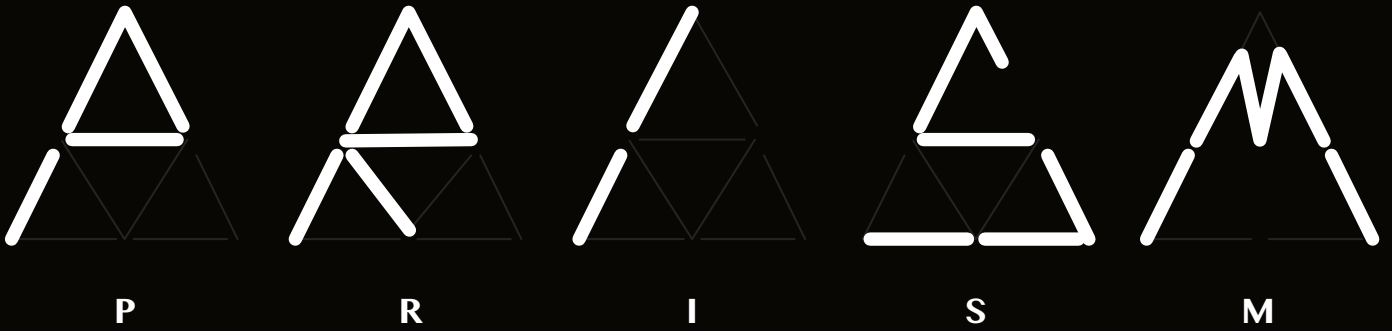
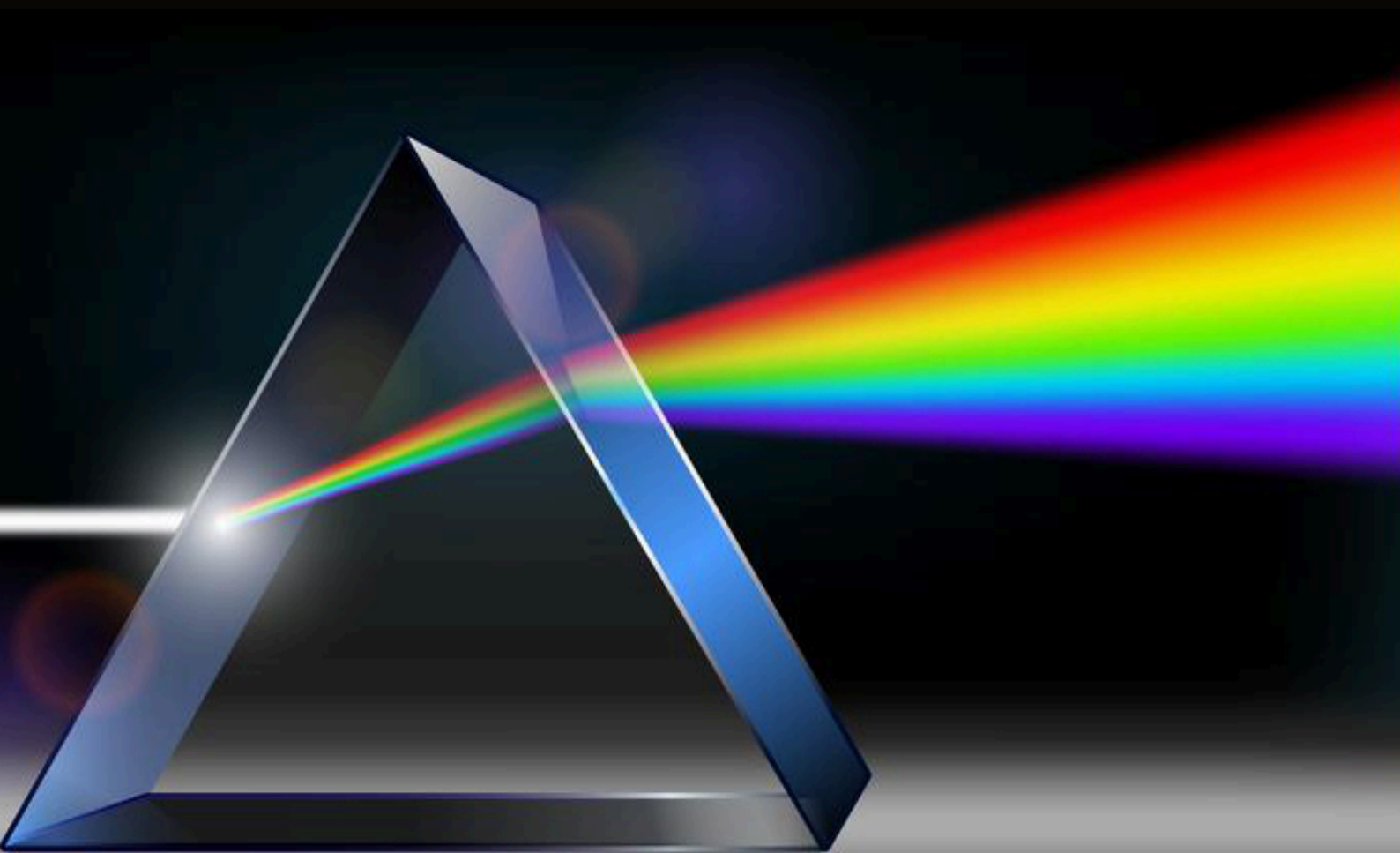




September 27, 2024



Money Illusion, Wage & Price Inflation



B I Z N O M I C S



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01 The Prism (Biznomics) Overview

More pay, less goods

(Baba Tolu walks in after a long day to meet Iya Tolu dancing excitedly in the kitchen)

Iya Tolu: Thank God my husband has been paid, owo ti wa o! Finally! Now we can buy that new freezer, stock up on food, and even get some asoebi for the wedding next month!

