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RACE TO ZERO CARBON EMISSIONS

DISCOVERING YOUR MONEY SCRIPT

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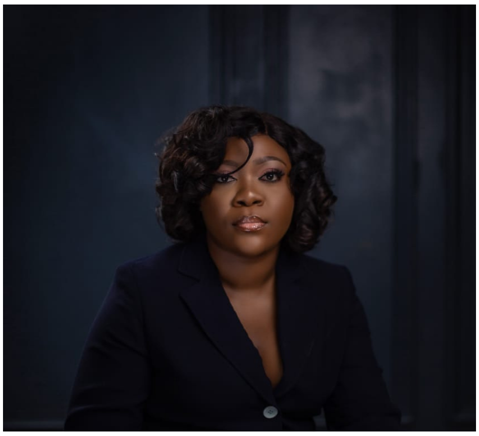
EDITOR'S NOTE



Is it too early to wish you compliments of the season? Besides celebrating another 365 days around the sun, November has come with a few personal curveballs. You know what they say, you are only as good as your worst day.

However, I am thankful for 11 issues of people, places, and passion. I am thankful for YOU! I am also thankful for the beautiful planet Earth that we are racing to save. Considering this, **Yusuf Ogunbiyi**, a commodities expert examined the feasibility of the ambitious goals set at the COP26 summit in **Race to zero carbon emissions** (Page 05).

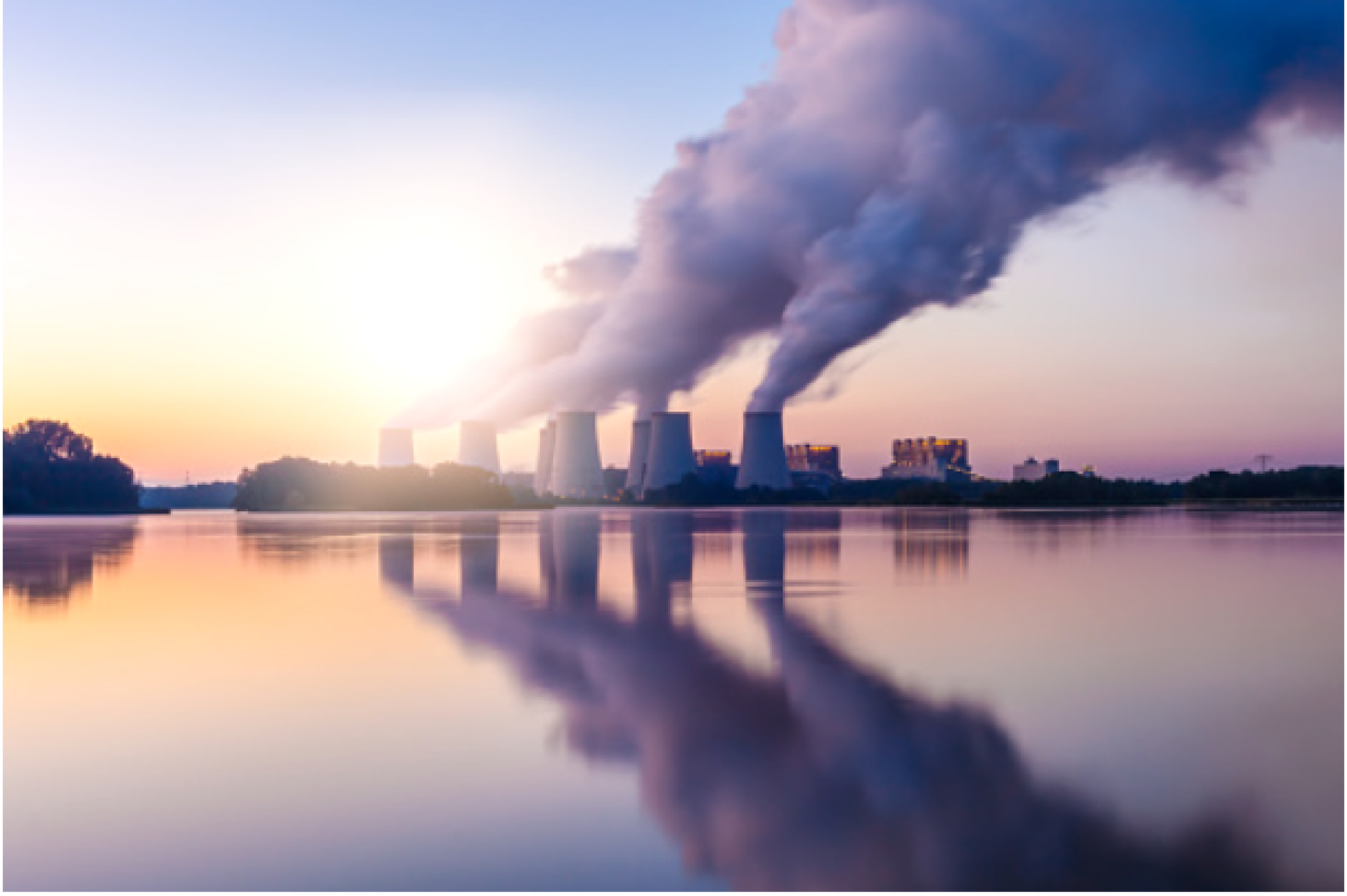
In this issue, once again, I am a two-time contributor, weighing in on Africa's subsidy regime in **Subsidies: Africa's troubling addiction** (Page 07), and exploring Nigeria's micro-lending space in **Nigeria: Microlending clampdown in the offing?** (Page 12). While **Olukayode Olayemi**, a securities trader and financial expert, gives us the code to frugality in **Discovering your money script** (Page 10).

