



**AFRICAN EXPORT-IMPORT BANK
BANQUE AFRICAINE D'IMPORT-EXPORT
(AFREXIMBANK)**

Ten Years of African Trade Finance: The Afreximbank Story

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Foreword

Attainment of a decade of existence is an important milestone in the history of any organization. For a bank, it is even more important because it is a known fact that mortality risk for a bank is highest during its first ten years. For a continental institution, such as Afreximbank established with high expectations, it becomes even most important as it provides an opportunity for all stakeholders in the initiative to take stock of events, especially as it concerns the extent to which their hopes and aspirations may have been met.

In December 1993 in Cairo, on the occasion of my inauguration as the pioneer President of the Bank, I spoke about the fact that in many instances, great events were marked by simple ceremonies. I then took the opportunity to highlight the importance of a momentous occasion we were witnessing on that day – an event that took six years of hardwork to arrive at! I alluded to the challenges before the Bank and the high expectations of the Continent from the pioneer Board and Management of the Bank. I re-affirmed my belief that the Bank would live up to the expectations of its Founding Fathers.

I am highly honoured to have the opportunity, more than a decade later, to write the Foreword in a book that documents the extent to which the dreams and ideals alluded to in my statement have been realized. A careful reading of this volume reveals the success of an experiment that has immense value to the continent. The value I see is not only in the fulfilment of the Bank's mandate, which itself is important, but also in the immense “demonstration effect” derivable from the complete story of the Bank rendered in this volume. Thanks to the successful establishment and ten years of operation of Afreximbank, Africans can now rise above the conventional wisdom that they lack collaborative spirit; cannot on their own confront a challenge; lack vision; and cannot manage large businesses effectively. One connecting thread that runs through this volume is the visionary leadership that conceptualized the Bank, the rare courage and determination that made it a reality, and the hard work, focus and shareholder support that returned value to shareholders through ten years of successful operations.

The contents of this volume are not altogether original. This is not unexpected as it is a rendition of history and therefore draws from different source materials, both oral and written. The value the

volume brings, however, is that it sifts through all the documents, which constitute an important trove of the Bank's institutional memory, and organizes useful information in a proper sequence and order such that the different aspects of the story of the Bank became a sensible volume of one story. In view of the diverse nature of source materials, in terms of technical complexity, the volume will not only be useful to those interested in understanding the history of the Bank but also to scholars of company law, international law, finance, economics and development studies. This is because the book highlights the ingenuity seen in the way the Bank's constitutive documents were crafted. It also discusses intricate corporate planning and important trade finance issues that promise to put scholars in these fields in a process of further enquiry.

The establishment of the Bank was spear-headed by the African Development Bank (AfDB) under the Presidency of Dr. Babacar N'diaye. The AfDB and Dr. N'diaye therefore deserve important mention in this Foreword. I will also like to take this opportunity to thank all those who worked tirelessly to make the Bank a reality, including members of the different committees that worked on various establishment tasks. When I arrived in Cairo, in March 1994, to resume duty, I benefited immensely from the support of the National Bank of Egypt under the chairmanship of Mr. M. Abdel-Aziz. This document records this support as well as the extensive support provided by others.

The preparation of this book was the responsibility of a Team of Senior Staff of the Bank's Planning and Development Department as well as short-term Staff. Other Departments of the Bank provided important materials and data to the Team. On behalf of Afreximbank, I will like to thank all of them for their contributions. I am sure that there may be some readers of this volume who participated actively in the establishment stage and/or operational stage of the Bank, who may notice some omissions and similar errors in the book. I will crave the indulgence of these individuals as compiling what in actual fact amounted to about sixteen years of work (1987-2004) into a volume of limited pagination is a challenging task. Accordingly, some judgements were made in excluding and/or including materials. It is possible that in exercise of such judgements, some important omissions occurred. I will like to invite readers who may notice such important omissions to call the Bank's attention to them so that future efforts to document the Bank's history will take them into account.

The above notwithstanding, it is our hope that the events and lessons recorded in this book will inspire Africans to continue to use collective and visionary efforts in dealing effectively with their common problems.

C.C. Edordu
President, Afreximbank
August, 2004.

TABLE OF CONTENTS

Contents	Page
Foreword.....	i
Abbreviations	iv
List of Tables	vi
List of Figures	vii
List of Boxes.....	vii
List of Annexes.....	viii
 Chapter One	
Introduction	1
 Chapter Two	
Antecedents to, and the Case for, an African Export-Import Bank.....	5
 Chapter Three	
From Vision to Reality: Establishment Milestones, Constitutive Documents & Governance.....	15
 Chapter Four	
The Challenges of the Operating Environment.....	35
 Chapter Five	
Operating Performance in the context of the Bank’s Strategic Objectives	59
 Chapter Six	
Non-Credit Activities & Other Initiatives.....	105
 Chapter Seven	
Conclusions, Lessons & Prospects.....	115
 References.....	121
 Annexes.....	122

ABBREVIATIONS

ABF	African Bankers' Forum
ACP	Africa, Caribbean, and Pacific
ADFP	Afreximbank Direct Financing Programme
AEDFP	Afreximbank Export Development Programme
AfDB	African Development Bank
AFPPF	Afreximbank Future-Flow Pre-payment Financing Programme
AFREXIMBANK	African Export-Import Bank
AGM	Annual General Meeting
AISFP	Afreximbank Infrastructure and Services Financing Programme
ALCO	Assets and Liabilities Committee
ALCP	Afreximbank Local Currency Programme
ALOCP	Afreximbank Line of Credit Programme
AMU	Arab Maghreb Union
ASEAN	Association of Southeast Asian Nations
ASP	Afreximbank Syndications Programme
ASRP	afreximbank Special Risks Programme
AU	African Union
BOTs	Build, Operate, and Transfer
BOOTs	Build, Own, Operate, and Transfer
CEO	Chief Executive Officer
COMESA	Common Market for Eastern and Southern African
CPA	Cairo Plan of Action
EAC	East African Community
ECAs	Export Credit Agencies
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EU	European Union
FAL	Final Acts of Lagos
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade

GDP	Gross Domestic Product
IACO	Inter-African Coffee Organisation
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
L/Cs	Letters of Credit
LIBOR	London Inter-Bank Offer Rate
LPA	Lagos Plan of Action
MOU	Memorandum of Understanding
NEPAD	New Partnership for Africa's Development
NTEs	Non-Traditional Exports
OAU	Organisation of African Unity
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petroleum Exporting Countries
PFI	Project Finance Intermediaries
PTA BANK	Preferential Trading Area Bank
ROA	Return on Asset
ROAE	Return on Average Equity
SADC	Southern African Development Community
SAPs	Structural Adjustment Programmes
SSA	Sub-Saharan Africa
TFIs	Trade Finance Intermediaries
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNCFC	United Nations Common Fund for Commodities
WTO	World Trade Organisation
Y2K	Year 2000

LIST OF TABLES

Table 2.1	Basic Indicators for Selected Economic and Trade Groups.....	10
Table 2.2	Trade Finance Flows to Selected African Countries, 1980-85.....	12
Table 3.1	Afreximbank Shareholding Structure.....	27
Table 3.2	Hosts of Afreximbank Annual General Meetings, 1994-2003.....	30
Table 3.3	Afreximbank: Distribution of Staff Members by Category and Department as at July 31, 2004	33
Table 4.1	Global Output and Prices, 1994 – 2003	36
Table 4.2	Africa: Key Macroeconomic Indicators, 1994 – 2003	39
Table 4.3	Nominal Commodity Prices of Trade Interest to Africa, 1994 – 2003	41
Table 4.4	Afreximbank Commodity Price Index	42
Table 4.5	African Trade (Goods & Services), 1994 - 2003	45
Table 4.6	Direction of African Exports (merchandise), 1994 – 2003	48
Table 4.7	Distribution of Some Major Syndicated Transactions/Club Deals Arranged or Operating in Africa by Sector, 1999 – 2003.....	50
Table 4.8	Distribution of Some Major Syndicated Transactions/Club Deals Arranged or Operating in Africa by Sub-Region, 1999 – 2003.....	51
Table 4.9	Africa: Indicators of Payment Risks for Short-Term Transactions	52
Table 5.1	Afreximbank's Programme of Strategic Schemes	65
Table 5.2	Evolution of Key Macroeconomic Targets set under Plans I and II.....	66
Table 5.3	Afreximbank: Leveraging Activity through Syndications, 1996 – 2003	67
Table 5.4	Afreximbank: Borrowing Activity	67
Table 5.5	Afreximbank: Distribution of Loan Approvals by Type of Programme, 1995 – 2003	70
Table 5.6	Afreximbank: Distribution of Loans Outstanding by Type of Programme, 1995 – 2003.....	71
Table 5.7a	Afreximbank: Distribution of Loan Approvals by Sector, 1995 – 2003	74
Table 5.7b	Afreximbank: Distribution of Loans Outstanding by Sector, 1995 – 2003	75
Table 5.8a	Afreximbank: Distribution of Loan Approvals by Type of Beneficiary Institution.....	76

Table 5.8b	Afreximbank: Distribution of Loans Outstanding by Type of Beneficiary Institution.....	77
Table 5.9a	Afreximbank: Distribution of Loan Approvals by Trade Direction, 1995 - 2003	78
Table 5.9b	Afreximbank: Distribution of Loans Outstanding by Trade Direction, 1995 - 2003	79
Table 5.10	Afreximbank: Financial Highlights.....	81
Table 5.11	Afreximbank: Key Financial Ratios.....	82
Table 5.12	Growth Rate of Key Financial Figures, 1994 - 2003	98
Table 5.13	Strategic Goals of the Bank under Plan II.....	101

LIST OF FIGURES

Figure 2.1	Commodity & Non-Commodity Exports by Region, 1970-1990	8
Figure 3.1	The Organizational Structure of the African Export-Import Bank	28
Figure 4.1	Africa's Real GDP Growth and Drivers, 1994 – 2003	40
Figure 4.2	Evolution of African Economic and Trade Growth as well as G7 Economic Growth, 1994 - 2003	44
Figure 4.3	World Trade Settlement Modes by Country Groupings (Proportion of Total Trade Settled by Payment Mode, %), 1995	50
Figure 6.1	Movements in Afreximbank Common Stock, 1995 - 2002	111

LIST OF BOXES

Box 2.1	Structured Trade Finance	13
Box 3.1	Resolution (B/BG/87/09) Adopted at the Fifth Session of the Twenty-Third Annual Meeting of the Board of Governors of the African Development Bank on 11 June 1987.....	16
Box 3.2	Summary of the Main Conclusions of the Feasibility Study For the Creation of Afreximbank.....	19
Box 4.1	Afreximbank Country Risk Guarantee Facility: Flow of Transactions.....	55

Box 5.1	Plan II Goals and Targets	87
Box 6.1	The Themes of Afreximbank Advisory Group Meetings, 1994 – 2003	106

LIST OF ANNEXES

Annex 1	Afreximbank: Corporate Milestones	122
Annex 2	List of Afreximbank Shareholders as at 31st July 2004	125
Annex 3	AFREXIMBANK Logo	129

CHAPTER ONE

Introduction

The African Export-Import Bank (“Afreximbank” or the “Bank”) is a unique initiative in the annals of Africa. Founded on a unique partnership of African public and private investors and non-African investors, its establishment tested the will, courage and determination of its visionary Founding Fathers at a time the continent was undergoing severe economic stresses. Its novelty also extended to the ingenuity of its constitutive documents, which demonstrated the depth of research and lessons of experience that were brought to bear in preparing those documents.

Although the Bank was conceived in 1987 in Cairo, the capital of Egypt, when African Ministers of Finance attending the meeting of the Board of Governors of African Development Bank (AfDB) mandated the management of the AfDB to initiate studies that would determine the feasibility of a continental trade finance institution, its establishment process took an arduous six years. At the time the Bank was being conceived, the greatest concern of the African Ministers of Finance was the very low level of intra-African trade, the decline in trade and project finance flows to Africa, the worsening external debt situation of many African countries and the sharp reduction in lending to Africa by international commercial banks. The Ministers were convinced that a specialized continental financial institution was needed to spear-head the expansion of intra-and extra-African trade. The feasibility study that followed re-affirmed that conviction and demonstrated that such an institution was needed and that it would be viable. The Bank was subsequently established with high hopes when the shareholders held their first General Meeting in Abuja, Nigeria in October 1993.

Theoretically and with hind-sight, it can be seen that the collaborative effort that facilitated the establishment of the Bank was sound for the following reasons:

- i) save for a handful of countries, many of the 53 African countries would have lacked the resources to establish an Exim bank of reasonable size to leverage the external financing needed by each of the countries to promote their trade and diversify their exports;
- ii) successful promotion of intra-African trade requires cooperation amongst all countries in the continent to deal with the problem of similarity that exists in export composi-

- tion, the market access measures needed to make the trade competitive, access to trade information crucial to traders, visa and immigration issues that balkanize Africa and measures to improve cross-border investments in export projects, among others;
- iii) the withdrawal of international banks at the time when the Bank was being established was as a result of perceived high country risks that was compounded by the debt crisis of the 1980s. At that time, virtually all African countries were in arrears in servicing their international indebtedness. Accordingly, only a multilateral financial institution endowed with preferred creditor status in its African member countries could substitute as a credible borrower to more effectively leverage international financing at market terms for on-lending to its member countries. In other words, such a bank would present a supranational risk profile to international banks enabling those banks to transfer unacceptable country risks to the credit risk of the institution. The bank, in turn, would be protected from country risk events in its member countries through the treaty obligation of those countries, party to its establishment Agreement;
 - iv) related to (iii) is the fact that such an institution would through the local knowledge of its staff members be in a position to more accurately analyze the risks in lending to different parts of the continent. Asset quality would therefore be expected to be good, improving the chances of success of such a bank.

Apart from the above, the following additional points need to be noted about the Bank: (a) African Governments established the Bank with high hopes and expectations. In this regard, it was seen as the only chance Africa had in resolving its trade and trade finance difficulties; (b) its establishment was based on a novel partnership as described above. It was also based on a novel and far-reaching concept whereby the establishment documents were dual, an Agreement (Treaty) signed by African Governments and multilateral institutions and which confers on the Bank, the status of an international organization and grants it certain privileges and immunities in member countries, party to the Agreement; and a Charter signed by all shareholders (public and private) and which governs its corporate structure and operations; and (c) the feasibility study for the establishment of Afreximbank unambiguously justified the need for such a bank and concluded that it would be viable.