Baba Tolu: Asoebi? freezer? Iya Tolu, what the hell are you talking about?

Iya Tolu: Didn't they pay you the new minimum wage? N70,000 plus arrears since July! We're rich now!

Baba Tolu: Arrears? Can you arrears away the price of petrol? Is it arrears that will bring down the price of yam, tomatoes, or even Maggi cubes? The only arrears I see are the arrears of debt I now owe. What's the point of N70,000 if everything costs N100,000?

Iya Tolu: But... they gave you more money.

Baba Tolu: More money? Inflation took double! It's as if we're just running in place.

Iya Tolu: So, no freezer?

Baba Tolu: Freezer ke? Maybe we should buy fresh air while it's still free.

Iya Tolu: Ah, minimum wage, maximum suffering.

Baba Tolu: You've said it all, Iya Tolu.

(They both sit quietly, the excitement from earlier completely drained away)

(Tolu walks in)

Tolu: Daddy, guess what! NYSC has increased our allowance to N77,000! No more N33,000 suffering.

Baba Tolu: Ah, good! So, you won't disturb me for money again. You can now take care of your own needs, abi?

Tolu: *(grumbling)* Well, about that... You know my transport from Oworo to Victoria Island is now N1,000 per trip? It used to be N500! That's not even counting lunch or other small things here and there.

Baba Tolu: So, what's your point?

Tolu: The point is, the N77,000 isn't going far. With these rising prices, it's like the increase just disappeared. I'm still broke, Daddy!

Baba Tolu: Hmm, so a rich corper, but still a poor boy?

Tolu: Exactly!

Money illusion, wage and price inflation

From the satirical illustration, we see money illusion, wage and price inflation at play. Iya Tolu's excitement over her husband's new N70,000 minimum wage quickly fades when she realizes rising costs have wiped out its benefits. Similarly, Tolu's thrill over his N77,000 NYSC monthly allowance is dampened by soaring transport and living expenses.

This illustrates money illusion—the belief that more money equals better financial standing, which is false when inflation is factored in. While wage increases seem like relief, wage inflation does little in the current economy, where price inflation dominates. As prices for food, transport, and fuel skyrocket, the increased wages can't keep up, leaving workers still struggling.

Historically, wage increases, like the Udoji awards, occurred during periods of economic boom, supported by oil revenue. Today, with inflation, currency devaluation, and borrowing costs, the wage hike loses its intended value. Many Nigerians have already spent their increases on repaying debts, making it difficult to see any real financial improvement. In the end, rising prices have erased the perceived benefits of higher wages.

Informal employment will take a hit

While the formal sector may feel limited effects—given that most corporates already pay more than the new minimum wage—the informal sector tells a different story. As of Q1 '24, informal employment made up a staggering 92.7% of total employment in Nigeria. This sector is far more sensitive to wage hikes and will bear the brunt of these adjustments. The burden on the informal businesses, heightened by high borrowing costs (32–34%) and soaring PMS prices, will present two difficult choices: absorb the rising costs or pass them on to consumers. In a worst-case scenario, the burdens are absorbed, due to weak consumer spending, leading to potential layoffs and shutdowns. With unemployment already on the rise—reaching 5.3% in Q1 2024, up from 4.1% in Q1 2023—any slowdown in the informal sector could weigh on Nigeria's overall GDP.

The role of sports in economic growth

The 2024 Paris Olympic Games showcased the state of Nigerian sports. Despite sending 88 athletes across 12 sports, Nigeria returned home without a medal. In contrast, African peers like Morocco and South Africa are hosting global sporting events, stimulating tourism and infrastructure development. Unfortunately, inefficiencies and corruption have stifled Nigeria's potential in the sports sector, deterring investors. With a meagre 0.11% of the national budget allocated to sports, Nigeria falls woefully short of the 3-3.5% benchmark for meaningful growth. The sector has the potential to contribute positively to the economy through revenue from sponsorships, national branding, remittances, and sports tourism. Nigeria can capitalize on these opportunities by investing in sports infrastructure and developing policies to prevent talent drain.

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02 The Impact of Welfare Social Schemes on Poverty Reduction

Poverty remains a persistent challenge, affecting millions worldwide. According to the World Bank, 712 million people, nearly 9% of the global population, live in extreme poverty, earning below \$2.50 per day. This issue has been exacerbated due to the COVID-19 pandemic, the Russian-Ukraine war, climate change, the Israel-Hamas conflict, and other region-specific challenges.¹ The existence of extreme poverty in several developing countries is a critical challenge that needs to be addressed urgently because of its adverse implications on human well-being.²

Poverty is most prevalent in Sub-Saharan Africa, with 48.5% of the region's 1.1 billion population living in multidimensional poverty, and in South Asia, where 20.5% of the region's 1.9 billion people are affected. The causes of poverty in these regions are complex, often stemming from policies that exclude and are biased against the poor.³ Many countries implement social intervention programs to alleviate poverty and support the poor and vulnerable.

Nigeria's poverty remains severe, with 40.1% of the population deemed poor. It was the world's poverty capital since 2018. Currently, Nigeria has the second-largest reporting of extreme poverty, with 71 million people living on less than \$1.90 per day, according to the World Poverty Clock. The United Nations projects that by 2030, about 64% of the country's population may go hungry.

