the area will become increasingly competitive for labour-intensive sectors when compared with countries such as China where wage levels are increasing. There are also opportunities for agricultural improvement that will drive economic growth.

3 Source: World Development Indicators

2.3 Urbanisation, productivity and the growing middle class

Africa's population is migrating from rural to urban areas. Since 1990, the share of Sub-Saharan Africa's population who live in cities has grown from 28 per cent to 38 per cent, and half of the population is expected to live in cities by 2030[4].

This fuels economic growth because productivity and increases in productivity are highest in urban areas, and city dwellers have higher and faster-growing incomes than those who live rurally.

The African Development Bank reported that the middle class had doubled in size between 1990 and 2010, from 157 million to 326 million[5], thanks to the growth in more affluent urban dwellers. These people spend between $2 and $4 a day, although more than half of them would not be considered middle class elsewhere in the world.

The growing middle class and its increased spending has made Africa more interesting to consumer goods firms, while rising domestic consumption has become an important part of the African growth story.

2.4 The growing importance of trade

Sub-Saharan Africa has seen a significant increase in its importance as a trading partner in the past 20 years. In 1996, Sub-Saharan Africa was responsible for 1.2 per cent[6] of global trade, compared with 3 per cent[7] today.

Since 2004, Africa's trade and investment has been relatively steady. The level of trade and investment as a share of GDP now resembles that in regions such as East Asia. Trade is equivalent to 60 per cent of GDP, while foreign direct investment accounts for 3 per cent[8].

These figures, however, hide important changes in the type of trade that Africa is engaged in. Figures from the IMF show that Sub-Saharan Africa is shifting away from the most developed economies, its traditional trading partners, at a faster rate than other emerging regions of the world.

Growing trade with Brazil, India and China, collectively known as the 'BIC' countries, is the most important reason for this shift, along with growth in regional African trade. These links are changing the nature of Africa's international economic relations, bringing both opportunity and risk.

Regional trade within Africa has doubled since 1990 and constitutes 12-13 per cent[9] of all African trade. The fact that this trade is growing shows that African economies are now differentiating from one another, and that trade barriers are starting to fall.

Regional trade could bring a number of benefits, including increased efficiency and more interest from foreign investors. The prospect of major economic communities banding together to join the African Free Trade Zone and creating a Cape-to-Cairo Zone would help sustained growth. While intra-African trade is on the rise, any loss of momentum with regard to regional integration could be detrimental to sustained growth. Integration is crucial to creating a large, dynamic marketplace that attracts foreign and direct investment.

Africa still has a long way to go in terms of exporting higher-value goods and services. It still tends to export raw materials and import machinery and finished goods. Some of the finished goods it imports are made with Africa's own exports, such as oil.

One reason for this is 'tariff escalation', a form of protectionism in which raw material exports face lower export tariffs than higher value-added finished products. For example, the tariff for exporting coffee and cocoa beans is much lower than that on instant coffee and chocolate bars.

3%

of the world's global trade originates in Sub-Saharan Africa, compared with 1.2 per cent in 1996

4 The state of African cities 2010, UN-HABITAT

5 Africa Development Bank (AfDB): Market brief April 2011: The middle of the pyramid: Dynamics of the middle class in Africa

6 What caused Sub-Saharan Africa's marginalization in World Trade, Yeats et al, Finance & Development 1996

7 United Nations Conference on Trade and Development (UNCTAD)

8 World Development Indicators

9 UNCTAD estimate it to be 12 per cent, WTO contends it is 13-14 per cent

$100bn

of investment is needed annually to alleviate the infrastructure gap in the region

2.5 Remaining challenges

Despite all the good news concerning Africa, the continent still faces significant challenges and headwinds. Access to important services such as health and education is still an issue for far too many, while corruption continues to constrain progress. To meet these challenges and drive a rise in incomes, the continent will need to continue to sustain growth rates well above its population growth rate of 2.3 per cent. Poor infrastructure remains a major impediment to growth. Estimations from the World Bank suggest that $100 billion[10] of investment is needed annually to alleviate the infrastructure gap and allow Africa to fulfil its potential.

Slower economic growth would have a negative impact on the continent's labour markets, which are already suffering from high levels of unemployment, especially among young people. Over 10 million jobs need to be added each year in order to absorb this growing labour force. However, one problem in global labour markets including those in Africa is the mismatch between supply and demand, which is a function of insufficient skill building, particularly with respect to engineering. Education, in particular vocational training, should be recalibrated to prepare the workforce for economies powered by innovation, entrepreneurship and technology. Africa's success in creating quality jobs will also determine to a large extent whether the continent's income inequality will rise further or decline.

Finally, at a more macroeconomic level, volatile commodity prices, on either the down- or upsides, will create challenges for African policy-makers that must be carefully managed.

2.6 The role of the financial sector

Many of the challenges mentioned above are to do with the lack of capital throughout Sub-Saharan Africa. This is illustrated by Exhibit 3, which shows the ratio between credit and GDP in various African countries.

For a country to flourish there must be a healthy ratio between credit and GDP. In most African countries, there is still not enough access to credit. Research shows that, although too much credit hampers economic growth, this is the case only when the ratio between credit and GDP exceeds 100 per cent[11]. The graph shows that all Sub-Saharan African countries except for South Africa and Mauritius are far below this threshold. Kenya's ratio is highest at 37 per cent and many countries are below 20 per cent. This suggests that access to finance is still a major constraint for development, and that the banking sector must grow to avoid supply constraints.

Banking activities that help to facilitate trade and investment include providing payment infrastructure, loans, guarantees, risk management, letters of credit and insurance. However, in Africa, most lending is short-term, and smaller businesses find it particularly hard to access credit.

The banking sector in Africa is developing fast. African banks are becoming increasingly important on a national, regional and even pan-African level. However, foreign banks still account for more than half of the banking assets in Sub-Saharan Africa.

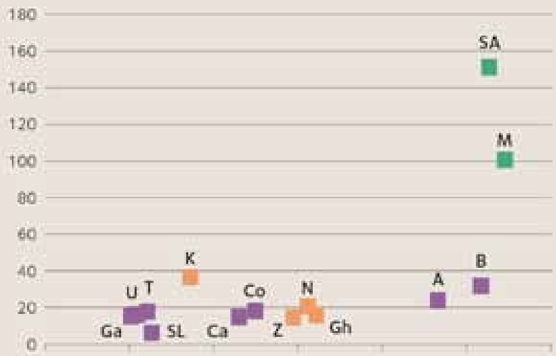
Although Africa's banks, excluding those in South Africa, remained relatively insulated from the effects of the global financial crisis, they may suffer from its knock-on effects. The new regulatory environment that is emerging following the crisis is creating new costs for banks, which are likely to make it more expensive to provide trade finance, which may in turn hamper trade. This would not be in the interest of a developing region such as Sub-Saharan Africa.

10 Africa's Infrastructure: A Time for Transformation Chapter 1: Meeting Africa's Infrastructure Needs. Vivien Foster and Cecilia M. Briceño-Garmendia (Editors). Agence Française de Développement and World Bank, 2010

11 IMF working paper WP 12/161: Too Much Finance? Jean-Louis Arcand, Enrico Berkes and Ugo Panizza (2012)

Exhibit 3

DOMESTIC CREDIT TO THE PRIVATE SECTOR AS PERCENTAGE OF GDP FOR THE SUB-SAHARAN COUNTRIES IN WHICH STANDARD CHARTERED IS PRESENT



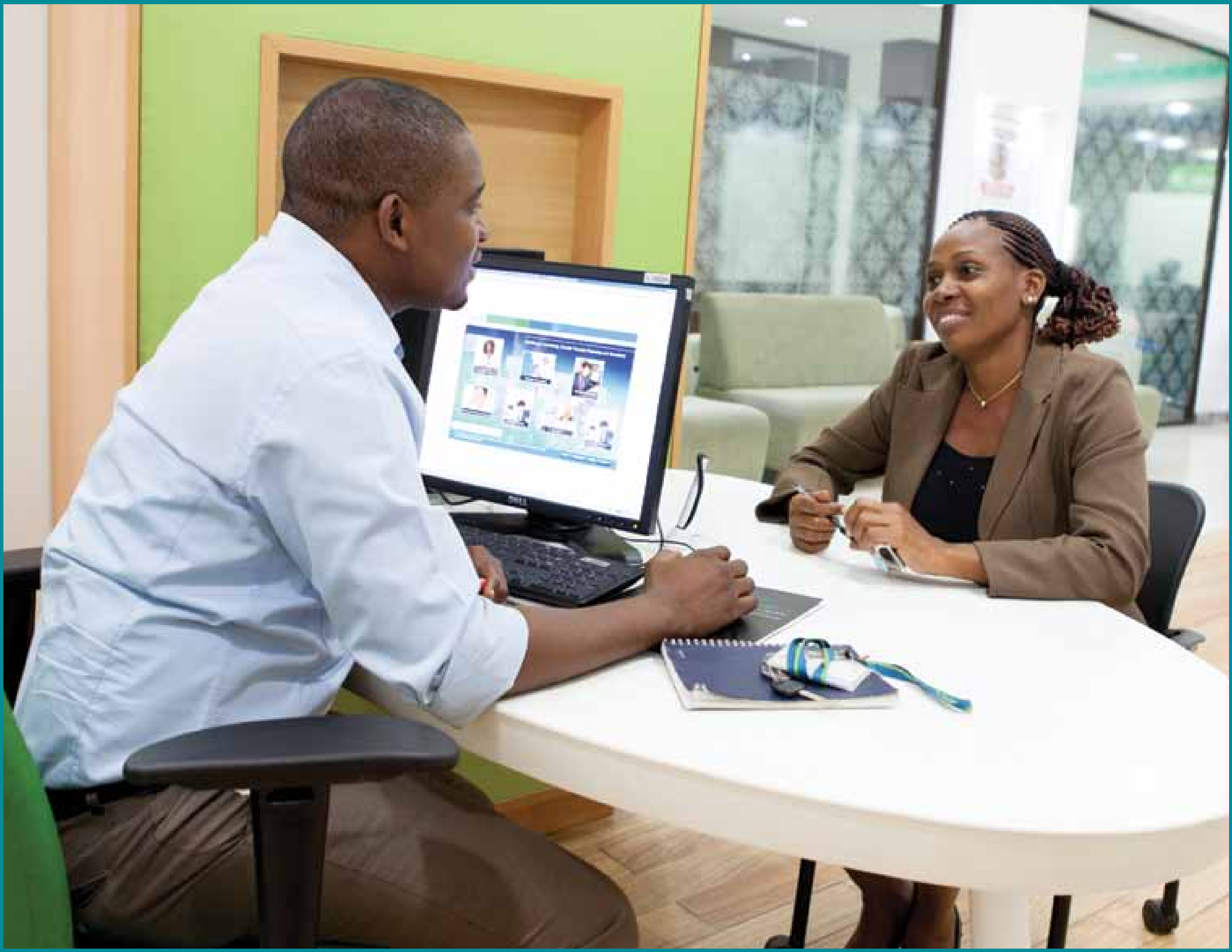
— Countries analysed
— Countries not analysed with similar economic profile as countries analysed
— Countries not analysed but economic profile different than countries analysed

A Angola
B Botswana
Ca Cameroon
Co Cote d'Ivoire
Ga Gambia
Gh Ghana
K Kenya
M Mauritius
N Nigeria
SL Sierra Leone
SA South Africa
T Tanzania
U Uganda
Z Zambia

Lagos, Nigeria, is home to a growing middle class with increased spending power

3/Standard Chartered in Africa

Standard Chartered plays an important part in the economy of many Sub-Saharan countries. It has been present in the region for over 150 years



Using its employees' local knowledge and experience, Standard Chartered is able to tailor its products and services to the needs of its customers and clients

3.1 Strong growth in Africa

Thanks to its unique history and footprint in Sub-Saharan Africa, Standard Chartered is well positioned to act on the opportunities that the continent offers. The bank plays a socially and systemically important role in African markets, acting as a thought leader in the sector and a pioneer of banking innovation.

As Africa grows, so does Standard Chartered's presence. The bank's business in Africa has doubled in size over the past five years despite the impact of the financial crisis, with income growing at 15 per cent[12]. As a result of this growth, Africa accounted for 8 per cent of the bank's global income by 2012 and the bank has ambitious plans for further investment and growth over the next three years.

Three per cent of Standard Chartered's global assets are now in Sub-Saharan Africa, a total of $7.1 billion local[13] and $3.5 billion international finance. The bank's operating income in Africa was $1.6 billion in 2012, up 15 per cent. In 2012, Standard Chartered had a corporate tax liability in Africa of over $165 million and its total tax liability over the last five years to 2012 was around $685 million.

3.2 Wholesale banking

With well over 6,000 corporate client relationships in countries across Africa, wholesale banking has been the main driver of Standard Chartered's business in the region. It accounts for around 70 per cent of revenues, a similar percentage to the other regions where the bank operates.

The bank provides a wide range of trade finance, cash management, risk management, securities, foreign exchange, sovereign advisory, capital raising and corporate financing solutions to a wide range of clients. In 2012, wholesale banking income in Africa exceeded $1 billion for the first time, while network income rose 25 per cent year-on-year.

3.3 Consumer banking

The growing middle class across Sub-Saharan Africa is creating demand for more sophisticated financial products and services, resulting in strong momentum for Standard Chartered's African consumer banking business. In 2012, consumer banking income rose 14 per cent to $482 million, with significant growth from loans, advances and deposits. Kenya continues to be the bank's largest consumer banking income generator in the region, followed by Botswana.

3.4 Helping small businesses

Standard Chartered also provides finance and support to small and medium-sized enterprises (SME), the backbone of the African economy. The bank has introduced new solutions for working capital, business expansion, business protection, and yield enhancement. It has also introduced services to provide its SME customers with greater ease of access and convenient service, including a SME on-line banking platform, Straight2Bank, which allows customers to bank from their offices.

3.5 Deep local knowledge

With more than 150 years' experience in most of the 15 Sub-Saharan countries in which it operates, Standard Chartered's operations are embedded in local economies. The bank has evolved differently in different regions, adapting to local needs and developing systemically.

Exhibit 4, below, shows how the bank lends money differently in the four major countries examined for this study, also illustrating how its business model varies depending on the length of time the bank has operated in the particular market. In Nigeria, for instance, which the bank re-entered 13 years ago, wholesale banking plays a larger role, while in Zambia and Kenya, with its long market presence, the bank's activities are broader. Consequently, Standard Chartered's retail operations are more developed in Kenya and Zambia than in other jurisdictions.

8%

of Standard Chartered's global income came from Africa in 2012

[12] Compound Annual Growth Rate (CAGR) – Africa region including Mauritius and South Africa

[13] This excludes exposure in South Africa and Mauritius and includes $2 billion of trade contingents

Exhibit 4

BREAKDOWN OF STANDARD CHARTERED'S ON-SHORE LOAN PORTFOLIO (IN % OF TOTAL)

The exposure presented in Exhibit 4 excludes the syndicated amounts exceeding the exposure on Standard Chartered's own balance sheet as of 31 December 2012, which amount to a total of $1.8 billion.

3.6 Leveraging international knowledge and finance

The bank uses its international balance sheet to provide finance for African customers, and leverages its specialised knowledge gained from providing complex financial products elsewhere in the world.

Some of the best examples of customers that have benefited from this are large companies and governments, and also in the area of infrastructure projects. These tend to have large capital requirements, and need products with complicated structures.

Standard Chartered acts as advisor to a growing number of governments and public sector bodies across Africa. The bank has supported governments in strengthening their credit ratings, engaging with the international investor community and in raising funding in the appropriate currency. This support is vital as African governments seek to reconcile their ambitious development agenda, including the financing of much needed infrastructure, with a commitment to debt sustainability.

In Ghana, for example, Standard Chartered assisted the Bank of Ghana to develop an efficient and effective electronic payment system for the country. Jointly with the Ghana Inter-Bank Payment and Settlement Systems Limited, the two banks initiated the dialogue amongst various shareholders in the banking industry to chart the way forward in creating an effective payment system. The system is expected to improve the productivity in the country as well as making it easier to transfer money, stimulating Ghana's international trade.

3.7 Spurring innovation

As well as history and local knowledge, Standard Chartered brings a broad international skill base and training capability to the markets where it operates, helping to improve financial efficiency in these markets through innovation and expertise. The bank was the first to introduce interest rate swaps to the continent, ATMs to Uganda and Kenya, internet banking for businesses in Tanzania, and currency and interest rate hedging in Ghana.

3.8 Acting responsibly

In Sub-Saharan Africa, as in all of its markets, Standard Chartered has integrated sustainability into its business model. Its approach is focused on three main priorities:

- Contributing to sustainable economic growth by providing effective finance to support economic growth and job creation. This is a key focus area of this report.
- Being a responsible company that practises strong corporate governance, creates an inclusive workforce and minimises its environmental impact.
- Investing in communities by delivering employee volunteering and health, education, gender and environmental programmes that promote positive social and economic outcomes.

3.9 Opportunities for the future

Looking ahead, there is huge room for growth in wholesale banking, given Africa's strong macroeconomic prospects and the need for infrastructure investment, which amounts to $100 billion, according to the World Bank.

The bank is also planning to grow its consumer offering and in 2012 announced that it will add 100 new branches to its existing branch network. Over the next five years there will be opportunities to serve Africa's rapidly growing middle class with wealth management products, insurance products and investment products.

100

new branches are to be added to Standard Chartered's existing branch network

Power Africa

Plugging Africa's power gap will have a huge impact on the region's productivity.

Standard Chartered has committed to financing more than $2 billion of energy projects under the Power Africa Initiative, a partnership between the United States, six African governments including Nigeria and Kenya, and the private sector. The Power Africa scheme will deliver more than 10,000 megawatts of cleaner, more efficient electricity generation – equivalent to 250 per cent of Nigeria's current power generation – increasing access to electricity by more than 20 million new households and businesses.

4/Standard Chartered's quantitative impact

Standard Chartered supports some 1.9 million jobs in Sub-Saharan Africa and more than one per cent of the region's GDP

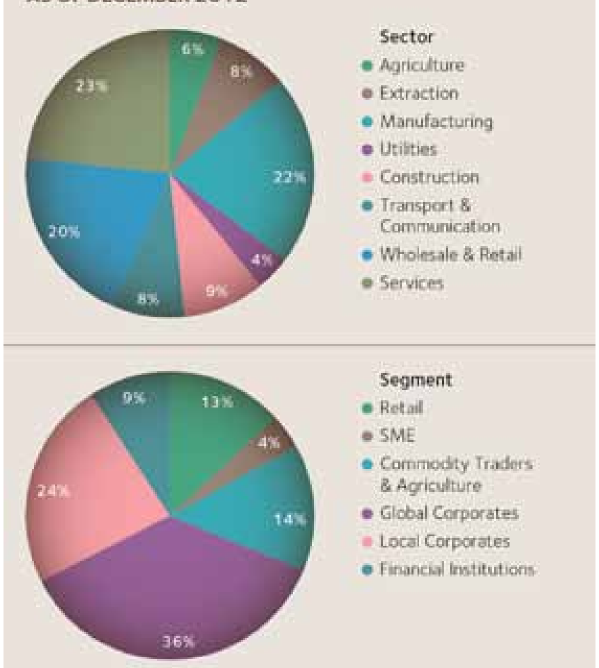
Mombasa Port – Standard Chartered's financing supports $1.3 billion of Kenya's global trade

4.1 Standard Chartered's presence in Sub-Saharan Africa

The starting point for the quantitative analysis of Standard Chartered's impact on growth and jobs is the bank's exposure to Sub-Saharan Africa in December 2012. The total exposure of $10.6 billion includes $5.1 billion local on-balance sheet, $2 billion local unfunded trade finance as well as $0.8 billion international general finance and $2.7 billion international trade finance[14]. Exhibit 5 shows Standard Chartered's loan portfolio broken down by economic sectors[15] and client segments.

Exhibit 5

TOTAL EXPOSURE OF LOCAL AND INTERNATIONAL FINANCE PROVIDED TO SUB-SAHARAN AFRICA AS OF DECEMBER 2012



The clients receiving this finance use it to produce or trade output that generates employment and results in value added, salaries, profits, savings and taxes. In addition to this direct impact, indirect value added and employment are supported because Standard Chartered's clients spend money on goods and services. These ripple effects can be traced using the input-output methodology (see Appendix). In the following sections the value added and employment associated with Standard Chartered's loans are described quantitatively. These results are based on the extrapolation of the results derived from in-depth analysis of the bank's activities and financing in four markets: Nigeria, Kenya, Zambia and Ghana. The results for these individual countries are described in chapters 6 to 9. The extrapolation methodology and limitations of the methodology, are discussed in the Appendix.

4.2 Standard Chartered's impact on growth and jobs in Sub-Saharan Africa

With both the local and international finance provided to companies, individuals and financial institutions in Angola, Botswana, Cameroon, Cote d'Ivoire, Gambia, Ghana, Kenya, Nigeria, Sierra Leone, Tanzania, Uganda, Zambia and Zimbabwe[16], Standard Chartered supports $10.7 billion of value added and some 1.9 million jobs throughout Sub-Saharan Africa. This amounts to 1.2 per cent of the region's GDP and 0.6 per cent of the local labour force. When considering only the countries in which Standard Chartered is present, these numbers contribute 1.8 per cent of GDP and 1.2 per cent of the labour force respectively. A higher percentage of value added than of the labour force is supported, because the bank finances formal sector clients that are more productive than the average in the respective sectors and countries.

In addition to the economic impact associated with the financing provided by Standard Chartered, the bank has an economic impact through underwriting large financing transactions for its clients. This means that the bank guarantees to a client that it will arrange the entire amount of financing required (typically at an agreed rate of interest), subsequently acting as a co-ordinator to find syndicate partner banks to contribute to the financing and assume the actual credit risk. Should Standard Chartered not be able to find a syndicate of banks willing to provide the complete amount of the financing, the bank would be liable to provide the underwritten amount in full. Underwriting reduces a client's risk in raising new financing by guaranteeing that clients will obtain the full amount of financing required (and potentially the rate of interest it shall pay). Underwriting plays a significant role in assuring companies access to large-scale financing in emerging markets such as Africa. For the deals outstanding as per year-end 2012, Standard Chartered had underwritten an additional amount of $1.8 billion of financing for clients. Although the bank underwrote a larger amount throughout the year, we assume the $1.8 billion at the year-end to be representative of the full year.

The immediate benefit of underwriting is to mitigate financing risk. The underwriting bank also facilitates capital flows to a country in its role as the co-ordinator of the

1.9m

jobs are supported by Standard Chartered throughout the region

14 'International finance' is financing that is provided to businesses in Sub-Saharan Africa from elsewhere in the Standard Chartered network, for example from the bank's branches or subsidiaries in Asia or Europe. International project finance of $326 million has been excluded as these projects are pre-revenue and therefore it is too early to judge their eventual economic impact

15 Financial sector allocation as per appendix A.4

16 South Africa and Mauritius are excluded from this study

$1.8bn

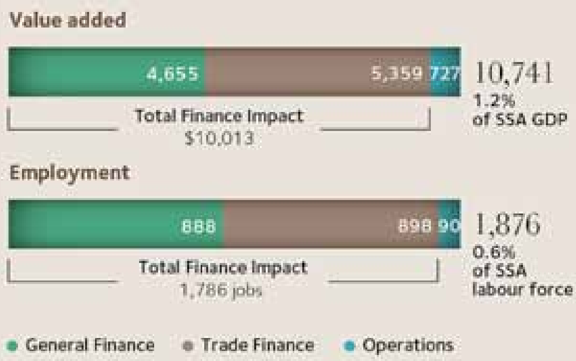
of additional finance underwritten by Standard Chartered as per year-end 2012

financing. It is difficult to attribute the economic impact associated with underwritten syndicated deals to the underwriter and the other syndicate partners who assume part of the credit risk. Taking into consideration the additional $1.8 billion underwritten by Standard Chartered, which is not captured in the model, the total value added supported by the bank increases by $1.6 billion (0.2 per cent of GDP) to $12.3 billion. The total supported employment increases by 206,000 jobs (0.1 per cent) to 2.1 million jobs. In order to circumvent attribution of the economic impact of syndicated deals, we focus on the economic impact associated with the loans that Standard Chartered actually carried on its balance sheet as per year-end 2012.

Exhibit 6 shows the value added and employment impact broken down by the type of finance. Approximately two-thirds of the total impact is related to finance provided locally by Standard Chartered, circa 30 per cent comes from international finance and the remainder is associated with Standard Chartered's operations.[17]

Exhibit 6

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED'S SUB-SAHARAN AFRICA OPERATIONS, LOCAL AND INTERNATIONAL FINANCE BY TYPE (VALUE ADDED IN $ MILLION AND JOBS IN '000)



The most striking aspect of Exhibit 7, below, is that the majority of the value added that is associated with Standard Chartered, is coming directly from its clients (direct impact). For the related employment the opposite is true; some 78 per cent of total related jobs are supported through indirect effects. This corresponds with what one would expect, as the bank's portfolio firms typically have higher productivity per employee, paying more taxes and higher salaries, and making more profit than smaller, informal sector suppliers and suppliers' suppliers do.

17 Salaries and taxes paid by Standard Chartered, profits generated for local shareholders in Standard Chartered Group companies and the indirect impact coming from Standard Chartered procuring goods and services

Exhibit 7

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED WITH STANDARD CHARTERED'S SUB-SAHARAN AFRICA OPERATIONS, LOCAL AND INTERNATIONAL FINANCING BY ROUND OF IMPACT (VALUE ADDED IN $ BILLION AND JOBS IN '000)

In Exhibit 7, leveraged impact comes from people that borrow against the salaries they earn, be it direct or indirect, thereby increasing their spending. This leverage creates additional value added and employment. In the same Exhibit, induced employment comes from people re-spending their (direct and indirect) salaries. However, these salaries are already included in the direct and indirect value added impact, so no induced value added has been computed as that would amount to double counting.

Table 1 shows that salaries are the largest part of value added related to Standard Chartered. This is because labour is still the dominant factor input in the developing economies of Sub-Saharan Africa, where capital is scarce. Therefore, although a bank such as Standard Chartered is associated with large companies, most value added accrues to households.

Standard Chartered supports some $1.8 billion of tax payments to governments in Sub-Saharan Africa, which is the equivalent of 1.1 per cent of the total tax receipts of governments in the region. Out of this, $1.3 billion is paid directly by Standard Chartered and its clients.