Given that ten years have passed since the creation of the Bank, it seems important that its performance be documented so that interested parties, including the Founding Fathers, could assess for themselves whether the expectations at the conception of the Bank had been met. Such an effort would also assist an evaluation of the usefulness of novel concepts and partnerships on which the Bank was founded. In so doing, such a volume would become an invaluable reference document for future generations and provide a useful guide to those who may want to champion similar initiatives in the future at continental and sub-continental levels.

The rest of this volume is organized in six Chapters. Chapter Two reviews political and economic antecedents to the establishment of the Bank so as to give the reader an idea of the prevailing environment at the time the Bank was being conceived; Chapter Three discusses the processes and activities that led up to the creation of the Bank. It also presents critical elements of the Bank as drawn from its constitutive documents; Chapter Four sets the stage for an understanding of the Bank's operations and activities, discussed in Chapter Five, by analyzing the challenges of the operating environment in the first decade of the Bank's operations. Chapter Six presents other important non-credit activities not discussed in Chapter Five and Chapter Seven concludes, highlights important lessons to be learnt from the book and attempts to project what the next ten years may mean for the Bank.

The discussions and analyses that run through this volume show that the Afreximbank initiative was timely. They also show that the Bank demonstrated that it was possible to meet seemingly contradictory objectives of private and public investors in such an initiative by making reasonable returns to shareholders while successfully pursuing trade developmental goals. In this regard, the book reveals that despite the challenges of the operating environment, the Bank made tremendous progress in pursuit of its mandate. It leveraged substantial amounts of trade finance resources into Africa through its guarantees, syndications and borrowing and on-lending activities as well as advisory services. In most years, it attracted more than US\$6 for every US Dollar it invested in African Syndications. Through its borrowing activities, which commenced in 1997, the Bank raised an aggregate amount of US\$933 million by 2003 which it deployed in financing the needs of its African clients. It promoted African trade using a variety of trade finance instruments which brought aggregate (cumulative) loan approvals from 1994 to 2003 to US\$6.7 billion. Through its effort, international banks began to return to African trade finance business.

The book also reveals that the Bank achieved good financial performance, returning higher profit in every one of the ten years such that net income rose by 208% between 1995 and 2003, enabling reserves held to rise by more than 1,200% between 1995 and 2003. In 1998, the Bank became the only multilateral bank in Africa to pay dividends to shareholders and by 2003, cumulative dividends paid reached US\$20 million. Asset quality was also quite good with cost/income ratio well below the industry norm. The Bank also promoted a number of initiatives directed at facilitating African trade and integration, including an African Bankers' Forum and different capacity building initiatives.

From the foregoing, it is clear that the history of the Bank rendered herein promises to challenge the African continent to pursue even loftier goals as it has shown that quasi- governmental efforts are not necessarily loss making and may in fact be recommended especially if pursued within a public-private partnership framework.

CHAPTER TWO

Antecedents to, and the Case for, an African Export-Import Bank

2.1 GLOBAL ECONOMIC ANTECEDENTS

The global environment that generated the need for establishing the Bank was quite unfavourable to Africa's economic aspirations. During the period from late 1970s to the mid 1980s, global economic growth weakened, with considerable slow-down seen in the economic growth performance of the Organization for Economic Cooperation and Development (OECD) countries. This was largely caused by movements in commodity prices, especially the effect of the oil price shock of the early 1980s which brought oil prices to US\$40 per barrel. The resultant recession in OECD countries had varying impacts on the different regions of the world.

As a consequence of the recession in OECD countries, demand for African exports waned. This weakened demand translated into a significant fall in the prices of Africa's export commodities as well as its export revenues. Further, Africa's export unit values swung from an average growth rate of 7.8% between 1975-79 to a decline of 1.2% between 1980-85. These average figures masked significant variations in country experiences. For example, countries exporting soft commodities, such as cocoa and coffee (which comprised more than 50% of the countries in Africa) experienced the greatest declines, reflecting the sharp drop in coffee and cocoa prices between the early 1970s and the early 1980s. In some instances, the nominal international prices of commodities were halved between the early 1970s and early 1980s.

Elsewhere in the world, difficulties also existed since the OECD countries powered the engine of global growth. The former Soviet Union and east European countries were then undergoing gradual but definite political and economic changes which also negatively impacted on their economic performances. Among developing countries, the oil producing Middle Eastern economies were also beginning to experience economic difficulties by the mid-1980s as oil prices retreated from earlier booms. Latin American economies were still over-burdened by debt and political

uncertainties which weakened growth. In addition, the slowdown in the economic performance of the OECD countries, also negatively impacted on their economic performance.

In Asia, the successful export diversification strategies of some countries, such as Malaysia, Indonesia, Taiwan and Hong Kong, meant that they were better able to absorb the sharp decline in commodity prices, as well as the slowdown of the OECD countries.

2.2 AFRICA

In the few years preceding the establishment of the Afreximbank, African economies entered serious economic difficulties, caused by the unfavourable external economic environment, poor macroeconomic management and heavy debt burdens.

During the first half of the 1980s, for instance, average real per capita income declined at an annual rate of 3 percentage points. This reflected a slowdown of GDP from 5% during 1975-79 to 1.7% during 1980-1985, against a much faster annual population growth rate of 3%. This was largely due to the weakening of economic growth in OECD countries, which accounted for 85% of Africa's exports. African economies were considerably open, with exports to GDP ratio averaging more than 70%. Thus, a recession in the destination of most of those exports was bound to affect economic performance in Africa as domestic spending (and import demand) is generally seen as a function of income.

Closely related to the above was the heavy dependence of African economies on the export of a few primary commodities, such as cocoa, coffee, cotton, tea, etc., which accounted for over 80% of Africa's merchandise exports. Oil is the dominant commodity, in value terms, but is exported by only a few countries. The high commodity dependence meant that the sharp decline of commodity prices in the early 1980s translated to adverse terms of trade which impacted negatively on the external account positions of many African economies. As can be seen in Figure 2.1, non-oil real commodity prices fell continuously beginning from the early 1980s, implying worsening terms of trade for economies dependent on them which also created difficulties in stabilizing the incomes of these economies.

Further, whereas Asian and Latin American economies were able to increase their commodity exports to ensure stable revenues from such exports in the face of declining prices, for African countries, the commodity price decline caused a sharp decrease in real export values, as the volume of exports also declined (Figure 2.1). The problem was compounded by economic rigidities that made it difficult for African countries to diversify from the export of primary commodities to the export of manufactures. The declining fortunes of commodities, which arose from over production, also caused the suspension of economic clauses in various North/South

Commodity Cooperation Agreements (entered into by developing country commodity producers and developed country consumers) which further worsened their price prospects.

In addition to the above problems, economic management was poor, with rigid controls over factors of production. Thus, speedy adjustments to economic incentives and disincentives were not possible. Further, the political situation was such that it created uncertainties for investors, which precluded a diversification of the economies.

A combination of the above factors ensured that African economies went into heavy debt, as it was difficult to reduce import levels to the emerging export revenue realities. African countries could also no longer meet their obligations under borrowings contracted in past years. Foreign debt consequently mounted, generating serious balance of payment problems to these economies. Consequently, international commercial banks became unwilling to expose themselves to sovereign risks in Africa. By the mid-1980s, international commercial banks suspended their usual credit lines of between US\$ 5 million to US\$ 40 million per country to cover payments against Letters of Credit ("L/C"). This was based on the fear that foreign exchange scarcity would cause these countries to default on their obligations on those liabilities. As a result of the above, L/Cs were opened or confirmed by these banks against cash cover and at fees significantly in excess of those charged countries in other continents. Project financing flows also dried up in the wake of the problems.

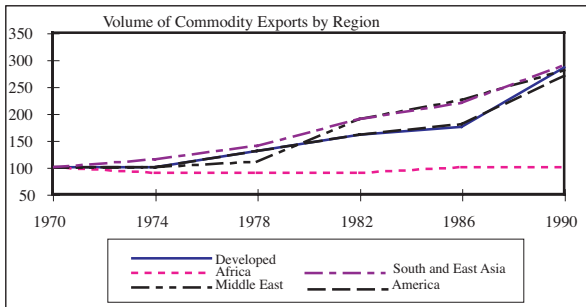
Another remarkable structural factor in Africa's trade during the period in review was the concentration of trade in OECD economies. Thus, intra-African trade was about 5% of total trade during the period. This problem derived from Africa's colonial history which created colonial trading ties that were difficult to break. In addition, the provision of trade financing facilities by industrialized countries to finance imports from their manufacturers worsened this problem by creating a preference for industrialized country exports even where equivalent goods were available at competitive prices in neighbouring countries. This problem, as a matter of fact, prevented a competitive search for goods.

It was, therefore, a natural outcome that integration efforts initiated during that period achieved little results. Table 2.1 provides information on the performance of regional trade groupings that were in existence during the period, compared to similar groupings in other continents. Although, these integration arrangements targeted industrial cooperation and trade liberalization, in one form or another, as a vehicle for promoting collective self-reliance and an eventual common market, (these objectives are consistent with the Lagos Plan of Action, adopted by African Governments in April 1980), in practice, the results of these integration schemes were quite disappointing compared to the experience of other continents.

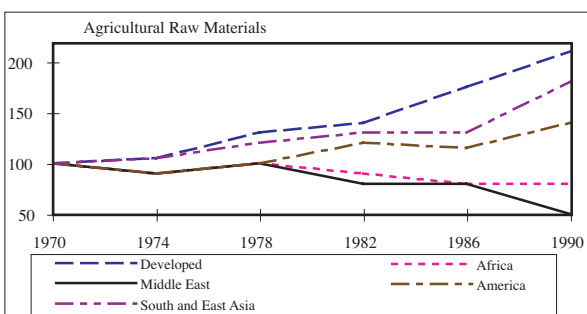
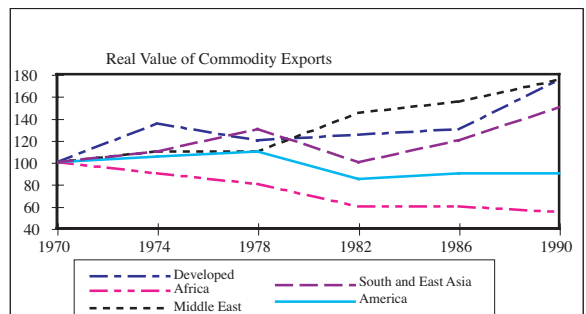
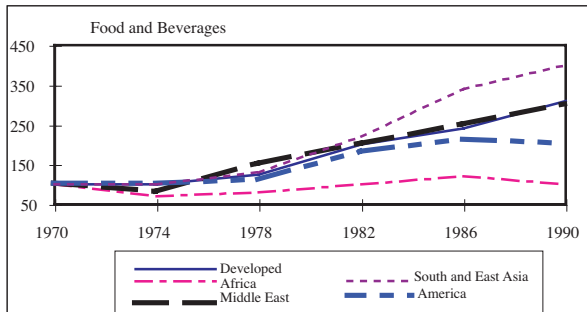
Absence of currency convertibility, maintenance of high trade barriers, economic and legal obstacles to trade finance, and inadequate payment arrangements and trade finance to support

Figure 2.1: Commodity & Non-commodity Exports By Region, 1970 - 1990

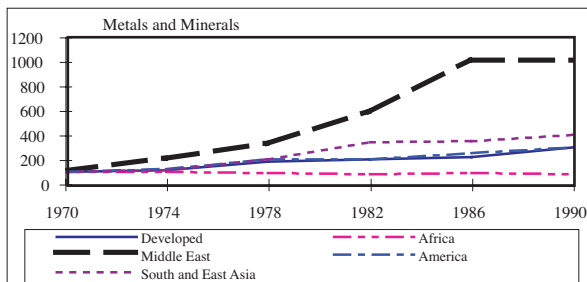
Volume and Real Value of Non-Oil Commodity Exports
(Index Number: 1970 = 100)



Export Volumes by Region and Commodity Grouping
(Index Number: 1970 = 100)



Source: United Nations Conference on Trade and Development, Handbook of International Trade and Development Statistics, 1992 (Geneva: UNCTAD, 1993)



Source: UNCTAD, Handbook of International Trade and Development Statistics, 1992 (Geneva: UNCTAD, 1993).

regional trade were blamed for the poor performance of these efforts. As a matter of fact, the Clearing Houses established to support intra-regional trade under these arrangements suffered from currency problems that bedevilled the continent. The non-active participation of all the countries in the arrangements meant that a significant portion of the trade had to be settled in hard currency. This, in turn, limited the usefulness of the arrangements, since some countries were in perpetual surpluses, while others remained in arrears.

It is against the above background that the idea of the Afreximbank was mooted. The African Ministers of Finance who met in Cairo in 1987 and decided on the establishment of the Bank hoped that it (the Bank) would be a useful instrument for tackling the problems discussed above.

2.3 THE CASE FOR AN AFRICAN TRADE FINANCE INSTITUTION.

From the foregoing, it can be seen that collective action was required to deal with the challenges the continent faced in the 1980s as many individual countries appeared to have been overwhelmed by their enormity. Coincidentally, at about that period, trade economists began to gain more influence in the policy-making organs of key OECD economies as well as in the Bretton Woods institutions (the World Bank and the IMF) largely as a result of the way exports propelled the growth of the so-called Asian Tigers.

It was then thought that trade held the key to Africa's economic development. Policy prescriptions for dealing with the Continent's problems therefore focused on promoting trade-led economic recovery. Macro-economic policies were targeted at ensuring export competitiveness by depreciating the real exchange rate exporters faced and trade liberalization was promoted. Sector-specific policies were aimed at removing rigidities that hindered exporting activities at the firm level, including the privatization of the export sector.

At the time the above policies were being introduced, African Governments were becoming concerned about the economic prospects of the continent, especially the declining role the continent was playing in global trade. The statistics were clear as summarized hereunder:

- a) Africa's share of world trade fell from 5.39% in 1973 to 3.24% in 1986;
- b) African exports as a percentage of world exports fell from 5.01% in 1973 to 4.16% in 1985;
- c) The share of manufactured exports in Africa's total exports was 9% in 1985 significantly lower than the level in 1975;
- d) Intra-African trade share of African total trade was the lowest of other major regions at 4.42% in 1985 compared to 58% for the European Economic Community and 27% for Asia.
- e) Exports to GDP ratio for Africa was at 24.15 % in 1985, 0.17 % lower than it was in 1975.
- f) Excessive concentration in trade destination with more than 80% of trade destined to the OECD countries.

