



“My Chat with a Bank CEO”



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TOPIC | Oil & Gas

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Joyce-Ann Wainaina: Good morning everybody and welcome to the KBA sponsored CEO Chat on oil and gas... thank you for logging on and I hope today's conversation can be lively and enlightening to all on the chat.

Peter Kimuli: Good morning. What do we see as the opportunities in complementary sectors to the oil and gas sectors?

Joyce-Ann Wainaina: I can see Peter Kimuli asking about the complimentary sectors to the oil and gas industry...thank you peter...let's start the conversation there. First of all, the historical statistics have shown that for every 1 direct job created in the oil and gas industry creates at least 3 indirect jobs in the supply and value chain, this includes ancillary services like transportation, logistics, infrastructure, basic services to the exploratory and production industry.

KEN MWANGI: Why is it that petroleum is such a thorny issue in our country while there are so many financial instruments that can help us control or hedge ourselves against rising costs?

Joyce-Ann Wainaina: Historically oil producing and exporting countries have had significant economic gains due to the global dependence on the product. We have also seen some of those economies face various challenges such as when the resources discovered and the economy is not diversified enough, this over reliance on oil is to the detriment of other industries. Our experience here in Kenya may be different thanks to our already diversified economy, and the fact the government is working on the policy before the production of oil.

FRIDA NGARI: Secondly, Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. How are the various parties working with education institutions to increase the pressure for innovativeness in Oil and gas?

Joyce-Ann Wainaina: Frida welcome to the chat and thank you for your question. Yesterday during our panel discussion on NTV the CEO of NOCK discussed the partnership they are building with some of the institutions of higher learning to enhance the education levels of this new industry...we all need to build capacity to better innovate in this sector

Japheth Muoki : What are the chances of Kenya's comeback in the oil and gas exploration in our quest to achieve Vision 2030? Is Nigeria headed into a major crisis in their oil sector considering the flood of oil in the markets?

Joyce-Ann Wainaina: Japheth I would say that if an economy is dependent on a single resource to finance its fiscal budget and the price of that resource comes down significantly then that country is likely headed for a problem...there are various such examples around the world. For Kenya right now as a net importer of oil, we are in a sweet spot...therefore this price reduction in the global markets is beneficial to our economy.

Charles Mabeya: What's the future of the industry if oil prices show long term stickiness at the current level; we are already seeing Tullow Oil reallocating exploratory capital from East Africa to Nigeria.

Joyce-Ann Wainaina: Charles welcome. The impact of current oil prices is a very topical issue for Kenya's oil and gas industry. The exploration companies today have made a major investment here; that substantial investment in exploration will only reap the full benefit once the infrastructure ecosystem is in place (e.g. the heated pipeline to get the oil to market is a necessity). I think for investors to remain interested in this market, we need to continue to work on making Kenya an attractive investor destination for oil and gas.

KENNETH KATIECHI : Good Morning all. Is it true that most Local banks do not have the capacity to handle financing of the oil industry in Kenya and thus will be locked out by the multi-national banks?

Joyce-Ann Wainaina: Good morning Kenneth, you raise another topical question on the local banking industry's capacity to finance the sector in Kenya. The oil industry is financed in multiple ways. Exploration being the highest risk, it is usually financed by equity through the capital markets. Once the sector closer to production, there are various other ways of financing, including reserve base lending (RBL) which is a model where a financier would use the proven reserve (oil) to finance the company. The mid-stream and down-stream is where the current banking system is supporting.

Edward Macharia: This is my first time on this chat and my question is whether there is sufficient local professional capacity i.e. lawyers, engineers etc mostly because oil and gas is a technical area?

Joyce-Ann Wainaina: Edward Macharia welcome to the CEO Chat. As the oil and gas sector continues to develop there will be a need for multiple skills -- both professional and technical -- this is a new industry for all of us in Kenya therefore we need to build this capacity.

Edward Ngari: What really makes oil fields in EAC unique? What does this have for us in the long-term?

Joyce-Ann Wainaina : Edward...I love this question...what makes EAC unique...in my view the East Africa region has had the most prolific finds in the past 10 years. Kenya we found proven reserves of 600 mn barrels of oil; in Uganda 3bn barrels of oil; TZ has about 43 trillion cubic feet (tcf) of natural gas; and Mozambique has the largest find of Gas in the world...in excess of 120

trillion cubic feet. This could have a dramatic impact on our energy security; power generation; infrastructure development and overall economic enhancement.