TABLE 1: VALUE ADDED ASSOCIATED WITH STANDARD CHARTERED IN SUB-SAHARAN AFRICA BY COMPONENT (IN $ MILLION)

Component	Value added	% of total value added
Household income	$6,027 million	56%
Profits and savings	$2,892 million	27%
Tax income	$1,822 million	17%

4.3 Contribution by economic sector

The breakdown of Standard Chartered's impact over the economic sectors, as shown in Exhibit 8 highlights the sectors that benefit most from Standard Chartered's presence in the region. The impact on a sector depends on the nature of the predominant inputs, labour or capital. Agriculture and wholesale and retail are especially labour-intensive, as can be seen from the small amounts of value added and the large number of people employed. Capital provided to these sectors tends to have a larger direct effect. As shown in Exhibit 5, 22 per cent of the bank's total exposure in Sub-Saharan Africa is to the manufacturing sector.

However, only some 18 per cent of total related value added arises from that sector. This is because, with the exception of Kenya, the manufacturing sector in most countries imports most of the goods it needs for production while other sectors procure relatively little from the sector as intermediary demand. The reverse is true for the transportation sector. Eight per cent of Standard Chartered's total portfolio generates 13 per cent of value added because of demand from other sectors. Most employment can be found in the agriculture, manufacturing and wholesale and retail sectors. In more capital-intensive sectors such as extraction and utilities, Standard Chartered supports fewer jobs.

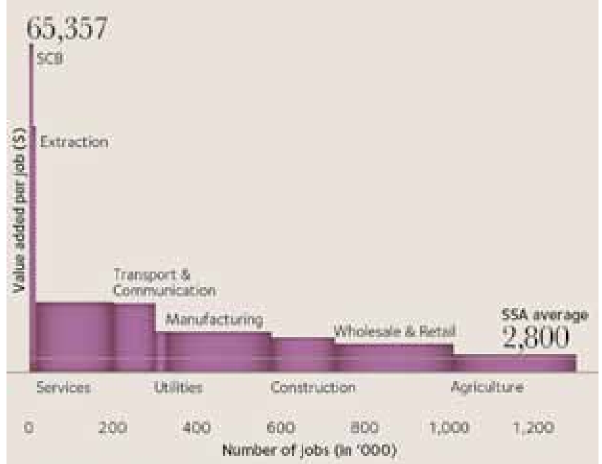
Exhibit 8

TOTAL VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED BANK'S SUB-SAHARAN AFRICA OPERATIONS, LOCAL AND INTERNATIONAL FINANCE PER SECTOR (VALUE ADDED IN $ MILLION AND JOBS IN '000)

Combining the two horizontal bars from Exhibit 8 yields the value added per job, which is a good measure for the quality of related employment, shown in Exhibit 9. Not surprisingly, the extraction sector and Standard Chartered itself have the largest value added per job because of their capital intensity. The jobs in agriculture and wholesale and retail are much less productive, as explained before. Across Sub-Saharan Africa the GDP per worker in the wholesale and retail and agriculture sectors is substantially below the average of $2,800. The jobs in these sectors that are associated with Standard Chartered are at or above this average because the bank provides finance to the more productive firms in the economy.

Exhibit 9

VALUE ADDED PER JOB ASSOCIATED WITH STANDARD CHARTERED IN SUB-SAHARAN AFRICA BY ECONOMIC VARIOUS SECTOR (IN $)



*Number of jobs exclude induced jobs

The pathways through which value added is being created within the various sectors are shown in Exhibit 10. Although Standard Chartered creates value through its own operations, most of the value added comes from the sectors it finances. Standard Chartered's largest exposure is to the manufacturing, wholesale and retail and service sectors. Despite the large flow of capital to the manufacturing sector, the total value added associated with it, as explained above, is smaller in relative terms. This is explained by the fact that, except for Kenya, the manufacturing sector imports much of its input from outside Africa. In the services sector a similar amount of capital is associated with more value added because the sector is less capital-intensive and needs fewer imported inputs. Most of the value added are salaries that go to households.

22%

of the bank's exposure to Sub-Saharan Africa is to the manufacturing sector

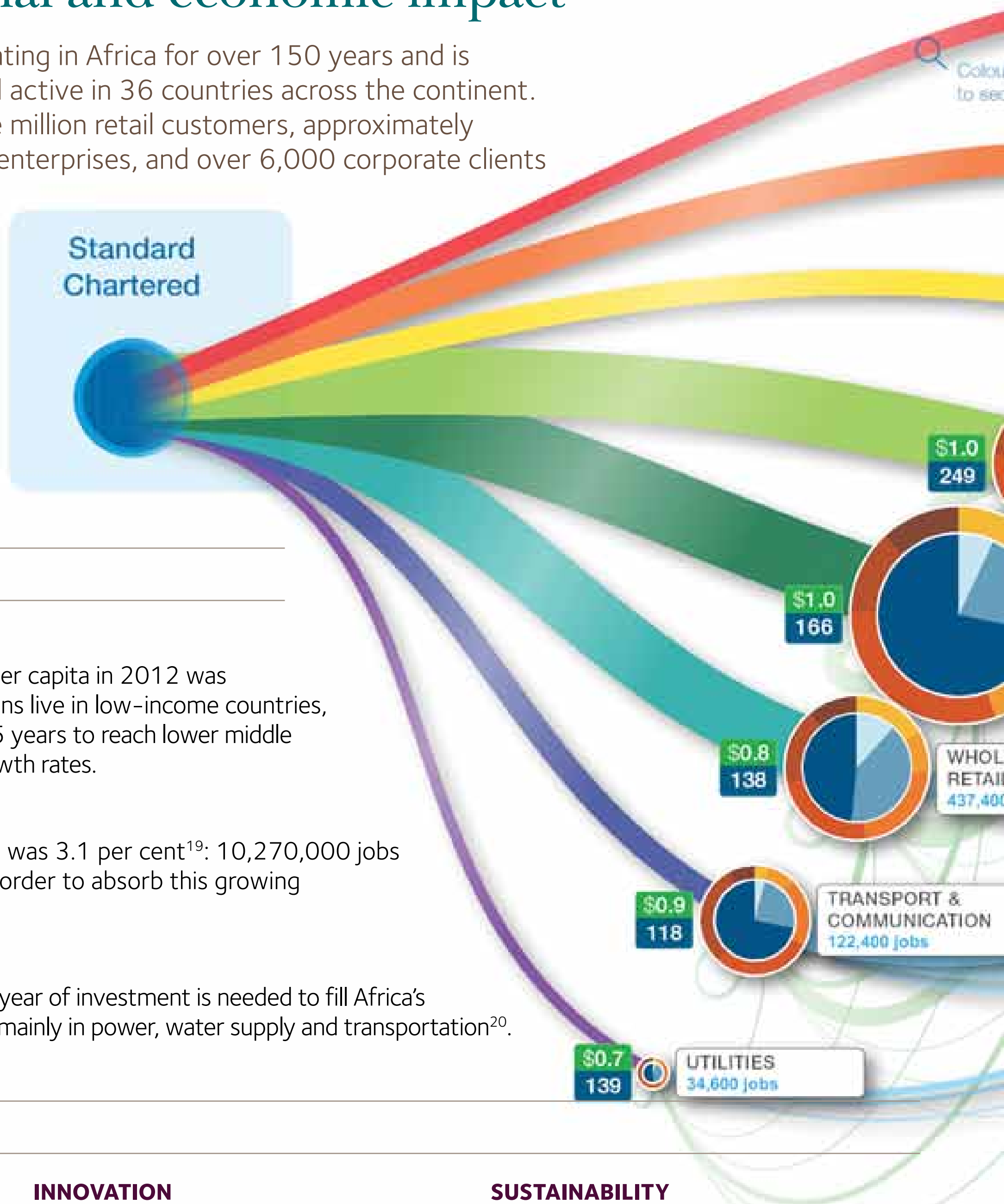
Exhibit 10

Standard Chartered in Africa

Measuring our social and economic impact

Standard Chartered has been operating in Africa for over 150 years and is present in 15 African countries and active in 36 countries across the continent. Currently the bank serves over one million retail customers, approximately 100,000 small and medium-sized enterprises, and over 6,000 corporate clients in Sub-Saharan Africa.

It provides a broad range of wholesale and consumer banking services. Through its operations and lending, it creates a ripple effect through the entire economy, directly and indirectly impacting growth and jobs.



Economic challenges

GROWTH

Gross national income (GNI) per capita in 2012 was $1,345. 60 per cent of Africans live in low-income countries, which on average will need 25 years to reach lower middle income[18] status at current growth rates.

EMPLOYMENT

Labour force growth in 2011 was 3.1 per cent[19]: 10,270,000 jobs need to be added annually in order to absorb this growing labour force.

INFRASTRUCTURE

An estimated $100 billion per year of investment is needed to fill Africa's pressing infrastructure needs, mainly in power, water supply and transportation[20].

What makes us different?

GLOBAL REACH

The bank uses its global network and expertise to help businesses trade with the world. In 2012, Standard Chartered financed $7.2 billion of Africa's trade.

INNOVATION

Standard Chartered introduces products and services that meet client and customer needs, including risk management. It established the first digital branches across several African markets. In markets like Ghana and Kenya, it was the first to introduce interest rate swaps, and currency and interest rate hedging.

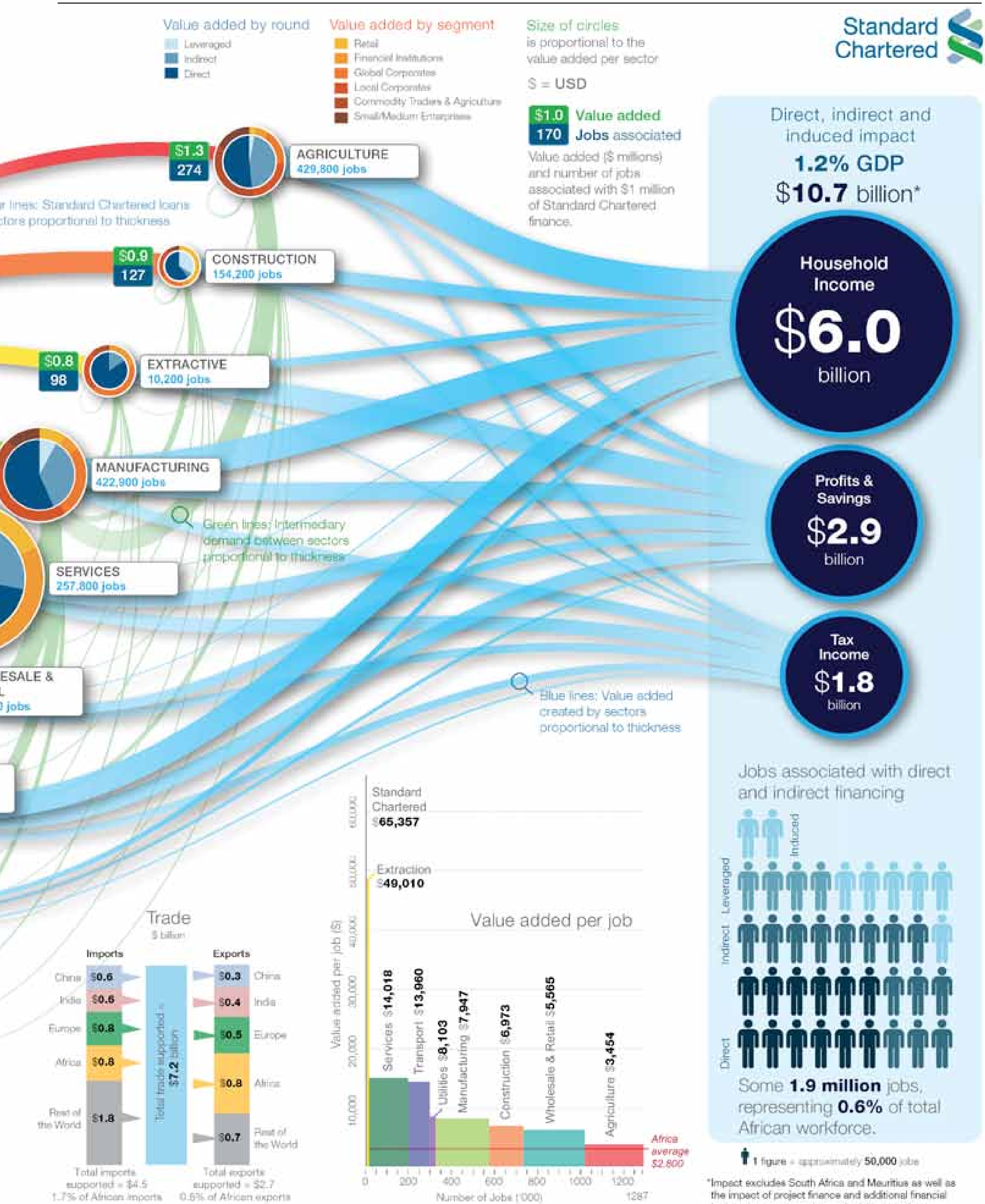
SUSTAINABILITY

The bank promotes responsible business practices. It contributes to sustainable economic growth and invests in communities. In five African countries, the bank is providing training to SMEs, to improve their operations and increase their access to finance.

[18] World Bank country classification based on GNI per capita: lower middle income from $1,036 to $4,085

[19] World Development Indicators

[20] Agence Française de Développement and World Bank, 2010



*Impact excludes South Africa and Mauritius as well as the impact of project finance and additional financial transactions underwritten and advisory services

 www.sc.com/impactAfrica Analysis by Steward Redqueen

Table 2 below summarises the economy-wide impact associated with $1 million of finance provided to the various economic sectors for the entire Sub-Saharan Africa region as well as for the four countries analysed in detail. The regional multipliers must be interpreted with some caution because they are a weighted average of the four individual countries, which have a higher GDP per capita than the region overall. Potentially, this leads to a relative overestimation of related value added and an underestimation of the number of related jobs as countries studied in detail are relatively more developed than are other countries in the region.

As expected, value added and employment effects are largest in agriculture because this sector is most capital-starved. Zambia is the exception here because of its large-scale commercial agriculture, which is both highly productive as well as less constrained by finance. The relatively high productivity of Kenyan manufacturing is also clear, whereas in Zambia the marginal impacts of finance provided to manufacturing are highest.

An important caveat in the interpretation of Table 2 is that the impact here only includes the backward linkages[21]. Although in the utilities sector these backward linkages are still substantial, it is clear that the main development impact of power and water infrastructure is coming from forward linkages, the enabling effect on the rest of the economy.

TABLE 2: BROADER IMPACT FOR $1 MILLION PROVIDED TO THE VARIOUS ECONOMIC SECTORS

Client segment		Nigeria	Kenya	Zambia	Ghana	Total SSA
Agriculture	value added	1.5	1.5	1.0	1.2	1.3
	employment	286	337	131	383	274
Extraction	value added	0.9	0.7	0.7	0.8	0.8
	employment	40	134	120	113	98
Manufacturing	value added	0.9	0.9	1.6	0.9	1.0
	employment	223	164	291	324	249
Utilities	value added	1.0	0.7	0.6	2.0	0.7
	employment	144	151	87	114	139
Construction	value added	0.8	0.9	0.9	1.2	0.9
	employment	110	129	113	179	127
Services	value added	1.1	0.9	1.2	1.5	1.0
	employment	205	152	219	164	166
Transport & Communication	value added	0.5	0.7	0.9	1.7	0.9
	employment	95	74	118	205	118
Wholesale & Retail	value added	0.9	1.0	1.0	0.8	0.8
	employment	177	102	131	150	138
Weighted Average	value added	0.9	0.9	0.9	1.1	1.0
	employment	174	148	148	223	170

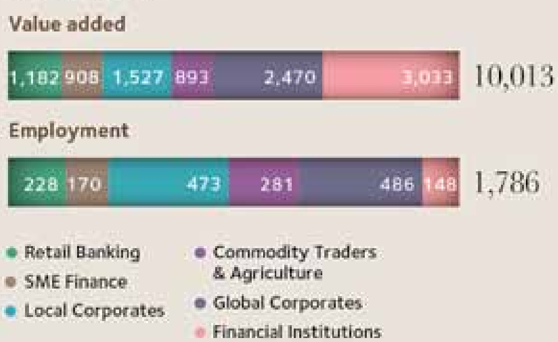
21 Backward linkages refer to effects on suppliers and suppliers' suppliers, they are demand driven

4.4 Contribution by customer segment

The results presented by sector can also be presented in terms of the impact per customer segment. Standard Chartered's impact in Sub-Saharan Africa is generated primarily by wholesale banking: roughly 80 per cent of the value added and employment impact are in wholesale segments with SME and retail banking together making up the rest.

Exhibit 11

VALUE ADDED AND EMPLOYMENT PER CUSTOMER SEGMENT (VALUE ADDED IN $ MILLION AND JOBS IN '000); IMPACT OF STANDARD CHARTERED OPERATIONS NOT INCLUDED



Similarly for the economic sectors, the effect of $1 million of financing to different client segments is shown in Table 3. Although there are some differences between the countries, the overall picture is comparable. Larger impacts are often found in economies such as Zambia and Ghana because marginal returns on capital are higher in these countries given the financial sector is smaller compared with the size of the economy. This is especially true for SME financing. The multipliers presented in Table 3 depend on the sector composition of clients in the various segments. These country-specific differences show that each country's economic structure is different and that while the total Sub-Saharan results are a first indication of the impact of debt finance, they cannot be applied to individual countries.

TABLE 3: BROADER IMPACT FOR $1 MILLION PROVIDED TO THE VARIOUS CUSTOMER SEGMENTS

Client segment		Nigeria	Kenya	Zambia	Ghana	Total SSA
Retail Banking	value added	0.9	0.9	0.9	0.9	0.9
	employment	212	165	116	2 17	169
SME Finance	value added	1.2	1.8	3.3	3.2	2.2
	employment	233	297	566	697	409
Local Corporate	value added	0.8	0.8	0.7	1.0	0.7
	employment	185	116	119	234	126
Commodity Traders & Agriculture	value added	0.9	0.9	0.9	0.9	1.0
	employment	140	179	134	184	181
Global Corporates	value added	0.9	0.8	0.7	1.2	1.2
	employment	161	122	131	217	200
Financial Institutions	value added	0.9	0.9	0.9	0.9	0.9
	employment	173	133	152	158	149
Weighted Average	value added	0.9	0.9	0.9	1.1	1.0
	employment	174	148	148	223	170

4.5 Contribution to trade

Africa as a whole is a net exporter, mainly of commodities. As shown in Exhibit 12, Standard Chartered through its general and trade finance, supports Sub-Saharan trade worth $7.2 billion, which is equivalent to 1.2 per cent of Sub-Saharan Africa's total international trade. When broken down further, this represents some $4.5 billion of imports to Sub-Saharan Africa (1.7 per cent) and $2.7 billion of exports from the region (0.8 per cent). When we only take into account the countries in Sub-Saharan Africa where Standard Chartered is present the relative contributions would be 1.6 per cent of total trade, 2.2 per cent of imports and 1.0 per cent of exports.

If underwritten loans and letters of credit issued by other African banks confirmed by the Standard Chartered branches outside Africa are taken into account, the total imports supported increase by $1.6 billion to $6.2 billion (2.3 per cent of total imports of Sub-Saharan Africa). The exports supported rise by $0.9 billion to $3.6 billion (1.1 per cent of total Sub-Saharan Africa's exports).

To put these figures into perspective, it is important to note that not all of African trade involves banks. Non-intermediated trade flows include intercompany imports and exports, and the trade flows of large multinational companies. No reliable figures are available regarding the size of the flows that are supported by banks, but it is realistic to assume that Standard Chartered's share of the intermediated flows is substantially larger than its share of total African trade.

Exhibit 12

2012 BALANCE OF PAYMENTS OF SUB-SAHARAN COUNTRIES (IN $ BILLION)[22] AND VISUALISATION OF THE EXPORT AND IMPORT FLOWS SUPPORTED BY STANDARD CHARTERED

Analysing total trade related to Standard Chartered by the type of finance that it supports shows that while trade finance supports the majority of overall trade, general finance plays a relevant role, especially in supporting exports. This is shown in Exhibit 13. The analysis further shows that companies mainly use structured trade finance products for their exporting activities, but use other types of trade finance to finance imports.

[22] World Bank 2012 data on import and export for all Sub-Saharan African countries

Exhibit 13

SUPPORTED TRADE BROKEN DOWN BY TYPE OF FINANCE (IN $ BILLION)

Exhibit 14

IMPORT AND EXPORT SUPPORTED BY STANDARD CHARTERED IN SUB-SAHARAN AFRICA (IN $ BILLION)

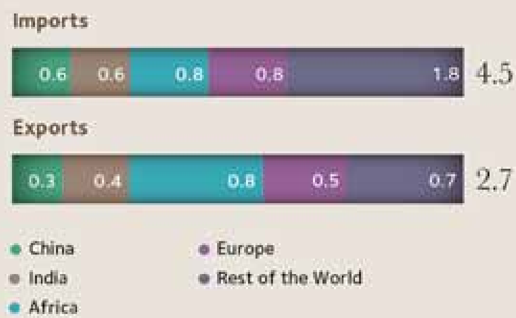


Exhibit 14 shows that the majority of Africa's imports that are supported by Standard Chartered are capital goods from China, Europe and North America, and fuel from (refined) oil producing countries. Exports, on the other hand, go by a much larger fraction to other African countries. Apart from the relatively large uncertainties in underlying trade flow data, a reason for this might be that Standard Chartered is less involved in financing the large crude oil and copper exports that flow out of Africa than it is in exportable goods from other sectors.

This chapter sets out Standard Chartered's economic impact in the entire Sub-Saharan region as a whole. The results were derived based on extrapolation from deep-dive studies into the markets of Nigeria, Kenya, Zambia and Ghana. Chapters 6-9 will examine these four countries in more detail.

Spurring trade across Africa

In order to help facilitate short-term trade Standard Chartered signed a $200 million risk participation agreement with the African Development Bank (AfDB). This collaboration supports a wider number of African banks that traditionally were constrained by limits with their correspondents. By helping to address market demand for trade finance in Africa the programme aims to support trade in vital economic sectors such as agribusiness and manufacturing.

5/Standard Chartered's other contributions – a qualitative assessment

As well as those impacts that are quantifiable, Standard Chartered influences the Sub-Saharan African economy in myriad ways that are difficult to model and measure

Standard Chartered's head office in Kenya, where the bank has operated for over 100 years

In addition to the quantifiable impact, Standard Chartered in Africa influences economies in ways that are difficult to model or measure. Its influence is transforming processes and outcomes across the region. This section highlights some of the bank's other activities, providing relevant data, where available.

5.1 Risk management: bank size, derivatives and hedging

Derivatives help businesses, including financial institutions and importers of vital raw materials, to manage trading risk by protecting themselves against fluctuations in currencies, interest rates and commodity prices. Mitigating these risks for companies encourages them to take entrepreneurial risk and therefore spur economic growth.

In Kenya, the bank provided Sunland, a rose farm, with a structured hedging solution to reduce foreign currency risk. Sunland exports the bulk of its flowers to the Netherlands, and the forward contracts that Standard Chartered provided helped the bank to hedge against euro volatility, and allowed Sunland to budget with certainty.

Standard Chartered is contributing to the development of derivatives guidelines in the countries in which it operates. In Nigeria, the bank organised a training programme in June 2013 for top Central Bank of Nigeria officials on derivative products and risk management. The bank repeated this with officials from the Central Bank and Ministry of Finance in Zambia. Standard Chartered also worked closely with the Central Bank of Nigeria in drafting policy guidelines on derivatives for banks as part of a working group on new product development.

5.2 Financial innovation

Standard Chartered contributes to the economies in which it operates by introducing innovative financial products and services. These products provide convenience to customers and make businesses as well as the public sector more efficient.

In Kenya, Standard Chartered established the first ATM and the first 24-hour automated banking centre. It was also the first bank to introduce unsecured personal loans in the country. The bank also launched the first Business Solutions for corporate customers, and a round-the-clock remote cheque printing service for business customers.

In Zambia, the bank has introduced online banking and Visa cards. Changes to the bank's consumer borrowing policies have contributed to making loans available to a broader range of civil servants, while the bank offers US dollar loan facilities to high-end customers.

In Nigeria, the bank has doubled the loan tenure to Government employees with extended tenures of up to six years, while most banks offer a maximum of three years. This allows employees the opportunity to invest in home improvement projects. Standard Chartered has also been the first bank to offer mortgages and credit cards as a package at a reduced interest rate.

In Ghana, the bank introduced the first ATM and created the first unit dedicated to addressing SME banking requirements. In 2013, Standard Chartered has assumed leadership of the digital space in banking in Ghana with the launch of the 'Breeze' mobile app for digital banking as well as the setting up of the first all-digital branch in the nation's capital, Accra.

The payments infrastructure that supports transactions made via mobile phones, used by millions of people across Africa, is reliant on robust payment systems provided by commercial banks including Standard Chartered.

5.3 Deepening of capital markets

A liquid secondary market is important because it ensures that stocks and bonds are more accurately priced and that capital is more efficiently allocated. In most markets in which Standard Chartered is present, its large international balance sheet allows it to be an active player in the capital markets. In Kenya, for example, Standard Chartered is one of the largest players in the secondary government bond market[23], which has helped to establish a yield curve for government bonds that acts as a benchmark against which other financial instruments can be priced. Better pricing results in a more optimal allocation of the scarce capital and therefore increases economic growth.

5.4 Supporting the development of Islamic banking

Standard Chartered is preparing to provide Islamic banking services in East and West Africa, an area of growing interest for African financial markets. By the end of this decade it is quite possible that Sharia-compliant – or non-interest banking could grow to account for up to 10 per cent of banking assets in five or six Sub-Saharan African countries, including Kenya and Nigeria.

[23] In this secondary market Standard Chartered purchases government bonds from other investors rather than from the government itself

The bank is using its expertise and contacts to facilitate the development of Islamic banking in the region. In 2011 the bank arranged a study tour to Dubai and Abu Dhabi for a Nigerian official delegation including representation from the Central Bank of Nigeria, the Debt Management Office, the Securities and Exchange Commission, the Ministry of Justice and Infrastructure Concession Regulatory Commission.

5.5 Governance and business practices

Another way in which Standard Chartered contributes is by helping its clients adopt best practices when it comes to corporate governance. Standard Chartered encourages clients to put in accountable management, better boards, and adopt higher standards of financial reporting and disclosure. This improves the economy as a whole because well-governed companies carry lower financial and non-financial risks and generate higher returns. They also have better access to external finance and are less likely to suffer corporate crises and financial scandals.

5.5.1 Human resources and skills development

Standard Chartered's recruitment and training programmes have a potentially substantial influence on the financial system in Zambia, Nigeria, Kenya and Ghana. By adhering to strong principles of diversity and inclusion and recruiting the best applicants, regardless of their background or gender, the bank sets a standard for others to follow. The bank provides employees with leading-edge training, which contributes a public good to local economies, as some of the employees leave and take their skills with them.

Many senior leaders of the banking sector across Africa got their start at Standard Chartered. For instance, the CEOs of six of the ten leading banks in Kenya are ex-employees of Standard Chartered, while in Nigeria, the bank has seven ex-employees in management and board positions at leading banks. In Ghana, three of the leading banks in the country have CEOs who were formerly Standard Chartered staff in addition to more than 13 alumni who now hold senior management positions across the industry.