The above dismal figures were thought to have been compounded by the debt crisis which in addition led to a number of problems as discussed below:

i) Decline in Supply of Trade Finance to Africa

Prior to 1986, major international banks provided revolving lines of credit of between US\$5-40 million to cover payments under Letters of Credit (L/Cs) for periods of up to one year (AFREXIMBANK, 1996). However, following the outbreak of the international debt crisis at the beginning of the 1980s, international banks drastically reduced the amount of trade financing

Table 2.1: Basic Indicators For Selected Economic And Trade Groups

GROUP	Share of Regional Trade I) (Trade=Exp+ Imp.)	Degree of Openness (Trade/GNP)	Net Trade Gains I) (Change in degree of openness) 2)	Crude Trade Creation 3)	Trade Diversion or Gains with Non-Partners 3)	GDP						Distribution of GDP (%)			Area (thousands of square kms)
						US\$ Bn 1986	Avg. Annual Growth 1965-80	Growth Rates 1980-86	POP (mils) mid-1986	GDP p.c. (US\$)	Agr 1986	Ind 1986	Manufa 1986		
Outside Sub-Saharan Africa															
CACM	2	43	8	8	-	22	4.6	0	24	914	23	27	19	423	
EC9	53	48	13	7	6	3067	3.7	1.5	264	11629	5	37	20	1527	
EC6	n.a	31	3	5	-2	2508	3.8	1.2	198	12645	3	36	24	1169	
EFTA	24	36	-1	2	-3	475	3.5	2.3	32	15047	5	38	23	1236	
Asean	23	58	13	1	12	192	7.8	3.5	295	652	18	33	22	3064	
Andean Pact	4	41	9	1	8	120	5.6	0	83	1458	16	33	19	4719	
LAFTA	11	15	-6	-	-6	550	5.3	0.1	351	1566	15	35	22	19311	
In Sub-Saharan Africa															
CEAO	13	57	31	3	28	18	4.1	0.7	47	379	37	22	13	4444	
ECOWAS	4	33	30	2	28	78	6.3	-1.8	179	436	40	26	9	6093	
PTA	7	41	18	1	17	33	3.9	2.1	146	227	40	22	14	4973	
UDEAC	2	42	35	1	34	18	5.9	6.2	23	805	19	36	5	1708	
MRU	1	4	35	1	34	4	3.3	0.2	12	346	41	23	3	429	
CEPGL	-	47	11	-	11	9	2.4	1.3	43	208	35	31	14	2399	
IOC	3	42	n.a	n.a	n.a	7	n.a	2.5	13	517	n.a.	n. a.	n.a	562	

Source: Chibber, A & S. Fisher (1991); Economic Reform in Sub-Saharan Africa, A World Bank Symposium.

Note:

- 1) Data is for 1983.
- 2) For Sub-Saharan Africa, calculations are based on difference between 1965 and 1983. For other groupings, various dated are used corresponding to a period before and after the union became effective.
- 3) Here trade creation/diversion is measured as the change in trade relative to GDP. A more precise measure should take account of production and demand in a well specified model.
- Note that Net Trade Gains (column 4) = Crude Trade Creation (column 5) + Trade Diversion (-) or Gains (+) with Non-Partners (column6).
- Crude Trade Creation is the change in the share of regional trade in GDP following the creation of the Union.

Abbreviations:

CACM	Central American Common Market	ECOWAS	Economic Community of West African States
EC9	European Community after expansion	PTA	Preferential Trade Area for eastern and southern Africa
EC6	European Community before expansion	UDEAC	Union Douanière des Etats de l'Afrique Centrale
EFTA	European Free Trade Association	MRU	Manu River Union
ASEAN	Association of Southeast Asian Nations	CEPGL	Communauté Economique des Pays des Grands
CEAO	Communauté Economique de l'Afrique de l'Ouest	IOC	Indian Ocean Commission
LAFTA	Latin American Free Trade Area		

available to Africa. International banks in compliance with regulatory restrictions in their countries, subsequently, suspended lending to Africa on a clean basis and insisted that Letters of Credit be cash-covered. Pre-export financing by international banks was also suspended. Given that Africa's financial sector was still in its rudimentary stage with limited number of banking and other support services, local financial institutions could not bridge the gap created by departing international financial institutions. Accordingly, export and import credit facilities virtually dried up during the 1980s compounding Africa's trade and economic difficulties. Table 2.2 shows the drastic declines in trade finance flows to selected African countries between 1980 and 1985.

With the reduction in trade finance flows from international banks, African borrowers experienced severe disruptions in their trade. On the export side, international banks also became increasingly reluctant to add to their credit exposure and suspended the pre-financing of commodity exports from Africa. To summarize, the key factors that contributed to adversely affect the volume of trade finance flows to Africa during that period included the following (AfDB, 1992):

- preference of foreign suppliers for cash settlements, and advance payments;
- reluctance of foreign banks to provide pre-shipment finance for African exports;
- reduction in maturities on trade finance flows to African counterparties from foreign banks;
- demand by foreign suppliers for extra credit assurances from African importers; and
- the non-availability of export projects financing that could create new exports.

ii) Increased Cost of Financing African Trade:

As the supply of trade finance to Africa was vanishing, its costs were rising too. The following examples given in AfDB (1992) illustrate the point:

- the cost of trade finance to African traders was estimated to be 15% of the value of imports compared to an international average of 1.5-2.0 per cent. This amounted in value terms to US\$10 billion in 1986 –a figure equivalent to 3% of Africa's nominal GDP in 1986;
- African traders paid a margin on trade finance of about 3 percentage points above the London Inter Bank Offer Rate (LIBOR)¹; and
- the cost of intra-African trade was also affected by the high cost of international trade financing as well as domestic financial bottlenecks. The interest rate for intra-African trade credit hovered around 40% during the period.

The high cost of trade financing was blamed on perceived high country risk following the debt crisis. Towards the end of the 1980s, commercial risks also began to rise following financial sector reforms and the dismantling of commodity marketing boards across Africa. First, the demise

¹The standard benchmark interest rate in Eurodollar lending.

Table 2.2: Trade Finance Flows* to Selected African Countries, 1980-85 (US\$ million)

Country \ Year	1980	1985	% Change (1980/85)
Cameroon	422	173	-59
DR, Congo (ex-Zaire)	290	7	-98
Gabon	152	272	+79
Ghana	77	52	-32
Côte d'Ivoire	1570	361	-77
Kenya	400	236	-41
Malawi	86	15	-83
Nigeria	1630	1437	-12
Senegal	185	55	-70
Sudan	332	2	-99
Zambia	305	33	-89

*This is made up of financing from commercial banks, other private lenders and officially supported export credit

Source: World bank, *World Debt Tables* (various issues)

of commodity boards on whose activities trade financing was secured meant that international banks intending to arrange big trade financing deals had to talk to numerous smaller producers and trading companies instead of recognized commodity boards or cooperative producers' associations as was the case in the past. In addition, the smaller producers and trading companies proved to have insufficient in-house technical and managerial expertise necessary to make them acceptable credit counterparties to international financiers. Accordingly, there emerged a gradual decline in the number of African counterparties that international banks could support with trade finance even if country risk was found acceptable.

iii) Stringent Lending Terms

As a result of the debt crisis and withdrawal of many international banks from Africa, those who still remained provided financing at more stringent terms with regard to tenor and security required from African borrowers. In this regard, tenors shortened to one year or less as OECD regulators demanded full provisioning for any loans to Africa with tenors exceeding one year. Due to the high cost of capital such provisioning entailed, there was little appetite for longer-tenored deals. With regard to security requirements, lenders taking African country risk also began to require cash cover to protect their investments. In late 1980s however, some imaginative bankers who realized that insisting on cash-collateralized lending was being counter-productive introduced Structured Trade Finance. Through this form of financing, said to have been pioneered in Tanzania, international banks were able to secure their lending to Africa by mortgaging specific export

BOX 2.1 STRUCTURED TRADE FINANCE

Structured Trade Finance (STF) is a technique of financing international trade in difficult environments. It, in essence, involves transferring risks from parties less able to bear those risks to those considered more capable. Thus, structured trade finance transactions provide working capital in difficult environments by mitigating the risks through mortgaging an export flow.

Structured trade finance gained prominence in Africa following the debt crisis which resulted in large overdue obligations to international banks. Banks and regulators subsequently suspended lending to Africa on a “clean” (unsecured) basis. Nevertheless, the countries still had to export commodities and to meet their financing requirements, transaction structures were designed such that the banks did not rely on the African entities for repayment. The structures created had the objectives of reducing or eliminating sovereign risk and substituting it with performance type risk and external payment risk. The usual structure is such that the lenders retain the performance risk of the African exporting entity, usually commodity boards, and transfer payment risk to an Organisation for Economic Cooperation and Development (OECD) buyer or bank. Many African countries have sourced commodity trade finance, and indeed sometimes balance-of-payment support, in this way. The benefits had been that it was possible to raise external financing where none would have been forthcoming. The costs were also reduced. For the banks, they were able to continue doing business in those countries without running the risk of facing cumulative exposure since the transactions were essentially self-liquidating.

flows under a self-liquidating financing structure (see Box 2.1 for a discussion of structured finance). Like any new thing, this mode of financing was by late 1980s in its infancy and did little to ameliorate the trade finance difficulties Africa was then facing.

It was in context of the above that African Ministers of Finance who met in Cairo in 1987 under the auspices of the African Development Bank (AfDB) during the annual meetings of the Board of Governors of the AfDB deliberated on possible solutions to the problem. At that meeting, a consensus was reached that dealing with Africa’s trade problems required a holistic approach of which trade finance was an important element. They were convinced that the establishment of a continental trade finance institution was justified in that it had the potentials of improving trade finance flows to Africa, by:

- a) providing a vehicle with which international banks could return to African trade finance. In this regard, it was felt that a supranational trade finance institution endowed with a preferred creditor status by its member countries could present a better financing risk than any one of its member countries standing alone. Such an institution could therefore leverage international financing in support of African trade;
- b) it was also felt that due to the better risk profile such an institution would present, it could reduce the cost of African trade finance by attracting better risk premium than would otherwise have been possible. Further, based on the special privileges it would enjoy in member countries it could also lend at reasonable rates. For the same reasons, it would be possible to begin to relax the stringent terms of lending to Africa;
- c) it was argued that the successful operation of such a bank would, through demonstration effect, prompt the return of international banks to Africa;

- d) it was also thought that being an African bank, such a bank would facilitate the financing of non-traditional exports thereby helping in diversifying Africa's exports in terms of commodity composition;
- e) it was widely expected that the establishment of an African Export-Import Bank would contribute to filling the institutional gap left behind by the withdrawal of international banks during the 1980s. A Study by the AfDB (AfDB, 1992) observed that the majority of African countries (about 35) did not have functioning export finance institutions; ten countries had some facilities; and only five possessed relatively advanced export finance facilities; and
- f) the inadequacy of appropriate export credit agencies meant that African exporters could not compete in new markets at near-equal footing with others as they lacked trade information and risk bearing facilities necessary for such competition. It was therefore thought that an African Export-Import Bank could also assist market diversity by providing such facilities.

To this end, with the support of the African Development Bank (AfDB), African Governments, in 1993, moved to establish a public-private regional export credit institution charged with the responsibility of providing export finance and other trade support services to African counterparties with a view to stimulating the expansion, diversification and development of African trade.

CHAPTER THREE

From Vision to Reality: Establishment Milestones, Constitutive Documents and Governance

3.1 IMPORTANT MILESTONES IN THE ESTABLISHMENT OF THE AFREXIMBANK

The preceding Chapter, (Chapter Two), amply demonstrated that Afreximbank was a “child-of-necessity”, conceived as a possible solution to the trade development challenges that Africa faced in the 1980s. As a “child-of-necessity”, its conception and eventual delivery represented acts of vision, tenacity and collective effort. As stated in Chapter Two, the journey began in June 1987 when at the Annual Meetings of the Board of Governors of the African Development Bank (AfDB) held in Cairo, Egypt, African Ministers of Finance adopted a historic Resolution (Resolution B/BG/87/09) requesting the AfDB Management to conduct a study on the desirability of establishing a regional institution to provide trade finance facilities to promote African trade, especially intra-African trade (Box 3.1). In adopting the Resolution, African Ministers were, among others, concerned about the deteriorating macroeconomic situation in Africa, as reflected by the very low levels of intra-African trade, the decline in foreign investment flows to Africa, the worsening external debt situation of many African countries, and the sharp reduction in lending to Africa by international commercial banks. In this regard, the African Finance Ministers were convinced that the establishment of a specialised African financial institution was needed to spearhead the expansion of intra- and extra-African trade, as well as to promote investments in Africa's export sector.

In accordance with the Resolution, in October 1987, the AfDB management convened a meeting of a team of experts on trade finance in London to launch the study. The study commenced in October 1987 and involved missions, review of studies, and extensive consultations with relevant African and non-African institutions and personalities.

BOX 3.1: RESOLUTION (B/BG/87/09) ADOPTED AT THE FIFTH SESSION OF THE TWENTY-THIRD ANNUAL MEETING OF THE BOARD OF GOVERNORS OF THE AFRICAN DEVELOPMENT BANK ON 11 JUNE 1987.

THE BOARD OF GOVERNORS,

HAVING REGARD to Articles 1, 2, 29, and 32 of the Agreement establishing the African Development Bank (“the Bank”);

MINDFUL of the need of the Member States of the continent and its islands to develop their economies in a harmonious and co-ordinated manner;

RECOGNISING the scarcity on the continent of resources and financial facilities for conducting intra-African trade in an effective and economic manner;

RECALLING the promotion of such trade as one of the purposes of the Bank;

REQUESTS the President, in close consultation with the Board of Directors, to:

1. prepare, with all convenient expedition, studies that will lead to the institution of organizational facilities for the financing of intra-African trade;
2. develop a plan for the eventual creation of a facility, to be operated in co-operation with the private banking sector, for the financing of African trade in the most economical manner; and
3. submit such study and plan to this Board for consideration at the next Annual Meeting.

On 5 November 1991, more than four years from the date the project was launched, a Report of the Feasibility Study was submitted to the Board of Directors of the AfDB. Following discussions at a Special Board Meeting held on 29 November 1991, supplementary documents were prepared and submitted to the AfDB Board on 14 February 1992. Box 3.2 presents a summary of the Main Findings of the Feasibility Study. In the main, the study concluded that a continental trade finance institution was necessary, would be viable and was timely. On 26 March 1992, the Board of Directors, as stipulated in its record of decisions, decided thus:

“...AfDB Board approved, in principle, AfDB’s participation in the equity capital of the proposed African Export-Import Bank (AFREXIMBANK) with the understanding that it would determine at an appropriate time the precise level of its participation. To this end, it authorized Management to pursue formal consultations with other potential shareholders of Afreximbank, and report in due course to the Board on the various aspects of the proposed Bank.”

