FOSTERING DEVELOPMENT THROUGH TRADE FINANCE

AFRICAN DEVELOPMENT BANK GROUP

TRADE FINANCE

In Support of Africa's Development

CONTENTS

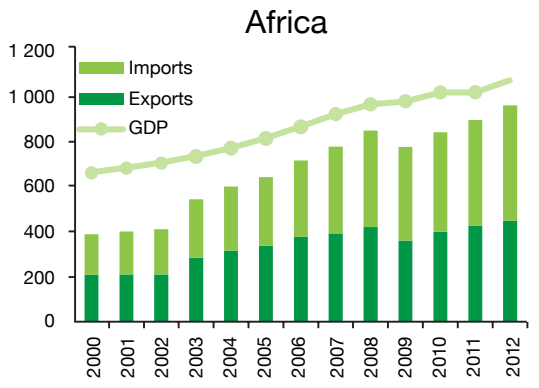
"We need to ensure that Africa is not left out of mainstream trade markets because of a lack of trade finance."

DONALD KABERUKA,
PRESIDENT OF THE AFRICAN DEVELOPMENT BANK

AFRICA
IN GLOBAL TRADE

Trade is a fundamental driver of economic development. Nowhere is this more relevant today than in Africa, which has the world's highest proportion of low income countries and accounts for only 3.3 per cent of global trade. Because of the lack of affordable trade finance, Africa has not been able to take full advantage of new opportunities offered by the changing global economic landscape.

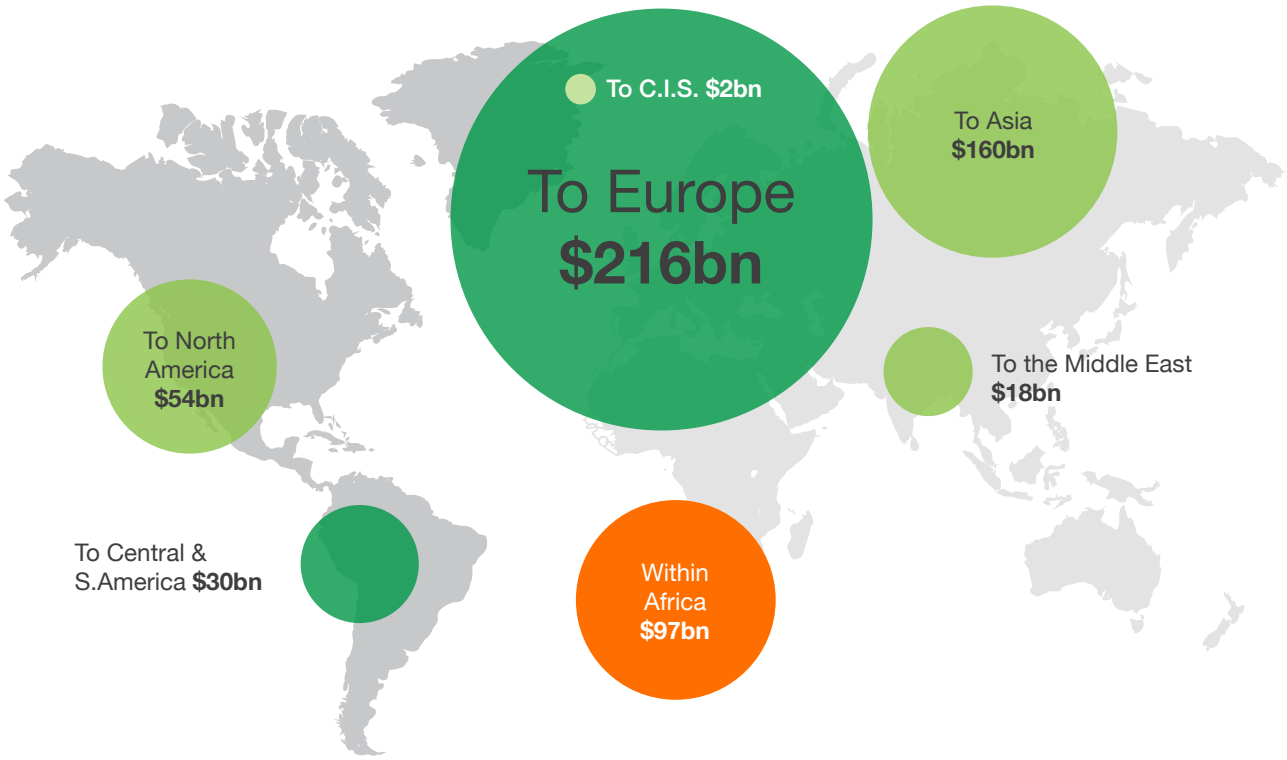
Following the financial crisis of 2008-09, global trade dipped due to falling demand and a lack of liquidity in the international financial system. The global economy has now rebounded and liquidity levels improved but the African continent is still involved in far too little International trade.



African Trade (Exports and Imports) and GDP (in USD Billions - Constant 2000)

Source: WTO

AFRICA'S MERCHANDISE EXPORTS
by region (2013)



The financial crisis precipitated enormous shifts in the direction and balance of trade around the world. Africa found that new markets in Asia, to some extent, off-set declines in Europe and North America. However, the continent's exporters are yet to fully exploit emerging opportunities in neighbouring countries.

AFRICA'S TRADING PARTNERS

	AFRICAN MERCHANDISE EXPORTS BY REGION (2013)	
	US$bn	%
AFRICA	97	16%
EUROPE	216	36%
ASIA	160	27%
NORTH AMERICA	54	9%
MIDDLE EAST	18	3%
CENTRAL & SOUTH AMERICA	30	5%
COMMONWEALTH OF INDEPENDENT STATES	2	0.3%
TOTAL WORLD EXPORTS	602	

Source: WTO

African Development Bank

AFRICA & WORLD TRADE

Export growth in most African economies plus a rebalancing of the global economy, are changing the face of African trade. Low levels of growth, high unemployment and economic uncertainty persist across the European Union, while other developed markets have struggled to return to their pre-crisis highs.

The relative decline of Africa's traditional export partners in the industrialised world has been speeded up by continued strong growth in much of Asia. This has fostered rapidly rising trade volumes between Asia and Africa, plus much greater Asian investment in Africa.

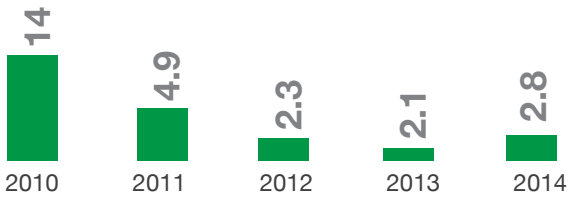
The value of Sino-African trade grew by an average rate of 14% a year between 2000 and 2012, while Indian, Malaysian, Singaporean and Thai companies are also making major investments. New sources of new trade are not restricted to the Far East, as Brazilian and Turkish companies are becoming much more heavily involved in the continent.