5.5.2 Financial crime prevention

Standard Chartered continually updates its systems and processes to guard against money laundering, terrorist financing, fraud and corruption. This has an impact on the economy, as financial crime results in lower tax revenues, distorted markets, diverted resources and reduced wealth. Standard Chartered employees worldwide are trained in anti-money laundering policies and procedures. The bank also works closely with governments, law enforcement agencies, regulators and the banking industry, in a number of countries, including Zambia, Nigeria and Kenya, to share best practice and contribute to ongoing initiatives that prevent, detect and respond to potential criminal activity.

In Nigeria, the bank conducts financial crime risk (FCR) related training programmes for the Central Bank of Nigeria and The Nigeria Deposit Insurance Corporation staff. In the past four years, the bank has facilitated sessions on FCR for the Intergovernmental Action Group Against Money Laundering in West Africa (GIABA) for countries within the region.

In Kenya, Standard Chartered participates as a thought leader in customer education on ATM fraud awareness in partnership with the Kenya Credit and Debit Card Association and the Kenya Bankers Association.

In Zambia, the bank helped to establish the Financial Intelligence Centre (FIC), which aims to counter financial crime.

In Ghana, two of the bank's staff are executives of a professional body that regulates issues of anti-money laundering in the sub-region.

5.5.3 Sustainable finance

Standard Chartered recognises that its financing decisions have a potential impact on people, the society and the environment. The bank has 16 position statements on high-impact sectors such as oil and gas, mining and forestry, as well as on key issues, such as child labour, climate change and water.

The statements set out the environmental and social standards that Standard Chartered expects of itself and its clients. The bank's sustainable finance approach enables it to identify risks and propose solutions at an early stage. The bank utilises these standards to underpin its underwriting decisions. For example, in Ghana, the bank's financing of the Jubilee Oil Fields, which saw the country join the group of oil producing countries, was in line with its commitment to the Equator Principles. Standard Chartered is also committed to financing clean technology, with $8.4 billion mobilised towards the sector globally. By the end of 2011 Standard Chartered had trained more than 3,400 front-line staff in sustainable finance.

5.5.4 Protecting the environment

Standard Chartered is committed to responding to environmental issues, and has stretching global targets for reducing its environmental impact. Globally, the bank is committed to reducing its water use by 71 per cent between 2008 and 2019 in all properties where it has control over water facilities, and to reduce office paper use to 10kg per full-time employee in all properties it owns. It plans to reduce the intensity of its energy use by 35 per cent in tropical locations and 20 per cent in temperate locations between 2008 and 2019.

The bank's new head office in Nigeria has been designed to meet the gold standard for Leadership in Energy and Environmental Design (LEED). Here the bank has implemented a wide range of sustainable initiatives, including enhanced water efficiency such as rain water harvesting. It has also reduced the overall cost of cooling the building, by introducing motion sensors to control lighting to all areas.

In Kenya, the bank has established biogas stations in two children's homes, as well as constructing five refuse chambers in the Kiandutu Slum to clean up the environment and encourage the re-use of waste.

The bank planted more than 1,000 trees in Zambia in 2013 to help restore depleted forests. It also launched the 'Go Green Recycling' campaign in June to encourage the public to recycle.

In Ghana, the bank has taken the lead in planting over 22,000 indigenous trees in strategic locations across the country with a focus on increasing the number in subsequent years.

5.5.5 Responsible selling and marketing

By training its employees, the bank helps to spread best practice in selling and marketing to the wider financial services industry in Africa.

In consumer banking, Standard Chartered has embedded Treating Customers Fairly practices into its culture, Customer Charter, governance and general processes. It has simplified its account-opening forms and reduced the time it takes to open an account. In wholesale banking, the bank continues to focus on deepening relationships with clients to provide the solutions they need to achieve their business goals.

5.6 Community investment

Alongside its business activities, Standard Chartered contributes to the countries in which it operates through a wide range of community investment programmes.

5.6.1 Seeing is Believing

Seeing is Believing is Standard Chartered's main global community investment programme. It was set up in 2003 to help tackle avoidable blindness, and has committed over $18 million to date to the Africa region. Globally, the programme hopes to raise $100 million by 2020.

Under the Seeing is Believing programme, Nigeria has been allocated $3.25 million of funding for past and current projects. A further $6 million will be invested by Seeing is Believing in Nigeria before 2020, including $5 million for one of five childhood eye health projects under the programme. Between January 2006 and December 2012, Seeing is Believing has funded cataract operations for approximately 18,000 people in Nigeria. Standard Chartered has also donated a music school to the Nigeria Society for the Blind. The school is designed to foster the natural musical talents of visually impaired students.

Standard Chartered staff work with NGO Sightsavers to screen Zambians for common causes of blindness

$100m

expected to be raised by Standard Chartered to tackle avoidable blindness by 2020

50,000

girls from low-income families have been reached by the Goal project

Standard Chartered in Kenya has been sponsoring the annual Nairobi Marathon since 2003 to raise funds for Seeing is Believing. The marathon has grown to become the biggest sporting and social event in the country. Since 2003, proceeds from the Standard Chartered Nairobi Marathon have sponsored more than 5,000 cataract paediatric surgeries in five hospitals across Kenya as well as funded the construction of boreholes, dams and rock catchments in Samburu District with an aim of eradicating trachoma. Lack of access to water is a major factor in the spread of trachoma, which is the most common cause of preventable blindness.

In Zambia, Seeing is Believing has changed the lives of a million people and Standard Chartered is committed to investing a further $1.2 million in the project over the next five years. In 2012, the bank's partnership with Sight Savers International meant that 65,000 adults and children were screened for eye diseases, and 2,000 cataract and trichiasis operations were performed. Standard Chartered and Sightsavers also dispensed 7,000 pairs of spectacles and 400,000 doses of trachoma drugs.

In Ghana, Seeing is Believing has benefited about 6 million people. In October, 2013, the bank launched a new three-year phase under the initiative to the tune of $1.25 million which is expected to bring benefits to over 7.5 million people by December 2016.

5.6.2 Goal

Standard Chartered also runs a programme called Goal, which uses sport to teach life skills and financial literacy to adolescent girls from low-income families. Since its inception, the programme has reached almost 50,000 girls in Nigeria, Zambia and Tanzania.

In Zambia, where the programme was launched in 2011, around 200 Goal instructors now work with schools and communities. In 2012 and 2013 more than 2,000 girls had enrolled and attended Goal sessions at various sites across Zambia.

In Nigeria, Goal has become one of the most respected sports development programmes in the country. Goal has trained more than 14,000 adolescent girls aged between 11 and 16 in Nigeria, and is available in 16 schools in two Nigerian cities.

Standard Chartered's 'Goal' programme uses sport to empower and educate girls in Nigeria, Zambia and Tanzania

In Ghana, Goal benefits both boys and girls. This programme has reached over 1,140 school children and 150 physical education teachers, who will go on to train a further 15,500 boys and girls.

5.6.3 Living with HIV

Through the bank's Living with HIV programme, Standard Chartered helps educate its own staff and local communities about preventing HIV and AIDS.

In Nigeria, Standard Chartered is a key member of the Nigeria Business Coalition Against AIDS, offering valuable leadership to advance the agenda of fighting the disease.

The bank ensures that its employees receive basic facts about HIV and AIDS, through peer education strategies and by sharing its resources with community partners.

In Zambia, the bank educates all direct employees and external audiences such as customers, suppliers and wider communities about HIV and AIDS through a highly effective workplace education model.

Standard Chartered Ghana has remained a key member of the Ghana Business Coalition on Employee Wellbeing. The Ghana team has participated in many of The Coalition programmes, offering valuable leadership to advance HIV education.

5.6.4 Education

Education is another focus for Standard Chartered in Africa. In Kenya, through the Global Give Back Circle, the bank seeks to help disadvantaged girls complete their education and then gain employable skills. This project targets girls from the Starehe Girls Centre, offering them employment at the bank under an internship scheme. The bank employees have also taught lessons on financial literacy to a total of 250 students at a girls' school in Western Kenya.

In Zambia, the bank built an accessible library at the Bauleni Street Kids Community School for disabled and underprivileged children. The bank also renovated the school to make it accessible.

In partnership with the Ghana Education Service, the bank continues to deliver the Schools Desk Project, which is committed to enhancing the classroom experience for students in deprived areas in the country. Under the second phase of this initiative the bank has distributed 6,600 dual desks to 66 deprived schools across the country over a three-year period.

5.6.5 Financial literacy

Standard Chartered also supports economics by providing training to local businesses.

In Nigeria, the bank provides training for local entrepreneurs on a regular basis. Through its workshops, Standard Chartered Nigeria helps customers to access more capital and services to grow their businesses, and offers them the opportunity to network with other business owners.

In Kenya and Ghana, Standard Chartered collaborates with PwC to train owners of small and medium-sized companies. Standard Chartered Kenya also uses its skills to train young people in financial literacy. In 2012, the bank's finance team conducted workshops for secondary school students on different topics such as achieving academic excellence, building a career, and making, managing and saving money.

In Zambia, the bank provides financial literacy training programmes to various stakeholder groups.

5.6.6 External recognition

The bank has received several awards in recognition of its businesses across Africa. In 2012, Standard Chartered was awarded 'Best foreign bank in Kenya' by the Kenya Association of Manufacturers, and also received the 'Green Building Recognition Award'. In Nigeria, the bank received the 'Lagos State Tax Compliant Bank' award in 2012. In Zambia, Standard Chartered was awarded 'Best Bank in Zambia' by Euromoney; 'Best Internet Bank' by Global Finance (for three consecutive years); and 'Best Bank in Zambia' in the FT Banker Awards. In Ghana, the bank won the 'Best Foreign Bank' in 2012 in the EMEA Awards and 'Best Internet Bank' in the Global Finance Awards for 2012.

6/Standard Chartered's impact on Nigeria

Standard Chartered Nigeria is the bank's largest African franchise

Standard Chartered's new office in Lagos, Nigeria, meets the highest environmental standards

- Standard Chartered Nigeria supports $2.1 billion of value-added, equivalent to 0.8 per cent of GDP
- The bank supports 396,000 jobs, equivalent of 0.4 per cent of Nigeria's labour force

6.1 The Nigerian economy

With a GDP of $263 billion and a population of nearly 170 million, Nigeria is the second largest economy in Africa and the most populous nation. The country is in the process of recalculating the size of its economy using more up-to-date measurements, which is expected to increase its GDP by approximately 40-60 per cent, bringing it to about $400 billion (level with South Africa, the region's largest economy). Traditionally the Nigerian economy has been dependent on oil exports, which make up over a third of GDP, but other areas such as wholesale and retail and the telecoms sector have been growing at a faster rate over the past decade, driving increasing economic diversification.

Economic reforms made over the last decade are beginning to deliver results, with greater political stability and better governance and macroeconomic management delivering GDP growth averaging 7 per cent a year in recent years. Nigeria has taken important steps to reform its banking system, partially removed fuel subsidies and is beginning to resolve regional disputes over the distribution of oil revenues. The country is now improving its infrastructure through public-private partnerships. Although Nigeria's financial sector was affected by the global financial crisis, the Central Bank moved quickly to stabilise the industry with measures to restructure and recapitalise failing banks.

However, Nigeria still faces important challenges. Income inequality is a large and growing issue, with the richest 10 per cent of the population accumulating more than 40 per cent of the total income. The country also has a significant unemployment problem, with 50 million young people not in work. Nigeria comes 153rd in the human development indicator ranking, which measures educational attainment, life expectancy and income. The country is also ranked just 121st when it comes to economic complexity, similar to other countries that are dependent on natural resources, which suggests that economic diversification has further to go.

A unique feature of Nigeria's economy is that many companies are vertically integrated. In many developing countries companies usually become conglomerates due to skill and finance shortages, but in Nigeria, this trend is pronounced. The lack of infrastructure means that many companies choose to generate their own power, pump their own water and manufacture many of the intermediary products that they require, because the low reliability of transport and logistics would otherwise pose a risk to their business. As a result fewer linkages have developed between different corporate sectors in Nigeria than there are in other countries such as Kenya, and many of the linkages that do exist are intra-firm. While such an approach often makes sense in the Nigerian context, it results in many companies having sub-scale operations that are expensive to run, which is particularly visible in the very high cost of power in Nigeria.

TABLE 4: KEY INDICATORS OF THE NIGERIAN ECONOMY 2012

Indicator	Economy Nigeria
Official population estimate	169 million
Size of workforce (2011)	92.4 million
Nominal Gross Domestic Product (GDP)	$263 billion
GDP per capita	$1,555
Trade as % of GDP	
Exports as % of GDP	41%
Imports as % of GDP	25%
Government tax revenues as % of GDP	12%
Sectoral breakdown of GDP (2011)	
Agriculture	31%
Industry	43%
Services	26%
Consumption breakdown of GDP (2011)	
Private consumption	53%
Government expenditure	14%
Real investment	16%
Net exports of goods and services	13%
International receipts as % of GDP (2011)	
Remittances	8%
Foreign Direct Investment	4%

Source: World Bank Development Indicators, 2008-2012; Central Bank of Nigeria, 2011; International Trade Centre, 2012

$2.1bn

of value added to the Nigerian economy in 2012

40%

of Nigeria's GDP stems from exports

As Exhibit 15 shows, Nigeria has experienced rapid GDP growth throughout the past decade and, unlike most countries around the world, did not experience a recession during the global financial crisis of 2008–2009, mainly thanks to the Government's macroeconomic and financial reforms. Recent economic growth has been largely driven by non-oil sectors.

Exhibit 15

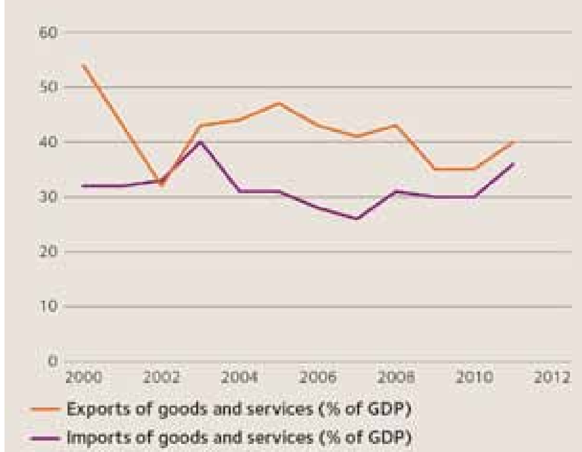
ANNUAL GDP GROWTH[24]

Exhibit 16 shows that in terms of international trade, Nigeria's imports and exports have been relatively stable over the past decade with a current account surplus throughout that period. But with oil production suffering from theft and price volatility, imports are growing at a faster rate, thereby decreasing the current account surplus.

Paper manufacturer Veepee Industries is one company that has been helped by Standard Chartered's financing

Exhibit 16

IMPORT AND EXPORT FROM AND TO NIGERIA AS A PERCENTAGE OF GDP



[24] World Bank Development Indicators

Table 5 shows the importance of oil revenues for the country, with the extraction sector accounting for 95 per cent of exports, while the bulk of remaining exports are services such as transportation and travel. The country mainly imports manufactured goods, which make up nearly half of all imports, while oil products, ironically, make up a growing percentage of total imports. There are plans for a large-scale refinery to try to combat this.

The country's agricultural sector has struggled to deal with a growing population, so food imports are also growing. Nigeria now spends $2.8 billion (more than 1 per cent of GDP) annually on food imports despite banning imports of products such as rice, beef, pork, and cocoa.

Despite the fact that Nigeria is an important trading partner for West African countries, exports to these countries represent only about 10 per cent of its total exports. Imports from other African countries are limited, representing less than five per cent of total Nigerian imports.

TABLE 5: TRADE FLOWS BY MAIN COMMODITY AND TRADE PARTNER

MERCHANDISE IMPORTS			
Main commodity	in %	Main origin	in %
Agriculture	6%	China	15%
Extraction	13%	India	4%
Industry	46%	Africa	5%
Services	34%	Europe	27%
		Rest of the World	49%

MERCHANDISE EXPORTS			
Main commodity	in %	Main origin	in %
Agriculture	1%	China	2%
Extraction	95%	India	10%
Industry	1%	Africa	10%
Services	3%	Europe	29%
		Rest of the World	48%

Source: International Trade Centre, 2012

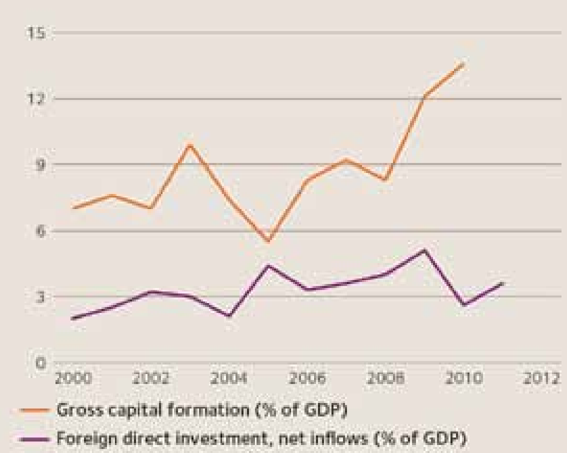
Nigerian businesses consider their biggest obstacle to be access to electricity, followed by access to finance and transportation, according to the Enterprise Survey from the International Finance Corporation (part of the World Bank). This highlights one of the country's biggest problems, as the power sector has been in crisis for many years. At least half of Nigerians have no connection to the grid, while the average power consumption per head is just 155kWh a year, among the lowest in the world. Although Nigeria is the world's fifth-largest oil producer, its per capita electricity consumption is 7 per cent that of Brazil, and 3 per cent that of South Africa's.

Exhibit 17 shows the amount of foreign direct investment to Nigeria, and the gross fixed capital formation (GFCF). This indicates how the value of fixed assets owned by businesses and households has increased over time or how new value added in the economy is invested rather than consumed. The GFCF figure of 14 per cent is well below the average of 21 per cent for Sub-Saharan Africa.

Nigeria receives the largest amount of foreign direct investment (FDI) among the African countries[25], concentrated in the oil and gas sector. As the graph shows, FDI doubled between 2000 and 2008 but has since slowed down.

Exhibit 17

GROSS FIXED CAPITAL FORMATION AND FOREIGN DIRECT INVESTMENTS[26]



[25] FDI Overview, Nigeria http://www.corporate-nigeria.com/index/fdi/foreign_direct_investment_overview.html

[26] World Development Indicators

Standard Chartered's impact on Nigeria

6.2 Nigeria's financial sector

Nigeria has built a relatively well-developed and stable financial system as a result of significant reforms undertaken over the past decade. The system is dominated by commercial banks, which control more than 90 per cent of all financial assets. There are 20 commercial banks in the country, of which the largest six hold more than 60 per cent of all bank assets. Unlike in many other developing countries, foreign banks are relatively small players, with 10 per cent of total banking assets.

Banking is by far the most developed part of Nigeria's financial infrastructure. The stock market's capitalisation is small (12 per cent of GDP) and concentrated (the largest company represents 25 per cent of the total), while only a handful of new firms have listed since the financial crisis. Similarly, the insurance sector is tiny and stagnant at less than one per cent of GDP. According to the International Monetary Fund, the Nigerian banking system is well capitalised, liquid and profitable and able to withstand systemic shocks. However, some banks were under pressure during the 2008–2009 financial crisis, and the Central Bank of Nigeria intervened to inject liquidity into the system and to replace bank management in ten cases. The bank has made a number of regulatory changes since the financial crisis aimed at strengthening the financial system.

Table 6 shows that just 8 per cent of loans are for retail customers, illustrating the banking system's commercial focus.

TABLE 6: SECTORAL DISTRIBUTION OF DOMESTIC AND FOREIGN LOAN AMOUNTS

Sector	Gross loans in $ million	% of total
Agriculture	3,624	4%
Mining & Quarrying	18,326	22%
Manufacturing	14,909	18%
Utilities	932	1%
Building & Construction	0	0%
Transport & Communication	17,912	21%
Wholesale & Retail	11,182	13%
Tourism, Restaurants, Hotels	0	0%
Real Estate	6,419	8%
Financial Services	4,245	5%
Personal/Household	7,040	8%
Total	84,589	100%

Source: Central Bank of Nigeria, 2011

With the deployment of its ATMs around the country, Standard Chartered has helped to transform retail banking in Nigeria

6.3 Standard Chartered's activities in Nigeria

Nigeria is Standard Chartered's largest franchise in Africa by revenues. The bank began its Nigeria operations in 1894 as the Bank of British West Africa Limited, which merged with the Standard Bank of South Africa in 1965. The name was then changed to the Standard Bank of West Africa. Four years after the merger, Standard Bank Nigeria (later renamed First Bank of Nigeria) was incorporated locally to take over the business in Nigeria. Standard Chartered remained a shareholder in First Bank of Nigeria until 1996, when it disposed of its shares. The bank re-entered Nigeria in 1999 as a wholly owned subsidiary of Standard Chartered Plc.

Standard Chartered Nigeria has approximately 56,000 retail customers, 9,000 SME clients and more than 700 wholesale clients. Although wholesale banking is still the largest business, it is increasing its retail and SME financing considerably. The bank currently operates 40 branches. The bank's share of the domestic market is about 2 per cent. The bank currently employs some 825 people, and has an additional 250 contract staff.

Standard Chartered Nigeria is seen as a 'bankers' bank' that is able to provide highly structured and international deals due to its international presence and deep skill base. The bank has partnered with PwC to provide training for local entrepreneurs in basic financial management and accounting to make their businesses stronger.

The bank's skills and international expertise contribute to the overall development of the Nigerian financial sector. For example, in 2012 it organised a training session for 25 top officials of the Central Bank of Nigeria on derivative products and risk management. The bank also worked closely with the Central Bank of Nigeria in drafting policy guidelines on derivatives for banks as part of a working group on new product development.

6.4 Impact on growth and jobs in Nigeria

6.4.1 Total impact

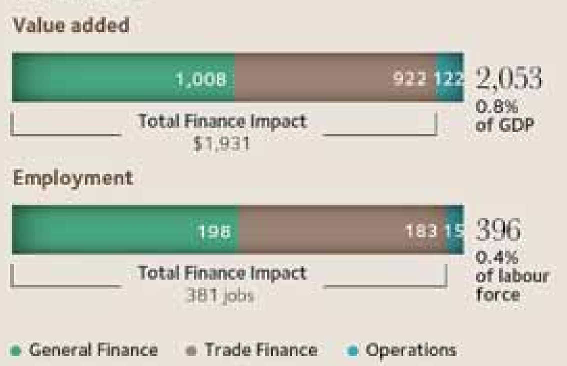
Standard Chartered's operations in Nigeria and its lending to companies and individuals support employment and add value across the country. The outstanding loan portfolio was worth over $2.2 billion at the end of 2012, with 79 per cent financed locally, and the rest internationally. In 2012, Standard Chartered added $2.1 billion of value to the Nigerian economy, representing 0.8 per cent of GDP[27], while 396,000 jobs are related to the bank's activities, equal to 0.4 per cent of the Nigerian labour force. These relative figures are smaller compared with Kenya, Zambia and Ghana, reflecting the bank's smaller market share in Nigeria, due to its shorter history in the country since nationalisation. The reason why the relative value added supported by the bank's activities is higher than the amount of relative employment is that the businesses that Standard Chartered lends to are more productive than the average Nigerian firm, generating more value added with less labour.

Exhibit 18 shows the economic impact from the bank's activities in Nigeria, a split between impact associated with general finance and trade finance, and impact from its own operations. While, as the exhibit shows, the bank's loan portfolio is split evenly between general and trade finance, the impact from trade finance is slightly larger. Trade finance supports tradable goods and services directly, but for general finance the extent to which output, and therefore value-added impact are supported, depends on the capital intensity of the companies that are financed. Trade finance also supports marginally more jobs than general finance. This is due to the labour-intensive nature of transport and trading.

With a fast growing middle class with increased disposable income, prospects for retailers in Nigeria are looking very bright

Exhibit 18

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED NIGERIA'S OPERATIONS, LOCAL AND INTERNATIONAL FINANCE BY TYPE (VALUE ADDED IN $ MILLION AND JOBS IN '000)



396,000

jobs are associated with the bank's financing activities

[27] This is in line with what one would expect given that the bank's assets make up 2 per cent of total country assets and the total private credit to domestic GDP ratio is 21 per cent. This suggests that Standard Chartered's share of GDP would be 0.5 per cent. When counting only the local finance impact the share is 0.6 per cent

$122m

economic impact from the bank's own operations

As well as its lending activities, Standard Chartered's own operations have an economic impact through activities such as employing workers and managers, paying salaries and taxes, generating local profits and procuring goods and services from local suppliers. This effect is worth $122 million to Nigeria's economy, over two-thirds of which is generated directly, reflecting the fact that banks require little in terms of goods and services to run their operations.

Exhibit 19 shows how value added is created and how the bank supports employment. While most value added is supported directly by Standard Chartered and its clients, most employment is supported indirectly by the suppliers and suppliers' suppliers as a result of leverage[28] and re-spending effects of salaries[29]. This is in line with what one would expect given that Standard Chartered's direct clients tend to be more productive than the average Nigerian firm.

Exhibit 19

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED BY STANDARD CHARTERED NIGERIA'S OPERATIONS, LOCAL AND INTERNATIONAL FINANCING BY ROUND OF IMPACT (VALUE ADDED IN $ MILLION AND JOBS IN '000)

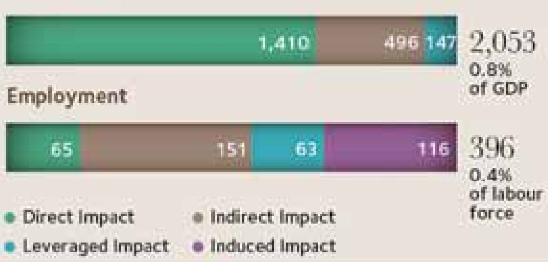


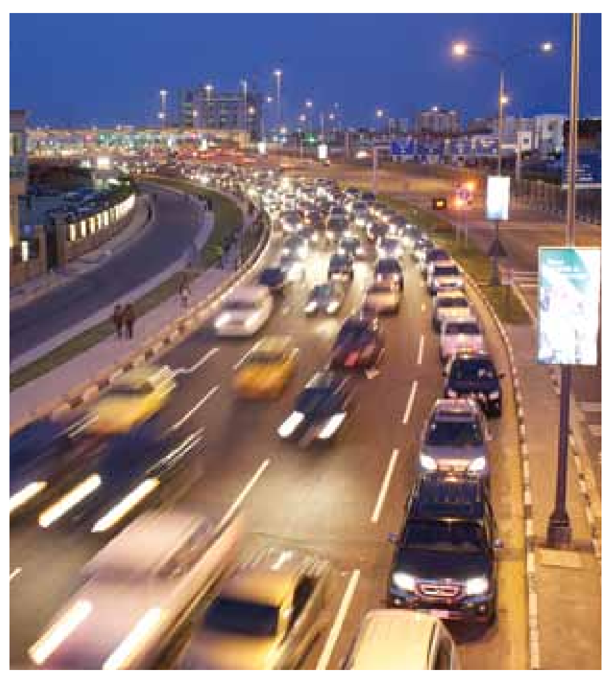
Table 7 shows the ways through which Standard Chartered's financing transforms into value added. The bulk of this value added is in the form of increased salaries and household income. The bank was also responsible for 1.3 per cent of Nigeria's total tax revenue in 2012[30], with $50 million of the $401 million of tax revenues paid directly by Standard Chartered Nigeria, mainly in the form of corporate income tax and payroll taxes withheld on behalf of the bank's employees.