Further to the AfDB's Board approval in January 1993, the first Consultative Meeting of potential shareholders was held in Cairo, Egypt, during which a Memorandum of Understanding (MOU) spelling out Afreximbank's objectives, authorized share capital (set then at US\$500 million) and institutional framework, was adopted. In addition, the meeting chose a 15-member Preparatory Committee to oversee the creation of the Bank. The Preparatory Committee met in March 1993

in Harare, Zimbabwe, to review draft legal texts and other technical documents. The committee also defined the profile for the post of President of the Bank, set out criteria for selection of the headquarters and the first branch office of the Bank, and appointed a three-man sub-committee to select the Bank's headquarters and first branch office.

In May 1993, at the Constituent Assembly Meeting convened in Abidjan, Côte d'Ivoire, founding Governments signed the Bank Agreement and raised the authorized capital to US\$750 million from US\$500 million proposed in the Feasibility Study. The increase was necessitated by the amount of equity pledges received from prospective investors. The shareholding structure was also agreed. In October of the same year, the first General Meeting of shareholders of the Bank was held in Abuja, Nigeria. It was at the Abuja meeting that the Bank finally took its functional form and shape. In particular, the Abuja meeting accomplished the following:

- adopted the Bank Agreement and Charter;
- appointed Mr. Christopher Edordu, from Nigeria, as the pioneer President of the Bank;
- elected pioneer members of the Board of Directors² ;
- appointed the Bank's External Auditors, namely Messrs KPMG, Egypt and Deloitte & Touche, Nigeria;
- selected Cairo, Egypt, as the location of the Bank's headquarters; and
- selected Harare, Zimbabwe, as the location of the Bank's first branch office.

At the date of the First General Meeting of Shareholders, 67 Shareholders signed the share register, while 79 shareholders had subscribed to the shares of the Bank. The inaugural meeting of the Board of Directors of the AFREXIMBANK was held in Cairo in December 1993. At the meeting, Mr. Christopher C. Edordu was sworn-in as the first President of the Bank. Further, the Board appointed a three member Executive Committee to approve investments, guarantees and financing decisions, as delegated to it by the Board of Directors. In March 1994, the President officially assumed duty, followed three months later by a nucleus staff some of whom were on secondment from AfDB. In accordance with the Bank Agreement, AFREXIMBANK and the Government of Egypt signed a Headquarters Agreement in August 1994, which formed the basis for the Bank to commence operations. A Memorandum of Understanding was also signed between the Bank and the Government of Egypt which detailed the facilities the Government of Egypt would grant the Bank.

²The 10 Foundation Board Members elected on that occasion were Mahmud Abdel Aziz (Egyptian), Mr. C. Konan Koffi (Ivorian), Mr. Victor A. Odozi (Nigerian), Mr. N.N. Kitomari (Tanzanian), Mr. Tim Whalley (British), Mr. Tu-Jianji (Chinese), Mrs. Olorun-Nimbe Cissoko (Nigerian-Ivorian representing the AfDB), Mr Lambert Ondo-Ndong (Gabonese), Mr. M. Souayah (Tunisian) and Mr. Tilahun Abby (Ethiopian).



Some pioneer Board Members: from left: Mr. Konan Koffi; Mr. N.N. Kitomari; Mr. Victor A. Odozi; Mrs. Olourn-Nimbe Cissoko; Mr. c. c. Edordu (Pioneer President); Mr. T. Whalley; Mr. Tilahun Abby; and Mr. J.W.T. Otieno (Secretary to the Board, retired).

BOX 3.2: SUMMARY OF THE MAIN CONCLUSIONS OF THE FEASIBILITY STUDY FOR THE CREATION OF AFREXIMBANK

Introduction

The principal findings of the feasibility study were those which related to: (a) the demonstration of trade finance constraints in Africa; (b) the demonstration of existing demand for trade credit (in terms of needs for intra-African trade and non-traditional exports); (c) the demonstration of an institutional gap; (d) the demonstration of the ability of potential shareholders to contribute to the equity capital of the bank; (e) the demonstration of the financial viability of the proposed bank; (f) the legal and institutional framework, including organization and management; and (g) basic operational principles and objectives of the proposed bank.

These findings, which demonstrated the viability of the Afreximbank are summarized below:

Trade Finance Constraints

The study provided ample proof that there had been a general decline in trade finance flows to African countries following actions by lending financial institutions, consisting mainly of commercial banks, to either reduce or freeze their trade financing operations in African countries where they had been operating, due to their unwillingness to expose themselves to African country risks.

Demand for trade Finance

The study demonstrated that expansion in intra-African trade and the promotion of non-traditional exports would raise the demand for trade financing in Africa.

Institutional Gap

The study argued and concluded that there was an institutional gap to be filled by the establishment of an African Export-Import Bank, since most of the African financial institutions in existence then (with the exception of the AfDB) were serving sub-regional interests.

Mobilizing the needed capital for Afreximbank

The Study was of the view that the equity capital for the Bank could be mobilized. It proposed the level of authorized capital at US\$500 million (all paid-up). The AfDB, being the promoter, was expected to participate in the equity capital of the AFREXIMBANK, within the limits authorized by its statutes. African and foreign commercial banks were also expected to subscribe. The participation of African Governments through their respective central banks or other designated national institutions was expected, mainly because of the potential benefits expected from membership. Therefore, the study proposed the following as the AFREXIMBANK's tentative capital structure:

Class A shareholders

African Governments (through their central banks or other designated institutions)

65%

African Development Bank (through utilizing AfDB or Nigeria Trust Fund (NTF) resources) and other regional and sub-regional financial institutions and organizations.

Class B shareholders

African financial institutions (commercial banks, export-import banks, insurance companies, etc.)

10%

<u>Class C shareholders</u>	
International financial institutions and economic organizations (including foreign banks, export-import banks, insurance companies, etc.)	
	25%
	<u>TOTAL 100%</u>
Financial Viability	
The study projected the Bank’s return on assets to rise progressively from 0.98% to 2.06% over the initial five years. The return on shareholders’ capital was expected to remain above 8.5% from the third year of operations. Operations during the first five years of the Bank would concentrate initially on self-liquidating short-term trade finance, to be funded mostly on off-balance sheet basis through guarantees.	
<u>Legal and Institutional Framework</u>	
The following alternative models of the institutional form for the Bank were considered;	
(i) a limited liability company, (ii) a statutory corporation, (iii) a statutory corporation created in pursuance of an inter-governmental agreement, (iv) a full-fledged international organization, and (v) an international organization created by an international agreement with the benefit of a corporate charter. The merits and demerits of the various organizational forms were examined and it was recommended that AFREXIMBANK be established as an international organization by means of an international agreement and with the benefit of a corporate charter.	
<u>Basic Operational Principles and Objectives</u>	
The study recommended that the proposed AFREXIMBANK be a mixed public/ private institution, intended to function on purely commercial and business principles.	

Source: AfDB (1992) Feasibility Study concerning the establishment of AFREXIMBANK, April.

Following the completion of administrative and legal formalities, the Bank commenced operation when it executed its first trade finance transaction in September 1994 by participating in a US\$150 million syndicated loan facility in favour of the Ghana Cocoa Board (GCB). Its participation was in an amount of US\$6.5 million. The Bank, later in November 1994, officially launched its operations. Also in the same month, the Bank relocated from its temporary offices at the Semiramis Intercontinental Hotel to its offices at the World Trade Center in Cairo.

3.2 INSTITUTIONS THAT PLAYED KEY ROLES IN THE ESTABLISHMENT OF THE AFREXIMBANK

The Afreximbank project was one that was visionary but fraught with risks. Conceived at a time many African economies were undergoing immense economic difficulties compounded by major political and economic changes, it took tremendous courage to push such a project. Nevertheless, courageous leadership at the Board and Senior Management of the AfDB made it possible for

the AfDB to take forward the vision of the Board of Governors of the AfDB who first called for the establishment of a continental trade finance institution as a component of an integrated solution to Africa's economic malaise at that time. Presented below are brief discussions of the contributions made by certain institutions towards the realization of the Afreximbank project.

3.2.1 The African Development Bank (AfDB)

The AfDB played a pivotal role in the establishment of the Afreximbank. Although AfDB had, prior to the establishment of the Bank, and in line with its mandate, participated in the equity of a number of African institutions, the Afreximbank project was challenging in terms of its scope (continent-wide), objectives (promotion of intra- and extra-African trade) and timing (period of the debt crisis and generalized economic difficulties in Africa). There was therefore an intense debate when the idea of the Bank was floated in 1987 as to whether it was necessary; even if necessary, whether its functions could not be performed by a department of the AfDB; whether it would be viable; and whether sufficient equity could be mobilized to establish the Bank. The dogged pursuit of answers to these questions between 1987-1991 provided the impetus for an eventual realization of the project as the answers provided enabled the AfDB Board of Directors to authorize AfDB to promote the Bank. Accordingly, under the Presidency of Dr. Babacar Ndiaye, the AfDB played the following key roles that facilitated the establishment of the Bank:

- i) initiating the Afreximbank project and convincing UNDP to fund the "Feasibility Study for the creation of an African Export-Import Bank";
- ii) promoting the Bank by mobilizing shareholders from around the world. In this regard, the AfDB funded Missions to numerous African countries, Asia, Europe, the Americas and the Middle East to mobilize equity investors. It also arranged the Preparatory Meetings held at different times in Cairo, Harare, and Abidjan where the project ideas were further developed to fruition. As a result of AfDB's efforts, 79 shareholders subscribed to the shares of the Bank as at the time of the First General Meeting of the Bank in October 1993. By participating in an amount of US\$25 million, AfDB gave confidence to other investors to make their equity commitments; and
- iii) the AfDB provided secretarial, logistic and banking support for the initiative, as well as committing significant resources in form of manpower and funding. By the time the Bank became operational, AfDB had expended slightly under US\$1 million in pre-operational activities which was later reimbursed at Afreximbank's take-off.

3.2.2 The United Nations Development Programme (UNDP)

The African Export-Import Bank would, perhaps, not have been a reality had it not been for the support provided by the UNDP towards the preparation of the Feasibility Study for the establishment of the Bank. Although the Board of Governors of the AfDB mandated AfDB management to explore the feasibility of an African Export-Import Bank, the project would

have been delayed by budgetary considerations. The UNDP, through the effort of its regional director for Africa, Mr. P. C. Damiba, supported the idea of an Afreximbank and funded the feasibility study conducted by a team led by Dr. D. Avramovic. The funding provided made it possible for the consultants to conduct an extensive study of the project. Among other activities, the consultants undertook fact-finding missions to relevant trade-financing institutions outside Africa, such as BLADDEX; fact-finding missions to a sample of African countries; reviewed the operations of existing banks in Africa and critically considered the options as to whether their operations should be revamped or extended to cater more for the trade and development needs of Africa or a new banking institution should be created; and prepared an incisive report that established the economic and technical viability of the proposed bank. The results of that effort convinced the AfDB Board who then mandated AfDB management to promote the project.

3.2.3 National Bank of Egypt (NBE)

Apart from being a major investor in the Afreximbank, NBE provided tremendous support at the pre-operational stage of the Bank. It hosted meetings and assisted the Bank at the early stages in obtaining critical approvals necessary for its operational take-off. NBE's then Chairman, Mr. Mahmud Abdel-Aziz, facilitated negotiations of the Headquarters Agreement signed between the Bank and the Government of Egypt. NBE also provided banking services and other logistical support at that critical stage of the Bank's evolution.

3.2.4 Pioneer Shareholders

Pioneer Shareholders provided the necessary impetus for the eventual establishment of the Bank (see Annex 2 for a list of shareholders of the Bank). At the pre-establishment stage, they committed human and financial resources through meetings, travels and reviews of documents that facilitated the establishment of the Bank. Of special mention are the Governments of Egypt, Zimbabwe and Côte d'Ivoire who hosted various meetings in the course of 1993 and the Government of Nigeria which hosted the First General Meeting of the Bank in October 1993. The Government of Nigeria with equity commitment of US\$50 million became the largest shareholder and helped attract the interest of others in the equity of the Bank. As host of the Bank's Headquarters, the Government of Egypt also provided, as promised by them during the Headquarters location selection exercise, a temporary office with rent paid to cover two years; land for building the permanent Headquarters of the Bank and other facilities agreed with the Bank. The Governments of Senegal and Tunisia also provided strong support to the AfDB at the conception stage of the Bank. Standard Chartered Bank, Exim-India and Pryor McLendon Counts and Co. are international banks whose roles in the establishment of the Bank are worth special mention. These banks released their staff that participated in the various special activities, such as Headquarters and Branch Office Selection exercises conducted prior to the establishment of the Bank.

3.3 CONSTITUTION, SHAREHOLDING, GOVERNANCE, MANDATE AND MISSION

3.3.1 Constituent Documents:

Afreximbank is perhaps the only multilateral financial institution in Africa established under an Agreement signed by member States and Multilateral Organizations; and a Charter annexed to the Agreement signed by all Shareholders, including signatories to the Agreement, and private sector entities who are not party to the Agreement. The Charter regulates the corporate dealings of the Bank.

3.3.1.1. The Agreement

The Agreement establishing the Bank was signed by Member States in Abidjan, Côte d'Ivoire, in May 1993 and confers on the Bank, the status of an international organisation. Article III of the Agreement confers upon the Bank full juridical personality under the laws of the Participating States³, and, in particular, the legal capacity to enter into contracts and conclude agreements; acquire and dispose of movable and immovable property; and be a party to judicial and other legal or administrative proceedings (Afreximbank, 1993). Under the Agreement, Participating States grant to the Bank in their territories, certain status, immunities, exemptions, privileges and concessions to facilitate the Bank's business in those territories. In particular, Article VIII grants the Bank immunity with regard to confiscation, expropriation, nationalization, etc. of its assets and property, including funds entrusted to the Bank. The Bank Agreement also exempts the Bank from taxation in Participating States, among other exemptions.

Membership:

Pursuant to Article IV of the Agreement, membership is open to:

- i. all independent African states and African continental, regional and sub-regional financial institutions and economic organisations;
- ii. African public and private banks and financial institutions and African public and private investors; and
- iii. international financial institutions and economic organisations and non-African states, banks, financial institutions and public and private investors.

The conditions governing eligibility to membership are determined by the General Meeting of Shareholders of the Bank. However, membership of the Bank is acquired in accordance with the provisions of the Charter upon subscribing for shares of the capital stock of the Bank. All shareholders subscribe to the Charter by affixing their signatures thereto or depositing with the Depositary (the Executive Secretary of the Bank) a letter of acceptance of the provisions of the Charter.

³Participating States are States parties to the Agreement which established the Bank (Afreximbank, 1993).