Perhaps more importantly, buoyed by internal dynamics – its urbanising, growing population and improving political stability – Africa itself is becoming a driver of economic growth. However, many African countries have not fully capitalised on their neighbours' growth. While trade with Asian markets has increased rapidly, intra-African trade remains a relatively small proportion of total African trade – around 13.5 per cent according to WTO figures.

For years intra-African trade has been constrained by the historical configuration of infrastructure, by the political hangovers of the Cold War era and by the failure of many African economies to move from primary commodity production to manufacturing, and in particular to the manufacturing of products tailored for African markets.

WORLD TRADE GROWTH

Growth in world merchandise exports (in %)



BUT IT IS MORE THAN JUST CHINA: India was the largest Asian source of investment in the continent in 2013.

(Ernst & Young)

GLOBAL EXPORTS BY REGION (IN %) *Percentage of world merchandise exports by region, 1953-2013*

	1953	1963	1973	1983	1993	2003	2013
NORTH AMERICA	24.8	19.9	17.3	16.8	18	15.8	13.2
SOUTH & CENTRAL AMERICA	9.7	6.4	4.3	4.4	3	3	4
EUROPE	39.4	47.8	50.9	43.5	45.4	45.9	36.3
COMMONWEALTH OF INDEPENDENT STATES	3.5	4.6	3.7	5	1.5	2.6	4.3
MIDDLE EAST	2.7	3.2	4.1	6.8	3.5	4.1	7.4
ASIA	13.4	12.5	14.9	19.1	26.1	26.2	31.5
AFRICA	6.5	5.7	4.8	4.5	2.5	2.4	3.3
VALUE OF WORLD TRADE (IN BILLIONS)	84	157	579	1,838	3,676	7,377	18,301

Source: WTO

AFRICA'S SHRINKING SHARE OF WORLD TRADE

Africa has not, in the modern era, been a major source of exports to the rest of the world. Indeed, since the 1950s, the continent has seen its share of global trade shrink to half its post-war totals.

INTRA-AFRICAN TRADE REMAINS LIMITED

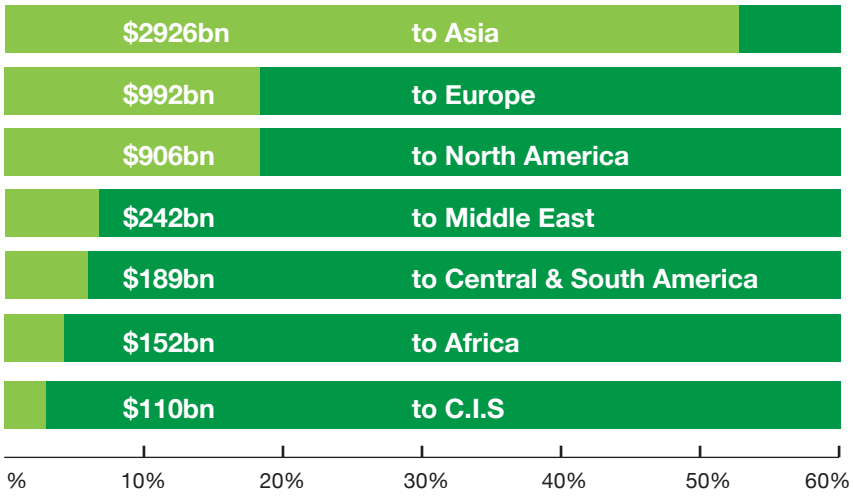
Among all the regions of the world, intra-regional trade is lowest in Africa, accounting for approximately 11% of the total value of African trade in 2012 according to UNCTAD. For Asia, Europe and Latin America, intra-regional trade represented, on average, about 51%, 68% and 21% of their trade over the period 2007-2011, respectively.

The share of intra-African trade is not uniform across sub-regions. North Africa has the lowest proportion of intra-regional trade mainly because of the limited integration of the 6 countries in this sub-region (5%). The sub-region with the highest proportion of intraregional trade is Eastern Africa (27% in 2012).

These factors, in addition to the relatively easy money to be made in supporting primary exports to existing markets, have contributed to a lack of investment in mechanisms – both physical and financial – for intra-African trade.

Stronger intra-African trade could act as a catalyst for growth. While Africa's exports are 80% raw commodities and 20% processed goods, intra-African trade accounts for 40% of the former and 60% of the latter. International trade was at the heart of the economic boom in Asia, driving the creation of productive employment, in particular in manufactured goods, as developed markets took advantage first of labour arbitrage and then of the increasing sophistication of the production capacity in Asia. Larger numbers of higher quality jobs moved millions of South Korean and Chinese people out of poverty.

ASIAN EXPORTS (IN $BN AND %)



Asian economies' trade has developed not only with the rest of the world, but within their own region

AFRICA ACCOUNTS FOR LESS THAN ONE PER CENT OF MANUFACTURING VALUE ADDED AND IMPORTS MANY OF THE MANUFACTURED GOODS THAT IT USES

Asia's International trade, though, was not exclusively with the West. In fact, today more than 50 per cent of Asian trade is within the region.

Likewise, the opening borders of post-war Europe drove that continent's growth, and helped to move peripheral countries forwards alongside traditionally stronger economies – until the bursting of the credit bubble and the ensuing financial crisis at the end of the last decade.

Trade within the continent – just like trade with the rest of the world – would be a driver of growth. But more importantly, it could be the key to more equitable, sustainable growth. Africa accounts for less than one per cent of manufacturing value added and imports many of the manufactured goods that it uses. Exports of primary commodities, which represent the bulk of the continent's trade, do not lead to the creation of many productive jobs.

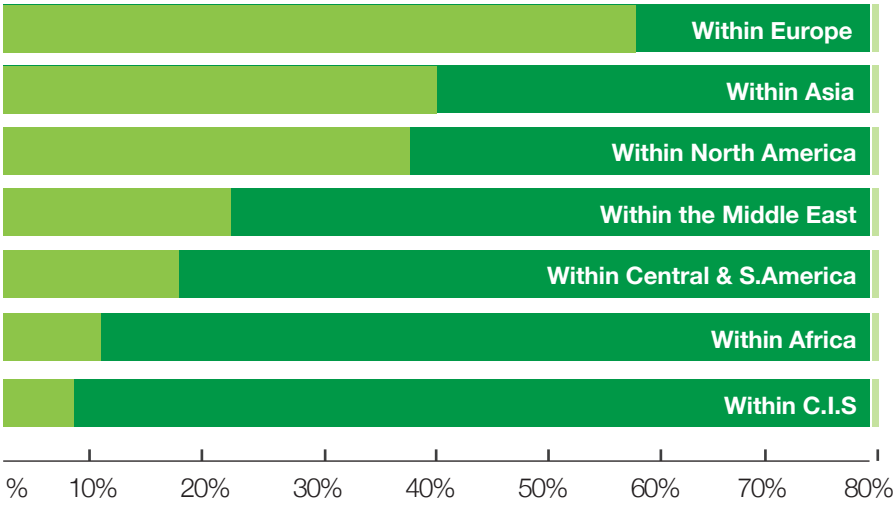
Of equal value, given the current external environment, is the way that building strong regional markets insulates developing countries from external shocks that emanate from the industrialised world.