Brevity is the soul of wit. With nothing more to add, please be reminded that I am available via info@mosopearubayi.com to attend to your questions, comments, suggestions, and queries. Also, the folks at Gifted Analysts Academy have an Analysts course ongoing for fresh graduates or people looking to break into the finance industry. Do check them out or send referrals to them.

I hope you have a happy Holiday season.

Cheers

Mosope Arubayi



RACE TO ZERO CARBON EMISSIONS

BY YUSUF OGUNBIY1

The global community met in Glasgow, Scotland, for the COP26. The COP26 is a global convention of governments, business leaders, academia, and civil society with the objective of reaching a consensus on many issues surrounding the climate change debate and the pathway to resolving this existential threat. The COP26 is momentous as it heralds the commitments of all these entities as we move into this emerging decade. The overall objective of this convention is to come up with global standards concerning climate-impacting issues, and proposals on how to deal with these issues.

Interestingly, the run-up to the COP26 event was more interesting than the event itself. First, the aftermath of COVID-19 and the ever-important challenge of energy security for economic development have portrayed a more fractured approach to the climate change narrative across the global north and south. For instance, the rapid opening of economies across the world after COVID-19-induced lockdowns has spurred strong demand for crude oil. This demand subdued the initially established opinion that the decline in long-term demand for crude oil was coming faster than expected.

In addition, the quest for energy security by countries such as China and India pushed them to binge on coal and resist, rather vehemently, the calls for phasing out coal. These two events raise more fundamental questions around the calls by governments - mostly Western countries - t0 phase out of fossil fuels and adopt renewables such as solar, wind, geothermal, etc. The questions that were topical moving into the convention include:

- How much of a right/leverage do developed countries have in calling for an energy shift?
- How much energy security are developing countries willing to sacrifice as they seek to reach net-zero?
- Should African countries sacrifice the potentials from fossil fuels - such as crude oil and gas - because of climate change, when they barely contribute to this in the first instance?

First, the challenge of moving away from fossil fuels contains both moral and developmental ramifications. The moral rationale is built on the premise that the developed world had gained so much in prosperity and wealth by burning these fuels, and the developing world now feels they also need to burn the same fuel so they can develop and grow in a cheap manner. The overarching principle here is that the rich countries have no right to call out certain countries when they led the way to the current pollution.