Various governments have introduced poverty alleviation social intervention programs like Structural Adjustment Program (SAP) in 1986, Better Life Program (BLP) in 1987, National Poverty Eradication Program (NAPEP) in 2001, etc, to address issues in health, education, food insecurity, employment, etc, with limited success.⁴

Food insecurity, a major concern and contributor to Nigeria's inflation, is being addressed through social programs to enhance farmers' productivity and income while providing affordable, quality food to citizens. Notable programs include the National Accelerated Food Production Programmes (NAFP) in 1972, Operation Feed Nation (OFN) in 1976, and the Green Revolution Programme (GRP) in 1980.⁵ These programs have evolved into palliative measures for farmers and citizens, including initiatives like Survival Fund Loan Grant, CBN COVID-19 loan, FGN GEEP Loan, Trader Moni, and Conditional cash transfer (CCT), amongst others.

1. Beth Gallick and Sevil Omer. 2024. Global poverty: Facts and FAQs, and how to help. World Vision. <https://www.worldvision.org/sponsorship-news-stories/global-poverty-facts>

2. Collins Ayoo. 2022. Poverty reduction strategies in developing countries. IntechOpen. <https://www.intechopen.com/>

3. Collina Ayoo. 2022. IBID <https://www.intechopen.com/chapters/79838>

4. Lamidi, Kazeem Oyedele and Igbokwe, Philomena Ify. 2021. Social investments programmes in Nigeria: impacts and challenges. National Association of social workers. ajol-file-journals_551_articles_206270_submission_proo

5. Muhammed A. Liman. 2021. A Review of Federal Government Support Policies and Programmes for Food Security. CBN. <https://www.cbn.gov.ng/Out/2024/RSD/A%20Review%20of%20Federal%20Government.pdf>

Despite these programs and interventions, food inflation surged to 40.87% in June 2024. Additionally, 133 million Nigerians remain multidimensionally poor, with 65% residing in the northern region. Nigeria ranked 109 out of 125 in the 2023 Global Hunger Index.⁶

The National Home Grown School Feeding Programme (NHGSFP), a school feeding initiative aimed to address the out-of-school crisis, boost enrollment by 9%, and improve student health, was suspended on January 12, 2024 due to corruption. Consequently, school enrollment may drop. By 2018, the overall illiteracy rate reached 62% due to underfunding and poor teacher training. In 2022, 18.5 million children were out of school, and the 2024 budget allocated only 6.89% to education, below UNESCO's 15% recommendation. The World Bank reports that per capita spending on social assistance is lower in low- and middle-income countries than in high-income ones. Nigeria spends 0.28% of GDP, covering 7% of the population, lagging behind South Africa (3.31%), Benin (2.95%), Rwanda (1.5%), and Ghana (0.58%).⁷

The Nigerian government, during Buhari's administration via the Ministry of Budget and Planning, initiated the 2016-2025 National Plan of Action on Food and Nutrition, which has had limited impact due to poor implementation. To align with Sustainable Development Goal 2 of eradicating poverty by 2030, The Buhari Administration in 2020, implemented the 2021-2025 National Multi-Sectoral Plan of Action for Food and Nutrition, a five-year plan to address hunger and malnutrition across all sectors.⁸

President Tinubu's government has also introduced interventions and palliatives to reduce poverty, including a N200 billion agricultural investment to boost farming. Recently, the administration worked on a N2 trillion stimulus plan to address food supply concerns and bolster key sectors such as energy, health, and social welfare.⁹ Additionally, the government acquired 225,000 metric tonnes of agricultural inputs and launched legacy programs, including a consumer credit scheme, student loans, and social welfare initiatives.

However, The UNDP criticized these strategies for their 'top-down approach,' leading to ineffective institutions and misaligned programs. Lack of a policy framework and excessive political interference further hindered the initiatives from positively impacting the poor.¹⁰ This could impede the president's pledge to lift 50 million Nigerians out of poverty in 42 months.

Additionally, the requirements for accessing the relief packages are unclear, and the selection process is vague. Corruption and lack of transparency have marred these schemes.

A clue from Brazil's "Bolsa Familia Program" and India

Brazil's Bolsa Familia is one of the world's most effective social protection programs, significantly reducing poverty and income inequality. Between 2003 and 2009, it lifted about 20 million people out of poverty. By September 2010, it benefited nearly 50 million

6. Abraham Ikongshul. 2024. The home grown school feeding program in Nigeria. The Borgen project. <https://borgenproject.org/home-grown-school-feeding-programme>

7. Peter Elias. 2020. Why Nigeria's effort to support poor people fail, and what can be done about it. The conversation. <https://theconversation.com/why-nigerias-efforts-to-support-poor-people-fail-and-what-can-be-done-about-it>

8. Michael Afima and Olayemi Amusile. 2023. What Nigeria must do to achieve zero hunger by 2030. Nigeria Health Watch. <https://nigeriahealthwatch.medium.com/what-must-nigeria-do-to-achieve-zero-hunger-by-2030>

9. Reuters. 2024. Nigeria's Tinubu seeks extra \$4 billion in spending. TRT AFRICA. <https://trtafrica.com/business/nigerias-tinubu-seeks-extra-dollar4-billion-in-spending>