TRADING WITH ASIA

Growing trade with Asia has often been heralded as a sign of Africa's growing importance on the world stage. Certainly the increase in African exports to and imports from Asia has had an impact on growth, but the Asian economies' emergence was in large part due to improved links between countries in Asia.

SOURCE: WTO

GLOBAL INTRA-REGIONAL TRADE (IN %)



REGIONAL TRADE

While global trade has been responsible for generating growth and employment in many developing markets, progress has, in most cases, ultimately been secured by improving links with regional neighbours.

SOURCE: WTO

THERE IS AN ADDITIONAL BARRIER THAT IS CURRENTLY PREVENTING COMPANIES, PARTICULARLY SMALLER COMPANIES, FROM PARTICIPATING IN THE CROSS-BORDER GROWTH IN TRADE: LIQUIDITY

The infrastructure deficits that have contributed to this ongoing problem are well known, and despite concerted efforts in the political sphere to improve the links within and between the continent's major trading blocs, policy and regulatory hurdles remain. However, there is an additional barrier that is currently preventing companies, particularly smaller companies, from participating in the cross-border growth in trade: liquidity.

With the cost of trade still high in the developing world – far higher than in industrialised markets – small and medium-sized enterprises face significant challenges in accessing the credit they need to get their goods to market.

The international financial crisis saw many financiers pull back liquidity from emerging markets and from trade finance more generally in order to cover positions in their home jurisdictions. Local financial institutions found it hard to access credit in international markets, with considerable knock-on effects for small-and medium-sized enterprises. This withdrawal reduced the already limited access to credit in most of Africa and has not yet been reversed.

TRADE FINANCE IN GLOBAL TRADE

If the role of development financiers is to deploy resources where both the need and potential impact is greatest, the financial crisis and ensuing economic downturn around the world created whole new areas for them to intervene in. One of these was the sudden requirement to put money into the global system of trade.

Multilateral Development Banks (MDBs) have been working to fill the gaps in trade for many years. Trade finance is a commercially viable business as long as the risks for commercial banks are managed and mitigated. MDBs, with their strong financial backing and credit ratings, are able to create facilities that can de-risk transactions for commercial banks and help to promote trade.

The European Bank for Reconstruction and Development began its Trade Facilitation Programme in 1999 in order to promote foreign trade in its countries of operation in Eastern Europe, the Middle East and the Mediterranean. The success of the model has been adopted by other international financial institutions, including the Asian Development Bank and Inter-American Development Bank. Development institutions also reacted to the drop in trade resulting from the global financial crisis by supporting trade finance through the Global Trade Liquidity Programme among other initiatives.

For development finance institutions, there are clear benefits to supporting trade finance. Low income countries and fragile states, which are considered high risk by commercial banks, are often the first to suffer in times of tightening credit supply. This is equally true of small enterprises in developing markets. Small businesses are very often the largest source of employment and job growth, and supporting their success has immediate and obvious development outcomes.

Global commercial banks are often reluctant to support trade in developing countries because of perceived high levels of risk, relatively weak banking systems and limited transaction data. The Basel II directive increased the amount of information required by regulators, creating greater caution among international banks.

$1.6TN

Of the $4.6 trillion in proposed trade finance globally in 2012, only $3 trillion of the demand was met by commercial banks, leaving a $1.6 trillion funding gap.

The liquidity, capital and leverage requirements of Basel III could have an even greater impact. Like its predecessor, Basel III is designed to encourage banks to incorporate trade finance into their leverage calculations, by factoring in short-term contingent liabilities relating to trade finance. This could push banks with capital constraints out of the market. Limited support from international banks for African trade finance means that African banks must take the lead

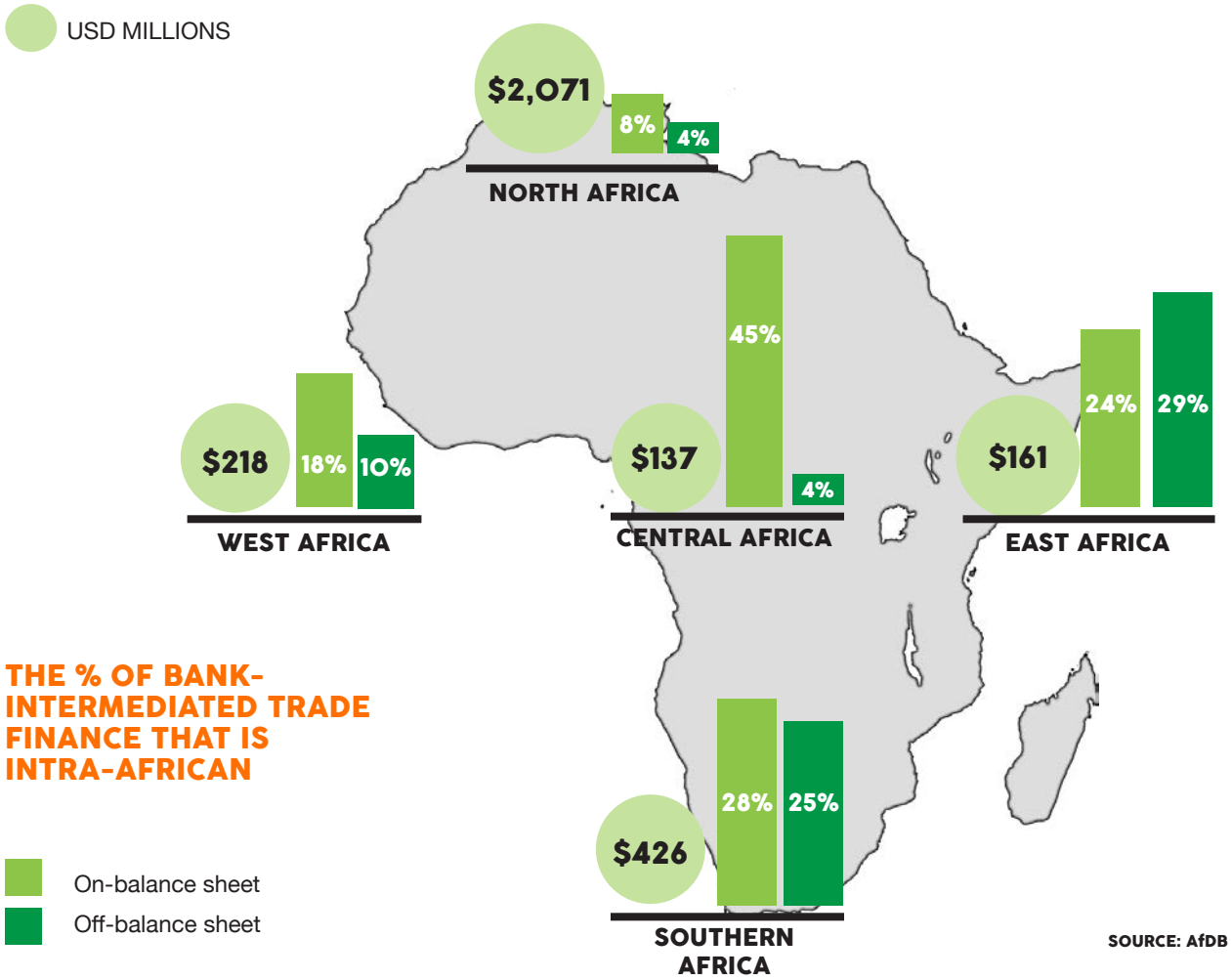
Trade finance default rates are higher in Africa than in the rest of the world, averaging 4% in comparison with a global average of less than 1%. This varies from an average of 1.1% in Southern Africa to 6.3% in West Africa. There is an obvious correlation between stability and access to trade finance. However, trade finance default rates are significantly lower than banks' overall non-performing loans ratio. Average default rates for all assets are 4% in Southern Africa, ranging up to 12% in West Africa. Commercial African banks already generate 17% of their earnings from trade finance and only one out of every 14 African banks is yet to enter the trade finance