The development leg sees fossil fuels as critical to industrialization, and the developing countries are willing to burn as much as allowable to develop their economies. Lest we also forget that financing is a huge part of development. Hence, if we seek to encourage these countries to move away while they want to develop, there needs to be more on the table to incentivize these shifts. At the end of COP26, governments such as the United States and top financiers globally committed to increasing the funding available to establishing renewable projects. But how much are developing countries willing to sacrifice?

The pandemic has given us a glimpse of the impact of energy insecurity. China, for instance, faced a massive energy crunch this year with industries and households suffering from blackouts. Therefore, governments try to prioritize the energy sources over which they wield control. Culprits - like India and China - prioritize coal to ensure that local industries and households have hassle-free access to energy. This reality also played out at the COP26 when countries such as China, India, and Australia lobbied that the phrase “Phase down” rather than “Phase out” be used in describing the resolution of the convention on coal.

The decision to transition from fossil fuels represents a national economic and security concern for many countries, and the provision of incentives and establishment of realistic benchmarks are critical to ensuring that the net-zero goal is achieved. But African countries are still looking up to resource windfalls, especially energy-related windfalls. Additionally, a shift to renewables would mean a greater dependence on external sources for the raw material and equipment to drive its implementation. This suggests that the journey could be longer and more arduous than planned. Therefore, a more realistic pathway will be a conscious and deliberate effort at diversifying the energy mix on the continent, with a strong opportunity to expand the use of renewables.

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SUBSIDIES: AFRICA'S TROUBLING ADDICTION

BY MOSOPE ARUBAYI

The average African feels entitled to subsidies. Due to prevailing poverty, subsidies are perceived to be a necessity because of the wide gap between the market-determined price of goods and services and the financial strength of the wider population. From agriculture subsidies in Kenya and Malawi, to transport subsidies in South Africa, and fuel subsidies in virtually all African nations, the government bears the price burden to ease the financial hardship of the people.

However, while subsidies are laudable from a welfare economics standpoint, they are detrimental to the fiscal health of African economies as many nations on the continent are infamously riddled with unsustainable debt burdens and large budget deficits. The region's limited capacity to attract revenues, both internally and from the international market, further compounds the strain on African governments to support their subsidy schemes. This leaves the perplexing question of why subsidies are not only still being maintained in African economies, but seem to not be nearing extinction or at least reduction.

The reality is subsidy schemes would remain in African economies for the foreseeable future and the reason is not far-fetched. Subsidies are a knotty mix of politics, economics, and social welfare, strung into a complex web, and subsidy removals have far-reaching implications, which African economies do not have efficient structures to manage.

With fuel subsidies, environmental considerations are thrown into the mix as well. In recent times, the subsidy debate has transcended the borders of individual nations and attracted attention from global leaders including the G7 and G20 countries. In the fight against climate change, subsidies on fossil fuels – which is the most common among low-income countries – are a drawdown on the hard-pressed progress being made by advanced economies.

Subsidy removal plans have a low success rate in African countries, and this can be attributed to the unprepared state of African economies to absorb the price spike left in its wake. Consumers are averse to price increases – and they cannot be blamed. Higher prices imply higher costs of living and lower living standards. As such, any attempt at subsidy removal is regarded as one aimed to increase the hardship the people already face due to widespread poverty, and naturally, uprisings emerge to fight against such policy movements, leading to a breakdown in law and order- case in point, Nigeria in 2012.

For African countries, with underdeveloped private sectors, the road to free-market pricing without the government holding the reins is long.

This captures the socio-economic considerations attached to subsidies in a vast majority of African countries and contributes to subsidy removals being widely unpopular on the political front. Removing the price cushion that the populace sits on prematurely does not score an administration any points with the people. Subsidies are also widely claimed to give lopsided benefit to higher income groups rather than the low-income population they ought to serve, while also serving as a vehicle for corruption in the public sector.