A Participating State may subscribe directly for shares of the capital stock of the Bank or designate its central bank or any other national entity or agency for all matters relating to the Charter, including membership and subscription to the capital stock of the Bank and the full exercise of rights attached to membership of the Bank and the performance of the obligations of shareholders set forth in the Charter.

Legal Status:

The Agreement confers on the Bank full juridical personality under the laws of Participating States. In accordance with Article VII of the Bank Agreement, actions may be brought against the Bank in any court of competent jurisdiction in the territory or the state where the headquarters of the Bank is situated or in which the Bank has a representative or branch office or a subsidiary, or has carried out any operation or appointed an agent for the purpose of accepting service or notice of process or has otherwise agreed to be sued. However, no such action against the Bank shall be brought by:

- i. a Participating State;
- ii. a Shareholder or a former Shareholder of the Bank or persons acting for, or deriving, claims from a Shareholder or a former Shareholder; or
- iii. any natural or legal persons in respect of: (a) transactions governed by arbitration agreements; (b) matters pending before an arbitral tribunal; and (c) personnel matters.

3.3.1.2 The Charter

The Charter of the Bank which is annexed to the Agreement and adopted in October 1993 in Abuja regulates the Bank as a corporate body. The Charter was amended in May 2000 in Tunis, Tunisia, through Resolution Afrexim/7GM/2000/006 (the “First Amendment”). The First Amendment, among other things, recognized a “Transitional” period with regard to evolution of the Bank’s Shareholding (Article 7.3A); composition of the Board of Directors during any Transitional Period (Article 21.1A); introduced the principle of rotation in Board retirements (Article 21.3A); and amended Article 42 to entrench the Article.

3.3.2 The Mandate of the Bank

According to Article 5 of the Bank Charter, the Bank was established to facilitate, promote and expand intra-African and extra-African trade. In order to implement its statutory purpose, the Bank is mandated to pursue the following activities:

- to extend direct credit to eligible African exporters, in any appropriate form, by means of providing pre-shipment and post-shipment finance;
- to extend indirect short-term credit, and where appropriate medium-term credit, to African exporters and importers of African goods, through the intermediary of banks and other African financial institutions;

- to promote and finance intra-African trade;
- to promote and finance the exports of non-traditional African goods and services;
- to provide finance to export-generative African imports, preference being given to imports of African origin, including imports of equipment, spare-parts and raw materials, as deemed appropriate by the Bank;
- to promote and finance South-South trade between African and other countries;
- to act as intermediary between African exporters and African and non-African importers through the issuance of letters of credit, guarantees and other trade documents in support of export-import transactions;
- to promote the development within Africa of a market for Bankers' acceptances and other trade documents;
- to promote and provide insurance and guarantee services covering commercial and non-commercial risks associated with African exports;
- to provide support to payment arrangements aimed at expanding the international trade of African states;
- to carry out market research and provide any auxiliary services aimed at expanding the international trade of African countries and boosting African exports;
- to carry on banking operations and borrow funds; and
- to undertake any other activities and provide other services which it may deem to be incidental or conducive to the attainment of its purposes, as determined by the General Meeting.

3.3.3 Shareholding Structure

The Bank was conceived under a philosophy of Partnership. The shareholding structure was designed to ensure that the Bank became a partnership between the public and the private sectors, but with private sector dominance; as well as a partnership between African and non-African investors, but with African dominance. Accordingly, the Bank has a diverse shareholding structure comprising three categories of shareholders, with the majority of shareholders being African Governments and African public and private financial institutions. Table 3.1 shows the shareholding structure envisaged under the Feasibility Study for the establishment of the Bank; the shareholding structure adopted by Shareholders on the establishment of the Bank; and the shareholding structure allowed during any Transitional Period as defined in the Bank Charter⁴. The Shareholders restructured the Bank's shareholding in a manner slightly different from the one proposed in the report of the Feasibility Study. This was done to reflect African Governments' desire and commitment to running the Bank on purely commercial lines with a significant involvement of the private sector.

⁴A Transitional Period is defined as any time throughout the Bank's existence when the evolution of shareholding of the Bank is other than in accordance with the desired proportions of 35%, 40% and 25%, respectively for Classes A, B and C Shareholders, (Afreximbank, 1993 as amended).

The Bank's authorized share capital is in an amount of US\$750 million, payable in five equal instalments of which two instalments had been called as at December 31, 2003. The Board of Directors has the authority to call for the payment of the balance of the instalments. The nominal value of the issued shares of the Bank is US\$10,000. As at December 31, 2003, 36,786 units of the shares with nominal value of US\$367.86 million, and representing forty-nine percent of the authorized share capital, had been subscribed.

As can be seen in Table 3.1, the distribution of shareholding of the Bank deviates from what was envisaged in the Charter, with preponderance of the shares (about 66 %) held by Class A Shareholders. Accordingly, the Bank is in a "Transitional Phase" as defined in the Charter. As at July 31, 2004, there were 113 Shareholders of different classes.

3.3.4. Organizational Structure

The Bank Charter, signed and adopted at the First General Meeting of shareholders of the Bank held in Abuja, Nigeria, in October 1993, and amended in Tunis, Tunisia, through General Meeting Resolution no. *Afrexim/7.GM/2000/006* adopted on 8 May, 2000 provides the general framework for conducting the Bank's business. The Charter provides a governance structure that in descending order of authority comprises of the General Meeting (the GM), the Board of Directors, the President who is also the Chairman of the Board and Chief Executive Officer of the Bank, and Management and Staff. The organigram capturing this structure is shown in Figure 3.1.

3.3.4.1 General Meeting

The General Meeting of Shareholders (the "GM") is the over-arching organ of the Bank. Membership of the General Meeting comprises of each holder of the shares of the common stock of the Bank. Each shareholder is entitled to appoint one representative at the General Meeting and such a representative shall serve for such period or periods as shall be determined by the appointing Shareholder.

Article 17 of the Bank Charter lists the following as the powers of the General meeting:

- electing and removing members of the Board of Directors and determining their remuneration;
- appointing and removing, on the recommendation of the Board of Directors, the President and determining his/her remuneration and terms and conditions of service;
- appointing the External Auditors and determining their mandate and remunerations;
- approving, after reviewing the report of the External Auditors, the annual financial statements of the Bank and adopting the annual report;

Table 3.1: AFREXIMBANK Shareholding Structure (%)

Category	As proposed in the Feasibility Study	As adopted by Shareholders in 1993	As Amended in May 2000	Actual as at December 2003
Class A • African States or their designated institutions¹ • The African Development Bank • African continental, regional and sub-regional financial institutions and economic organizations	65	- 35	75 max with Class “A” no less than 35.	66
Class B • African national financial institutions • African private investors	10	40		28
Class C • International financial institutions and economic organizations • Non-African financial institutions • Non-African private investors	25	25	25	6

¹This refers to the central bank or any institution, agency or governmental entity designated by the Government of an African State pursuant to paragraph 3 of Article IV of the Bank Agreement.

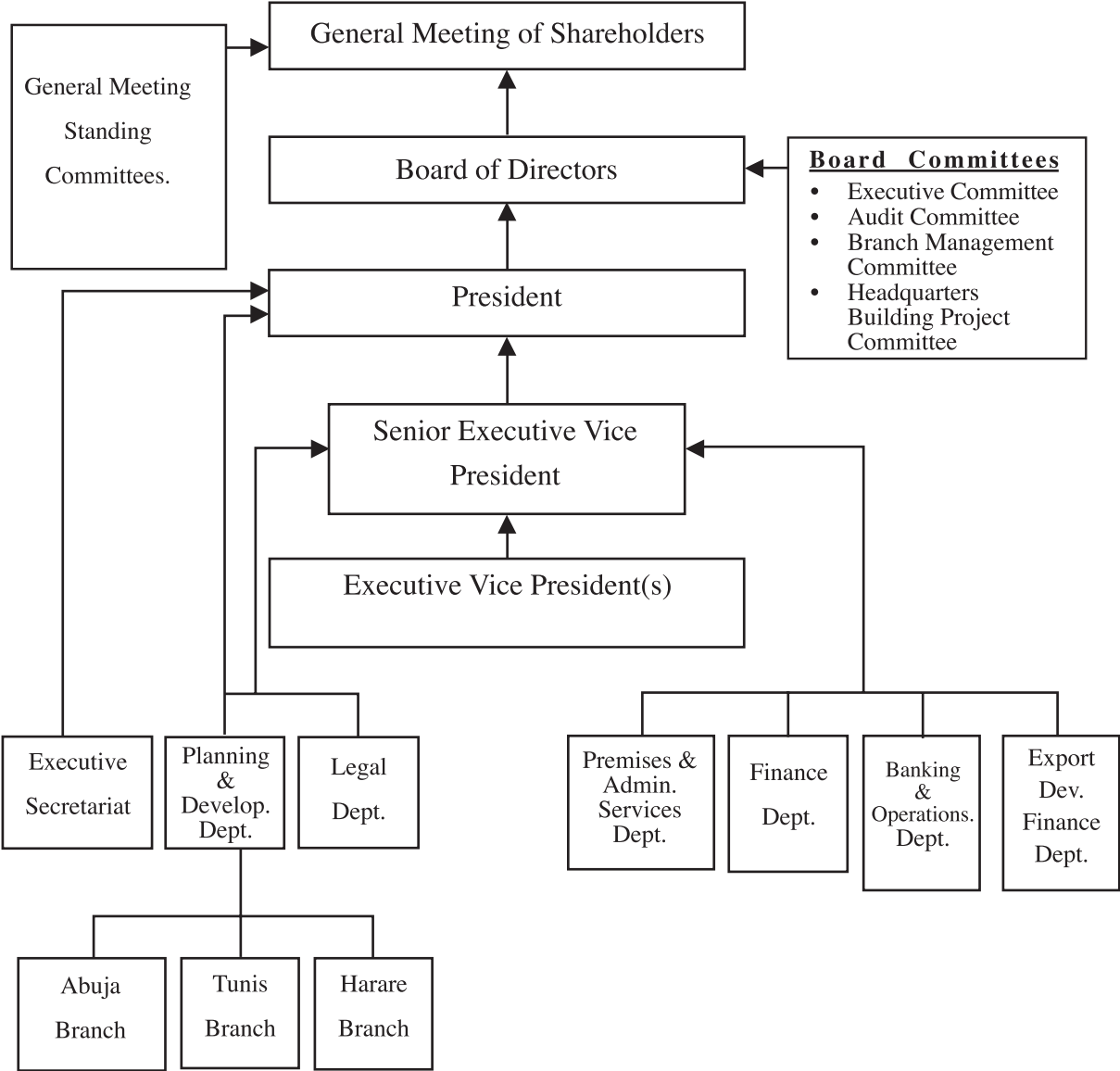
Source: AFREXIMBANK

- deciding in whose territory the headquarters of the Bank may be located, or transferred to;
- determining and authorizing, on the recommendation of the Board of Directors, the distribution and/or allocation of dividends;
- increasing or decreasing the authorized capital of the Bank;
- suspending or terminating the operations of the Bank.

The Charter provides for the holding of an annual meeting (the “Annual General Meeting”) and other such meetings as may be requested for by the General Meeting and called by the Board of Directors. The first Annual General Meeting was held in Abuja, Nigeria in October 1993.

Nine other Annual General Meetings had been held since then. In the spirit of cooperation and partnership on which the Bank is founded, the Bank’s Annual General Meetings had been held in different African countries. Table 3.2 shows the hosts of the Bank’s past General Meetings. The holding of the meetings in different parts of Africa has helped to create awareness of intra-African trade opportunities in different member countries as the organized private sector arranged trade exhibitions on those occasions.

Figure 3.1: The Organizational Structure of the African Export-Import Bank



3.3.4.2 The Board of Directors

The Charter provides that the Board of Directors shall be composed of not more than ten members who shall not be representative or the proxies of any shareholder. In other words, members of the Board do not represent any shareholder on the Board. The Charter, in this regard, provides that Representatives of Class “A” Shareholders (other than the AfDB) shall elect, and may remove, three Directors; One Director shall be designated, and may be removed by the AfDB; the Representatives of Classes “B” and “C” Shareholders shall appoint and may remove four and two Directors respectively. Accordingly, Board Members represent members of Shareholder classes that elect them.

Under the First Amendment of the Charter, it was provided that during any Transitional Period, the composition of the Board of Directors shall be such that the aggregate of Class “A” and Class “B” Board Members (including the Board Member designated by AfDB) is eight. The First Amendment recognized the leveraging and other important roles being performed by those constituents of the Bank represented in Class “C” and provided that the composition of the Board of Directors shall at all times be such that two Directors are elected by Class “C” Shareholders.

Directors are elected for a term of three years and may be re-elected. However, to ensure continuity and stability in the management of the Bank, the Charter provides for, and the Bank implements, the principle of rotation, requiring the partial replacement of Directors, such that each time elections to the Board of Directors are held, one-third (1/3) of the membership of the Board of Directors would retire. To ensure inclusiveness, Shareholders agreed, and the Bank implements, a rule that restricts member countries to a maximum of one member on the Board. As much as possible, efforts are made to ensure that Board representation is fairly distributed across all sub-regional economic communities.

The Board of Directors provides policy guidance to the Management of the Bank and reports to the General Meeting. Some of its specific functions are:

- Preparing the work of the General Meeting including submitting to the Shareholders for consideration at each Annual General Meeting, the annual report of the Bank and the annual financial statements, together with the report of the External Auditors relating thereto;
- taking decisions concerning trade-financing proposals, direct loans, guarantees, investments, the borrowing of funds and other operations of the Bank;
- establishing, transferring and closing down branch offices, representative offices, agencies and subsidiaries;
- establishing subsidiary organs or committees and delegating thereto any of its powers;

Table 3.2: Hosts of AFREXIMBANK Annual General Meetings, 1994-2003

Annual General Meeting n°	Country / City	Year	Trade Exhibition
1	Nigeria/ Abuja	1994	No
2	Egypt/ Cairo	1995	No
3	Ethiopia/ Addis Ababa	1996	Yes
4	Zimbabwe/ Harare	1997	Yes
5	Guinea/ Conakry	1998	Yes
6	Gabon/ Libreville	1999	Yes
7	Tunisia/ Tunis	2000	Yes
8	Kenya/ Nairobi	2001	Yes
9	Tanzania/ Dar-es-salaam	2002	Yes
10	Zambia/ Lusaka	2003	Yes

Source: Afreximbank

- approving the annual budget of the Bank;
- appointing, on the recommendation of the President, a Senior Executive Vice-President and one or more Executive Vice-Presidents; etc.