market revealing substantial appetite for the sector. A report by the AfDB in December 2014 revealed that 72% of responding African banks expect to increase their trade finance activities in the immediate future but there are still many obstacles to overcome. These include low US dollar liquidity, regulation compliance, slow economic growth, and the inability to assess the credit-worthiness of potential borrowers. The requirement of confirmation of letters of credit (LCs) remains a major challenge for African banks as virtually all LCs issued by banks on the continent require confirmation when the counterparty is located outside the region. Given the limits on risk headroom by confirming banks for African issuing banks, a large number of the latter are highly constrained in providing needed trade finance.

Given these obstacles, governments and development finance institutions (DFIs) must continue to play a big role. In particular, trade facilitation programmes that address US dollar liquidity and relax constraints from binding risk are needed to meet the increasing demand of African firms for trade finance. Given this reality, the AfDB's trade finance programme - backed by the AfDB's AAA credit rating - is a welcome addition to on-going trade facilitation programmes instituted by a number of DFIs.
An estimated US$340 billion – or a third of all African trade – is backed by bank-intermediated trade finance, although this proportion is higher in North Africa than in the rest of the continent. Just 18% of this US$340 billion comprises intra-African trade, although this a relatively high proportion in comparison with the contribution of trade between African countries to total trade flows on the continent. Intra-African trade accounts for 11% of the total value of African trade, equivalent to US$110 billion.

A great deal of the demand for trade finance comes from labour intensive industries, such as agriculture and agribusiness. Interventions in these sectors, which in African countries are typically the largest employers and contributors to GDP, are broad-based.

AVERAGE ANNUAL VALUE OF LETTERS OF CREDIT ISSUED BY BANKS IN 2011 & 2012



SOURCE: AfDB

INTERVIEW WITH YAW ADU KUFFOR

Head of the Trade Finance Programme

How does trade finance align with the African Development Bank's mandate?

The objective of the Bank is to promote sustainable economic growth in our member countries and by extension poverty reduction. Growth, however, derives from investment and trade, so by facilitating trade we are dealing with an important element of the growth equation. Hitherto, the perception was that the trade finance market was sufficiently served by the commercial players. We now know from various studies that this is not the case and that there is a sizeable funding gap, a situation exacerbated by the 2008-9 global financial crisis.

It is part of our mandate to address market failure, and that implies going where the market is unable or unwilling to go. There is a persisting structural gap in the trade finance market which deserves our attention.

What development outcomes does the Bank expect to achieve by supporting trade finance?

There is ample research by the World Bank and other institutions showing the important development benefits from increased trade as well as the negative consequences of factors that constrain trade. The rich experiences of other Multilateral Development Banks (MDBs) that actively support trade, as well as the Bank's own limited experience, confirm that demand from the private sector for multilateral support for trade finance tends to concentrate in low income countries which are perceived as riskier.

Although it can be generally argued that most kinds of trade have positive development outcomes, trade finance that targets priority areas such as low income countries, including fragile states, as well as smaller African enterprises can be reasonably expected to have an even stronger positive impact. It is also notable that the strongest demand for MDB-supported trade finance has tended to come from companies involved in agriculture and agribusiness, which are noted for being risky but also high employment-generating sectors as well as contributing to food security. International corporations and larger African companies, particularly those in the middle income countries, are generally better able to access trade financing from the market and hence do not usually require MDB support.

What evidence do we have that trade liquidity is

still going to be a severe constraint in Africa in years to come?

Recent AfDB research suggests that the unmet demand for bank-intermediated trade finance is about US$115 billion, much higher than the previously estimated US$25 billion. Afreximbank processed transactions worth US$2.6bn in 2011 but received applications for US$18.5bn suggesting that it could do more if it had the capacity to do so. All this suggests that the market in general is significantly underserved, although unmet demand is also much higher in fragile and low-income countries (LICs) than in middle-income countries (MICs).

Is the Bank really needed in the trade finance market? How do we know that the Bank will be additional and not just crowd out commercial players from the sector?

It is important to note that our Trade Finance Programme has been designed to complement the commercial players' efforts. It leverages our respective strengths – the Bank's strong balance sheet, risk-bearing capacity and development focus, alongside the capacity and local presence of commercial players – to deliver credit support to the markets.

Prior to the establishment of the fully fledged in-house programme in 2013 we were inundated with requests for risk mitigation support from institutions engaged in supporting documentary credit in Africa. Demand for Afreximbank's products is also clear evidence of demand being far greater than supply.

The fee-sharing structure of the Risk Participation Agreement (RPA) means that the commercial partners use the extra capacity provided by the Bank only when it is absolutely necessary. The commercial banks are encouraged to do more and expand credit limits for SMEs in low-income countries. The capital relief benefits of our partnerships create headroom to venture into more challenging markets.

Does the Bank plan to exit the trade finance market?

Our aim is to make ourselves redundant in the long run and that we should exit the market once we are no longer needed. The programme's aspiration is to see structural issues and challenges evaporate and the need for our engagement diminished. We will exit when there is demonstrable evidence that the private sector can fill the space.