African countries are currently in no position to get rid of the unsustainable burden of subsidies. However, what point is ideal for subsidy removal and when would African countries get there? Arguments for subsidies are premised on the idea that economies need to be supported at the infancy stage by the government to aid and fast-track the development process. As economies grow and the private sector blossoms, the government takes a back seat in driving economic growth. For African countries, with underdeveloped private sectors, the road to free-market pricing without the government holding the reins is long.

Gradual and phased removal of subsidies is largely advocated as a good place to start in the short term. African countries can develop their vast wind and solar resources to reduce the dependence on fossil fuels and consequently, subsidies on them. African countries are also encouraged to increase investment in education, trade, and health – sectors which aid human development – to bring their economies to the private sector-led point. Pressing calls for reforms from international institutions have intensified, especially in light of the just-concluded COP26 climate change conference. However, despite the climbing costs and various externalities attached to subsidies, there is a very limited chance that they would be scrapped by African nations in the near term.


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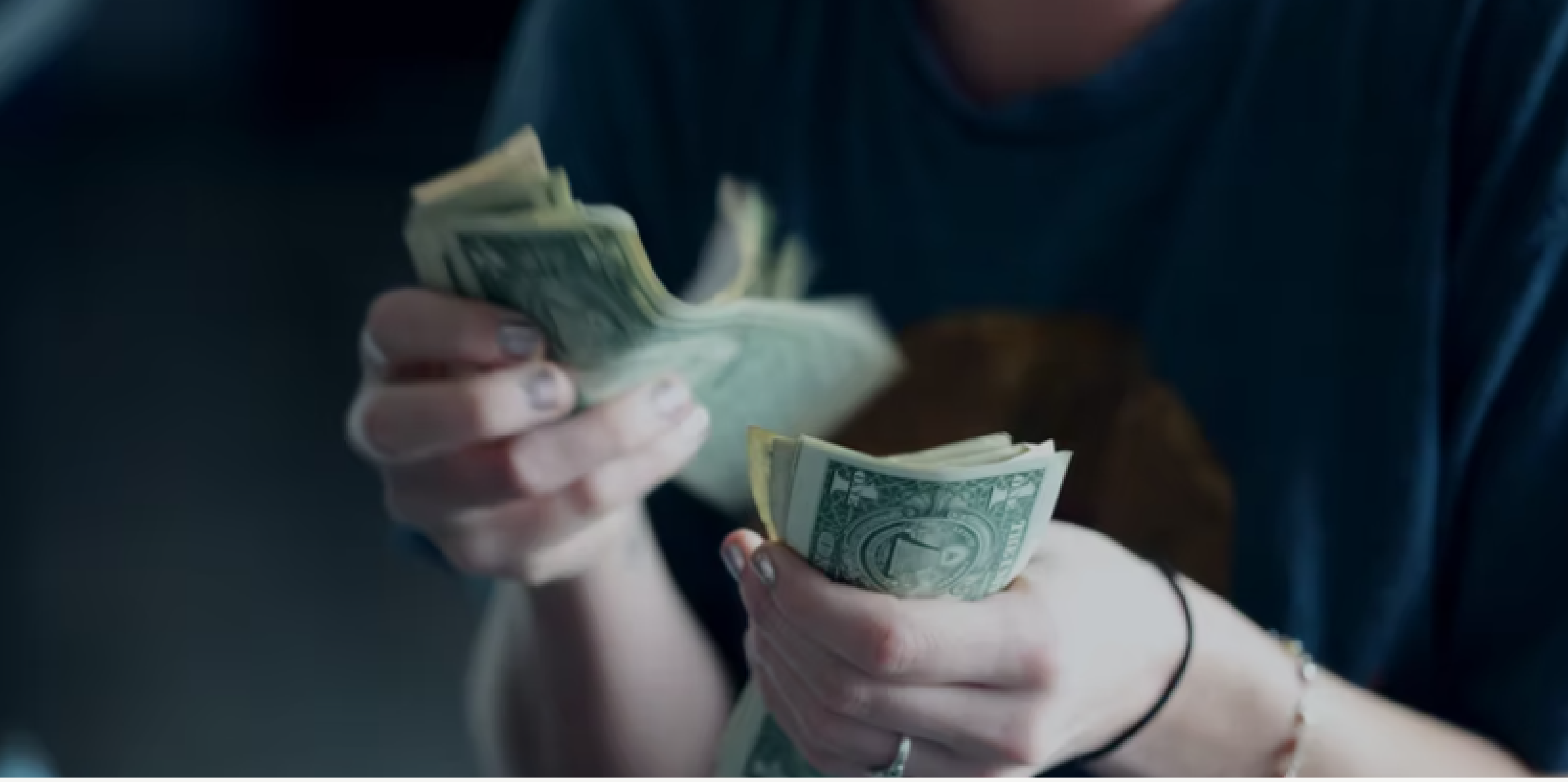


