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The CFO Report 2016 – West Africa

Resilience in any climate

Foreword

We are delighted to present the third Deloitte CFO Survey report for West Africa. This report offers a glimpse of the views, expectations and challenges of CFOs in Ghana and Nigeria as they negotiate particularly tough global and local economic fluctuations.

There are times when CFOs feel they are the single voices of reason in their organisations and this survey is aimed at providing them with a yardstick to measure how they are reading the business environment in relation to their peers.

Conducted in May and June this year, the research gives an indication of how CFOs view the economy and the performance of their operations within the broader economic context. It also provides insight into industry challenges, how CFOs intend to spend their companies' cash and what strategies they have adopted to enhance the performance of their organisations.

The West African results are presented alongside the collective views of CFOs in East Africa, Southern Africa and South Africa. East African respondents hail from Kenya, Uganda, Tanzania and Ethiopia while the Southern African sample incorporates input from CFOs in Angola, Botswana, Malawi, Mozambique, Zambia and Zimbabwe.

CFO responses in South Africa were not included in the Southern African sample as they numbered 146 compared to 141 respectively and we were concerned this would skew the results significantly. For an overview of the respondent profile see page 25 of this report.

We understand the CFO role is not an easy one and requires a high degree of fortitude, particularly in challenging economic times. As an integrated African firm, we are committed to providing CFOs with information and support that will give them the edge when it comes to making informed decisions and addressing thorny issues in their daily work lives. In this respect, we trust the survey will deliver useful insights and information to our valued clients and readers.

Fatai Folarin
CEO and West Africa Regional Leader

Key responses

What did West African CFOs tell us?

- CFOs in West African countries are less optimistic about their companies' performance in 2016 than their East African counterparts, but more optimistic about their performance in 2017 and 2018 than East African CFOs.
- Currency volatility, the political landscape and disruptive power supplies are regarded as top risk factors for West African CFOs.
- Capital is seen as costly and not readily available to West African CFOs.
- Top job stresses for West African CFOs include changing regulatory requirements and excessive workloads.

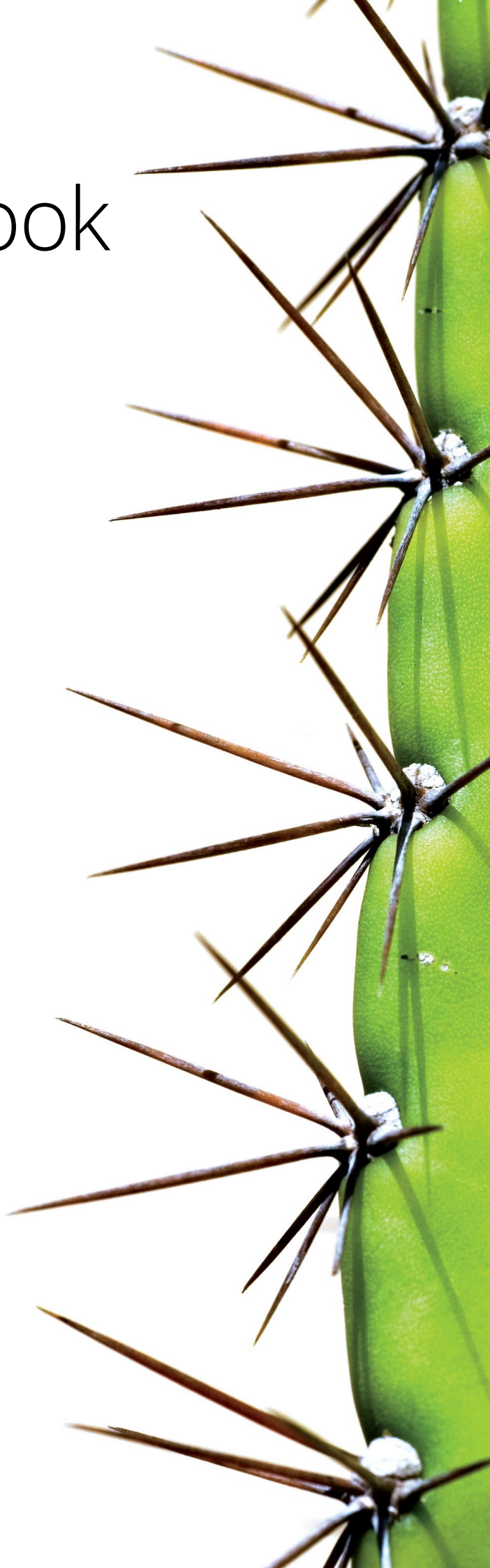
What are they doing about it?

- Improving current operations and repaying debt are the top cash-flow priorities for West African CFOs.
- Ghanaian CFOs intend to invest in new capacity.
- This year, West African CFOs will focus on improving operational efficiency and process optimisation.
- Additional strategic measures include the reduction of operating costs and finding ways to improve investor confidence.

Nature of the results

This survey as it relates to Ghana and Nigeria is a "pulse survey" intended to provide CFOs with information regarding CFO thinking in the two countries across a variety of topics. It is not, nor is it intended to be, scientific, including in its number of respondents, selection of respondents, or response rate. Accordingly, references to Ghana and Nigeria summarise findings for the two countries, but do not necessarily indicate economy- or industry-wide perceptions or trends. The regional data for the collective Southern, East and West African regions is, however, scientific as minimum sample sizes were achieved.

Economic outlook



Ingenuity crucial to weathering tough times

Operating in a tough economic environment that is characterised by low commodity prices, depreciating currencies and diminishing demand from large trading partners, has made the role of the CFO operating in sub-Saharan Africa tougher than ever.

Fortitude will continue to be the watchword for companies' stewards in 2016 and beyond as they strive to find creative ways to deal with their current challenges, boost company performance and increase shareholder value.

Interest rate hikes expected

The majority of CFOs in West Africa (78%) expected short-term interest rate increases of 100 basis points or more in 2016. A closer look at the two countries surveyed shows that 88% of Nigerian CFOs and 66% of Ghanaian CFOs expected an interest rate increase in 2016, while 6% of Nigerian and 33% of Ghanaian CFOs expected the interest rate to remain the same for the rest of the year.

When this survey was conducted in May and June 2016, Nigerian CFOs were probably anticipating the interest rate hike of July 2016, which saw it raised by 200 basis points to 14%. In Ghana, the interest rate was held at 26% in July, remaining unchanged for the fifth consecutive meeting.

In South Africa, an overwhelming 91% of CFOs expected short-term interest rate increases of 100 basis points or more in 2016, while only 49% of Southern African CFOs expected an increase in 2016. In East Africa, 45% of respondents expected an interest rate increase in 2016 and 36% expected it to remain unchanged.

The inevitability of interest rate increases for CFOs in West Africa and South Africa probably makes for more circumspect decisions around the incurring of debt, interest repayments and stress on free cash flow. CFOs in East Africa and Southern Africa should however be able to approach debt financing with more confidence.

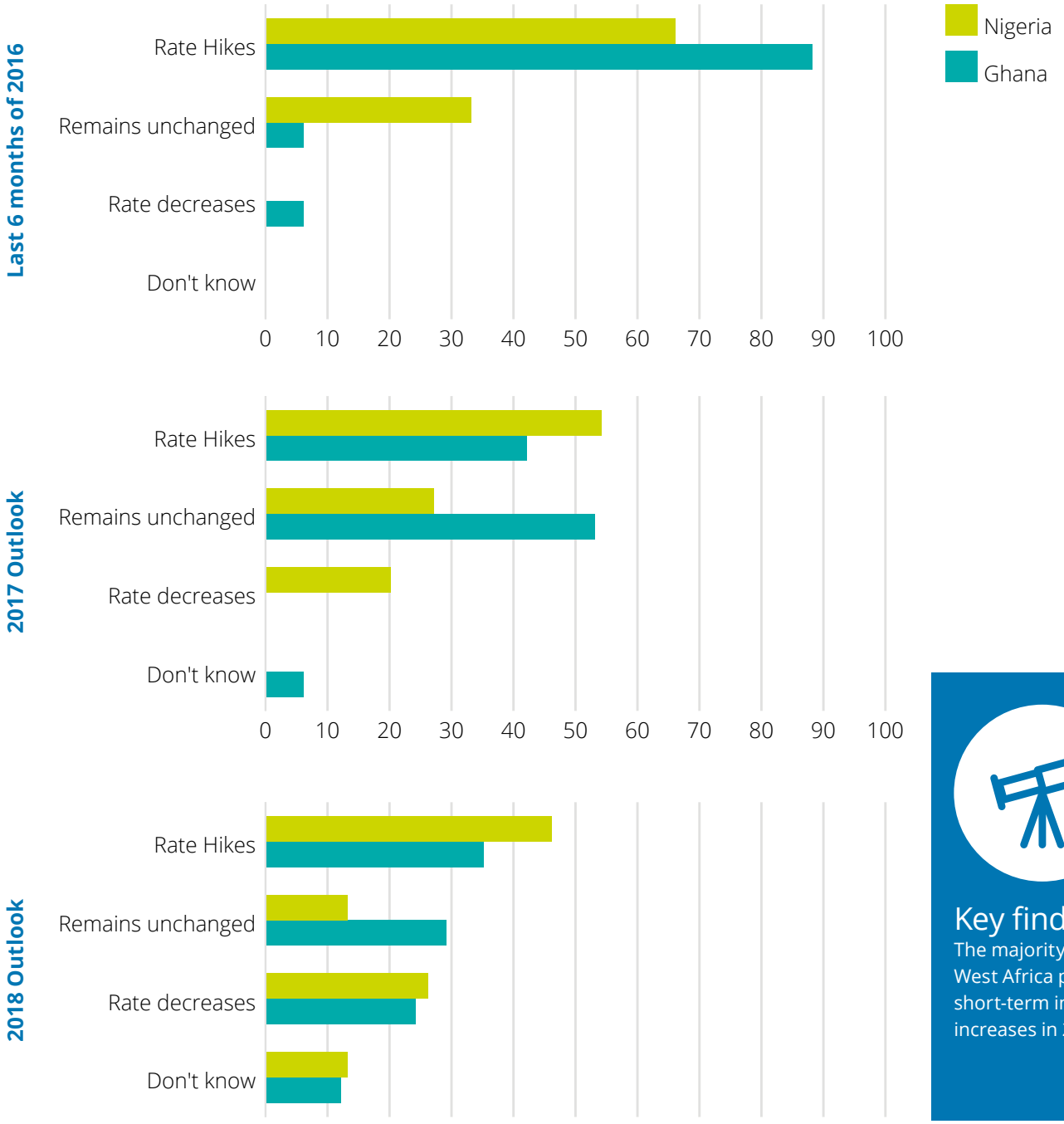
Looking ahead, 47% of respondents in West Africa expect the interest rate to increase in 2017 and 41% expect it to remain unchanged. In 2018, 41% expect it to increase, 22% expect it to remain unchanged and 25% predict it will decrease.