TABLE 7: VALUE ADDED ASSOCIATED WITH STANDARD CHARTERED NIGERIA BY COMPONENT (IN $ MILLION)

Component	Value added	% of total value added
Household income	$1,100 million	54%
Profits and savings	$552 million	27%
Tax income	$401 million	20%

6.4.2 Impact per economic sector

Exhibit 20 shows the economic sectors on which Standard Chartered has the greatest impact. About 38 per cent of Standard Chartered Nigeria's loan portfolio is in manufacturing, but the sector represents just 22 per cent of the value that the bank adds, because of reliance on imports. Labour is used more intensively in agriculture and wholesale and trade, which explains the large employment in these sectors versus a smaller amount of value added. The substantial number of jobs associated with Standard Chartered in the transport sector is due to the large exposure to trading firms where transportation, which is labour intensive, is one of the only activities performed in Nigeria itself. Standard Chartered Nigeria does not have a large exposure to the extraction sector despite its importance to the Nigerian economy, forming only 11 per cent of the bank's portfolio. Unsurprisingly, the supported employment in that sector is very small relative to the value added.



Lagos is the financial capital of the most populous nation on the continent

[28] Leverage effects capture the impact related to spending enabled by bank loans/mortgages that individuals obtained as a result of earning salaries from Standard Chartered and its clients and their suppliers

[29] When salaries are being re-spent additional employment is created which must be counted. The salaries themselves are included in the direct and indirect impact and hence there is no equivalent induced value added

[30] Total tax revenue in 2012 was NGN 5 trillion or $32 billion (Source: Federal Inland Revenue Service, Nigeria)

Exhibit 20

TOTAL VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED NIGERIA'S OPERATIONS, LOCAL AND INTERNATIONAL FINANCE PER SECTOR (VALUE ADDED IN $ MILLION AND JOBS IN '000)

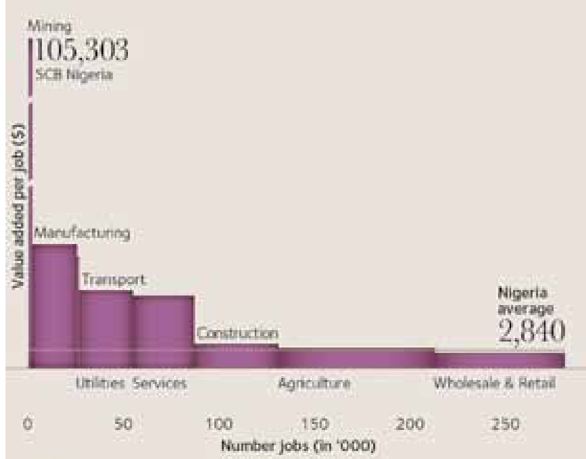
By comparing the two horizontal bars from Exhibit 20 we can see the value added per job, which shows the quality of employment associated with Standard Chartered in various sectors.

This is also shown in Exhibit 21. Not surprisingly, the extraction sector and Standard Chartered itself have the most value added per job, as these are very capital-intensive activities. The jobs that are supported in the agricultural and wholesale and retail sectors are much less productive. Although agriculture and wholesale and retail have the lowest value added per job, Standard Chartered's value added for this sector is close to the average for the whole of Nigeria. This is noteworthy, as in the rest of the country these sectors are well below the Nigerian average, and shows that the bank is associated with the more productive companies in each sector.

Standard Chartered has helped Soul Mate, a Nigerian hair care product provider, to grow its business

Exhibit 21

VALUE ADDED PER JOB ASSOCIATED WITH STANDARD CHARTERED NIGERIA IN THE VARIOUS SECTORS (IN $ MILLION)



*Number of jobs exclude induced jobs

0.4%

of Nigerian labour force associated with Standard Chartered's financing activities

Exhibit 22

Pathways of how Standard Chartered Nigeria's finance (coloured) helps create intermediate demand (green) and ultimately value added (light blue).

Size of bubbles indicates value added supported in sector. Small intermediary demand and within each sector demand are not shown for clarity.

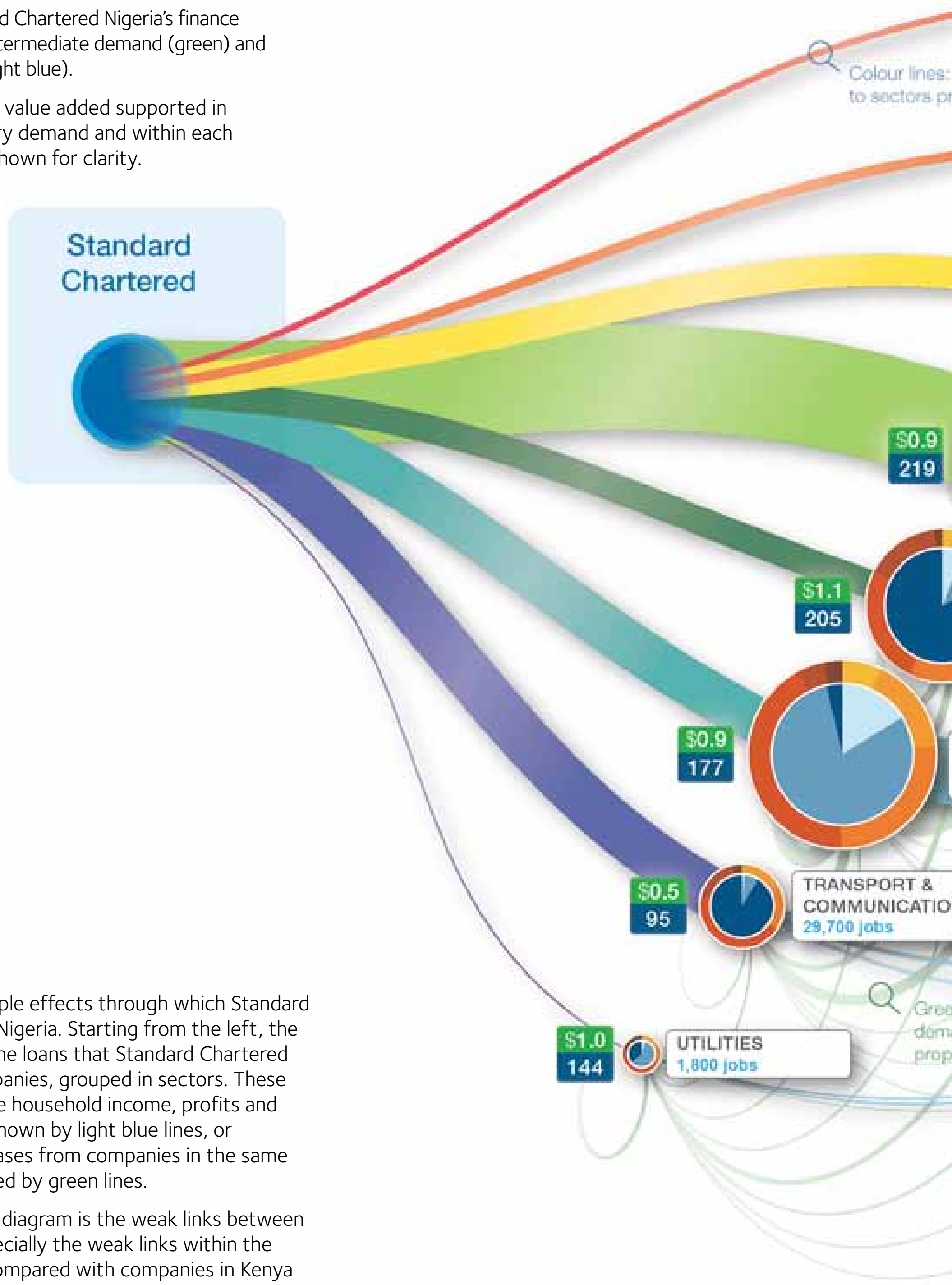
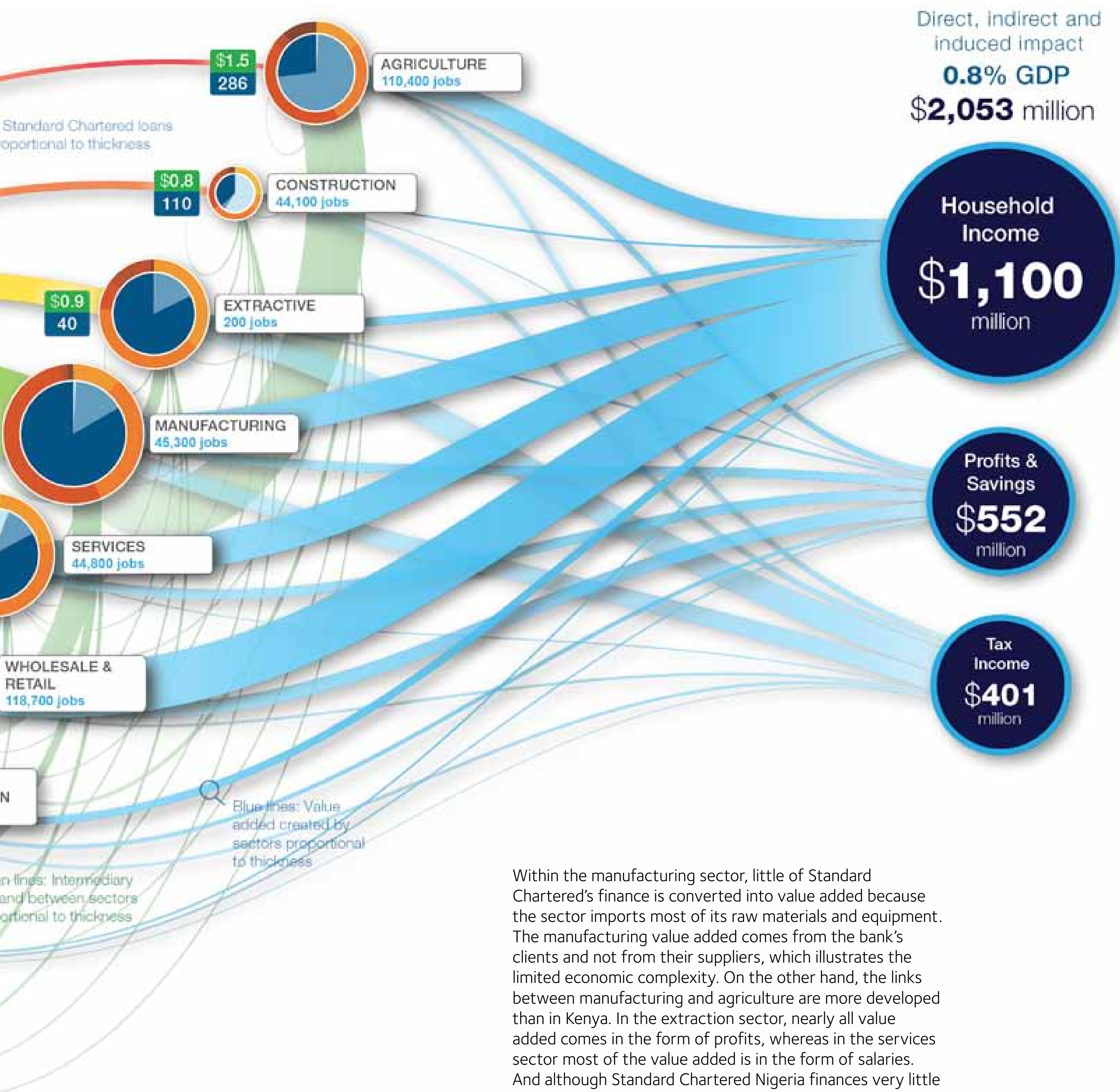


Exhibit 22 shows the ripple effects through which Standard Chartered adds value in Nigeria. Starting from the left, the dark blue lines indicate the loans that Standard Chartered Nigeria provides to companies, grouped in sectors. These companies then generate household income, profits and taxes directly, which is shown by light blue lines, or indirectly through purchases from companies in the same or other sectors, indicated by green lines.

A striking feature of this diagram is the weak links between the various sectors, especially the weak links within the manufacturing sector, compared with companies in Kenya in Section 8.4. This shows the limited complexity of the Nigerian economy. Rather than inter-linkages between sectors, many companies in Nigeria are vertically integrated, resulting in strong intra-firm links as shown in the case study below on Parco Group. Although from a company point of view, vertical integration reduces operational risk, the sub-scale and complex operations that come with this type of growth are holding back Nigeria's economy. Economic complexity is a good indicator for future growth at country level, but complexity within a firm can lead to below-potential growth.



Within the manufacturing sector, little of Standard Chartered's finance is converted into value added because the sector imports most of its raw materials and equipment. The manufacturing value added comes from the bank's clients and not from their suppliers, which illustrates the limited economic complexity. On the other hand, the links between manufacturing and agriculture are more developed than in Kenya. In the extraction sector, nearly all value added comes in the form of profits, whereas in the services sector most of the value added is in the form of salaries. And although Standard Chartered Nigeria finances very little agriculture directly, because other sectors (notably manufacturing) source agricultural inputs, the agricultural sector creates indirect value added, mostly in the form of salaries.

2.3%

of total Nigerian imports supported by the bank if letters of credit confirmations are included

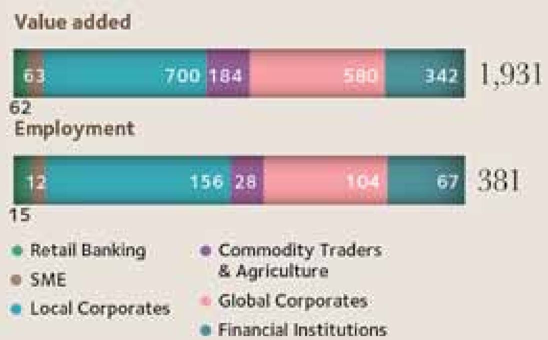
6.4.3 Impact per customer segment

As described above, wholesale banking accounts for the majority of Standard Chartered's business in Nigeria. This is different from the other countries in this report, reflecting in part the much shorter history of local operations.

Exhibit 23 shows how Standard Chartered supports value added and jobs by type of company. The bank supports most value added and jobs through its financing of local corporates, traders and agricultural businesses, global corporates and financial institutions. The bank's impact on small businesses is small when compared with Kenya and Zambia. Apart from the small size of the current portfolio, this is explained by the fact that Nigerian SMEs are bigger and have better access to capital than in other countries. Standard Chartered's strategy is to increase its exposure to SMEs, which have the largest marginal impact.

Exhibit 23

VALUE ADDED AND EMPLOYMENT PER CUSTOMER SEGMENT (VALUE ADDED IN $ MILLION AND JOBS IN '000); IMPACT OF STANDARD CHARTERED OPERATIONS NOT INCLUDED



6.5 Impact on trade

Nigeria has a positive trade balance, mostly due to the revenues from oil exports. Most of these exports are not supported by trade finance, and Standard Chartered's share of exports that are supported is smaller in both absolute and relative terms compared to imports. This is shown in Exhibit 24: Standard Chartered's $318 million contribution to exports is equivalent to 0.3% of Nigeria's total exports whereas the supported imports worth $1,058 corresponds to 1.6% of the country's total imports.

When letter of credit confirmations[31] are included, the bank's share of supported imports increases by $407 million to 2.3 per cent of total Nigerian imports. Although no exact figures are available, it is estimated that about 75 per cent of Africa's trade is facilitated by trade finance, so Standard Chartered's share of that is larger than its 2 per cent market share in the banking sector.

Exhibit 24

BALANCE OF PAYMENTS OF NIGERIA 2012 (IN $ MILLION)[32] AND VISUALISATION OF THE EXPORT AND IMPORT FLOWS SUPPORTED BY STANDARD CHARTERED

[31] Letters of credit issued by other Nigerian banks confirmed by Standard Chartered branches outside Nigeria

[32] Central Bank Nigeria 2012 data

Exhibit 25 analyses the trade supported by the bank by trade corridor. Standard Chartered Nigeria is associated with 7 per cent of all Nigerian imports from India and 4 per cent of imports from other African countries. This emphasises how the bank's local and global presence enables it to act as an efficient intermediary.

Exhibit 25

IMPORT AND EXPORT SUPPORTED BY STANDARD CHARTERED NIGERIA (IN $ BILLION)

Standard Chartered has an impact on Nigeria's financial sector through its employee recruitment and training programmes

Parco Group – A trader becomes a manufacturer

Parco Group (PG) was established in the 1960s and has been operating in Nigeria since the 1970s. Parco started by trading bicycle parts evolving into trading industrial chemicals and steel. The company then started to manufacture industrial chemicals, gases and flat glass, and moved into converting scrap steel into reinforcing bars, a product in which it has about 25 per cent market share in Nigeria. With increasing competition, the availability of scrap steel is becoming tighter and the company is now exploring several options to mine iron ore. The company has also moved into power generation. Currently, its installed generating capacity base is 102 MW, most of which is being fed into the grid. PG has plans to increase its generating capacity to 750 MW (about 20 per cent of Nigeria's power generating capacity installed base). Its 2012 revenue was $600 million and it employed 3,000 people.

Standard Chartered Nigeria has supported PG with $60 million for financing imports, local working capital, term loans and guarantees, as well as in Dubai, $90 million for imports and overdraft. PG acknowledged that the partnership with Standard Chartered Nigeria helped the company through customised products, better possibilities for dollar financing, and expertise which helped PG overcome difficult trading environments. Manufacturing is mainly financed with equity and debt from a wide array of institutions, including Development Finance Institutions.

Standard Chartered Nigeria is also assisting PG to expand into other West African countries where Standard Chartered has operations, by seeking clients of the bank as potential distributors and buyers for PG products.

7/Standard Chartered's impact on Zambia

With 15 per cent of the nation's banking assets, Standard Chartered is an important financial player in Zambia

Standard Chartered's expertise in agricultural financing is helping Zambeef to expand overseas

- Standard Chartered Zambia supports $953 million of value-added, equivalent to 4.6 per cent of GDP
- The bank supports 147,000 jobs, equivalent to 2.7 per cent of Zambia's labour force.

7.1 The Zambian economy

The Zambian economy has experienced rapid growth over the past decade, doubling its GDP to $21 billion between 2000 and 2012. In 2011, GDP growth was 6.8 per cent, rising to 7.3 per cent in 2012[33]. Drivers for this growth include rising copper output, higher copper prices, improved agricultural productivity, and government spending on infrastructure and local power generation capacity. Zambia's GDP per head has risen by 80 per cent since 2000 to $1,469 in 2012 (see Table 8), which is slightly higher than the average in Sub-Saharan Africa[34].

Zambia's economy has traditionally been characterised by its dependence on the production and export of copper, which exposes it to economic volatility through price changes. Although the country has prioritised diversifying its economy in recent years, this dependence on copper has continued.

Wealth inequality is a large issue with the richest 10 per cent of the population accumulating 47 per cent of the total income. At current economic and poverty growth rates, it will take Zambia an estimated 28 years to reach upper middle income status as defined by the World Bank[35]. Poverty remains a problem, and Zambia ranks just 163rd in the world according to the Human Development Indicator, indicating that economic improvements have yet to feed into better conditions for its population.

TABLE 8: KEY INDICATORS OF THE ZAMBIAN ECONOMY 2012 (MINING IS INCLUDED IN INDUSTRY)

Indicator	Economy Zambia
Official population estimate	14 million
Size of workforce	5.4 million
Nominal Gross Domestic Product (GDP)	$21 billion
GDP per capita	$1,469
Trade as % of GDP	
Exports as % of GDP	47%
Imports as % of GDP	43%
Government tax revenues as % of GDP	17%
Sectoral breakdown of GDP (2011)	
Agriculture	20%
Industry	37%
Services	43%
Consumption breakdown of GDP (2011)	
Private consumption	49%
Government expenditure	18%
Real investment	23%
Net exports of goods and services	4%
International receipts as % of GDP (2011)	
Remittances	0.4%
Foreign Direct Investment (2011)	10%

Source: World Bank Development Indicators, 2011-2012; Bank of Zambia, 2012; Zambia Labour Force Survey, 2012

According to the International Growth Centre's Enterprise Map of Zambia,[36] many of the leading firms in the country were set up by long-standing trading companies. The phenomenon of traders becoming manufacturers plays a key role not only in Zambia but elsewhere in Sub-Saharan Africa and underscores the relevance of trade for development. Zambia ranks 105th for economic complexity[37] in the world, reflecting its dependence on copper, but is more or less at par with many other African countries. The country is vulnerable to depressed commodity prices and royalties as a source of public income.

80%

rise in Zambia's GDP per head since 2000

33 Bank of Zambia (BOZ) Annual Report

34 Excluding South Africa World Bank Development Indicators, 2012

35 Upper middle income is defined as a Gross National Income per capita of $4,086

36 An Enterprise Map of Zambia, John Sutton and Gillian Langmead, International Growth Centre, 2013

37 http://atlas.media.mit.edu/rankings

60%

increase in the value of exports as a percentage of GDP in the last decade

Exhibit 26

ANNUAL GDP GROWTH[38]

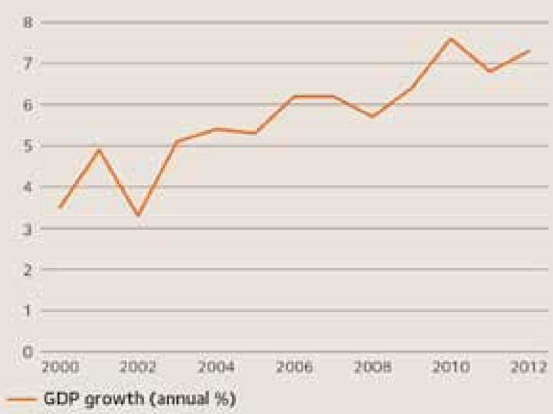
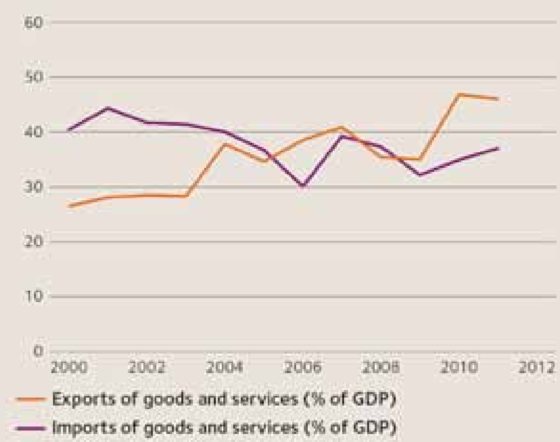


Exhibit 27

IMPORT AND EXPORT TO AND FROM ZAMBIA AS A PERCENTAGE OF GDP



The value of exports as a percentage of GDP has increased over the past decade by almost 60 per cent, and now comprises nearly half of national income. At the same time, the share of imports decreased from 40 per cent of GDP in 2000 to 37 per cent in 2011 . The growth in export value was partly related to increasing commodity prices worldwide, and could reduce if commodity prices maintain their downward trajectory. Other sources of export revenue, however, include manufactured goods such as metals and related products, chemicals, textile fibres and tobacco. Zambia now runs a current account surplus because of the opposite paths of imports and exports.

Zambia's exports are concentrated in terms of both the products and the firms involved. The most important export product for the nation is copper, which accounted for about three-quarters of Zambia's export earnings in 2011[39]. About 15 firms account for over 80 per cent of Zambia's export earnings. While Kenya mostly imports from outside Africa and then exports its product to other African countries, for Zambia the situation is reversed. This is because Zambia's demand for gold content and cobalt ores to be further processed and/or exported can be supplied by Africa's well-developed mining sector in South Africa and the Democratic Republic of Congo, while the country's mining exports go to Europe and China.

[38] Source: World Bank Development Indicators

[39] An Enterprise Map of Zambia, John Sutton and Gillian Langmead, International Growth Centre, 2013

TABLE 9: TRADE FLOWS BY MAIN COMMODITY AND TRADE PARTNER

MERCHANDISE IMPORTS			
Main commodity	in %	Main origin	in %
Agriculture	2%	China	10%
Extraction	22%	India	3%
Industry	65%	Africa	57%
Services	11%	Europe	10%
		Rest of the World	20%

MERCHANDISE EXPORTS			
Main commodity	in %	Main origin	in %
Agriculture	6%	China	19%
Extraction	75%	India	1%
Industry	15%	Africa	29%
Services	4%	Europe	48%
		Rest of the World	4%

Source: Bank of Zambia, 2012; International Trade Centre, 2012

While Zambia's economic performance is strong, it does face challenges. According to the Enterprise Survey[40] of the International Finance Corporation (part of the World Bank Group), the major obstacles to doing business in Zambia are high tax rates, followed by the practices of companies in the informal sector and access to finance.

Exhibit 28

GROSS FIXED CAPITAL FORMATION AND FOREIGN DIRECT INVESTMENT

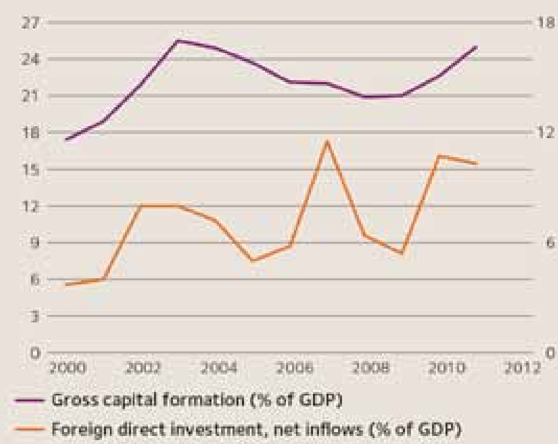


Exhibit 28 shows Zambia's gross fixed capital formation, which is the rate at which the country accumulates physical assets, as well as net foreign direct investment (FDI) inflows to Zambia. While domestic capital formation is healthy at nearly a quarter of GDP, Zambia's FDI is largely in the extraction sector. The country needs to diversify the nature of its FDI and import technology and skills to increase their productivity and per capita income.