10. Sofo C.A. Ali-Akpajak and Toni Pyke. 2003. Oxfam. Measuring poverty in Nigeria. 2003. <https://oxfamlibrary.openrepository.com/bitstream/handle/10546/121172/bk-measuring-poverty-nigeria->

people. Up until 2021, the program effectively enhanced educational and health outcomes for its beneficiaries, while also reducing poverty and inequality levels in the country.¹¹ The program, launched in October 2003 during President Luiz Inácio Lula da Silva's first term, provides cash transfers to poor families who keep their children in school and under medical supervision. The World Bank supported Bolsa Familia with loans totaling \$772 million since 2005, helping to strengthen and expand the program. Consequently, poverty in Brazil dropped from 22% in 2003 to 7% in 2009, and by 2022, the percentage of persons living in poverty fell to 5.9% after reaching 9.0% in 2021.¹² Brazil's Bolsa Familia program was Modeled after Mexico's Oportunidades program, The programa Bolsa Familia (PBF) helps poor families invest in human capital by improving children's education, health, and nutrition, leading to long-term economic improvements and reduced poverty.¹³

India has eliminated poverty through strong redistribution policies implemented through various publicly funded programmes, leading to higher consumption growth in rural areas. The government specifically targeted districts with the lowest development indicators, focusing on improving their performance in development.¹⁴ Improvements in nutrition, education, sanitation, and cooking fuel significantly reduced poverty in India. By 2021, the percentage of people living below the \$2.15 per day poverty line had decreased to 10%.¹⁵

Way Forward

With proper steps, Nigeria can reduce poverty, just like Brazil and India. Despite significant spending on social programs, results are lacking as a large inequality gap exists between the North-South and urban-rural areas.

Poverty-targeted interventions could directly reduce the gap between the southern and northern zones by tapping into the potential of the northern regions.¹⁶ Nigeria's deep-rooted corruption and lack of sanctions have diverted funds from development projects, resulting in poor infrastructure and increasing poverty. To address this, a robust anti-corruption campaign and strict financial control is crucial. Additionally, investing in infrastructure will boost economic activity and provide essential services, further aiding in poverty reduction. It is also imperative that Nigeria must have a rapid, equitable economic growth, controlled population increase.¹⁷

Cash transfers can effectively mitigate poverty in the near term by increasing output and consumption. However, Investing in education and healthcare is crucial for eradicating poverty in the medium and long term, as a healthy nation is a wealthy nation. And like Barack Obama said, "The best anti-poverty program is a world-class education."

11. Paula Sevilla Nunez. 2023. Bolsa Familia is Brazil's largest conditional cash transfer program seeking to break intergenerational poverty (2003-2021). New York University Center on International cooperation. <https://www.sdg16.plus/policies/bolsa-familia-is-brazils-largest-conditional-cash-transfer-program-seeking-to-break-intergenerational-poverty/>

12. World Bank Group. 2015. Lifting families out of poverty in Brazil: Bolsa Familia Program. <https://documents.worldbank.org/en/publication/documents-reports>

13. Center for public impact. 2019. Bolsa Familia in Brazil. Center for public impact. <https://www.centreforpublicimpact.org/case-study/bolsa-familia-in-brazil>

14. Surjit S. Bhalla and Karan Bhasin. 2024. India eliminates extreme poverty. Brookings. <https://www.brookings.edu/articles/india-eliminates-extreme-poverty>

15. Manoj Kumar. 2023. One-tenth of India's population escaped poverty | 5 years- government report. Reuters. <https://www.reuters.com/world/india/one-tenth-indias-population-escaped-poverty-5-years-government-report>

16. World Bank. 2016. Poverty reduction in Nigeria in the last decade. Federal republic of Nigeria poverty work program. <https://documents1.worldbank.org/curated>

17. Helpers Social Development Foundation. 2023. Steps on how to eradicate poverty in Nigeria. Helpers social development foundation. <https://www.helperfoundation.org/steps-on-how-to-eradicate-poverty-in-nigeria/>

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03

Boosting Nigeria's Economy Through Sport Sector Revitalization

Nigeria's global sports performance remains lackluster, as highlighted by the country's disappointing display at the 2024 Paris Olympic Games. Despite sending 88 athletes across 12 sports, Nigeria returned home without a single medal. This marks the eighth time since the country's Olympic debut in 1952 that no medals were won, and the worst performance since the 2012 London Games. This underachievement underscores the urgent need for increased attention and investment in the sports sector.

Challenges and Current State

The Olympics exposed several challenges within Nigeria's sports sector, including lacking essential sporting kits, inadequate funding, low athlete compensation, governance issues, absence of sponsorship, and poor infrastructure. The government's budget allocation to sports has been consistently low, with the 2024 budget allocation at ₦31.24 billion (bn), down 83.8% from ₦193.32bn in 2022.¹⁸ Additionally, the sports budget as a percentage of the total budget (0.11%) has moved further below the recommended 3-3.5% needed for growth and development, as set by the National Sports Industry Policy.¹⁹

Moreover, Nigeria's sports administration is hampered by inefficiencies, lack of proper planning, and poor coordination among sports bodies. Corruption within sports federations compromises athlete selection, fund distribution, and the overall integrity of sports administration. This environment has continued to discourage private-sector investment in the sports sector. For instance, in the 1980s and early 1990s, efforts by Chief MKO Abiola and other businessmen to establish a professional football league managed by the private sector were ultimately thwarted by government interference.²⁰

Unfortunately, these issues have been persistent for years, significantly impacting the sector's performance and diminishing Nigeria's standing on the global stage. The challenges have led to poor international representation and caused a substantial talent drain, reduced youth interest in sports, and hindered the sector's contribution to GDP. Addressing these longstanding issues is crucial for revitalizing Nigeria's sports industry and restoring its international reputation.