Ghana is somewhat less optimistic about the interest rate with 54% and 46% of CFOs expecting it to increase in 2017 and 2018 respectively compared to Nigeria where 42% and 35% of respondents expect rate hikes in 2017 and 2018 respectively.

In East Africa, 63% of respondents expect the interest rate to increase in 2017 and 48% in 2018 while 55% of respondents in Southern Africa expect the interest rate to increase in 2017 and 39% expect it to increase in 2018.

In South Africa, 61% of respondents expect the rate to increase in 2017, while they are more optimistic about 2018 when the expectation of an increase drops quite dramatically to 23%.

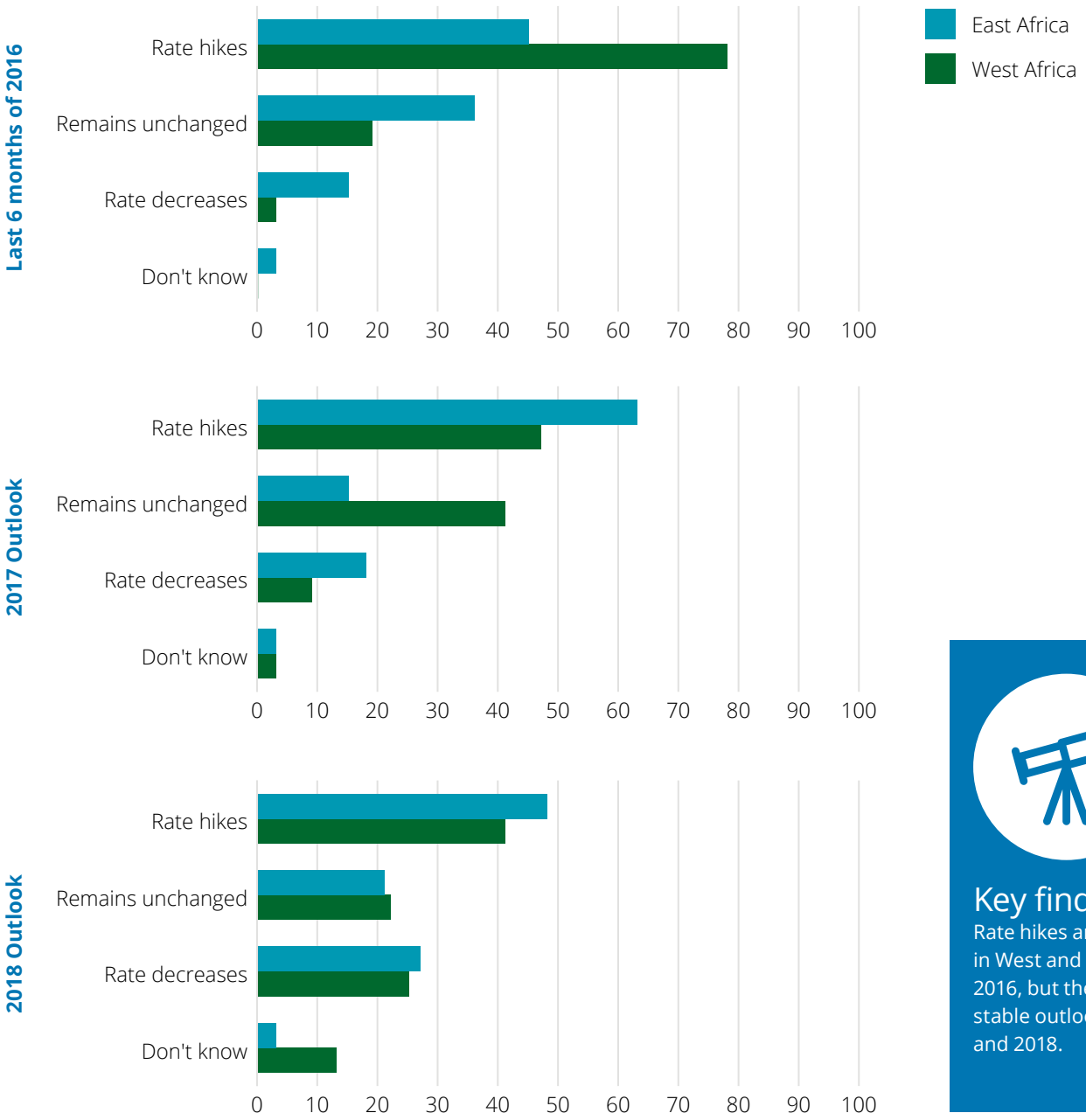
Figure 1
Short-term interest rate prospects – Nigeria vs Ghana



Key finding:

The majority of CFOs in West Africa predicted short-term interest rate increases in 2016.

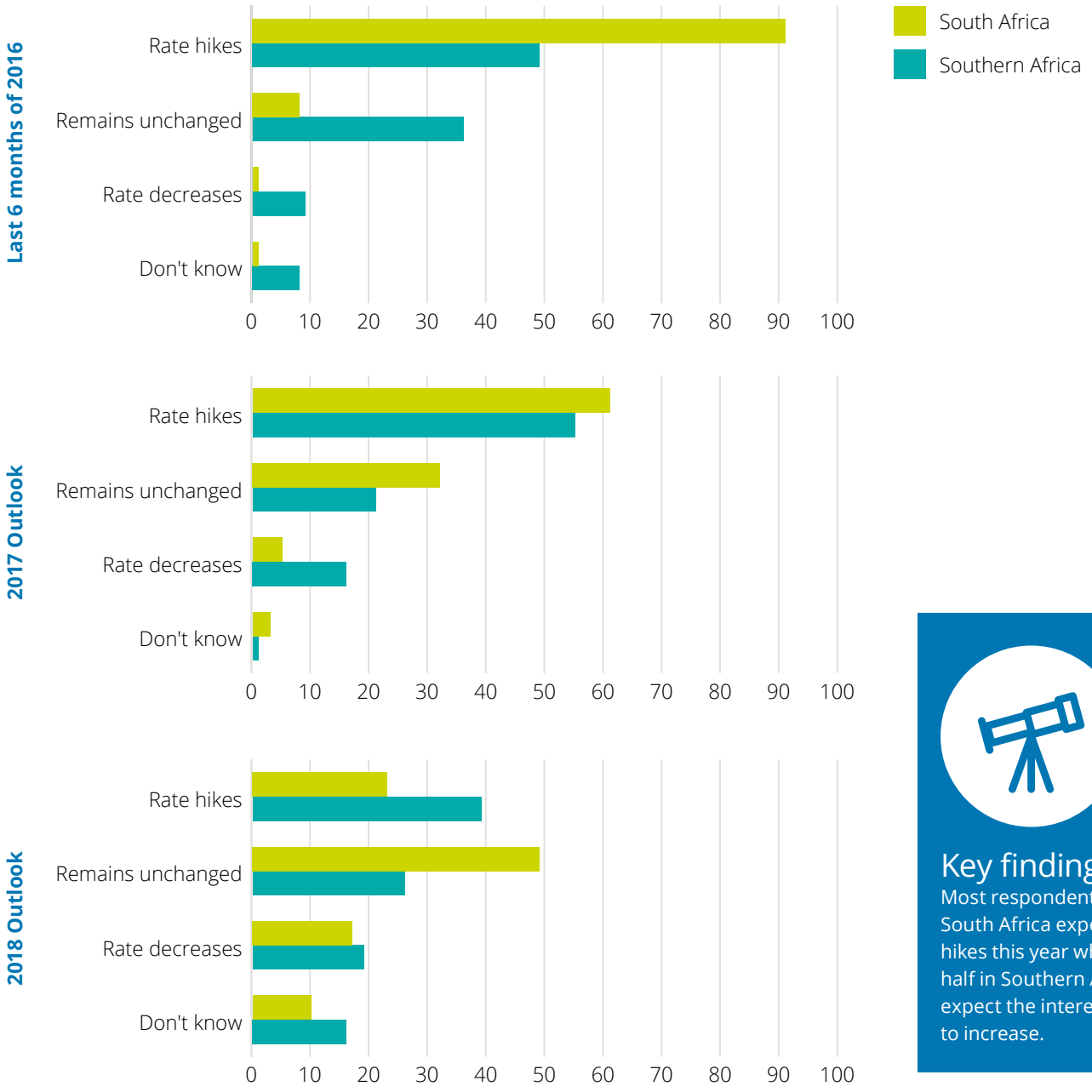
Figure 2
Short-term interest rate prospects – East Africa vs West Africa



Key finding:

Rate hikes are expected in West and East Africa in 2016, but there is a more stable outlook for 2017 and 2018.

Figure 3
Short-term interest rate prospects – South Africa vs Southern Africa



Key finding:

Most respondents in South Africa expect rate hikes this year while only half in Southern Africa expect the interest rate to increase.

Business outlook

Divergent views on future company performance

This year's survey reveals CFOs in West Africa and East Africa have a somewhat more positive outlook for their companies' performance in 2016 than CFOs in Southern Africa.

In West Africa, Ghanaian CFOs are more optimistic about their companies' performance in 2016 than Nigerian CFOs. While 73% of Ghanaian respondents expect an improvement in performance during the last six months of 2016, only 53% of Nigerian CFOs expect the same.