[40] IFC Enterprise Surveys http://www.enterprisesurveys.org/Data/ExploreEconomies/2007/Zambia

$953m

of value added supported by Standard Chartered in Zambia

7.2 Zambia's financial sector

Zambia has a small financial sector and financial intermediation remains low as a share of GDP. Domestic credit to the private sector is 19 per cent, which is lower than Nigeria and Kenya but comparable to countries such as Uganda and Tanzania. The country has 19 commercial banks, 13 of which are foreign-owned, two partially government-owned and four locally-owned. The single largest bank remains the Zambia National Commercial Bank (Zanaco). In terms of asset and deposit size, the banking sector is dominated by Standard Chartered, Zanaco, Barclays and Stanbic, which account for about 62 per cent of the banking sector's total assets and liabilities, respectively. In terms of profitability, Standard Chartered accounts for the largest proportion of industry profitability at 29.5 per cent, compared with Zanaco at 19.1 per cent, Barclays Bank at 18.1 per cent, Stanbic Bank at 12.7 per cent and Citibank at 10 per cent. All banks meet the local minimum capital requirements and the sector is adequately capitalised. The Central Bank of Zambia has developed a credit bureau and financial constraint may be eased by the provision of more information about borrowers. Access to finance is becoming cheaper, which could fuel economic growth. The commercial banks have decreased their average nominal lending rate which was 16.1 per cent at the end of 2012, compared with 23.6 per cent 12 months earlier[41]. Zambia issued its first Eurobond in 2012, reflecting its strong growth. The proceeds of this are being used for capital spending.

TABLE 10: SECTORAL DISTRIBUTION OF DOMESTIC AND FOREIGN LOAN AMOUNTS

Sector	Gross loans in $ million	% of total
Agriculture	1,371	23%
Mining & Quarrying	344	6%
Manufacturing	685	11%
Utilities	124	2%
Building & Construction	226	4%
Transport & Communication	277	5%
Wholesale & Retail	381	6%
Tourism, Restaurants, Hotels	118	2%
Real Estate	146	2%
Financial Services	113	2%
Personal/Household	2,305	38%
Total	6,090	100%

Source: Bank of Zambia, 2011-2012

7.3 Standard Chartered's activities in Zambia

Standard Chartered Bank Zambia is a public company that was incorporated in 1971 when it took over the business of Standard Bank Limited, which had operated in Zambia since 1906, making it the oldest financial institution in the country. Standard Chartered is the only international bank listed on the local stock exchange. The bank is present in six of Zambia's ten provinces with 24 branches in Southern, Lusaka, Western, North Western, Northern and Copperbelt provinces and employs over 700 people. The bank's market share is 15 per cent of banking assets.

In 2012, the bank's wholesale banking business grew its onshore investment securities and customer loan book by 16 per cent and 10 per cent respectively, achieving revenue growth of 29 per cent. Wholesale banking continues to play a significant role in the mining and agricultural sector and is increasing its focus in government and energy sectors.

Standard Chartered in Zambia is as much a retail bank as a corporate one. It serves approximately 100,000 retail customers, 8,000 SME clients and 300 wholesale clients, including many of the country's largest businesses. The focus is to remain the market leader by providing exceptional customer service and being the main digital bank.

7.4 Impact on growth and jobs in Zambia

On 31 December 2012, 23 per cent of the bank's total exposure was to consumer finance, comprising retail and SME clients, and 76 per cent was to wholesale clients. The remaining 1 per cent of the loan portfolio was exposed to financial institutions. While Standard Chartered is often perceived as a bank supporting multinational companies, only some 30 per cent of its finance is provided to global corporates. Slightly more of the finance provided by Standard Chartered (which includes international finance) is trade finance than general finance, split 53 per cent and 47 per cent respectively. The bank's quantified economic impact on Zambia is shown below.

7.4.1 Total impact

Through its financing and operations Standard Chartered Zambia supports a total of $953 million in value added. This is equal to 4.6 per cent of GDP, of which the local finance contribution is about 2.4 per cent[42]. Total employment related to the bank's activities is 147,000 jobs, or nearly 2.7 per cent of Zambia's total labour force. The reason the supported value added is relatively more than the supported employment is because the bank lends to the more productive businesses in Zambia, which generate more value added with relatively little labour.

41 Bank of Zambia Annual Report

42 This is in line with what one would expect given that the bank's assets make up 15 per cent of total banking sector assets and the total private credit to domestic GDP ratio is 19 per cent. This suggests that Standard Chartered's is associated with 2.9 per cent of GDP

As explained in detail in Chapter 4, Standard Chartered also underwrites large deals. If we were also to consider the underwritten loans of $75 million, the supported value added would increase by $66 million to $1,019 million and the employment supported would increase by 9,500 jobs impact associated with Standard Chartered through the financing it actually provided.

Exhibit 29 depicts the total value added and employment related to Standard Chartered Zambia's local and international general finance, trade finance and own operations.

Exhibit 29

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED'S OPERATIONS, FINANCE BY TYPE (VALUE ADDED IN $ MILLION AND JOBS IN '000)

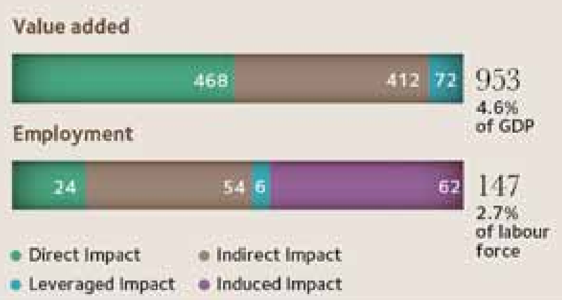
The economic impact of general and trade finance is $877 million and is more or less evenly split between these two. Standard Chartered Zambia's own operations support $76 million of value added, of which $52 million is supported directly. Some $30 million of impact from operations comes from direct tax payments by Standard Chartered Zambia, indicating that about a quarter of all tax payments related to Standard Chartered's finance is paid by the bank itself (see Table 11).

Of these 147,000 jobs, the bank's own operations support about 6,000 jobs, including 706 bank employees with the remainder stemming from Standard Chartered's local procurement of goods and services and re-spending of salaries.

Exhibit 30 breaks down the total value added and employment in terms of direct and indirect impact. Most of the value added is directly related to Standard Chartered and its clients and most of the employment is indirectly related which again shows that indirect suppliers tend to be less efficient than firms that use more labour, including workers from the informal sector. Almost half of the total employment arises through people re-spending salaries earned (induced impact) and people borrowing money against those salaries, which increases their spending (leverage effect).

Exhibit 30

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED WITH STANDARD CHARTERED'S OPERATIONS, FINANCING BY ROUND OF IMPACT (VALUE ADDED IN $ MILLION AND JOBS IN '000)



Of the total value added, most accrues to households, with profits and savings being less than half of that and taxes half again of profits, as indicated in Table 11. The $123 million of tax revenues supported by Standard Chartered is equal to 3.5 per cent of total government tax income.

TABLE 11: VALUE ADDED ASSOCIATED WITH STANDARD CHARTERED ZAMBIA BY COMPONENT (IN $ MILLION)

Component	Value added	% of total value added
Household income	$560 million	59%
Profits and savings	$269 million	28%
Tax income	$123 million	13%

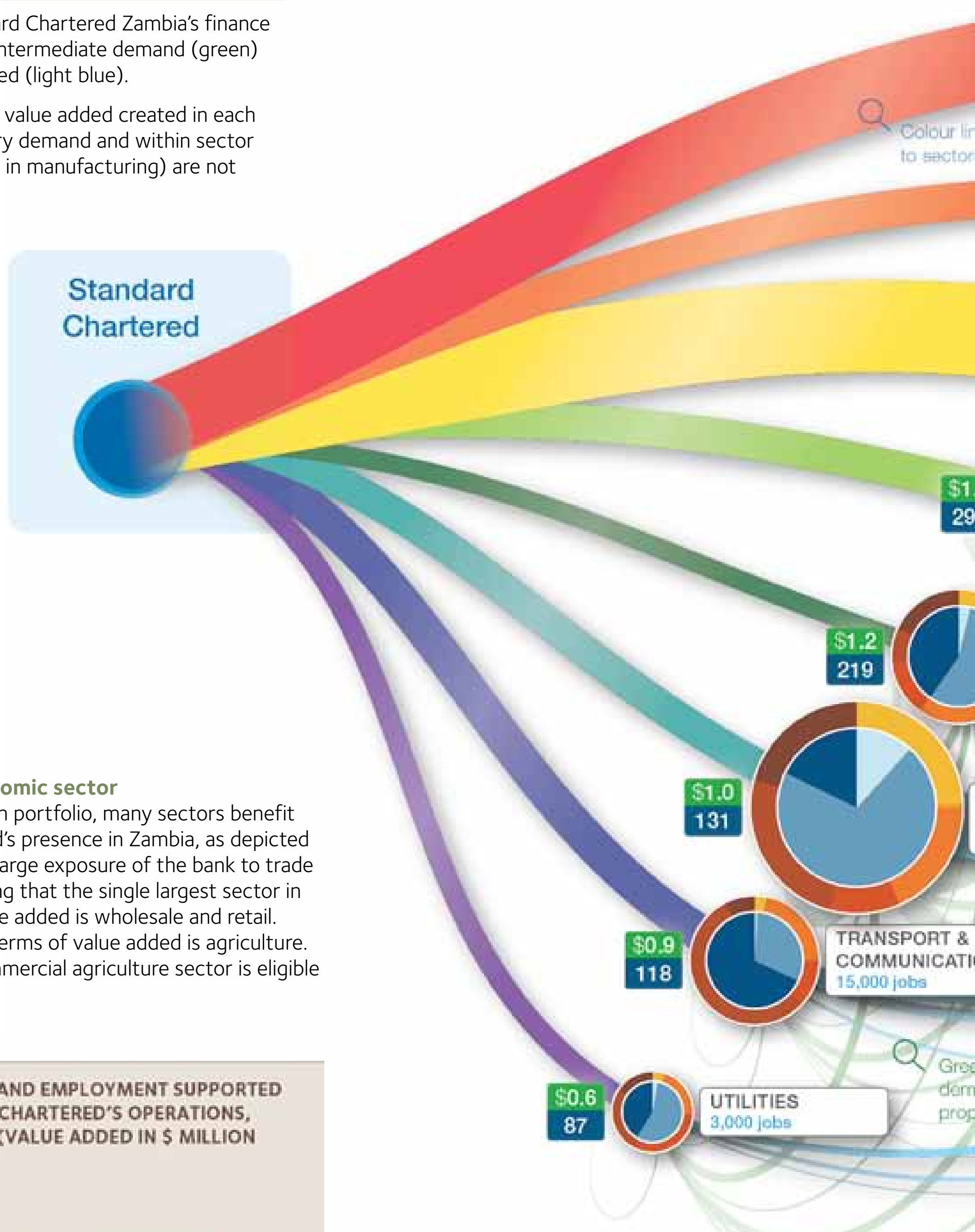
2.7%

of Zambia's labour force supported by Standard Chartered

Exhibit 33

Pathways of how Standard Chartered Zambia's finance (coloured) helps create intermediate demand (green) and ultimately value added (light blue).

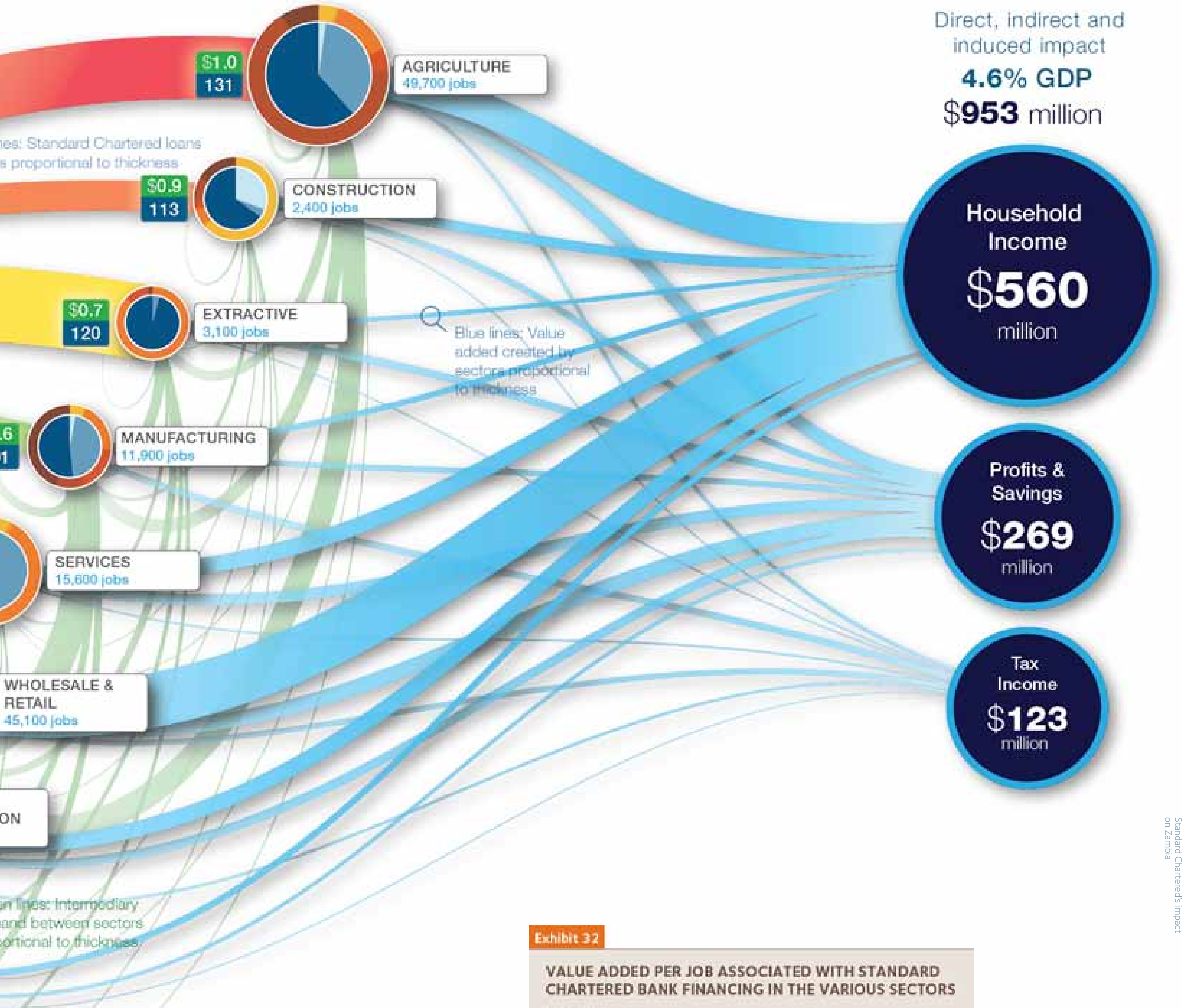
Size of bubbles indicates value added created in each sector. Small intermediary demand and within sector demand (especially large in manufacturing) are not shown for clarity.



7.4.2 Impact per economic sector

Due to its diversified loan portfolio, many sectors benefit from Standard Chartered's presence in Zambia, as depicted in Exhibit 31. Given the large exposure of the bank to trade finance, it is not surprising that the single largest sector in terms of associated value added is wholesale and retail. Another large sector in terms of value added is agriculture. Zambia's substantial commercial agriculture sector is eligible for bank financing.

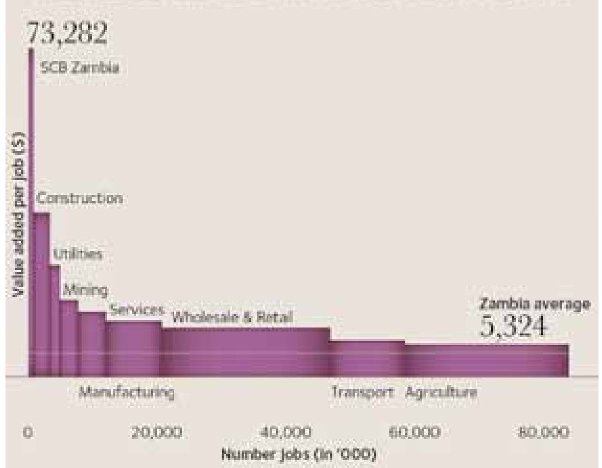
Exhibit 31



Comparing the two horizontal bars from Exhibit 31 provides insights into the quality of related employment. While many agriculture jobs are supported by Standard Chartered, these jobs generate less value added than jobs in more capital-intensive sectors such as utilities. Direct jobs at the bank generate a lot of value added as the bank is paying a substantial amount of taxes, makes a profit and pays high wages for its skilled workforce. In Zambia as a whole, a large number of jobs are below the Zambian average value added per job, especially in agriculture and wholesale and retail. The fact that all jobs associated with Standard Chartered finance are above the average stems from the fact that the bank finances the more productive and capital-intensive firms. Exhibit 32, shows the quality of employment in various sectors in terms of value added by job. Value added per employee in all sectors is at or above the Zambian average, illustrating that Standard Chartered Zambia is involved in financing the more productive part of the economy.

Exhibit 32

VALUE ADDED PER JOB ASSOCIATED WITH STANDARD CHARTERED BANK FINANCING IN THE VARIOUS SECTORS



*Number of jobs exclude induced jobs

The pathways through which Standard Chartered influences the Zambian economy are shown in Exhibit 33. The most striking feature is that, due to the labour-intensive nature of agriculture and wholesale and retail, most finance provided to these sectors translates into household income. Despite Zambia's relatively low economic complexity, the linkages between the wholesale and retail sector on the one hand and agriculture and manufacturing on the other are relatively well developed.

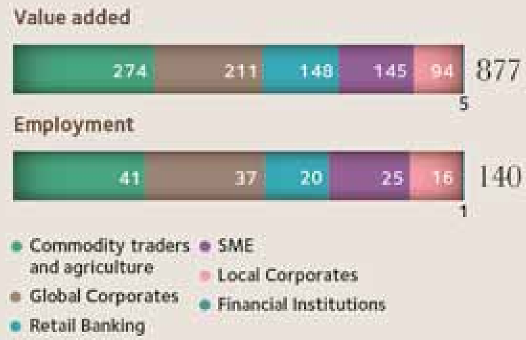
Zambia's substantial commercial agriculture sector generates significant value added

7.4.3 Impact per customer segment

Exhibit 34 shows Standard Chartered's impact broken down by various customer segments, while the impact of the bank's operations is omitted. Although only 5 per cent of Standard Chartered Zambia's exposure is to SMEs, the impact on value added and employment is more than three times larger than that. This reflects the fact that Zambian SMEs are smaller when compared with SMEs in Kenya and Nigeria, and more capital-constrained.

Exhibit 34

VALUE ADDED AND EMPLOYMENT PER CUSTOMER SEGMENT (VALUE ADDED IN $ MILLION AND JOBS IN '000)



7.5 Impact on trade

In Section 3 the relevance of trade to economic development was discussed. In Zambia, the trade flows related to Standard Chartered are 3.9 per cent of imports and also 2.2 per cent of exports. Taking into account the letters of credit issued by Zambian banks confirmed by Standard Chartered branches outside Zambia and the underwritten loans for Zambian clients, the impact on supported trade increases to 4.1 per cent for imports and to 2.5 per cent for exports.

Exhibit 35

BALANCE OF PAYMENTS IN ZAMBIA 2012 (IN $ MILLION)[43]

The majority of Zambian imports originate from within Africa. A significant fraction of this is the trade of minerals with the DRC and South Africa, where banks hardly play a role. Copper is the main export commodity from Zambia. The majority of copper is exported to Europe, making it the main destination for Zambian exports. Standard Chartered supports about 3 per cent of total Zambian exports. Although this is a relatively small contribution compared with the bank's market share, it is important to note that banks play a marginal role in copper exports. When excluding the copper trade from the exports (87 per cent), Standard Chartered's share of financing exports is well above 10 per cent.

Exhibit 36

IMPORT AND EXPORT SUPPORTED BY STANDARD CHARTERED ZAMBIA (IN $ MILLION)

Standard Chartered's impact on Zambia

[43] Central Bank Zambia 2012 data

8/Standard Chartered's impact on Kenya

With over 100 years of experience in Kenya, Standard Chartered is well placed to serve the most sophisticated Sub-Saharan African economy

With one of the largest ports at Mombasa, Kenya is the commercial, logistic and economic hub for East Africa

- Standard Chartered Kenya supports $2 billion of value-added, equivalent to 5.5 per cent of GDP
- The bank supports 323,000 jobs, equivalent to 2.9 per cent of Kenya's labour force

8.1 The Kenyan economy

Kenya's economy is among the largest and most complex in Sub-Saharan Africa and certainly the most highly developed market-based economy in the East Africa Community (EAC). With a non-inflation-adjusted 2012 gross domestic product (GDP) of $37 billion, it is also the economic, commercial, and logistical hub of the entire region. Kenya's 43 million inhabitants are relatively young, with 70 per cent of the population under the age of 35. Kenya enjoys a combination of advantages including a well-educated population and a strong entrepreneurial tradition. As a result, multinational companies consider Kenya to be a leading alternative location to South Africa when investing in the African continent. However, according to the World Bank, Kenya's GDP per capita of $840 in 2012 was some 40 per cent lower than the average for Sub-Saharan Africa (excluding South Africa), and about half of the population lives below the poverty line. With a Human Development Indicator ranking[44] of 145, Kenya is among the higher ranked Sub-Saharan African countries, behind Ghana but ahead of Nigeria. Income in Kenya is distributed unequally, with about 38 per cent of the total income received by the richest 10 per cent of the population.

TABLE 12: KEY INDICATORS OF THE KENYAN ECONOMY 2012

Indicator	Economy Kenya
Official population estimate	43 million
Size of workforce (2011)	11.3 million
Nominal Gross Domestic Product (GDP)	$37 billion
GDP per capita	$840
Trade as % of GDP	
Exports as % of GDP	26%
Imports as % of GDP	46%
Government tax revenues as % of GDP	22%
Sectoral breakdown of GDP (2011)	
Agriculture	27%
Industry	17%
Services	55%
Consumption breakdown of GDP (2011)	
Private consumption	87%
Government expenditure	12%
Real investment	20%
Net exports of goods and services	-26%
International receipts as % of GDP (2011)	
Remittances	2%
Foreign Direct Investment	1%

Source: World Bank Development Indicators, 2011-2012; Central Bank of Kenya, 2012; International Trade Centre, 2012

Economic growth in Kenya has increased through the last decade, despite the political crisis of 2007-2008, the global financial crisis of 2008-2009, droughts and public sector inefficiency. However, it has continuously lagged behind the average Sub-Saharan African growth rates. Growth is largely based on the private sector's ability to identify and exploit new niche markets such as horticulture and ICT[45]. Kenya's economy is more diversified than other economies in the region and in terms of economic complexity, Kenya's ranking, 73rd, is higher than most African countries[46]. The fact that GDP per capita is relatively low given the country's level of income and economic complexity points to a capacity for comparatively higher economic growth in Kenya. According to the African Development Bank, public-private partnerships are needed to carry out infrastructure projects, as inadequate transport and hydroelectric power infrastructure are holding back economic growth. This is particularly true for industry, which accounts for 17.5 per cent of GDP but has more potential.

[44] http://hdr.undp.org/en/

[45] African Development Bank Strategic Country Paper Kenya

[46] http://atlas.media.mit.edu/rankings/

In 2012, economic growth was 4.6 per cent compared with 4.4 per cent in 2011 and 5.8 per cent in 2010. Growth was mainly driven by financial intermediation (responsible for 6.5 per cent of GDP but among the fastest-growing sectors), tourism, construction and agriculture. Agriculture, the mainstay of Kenya's economy, recorded suppressed activity in 2013 and was further affected by reduced demand for Kenyan horticultural exports in the European market. Similarly, the tourism, manufacturing and construction sectors did not reach the anticipated growth levels.

Exhibit 37

ANNUAL GDP GROWTH[47]

Kenya's overall balance of payment has been negative throughout the last decade. Imports of goods and services have increased more than exports, as shown in Exhibit 38, worsening its current account further.

Kenya's imports have grown four-fold since 2000, from $4.1[48] billion in 2000 to $17 billion in 2012[49]. The country relies on imports of crude oil, accounting for about 21 per cent of imports, which is refined for both domestic use and export. Over a five-year period, the quantity of imported petroleum products grew 19 per cent, from 3.7 million tons in 2007 to 4.4 million tons in 2011. This is due to higher crude oil prices and the high prices of refined petroleum products in the international markets. Other major imports include manufactured goods, chemicals, machinery and transport equipment. The recent increase in imports is mainly driven by larger volumes and higher prices of oil, machinery, transport equipment and manufactured goods.

Exhibit 38

IMPORT AND EXPORT OF KENYA AS % OF GDP

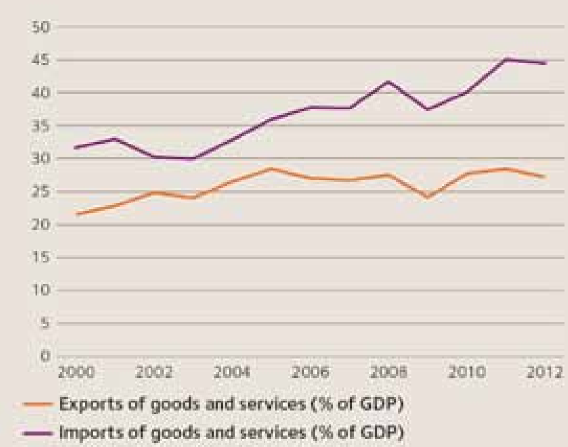


Exhibit 38 provides more detail on Kenya's imports and exports, by origin and commodity. Kenya imports 90 per cent of goods from markets outside Africa and about half of what it exports goes to other African countries. Imports from Asian countries have increased rapidly in recent years.