There are currently four committees of the Board, namely (i) the Executive Committee which, among other things, has been delegated the authority in respect of financing, guarantee and investment decisions; (ii) a Branch Management Committee which provides over-sight of the Bank’s branches and branching programme; (iii) the Audit Committee which has been delegated the power to review, examine and verify the proper applications of institutional policies and procedures ; and (iv) the Headquarters Building Committee which has over-sight of the Bank’s Headquarters Building Project which foundation stone was laid in December 2003.

3.3.4.3 President

The President is appointed by the Shareholders in a General Meeting, on the recommendation of the Board of Directors for a term of office of five years, renewable once for another five-year term. The President is the Chairman of the Board of Directors and is responsible for developing the Bank’s business strategies, its relationship with outside parties and other stakeholders, including African Governments and their agencies, African and international financial institutions and the private sector. As the Chief Executive and legal representative of the Bank, the President conducts, under the general control and direction of the Board of Directors, the day-to-day business of the Bank and in that capacity is responsible for the appointment and release of officers.

Further, Article 25 allows, among others, the President by virtue of his/her office to attend and participate in General Meetings and empowers the Board of Directors to delegate to the President such approval and commitment authority in respect of financing, guarantee and investment proposals up to such amounts as the Board of Directors shall determine from time to time. On the recommendation of the President, the Board of Directors appoints a Senior Executive Vice President, and one or more Executive Vice-President(s).

The pioneer President of the Bank is Mr. C.C. Edordu, a Nigerian economist and banker, who was appointed in Abuja, Nigeria in October 1993 for a term of office of five years. He was re-appointed for a second and final term of office of five years in Libreville in 1999.

3.3.4.4 Vice President(s)

The Charter provides for a Senior Executive Vice President and one or more Executive Vice-Presidents to assist the President and carry out such functions as the President shall determine. The term of office of each Vice-President is four years, which may be renewed for an additional term of four years.

In 1996, the Board, on the recommendation of the President, appointed Mr. Jean-Louis Ekra, an Ivorian banker, as the first Executive Vice President of the Bank. He was promoted by the Board to the position of Senior Executive Vice President in December 2003.

3.3.4.5. Departments

The Bank commenced operations in 1994 organized around four departments, namely Finance & Accounts, which also performed Administration functions; Planning and Development; Legal; and Banking Operations Departments. There was also the Board Secretariat which as provided in the Charter acts as the secretariat of the Board and the Bank's official depositary and custodian of the Bank's seal. Six staff members (excluding the President) were in the employment of the Bank as at December 1994. Subsequently, staff numbers enlarged such that by December 31, 2003, there were seven Departments (including the Board Secretariat) and three branches. Figure 3.1 shows the reporting lines of the Departments while Table 3.3 shows the distribution of 47 staff members of the Bank by Departments as at July 31, 2004. The Departments' functions are summarized hereunder:

- (i) ***Planning and Development Department*** prepares the Bank's Strategic Plans; assists in preparing the Bank's Annual Budgets; provides policy support to Senior Management; monitors plan implementation; prepares the Bank's periodic reports, such as the Annual and Half Year Reports; conducts research; sets annual country exposure limits; handles business and product development as well as investment banking and syndications. The Department also over-sees the branches which perform largely marketing functions.

- (ii) **Legal Department** advises Senior Management on legal issues that affect the Bank. It also documents loan and guarantee agreements and issues legal opinions as may be required by the Bank.
- (iii) **Premises and Administrative Services Department** is in charge of personnel and other administrative matters pertaining to the Bank. The Department is also responsible for the management of the Bank's premises. In this regard, it is the Department responsible for the implementation of the Bank's Headquarters Building Project which foundation stone was laid on 18th December 2003.
- (iv) **Finance and Accounts Department** is responsible for the full range of the Bank's finance and treasury functions, namely debt raising, liability management, interest rate and currency hedging and related activities. It is also responsible for preparing the Bank's periodic financial statements in accordance with International Accounting Standards (IAS).
- (v) **Banking Operations Department** handles credit, back-office operations, customer accounts and correspondent banking. It also monitors compliance as regards lending limits, including country limits.
- (vi) **Export Development Finance Department**, created on July 1, 2002, is a Department formed to enable the Bank achieve an important aspect of its mandate concerning facilitating the diversification of Africa's exports through financing, twinning services and creation of market access opportunities. It offers Finance and Business Development Services (BDS) in pursuit of these goals.
- (vii) **Board Secretariat** performs a number of statutory functions, such as acting as the Bank's depositary and custodian of the Bank's seal. It also services the meetings of the Board and the General Meeting.
- (viii) **Branches:** The Charter of the Bank allows it to open branches, subsidiaries and representative offices in any country. To implement the above, the Board of Directors approved a Branching Policy for the Bank. The Policy articulates the guidelines to be used in establishing and running the Bank's branches. Three branches had been established as at December 2003. These are (a) the Harare Branch established in 1997, in implementation of a General Meeting Resolution done in Abuja in 1993. The branch covers the Southern African Development Community (SADC) Countries; (b) The Abuja Branch opened in 2003 and currently covers Anglo-phone west African Countries; and (c) the Tunis Branch opened in 2003 and which covers the Maghreb region.

Table 3.3: AFREXIMBANK: Distribution of Staff Members by Category and Department as at July 31, 2004

Category Department	GM/Board Appointees	MS	LP	AT	OS	Total
Presidency	1	1			1	3
Vice Presidency	1			1	1	3
Board Secretariat		1		1		2
Planning & Development		3	1	2		6
Finance & Accounts		1	4	2		7
Operations		4	2	3		9
Legal		1		1		2
Projects & Admin. Service		1	1	2	2	6
Export Development		1		1		2
Abuja Branch			1		1	2
Tunis Branch			1	1		2
Harare Branch			1	1	1	3
TOTAL	2	13	11	15	6	47

Key: MS – Internationally recruited professionals
LP – Locally recruited professionals
AT – Administrative & Technical staff
OS- Other Support staff.

Source: Afreximbank

3.3.5 Afreximbank Mission

To set a clear focus for the Bank, Management on developing the Bank' First Strategic Plan launched in 1996, defined a corporate mission for the Bank as follows:

- To stimulate a consistent expansion and diversification of African trade so as to rapidly increase Africa's share of global trade.
- In doing so, to operate as a first class, profit-oriented, financial institution and a centre of excellence in African trade matters.

The above mission statement, encapsulated in the Bank's logo (see Annex 3), forms the foundation for the Bank's pursuit of the following goals:

- a. a consistent growth in African trade;
- b. a considerable growth in intra-African trade;
- c. an expansion of Africa's non-traditional exports, especially exports of manufactures and services;
- d. a diversification of the destination of Africa's exports,
- e. improving Africa's share of global trade;
- f. the provision of up to date information and generation of incisive studies on issues pertaining to African trade and its promotion; and
- g. the promotion of active participation of the African private sector in the development of African trade.

3.3.6 Corporate Culture

During its first decade, the Bank defined and operated a culture that was knowledge-based and entrepreneurial; a culture that focused on, and rewarded, contribution and results, as well as "used" ideas and expertise. The Bank's corporate culture that evolved over the decade drew from the Bank's mission and organizational purpose. It is hinged on the following core values:

- (i) uncompromising integrity since this is the foundation of banking and central to the respect the Bank has earned in Africa and elsewhere.
- (ii) team work, trust and respect for the individual. The Bank considers this important since individuals collectively make the organization and the diversity of knowledge, experience and culture each individual brings enriches the organization and contributes to its success.
- (iii) innovation, excellence and flexibility. This ensures that change can be motivated from any level of the organization. Pursuit and recognition of excellence ensures that each individual is respected and rewarded for the "used" ideas he/she brings.
- (iv) a passion for learning and drive. In the knowledge that learning invigorates, the Bank seeks out and supports personal and professional development and relies on lessons of experience. It also recognizes that a passionate belief in the work of the Bank fires drive and innovation.

The history, constitution and organizational structure of the Bank elaborated in this Chapter, provides an important element of the information required in understanding the operations of the Bank during its first decade. The other element to complete the background information is an understanding of the operating environment that prevailed during the 10 years of the Bank's operation. Chapter Four delves into that important subject matter.

CHAPTER FOUR

The Challenges of the Operating Environment

4.1 PREAMBLE

Chapter 2 discussed major political and economic developments of the 1970s and 1980s and how they influenced African Governments' decision to establish a regional trade finance institution. Chapter 3 went further to narrate the events that led up to the establishment of the Bank as well as how the Bank is organized and governed. These are important background information for understanding the operations of the Bank in the past ten years. They do not, however, provide a comprehensive basis for an appreciation of the history of the Bank, especially as it pertains to its operational performance. This Chapter attempts to complete the picture by discussing the challenges of the operating environment in the first decade of the Bank's operation.

4.2 REVIEW OF ECONOMIC CONDITIONS

4.2.1 The World Economy

The global economic environment that prevailed during 1994-2003 was largely defined by the Mexican ("Peso") crisis in 1994 which rocked financial markets and slowed the growth of developed economies; the Asian economic crises that occurred in mid 1997, causing a contraction of major Asian economies; a relay of the crisis to Brazil and Russia in 1998; uncertainties created by the millennium date change, also known as the Y2K effect; greater predictability in the global trading system as a result of the smooth implementation of the WTO Agreement; the launch of the European single currency in January 1999; the rapid growth of Information and bio-technologies which created the "New Economy" phenomenon that sustained the remarkable non-inflationary growth rate achieved by the US; the attacks on the USA on September 11, 2001 which accelerated global economic weakness that began to emerge earlier that year; record

Table 4.1 Global Output and Prices, 1994 - 2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average 1994 - 2003
GDP, constant prices, annual percent change	3.80	3.60	4.10	4.20	2.80	3.70	4.70	2.40	3.00	3.90	3.62
GDP, current prices, US\$ billions	26,292	29,117	29,857	29,724	29,502	30,606	31,426	31,128	32,273	36,163	30,609
Inflation, annual percent change	28.40	14.70	8.60	5.90	5.50	5.10	4.30	4.10	3.40	3.70	8.37
Interest rates (av. for G7 countries) (3-month), end of period, %	6.05	5.49	4.18	4.43	3.68	3.81	4.60	2.51	2.37	2.01	3.91

Sources: 1) Afreximbank *Annual Report* (various issues).

2) IMF (2004) *World Economic Outlook database*, April.

low international interest rates that prevailed in 2002 and 2003; and corporate governance and accounting scandals in major economies which had ripple effects on major bourses. Table 4.1 demonstrates the effects on global economic growth of the events highlighted above. It shows a global economy that saw decelerations of growth in 1995, 1998 and 2001 corresponding to the Peso, Asian and September 11 crises.

While the Peso Crisis momentarily delayed the recovery of the global economy in 1995, the economic crises in Asia, Russia and Brazil caused a deflation in asset prices, sharp commodity price declines in 1997/98 and a global economic slow-down in 1998. As pointed out in Afreximbank (2001), the emergence of the Internet Economy sustained the growth of the US economy thereby mitigating the negative effects of the different economic crises that afflicted the world during the period. The smooth implementation of WTO rules also accelerated globalization. The inclusion of financial and telecommunication services under WTO rules accelerated growth in these sectors and reinforced the impact of WTO on globalization. The freeing of markets arising therefrom fuelled industry consolidation and major cross-border mergers.

Further, the attacks on the U.S. on September 11, 2001 reinforced the growth weakness that began to emerge early in 2001. The poor performance of the U.S. economy also negatively affected the global economy, and caused major declines in international interest rates as monetary authorities struggled to stem a recession. The decade, however, saw a taming of inflation with global rate of inflation declining from 28.4% in 1994 to 3.70% in 2003.

On the political front, the second half of the 1990s stood out as a period of relative calm compared with the spate of international political crises that followed the disintegration of the Soviet Union during the first half of the 1990s. In this regard, the administration of Hong Kong was smoothly returned to mainland China by the British Authorities in 1997; the multi-racial Government of South Africa which came into effect in 1994 operated smoothly; Russia enjoyed a smooth transition of political power; while major regional economies, namely Indonesia, Nigeria and Algeria returned to democracy. In the early 2000s, especially after the September 11, 2001 event, two wars launched by the U.S. and their allies in Afghanistan and Iraq and caused a disturbance in the global political landscape.

During the period under review, the spread and deepening of plurilateralism gathered momentum across all continents of the world. Three new members, namely Austria, Finland and Sweden joined the European Union, raising its membership from 12 to 15 during 1996 to 2000. Further, the EU's planned expansion towards the east and south of Europe received a further boost when, at its landmark summit in Helsinki in December 1999, the EU committed itself to admitting 13 new countries, including Turkey. In Asia, the planned enlargement of the Association of South East Asian Nations (ASEAN) was advanced with the admission of its tenth member, Cambodia, in April 1999. In furtherance of its objectives and mandate, the group, at its summit

on November 28, 1999, adopted the “Joint Statement on East Asia Cooperation” committing the group to further cooperation with the Republic of Korea, the People’s Republic of China, and Japan. There were, however, major disappointments with regard to launching a new round of multilateral trade negotiations. Attempts made at Seattle in 1999 failed but in Doha, in 2001, members committed themselves to negotiating a new round of talks tagged “*Doha Development Agenda*”. Billed to be advanced at the WTO Ministerial Meeting in Cancun, Mexico in 2003, not much was achieved as developed economies could not agree to reform the huge subsidies they granted to their agricultural sectors.

4.2.2. Africa

The period 1994-2003 was in general a decade in which Africa began a sustained recovery from its dismal performance of the 1980s to early 1990s. As can be seen in Table 4.2, Africa’s GDP growth rate quickened from 2.8% in 1994 to reach 5.5% in 1996 (the highest growth rate achieved by the continent in the ten years covered) before hovering at between 3-4 percentage points thereafter, until 2003, when it breached the 4% barrier to reach an estimated 4.1%. As Table 4.2 shows, all key macro-economic indicators saw significant improvements during the period. Inflation declined from 37% in 1994 to about 10% in 2003; current account deficits narrowed considerably to US\$2.6 billion in 2003, after rising from US\$8.5 billion in 1994 to peak at US\$19.9 billion in 1998. Debt indicators shown in Table 4.2, namely ratio of debt to exports and ratio of debt to GDP all also showed remarkable improvements over the period. FDI inflows while low when compared to other regions, about tripled in nominal terms from US\$5.6 billion in 1994 to US\$14.3 billion in 2003. Foreign exchange reserves also increased, rising from US\$34 billion in 1994 to US\$104 billion in 2003. Intensive pursuit of fiscal consolidation saw fiscal deficits (excluding grants) as percent of GDP drop from about 5.2% in 1994 to 2.26% in 2001 (the most recent data available).