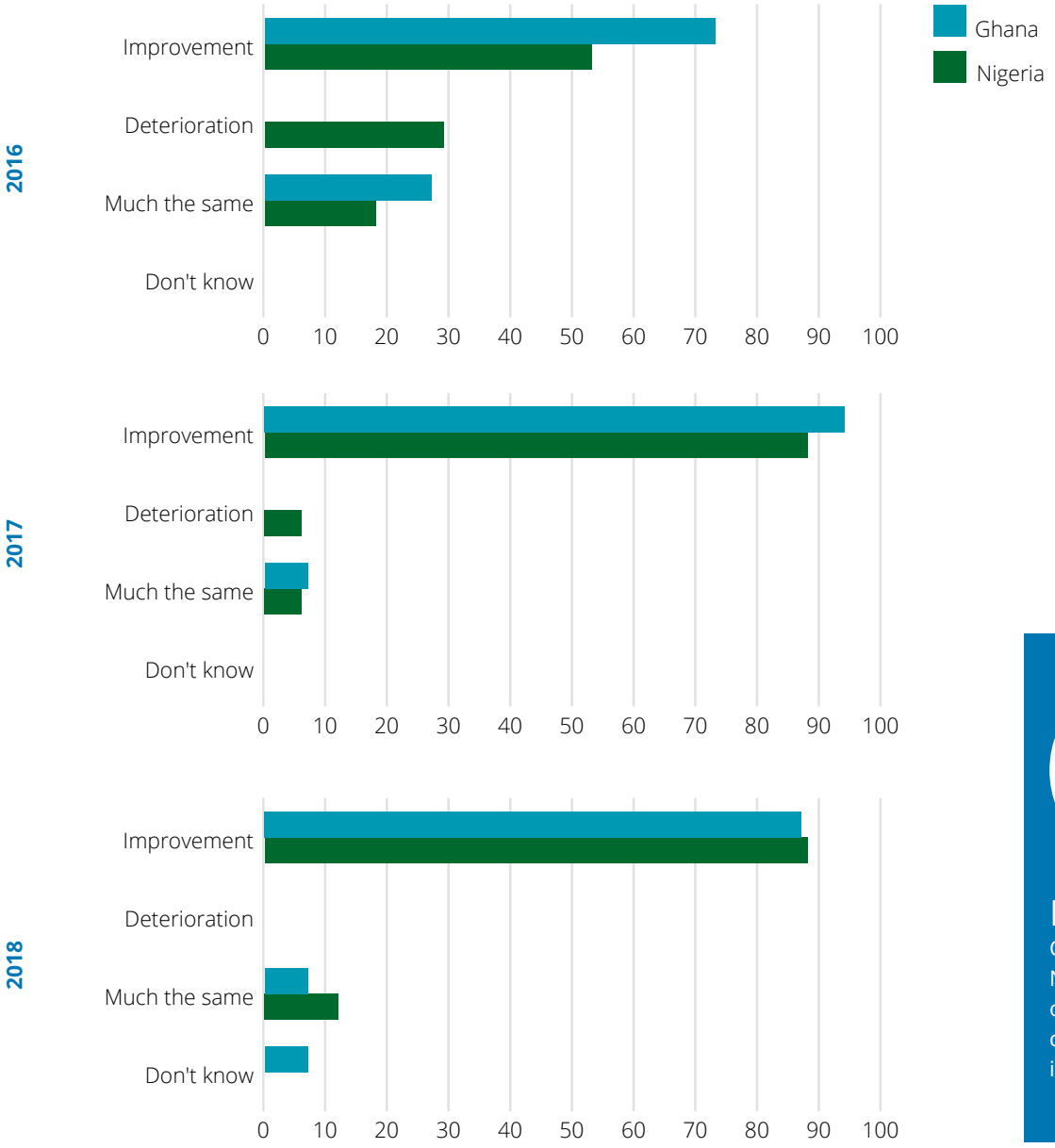
CFOs in Ghana and Nigeria are, however, highly optimistic about their companies' performance in 2017 and 2018. This year has been particularly challenging for Nigeria as the new government has been slow to tackle the key economic challenges. CFOs are probably looking forward to the introduction of a clear economic blueprint and improved policy consistency in 2017 and 2018.

Overall, CFOs in East Africa are fairly optimistic, with 69% expecting their companies' performance to improve in 2016. The longer-term view is also positive with 81% and 82% of respondents expecting an improvement in 2017 and 2018 respectively.

In Southern Africa, 48% of CFOs expect an improvement in company performance in 2016. Only 23% expect it to remain the same and 28% expect a deterioration in performance. The outlook is considerably more positive over the next two years, with 70% expecting a slight or significant improvement in 2017 and 80% expecting the same in 2018.

South African CFOs are not highly optimistic about the performance of their companies in 2016 with 57% expecting a slight or significant improvement in performance compared to 61% in 2015. Looking to 2017 and 2018, CFOs in South Africa are far more optimistic about performance with 76% expecting a slight or significant improvement in 2017 and 83% anticipating better performance in 2018.

Figure 4
Expected performance 2016 – Ghana vs Nigeria



Key finding:

CFOs in Ghana and Nigeria are highly optimistic about their companies' performance in 2017 and 2018.