AFDB COMPARATIVE ADVANTAGES

The AfDB already has a long and successful track record in supporting trade and trade finance, beginning with the establishment of Afreximbank in 1993. As it fully mainstreams its new Trade Finance Programme, the Bank has several comparative advantages that make it well placed to provide complementary trade finance support in Africa.

STRONG BALANCE SHEET:
The Bank is an AAA-rated international financial institution with preferred creditor status.

DEVELOPMENT FOCUS:
The Bank's vision is to contribute to the economic and social progress of Africa. It has an advocacy role in harmonising processes and removing bottlenecks to development across the continent.

RISK-BEARING CAPACITY:
Unrivalled risk appetite for Africa and the financial strength to back it.

RELATIONSHIPS:
The Bank has long and well-established relationships with government authorities, other MDBs, local and international banks.

LEVERAGE:
The Bank's increasing experience in trade facilitation means that it can leverage trade finance programmes for maximum impact.

TECHNICAL ASSISTANCE:
The ability to provide technical assistance where capacity gaps have been identified at the level of the local financial institution or market.

HOLISTIC APPROACH:
The Bank is uniquely positioned to deploy reinforcing instruments and projects in support of trade: infrastructure projects, advocacy and policy dialogue as well as trade finance facilities.

THE AFBD IN TRADE FINANCE

Currently, there is a funding gap in African trade finance that is measured in the billions of dollars. Around a third of African countries have interest rates in excess of 10% on trade loans offered on a non-sovereign basis and cash collateral requirements of up to 50 per cent of the value of the loans. These prohibitive terms are serious hurdles to the development of Africa's trade. Additionally, the external economic environment has reduced the need for African goods and commodities, while structural problems, including non-convertible currencies, weak regulatory and policy frameworks and inefficient institutions have affected the development of import and export industries.

The African Development Bank's ten year strategy (2013 –2022) and its Financial Sector Development Strategy (2014-2019) place a strong emphasis on private sector development, which it sees as vital to economic and social progress. To achieve this, the bank believes that the continent needs more open economies and increased trade, both within Africa and between African countries and the rest of the world. Trade facilitation is an essential part of private sector development.

Trade finance improves the macroeconomic resilience of countries by protecting their important export industries against external failures in liquidity and confidence. This is particularly important where the commodity being exported is a major or primary source of earnings for a country, or where overseas equipment is needed for industrial expansion and job creation. Trade gives Regional Member Countries (RMCs) access to technology and critical inputs that are essential to move up the value chain.

Where the primary sources of the exports being facilitated are in fragile states or low income countries, interventions in trade finance directly impact poverty reduction, while trade in medication, energy and food has significant influence on development outcomes. Sub-Saharan Africa food imports are estimated at more than US$30 billion annually, and the entire region now generates less income from agricultural exports than Thailand. To guarantee food security, trade finance is available for imports of fertilizers, seeds and crop protection inputs. Agricultural export industries, such as West African cocoa, are crucial to rural development.

Trade finance also supports private sector development by allowing enterprises to meet their investment and working capital needs and to prevent supply shortages. By giving security of operation to companies in Africa, interventions in trade finance help to convince enterprises to invest in their operations and their workforces, thereby sustaining and creating jobs.

Existing MDBs and other agencies have supported trade finance in Africa, but have been unable to keep up with the large and growing demand.

While some of the external conditions that led to the original shortages in trade finance have now moderated, most of the development banks active in the space have found that demand for their services has remained high in developing countries. Many of the banks that, pre-crisis, were active in trade finance are still facing serious problems in their home markets and may struggle to return to funding African trade for years.

Encouraged by the success of the response to the

MAJOR ACHIEVEMENTS IN 2014 INCLUDE:

- Between February 2013 and the end of 2014, the Board approved 10 trade finance projects for a total value of US$994 million.
- Under the flagship product of the TFP known as the unfunded Risk Participation Agreement (RPA), the Bank has supported US$1.6 billion of trade involving at least 600 transactions.
- A total of 61 local banks in 22 countries – 70% of which are LICs and fragile states – have benefited from the Programme.
- A quarter of all trade supported was intra-Africa and nearly 50% of all transactions are attributable to SMEs.
- Agriculture, construction and manufacturing sectors accounted for 56% of total trade supported.

trade finance initiative and recognising Africa's rapidly increasing finance needs, the AfDB aims to consolidate its role as a provider of trade finance through its Trade Finance Programme (TFP). The Programme was set up in 2013 for an initial period of four years with a limit of US$1 billion. The TFP offers a wholesale approach to trade finance through the provision of risk mitigation facilities and liquidity support. The bulk of the operations are targeted at low income countries, African local banks, small and medium enterprises in critical sectors such as agriculture/agribusiness, light manufacturing and intermediate/capital goods in regional member countries.

The Bank deploys a number of instruments as it increases its participation in trade finance: Trade Finance Lines of Credit; Risk Participation Agreements; and Soft Commodity Finance Facilities. Alongside these, the Bank seeks to add trade finance components to other regional infrastructure or trade facilitation operations and to build the capacity of institutions participating in trade finance or using trade finance facilities.

The Bank also participates in joint initiatives with other MDBs and development financial institutions, where the development impact is strong and compelling. While these programmes have been effective, they have left gaps which the Bank is well positioned to address. The AfDB hopes to have RPAs in place with at least 15 of the most active confirming banks in Africa within 4 years of the programme's inception, creating ongoing additional risk capacity in trade finance of around US$20 billion. The aim is to have comprehensive geographical coverage across Africa, with an emphasis on underserved markets, in particular the low income countries and fragile states that are typically viewed as high risk by commercial banks, as well as sectors that have an impact on poverty reduction, in particular agribusiness and small and medium enterprises. A number of commercial banks continue to express interest in using the Bank's RPA products to expand.

The Bank intends to rely on a wholesale approach to trade finance in order to meet the needs of SMEs. This means focusing on programmes and products that assist financial intermediaries, who can then use their market presence and institutional capacity to reach companies in need of finance.

Some degree of institutional change has been required in order to function in the trade finance space. Many of the Bank's procedures have been geared towards transactions that have long lead times, whereas trade finance is typically short term and time sensitive. The review process for lending has had to be rationalised to adapt to the particular needs of this market. The Bank has also begun building statistical capacity to better collect data and understand the state of Africa's trade finance markets.