Need for Strategic Overhaul

Revitalizing Nigeria's sports industry requires a complete revamp of its investment strategy. This will start with grassroots sports development, particularly focusing on early-age (under 18) sports. Integrating sports clubs within schools and local training centers will establish a strong foundation for nurturing the next generation of athletes. Additionally, implementing a welfare system for

18. Christian Okpara. 2024. "2024 Sport Budget Shows Nigeria is Not Ready To Develop Sports." The Guardian. <https://guardian.ng/sport/2024-budget-shows-nigeria-not-ready-to-develop-sports/>

19. IBID

20. IBID

active and retired athletes and an annual recognition platform will encourage youth participation in sports.

The role of funding and infrastructure investment cannot be overstated. Investment in building and revamping stadiums and focusing on grassroots sports facilities will bridge the existing infrastructure gap. Joint funding initiatives between the government and the private sector can effectively achieve this. The government should foster private sector involvement in sports development through market-based policies and incentives like grants and subsidies, tax incentives and favorable regulatory environment

In short, the sports industry should not be managed by government officials who see it merely as leisure or a means of rewarding political allies. Involving the private sector in growing the sports ecosystem is essential for realizing the sector's potential to generate ₦500bn in annual revenue. The public-private partnership will also position Nigeria to produce athletes capable of competing on the global stage, attracting sponsorships, endorsements, foreign investment, and remittances, which in turn will elevate the country's profile, draw international interest, and stimulate economic growth.

Evidence from African Countries

Countries like Kenya and South Africa outperformed Nigeria in the recent Olympic Games, as evidenced by their medal counts—11 for Kenya and six for South Africa. These results emphasize the importance of sports investment, especially the involvement of the private sector in each of their sports ecosystems. Companies like MTN, Coca-Cola, Multichoice, Pepsi, and Standard Chartered Bank play significant roles in South African sports. These companies have substantial operations in Nigeria but are reluctant to invest in Nigerian sports due to the poor business environment.²¹

Hosting major sports events is also profitable, as seen in South Africa, where the 2010 FIFA World Cup added an estimated \$4.9bn to the economy and boosted GDP by 0.4% with infrastructure investments of \$3.6bn.²² Also, South Africa welcomed 309,000 visitors during the World Cup, with total spending by these tourists estimated at 3.6bn rand (\$520.8 million (mn)) on hotels, food, and clothing.²³ In contrast, Nigeria struggles to replicate this success due to several critical challenges in the sport sector including poor sport facilities and insecurity.

Morocco, which had previously faced setbacks in sports, has successfully revitalized its sports sector through long-term investments. The King Mohammed VI Football Academy, built in 2009 for £13mn (\$8mn), aimed to develop the sport at the national level.²⁴ The Moroccan federation has also required clubs to establish youth foundations to identify and develop talent. This strategy has paid off, with the men's national team reaching the semi-finals of the 2022 FIFA World Cup in Qatar and being awarded a cash prize of about \$25mn. Morocco is also set to host the 2025 African Cup of Nations and the 2030 FIFA World Cup with Portugal and Spain. These events will attract global attention, boost tourism, and generate substantial revenue across various hospitality, infrastructure, and transportation sectors.

21. Christian Okpara. 2023. "Poor Funding, Low Investment Rob Nigerian Sports N500 billion Revenue Yearly," <https://guardian.ng/sport/poor-funding-low-investment-rob-nigerian-sports-n500-billion-revenue-yearly/>

22. Mirele Milite Matsuoka de Aragão. 2015. "Economic Impacts Of Fifa World Cup In Developing Countries." https://scholarworks.wmich.edu/cgi/viewcontent.cgi?article=3609&context=honors_theses#:~:text=South%20Africa%20invested%20USD%203.12,12%20host%20cities%20infra%20structure

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24. Cafonline. 2023. "Morocco's Football Revolution Reaping Rewards." <https://www.cafonline.com/news/moroccos-football-revolution-reaping-rewards/#:~:text=Morocco%20also%20won%20the%20FIFA,any%20of%20these%20feats%20before.>

Opportunities for Nigeria's Sports Sector

A 2024 report by the Borgen Project highlights that sports hold significant potential to alleviate poverty in Nigeria.²⁵ Between 2019 and 2022, the industry contributed an average of 0.29% to the GDP, which could increase with more focus on the sector.²⁶ Key growth opportunities in the sector include Nigeria's youth population — 65% of the population is between 16-35 years — digital media adoption, and the evolving role of technology in sports consumption.²⁷ Given these opportunities, Nigeria has the potential to position itself as a dominant force in the global sports arena.

Conclusion

Sports sector investment is a powerful driver of economic growth and development, as demonstrated by countries like South Africa, Kenya, and Morocco. The revenue generated from sponsorships, national branding, remittances, and sports tourism contributes positively to the economy. Nigeria can fully capitalize on these opportunities by investing in sports infrastructure, developing policies that prevent talent drain, and ensuring that the economic benefits are distributed equitably across the country.

25. Jordan Cunningham. 2024. "The Potential of Sports in Nigeria to Reduce Poverty." The Borgen Project. <https://borgenproject.org/sports-in-nigeria/>

26. IBID

27. Sport Nigeria. 2022. "Sport Nigeria Profile Review May 2022." <https://sportnigeria.ng/docs/Sport%20Nigeria%20LDG%20Company%20Profile%20November%202022.pdf>

04

How The World's Poor Stopped Catching Up - Culled from the Economist



Progress stalled around 2015. To restart it, liberalis.