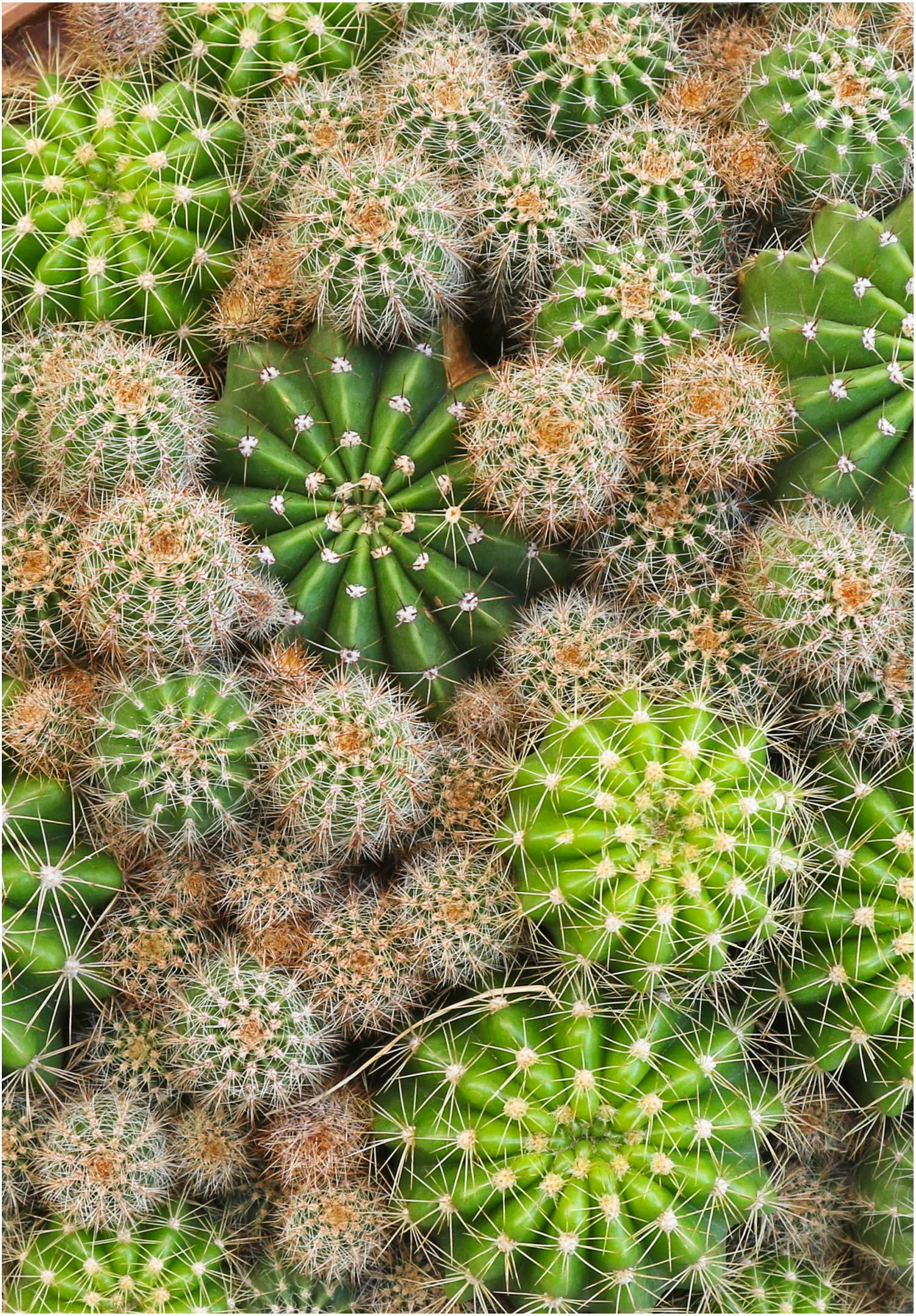
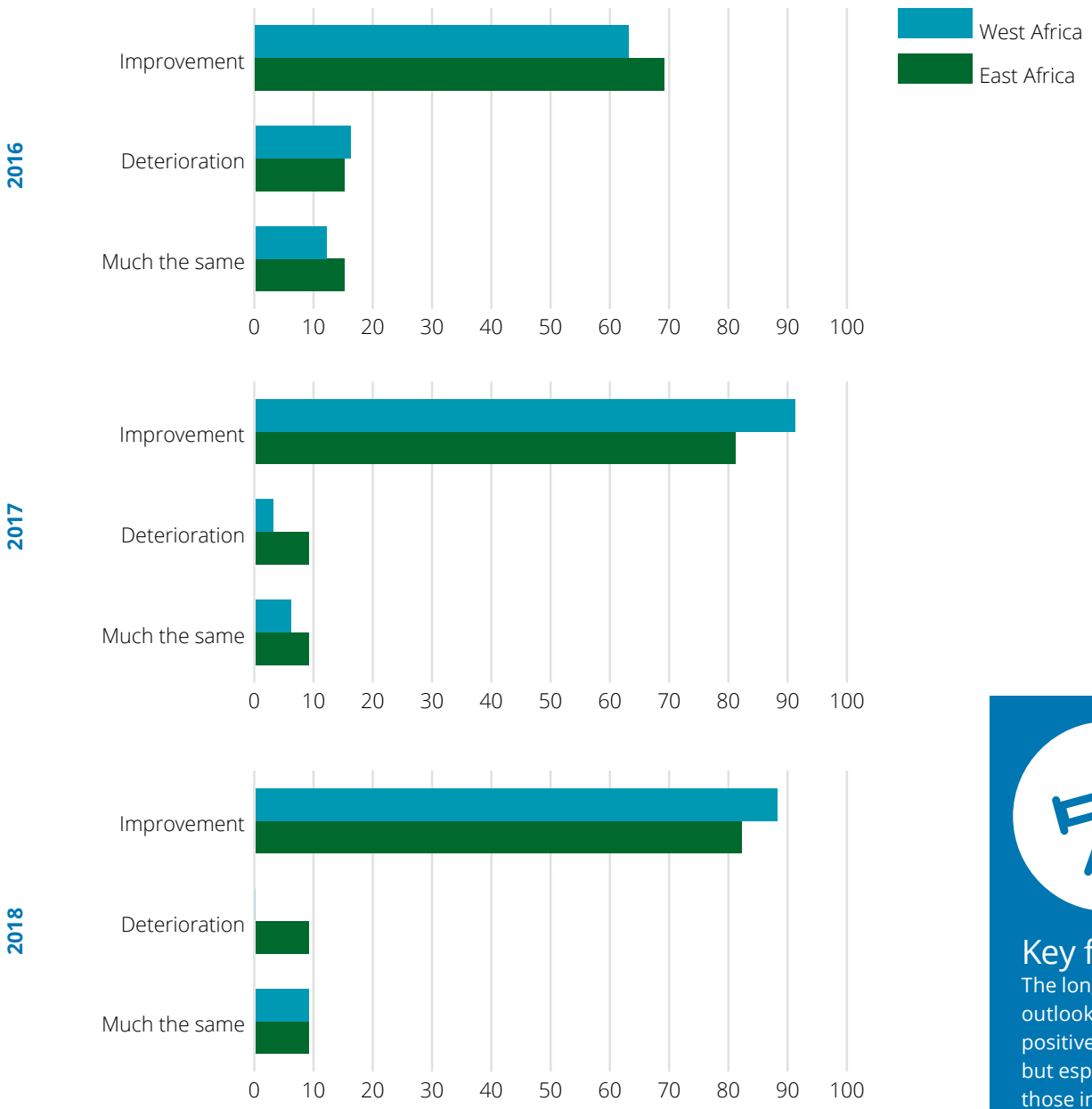
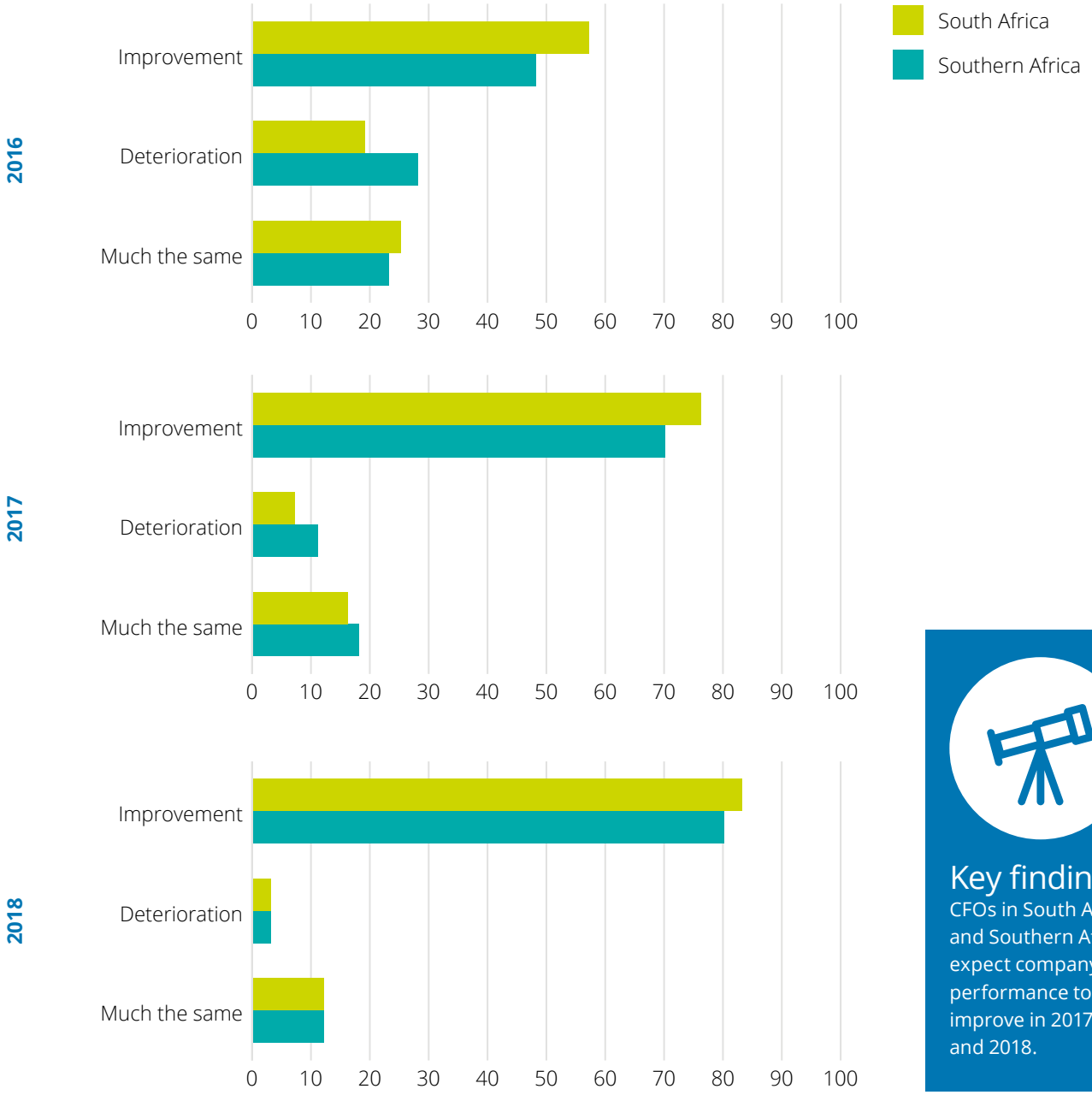


Figure 5
Expected performance for 2016 – West Africa vs East Africa



Key finding:
The longer-term outlook is more positive for all CFOs, but especially for those in West Africa.

Figure 6
Expected performance 2016 – South Africa vs Southern Africa



Key finding:

CFOs in South Africa and Southern Africa expect company performance to improve in 2017 and 2018.

Political landscape and currency volatility are top risk factors

In West Africa, 78% of Nigerian and Ghanaian CFOs identified currency volatility as the most significant risk to conducting business. Despite a contracting economy and increasing inflation risk, Nigeria's response had been to maintain a 12% interest rate until June 2016 when it was increased to 14%. Ghana, on the other hand, has tried to balance the risk of inflation and currency volatility by maintaining a high interest rate of 26% for the past five quarters.

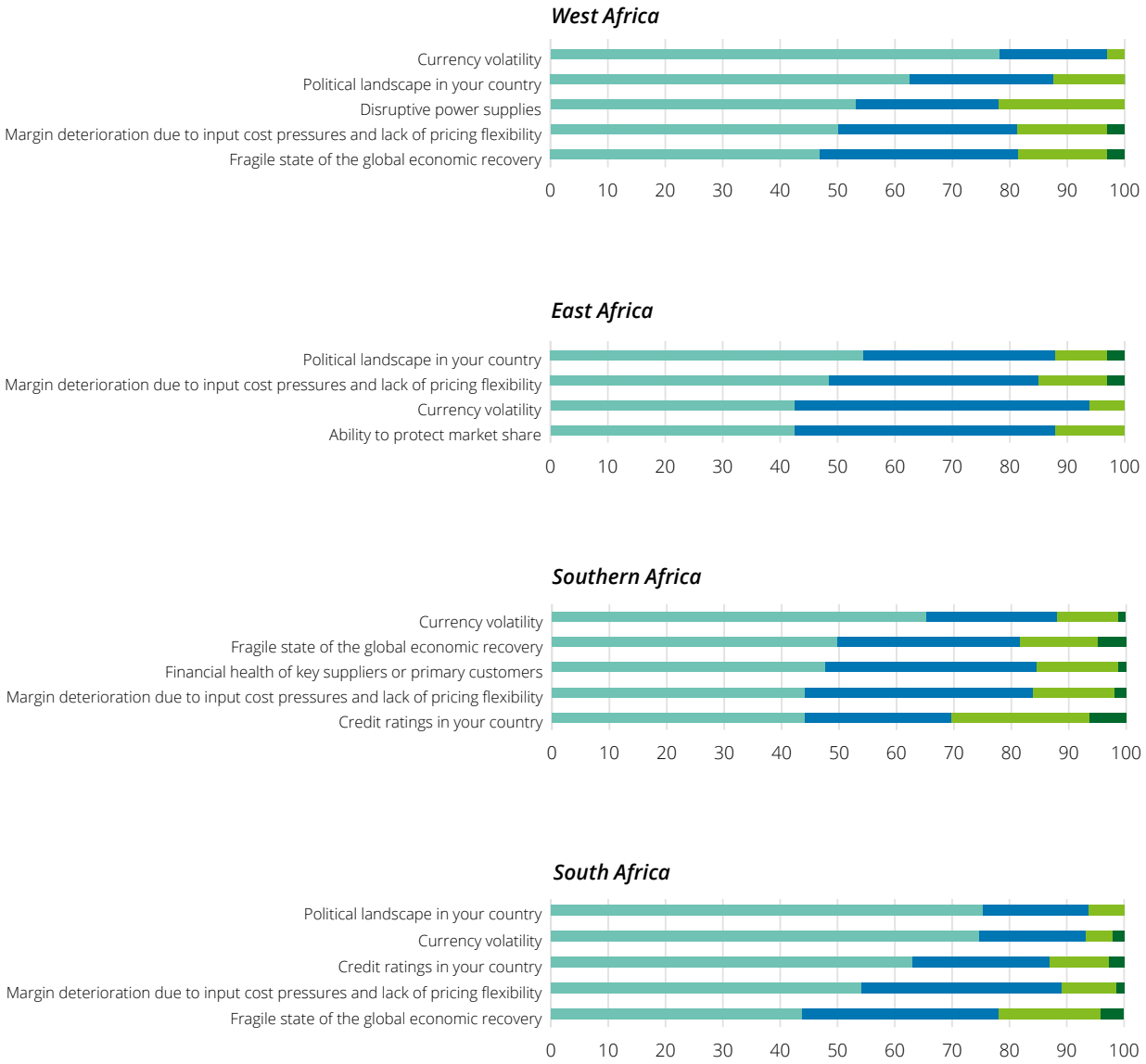
In addition to currency volatility, West African respondents singled out the political landscape (62%), disruptive power supplies (53%), margin deterioration due to input cost pressures (50%) and the fragile state of the global economy (47%) as the most significant risk factors.