DISCOVERING YOUR MONEY SCRIPT

By knowing the underlying factors that drive your decisions, you can begin to take steps to double down on the habits that are helpful and take steps to correct the habits that are harmful.

BY OLUKAYODE OLAYEMI

How many times have you made a new year resolution to do better with your finances, but by mid-February, you have broken those resolutions repeatedly? I assure you that you are in good company. Like millions of people around the world, you are finding it a struggle to consistently do the right things you know you ought to be doing with your money.

There is one reason why that is happening at your 'money script' – how you have been programmed to deal with and think about money.

Your 'money script' is the playbook from which you make most of your money decisions. It consists of lines of code written into your subconscious mind, that shape your financial behavior throughout your life. Some of those lines of code have come from peers, the television, and social media. But most of it has come from observing the words and actions of parental figures as you grew up.

According to financial therapists, money scripts are "typically unconscious, trans-generational beliefs about money" that are developed in childhood and drive adult financial behaviors. Research has associated money scripts with financial outcomes, financial behaviors, and other aspects of financial health.

Most people would have a mix of some supportive and some unhelpful codes written into their money script. The supportive beliefs will guide you towards desirable financial outcomes and you need to reinforce those ones. While the limiting beliefs will hinder you from accomplishing your financial objectives. Hence, you need to be aware of them and take steps to rewrite them.

According to Dr. Brad Klontz, a clinical psychologist and financial planner, there are four money scripts that shape financial behavior, influence financial decisions, and the ability to effectively manage personal finances.

The four money scripts identified by Klontz, include:

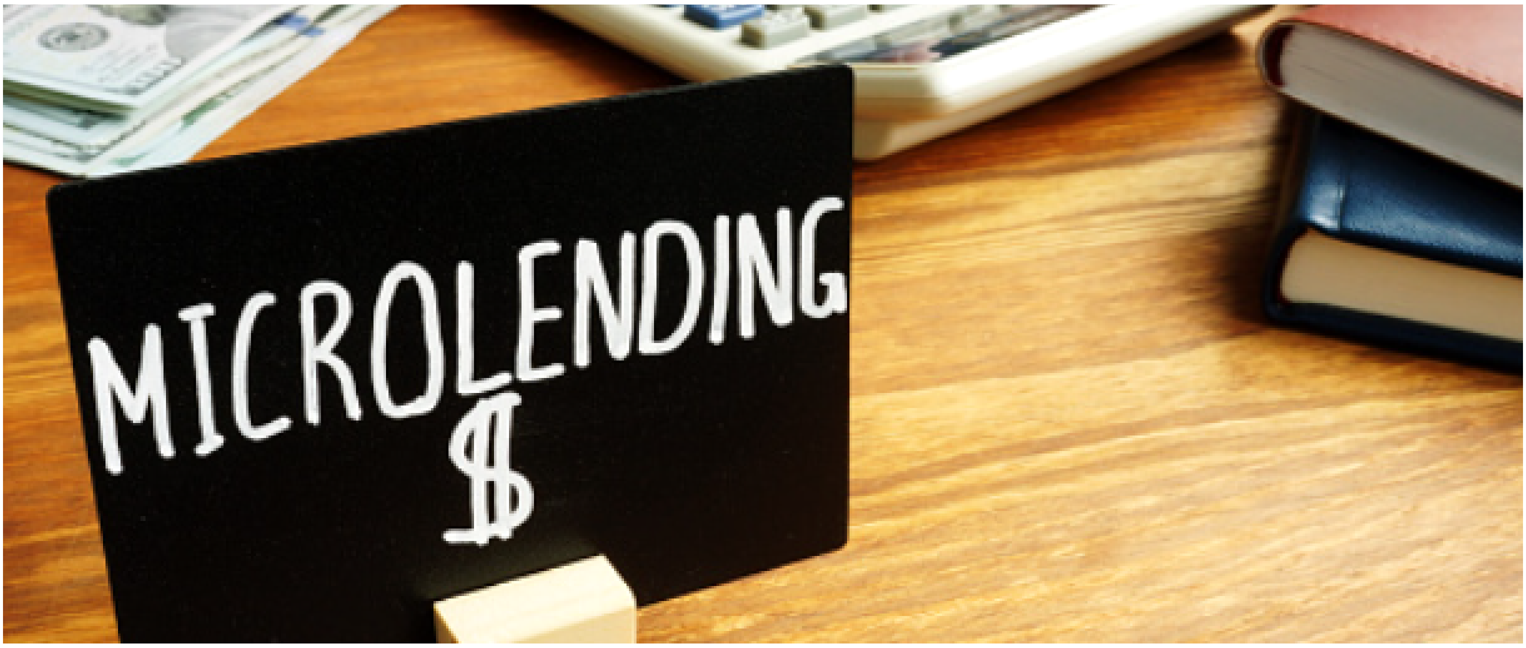
- **Money Avoiders**: You believe money is bad, that wealthy people are inherently greedy, and they do not deserve money. You exhibit a tendency not to think about money, ignore account statements, overspend, and generally ignore a budget. You may be self-sabotaging your financial success because you believe money is the root of evil and having less of it will keep you honest.
- **Money Worshippers**: You believe money will solve all your problems, that there is never enough money, and that money brings power and happiness. While you are obsessed with pursuing more money, you believe you will never have enough money. You equate net worth with self-worth.
- **Money Status**: You believe self-worth is equal to net worth and tend to put a high-value on self-image than prudent and strategic decisions. You prioritize outward displays of wealth, and as a result, can be at risk of overspending to own the newest and best. Thus, you may carry a lot of debt as you try to keep up appearances.
- **Money Vigilance**: You believe in the importance of frugality, saving, and living debt-free. You are discreet about how much money you have or earn. You have concerns about ensuring money is saved in case of an emergency. Although you are financially secure, you are in a constant state of financial anxiety. In addition, you may have a heightened sense of guilt about spending, which could be keeping you from enjoying your money.

You can identify your money script by taking the developed Klontz Money Script Inventory (KMSI), which is an empirically validated assessment tool for identifying your prevalent money attitudes.

Most people tend to exhibit traces of all four, but there will typically be one or two dominant scripts. Also, it is important to highlight that most of the traits exhibited by each of the money scripts have some benefits and demerits when taken to the extreme. For instance, while frugality expressed by money vigilance is a good thing, when taken to the extreme it could make you a penny pincher.

So, what do you do with identifying your money script? By knowing the underlying factors that drive your decisions, you can begin to take steps to double down on the habits that are helpful and take steps to correct the habits that are harmful. Also, identifying your money script could be very useful when dealing with money issues in a spousal relationship with two people with different - and perhaps conflicting - money scripts.

Based on the foregoing, it is imperative to note that whether your money script emanates from lack of money growing up, or you were around too much of it in childhood, it does not have to remain that way. You can write new lines of code in adulthood. Furthermore, like all habits, you can change your money script by replacing less-desirable attributes with newer ones that are more desirable, and deliberately taking steps to act in moderation.