Since the Industrial Revolution, rich countries have mostly grown faster than poor ones. The two decades after around 1995 were an astonishing exception. During this period gaps in GDP narrowed, extreme poverty plummeted and global public health and education improved vastly, with a big fall in malaria deaths and infant mortality and a rise in school enrolment. Globalisation's critics will tell you that capitalism's excesses and the global financial crisis should define this era. They are wrong. It was defined by its miracles.

Today, however, those miracles are a faint memory. As we report this week, extreme poverty has barely fallen since 2015. Measures of global public health improved only slowly in the late 2010s, and then went into decline after the pandemic. Malaria has killed more than 600,000 people a year in the 2020s, reverting to the level of 2012. And since the mid-2010s there has been no more catch-up economic growth. Depending on where you draw the line between rich and poor countries, the worst-off have stopped growing faster than richer ones, or are even falling further behind. For the more than 700m people who are still in extreme poverty—and the 3bn who are merely poor—this is grim news.

To judge what has gone wrong, first ask what previously went right. In the poorest countries education and (especially) health have depended on donors writing big cheques. But even if aid has curbed disease, it has not unleashed sustainable growth. Likewise with pro-market technocrats in the IMF and the World Bank. Western institutions were most involved in Africa and Latin America, where growth has been patchy and has varied with commodities prices.

Critics of the “neoliberal era” conclude that globalisation therefore failed. However, the most successful liberalisations came from within countries, rather than in

response to donors' advice. In the 1990s global convergence was powered by a few big successes: China's rapid growth after it opened up under Deng Xiaoping, a similar—albeit less spectacular—process in India after reforms dismantling the “licence Raj”, and the integration of countries in eastern Europe into the global market economy after the fall of communism. All that amounts to a powerful endorsement of capitalism.

Just as the rich world did not make convergence happen, it is not to blame for the stalling of development today. It is true that the West's efforts are as flawed as ever. The IMF and World Bank are juggling promoting reform and development with fighting climate change, and are caught in the middle of the power struggle between America and China, which is making it fiendishly hard to restructure poor countries' debts. Aid budgets have been squeezed, hurting global public-health campaigns, as Bill Gates argues in our online By Invitation column. Cash has been diverted from helping the poorest to other causes, such as greening power grids and helping refugees. Of what aid money remains, much is wasted rather than being spent after careful study of what works. The “Sustainable Development Goals”, by which the UN judges human progress, are hopelessly sprawling and vague.

The biggest problem, though, is that home-grown reform has ground to a halt. With some notable exceptions, such as President Javier Milei's efforts in Argentina, the world's leaders are more interested in state control, industrial policy and protectionism than the examples of the 1990s—and it is no accident that such policies boost their own power. Indices of economic freedom have been broadly flat in sub-Saharan Africa since the mid-2010s and in South America since the turn of the century. Nigeria, where nearly a third of the population is extremely poor, still wastes a fortune on petrol subsidies; textile bosses in Bangladesh get special treatment at the expense of manufacturers who might otherwise create better jobs; and Pakistan's inefficient state-backed mining, oil and gas conglomerates are allowed to stagger on.

Despite its past growth, a quarter of China's population still lives on less than \$2,500 per year; its present economic slowdown, made worse by Xi Jinping's centralisation and the censorship of economic data, is reducing their chances of a better life. Even India and Indonesia, which have successfully liberalised in the past but still contain many poor people, are now interfering with market forces to try to bring supply chains home. According to Global Trade Alert, a think-tank, the 2020s have seen five times as many harmful trade measures as liberalising ones.

Many of the West's interventions in the Global South failed, but in the era of catch-up, it did at least preach the virtues of free markets and free trade. These ideas spread because communism was proved to be backward in comparison with America's prosperity and power. Today, though, America is increasingly taken with interventionism, disdaining the old order and trying to replace it. Many countries instead look to the Chinese model of industrial policy and state-owned enterprises, drawing entirely the wrong lessons from the country's growth.

As the world has turned towards intervention, so the chosen instrument for poor countries has become trade restrictions, as imf research shows. This contains an uncomfortable echo of the failed development plans of the 1950s, built around freezing out imports rather than embracing global competition. Fans of industrial policy will point to East Asia's "tiger economies" such as South Korea and Taiwan. Yet both embraced harsh global competition. And several African countries that tried to copy their industrial policies in the 1970s failed miserably.