Despite the above generalizations, the economic performance of the continent over the period lends itself to episodic analyses, with inter-temporal ups and downs linkable to certain events that had direct impacts on Africa’s economic performance. In this regard, it is to be noted that during the decade, Africa’s economic performance was largely defined by performance of commodity prices; the economic performance of major industrialized economies; the level and extent of civil wars and political strifes in the continent; and the incidence and extent of drought in certain sub-regions of the continent.

Figure 4.1 demonstrates the relationship between Africa’s GDP growth and some of the above variables. As can be seen from Figure 4.1, Africa’s growth performance could be completely predicted by the evolution of Afreximbank Commodity Price Index and to some extent by the time-path of industrial countries’ growth rate. The main explanation for this state of affairs is Africa’s high commodity dependence and its relatively high level of trade openness (ratio of trade

Table 4.2 Africa : Key Macroeconomic Indicators, 1994 - 2003
(million USD, unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average 1994 - 2003	Average Annual Growth, % 1994 - 2003
Real GDP	447,831	492,187	519,101	535,396	553,640	570,149	588,147	608,094	631,568	653,570	559,968	0.038
GDP nominal (current)	427,720	470,420	528,221	543,349	534,513	546,857	566,240	560,050	541,224	646,435	536,503	0.041
Real GDP Growth, %	2.80	3.00	5.50	3.10	3.40	3.00	3.20	3.40	3.50	4.10	3.50	0.038
Inflation, %	37.20	33.20	28.20	13.50	10.20	11.50	13.00	11.80	9.60	10.30	17.85	(0.128)
Foreign Exchange Reserves (minus gold)	33,791.53	34,480.60	50,441.86	58,615.18	67,446.57	63,185.16	79,170.53	91,574.05	94,925.78	104,748.36	67,837.96	0.113
FDI (inflows)	5,551	5,459	5,722	10,613	8,974	10,757	8,553	18,541	10,998	14,332	9,950	0.095
Overall surplus/deficit, including all grants, as a % of GDP	(4.14)	(2.87)	(2.25)	(2.33)	(3.05)	(3.10)	(1.53)	(1.32)	n/a	n/a	(2.57)	n/a
Overall surplus/deficit, excluding all grants, as a % of GDP	(5.19)	(3.74)	(3.01)	(3.08)	(3.85)	(3.99)	(2.37)	(2.26)	n/a	n/a	(3.44)	n/a
Current Account	(8,515)	(10,469)	(91)	(6,820)	(19,921)	(9,662)	(8,035)	(5,831)	(5,412)	(2,586)	(7,734)	(0.119)
Debt nominal	315,949	335,534	329,795	313,251	322,989	304,913	294,298	282,356	293,318	296,844	308,925	(0.006)
Debt/exports, %	578.00	513.60	523.40	452.40	534.30	480.20	429.40	406.20	199.78	190.42	430.77	(0.111)
Debt/GDP, %	73.87	71.33	62.44	57.65	60.43	55.76	51.97	50.42	54.20	45.92	58.40	(0.048)

() are negatives

Sources: 1) ADB (2004) *African Development Report*.

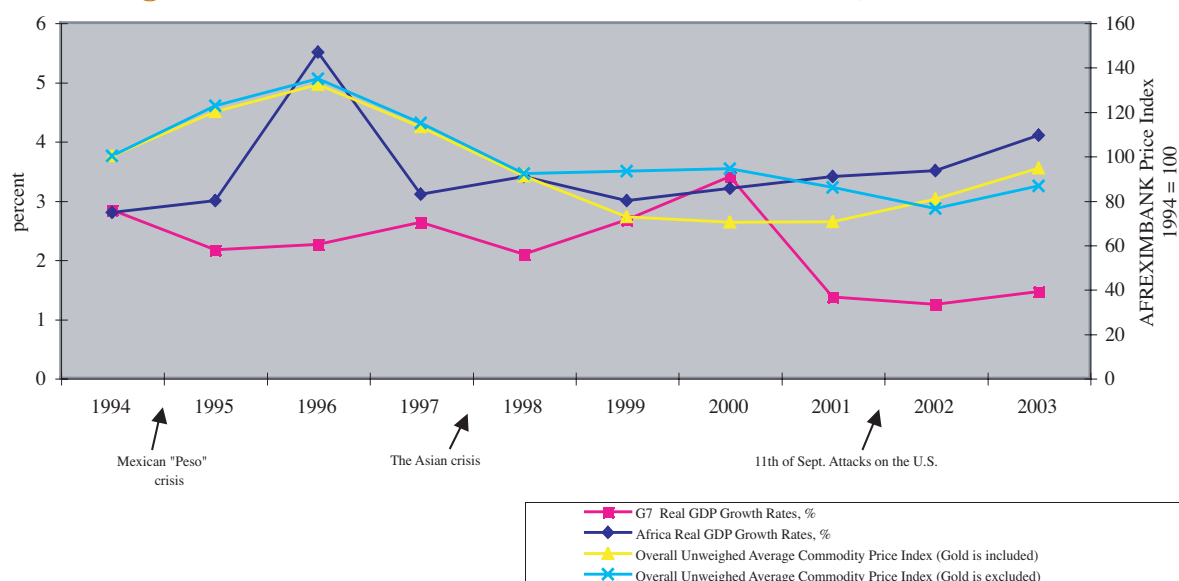
2) Afreximbank (2003) *Africa - in - Figures*.

3) Afreximbank (2003) *Annual Report*.

4) IMF (2004) *World Economic Outlook database*, April.

5) IMF, *World Economic Outlook* (various issues).

Figure 4.1 Africa's Real GDP Growth and Drivers, 1994 - 2003



Source: Afreximbank Annual Report (various issues).

to Africa's GDP averaged more than 50% during the decade under review) which predisposed it to the volatility and uncertainties characteristic of commodities. As can be seen in Tables 4.3 and 4.4, commodities of trade interest to Africa exhibited excessive volatility around a declining trend up to 2001. Further, the high proportion of Africa's exports destined to OECD countries linked the continent's economic growth further to the same vagaries that confronted the industrialized economies during the period. Accordingly, the growth weaknesses experienced by Africa mainly corresponded to the three major global economic disturbances which weakened commodity prices and slowed the growth rate of the industrialized economies, namely, the Peso and Asian crises of 1994/95 and 1997/98 respectively, and the attacks on the U.S on September 11, 2001. A notable point in Figure 4.1 is an apparent ability of Africa to withstand the negative shocks from these events much more than the G-7 economies as can be seen in the less rapid slowdown in economic activity of Africa during some of those episodes. This resilience has been traced to the economic reforms many economies were implementing during those periods, which controlled excessive spending during better times, and ensured year-to-year performance that was as close as possible to trend growth. Nevertheless, a key negative internal difficulty that prevented Africa from achieving its full economic potentials during the period was the numerous wars and civil conflicts it had to contend with. At a point in time, more than 11 wars and civil disturbances raged, which dampened investor confidence, destroyed infrastructure and caused entrepreneurs to flee. Towards the end of the review period, however, some of these wars were resolved or were near resolution through the effort of African Governments under the auspices of the African Union. Liberia, Sierra-Leone and Angola all gained cessation of hostilities. The conflicts in Sudan and the Democratic Republic of the Congo (DRC) were also close to resolution.

Table 4.3 Nominal Commodity Prices of Trade Interest to Africa, 1994 - 2003

(in US\$/Metric tonnes unless otherwise indicated)

COMMODITY	Average Nominal Prices														Average Volatility 1995-2003	
	1994	1995	1996	1997	1998	1999	2000*	2001	2002	2003	Plan I (1994-2000)	Plan II (2001-2003)	Plan I (1994-2000)	Plan II (2001-2003)		
AGRICULTURE:																
Cocoa Bean	1,396.00	1,451.70	1,494.91	1,580.18	1,600.14	1,141.96	932.63	1,235.55	2,017.04	1,744.93	1,371.07	1,665.84	0.08	0.14		
Coffee	2,619.50	2,698.00	1,713.35	1,620.80	1,755.60	1,457.39	670.07	513.00	544.59	727.27	1,790.67	594.95	0.11	0.17		
Copra	417.30	433.20	486.05	439.37	410.13	470.70	230.10	210.10	257.50	299.90	412.41	257.53	0.08	0.11		
Cotton**	1,767.00	2,161.40	1,769.46	1,740.30	1,438.87	1,169.53	1,394.87	1,073.52	1,014.86	1,393.37	1,634.49	1,160.58	0.05	0.13		
Maize	107.60	219.00	224.50	173.58	169.93	164.39	164.90	108.56	106.30	104.65	174.84	106.50	0.05	0.09		
Palm Oil**	528.40	634.00	525.73	540.94	636.11	427.86	253.18	278.40	388.07	443.30	506.60	369.92	0.08	0.12		
Rubber**	1,315.50	1,653.50	1,472.55	1,060.15	754.77	724.13	730.00	640.67	814.33	640.54	1,101.51	698.51	0.08	0.12		
Soyabean	251.90	284.50	331.72	329.07	258.24	223.80	249.15	248.55	261.46	293.28	275.48	267.76	0.06	0.07		
Sugar (raw)**	267.00	330.80	295.81	276.48	217.88	160.98	248.99	213.72	175.43	156.30	256.85	175.43	0.08	0.11		
Tea***	1,831.50	1,582.80	2,605.09	2,060.00	2,046.00	1,839.00	1,875.00	1,598.00	1,506.00	1,517.00	1,977.06	1,540.33	0.15	0.05		
Average	1,050.17	1,144.89	1,091.92	982.09	928.77	777.97	674.89	612.01	708.56	732.05	950.10	684.21	0.07	0.11		
ENERGY:																
Crude Oil**	109.30	127.70	150.58	140.31	93.18	129.56	216.67	200.21	181.84	209.00	138.19	197.02	0.20	0.23		
Average	109.30	127.70	150.58	140.31	93.18	129.56	216.67	200.21	181.84	209.00	138.19	197.02	0.20	0.23		
METALS:																
Copper	2,307.40	2,944.10	2,290.79	2,258.95	1,653.37	1,567.34	1,849.12	1,572.91	1,557.64	1,773.20	2,124.44	1,634.58	0.09	0.08		
Gold	1,354,497.40	1,353,881.00	1,369,523.53	1,172,270.00	1,046,953.40	982,042.60	949,174.20	952,082.20	1,092,306.79	1,280,744.50	1,175,477.45	1,108,377.83	0.04	0.05		
Lead	548.00	629.20	770.57	623.64	528.79	501.68	471.73	498.08	452.07	513.52	581.94	487.89	0.07	0.16		
Tin**	5,396.00	8,393.60	6,383.08	5,832.10	5,800.19	5,625.40	5,451.33	5,010.50	4,293.90	4,859.94	6,125.96	4,721.45	0.23	0.19		
Average	340,687.20	341,461.90	344,741.99	295,246.17	263,733.94	247,434.25	239,236.60	239,790.92	274,652.60	321,972.79	296,077.44	278,805.44	0.11	0.12		
a)	340,687.20	341,461.90	344,741.99	295,246.17	263,733.94	247,434.25	239,236.60	239,790.92	274,652.60	321,972.79	296,077.44	278,805.44	0.11	0.12		
b)	2,750.50	3,988.90	3,148.15	2,904.90	2,660.78	2,564.81	2,590.73	2,360.50	2,101.20	2,382.22	2,944.11	2,281.31	0.13	0.15		

* Revised

** Spot Prices. Others are future prices at the LIFFE and London Metal Exchange (nearest trading month).

*** World Bank figures. As for the year 2003, World Bank figures were used for copra, palm oil, and sugar (raw).

**** Measured by the coefficient of variation (CV) of price of relevant commodity.

CV is the ratio of each standard deviation to its associated mean.

a) Gold is included.

b) Gold is not included.

Sources: 1) Financial Times (various issues).

2) www.worldbank.org/prospects/pinksheets

Table 4.4 Afreximbank Commodity Price Index^{a)}
(1994 = 100)

COMMODITY	Average Price Index											
	1994	1995	1996	1997	1998	1999	2000	2001*	2002*	2003	Plan I (1994 - 2000)	Plan II (2001 - 2003)
AGRICULTURE:												
Cocoa Bean	100.00	103.99	107.40	113.19	114.62	81.80	66.81	88.51	144.49	124.99	98.26	119.33
Coffee	100.00	102.99	64.63	61.87	67.02	55.64	25.58	19.58	20.79	27.76	68.25	22.71
Copra	100.00	103.80	118.83	105.28	98.28	112.79	55.14	50.34	61.70	71.86	99.16	61.30
Cotton**	100.00	122.32	107.87	98.49	81.43	66.19	78.94	60.75	57.43	78.86	93.61	65.68
Maize	100.00	203.63	211.87	161.39	158.00	152.85	153.32	100.94	98.84	97.30	163.01	99.03
Palm Oil**	100.00	119.98	101.15	102.37	120.38	80.97	47.91	52.68	73.44	83.89	96.11	70.00
Rubber**	100.00	125.69	115.78	80.59	57.38	55.05	55.49	48.70	61.90	48.69	84.28	53.10
Soyabean	100.00	112.94	130.71	130.64	102.52	88.84	98.91	98.67	103.80	116.43	109.22	106.30
Sugar (raw)**	100.00	123.90	110.32	103.55	81.60	60.29	93.25	80.04	65.70	58.54	96.13	68.10
Tea***	100.00	86.42	174.07	112.48	111.71	100.41	102.38	87.25	82.23	82.83	112.49	84.10
Average	100.00	120.57	124.26	106.99	99.29	65.12	56.49	51.23	59.31	61.28	96.10	57.27
ENERGY:												
Crude Oil**	100.00	116.77	149.71	128.35	85.24	118.52	198.20	183.15	166.34	191.19	128.11	180.23
Average	100.00	116.77	149.71	128.35	85.24	118.52	198.20	183.15	166.34	191.19	128.11	180.23
METALS:												
Copper	100.00	127.59	98.77	97.90	71.66	67.93	80.14	68.17	67.51	76.85	92.00	70.84
Gold**	100.00	99.95	101.11	86.55	77.29	72.50	70.08	70.29	80.64	94.55	86.78	81.83
Lead	100.00	114.81	145.45	113.80	96.49	91.55	86.08	90.89	82.49	93.71	106.88	89.03
Tin**	100.00	155.55	156.72	108.08	107.49	104.25	101.03	92.86	79.58	90.07	119.02	87.50
Average	100.00	124.48	125.51	101.58	88.23	72.63	70.22	70.38	80.62	94.51	97.52	81.84
b) c)	100.00	132.65	133.65	106.60	91.88	93.25	94.19	85.82	76.39	86.61	107.46	82.94

* Revised

** Spot Prices

*** World Bank figures. As for the year 2003, World Bank figures were used for copra, palm oil, and sugar (raw).

a) This index covers all commodities which together contribute over 85% of Africa's total exports and is based on

US\$ per metric tonne prices.

b) Gold is included.

c) Gold is not included.