NIGERIA: MICROLENDING CLAMPDOWN IN THE OFFING?

BY MOSOPE ARUBAYI

Most technology-based products are founded on the idea of addressing pain points through solutions infused with ease, speed, and simplicity. Generally, ideas with these three features disrupt an industry's legacy business model. When credit providers carved their niche in the FinTech space, they capitalized on these principles - providing loans to virtually anyone, anywhere, and within minutes - as well as the apparent failure of traditional financial institutions to simplify their processes and provide loans to a large percentage of the population.

Many loan seekers rejoiced at the prospects offered by FinTech companies, forgetting that the loan market is the clearest depiction of high risk, high reward in the business world. By taking on greater risk burdens to fulfill their promise of easy access to credit for everyone, digital loan agencies reduced their chances of staying afloat and mitigating the risk burden required by factoring in the risk into their interest rates and debt collection conditions – a strategy which has been implemented in extreme forms by some of these credit providers, earning them the tag 'loan sharks'.

For loan sharks, staying afloat involves employing drastic measures, which have crossed many ethical boundaries. For these businesses, it has become commonplace to resort to tactics such as public naming and shaming - especially through social media platforms-, forced seizure of assets, as well as privacy breaches through persistent calls and texts to contacts. These actions, which amount to character defamation, cyberbullying, and data privacy invasion crimes have been worsened by the lack of regulation, which aided the unscrupulous activities of the illegal operators in the burgeoning industry.

However, regulatory bodies in various countries - alarmed by the social menace these loan sharks have constituted - are beginning to respond to the need for policies to give structure and guide to the activities of firms in the industry and more importantly, fish out the loan sharks who capitalize on the public's thirst for quick loans.

In India, where the actions of these loan agencies have resulted in a growing number of suicide cases among small business owners, traders, and farmers, the government has taken stringent steps to rein in the fraudulent activities of the lenders on three fronts - legal and regulatory, technology and financial consumer protection. To ensure that customers borrow from only authentic mediums and that the FinTech companies in the lending space operate under the purview of the code of conduct and guidelines set by the Reserve Bank of India (RBI), the plans in motion include subjecting the digital lenders to a verification process by a nodal agency, and requiring direct disbursement to bank accounts of borrowers. Establishing a self-regulatory organization covering the participants in the digital lending ecosystem such as digital loan aggregators and credit bureaus is also being considered to increase transparency and maintain tight supervision in the industry.

Kenya has also doubled down on its regulatory efforts to clamp down on predatory lending by digital credit providers. New laws have been set to regulate monthly interest rates levied on loans by digital lenders, in a bid to stamp out these predatory practices. Under the new law, digital lenders will require approval from the central bank to increase lending rates or launch new products. This comes in tow to data protection laws and the ban on digital lenders blacklisting a category of lenders and names of defaulters with credit reference bureaus, which were implemented by Kenyan authorities earlier this year.

The regulatory clampdown is slowly snaking its way to various countries, implying that an industry shakedown may be imminent in Nigeria. The ten million naira fine imposed on a loan agency – Sokoloan – in August as well as the investigative efforts championed by several agencies - including the Central Bank of Nigeria (CBN) and the Economic Financial Crimes Commission (EFCC) - that was launched in November 2021 to investigate complaints about the questionable credit repayment practices by loan sharks, may be the first signs of the regulatory clampdown to come.

To many, technology is synonymous to ease. However, with digital loan sharks, the ease they offer has strings attached. Poverty-ridden countries like India and Nigeria provide the ideal landscape for these loan sharks to pounce on the need for quick cash, and capitalize on the stigma attached to borrowing in these societies to get the repayments. Although they fulfill the dreams of the masses by granting any and everybody loans, these loan sharks have taken advantage of the limited regulation in the industry. As such, policies are needed to prevent even more preys from entering the jaws of loan sharks. The introduction of regulations may moderate the growth of the digital credit industry in Nigeria, however, it is required to protect the interest of customers and ensure a healthy business environment in the industry.

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