You don't know what you've got till it's gone

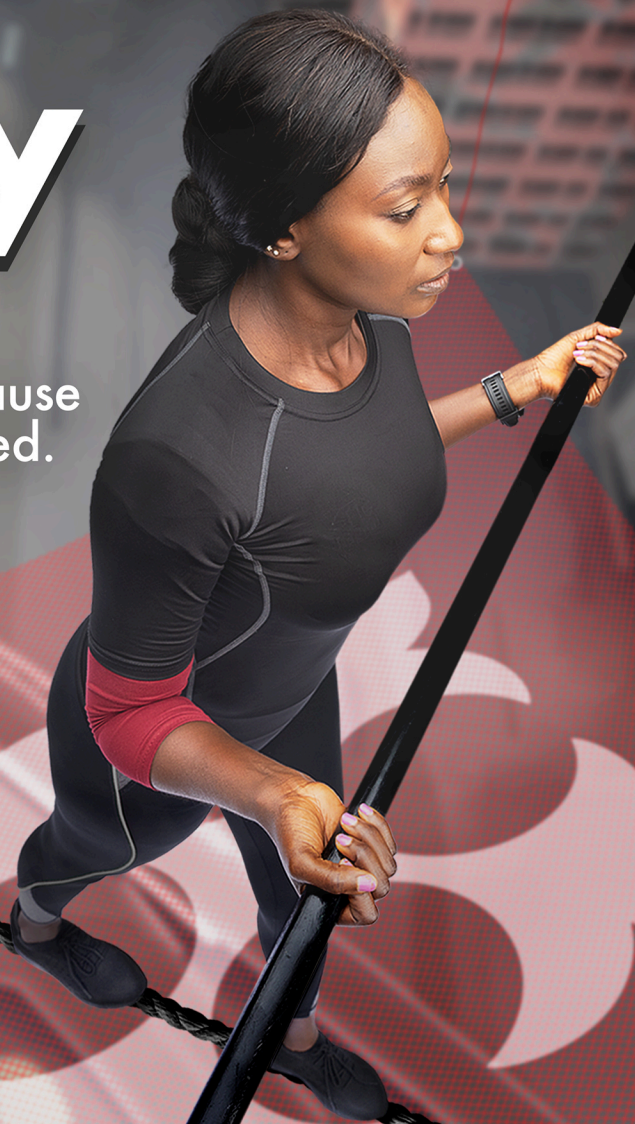
The world will pay for its failure to learn from history. Rich countries will cope, as they usually do. For the poorest people, however, growth can be the difference between a good life and penury. It should not be a surprise that development has stalled as governments have increasingly rejected the principles that powered a golden era. Nobody will suffer more as a result than the world's poor.



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MTN



Market Capitalization	N4.04 trn
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Industry	Telecommunications

ANALYST NOTE

MTN Nigeria, a subsidiary of the South African telecom giant MTN Group, is a major player in Nigeria's telecommunications sector. The company has been pivotal in revolutionizing the industry with affordable and widespread mobile communication services. Over the years, MTN Nigeria has broadened its offerings to include data, digital services, and financial technology solutions.

In the first half of 2024, MTN Nigeria demonstrated strong revenue growth but encountered challenges with profitability, as reflected in its negative bottom-line performance. The company's return on assets (ROA) of -24.30% indicates difficulties in utilizing assets effectively to generate profit. On a positive note, MTN Nigeria achieved an impressive inventory turnover of 300.19, showcasing its efficiency in converting stock into revenue. However, the company's current ratio of 0.36 and quick ratio of 0.35 highlight challenges in meeting short-term financial obligations.

Despite these challenges, MTN Nigeria is well-positioned for future growth under its Ambition 2025 strategy. This strategic initiative focuses on leading digital solutions and driving progress across Africa. The company's commitment to this strategy aims to accelerate growth and reinforce its leadership position in the market.

Financial Analysis

Data service growth boost top-line performance

In H1'24, total revenue increased by 32.83% to ₦1.54 trn, up from ₦1.16 trn in H1'23. A rise in data service revenue primarily drove this growth. Data sales, which represent 47% of total revenue, surged by 54.70% to ₦726.56 bn in H1'24, compared to ₦469.66 bn in H1'23.

The increase in data revenue was largely due to higher data usage per active user, which rose by 40.7% to 10.6gb in H1'24 from 8.1gb in H1'23. Additionally, the number of data subscribers grew by 11.2% to 45.6mn in H1'24, up from 41.0mn in H1'23. Beyond data services, the company's total revenue was further supported by voice, fintech, and digital services growth.

Increase in total expenses weigh on operating profit

The cost of sales rose by 33.8% to ₦252.9 bn, up from ₦189.1bn in H1'23 while operating cost surged by 107.9% to ₦738.6bn, compared to ₦355.2bn in H1'23. This significant rise in total expenses was driven by naira depreciation, higher energy costs due to the removal of subsidies, and the reintroduction of a 7.5% VAT on tower leases. As a result, operating profit decreased by 27.67%, falling to ₦304.54bn in H1'24 from ₦421.04bn in H1'23.

Net finance cost result in negative bottom-line performance

MTN Nigeria's net finance cost increased by 95.4% to ₦1.05trn in H1'24 from ₦540.47bn in H1'23, driven by a 79.1% surge in finance costs and an 8.9% decline in finance income. This sharp rise in net finance cost led to a 529% spike in loss before tax to ₦751.29bn in H1'24 from ₦119.43bn IN H1'23. Similarly, loss after tax climbed by 506% to ₦519.06bn in H1'24 from ₦85.59bn in H1'23.

Risk and Outlook

Like many telecom companies, MTN Nigeria faces challenges due to the harsh business environment in the country. This includes naira depreciation, high interest rates, and rising inflation. To mitigate exposure to the volatility of the naira, MTN Nigeria

has reduced its outstanding letters of credit by 76%, bringing the amount down from \$416.67 million to \$100 million. Additionally, to address the impact of rising inflation, the company is in discussions with regulatory authorities to implement a tariff increase, allowing it to recover costs and sustain continued investment in the industry.