[47] World Bank Development Indicators

[48] Central Bank of Kenya

[49] International Trade Centre, 2012

TABLE 13: TRADE FLOWS BY MAIN COMMODITY AND TRADE PARTNER

MERCHANDISE IMPORTS			
Main commodity	**in %**	**Main origin**	**in %**
Agriculture	5%	China	13%
Extraction	21%	India	11%
Industry	60%	Africa	12%
Services	15%	Europe	22%
		Rest of the World	43%

MERCHANDISE EXPORTS			
Main commodity	**in %**	**Main origin**	**in %**
Agriculture	13%	China	1%
Extraction	4%	India	2%
Industry	30%	Africa	46%
Services	53%	Europe	26%
		Rest of the World	25%

Source: International Trade Centre, 2012

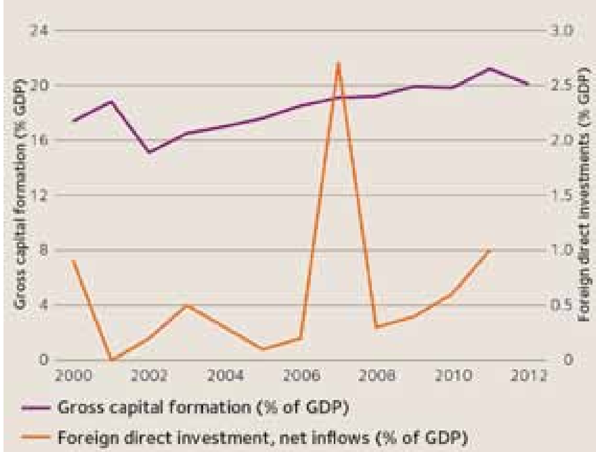
The main export goods were tea (19 per cent), horticulture (11 per cent), manufactured goods (13 per cent), raw materials (7 per cent), coffee (4 per cent) and oil products (1 per cent). Agricultural commodities play an important role in Kenya's total export earnings, so world prices influence Kenya's export earnings. Almost half of all exports go to other African nations, mainly Uganda and Tanzania. Trade within Africa has been the driving factor for Kenyan exports. In Europe, the United Kingdom and the Netherlands are important destinations for the flower trade. Exports to the East African Community (EAC) represent 26 per cent and exports to the COMESA (Common Market for Eastern and Southern Africa) region represent 32 per cent of total exports[50].

According to the Enterprise Survey[51] of the International Finance Corporation (part of The World Bank), the biggest obstacles for businesses in Kenya are high tax rates, followed by access to finance and practices of the informal sector. According to the same survey, 5.2 per cent of annual Kenyan sales are lost due to electrical outages compared with 2.9 per cent globally.

Exhibit 39 shows the gross fixed capital formation – the rate at which physical assets are added – and net foreign direct investment (FDI) inflows to Kenya. Throughout the past decade overall investment has increased from 16 per cent to 20 per cent of GDP. This is about average for Sub-Saharan Africa. The net foreign direct investment on the other hand is slightly lower compared with many other 'comparable' countries. Kenya has recently lost its position as the most important FDI destination in East Africa, which in part reflects Kenya's lack of mineral resources. Due to slow structural and regulatory reforms in Kenya, its neighbours Tanzania and Uganda have overtaken Kenya in attracting foreign investment, much of which comes from Kenya itself[52].

Exhibit 39

GROSS FIXED CAPITAL FORMATION AND FOREIGN DIRECT INVESTMENT



5.2%

of annual sales are lost each year to electrical outages

[50] African Development Bank Strategic Country Paper Kenya

[51] IFC Enterprise Surveys http://www.enterprisesurveys.org

[52] African Development Bank Strategic Country Paper Kenya

40%

ratio of private credit to GDP

8.2 Kenya's financial sector

Kenya's financial sector is among the largest and most sophisticated in Sub-Saharan Africa and comprises banks, insurance companies and securities markets. The ratio of private credit to GDP, which stands at nearly 40 per cent, is about double the regional average, indicating the important role of the financial sector in economic life. Kenya's banks are relatively well capitalised and profitable, and draw the bulk of their deposits from small accounts. In Kenya, 65 per cent of the population has access to a bank account, significantly above other Sub-Saharan African countries. However, loans are mainly given to the country's largest enterprises and the SME sector remains severely under-banked.

Another significant feature of the banking system in Kenya is the role of foreign banks, which control over 40 per cent of banking sector assets. Overall, Kenya's banking sector weathered the global financial crisis of 2008 well.

Table 14 provides a breakdown of bank lending by sector. As can be seen, lending to the wholesale and retail, manufacturing, and real estate sectors constitute about 47 per cent of all lending, while loans to households constitute an additional 25 per cent of lending activity.

TABLE 14: SECTORAL DISTRIBUTION OF DOMESTIC AND FOREIGN LOAN AMOUNTS

Sector	Gross loans in $ million	% of total
Agriculture	945	5%
Mining & Quarrying	235	1%
Manufacturing	2,552	14%
Utilities	618	3%
Building & Construction	758	4%
Transport & Communication	1,501	8%
Wholesale & Retail	3,754	20%
Tourism, Restaurants, Hotels	476	3%
Real Estate	2,462	13%
Financial Services	755	4%
Personal/Household	4,772	25%
Total	18,827	100%

Source: Central Bank of Kenya, 2012

8.3 Standard Chartered's activities in Kenya

Standard Chartered Bank Kenya Limited was established in 1911 when the first branch opened in Treasury Square, Mombasa. The bank has about 32,000 local shareholders holding 26 per cent of the bank's total shares, and has been a publicly quoted company on the Nairobi Securities Exchange since 1989. While the bank reports its capital, deposit base, and lending portfolio in Kenya Shillings, it offers a variety of local and foreign currency accounts, both deposit and loan, to its customers. Standard Chartered Kenya has a diversified portfolio, cutting across many sectors including business services, manufacturing, wholesale and retail, transport and communications, real estate, agriculture, energy and water. It hosts a regional Shared Service Centre, supporting Standard Chartered's technology and operations in Uganda, Tanzania, Zambia, Botswana and South Africa on a real-time basis.

Standard Chartered Kenya serves approximately 195,000 retail customers, 15,000 SME clients and more than 4,900 wholesale clients. The bank's market share in terms of domestic banking assets is about 9 per cent. The bank currently employs some 1,900 people. Standard Chartered Kenya continues to build a sustainable business in Kenya focusing on high value segments, particularly Priority, SME and Wealth Management. Standard Chartered aims to enhance its digital offering to customers, focusing on innovation and increased productivity. The bank sees growth opportunities in financing infrastructure, energy and manufacturing as Kenya aims to achieve its Vision 2030 goals.

On 31 December 2012, the reference point for this study, three quarters of Standard Chartered's loan book was wholesale and the rest retail and SME clients. The bank's largest exposure is to manufacturing (18 per cent of its loan book), compared with a national figure of 14 per cent. By financing manufacturing, Standard Chartered supports the country's economic vision[53] of adding value by exporting manufactured goods across the region.

Through Standard Chartered's expertise, the bank has supported the Kenyan Government in financing infrastructure and to stabilise its currency, as shown by the syndicated loan arranged in May 2012.

Syndicated loan to Government of Kenya

In May 2012, The Republic of Kenya's Ministry of Finance signed a $600 million two-year loan. The syndicated loan, Kenya's first, was underwritten by three banks led by Standard Chartered. The funds are being used to finance infrastructure spending and the costs of implementing the Constitution. The loan eased pressure on domestic interest rates and provided a boost to the international reserves of the central bank, thus stabilising the Kenyan Shilling.

[53] Ruwaza ya Kenya 2030; Kenya Vision 2030

8.4 Impact on growth and jobs in Kenya

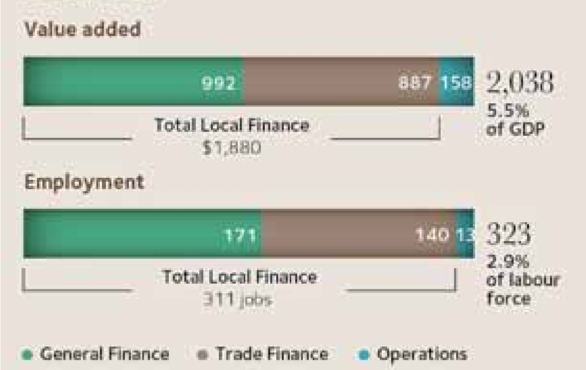
8.4.1 Total impact

Exhibit 40 shows that through its local and international finance, as well as its own operations, Standard Chartered Kenya supports $2,038 million of value added, which is equal to some 5.5 per cent of Kenya's GDP.[54] The total employment related to the bank's activities is 323,000 jobs, or nearly 2.9 per cent of Kenya's total labour force. The reason for the relative value added supported being higher than the relative employment is because the bank lends to businesses that are more productive than the average Kenyan firm, generating large value added with relatively little labour.

In addition, as discussed in Chapter 4, Standard Chartered underwrites $350 million of loans for Kenyan clients. These underwritten amounts increase the value added by $314 million and add 46,000 jobs. This is Standard Chartered's catalytic effect. Although Standard Chartered through its underwriting catalysed the mobilisation of debt capital, in the discussion below we only consider the impact associated with Standard Chartered through the financing it provided directly.

Exhibit 40

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED KENYA'S OPERATIONS, LOCAL AND INTERNATIONAL FINANCE BY TYPE (VALUE ADDED IN $ MILLION AND JOBS IN '000)



Standard Chartered Kenya's loan book is equally split between general and trade finance. However, more value added is related to general finance ($992 million compared with $887 million), as the receiving firms tend to conduct more activities in Kenya than the recipients of trade finance, many of whom operate in the wholesale and retail sector. The latter generally have fewer backward linkages with the local economy and consequently support less value added in the country itself.

Standard Chartered Kenya's own operations support $158 million in value added, of which $115 million is in the form of direct salaries, taxes paid by Standard Chartered and the 26 per cent of profits that accrue to local shareholders. The remaining $35 million of value added comes from Standard Chartered's suppliers and their suppliers through the purchase of local goods and services.

$2bn

of value added supported by Standard Chartered

Agribusinesses large and small, such as Isinya Rose Farm, are central to Kenya's economic development and job creation

[54] This is slightly higher than expected given that the bank's assets make up 9 per cent of total country assets and the total private credit to domestic GDP ratio is 40 per cent. This suggests that Standard Chartered's $1,620 local finance is associated with 3.6 per cent of Kenya's GDP as opposed to the 4.4 per cent we found (when excluding international finance)

2.9%

of Kenya's labour force supported by Standard Chartered

Exhibit 41 breaks down the total value added and employment in terms of direct, indirect, leveraged and induced impact. Most of the value added comes directly from Standard Chartered and its clients, with a direct impact of $1,196 million; and most jobs related to Standard Chartered's financing arise indirectly (110,000 jobs). The reason for this is that while all of Standard Chartered's clients operate in the formal sector and tend to be more capital-intensive, their suppliers tend to be less efficient, more labour-intensive firms, which sometimes operate in the informal sector. This is most pronounced in the agricultural, manufacturing and wholesale and retail sectors. A smaller amount of value added and employment is supported because of people leveraging themselves financially against the salaries they earned, either with Standard Chartered or the clients financed by the bank and their suppliers (leveraged impact[55]). The induced employment (86,000 jobs) is driven by the re-spending of salaries of employees of Standard Chartered and its client firms and their suppliers.

Exhibit 41

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED WITH STANDARD CHARTERED KENYA'S OPERATIONS AS WELL AS DIRECT AND INDIRECT IMPACT OF FINANCING (VALUE ADDED IN $ MILLION AND JOBS IN '000)

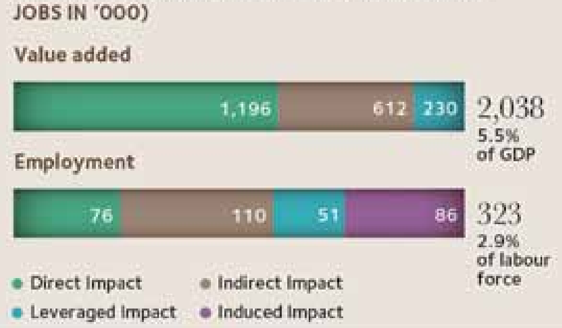


Table 15 reveals that more than half of value added is received by households in the form of salaries, followed by profits and savings, and taxes. The total tax income directly and indirectly supported by the bank is significant, making up slightly more than 3.1 per cent of total national tax collections. With direct tax payments of $52.5 million, Standard Chartered Kenya is one of the most important taxpayers in the country.

TABLE 15: VALUE ADDED ASSOCIATED WITH STANDARD CHARTERED KENYA BY COMPONENT (IN $ MILLION)

Component	Value added	% of total value added
Household income	$1,056 million	52%
Profits and savings	$725 million	36%
Tax income	$256 million	13%

8.4.2 Impact per economic sector

Exhibit 42 shows that the largest amount, $502 million, of value added arises in the manufacturing sector, due to Standard Chartered Kenya's comparatively large exposure to manufacturing. Most of this amount is supported indirectly as many clients source products from this sector, reflecting the relatively complex and diversified nature of Kenya's economy, which was referred to in Section 8.1. In terms of direct effects, the transport and communications sector benefits most because of the large amount of outstanding loans to transport and trading companies. Furthermore, the majority of retail loans are used for home improvements such as the purchase of electronic devices and furniture, which benefits the wholesale and retail sector.

In terms of employment, the impact in the manufacturing sector is again the biggest, due to the large share of SMEs supported in manufacturing. Despite Standard Chartered Kenya's limited exposure to agriculture and consequently small amount of value added, it supports a substantial number of agricultural jobs due to the relatively low productivity of that sector.

[55] Leverage effects capture the impact related to spending enabled by bank loans/mortgages that individuals obtained as results of salaries they earned with Standard Chartered, its clients and their suppliers

Exhibit 42

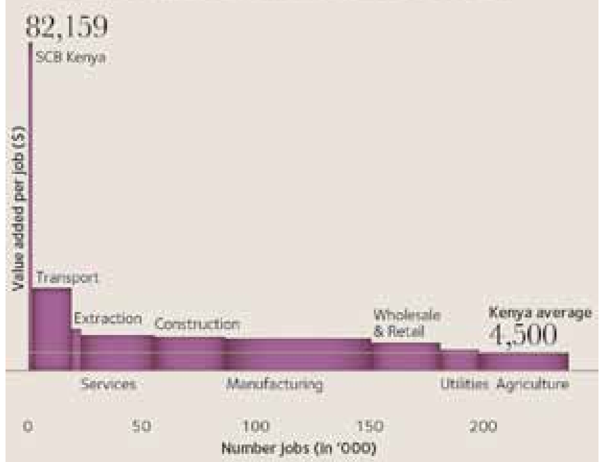
TOTAL VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED KENYA'S OPERATIONS, LOCAL AND INTERNATIONAL FINANCE PER SECTOR (VALUE ADDED IN $ MILLION AND JOBS IN '000)

The overall value added related to Standard Chartered equals 5.5 per cent of Kenya's GDP as shown in Exhibit 42. When broken down by sector, this means that Standard Chartered is associated with 13 per cent value added in manufacturing, 17 per cent in industry (excluding manufacturing) and 4 per cent in services. This underscores Standard Chartered's importance for the financing industry and manufacturing. Standard Chartered's small share of agricultural value added is explained by agriculture, especially subsistence farming, being a capital-extensive sector, except for the horticulture sector which Standard Chartered finances. In that sense, the best way for Standard Chartered to increase its economic footprint in the agriculture sector would be through financing the food processing industry, which would create demand from agriculture. The weak inter-linkages between manufacturing and agriculture suggest that there are opportunities to 'pull' more demand, as will be shown in Exhibit 44.

Comparing the two horizontal bars from Exhibit 42, Exhibit 43 shows the quality of employment in the various sectors in terms of value added per job. Although relatively large numbers of farming jobs are supported, these jobs generate much less value added than jobs in more capital-intensive sectors. Value added per employee in all sectors is at or above the Kenyan average, illustrating that Standard Chartered Kenya is involved in financing the more productive part of the economy. In that sense, Standard Chartered's best opportunity to increase the quality of employment more broadly is by pulling the less productive and informal parts of the economy into the supply chains of its clients.

Exhibit 43

VALUE ADDED PER JOB ASSOCIATED WITH STANDARD CHARTERED FINANCING IN THE VARIOUS SECTORS



*Number of jobs exclude induced jobs

5.5%

of Kenya's GDP supported by Standard Chartered

Exhibit 44

Pathways of how Standard Chartered Kenya's finance (coloured) helps create intermediate demand (green) and ultimately value added (light blue).

Size of bubbles indicates value added created in each sector. Small intermediary demand and within sector demand (especially large in manufacturing) are not shown for clarity.

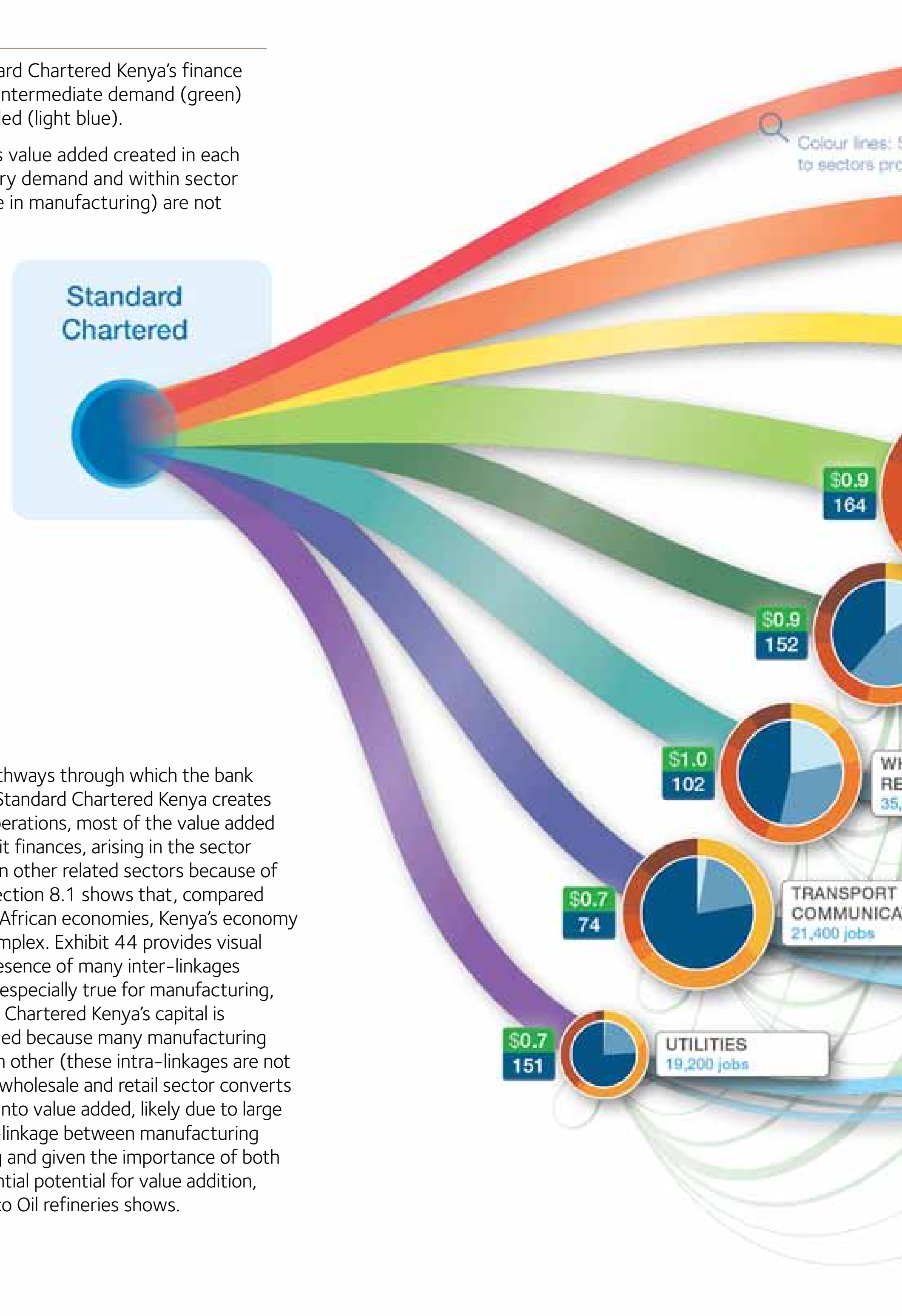
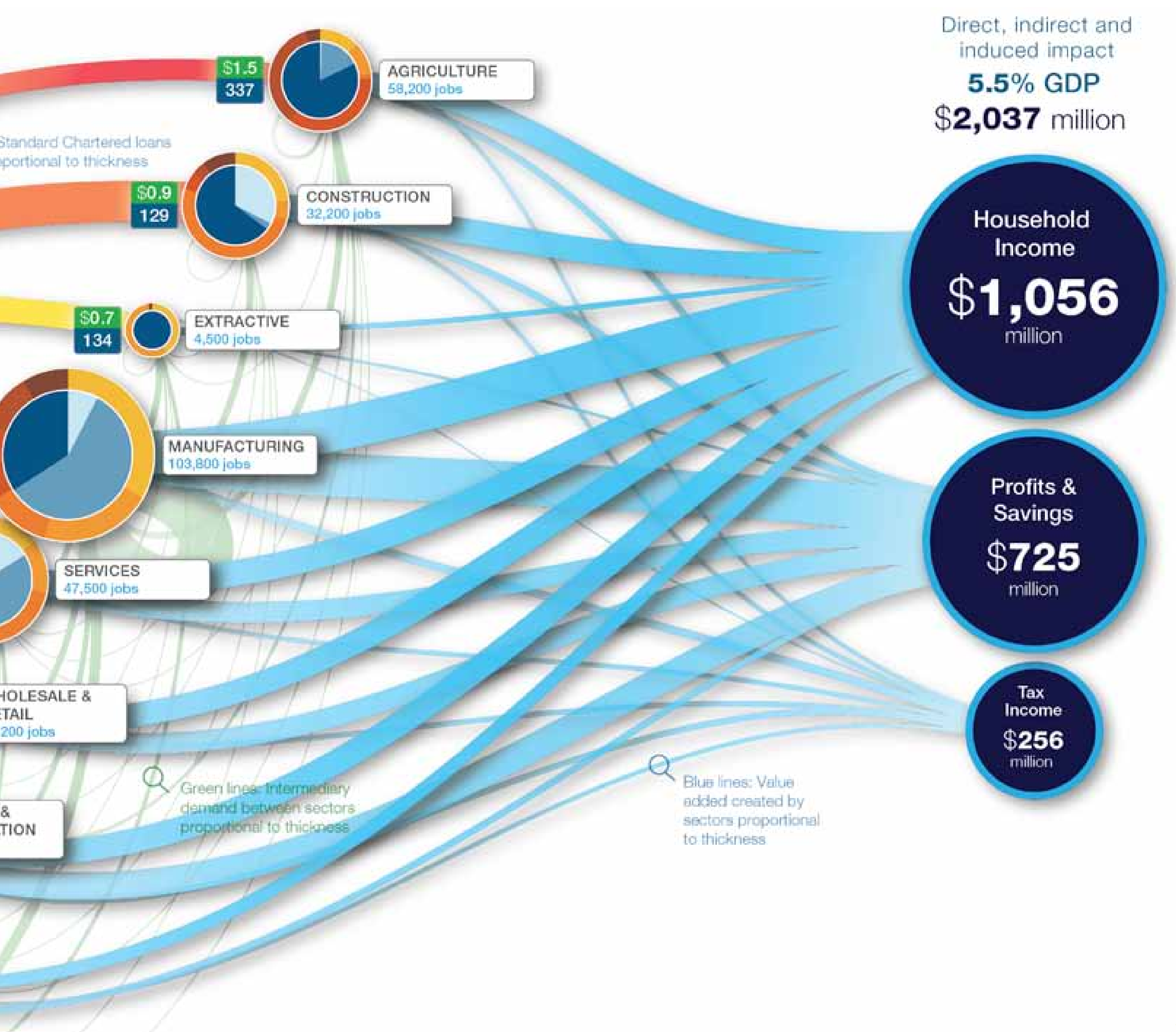


Exhibit 44 shows the pathways through which the bank creates value. Although Standard Chartered Kenya creates value through its own operations, most of the value added comes from the sectors it finances, arising in the sector receiving the finance or in other related sectors because of intermediary demand. Section 8.1 shows that, compared with other Sub-Saharan African economies, Kenya's economy is well diversified and complex. Exhibit 44 provides visual proof of this with the presence of many inter-linkages between sectors. This is especially true for manufacturing, where much of Standard Chartered Kenya's capital is converted into value added because many manufacturing sectors source from each other (these intra-linkages are not shown). In contrast, the wholesale and retail sector converts relatively little financing into value added, likely due to large imports. The weak inter-linkage between manufacturing and agriculture is striking and given the importance of both sectors points to substantial potential for value addition, as the case study of Bidco Oil refineries shows.

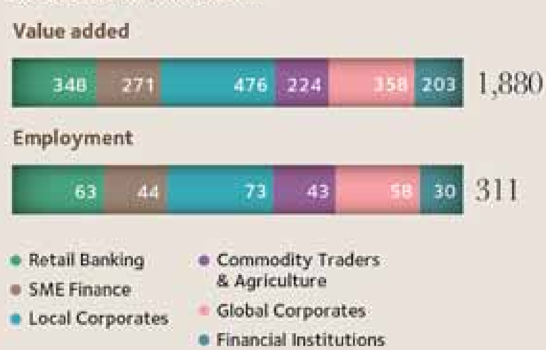


8.4.3 Impact per customer segment

Standard Chartered's total impact can also be broken down by customer segment, as is shown in Exhibit 45. The figures presented here exclude the impact of Standard Chartered Kenya's operations and show that the single largest impact arises from finance provided to local companies. The share of SMEs in Standard Chartered's total portfolio is 7 per cent, which is below the 17 per cent average for Kenyan banks. Although SMEs are only 7 per cent of the portfolio, they make up 14 per cent of related value added and also 14 per cent of related employment. This is because SMEs are less capital-intensive and use more manual labour than other firms. In other Sub-Saharan countries the SME multiplier of loans provided and related impact achieved can be even higher but Kenyan small businesses are comparatively more productive and have relatively better access to finance than elsewhere in Africa.

Exhibit 45

VALUE ADDED AND EMPLOYMENT PER CUSTOMER SEGMENT (VALUE ADDED IN $ MILLION AND JOBS IN '000). STANDARD CHARTERED OPERATIONS ARE EXCLUDED IN THIS GRAPH



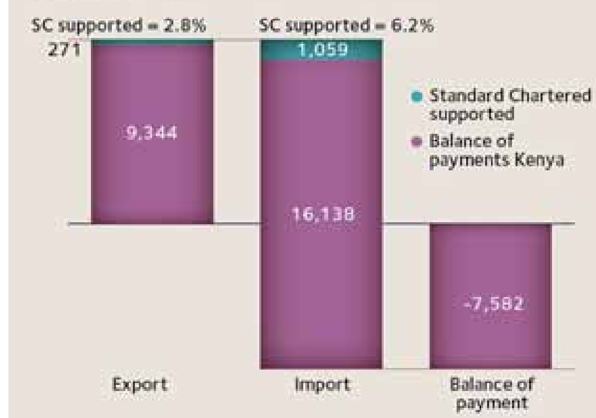
Standard Chartered has introduced state of the art digital branches to Kenya

8.5 Impact on trade

In Section 2, we discussed the relevance of trade for economic development in Africa. Exhibit 46 shows that Standard Chartered finances 6.2 per cent of Kenya's imports and 2.8 per cent of its exports. Standard Chartered is more involved with imports than exports, reflecting the fact that Kenya imports almost 90 per cent of its goods and services from outside Africa. Kenya has had a negative trade balance already for some time, so the activities of the bank in Kenya mirror the economic structure of this economy. Overall, Kenyan firms import from around the world and transform their imports into exports, half of which go to other African markets. However, it is harder for banks to play a role in intra-African trade because a good portion of that trade is not intermediated.