US$10BN ADDITIONAL RISK CAPACITY CREATED BY THE AFDB IN TRADE FINANCE TO DATE

PARTICIPATING INSTITUTIONS	RPA	TFLOC
CITYBANK N.A.	USD 50 MILLION	
STANDARD CHARTERED BANK	USD 200 MILLION	
BNP PARIBAS	EUR 40 MILLION	
UT BANK (GHANA)		USD 20 MILLION
UNION DE BANQUES ARABES ET FRANÇAISES	USD 50 MILLION	
AFRICA EXPORT AND IMPORT BANK (AFREXIMBANK)	USD 100 MILLION	USD 150 MILLION
ECOBANK TRANSNATIONAL INCORPORATED	USD 100 MILLION	USD 10 MILLION
COMMERCIAL INTERNATIONAL BANK EGYPT	USD 50 MILLION	
COMMERZBANK AG	USD 100 MILLION	
SHELTER AFRIQUE		USD 20 MILLION

RISK PARTICIPATION AGREEMENT (RPA)

This is an arrangement under which a commercial bank and the African Development Bank share the default risk on a portfolio of trade finance transactions.The RPA is designed to give regional and international commercial banks partial cover for their trade finance operations in Africa, with the AfDB typically taking a 50 per cent share of the risk. The commercial bank performs the credit risk analysis on the issuing banks and originates, processes and monitors the transactions. The AfDB will select its commercial partners based on the size of their African trade portfolio, the breadth of their African market coverage, support for intra-African trade and the quality of the credit approval process.

BENEFITS

- Provides the partnering bank with cover for a broad range of trade finance instruments; with capital relief and the confidence to enter new markets; and with capacity enhancement in terms of increased limits and tenors.
- Helps issuing banks to form relationships with new correspondent banks and enhances their risk profile.
- Gives regional financial institutions the support to become acceptable confirming banks.
- Offers a stimulus to SME sector financing.

TENOR	Maximum of 3 years. Underlying transactions are limited to 2 years.
COVERAGE	Up to 50% credit risk.
PRICING	The fees charged to issuing banks are market-based.
CURRENCY	Mainly in US dollars and euros

The trade finance gap in Africa amounts to several billion dollars, a gap which has to be bridged if African exporters are to take advantage of the seismic shifts occurring in world trade.

STEFAN NALLETAMBY,
Director, Financial Sector Development Department, AfDB

ELIGIBILITY

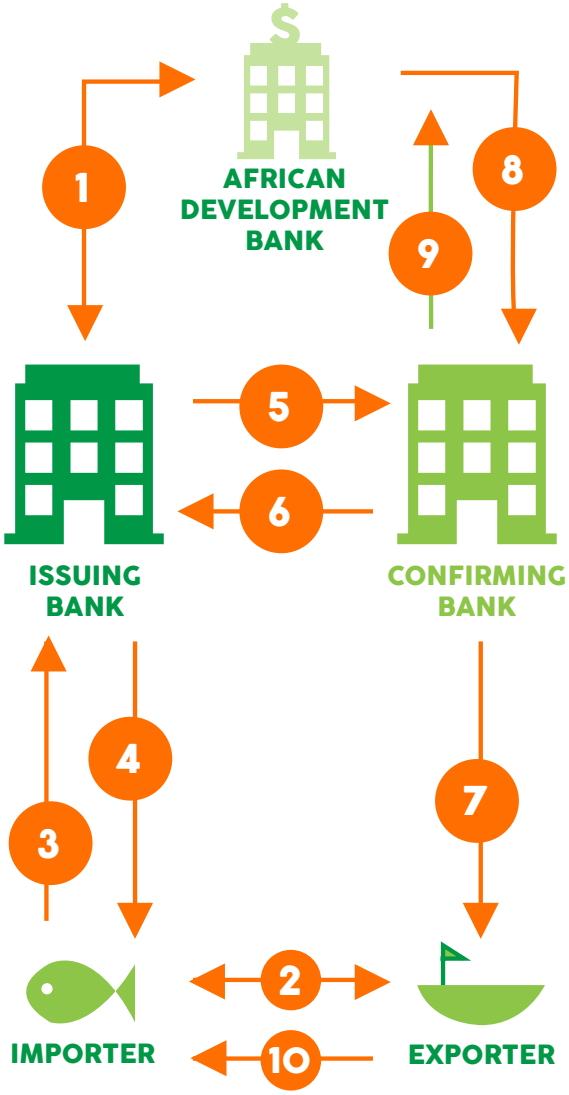
The RPA bank must be an established confirming bank that has:

- Passed the AfDB's due diligence process for trade finance
- Significant trade finance presence in Africa, or the potential to achieve scale in trade finance in Africa
- The strategic intent to expand its trade finance business in low income countries
- A satisfactory AfDB credit rating

The issuing banks under the RPA must:

- Be located and registered in a Regional Member Country of the AfDB
- Have passed the RPA bank's due diligence process and received a "no objection" approval from the AfDB
- Remain in good standing with the AfDB and the confirming bank throughout the lifetime of the RPA
- Have a strong SME focus

1. Admission subject to eligibility criteria
2. Signs sales agreement
3. Importer opens a payment obligation in favour of exporter
4. Assumes import risk
5. Issues payment obligation
6. Assumes political and commercial risk
7. Confirms IB payment obligation
8. Assumes no more than 50% of portfolio risk as per RPA
9. Submits monthly report on AfDB exposure
10. Shipments of goods



TRADE FINANCE LINE OF CREDIT

This is a short-term loan, offered to African financial institutions to facilitate their trade finance operations. The AfDB seeks to support financial institutions with a strong focus on SMEs and trade finance, and that have acceptable and satisfactory corporate governance and risk management systems.

The proceeds from a Trade Finance Line of Credit (TFLOC) enable a financial institution to extend credit support to SMEs operating in either the import or export sectors of the economy. Facilities include pre- and post-shipment finance, factoring and import loans, among others.

BENEFITS

- Caters for a broad range of trade instruments.
- Provides vital liquidity in the form of short-term loans to select local banks for on-lending to SME exporters and importers.
- Could be used to support value chain activities linked to the import and export sectors and as a result help RMCs move up the value chain.

As part of scaling up its trade finance operations, the AfDB will support a number of flagship capacity-building initiatives that address the needs of African financial institutions to better serve the trade finance needs of SMEs in their respective markets.