For 54% of East African CFOs, the political landscape presents the greatest risk to their businesses, followed by margin deterioration due to input cost pressures and lack of pricing flexibility (48%); currency volatility (42%) and ability to protect market share (42%).

In Southern Africa, 65% of CFOs view currency volatility as the primary risk factor followed by the fragile state of the global economy (49%); the financial health of key suppliers or primary customers (47%); and margin deterioration due to input cost pressures and lack of pricing flexibility (44%).

This picture changes somewhat for South Africa where the political landscape continues to top the list of risk factors with 75% viewing it as a significant risk. Currency volatility (75%), country credit ratings (63%) and margin deterioration due to input cost pressures and lack of pricing flexibility (54%) are cited as the next three significant risks.

Figure 7
Risk factors



Key finding:
Currency volatility is regarded as a key risk for CFOs across the continent.

Cash for improving operations

The tough economic landscape is compelling CFOs to be more circumspect in prioritising cash flow. This year's survey results show the focus for the majority of CFOs is once again on improving operations, a recurrence of their top priority in 2015.

Higher risk endeavours such as investing in new markets, new innovations or new products are once again lower on the list of priorities, while retaining cash for liquidity, investing in new capacity and repaying debt are what most CFOs will be spending their cash on this year.

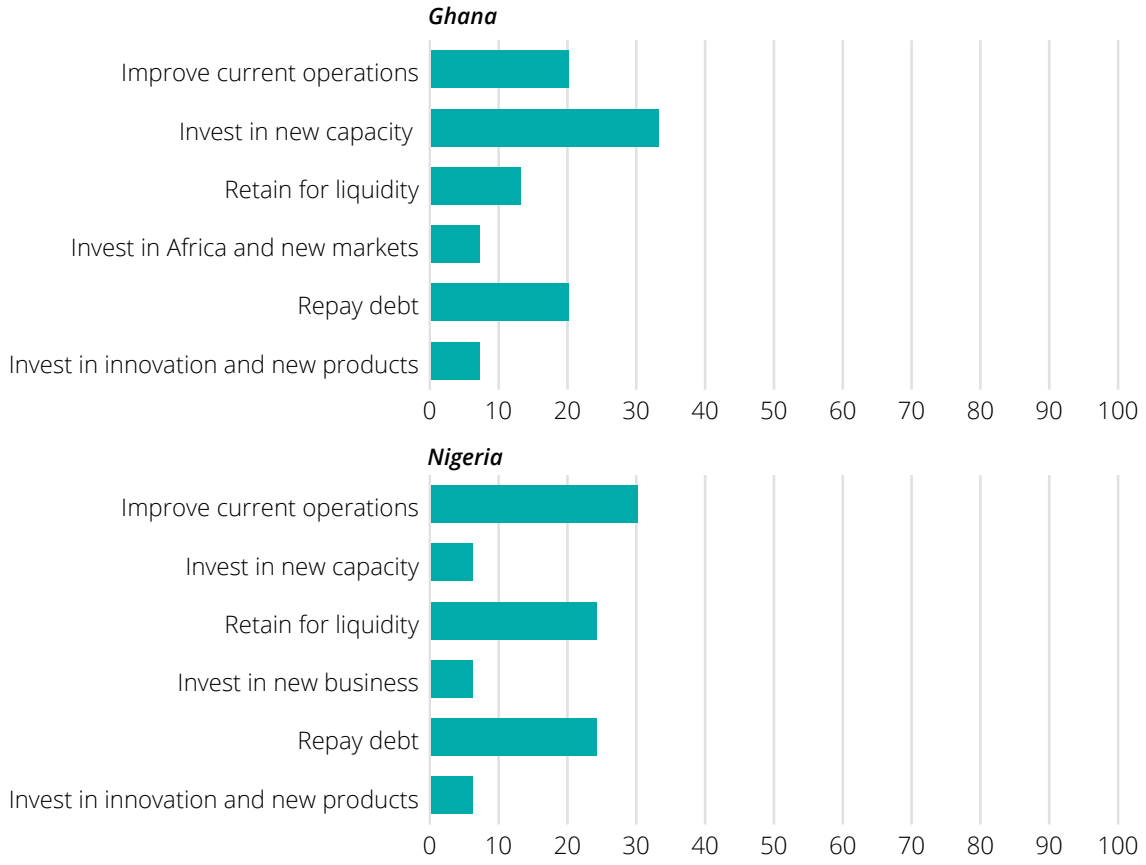
While improving current operations has been identified as the top priority for West Africa, a closer look at the two countries shows 35% of Nigerian CFOs have underlined improving current operations as the top priority, but 33% of Ghanaian CFOs identified investing in new capacity as the top priority.

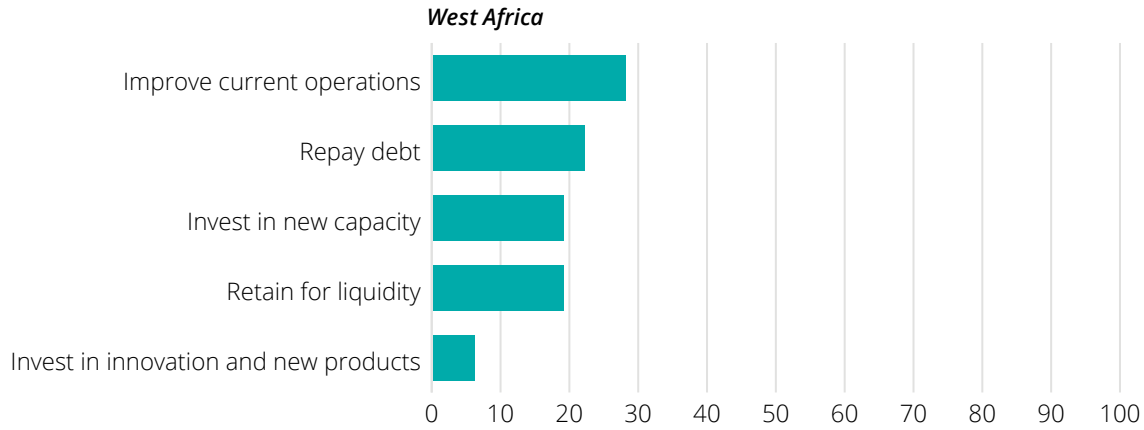
This is not surprising, given the directive by the Institute of Chartered Accountants Ghana (ICAG) that all companies in Ghana convert to International Financial Reporting Standards (IFRS) for the year ended 31 December 2015 financials. This has seen many CFOs invest in new capacity to meet the challenges presented by adhering to the new standards.

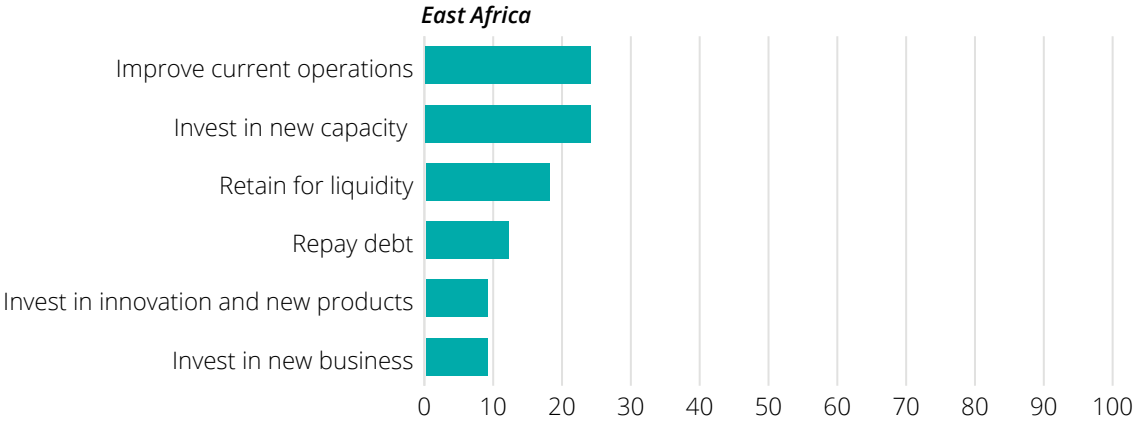
Southern Africa and South Africa identified improving current operations as a top priority, but this trend differs slightly in East Africa where the primary focus is on investing in new capacity as well as improving current operations, followed by retaining cash for liquidity and repaying debt.