Juma Mogeni: Yesterday there was a report on the daily nation that Tullow Oil was reducing the funds allocated to the exploration of oil in Kenya does that course any threat to the development of the sector.

Joyce-Ann Wainaina: Juma, thanks for your question, we have touched on this earlier...my view is that the country needs to develop the requisite infrastructure in order for our exploration to move to production.

PAUL MWAGO: Hello Joyce-Ann.. We seem to have a big problem with our oil. Most countries in Africa export crude oil only to import refined oil at a high cost. Could a bank like Citi come in and help our refining capacity. What could be the risk? I see opportunities here where lender could help. And the issue of storage too. We seem to have problems.

Joyce-Ann Wainaina: Paul, I think you are right. The oil industry is going to require a lot of infrastructure for us to harness its true benefit. However, given the oil price trends, we will need to focus on efficiency and operational excellence to ensure we are not adding costs to this industry. As an example, any infrastructure build including refinery built will need to be a state-of-the art to avoid inflating the final price of oil.

Peter Kimuli: Hi Joyce-Ann, what is Citi Banks long term strategy in regards to oil and gas in East Africa?

Joyce-Ann Wainaina: Peter Kimuli the financial sector and the banking industry in particular is aligning itself with the broader oil and gas industry. For Citi we have been playing in this space for a number of years, supporting the down-stream industry and more recently in the exploration sector. We shall continue to leverage our global knowledge and capacity to support this sector in the long term.

Roy Kithinji: Morning, multinational players in the industry are pulling most strings and I think there is not much transparency in the contracts and how they are awarded. Also the environmental issues in the mining industry are a big concern even in the developed countries and proper environmental assessment need to be done.

Joyce-Ann Wainaina: Roy there is an Energy Bill that has been tabled in Parliament that should address issues surrounding local content; health and safety standards; and other regulatory issues.

Keye Adesina: Good Morning all, I am excited for Kenya you have a golden opportunity in your hands. Learn from those who got it right and build a viable industry benefitting your citizens. Start with the legislative and regulatory framework for your industry then work towards achieving it. We in Nigeria have squandered so much of this resource. I think you could not have come into the industry at a better time. Seize the moment.

Joyce-Ann Wainaina: Keye, good morning and welcome from Nigeria! Your points are spot on. We shall endeavor to learn from them.

SAMUEL MWANGI: Looking at the declining global fuel prices, and the reduction of Tullow's budget on its exploration expenses in Kenya, what prospects does the industry and oil marketer have in Kenya? Secondly, what should the country do to cushion itself from the ripple effects of further price reductions, and also prevent any job losses in the market?

Joyce-Ann Wainaina: Samuel, as an oil importing country the current oil price trend is a good thing for Kenya. But to your point, as an oil producing country, we will need to find ways to improve the investment climate to attract exploration and production which is an expensive venture. To fully realise the benefit of this budding industry, we must seek to promote the local participation without compromising global competitiveness.

ERASTUS NJOROGE: There is a problem normally referred to as the Dutch Disease. What are some of the strategies we can adopt to avoid from suffering this problem?

Joyce-Ann Wainaina: Thanks Erastus for the good question. For those who may not know, the Dutch Disease is where the discovery of a resource leads to the detriment of other sectors. In my opinion, some of the strategies Kenya can employ to avoid this through effective planning and policies to continue to support its diversified economy; also the potential substantial revenue from oil and gas, and the management of this revenue inflow, should be done in a way that it avoids making the country lose its competitiveness because of an excessively strong exchange rate.

George Olaka: Hello Joyce-Ann, do you think we are looking at the straightway hence ignoring the turns when forecasting for the Kenyan oil & gas outlook? By this I am referring to the famous S-curve shape of power law. Is there something else not so obvious that we are not considering that could make Kenya benefit from its oil wealth once commercial production starts?

Joyce-Ann Wainaina: George thanks, I would say we are trying as much as possible learn from history and others' experiences to ensure that Kenya's oil resource is a blessing.

Juma Mogeni: How can the youths invest in the sector?

Joyce-Ann Wainaina: Juma I think youth have an opportunity to engage in the oil industry but first we must make sure the adequate skills are transferred. Participating in this Chat is one of the ways that Citi is working to enhance this conversation.

Unanswered Questions

Edward Ngari: There's this crop I have that is used in oil and gas. The opportunity is that there is no infrastructure to add value. Who would be the best to approach to develop the system

that will link agriculture to oils and gas and as well create multiplier effect to small-scale farmers?