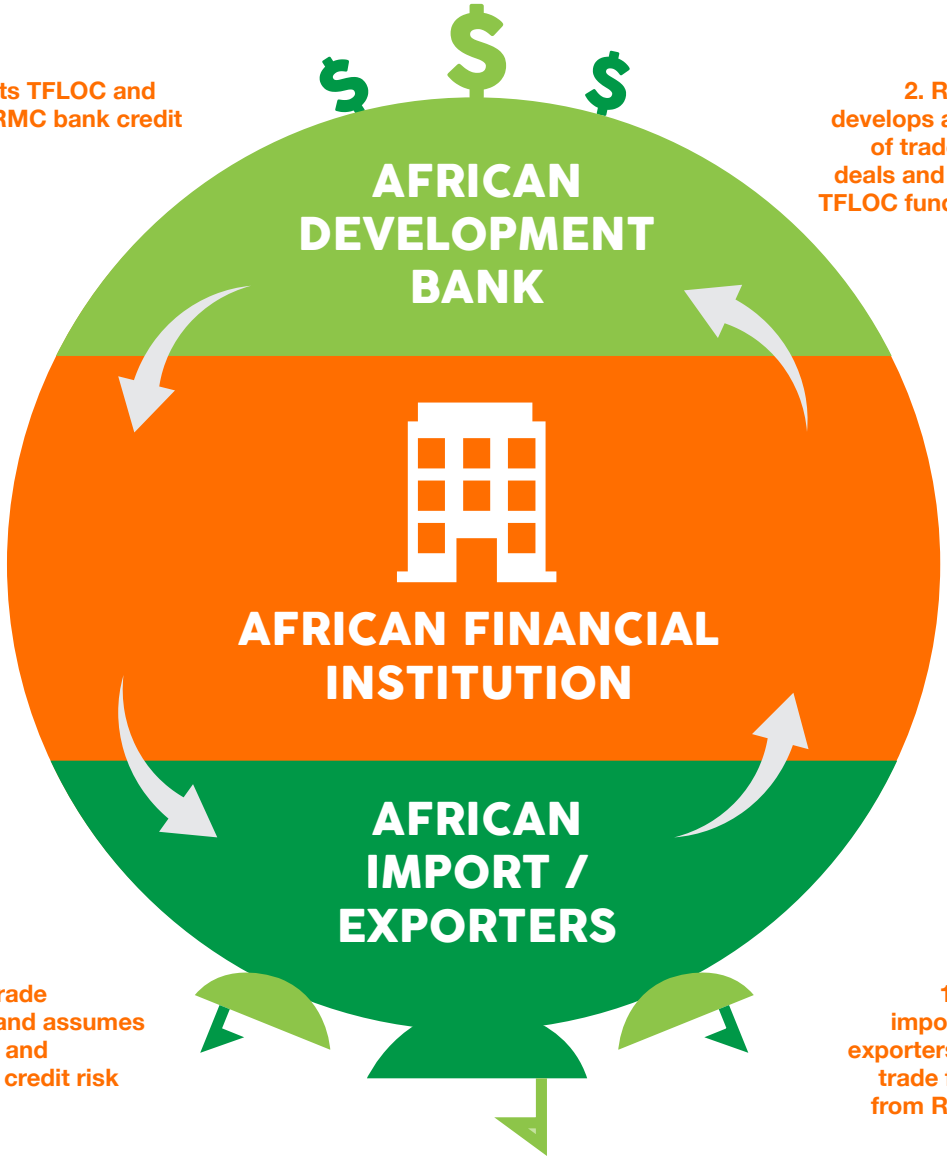
BLEMING NEKATI,
Chief Trade Finance Officer, Trade Finance Division, AfDB

TENOR	Maximum of 3.5 years. Proceeds can be rolled over several times during the tenor of the facility.
PRICING	Pricing is risk based. The rates can be floating or fixed. Front-end and commitment fees apply.
REPAYMENT	Bullet, balloon or straight line amortisation. Interest is paid semi-annually. The rates can be floating or fixed.
CURRENCY	Any of the AfDB's major lending currencies - the US dollar, euro, rand and yen.
SECURITY & COLLATERAL	Unsecured, senior debt

ELIGIBILITY

The qualifying bank must meet the following key considerations:

- Passed the AfDB's due diligence process for trade finance and received a "no objection" approval from the AfDB
- Significant trade finance presence or the potential to achieve scale in their respective market.
- Attained a satisfactory AfDB credit rating
- Be located and registered in a Regional Member Country of the AfDB
- Have a strong SME focus or potential to achieve such potential



SOFT COMMODITY FINANCE FACILITY (SCFF)

The SCFF is a funded trade finance product targeted at commodity aggregators and export marketing agencies for agri-based products, such as cocoa and coffee. These organisations, which deal directly with farmers, use SCFF loans to support the agri-commodity supply chain at the grassroots level.

BENEFITS

- Enables aggregators to purchase greater volumes from farmers, thus reducing post-harvest losses.
- Allows for presale agreements and advance payments, therefore helping to finance pre-harvest activities.
- Enables farmers to obtain guaranteed and better pricing and relieves them of the burden of warehousing and post-harvest storage.
- Supports exports which represent the main source of foreign exchange receipts and liquidity for RMCs.

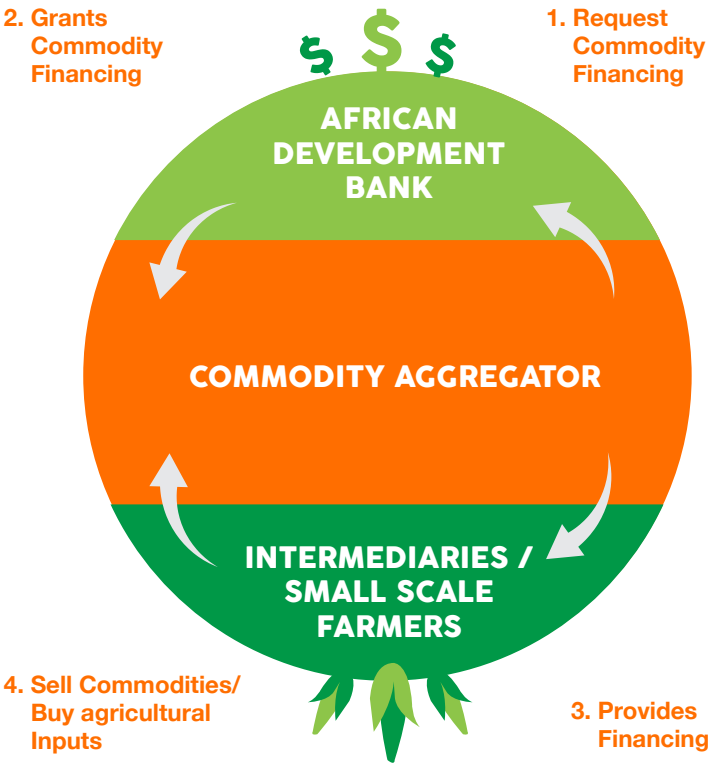
TENOR	Maximum of 2 years. Generally, the facility is structured to align with the cash conversion cycle.
PRICING	Pricing is risk based, according to an assessment of the underlying transaction. The rates can be floating or fixed.
REPAYMENT	Repayment is tailored to the underlying transactions and could take the form of bullet, balloon, or straight line amortisation. Interest is paid semi-annually. The rates can be floating or fixed.
CURRENCY	Available in all AfDB's major lending currencies - the US dollar, euro, rand and yen.
SECURITY & COLLATERAL	A senior debt obligation, backed by appropiate collateral arrangements.