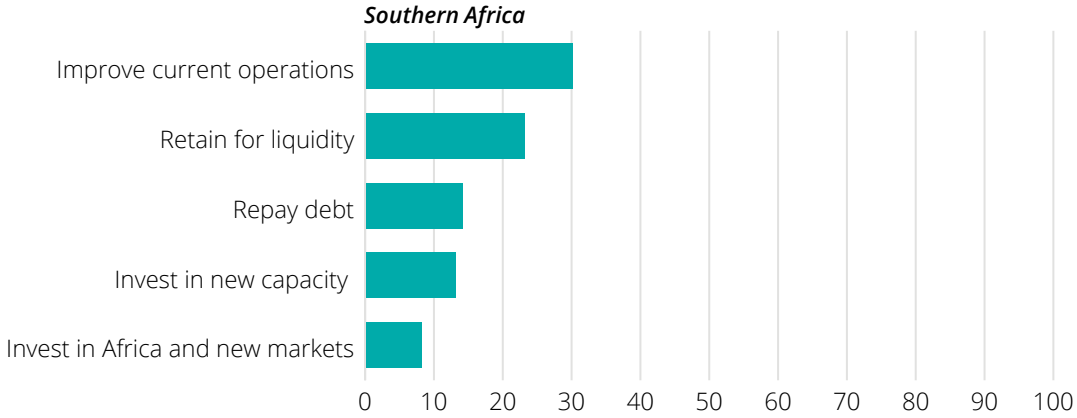
Investing in Africa and other new markets is fourth on the list of priorities for South African CFOs, but is not a major priority for respondents surveyed in West and East Africa where they are more focused on growth in their own markets.

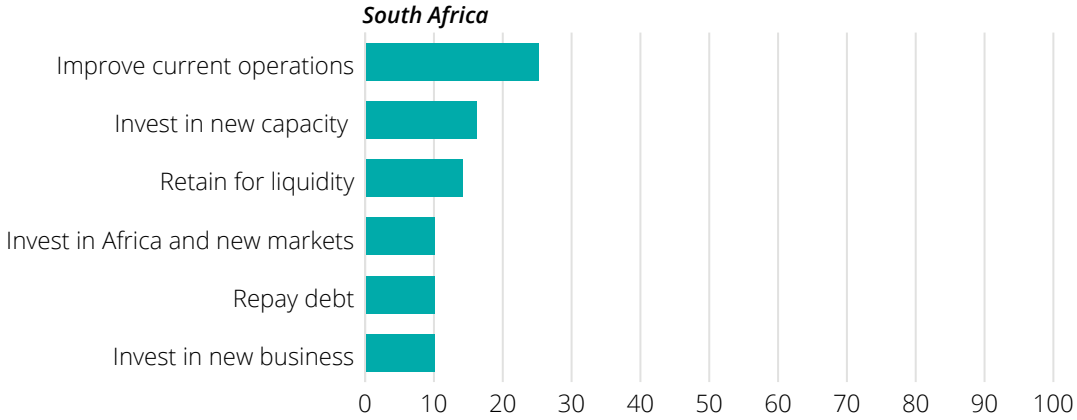
Figure 8
Cash flow priorities











Key finding:

Most CFOs will be channelling their cash into improving current operations.

The high cost of capital

The majority of survey respondents say the cost of new funding is expensive. Uncertainty around future growth prospects and long-term profits means CFOs are probably cautious about obtaining expensive funding.

In Nigeria and Ghana, a hefty 87% of CFOs see capital as costly, up from 83% in 2015. In East Africa 72% of CFOs view the cost of capital as expensive. This is similar to 2015 when 71% thought capital was costly.

For 63% of South African CFOs, capital is viewed as fairly or very expensive, down from 71% in 2015. The picture is somewhat different for Southern Africa where 80% of respondents view the cost of new funding as expensive, significantly up from 60% in 2015.

Only 37% of respondents in West Africa say funding is somewhat or easily available and 56% say it is hard to get. The picture is different for East Africa where 69% of East African CFOs believe funding is readily available. The more challenging scenario in West Africa is probably exacerbated by fluctuating oil prices.

Some 57% of South African CFOs say funding is somewhat or easily available, while 30% say it is hard to get. In Southern Africa, 50% of CFOs view capital as somewhat or easily available, which is down from 53% in 2015.

Figure 9
Cost of new funding – Nigeria vs Ghana

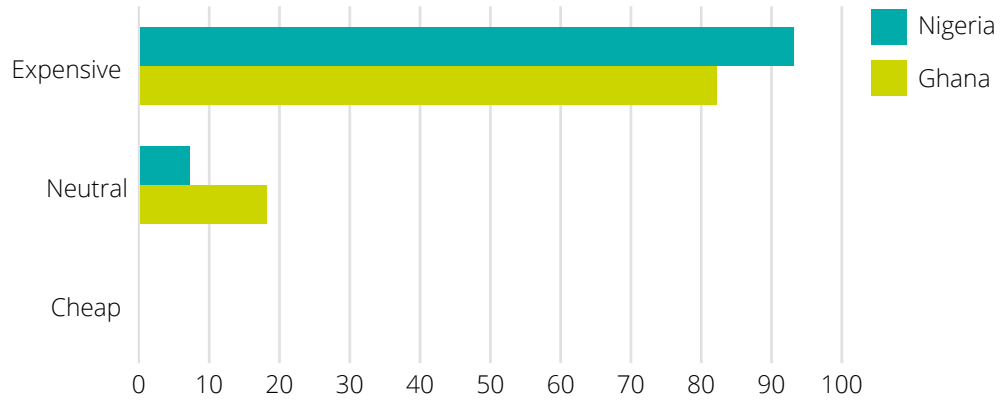
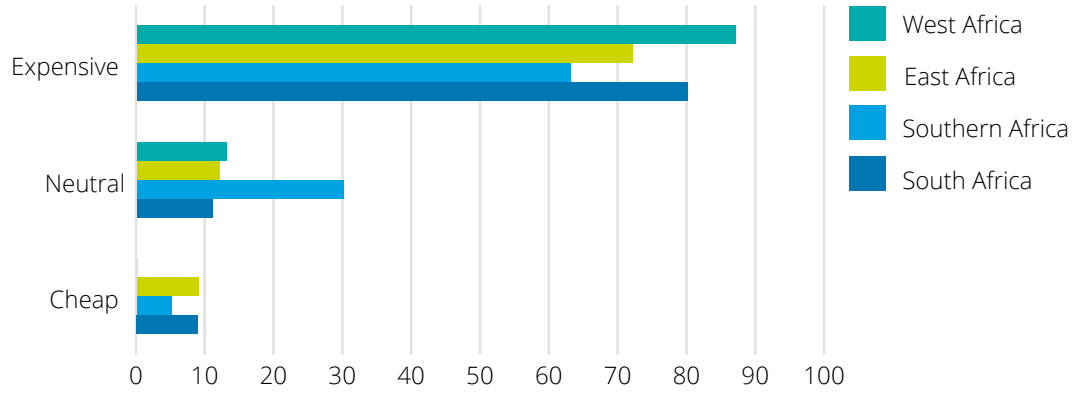


Figure 10
Cost of new funding – all regions



Key finding:

The cost of new funding is regarded as expensive by the majority of respondents, which has implications for funding growth and working capital.

CFOs adopt defensive strategies

West African CFOs are tightening their belts and have shifted focus from customer acquisition and retention in 2015 to improving operational efficiency and optimising processes as their primary strategic thrusts for 2016.

The adoption of survival strategies by Nigerian and Ghanaian CFOs makes sense as both countries attempt to hedge against and recover from the fluctuating oil price and attendant decline in government revenue. In Ghana, the situation was exacerbated by government's move to increase tax revenue resulting in higher utility prices and taxes.

Other crucial areas on the radar for West Africa's financial stewards include reducing operating costs and improving investor confidence.

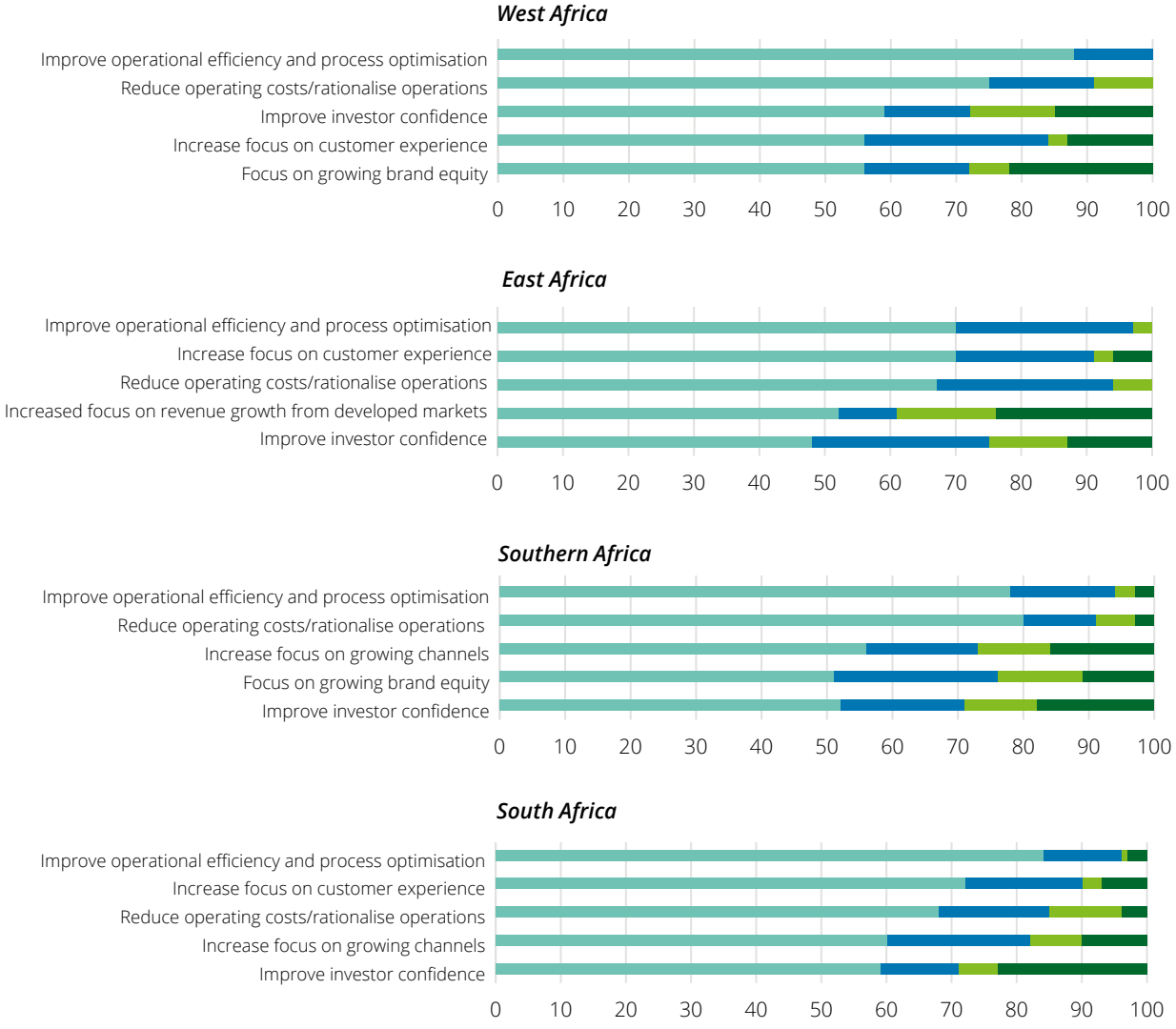
Nigeria, in particular, experienced a decline in investor confidence following the floating of its currency and drop in global oil prices in 2015 and recorded a 53% drop in capital inflows. The government has, however, stated its intention to "provide clarity on policy direction, increase monetary policy credibility, raise the tax-to-GDP ratio and improve security" to attract foreign investors back to Nigeria.