Exhibit 46

BALANCE OF PAYMENTS KENYA 2012 (IN $ MILLION)[56]



[56] Central Bank Kenya 2012 data

Taking into account the letters of credit issued by Kenyan banks and confirmed by Standard Chartered outside Kenya and the underwritten loans arranged by the bank for Kenyan customers, the impact on trade totals 7.5 per cent of imports and 3.3 per cent of exports.

Exhibit 47

IMPORT AND EXPORT SUPPORTED BY STANDARD CHARTERED KENYA (IN $ MILLION)

Analysing the total related trade flows by trade corridor reveals that in absolute terms Standard Chartered mainly supports Kenyan trade with countries such as the USA and the Middle East included in the Rest of the World category. Standard Chartered's role in exports to India is especially large at 25 per cent, which reflects Standard Chartered's deep presence in both countries.

Bidco Oil Refineries links manufacturing to agriculture

Bidco Oil Refineries Ltd began its operations in 1986 and has since grown into one of the largest fast-moving consumer goods enterprises in the East Africa region. Headquartered in Thika, Kenya, Bidco has state-of-the-art manufacturing facilities in Thika and Nakuru in Kenya, with affiliates in Jinja in Uganda and Dar es Salaam in Tanzania. All plants are eco-friendly, energy efficient, green and comply with all ISO and world standards. The company exports to Democratic Republic of Congo, Rwanda and Sudan.

Bidco has a soil-to-pan philosophy and buys oil seeds directly from farmers. The company guides and helps these farmers to improve the quality and quantity of their yield to enhance their revenues and livelihoods. Bidco has more than 20,000 registered farmers, while more than 12,000 are actively involved in its supply chain. Bidco aims to increase the registered farmer-base to more than 30,000 in the near future.

Standard Chartered has supported the group with loans to facilitate their business expansion and modernisation as well as the capacity of their plants based in Thika and Nakuru in Kenya. In addition the bank provides various other services such as working capital facilities, interest rate and foreign exchange hedging and commodity derivatives.

9/Standard Chartered's impact on Ghana

Standard Chartered is the oldest bank in Ghana, operating for over 117 years

Standard Chartered is an important financier of trade and helps to connect Ghana to world markets

- Standard Chartered Ghana supports $1.4 billion of value added in Ghana, equivalent to 3.4 per cent of GDP
- The bank supports 283,000 jobs, equivalent to 2.7 per cent of Ghana's labour force.

9.1 The Ghanaian economy

In recent years, Ghana has come to be seen by the international community as one of not just Africa's, but the developing world's, great success stories. Democratic elections and peaceful changes of government have created the macro-economic stability favoured by investors and entrepreneurs. The country has been widely recognised for its peaceful democratic transitions.

Despite lower prices, the country is on the cusp of what could be a prolonged resource boom, with new gold supplies being tapped and new offshore oil fields being developed. Indeed, Ghana is now being cautiously observed by many economists as a test case of whether the so-called natural resource curse – the tendency for resource-rich countries to suffer from poor economic growth – can be avoided with good governance. In this respect, Ghana has several advantages. Firstly, unlike many developing world economies that depend heavily upon a single commodity, Ghana's economy is relatively well diversified between agriculture, industry and services (see Table 16). Secondly, the actions of the government can be judged by the voters, which should encourage greater transparency when it comes to the use of oil revenues.

The rebasing of Ghana's accounting figures in 2010 increased the size of the economy by about 60 per cent. With a GDP per capita of $1,605 in 2012 Ghana is classified as a lower-middle income country, while its Human Development Indicator ranking[57] of 135 puts it among the higher-ranked Sub-Saharan African countries. Similar to other Sub-Saharan countries, wealth remains concentrated with the richest 10 per cent of the population accumulating 33 per cent of the total income.

The growth in GDP decelerated from a record-breaking 15 per cent in 2011 to a more sustainable 7 per cent in 2012. The large growth spurt in 2011 was due to Ghana's offshore Jubilee oil field becoming productive, while in 2012 oil prices dropped and cocoa production was lower. According to the African Development Bank (AfDB), Ghana's medium-term outlook remains upbeat, with projected GDP growth of 8 per cent in 2013 and 8.7 per cent in 2014, both well above the average growth rate of 6.5 per cent for the period since 2000. The AfDB says that oil and gas investment as well as public infrastructure and commercial agriculture will drive this growth.

TABLE 16: KEY INDICATORS OF THE GHANAIAN ECONOMY 2012

Indicator	Economy Ghana
Official population estimate	25.4 million
Size of workforce	10.6 million
Nominal Gross Domestic Product (GDP)	$40 billion
GDP per capita	$1,605
Trade as % of GDP	
Exports as % of GDP	53%
Imports as % of GDP	43%
Government tax revenues as % of GDP	15%
Sectoral breakdown of GDP (2011)	
Agriculture	23%
Industry	27%
Services	50%
Consumption breakdown of GDP (2011)	
Private consumption	80%
Government expenditure	14%
Real investment	19%
Net exports of goods and services	-11%
International receipts as % of GDP (2011)	
Remittances (2003)	13%
Foreign Direct Investment (2011)	8%

Source: World Bank Development Indicators, 2011-2012; Bank of Ghana, 2004, 2012; International Trade Centre, 2012

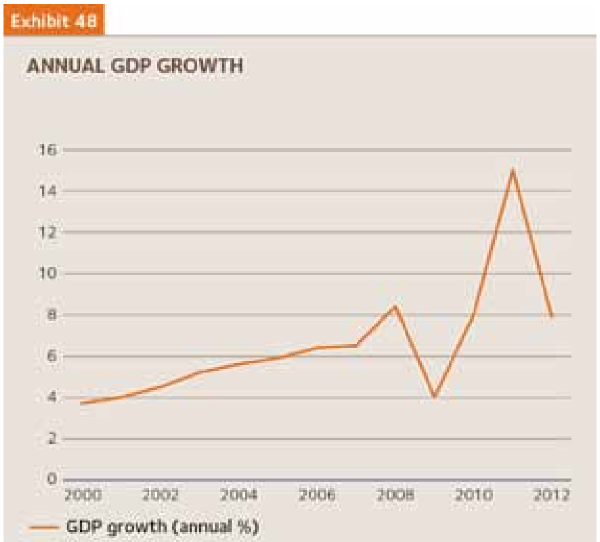
$1.4bn

of value added in Ghana supported by Standard Chartered

57 http://hdr.undp.org/en/

Manufacturing companies use Standard Chartered's finance to expand

Exhibit 48



While in the past Ghana had been lauded for its macroeconomic management, it is now struggling with high fiscal deficits. It should, however, be recognised that high interest rates have induced financial agents to hold government bonds and, perhaps, to reduce their risk exposure to the real sector as a consequence. Containing inflationary pressures and reducing interest rates will remain a challenge even as the country begins to see the dividend from crude oil discoveries. These revenues could strengthen the local currency, eroding the competitiveness of other export-oriented sectors. Although more diversified than other commodity-based economies, Ghana's economic complexity ranking of 100 is behind countries such as Senegal, Uganda and Kenya, indicating that diversification still has to go further.

Oil production caused Ghana's negative current account to turn positive in 2012 as shown in Exhibit 49. This seems to have been a temporary phenomenon, however, as in 2013 imports surpassed exports again.

Exhibit 49

Ghana's main exports are oil, gold and cocoa, which together account for 80 per cent of export revenues. Capital goods (industry) are the country's main imports, coming from Europe, China and North America. The relatively large export to Africa is gold bullion that goes to South Africa for refining. Exhibit 50 shows that the gross fixed capital formation is trending downward, indicating that new value added is increasingly consumed rather than invested. With the promise of future oil income this is a worrying trend. Foreign direct investment has increased since 2005, due to large investments in new mining and oil operations.

TABLE 17: TRADE FLOWS BY MAIN COMMODITY AND TRADE PARTNER

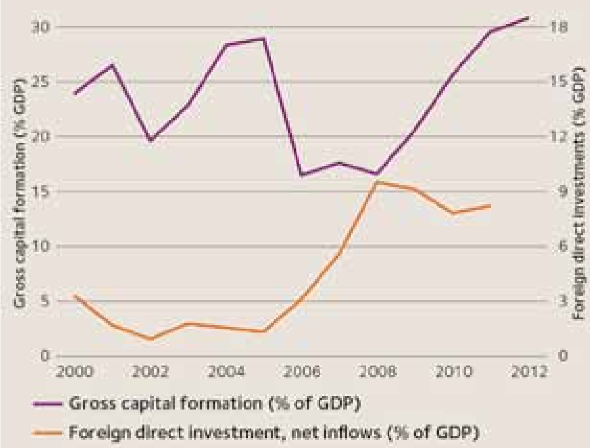
MERCHANDISE IMPORTS			
Main commodity	in %	Main origin	in %
Agriculture	5%	China	17%
Extraction	4%	India	4%
Industry	70%	Africa	10%
Services	20%	Europe	35%
		Rest of the World	33%

MERCHANDISE EXPORTS			
Main commodity	in %	Main origin	in %
Agriculture	25%	China	3%
Extraction	54%	India	10%
Industry	7%	Africa	34%
Services	14%	Europe	30%
		Rest of the World	22%

Source: Bank of Ghana, 2012; International Trade Centre, 2012

Exhibit 50

GROSS FIXED CAPITAL FORMATION AND FOREIGN DIRECT INVESTMENT



Standard Chartered employees manage the deposits of over 200,000 individuals in Ghana

Standard Chartered's impact on Ghana

2.7%

of Ghana's labour force supported by Standard Chartered

9.2 Ghana's financial sector

Over the past two decades, with solid economic growth on the one hand and liberalisation of the financial sector on the other, Ghana has seen a steady increase in the number of both foreign and domestic banks operating in the country. Today, some 26 banks are licensed to trade and market competition has increased dramatically. The increase in banking activity – particularly the entry of foreign banks – presents challenges to Ghana's banking regulators, who must work more intensively with colleagues in Africa and around the world to ensure the safety and soundness of the banking system. In particular, African countries will now have to give more attention to regional co-operation in banking regulation.

Traditionally, major international banks such as Standard Chartered and Barclays focused much of their lending activity in Ghana on the large corporate sector, while also meeting the needs of a wide range of consumers within clearly defined risk parameters. While these banks have met the needs of small and medium-sized enterprises (SMEs) through dedicated teams and to a limited extent, new market entrants have been much more aggressive in banking to the SME segment. Despite increased competition, Standard Chartered, Barclays and state owned Ghana Commercial Bank (GCB) still hold some 25 per cent of total bank assets. According to the Ghana Banking Survey[58], in 2012, GCB held 11.0 per cent, with Standard Chartered at 8.7 per cent of industry operating assets.

Ghana's banking system is strongly influenced by the government's macroeconomic policies. High positive real interest rates have made it attractive for banks to accumulate treasury bills and bonds, currently ranging between 17.5 per cent and 19 per cent, thereby making interest rates in the loans market even more expensive because of the impact of risk premiums.

These high interest rates may have contributed to an increase in non-performing loans among private sector borrowers. The banking sector's holdings of government securities have also increased, according to the Bank of Ghana, over the past few years. These developments have raised concerns among business executives that the Government could inadvertently crowd out the private sector with its extensive borrowing requirements, driven by persistent fiscal deficits. In the long run, this could have severe consequences for the country's competitiveness, especially since the budget deficits have historically been as a result of consumption rather than investment.

9.3 Standard Chartered's activities in Ghana

Standard Chartered has been operating in Ghana since 1896, when it was known as the Bank of British West Africa (BBWA). In the late 1800s, as the country's trade with the world increased, demand for credit rose, but growth was constrained by a lack of capital markets. Recognising this gap in the economy, a group of merchants created BBWA, which ultimately became Standard Chartered Ghana in 1985. As the oldest bank in the country, Standard Chartered Ghana has continued to operate and lend throughout Ghana's various economic cycles, including during and after the global financial crisis of 2008. The bank is 70 per cent owned by Standard Chartered PLC, and the remainder of the stock is owned locally and traded on the Ghana Stock Exchange.

Standard Chartered serves more than 200,000 retail customers, 18,000 SME clients and close to 500 corporate clients. The bank provides a wide range of services in the consumer and corporate and institutional banking sectors, including comprehensive trade finance (which is discussed in more detail below), cash management services and foreign exchange products through its treasury operations.

9.4 Impact on growth and jobs in Ghana

Standard Chartered Group's total lending in Ghana was $1,232 million at the end of 2012. About two-thirds of this was lent to local corporates and clients in the commodity, trade and agriculture sectors. In terms of economic sectors the largest exposure was to wholesale and retail (39 per cent), manufacturing (26 per cent), services (15 per cent) and agriculture (10 per cent).

9.4.1 Total impact

Standard Chartered Ghana supports $1,397 million in value added in Ghana, equivalent to 3.4 per cent of GDP[59]. Total employment related to the bank's activities is 283,000 jobs, about 2.7 per cent of Ghana's total labour force. The fact that the bank supports more GDP than employment is explained by the fact that Standard Chartered clients tend to be more productive than the average Ghanaian firm.

58 PwC 2013 Ghana Banking Survey, June 2013

59 Due to the fact that Standard Chartered Ghana has about 10 per cent of total bank assets and total private credit to domestic GDP ratio is 15 per cent, one would suggest a contribution of 1.5 per cent. Domestic finance makes up 42 per cent of the total Standard Chartered franchise exposure in Ghana which corresponds well with the 3.4 per cent mentioned

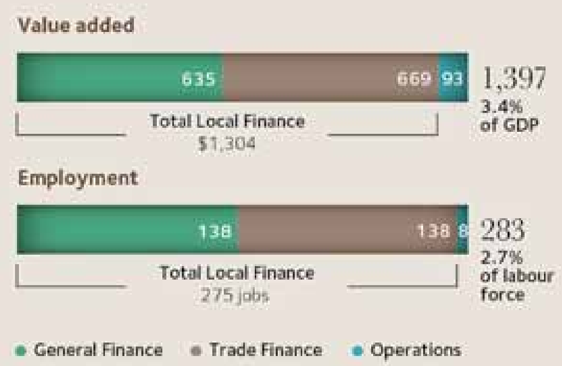
In an earlier study in 2010, the authors analysed the economic impact of Standard Chartered in Ghana for the year 2009. Compared with the results of that study, Standard Chartered Ghana's GDP contribution related to local finance increased by 75 per cent from $400 million to $700 million. In relative terms however, the impact decreased from supporting 2.6 per cent of Ghanaian GDP in 2009 to 1.7 per cent in 2012. This is explained by Ghana's economy now being 168 per cent larger than in 2009, which to a large extent is the result of the rebasing exercise in 2009. The employment impact related to the bank's local finance remained stable (1.5 per cent of the labour force) as updated official statistics show higher labour productivity. In contrast to the 2009 study, the 2012 study also quantifies the impact of international finance. This means that Standard Chartered's total contribution to Ghana in 2012 is larger at 3.4 per cent of GDP and 2.7 per cent of the total labour force, of which some $600 million of value added and 120,000 jobs are supported by international finance. For more information on the difference between the two studies we refer to appendix A.3.

Standard Chartered also has an economic impact through the deals it underwrites, as was explained in detail in Chapter 4. The underwritten loans of $50 million support an additional $42 million of value added and 19,000 jobs, increasing the share of GDP supported by Standard Chartered by 0.1 per cent and the labour force contribution by 0.2 per cent. In the discussion below we only consider the impact associated with Standard Chartered through the financing it provided directly.

Exhibit 51 depicts the total value added and employment related to Standard Chartered Ghana's local and international general and trade finance[60] and its own operations. Some 61 per cent of all finance provided by Standard Chartered in Ghana is trade finance. Consequently, the majority of the bank's associated impact arises from this type of financing, which contrasts with Standard Chartered's operations in other countries. The under-financed nature of the Ghanaian economy means that finance provided here potentially has a larger value added and employment impact than elsewhere, as is shown in Table 2. More local and smaller firms are supported than bigger international firms, so the bank has a larger impact as these companies are more starved of capital (and therefore have a higher marginal impact) and source the majority of their goods and services within Ghana.

Exhibit 51

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED GHANA'S OPERATIONS AND FINANCE BY TYPE (VALUE ADDED IN $ MILLION AND JOBS IN '000)



Standard Chartered's own operations in Ghana support $93 million in value added. $74 million of that represents direct salary and tax payments and local profits earned by Standard Chartered Ghana. The remaining $19 million of value added related to the bank's own operations arises from suppliers (and their suppliers) through local purchases of goods and services.

Standard Chartered Ghana's impact in terms of employment includes some 1,000 employees as well as another 282,000 associated with its financing of client companies and their suppliers. In total, 283,000 jobs are associated with Standard Chartered in Ghana.

Exhibit 52 breaks down the total value added and employment in terms of rounds of impact. While most of the value added arises directly from Standard Chartered and its clients, a direct impact of $924 million), most jobs related to Standard Chartered's financing arise from clients' suppliers (84,000 jobs) or their suppliers'. This again underlines the fact that portfolio clients, which are formal sector firms, contribute more to overall tax payments, pay higher salaries and make more profits than other firms. Indirect suppliers, on the other hand, find it harder to access finance and tend to use more labour to perform their activities. The impact related to leverage (the additional consumption coming from people being able to borrow against their salaries) and induced effects (the re-spending of salaries, which are not counted in the value added graph to avoid double counting) are smaller.

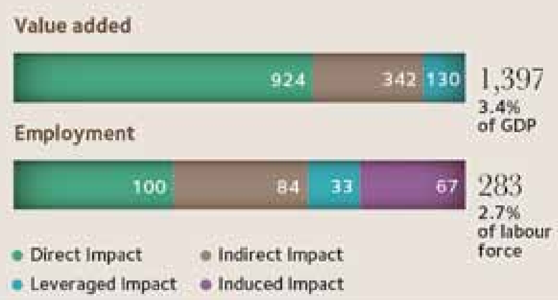
3.4%

of Ghana's GDP supported by Standard Chartered in 2012

60 The analysis excludes the impact of $74.5 million international project finance

Exhibit 52

BREAKDOWN OF VALUE ADDED AND EMPLOYMENT SUPPORTED WITH STANDARD CHARTERED GHANA'S OPERATIONS AND FINANCING BY ROUND OF IMPACT (VALUE ADDED IN $ MILLION AND JOBS IN '000)



As shown in Table 18, most of the value added comes in the form of salary income to private households, followed by taxes and then profits. Tax revenue associated with Standard Chartered and its clients and their value chains account for 5 per cent of national tax collections. Standard Chartered's direct tax payments of $23.7 million represent 0.4 per cent of all Ghanaian tax revenues.

TABLE 18: VALUE ADDED ASSOCIATED WITH STANDARD CHARTERED GHANA BY COMPONENT (IN $ MILLION)

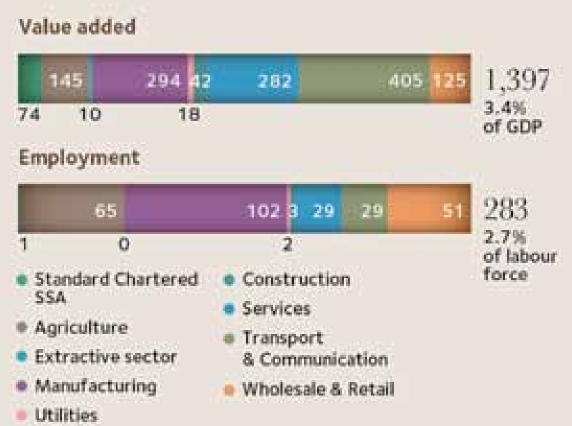
Component	Value added	% of total value added
Household income	$822 million	59%
Profits and savings	$280 million	20%
Tax income	$294 million	21%

9.4.2 Impact per economic sector

When analysed by sector, as in Exhibit 53, most of Standard Chartered's value added in Ghana is in the transport sector. This is due to the intensive use of transport services by the wholesale and retail sector. The manufacturing and service sectors, to which the bank has substantial exposure, also create a lot of value added. In terms of employment, the biggest impact is in the manufacturing sector, due to the large share of labour-intensive SMEs in this sector. The diagrams also illustrate the labour intensity of the agricultural and wholesale and retail sectors, which support relatively more employment than value added.

Exhibit 53

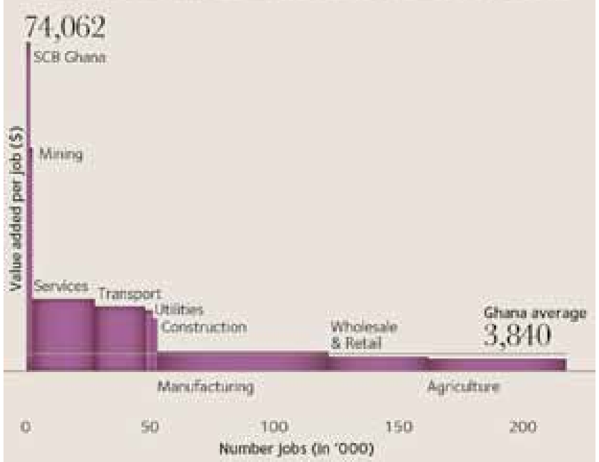
TOTAL VALUE ADDED AND EMPLOYMENT SUPPORTED THROUGH STANDARD CHARTERED BANK GHANA'S OPERATIONS AND FINANCE PER SECTOR (VALUE ADDED IN $ MILLION AND JOBS IN '000)



Comparing the two horizontal bars from Exhibit 53 provides insights into the quality of related employment. The graph suggests a trade-off between financing that supports a large amount of jobs, in the labour-intensive manufacturing, wholesale and retail and agricultural sectors, and financing that supports fewer jobs of higher quality in more capital-intensive sectors.

Exhibit 54

VALUE ADDED PER JOB ASSOCIATED WITH STANDARD CHARTERED BANK FINANCING IN THE VARIOUS SECTORS



*Number of jobs exclude induced jobs

Exhibit 55 depicts the pathways through which Standard Chartered is affecting the Ghanaian economy. Although Standard Chartered creates value through its own operations, most of the value added comes from the sectors it finances. This value added arises directly by the sector receiving the finance or in other related sectors because of intermediary demand. The more complex an economy, the more sectors source from each other rather than from abroad. Consequently, in a complex economy, more value added is generated locally and the financing provided has a larger overall impact. When compared with the other countries in this report, Ghana's complexity is less than Kenya's and similar to Zambia's. The intermediary demand for transport by the wholesale and retail sector is large, causing large indirect economic impact in this sector despite Standard Chartered's relatively small exposure to the sector itself. Agriculture is also well connected in the economy.

The ripple effects of Standard Chartered's financing in Ghana is increasing household incomes

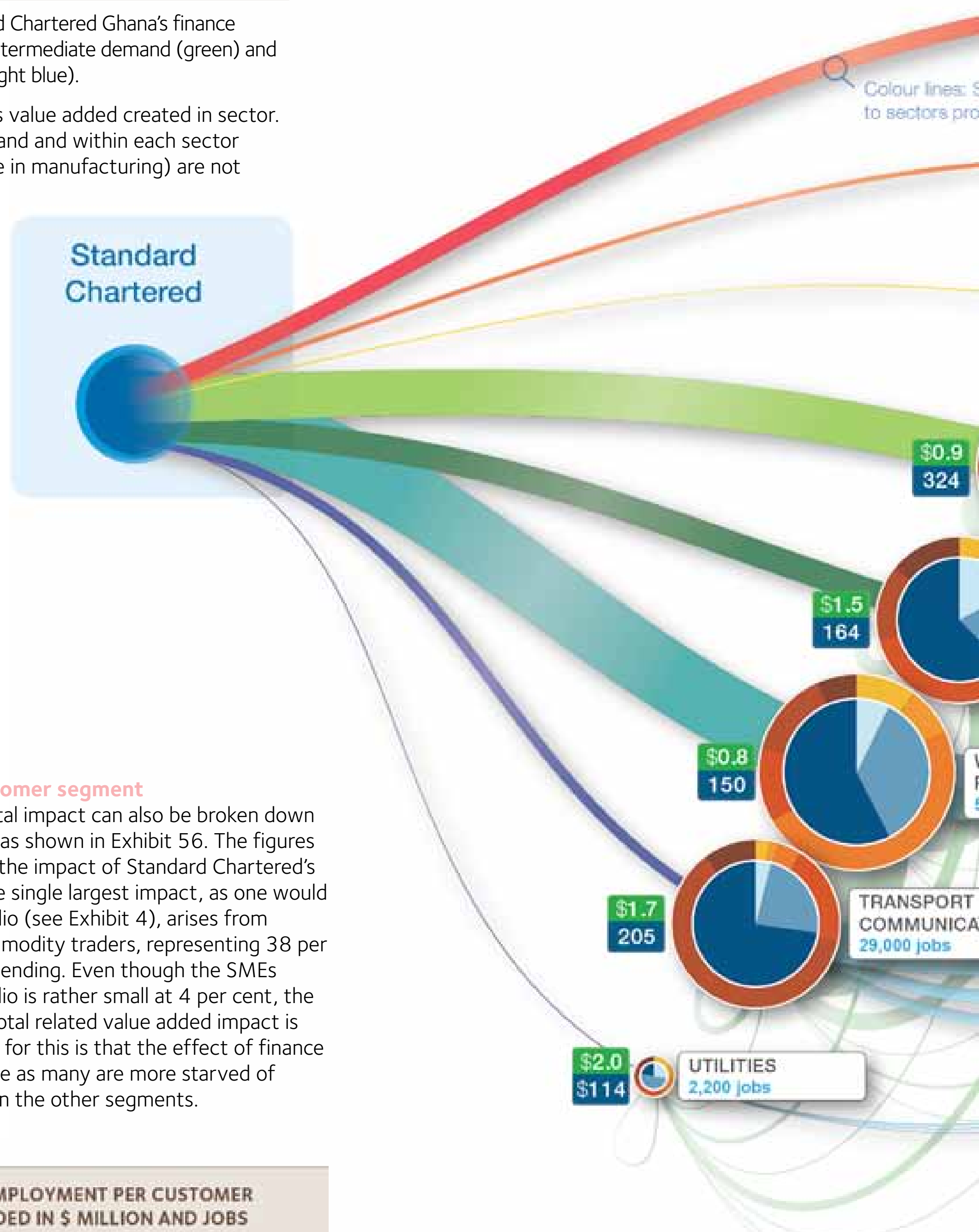
5%

of tax revenues in Ghana paid by Standard Chartered and its clients including their value chains

Exhibit 55

Pathway of how Standard Chartered Ghana's finance (coloured) helps create intermediate demand (green) and ultimately value added (light blue).