ELIGIBILITY

Eligible institutions will mainly be commodity aggregators engaged in the marketing, financing and exporting of soft commodities in Africa.

These institutions:

- Must be registered and be operating in a Regional Member Country of the AfDB
- Should be commercially viable on a standalone basis
- Must have an acceptable level of operational autonomy
- Must have a strong risk management culture and satisfactory corporate governance practices



African Development Bank

CASE STUDIES

1 | GHANA COCOA BOARD

Cocoa is one of Ghana's most important exports, generating foreign exchange and supporting an industry that employs more than two million farmers. The Ghana Cocoa Board, known as Cocobod, is the principal buyer of small producers' crops, acting as a marketing organisation to bring the commodity to the global marketplace. For nearly two decades, Cocobod's role was in part funded through trade finance, with the organisation borrowing money from international banks to fund farm inputs and the cost of production, storage and transport for those farmers. This was reliably the largest soft commodity-related transaction in Africa each year, and one that was vital to the livelihoods of many individuals.

In 2009, however, the transaction hit a snag. The global pull-back by international banks as well as a general loss of confidence in financial institutions led to a shortage of liquidity. A failure at the Cocobod would have caused considerable pain for the economy as a whole and for many farmers.

Realising this, an international consortium of development finance institutions and commercial banks stepped in to raise funding. Standard Chartered, Ghana Investment Bank and Natixis Bank invited the African Development Bank to join them in funding a pre-export cocoa facility in Ghana. The backing of the AfDB and eventually three other DFIs, the China Development Bank, KfW and Opec Development Institution, gave a level of confidence to other commercial banks. More than 30 commercial banks eventually took part in the operation, raising US$1.2 billion.

This transaction was the first time that the AfDB had participated in a syndicated trade finance operation in this manner. Having originally envisioned contributing US$100 million to the initiative, the oversupply of capital from the private sector meant that the AfDB was able to reduce its input to US$50 million.

2 | AFREXIMBANK

The African Export Import Bank (Afreximbank) was set up in 1993 by a wide range of interested parties, including the AfDB, a number of African governments and private sector investors. At the end of May 2014, the AfDB stepped up its support for Afreximbank when it sanctioned a US$280 million trade finance package for the bank. This included US$30million in equity investment, a US$150 million line of credit and a US$100m unfunded risk participation agreement .

This medium term liquidity should help to strengthen the RPA's operations and those of the African issuing banks that it works with by supporting a least US$2.2 billion in trade in Africa over a four year period. The AfDB explained that its involvement was primarily motivated by a desire to promote private sector development and regional integration. Through its equity involvement, the AfDB's AAA credit rating boosts Afreximbank's trade finance capability.

3 | ECOBANK TRANSNATIONAL INC

In February 2013, the Board of Directors of the African Development Bank approved a US$200 million package to support Ecobank Transnational Incorporated with the expansion of its trade finance operations. Ecobank, a banking group with headquarters in Togo and operations in 32 African countries and several others in international financial centres, has been one of the most ambitious of the continent's financial services businesses. The AfDB deal is designed to allow it to enhance its trade finance confirmation capabilities and give medium-term liquidity support to its subsidiary banks at national level, which can then pass on the capital through trade finance to small and medium enterprises around the continent, as well as to larger local corporates.

Trade finance is short-term, and financing of this type can be "rolled over" several times a year.
This package will facilitate around US$1.8 billion in trade of intermediate and finished goods, raw materials and equipment, driving economic growth, employment and poverty reduction.

US $200M

SUPPORT TO TRADE FINANCE OPERATIONS

US $1.8BN

OF TRADE FINANCE TO DRIVE ECONOMIC GROWTH

The first component of the facility is a three-year, unfunded Risk Participation Agreement, to the value of US$100 million. The AfDB will share the default risk of a portfolio of qualifying trade finance transactions with EBI SA (Ecobank Paris). The two parties will share equally the risk of transactions originated by issuing banks in Africa, with Ecobank matching each undertaking by the AfDB. This means that the total size of the portfolio is US$200 million. The second part of the facility is a three and a half year, US$100 million trade facilitation loan. This will be used by Ecobank's local subsidiaries to support transactions by local corporates and small and medium enterprises in Africa.

4 | THE AFRICAN TRADE INSURANCE AGENCY

The AfDB is working with the African Trade Insurance Agency (ATI) to scale up its operations by mobilising additional RMCs to become members. It is doing this through a combination of technical assistance and equity participation in the ATI itself as well as financial support directly to the RMCs to pay for membership subscription.

The ATI, which is the only cross-border African export credit agency, is a multilateral political risk and credit insurer established by international treaty by African member states at the initiative of Common Market for Eastern and Southern Africa (COMESA) in 2000. Due to the systemic significance of the Agency, its Charter underscores the importance of retaining the organization as an African entity.

Its membership compromises: Benin, Burundi, Democratic Republic of Congo, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda and Zambia as well as the following "special category" RMCs, Djibouti, Eritrea, Ghana, Liberia and Sudan.

A specific aspect of ATI's operations is that member states directly assume financial liability for the political risk losses that could affect trade within their own countries. For the past decade, it has offered cover against terrorist-related physical damage risks and now works alongside the Multilateral Investment Guarantee Agency (MIGA) to promote investment in Africa, including via risk sharing agreements on reinsurance and coinsurance projects.

Since December 2013, the AfDB has been a shareholder in ATI, following the approval of its US$15 million equity investment. ATI provides medium-long term credit and political risk insurance as well as other risk mitigation products to the Bank's RMCs and related public and private sector actors, such as foreign and local investors, exporters, and commercial operators. These products directly encourage and facilitate foreign direct investment and trade both regionally and internationally. Furthermore, ATI also facilitates trade in Africa through underwriting trade credit, which is in line with the AfDB's Trade Finance Programme as well as catalysing private sector investment in infrastructure projects.

CONTACTS

STEFAN NALLETAMBY
Director, Financial Sector Development Department
S.Nalletamby@afdb.org
Tel: (225) 20 26 27 00

YAW ADU KUFFOUR
Manager, Trade Finance Division
Y.Kuffour@afdb.org
Tel: (225) 2026 2285

THE AFDB TRADE FINANCE TEAM

BLEMING NEKATI
Trade Finance Officer
B.Nekati@afdb.org
Tel: (225) 20 26 1276

LAMIN M. DRAMMEH
Trade Finance Officer
L.Drammeh@afdb.org
Tel: (225) 2026 1579

BABATUNDE O. TIJANI
Trade Finance Officer
B.Tijani@afdb.org
Tel: (225) 2026 1640

Trade Finance Division

Financial Sector Development Department

African Development Bank Group
Immeuble du Centre de commerce International d'Abidjan CCIA
Avenue Jean-Paul II
Abidjan 01

Côte d'Ivoire

http://www.afdb.org/trade-finance-program

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