Nickson Karewa: Still on oil price issue, how significant is the oil price drop on the future of exploration works in Kenya?

Japheth Muoki: Nickson, no revolution if price drops and vice versa

Robert Kimuri: Greetings to all. Where would you propose improvements in the national budget in the wake of reducing oil prices, increased FDI and improved business and commercial growth in Kenya?

Cyrus Muriuki: Good morning all. What will be the impact of capital gains tax on the ongoing exploration activities?

Robert Kimuri: Where would you propose improvements in the national budget in the wake of reducing oil prices, increased FDI and improved business and commercial growth in Kenya?"

George Olaka: One last question Joyce-Ann, do you think that with the oil glut in the near term (I think the price is going to level at around 80-90) Kenya can use up to 70-80% for value additive products and maintain a price that will sustain the Kenyan Economy for a long time?

Robert Kimuri: Riding on Charles Mabeya's Qn: falling gas prices coupled with the growth of alternative, unconventional and cost-effective extraction methods (ultra deep-water and the Arctic) have the potential, and are beginning to slow down exploration. Is this an ROI problem and if so what is its potential to slow down development of the industry in Kenya?

Nicholas Mathenge: Given that the banking sector will play a significant role in financing the nascent oil and gas industry in the region, what role is the sector playing beforehand in ensuring the Governments are putting appropriate legislation in place to ensure the resource does not lead to conflict and that an appropriate sovereign wealth fund is put in place for the benefit of future generations?

John Wachira: From the documented exploration work going on in Turkana, Mandera & the off-shore coastal basins it is very likely Kenya will have a fair amount of oil & gas, whether its produced in 5 or more years; what are the banks doing to help in providing technical support in management of the 'oil dividend' for the welfare of this country?

Edward Macharia: How is the country addressing the local participation requirement? Because for oil & gas and mining support from local community and citizens is critical for successful projects

Kariuki Muriithi: Adding on Macharia's question what areas of investment have been categorised for local investors to partake in the projects, if any?

Jonathan Karanja: 1. Oil & Gas exploration have an impact on the environment. To what extent should this be factored into the planning and financial projection to ensure the impact is financially quantified and addressed.

2. Oil & Gas industry must have a way to calculate depreciation in value of oil wells, does the accuracy of this worry financial institutions? How is it factored in?

3. Tax for oil & gas must have an impact on VAT & Income tax review. Is that to be expected?

ERASTUS NJOROGE: The phrase "African oil" doesn't conjure up much in the way of positive connotations. From the civil war battlefields of southern Sudan to the slums of Angola and the swamps of the Niger Delta, the discovery of crude has done little to improve local lives. Often, it has destroyed them. 1) Do you think that the 'resource curse' may end up worsening Kenya's situation? and 2) Do you think Kenya should adopt Resource Based industrialization, using oil as the primary resource?

PAUL MWAGO: With the nose dive of oil prices globally... Where do our exploration efforts in Kenya stand? Stagnate...

Muigai Njenga: Good morning everyone and Mrs. Wainaina, my question is do you think Kenya will ever be in a position to set up and successfully manage a sovereign wealth fund with the success as that in Norway. What can we do emulate them where should we start especially from a governance point of view?

Juma Mogeni: Muigai I think nationalising will help alot.

Ken Rutere: Morning my question follows up on your last comment on the refining of crude oil we have feasibility studies on KPRL and the best way forward to avoid the Nigeria situation?

Edward Kiptoo: Country is currently investing in massive infrastructure projects to open up the northern part of Kenya in form of LAPSET which is also linked to the Oil, what role will Citi play in this project 'lapset' to support the oil investments.

Ken Rutere: Correction best way forward on the refinery to build a new one or improve the current one to bring it to state of the art facility status?

Juma Mogeni : What of the equal distribution of the funds arising from the sector?

Nicholas Mathenge: Peter Kariuki asks 'With the significant softening of crude oil prices, how will the global economy re-establish equilibrium now that there is a major shift on both net import countries and net export countries, with the gains of the importing countries translating into losses for the exporting countries? Thank you'

Leonard Yegon: Are there any regulations to govern the upstream petroleum industry? What risk does exploration pose to lending institutions and what risk mitigating strategies do banks have in place to cushion them against the risk?