In East Africa, the strategic focus is once again on improving operational efficiency and process optimisation as well as trying to reduce operating costs. CFOs will also focus on customer acquisition and retention, growing brand equity and channels and pursuing revenue growth from developed markets.

In Southern Africa, CFOs are most concerned about improving operational efficiency and process optimisation as well as reducing operational costs. They are also focusing on growing brand equity and growing channels. This differs from 2015 when the primary focus was on improving investor confidence, a result that was probably swayed by South Africa's inclusion in the Southern African sample in that year.

South African CFOs say they will focus on improving operational efficiency and process optimisation this year. Also on their radar is customer acquisition and retention, and the reduction of operating costs.

Figure 11
Strategic approach



- Currently flowing
- Still likely to adopt in 2016
- Potential future focus
- Not a focus at all

Key finding:

This year, CFOs throughout Africa will be focusing on improving operational efficiency and process optimisation.

Africa remains a growth prospect despite setbacks

Africa continues to be a growth prospect despite its devaluing currencies and other economic issues. While the continent's lacklustre economy saw foreign direct investment (FDI) inflows decrease by 7% in 2015, there are growth opportunities for investors who are prepared to adopt a long-term view.

Some of these opportunities emanate from an increased demand for residential and commercial real estate, infrastructure development projects and consumer growth, which is creating greater demand for goods and services.

Many companies already invested in Africa are taking a long-term view of the continent's future, consolidating their operations and putting major growth projects on the backburner until they can be revisited in more robust times.

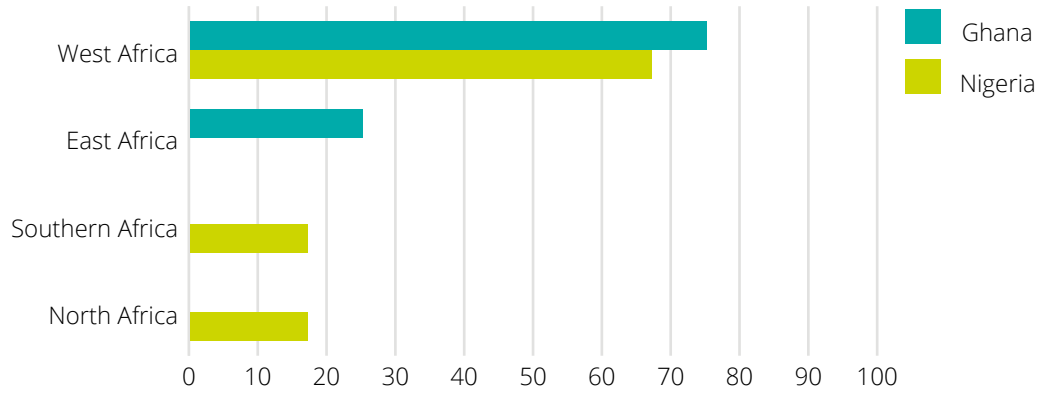
Notably, 79% of West African, 90% of East African and 90% of South African CFOs cite growth as their main reason for investing in sub-Saharan Africa. While 68% of Southern African respondents cite growth as their reason for investing on the continent, 15% say it is a directive from their parent companies and 9% say they are following instructions from headquarters.

Some 73% of Ghanaian respondents point to growth as their main reason for investing in other parts of Africa, down from 89% last year. Other reasons include a directive from a parent company (13%), following instructions from headquarters (7%) and competitors entering the market (7%). Likewise, in Nigeria, 85% of CFOs cited growth opportunities as their reason for investing in other regions, up from 57% in 2015. The remaining 15% were following instructions from headquarters.

Only 63% of Ghanaian CFOs surveyed said their companies had recently expanded to other regions. Of these, 75% expanded within West Africa and 25% expanded to East Africa.

Some 67% of Nigerian CFOs surveyed indicated their companies had recently expanded within their own region while 17% said they had expanded to Southern Africa and 17% to North Africa.

Figure 12
Areas of recent expansion



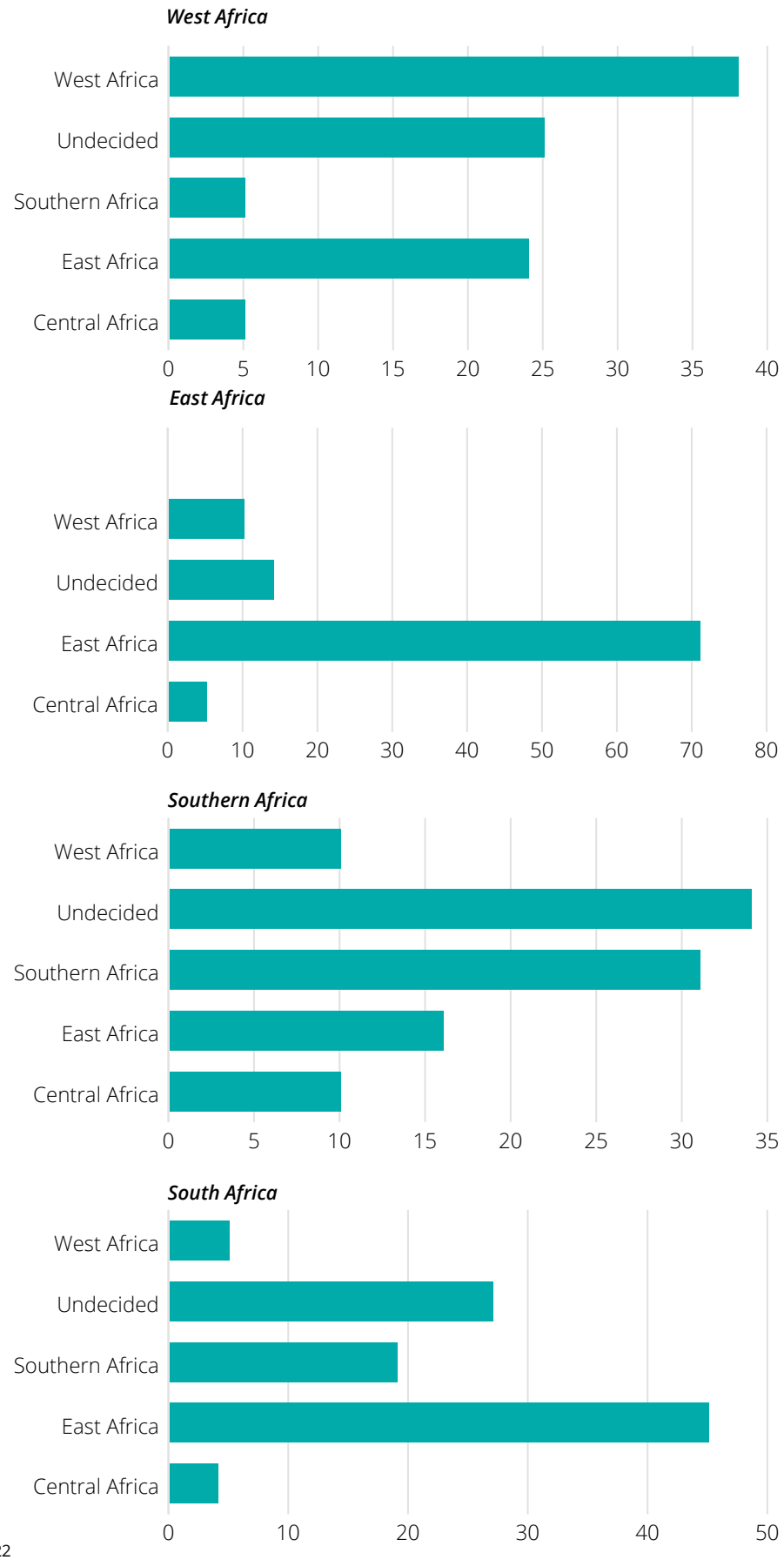
Looking to the future, 38% of West African CFOs are looking to expand in their own region, 29% are undecided about what to do and 24% plan to expand to East Africa, something that was not on their radars in 2015.

East African CFOs are also looking to expand in their own region (71%) with minimal interest in other regions. Southern African respondents are either looking to expand in their own region (31%) or are undecided about what to do (34%), while 16% are planning to invest in East Africa and 10% in West Africa.

As in previous years, South African respondents continue to see other African economies as attractive opportunities for growth, notwithstanding the prevailing tough economic conditions. Notably, 68% of respondents say they already have operations in Southern Africa, 21% in East Africa and 10% in West Africa.

Looking ahead, 45% of South African CFOs say they plan to expand to East Africa and 19% into Southern Africa. The proportion of CFOs looking to expand to West Africa has decreased since last year and they are probably biding their time to see what happens in the region.

Figure 13
Future investment markets



Key finding:

While East African, West African and Southern African CFOs look largely to their own regions for future expansion, South African CFOs continue to look north of their country's borders for growth opportunities.