Size of bubbles indicates value added created in sector. Small intermediary demand and within each sector demand (especially large in manufacturing) are not shown for clarity.



9.4.3 Impact per customer segment

Standard Chartered's total impact can also be broken down by customer segments, as shown in Exhibit 56. The figures presented here exclude the impact of Standard Chartered's operations in Ghana. The single largest impact, as one would expect given the portfolio (see Exhibit 4), arises from finance provided to commodity traders, representing 38 per cent of the bank's total lending. Even though the SMEs share in the total portfolio is rather small at 4 per cent, the overall contribution to total related value added impact is 11 per cent. The reason for this is that the effect of finance provided to SMEs is large as many are more starved of capital than companies in the other segments.

Exhibit 56

9.5 Impact on trade

In Ghana, Standard Chartered supports 2.3 per cent of Ghana's trade, 2.8 per cent of imports and 2 per cent of all export flows, as shown in Exhibit 57. When the loans which Standard Chartered underwrites and the letters of credit issued by other Ghanaian banks but confirmed by Standard Chartered branches outside Ghana are added to this, the total related imports figure increases by $95.7 million, making the bank's share of Ghana's total imports 3.4 per cent, and of total exports – 2.1 per cent. Although Standard Chartered's total share of 2.3 per cent may seem small, it is important to note that not all trade is intermediated by banks.

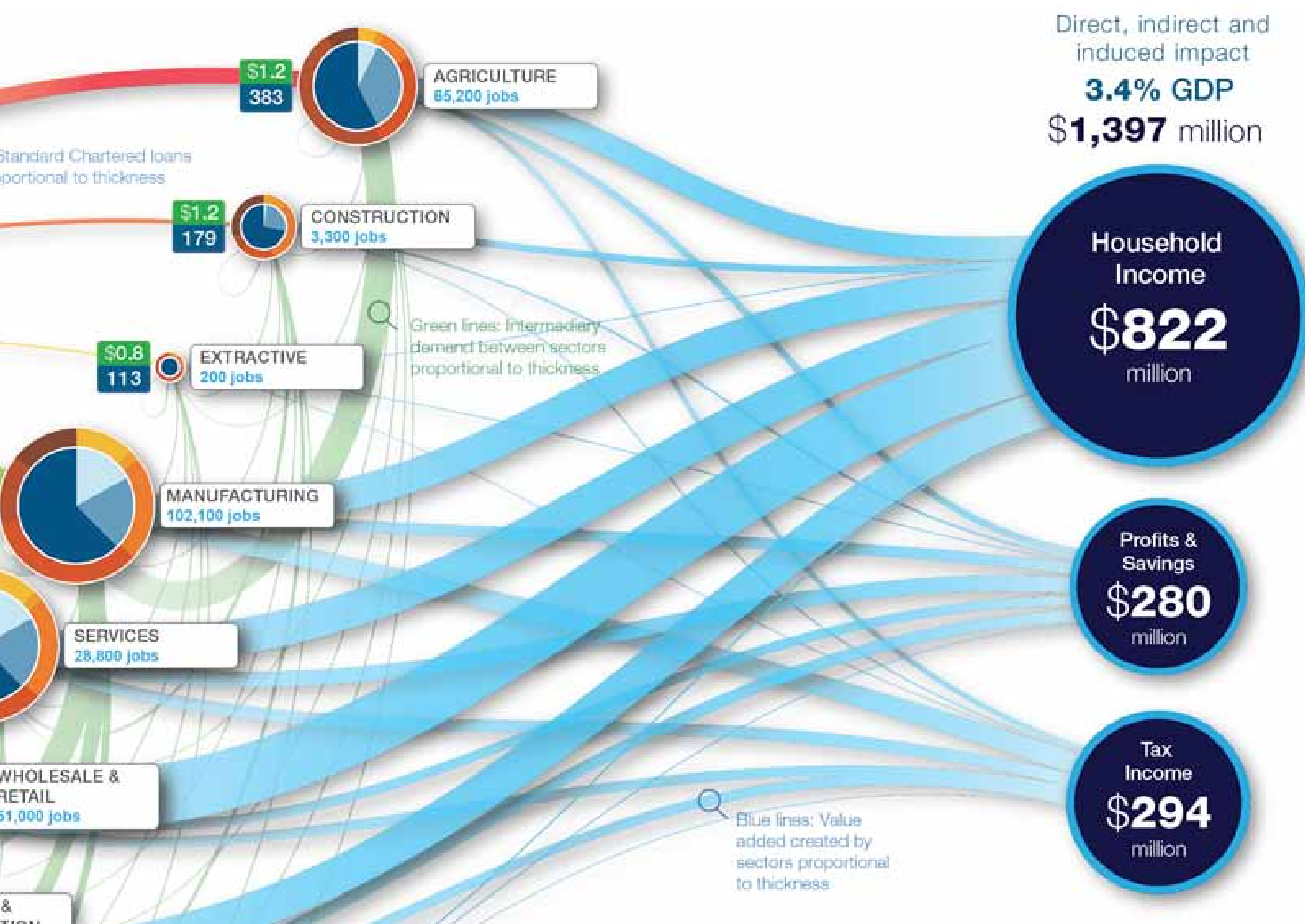


Exhibit 58 seems to indicate that the majority of Standard Chartered related exports are Ghanaian exports to other African markets. Although this is likely for the local trade finance provided, this is not true for international trade finance, which is much larger but for which accurate trade flows are not known exactly. The large exports to other African countries are thus an artefact from the extrapolation methodology.

Exhibit 57

BALANCE OF PAYMENTS GHANA 2012 (IN $ MILLION)[61]

Exhibit 58

IMPORT AND EXPORT SUPPORTED BY STANDARD CHARTERED GHANA (IN $ MILLION)

[61] Central Bank Ghana 2012 data on import and export

10/Conclusion

Standard Chartered uses its expertise and tailored products and services to help smaller African companies expand

10.1 Conclusion

This report assesses Standard Chartered's significant social and economic impact on Sub-Saharan Africa. The bank supports employment, provides financial expertise, pays taxes, facilitates trade and investment and helps both small and large businesses to grow by providing credit.

The earlier chapters of this report map Africa's journey from a resource-driven economy reliant on demand from more developed nations to an attractive investment destination. The report describes the growth of Africa's intra-regional trade, the diversification beyond natural resources, the expansion of the middle class, the spread of new mobile and telecoms technology, and macroeconomic and political stabilisation. All of these are crucial for investor confidence in the region.

Standard Chartered has been a significant contributor to these developments over the many years – more than a century in most cases – that it has operated in Sub-Saharan African markets. Its contribution has been valuable in many different areas, including through local and international financial operations, which are of great importance in a region that has traditionally been highly capital-constrained.

When the bank makes a loan to a manufacturing company, for example, the firm can produce more goods, and therefore needs more input from a range of its own suppliers, who in turn increase their own demand for goods and services. By repeating this virtuous circle every time it makes a new loan, Standard Chartered adds value across the region.

Standard Chartered's other significant contributions have included the deepening of financial markets, the introduction of innovative financial products and structures to governments, firms, consumers, and the banking community. The bank also provides a public good through the training and skills it provides to its bankers, many of whom leave to build other institutions and businesses, and through its community investment programmes.

The report quantifies Standard Chartered's impact across Sub-Saharan Africa. The main findings are:

1. Standard Chartered is associated with $10.7 billion of value added, or 1.2 per cent of Sub-Saharan Africa's GDP. For the countries studied in this report, the GDP that is associated with the banks' financing is:
   - i. Kenya – 0.8 per cent
   - ii. Zambia – 4.6 per cent
   - iii. Nigeria – 5.5 per cent
   - iv. Ghana – 3.4 per cent
2. The bank is associated with some 1.9 million jobs, or 0.6 per cent of Sub-Saharan Africa's total labour force. These numbers exclude the impact of loans underwritten by Standard Chartered.
3. The numbers mentioned under points 1 and 2 exclude the economic impact associated with the $1.6 billion deal value underwritten by Standard Chartered. The associated economic impact of this underwriting is $1.6 billion in value added (0.2 per cent of GDP) and 206,000 jobs (0.1 per cent of the workforce).
4. Over half (56 per cent) of the value added supported by Standard Chartered in Sub-Saharan Africa comes in the form of household income, about a quarter (26 per cent) as profits and the remainder (18 per cent) as tax revenues.
5. Standard Chartered's impact varies substantially in different countries, reflecting their economic structure. Kenya is economically complex with many inter-sectoral linkages that promote job creation in the supply chain. Nigeria is economically less complex and companies tend to be more vertically integrated.
6. The value added and employment impact of financing SMEs is largest in markets where the banking sector is less developed and access to credit is harder to obtain. For example, in Ghana and Zambia access to finance is a bigger hurdle for small firms than in Kenya and Nigeria. However, financing SMEs has most impact when they grow and become more productive

10.2 Recommendations for Standard Chartered

We believe that the bank could, over time, make an even greater contribution to economic growth in Africa. Our specific recommendations are:

1. Standard Chartered has committed to increase funding to SMEs globally by 45 per cent to $30 billion over the next five years. The bank will also provide training to 5,000 companies. The bank has recently announced a reorganisation of its business, creating a new Commercial Banking client to improve the services and products offered to medium-sized enterprises. The bank has an opportunity here to enhance financing of the value chain in Africa. At present, it can be difficult for small suppliers to large corporations to obtain financing against contracts or accounts receivable. Standard Chartered could deploy appropriate risk-assessment tools to provide this financing to SMEs in Africa, while identifying institutional gaps in the regulatory environment that impede the roll-out of products to finance supply chains, working with government and regulatory authorities to overcome them.

2. Given the importance of economic complexity and inter-linkages between sectors, Standard Chartered should explore ways through which it can increase the economic complexity of the countries in which it operates. For example, can Standard Chartered help overcome the need for vertical integration in Nigeria, which results in scale disadvantages? Or can the bank in Kenya encourage inter-linkages between agriculture and manufacturing, which are weaker than expected? These are potentially very constructive areas for policy debate with finance ministries, regulators and international financial institutions.

3. In many African markets, Standard Chartered operates in the same areas as the international community's bilateral and multilateral development agencies. The bank already collaborates with these organisations. It could provide further expertise to assist development agencies to leverage private capital and to improve the enabling environment for enterprise, for example by building on the extensive work the bank is already doing to finance power and infrastructure.

4. Standard Chartered should further focus its community investment activities to harness its core business and staff skills and experience, with more targeted support for SMEs. Standard Chartered has announced a commitment to empower a further 500,000 disadvantaged girls by 2018 through Goal, the bank's sport-for-development programme that provides financial education and life skills training to girls aged between 12 and 20. Delivering on this commitment, using employee volunteering will provide much-needed skills to young women who are critical to sustainable economic development.

5. Given the high levels of trust it enjoys among stakeholders across Africa, Standard Chartered should continue to work closely with governments and regulators to improve the business environment to support and encourage investment (this could include the creation of positive credit reference bureaux and effective commercial courts), innovation, and entrepreneurship. Almost uniquely among private sector companies, the bank has remained in its African markets through the region's economic and political peaks and troughs, developing a wealth of knowledge and social capital. It should use this experience to promote a dynamic business climate. Within the bank itself, this should include its continued leadership in providing high-level skill training and the roll-out of new technologies into local financial markets.

10.3 Remarks for governments

Despite social and economic progress on multiple fronts in many African countries, significant challenges are yet to be overcome.

1. As these countries increase their trade with the rest of the world, they become more exposed to international economic shocks. One reason that Africa did not experience the banking failures of the global financial crisis is because its banks were generally less exposed to American mortgages and Greek debt than those in the United States and Western Europe. Although its regulators have performed well over the past few years, Africa's regulatory environment and macroeconomic management will need to develop further to oversee cross-border financial institutions and more sophisticated financial products and services.

2. Related to this, as regions globalise and become more exposed to economic shocks, workers and consumers can be exposed to greater volatility in earnings and prices. The greater economic openness in Western Europe following the Second World War was accompanied by the development and deepening of social safety nets that supported workers despite volatility. In Africa, it is public sector workers – in other words, those least exposed to economic volatility – who are the main beneficiaries of existing safety-net regimes. The design and reform of social safety nets in a globalising Africa will undoubtedly become a more important topic on policy agendas than it is at present.

3. Given that many African economies are primarily commodity exporters, policymakers must be attentive to 'resource curse' issues if raw materials and fossil fuels are to be a boon for sustained growth. This requires giving thought to the creation of resource regimes that include, for example, trust funds for the future and other mechanisms to ensure that income from resources is used productively and sustainably.

4. Since African countries will naturally wish to enter higher value-added sectors rather than rely on natural resources for future income streams, policymakers must continue to pursue negotiations with World Trade Organisation members to ensure the creation of a truly level playing field for African exporters. These exporters currently face tariff escalation from advanced economies, which acts as a disincentive to investment in high value-added activities. Many governments pursue value-addition strategies, but do not always fully appreciate the importance of the international context.

5. Finally, as foreign investors increasingly explore opportunities in Africa, policymakers will have to give greater thought to appropriate incentive schemes. These should be focused on attracting investment without encouraging a race to the bottom, which can be damaging fiscally and put foreign firms at a competitive advantage over local competition. Again, policymakers will need to consider how to create level playing fields for foreign investors both across African nations and within them so that the continent reaps the real benefits that these investors bring.

Appendix

A.1 Model description

The purpose of this study is to quantify the effects of Standard Chartered's operations in the African region, with a particular focus on its impact on Africa's regional and international trade. In order to determine this impact, the consultants will elaborate a Socio-Economic Impact Assessment (SEIA) model of the type that has already been developed for Standard Chartered in Ghana, Indonesia and Bangladesh.

Our methodology is based on input-output modelling (first created by the Nobel Prize-winner Wassily Leontief), which combines the financial data of Standard Chartered's Sub-Saharan Africa subsidiaries with the macroeconomic data of the region. In other words, the methodology uses both micro- and macro-economic analysis and relies on corporate financial as well as on official economic data, coupled with a national input-output table based on government statistics.

There are several ways in which the bank creates socio-economic impacts:

1. Standard Chartered supports value added and employment directly through its own operations;
2. Standard Chartered provides onshore term finance (long-term lending that supports capital expenditures) enabling local firms to invest, for example, in new machinery, employees and, ultimately, to increase their output;
3. Standard Chartered provides onshore short-term finance (working capital loans);
4. Standard Chartered supports trading companies by providing funded and unfunded trade finance that helps them to import required inputs and export their output;
5. Finally, as a branch of an international banking group, Standard Chartered mobilises international capital, or offshore financing, benefiting projects (CAPEX investments) and companies in sub-Saharan Africa.

The economic impact of Standard Chartered and its clients is measured primarily in terms of value added (the sum of salaries, profits and tax payments) and full-time equivalent employment. These impacts come about either directly (i.e. created by the bank and its clients), indirectly (i.e. created by suppliers of Standard Chartered and its clients), induced and leveraged effects by households through their additional spending power based on income they have earned by working for all these firms and the effects from households that are able to financially leverage themselves using these incomes.

Outstanding loan amounts and related economic output

In order to quantify the impact of Standard Chartered's loan portfolio for the entire year of 2012 the study focuses on the outstanding loan amounts of as 31 December 2012 assuming that that 'photo' of the portfolio is representative for the entire year and the sectoral division of output associated with Standard Chartered in 2012 as a whole. For example, if the bank made a $100 revolving loan with a duration of 30 days outstanding with a washing machine producer as of 31 December this producer might be able to use these funds to produce one washing machine in December. The economic model applied in this analysis, however, uses annual output figures. Therefore the $100 revolver will be associated with 12 washing machines of annual output and this is the output used in the model. Focusing on outstanding figures at one moment in time is far less data-intensive than analysing figures for each month but leads on a macro-level to directionally correct estimates.

We can then trace the outputs supported by Standard Chartered finance throughout the economy by making use of the input-output tables that we develop. These are based upon official economic data. The quantification relies on the so-called social accounting matrix (SAM) with which the ripple effects of the associated output can be calculated on sector level. The SAM describes the inter-linkages in an economy, depicting how the output of one industry influences another where it serves as an input. For example, the car industry requires steel, tyres, electricity, etc, to produce vehicles while the supplying industries require various inputs to produce good/services they sell to the car industry. A SAM depicts those linkages and therefore essentially makes one industry dependent on another, both as customer of outputs and as supplier of inputs.

Funded versus unfunded trade finance

The outputs related to funded and unfunded trade finance products are estimated in the same way. Funded as well as unfunded trade finance supports real economic transactions and hence should be assumed to have the same impact on outputs and trade flows. For all funded products the related output can be estimated based on the collateral underlying the outstanding loans. For non-funded products the related output is simply the value of the goods covered in letters of credit, guarantees, etc. Further, outstanding trade finance will be distinguished by products related to import and export transactions. Imports related to trade finance are determined by using conversion factors indicating the amount of imported input a particular sector needs to produce its final output. These conversion factors are available for the Global Trade Analysis Project's (GTAP's) macroeconomic data. The related exports are calculated based on the share of a sector's output that is typically exported. This analysis is conducted on a country-by-country level taking national differences in export shares into account.

Term finance and working capital loans

Term finance and working capital loans are converted into firm output based on the production function of the bank's clients. That means that there will not be any differentiation in the allocation of impacts to these two types of finance. Production functions depend on the clients' capital structure. A production function describes a firm's economic output (P) as a function of its inputs, namely capital (K) and labour (L): $P = f(L,K)$. Although classic production functions are written in terms of physical outputs, economic output has been used to allow for different firms to be incorporated more easily. L has been measured in terms of the full-time equivalents (FTEs). Production functions consequently indicate the amount of capital required in various sectors to produce one additional unit of output (capital intensity of production). For SCB's wholesale banking clients K has been defined as firm assets as of 31 December 2012. For SME clients this information is not readily available, so for those companies the report relies on publicly available information on fixed assets by industry and gross output figures by industry. Standard Chartered also provides finance to financial institutions (FIs). To estimate the impact of this finance the total amount provided is broken down into the various economic sectors based on the average country portfolio (for most countries available from the Central Bank) and, just as for SMEs, publicly available assets and gross output figures by industry have been applied to the FI portfolio companies. A full analysis in terms of sales and asset figures of all FI portfolio companies would have gone beyond the scope of this study. For retail finance we have assumed that 100 per cent of the loans provided have been spent.

Local versus international trade finance facilities

Depending on the local context, letters of credit issued by local banks to cover a trade transaction between, for example, Nigeria and China might not be accepted by the counterparty. In this case Standard Chartered may be asked to add a confirmation on the local bank's letter of credit. In other words, Standard Chartered provides a letter of credit confirmation. The study will cover this effect by referring to a multiplier effect estimated by analysing net and gross exposure to trade finance. For example, if the net exposure is $100 million and the gross exposure is $120 million, the $100 million will be the input to the model, however mentioning that a multiplier of 1.2 applies to the results.

Extrapolation

The four individual deep-dive studies assessed serve as a basis for the extrapolation to SCB's impact in Sub-Saharan Africa. Based on the average loans-to-related-impact relation as observed in the four countries, we obtained value-added and employment translation factors. Hereby we distinguish five customer segments (Retail & SME, Commodity Traders & Agriculture, Local Corporates, Global Corporates and Financial Institutions), as well as eight economic sectors. This detailed approach allows estimating the broader economic impact of $1 million given to, for example, an SME operating in agriculture or the impact of a loan given to a local manufacturing corporation. Capital intensities, which determine the related output to a large extent, vary between sectors and segments. This approach enables quantifying the related output controlling for these differences. Finally, the translation factors are applied to a breakdown of the loan books per economic sector and customer segment per country in which SCB is present. This exercise has been executed repeatedly in order to obtain the various breakdowns presented throughout the report.

A.2 Limitations of the approach

The major advantage of the methodology applied in this study is that it allows quantifying the wider (direct, indirect and induced) impacts arising from investing into various economic sectors, both directly and through financial intermediaries (FIs) in terms of both associated value-added (or contribution to GDP growth) and jobs. It is a rigorous academic method that is widely agreed upon and for which Wassily Leontief received the Nobel prize in 1973.

However, it is also important to point out the limitations of this methodology:

1. Given that the analysis is conducted for a specific moment in time, it does not take into account any structural changes of the economy (for example, increased productivity);

2. Estimates are based on historical relations, while the methodology is based on the most recent (macro) economic data available;
3. Equity and debt are treated the same way;
4. Differentiation by size, and hence productivity, of firms within a sector is only made for direct Standard Chartered clients;
5. It does not take into account the effects of Standard Chartered advisory services;
6. Standard Chartered's investments are treated as investments from any other lender and it has been assumed that Standard Chartered's financial support does not affect the relations of sectors within an economy.

Structural changes could be brought about by increasing the productivity, for example by reducing unnecessary or onerous business regulations or improving power supply or transport infrastructure, allowing many firms to be more productive. Structural changes could also be brought about by increasing the skill level of workers: In this study, productivity in Standard Chartered's direct real-sector clients would be captured, but for example productivity improvements of their suppliers would not be captured.

The proportion of the firm's revenues that can then be 'attributed' to the outstanding finance is equal to the share or proportion of newly provided financing out of the borrower's total capital. This means that the various types of financing provided to the recipient (for example, debt, equity or instruments such as guarantees) have been treated in the same way in terms of their impact on the sector's capital structure, and thus its ability to generate more output. This is likely to underestimate the impact of equity financing, as this is generally assumed to allow companies to raise additional capital. This particular limitation of input-output modelling will therefore mean results presented are somewhat conservative. Similarly, the approach taken in this study does not allow differentiation between long- and short-term finance provided.

As the model relies on sector average productivity rates, differentiating the impact of investing in different sizes of company (for example, large corporates, which are generally more productive, compared with investing in smaller SMEs) cannot be addressed. The same applies to direct financing versus indirect financing via FIs, where company size is one of the factors explaining the different extent of related impacts.

Standard Chartered's advisory services can help improve the investment climate and increase access to finance and infrastructure. We have not tried to capture these effects quantitatively, but clearly they can be significant and we provide some qualitative descriptions of such projects.

A.3 Comparison with Ghana 2009 impact study

Steward Redqueen conducted a separate socio-economic impact study of Standard Chartered in Ghana in 2010, based on the bank's performance in 2009. The total onshore assets in 2009 were $287.6 million and the related impact was $400 million and 155,700 jobs. Total on-balance sheet onshore assets in 2012 were $515.4 million, local off-balance exposure is $81.5 million. This means that the local finance exposure in 2012 is 1.8 times the exposure in 2009. In addition to the local finance, this 2012 study also looks into $635.3 million of international finance Standard Chartered provided to Ghana. Total related impact in 2012 is $1,397 million and 283,000 jobs. While the value added impact is very much in line (similar impact per $1 million of assets), significantly fewer jobs are supported.

The differences in the related job results by $1 million invested are largely caused by revised GDP figures as published by the Statistical Office of Ghana utilised as input to the model. As data are scarce, local authorities had calculated overall GDP for 2009 based on 1993 'base-year' information; in 2010 this base year became 2006. This led to a sudden growth of the Ghanaian economy of 60 per cent. As a result, the labour productivity in the 2012 study is significantly higher than the one in the 2009 study, meaning that relatively fewer workers are required to produce the same amount of output.

The same micro-level client information has been used by both studies. Client level information obtained in 2009 has also served as an input to the 2013 study but total outstanding loan amounts have been updated to December 2012 instead of December 2009.

The results estimated based on the inputs mentioned above show that in the more recent study $1 million of finance supports about half as many jobs as was the case in 2010. This is mainly due to large productivity gains, among other factors caused by the new statistics made available by local agencies, in labour-intensive sectors such as agriculture, wholesale and retail as well as public services.

TABLE A.1: TOTAL IMPACT ASSOCIATED WITH $1 MILLION PROVIDED TO THE VARIOUS CLIENT SEGMENTS

Client segment	Economy-wide value added 2013	Economy-wide value added 2010	Economy-wide employment 2013	Economy-wide employment 2010
Retail Banking	0.9	0.5	222	223
Small Medium Enterprises (SME)	3.8	3.8	862	1,715
Local Corporates	1.1	1.2	247	483
Commodity Traders & Agriculture	1.0	1.3	187	570
Global Corporates	1.0	1.0	281	544
Weighted Average	1.2	1.1	278	509

TABLE A.2: TOTAL IMPACT ASSOCIATED WITH $1 MILLION PROVIDED TO THE VARIOUS ECONOMIC SECTORS

Client segment	Economy-wide value added 2013	Economy-wide value added 2010	Economy-wide employment 2013	Economy-wide employment 2010
Agriculture	0.9	6.5	349	6,831
Mining & Quarrying	1.0	1.0	114	40
Manufacturing	1.2	0.8	361	261
Utilities	0.6	1.3	112	79
Construction	1.1	1.3	177	79
Services	1.5	2.2	249	284
Transport & Communications	1.4	1.0	217	321
Wholesale & Retail	1.2	1.7	208	1,456
Weighted Average	1.2	2.0	278	1,298

A.4 Economic sector classification of model applied

Agriculture
Horticulture
Paddy rice
Wheat
Other grains
Vegetables, fruit, nuts
Oil seeds
Sugar cane, sugar beet
Plant-based fibres
Other crops
Cattle
Other animal products
Raw milk
Wool, silk-worm cocoons

Mining & Extraction
Forestry
Fishing
Coal
Oil
Gas
Other mining

Manufacturing
Cattle meat
Other meat
Vegetable oils and fats
Dairy products
Processed rice
Sugar
Food products
Beverages and tobacco products
Textiles
Wearing apparel
Leather products
Wood products
Paper products, publishing
Petroleum, coal products
Chemical, rubber, plastic products
Mineral products
Non-metallic minerals
Iron and steel
Non-ferrous metal
Fabricated metal products
Motor vehicles and parts
Transport equipment
Electronic equipment
Other machinery and equipment
Other manufacturing

Utilities & Construction
Electricity
Gas manufacture, distribution
Water
Construction

Wholesale & Retail
All retail sales
Repairs of motor vehicles and personal and household goods
Retail sale of automotive fuel
Wholesale trade and commission trade
Hotels and restaurants

Transport & Communication (Transport/Communication)
Transport
Water transport
Air transport
Communication

Services (Financial/Public/Social Services)
Other financial intermediation
Insurance
Other business services
Recreation and other services
Other governmental services
Dwellings

About the report and acknowledgements

Standard Chartered commissioned this report to gain an understanding of its impact in Sub-Saharan Africa. The bank aims to contribute to social and economic development in the more than 68 markets where it operates. It hopes that the report's findings will help to inform its future strategy.

The report was produced between June and December 2013. It draws mainly on official statistics from the central banks and national statistics offices in Ghana, Nigeria, Kenya, Zambia, data from the Global Trade Analysis Project (GTAP) as well as corporate data from Standard Chartered in Sub-Saharan Africa.

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