Repeated Questions (Related Questions already answered)

KIJANA MENACHEM: Good Morning, the dropping oil prices could have short time benefits as already seen, but could be detrimental in the long run now that we are just in the early stages of oil discover.....is the 'Black Gold' any promising to Kenya?

Steve Muia: Due to the long term nature and capital intensive of these oil and gas projects, how do banks structure their debt agreements considering the massive risks involved?

KEVIN KYALO: Madam CEO, we have a very big job gap in the oil and gas sector, we have inadequate energy-economists to focus the growth, how do we mitigate this?

Other Comments

Japheth Muoki: Thanks Joyce, is that the possible scenario of what's happening in Nigeria?

Roy Kithinji: Hi Joyce, looking at a country like Norway, they have nationalized their Oil industry and that has made the benefits of the industry to spill over to all people and improve service delivery. Privatization of such resources is a No No.

Roy Kithinji: Our system of learning, capitalized economy and vested interests will never solve or address the issues of Oil exploitation. Let's look at the successful economies and see how they do things differently. Case Study: Norway Nigeria Oil fields are owned by individuals and you think the inequality and conflicts will ever stop?

Roy Kithinji: Support nationalization, is the only option.

Kariuki Muriithi: Privatization not necessarily bad too as long as all the necessary checks and balances are put in place and corruption and greed take a back seat.

George Olaka: Steve Muia, most banks would have modeled the oil price at around 50/60 price in their loan negotiations. What it means is that it will be harder going forward getting funding for oil & gas projects.

George Olaka: Steve, I think yes, what is happening is that the banks will not continue with the business as usual, they may for example want to ascertain that oil companies have long term sale contracts for their oil that covers the loan period; this will be an added feature to the base case models which could be more stringent.

Steve Muia: Thanks George, in your opinion can these oil prospectors/ investors access the same instead by tapping into the capital markets?

Robert Kimuri: Thank you Joyce-Ann and all participants. I found it a very informative chat.

PAUL MWAGO: Thanks Joyce-Ann... A pleasure to have you from your busy schedule, KBA asante for this initiative...Oil and gas is a very broad subject...We haven't even dealt with our insurance underwriters who loom scared of such risks.

Muigai Njenga: Oil and gas is national resource that should be run for the benefit of the public at large and not for interests of the state or even private capital. Norway is a good example the board of their fund is diverse and represents all sectors of society. We need to put real structures in place to deal with a widening income gap, and I believe proper management of oil and gas in Kenya is a huge opportunity we cannot afford to miss.

Roy Kithinji: Beneficiaries of the economy at the bottom of the pillar should be addressed and is poverty an indicator of the economy

Joyce-Ann Wainaina

Ladies and Gentlemen, I see that our time is up. I really enjoyed this engagement. And thank you very much for your engaging questions. Clearly we needed to have had a longer session to accommodate all the questions!

George Olaka: We can borrow the UAE model in dealing with the Oil issues.

David Wambua: Thanks Joyce-Ann. We usually focus on oil and forget oil's not so small brother, Gas. The discovery of indigenous gas in significant quantities has the potential to offer a far more cost effective fuel source for power projects that will also provide positive environmental and local development benefits. I think this will provide better support for the Power Africa initiative in Kenya

KENNETH KATIECHI: Madam CEO, this has been a very enlightening session. Thank you and have a blessed weekend.

Joyce-Ann Wainaina: My parting shot is that Kenya is in a sweet spot as an oil importing country and at this time of low oil prices we should use the gains to enhance our infrastructure towards oil production.

Chat Admin: Ladies and gentlemen, allow me to take this opportunity to thank Ms. Joyce-Anne Wainaina for being with us today and for her insights. We would also like to thank you all so much for your questions and comments that have made this session interactive and a success.

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Chat Admin: You can get copies of the transcript, podcasts and other information relating to this and all past chats in the archive page of the chat.kba.co.ke website.

Edward Kiptoo: Thank you Joyce-Ann for the very informative sessions, maybe we should have PART 2, 3...of this discussion in coming months

Joyce-Ann Wainaina: Edward we will make the recommendation to KBA

Chat Admin: Thank you all for participating and we look forward to meeting here again next Friday same time. The topic will be Trade. We look forward to your participation. Many thanks and have a good day.

Joyce-Ann Wainaina: There are also social and environmental concerns that arise from this sector especially where effective government policy may not be in place.

Joyce-Ann Wainaina: I would say our experience here in Kenya may be different thanks to our already diversified economy, the fact the government is working on the policy before the production of oil.