Overloaded CFOs seek balance and support

The past two years of market volatility have seen African CFOs having to deal with a 'new normal' where growth on the continent has been revised downwards and investors are twitchy.

Concerns for CFOs in Africa cut across regions and top job stresses include pressure from poor company performance, excessive workloads, too much administrative work, changing regulatory requirements, strategic ambiguity, pressure from the board and insufficient skills of support staff. These challenges are carried over from year to year and finding solutions to them seems to be an ongoing challenge for Africa's CFOs.

Trying to balance their roles as team leaders, providers of strategic insight and meeting the various regulatory, risk-management and compliance expectations of the board means CFOs need the support of strong team members to back them up.

Not surprisingly, when questioned about what they would like to ask other CFOs, many were interested in finding out how their counterparts retain talent and motivate staff. In addition, many also wanted to know how they deal with pressure and achieve work-life balance.

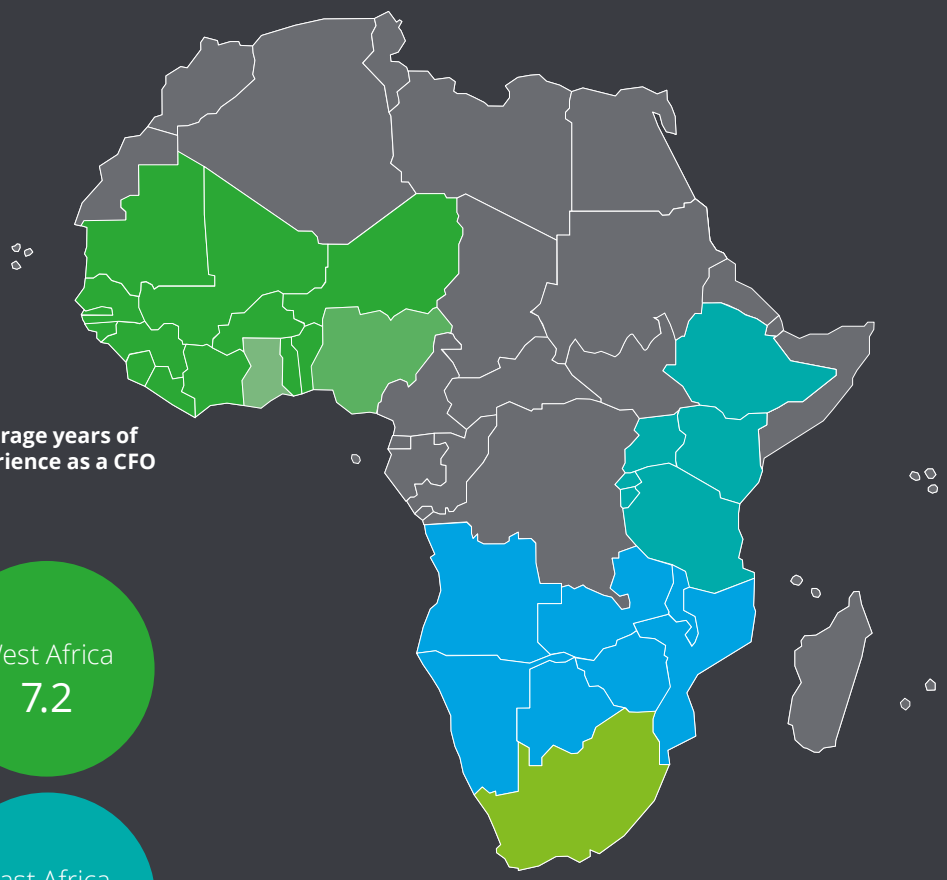
Looking ahead, most CFOs in Nigeria and Ghana and the other surveyed countries will be engaged in improving operational efficiency and process optimisation and reducing operating costs. These defensive strategies have spilled over from 2015 and will probably continue into 2017.

Notably, CFOs will need to get through the tough economic times and deal with workplace demands. CFOs will also need ingenuity to negotiate the 'new normal' and find novel ways to grow their businesses and enhance their attractiveness to investors.

Figure 14
Top job stresses

Key finding:
CFOs in all regions are concerned about pressures relating to poor company performance.

Respondent profile



Number of respondents in each region

West Africa
32

East Africa
33

Southern Africa
141

South Africa
146

Average years of experience as a CFO

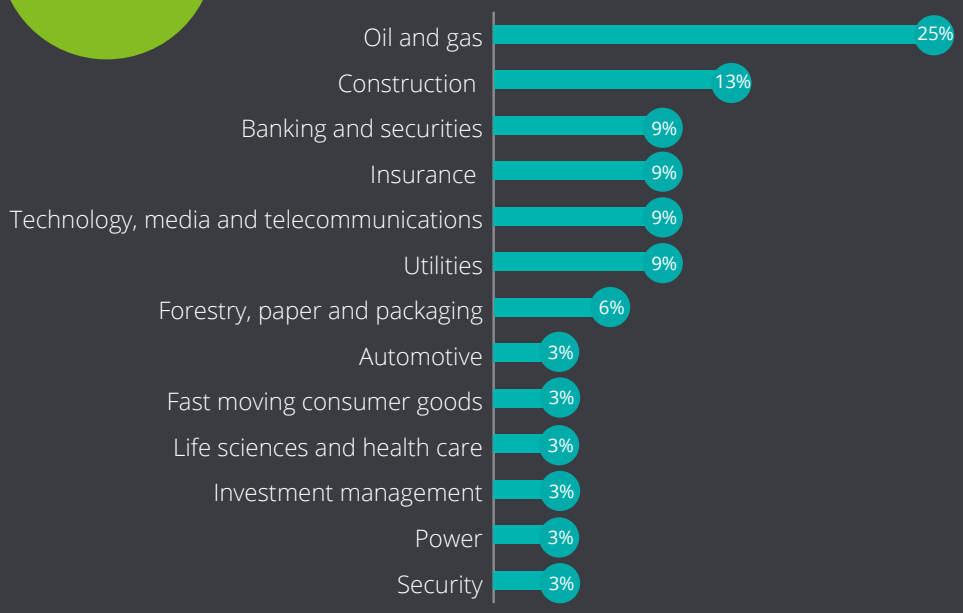
West Africa
7.2

East Africa
8.3

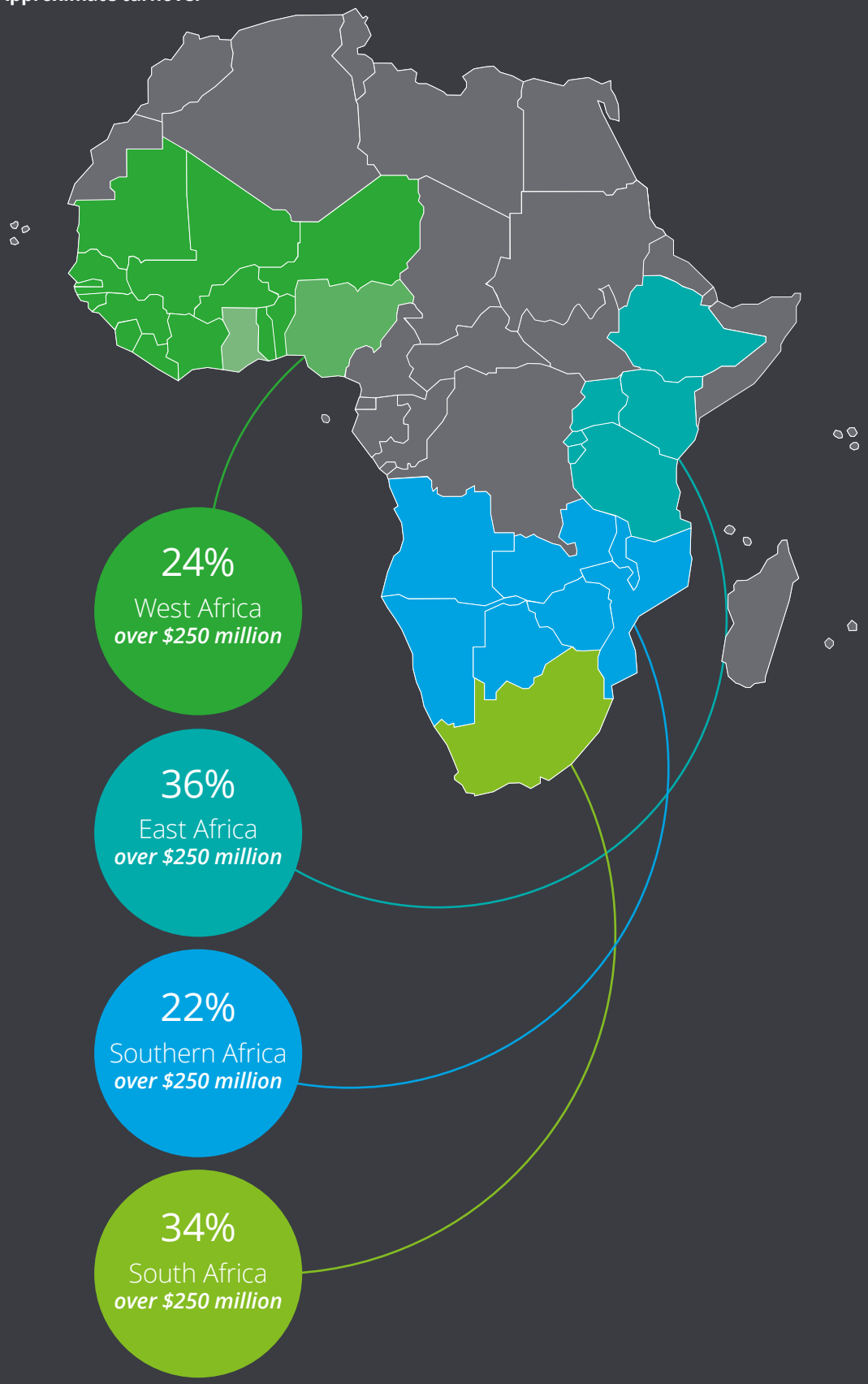
Southern Africa
8.3

South Africa
9.1

Industries (Ghana and Nigeria)



Approximate turnover



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