BULLS SAY

- Strong brand name
- Largest market share -37%
- Extensive spread across Africa
- Diversified revenue source

BEARS SAY

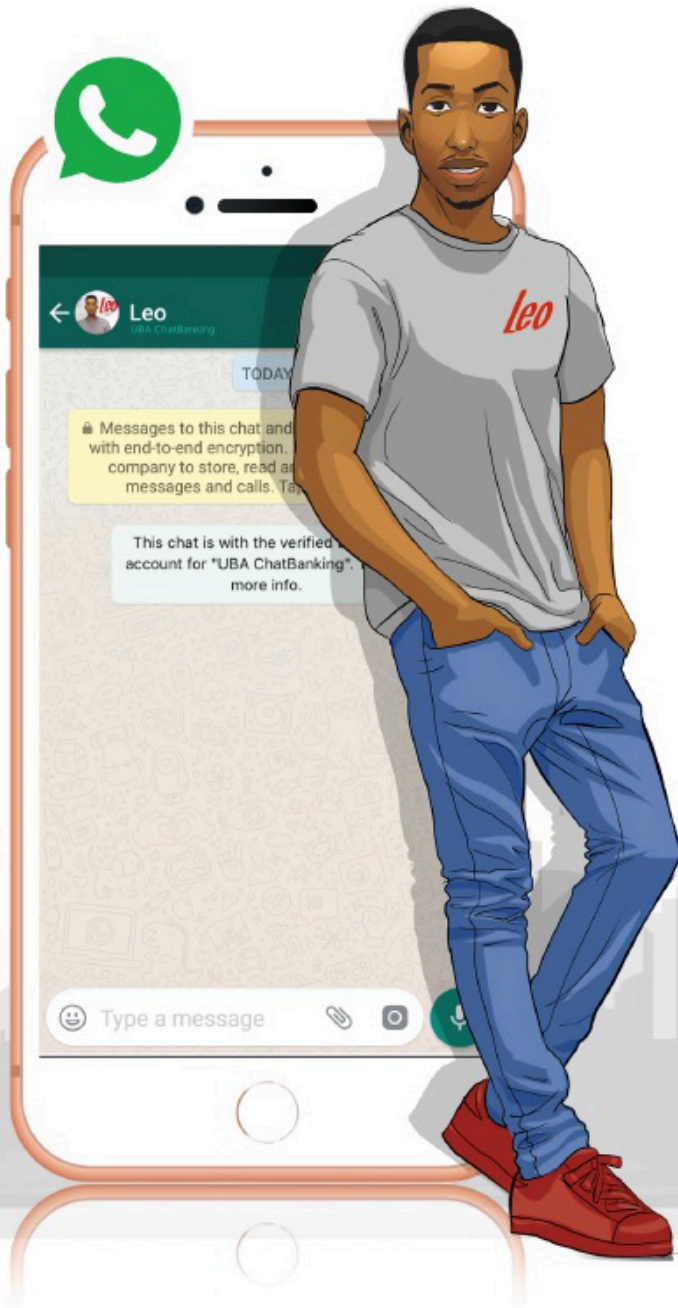
- High interest rates environment
- Exchange rate fluctuations
- Rise in energy cost
- Regulatory environment
- Heightened inflationary pressures



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A PRISM OUTLOOK

Global

- ✿ Global inflation has continued the downward trend, prompting rate cuts in major central banks worldwide. The US Fed has followed suit, cutting rates by 50 basis points to 4.75%p.a., as the country's inflation rate approaches its 2% target. Inflation in the US fell to 2.5% in August 2024 from 2.9% in the previous month. Meanwhile, the core PCE, a preferred inflation measure, remained unchanged at 2.6%.
- ✿ Typically, interest rate cuts weaken the US dollar, which has an inverse relationship with global commodity prices, particularly gold. Gold prices have already surged 29% year-to-date, reaching \$2,689 per ounce. We expect this upward momentum to persist as investors flock to gold as a reliable store of value amidst currency fluctuations.
- ✿ Other commodities, such as oil, are also expected to see price increases, driven by improved demand from the US due to the interest rate cut. However, the magnitude of the rise may be capped by sluggish demand from China, the world's largest oil importer

Domestic

- ✿ The anticipated rise in global commodity prices, especially oil, bodes well for Nigeria's trade balance and export earnings. In Q2 2024, crude oil accounted for 75% of the country's total exports.
- ✿ This will be supported by the increase in domestic oil production, which rose by 2.43% to 1.35mbpd in August from 1.31 mbpd in July reflecting ongoing government efforts to curb oil theft and pipeline vandalism in the country's oil-producing regions.
- ✿ Increased export earnings imply more foreign exchange inflows, potentially boosting Nigeria's gross external reserves that have risen 11.85% YTD, and enhancing the CBN's capacity to support the naira.
- ✿ In addition, the CBN's efforts to boost FX liquidity would further stabilize the naira in the coming weeks. The CBN has initiated forex sales of \$20,000 to Bureau de Change (BDC) operators at a rate of N1,590/\$. Also, the previously issued diaspora bond yielded proceeds worth \$900 million, a 80% oversubscription compared to \$500 million initially issued. The bond proceeds, along with the reintroduction of the retail Dutch auction system (at least one auction is expected in October), will stabilize the naira.
- ✿ The naira's stability coupled with the harvest season led to the further decline in inflation by 1.25% to 32.15% compared to 33.4% in July). However, the recent 50% increase in petrol prices to Ng000/liter poses a risk to inflation expectations. Consequently, inflation may rise again in September (y-o-y) as higher fuel costs drive up logistics expenses and, subsequently, food prices.
- ✿ Against this backdrop, we expect the CBN to maintain tightening stance through 2024,, with monetary policy normalization expected in 2025.

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