Source: Derived from Table 4.3 by Afreximbank Staff

4.3 AFRICAN TRADE PERFORMANCE

4.3.1 The Context – Global Trade Developments

The discussion of global and African economic conditions presented above provide aspects of the framework within which an understanding of Africa's trade performance could be gleaned. However, given that African trade is conducted in a global setting, it is important for a proper understanding of the forces that shaped African trade during the decade, that *Developments in Global Trade* be briefly discussed. Analysis of global trade statistics show that the trade benefited immensely from reduction in trade barriers through multilateral trade negotiations, the growth of the internet, and pursuit of trade-led economic growth strategies especially in South East Asia. Accordingly, the 1990s witnessed a six percent average growth in world trade volume per annum- a growth rate which consistently outstripped the average rate of growth of the global economy of 3.5% during the same period (WTO, 1997). The observed impressive growth in global trade derived from several factors, including strong economic performance of OECD countries, particularly the USA, which contributed in raising the level of aggregate demand of the world; the earlier-than-expected recovery of Mexican and Asian economies from the financial crises of 1994/95 and 1997/98 respectively; as well as the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations and the emergence of a more transparent, effective and predictable multilateral trading system under the WTO, and other arrangements that discouraged countries from resorting to protectionist policies even in times of transitory external payment crises.

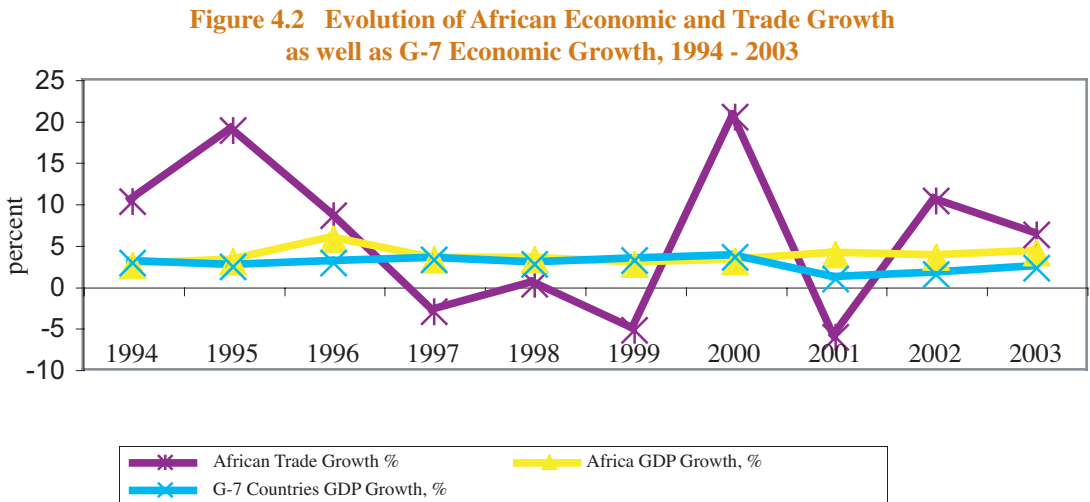
Further, most developing countries especially those in South East Asia, shared in the growth in world trade, leading to dramatic increases in income levels in some countries. As a group, developing countries over the period became more important in world trade given that they accounted for one-third of world trade by 1995, up from about a quarter in the early 1970s. Besides, many developing countries substantially increased their exports of manufactures and services relative to that of traditional commodities. For instance, manufactured goods accounted for about 80% of developing countries' exports in 2000. In addition, trade among developing countries grew rapidly over the period with about 40% of their exports being traded among themselves.

The blistering pace of expansion of world trade was significantly slowed in 2001 due to a major weakening of the global economy on account of the attacks of September 11, 2001 on the U.S. Subsequent to that, global output growth began to outstrip world trade growth as major economies struggled to deal with economic challenges the attack and subsequent U.S. led military engagements in Iraq and Afghanistan brought.

4.3.2 African Trade Growth

The decade in review saw African trade performance that generally tracked the performance of the G-7 economies (Figure 4.2). African economic performance also appeared to have tracked African trade performance, but with a one-year positive lag, that is, it moved in the same direction as African trade growth figures but with one year delay. Accordingly, and as discussed in the preceeding sections of this Chapter, the trade over the review period saw a significant nominal expansion between 1994 and 1997 when it rose by about 29% to US\$324 billion. It then declined in 1998 and 1999 before rising sharply in 2000 to reach a period peak of US\$345 billion (an increase of 13% from its 1998 level). It fell subsequently in 2001 and 2002 before posting a strong recovery in 2003 (Table 4.5). The evolution of African trade figures described above shows that the trade was probably affected by those factors that negatively affected global economic growth performance during the period, namely the Peso and Asian crises of 1994/95 and 1997/98 respectively, and the September 11 2001 attacks on the U.S. Table 4.5 also shows that African exports appeared more resilient than African imports as they recovered faster from each of the negative shocks.

Although Africa overall achieved positive average annual rates of growth of its total trade (goods and services), exports and imports, it appeared to have lost market shares as its share of world trade declined from close to 2.38% in 1994 to about 2% in 2001. A similar trend was observed with respect to Africa's share of world exports (Table 4.5). With regard to export production performance, the trend was reversed as export to GDP ratio rose from 31.2% in 1994 to about 33.10% in 2001. The import of this ratio is that Africa's output that is exported was during the period on the rise and perhaps reflected gradual removal of bottlenecks to exporting such as structural and institutional weaknesses, including lack of proactive policies to encourage export production; inadequate infrastructure to support production; shortage of entrepreneurs with



Sources: 1) IMF, World Economic Outlook, various issues
2) Afreximbank Annual Reports, various issues

knowledge about exporting; market access difficulties for manufactured exports; inadequate Foreign Direct Investment flows to support export manufacturing; lack of appropriately priced and tenored credits to support export transactions, etc. A look at Table 5.2, however, indicates that services exports might have contributed to an improvement in this ratio as ratio of merchandise exports to GDP was 24.55% and 24.12% in 2001 and 2003 respectively.

Another characteristic of Africa's export sector during the period was the low level of capital investments. With the exception of the oil and gas sector, the overall investment rate in the continent's export sector was low. For instance, cocoa and rubber plantations cultivated over three decades were, in most cases, not being replanted. There were also virtually no capital investments in processing facilities and the stock of human capital in the sector has been low with production dominated by peasants who cultivated small holdings compared to large plantations being developed by commercial farmers in South East Asia and Latin America. In mining, investments in new equipment and technology were also low. Corollary to this development was the weak linkage between the export sector and the rest of the African domestic economy. In many cases, the export sectors were enclaves with limited impacts on the rest of the domestic economies.

Although Africa was, during the period, largely an exporter of non-fuel primary commodities, (with the exception of a few large oil producers/exporters), it fell behind other regions in terms of growth and value of export of these commodities during the 1990s. The observed decline in Africa's share of global commodity exports was caused by several structural and institutional weaknesses, including lack of proactive national export promotion initiatives, underdeveloped agricultural sector, inadequate trade-supporting infrastructure and high cost of trading, among others. Agriculture remained unmodernised due to restrictive land tenure systems, and the dominance of small-scale farming. Consequently, African countries lost their competitive advantage in producing their traditional export crops, such as cocoa, coffee, and tea, among others, compared to the new and more competitive producers in Latin America and South East Asia.

During the 1990s, it was observed that manufactures were the more market-dynamic export products because they had high price and income elasticities of demand. While the majority of these manufactures were high-technology products, some labour-intensive manufactures, notably textile products, also saw rapid growth in world trade due to the emergence of international production networks, subcontracting, and bilateral trading arrangements. In Africa, undergarments (SITC 846) were the only important export items among the most market dynamic products in world trade. Unfortunately, their share in total African exports amounted to only 1.7%, with Mauritius and Swaziland accounting for over 85% of total exports of this product (UNCTAD, 2003).

Further analyses reveal that, during the period, there were significant changes in international trade in agricultural products. Available literature suggests that producers were increasingly shifting

resources from the production and export of traditional commodities to the production and export of non-traditional agricultural exports, such as horticulture and floriculture products, fish and seafood products, and other products with high income elasticities of demand and lower rates of protection in developed and developing economies. However, the production and export of some of these non-traditional exports required expertise, technology and capital investments that many African countries did not have or could not easily mobilize for that purpose. Nevertheless, some economies, such as Zimbabwe, Kenya, Ghana, South Africa and Zambia, during the period made investments in these sectors and expanded their exports.

4.3.3. Composition of Trade

African exports, during the period, remained highly concentrated in a few primary commodities. For many countries one or two commodities accounted for over 90% of their export revenues. In general, commodities accounted for more than 50% of Africa's exports (Table 4.5). The high commodity concentration of Africa's exports exposed it to the price instability associated with commodities as evident in Tables 4.3 and 4.4. It also contributed to significant terms of trade losses Africa suffered during the period. Notwithstanding the above, the decade did see a few countries diversify into high value exports, such as manufactures, horticulture and services (especially tourism). Mauritius, Seychelles, Uganda, Zimbabwe, Ghana and a few others achieved this. Nigeria and Egypt pursued diversification by investing heavily in natural gas liquefaction and exports. During the period, home remittances became a major source of foreign exchange earnings to many economies. This arose as many Africans who escaped wars and civil strifes, established in countries they took refuge in and began to remit monies to their home countries. It is estimated that an amount of US\$9 billion was remitted annually on the average in late 1990s and early 2000s. Many countries during the period developed programmes to properly harness this important resource.

4.3.4 Direction of African Trade

In terms of destination, Africa's exports were, during the period, concentrated in few markets largely those of OECD countries, which, during 1994-2000, on the average, absorbed more than 60% of total African exports (Table 4.6). Further, over 60% of African economies depended on OECD markets for about 70% of their export earnings. Intra-African trade was also low and accounted for about 9.56% of total exports of the continent during the same period. The concentration in export destination stemmed primarily from colonial legacy and low industrialisation of the continent which meant that the raw commodities produced by African countries could only be exported to markets with the capacity to process them into industrial and/or consumable goods. Of note, however, is the more than 46% increase in intra-African trade between 1994 to 2003. Nevertheless, despite the rapid increase, intra-African trade share of total African trade increased only marginally from 8.7% in 1994 to about 9.64% in 2003.

Table 4.6 Direction of African Exports (Merchandise), 1994 - 2003 (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average
Industrial Countries	64.2	64.5	64.1	63.7	62.9	65.2	69.0	70.4	70.2	n/a	66.03
Developing Countries	21.3	25.6	27.7	27.8	27.8	30.3	29.0	28.0	28.4	n/a	27.34
<i>of which:</i>											
Developing Asia	7.1	8.5	9.5	9.7	9.2	12.1	11.2	10.2	10.5	n/a	9.78
Latin America and Caribbean	2.2	2.1	2.7	3.0	3.2	3.7	4.0	4.0	4.0	n/a	3.21
<i>memo item</i>											
Share of Intra African Trade in Africa's Total Trade, %	8.7	9.0	9.8	11.2	10.5	9.5	8.7	9.5	9.1	9.64	9.56
Share of Intra African Exports in Africa's Total Exports, %	8.8	9.5	9.5	11.5	11.1	9.9	8.1	8.3	8.7	9.71	9.51
Share of Intra-African Imports in Africa's Total Imports, %	8.5	8.6	10.0	10.9	9.9	9.0	9.4	9.9	9.8	9.58	9.57
number of African countries accounting for > 50% of Africa's total trade	5	5	4	5	5	5	5	5	5	5	5.00
number of African countries accounting for > 50% of Africa's total exports	4	4	4	4	4	4	4	4	4	4	4.00

Sources: 1) Afreximbank, *Annual Report* (various issues).
2) Afreximbank (2003) *Africa in Figures*.
3) IMF, *Direction of Trade Statistics* (various issues).

The above state of affairs derived from numerous difficulties that many African economies had to deal with during the period. For example, wars and political disturbances displaced production in many parts of the Continent at different periods. In some years, virtually more than half of cultivable parts of the Continent were under armed conflicts and could not produce. The “neighbourhood effects” of such disturbances became major obstacles to the efforts made to change the perception of Africa to distant foreign investors. African governments during the period confronted this challenge in various ways.

First, African governments strengthened their commitment toward regional cooperation by establishing and/or strengthening sub-regional and regional trading groupings, such as COMESA, ECOWAS, Southern African Development Community (SADC), the MAGHREB Union, and the African Union (AU), and associated New Partnership for Africa’s Development (NEPAD). The renewed commitment to integration of African economies through regional and sub-regional groupings is consistent with the growing global interest in regional and sub-regional integration initiatives, which are aimed at extending markets for increased economic activity at the sub-regional and regional levels.

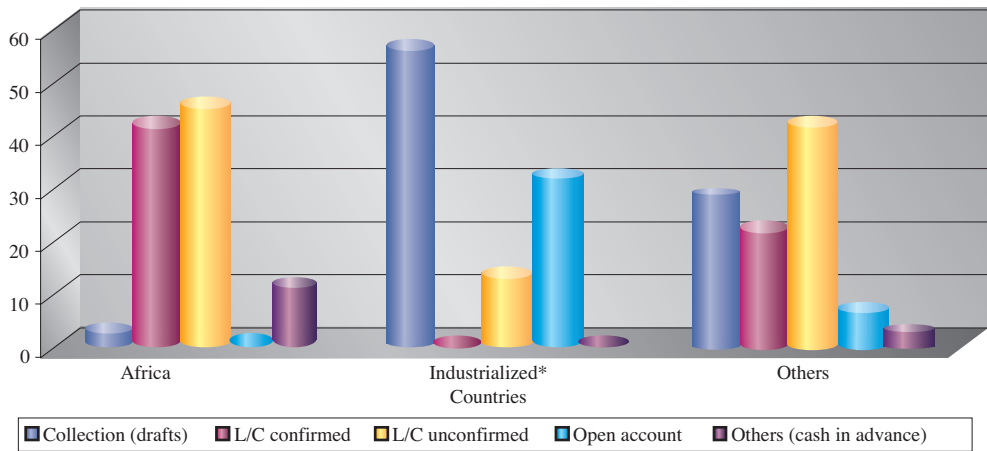
Secondly, at the international level, African countries continued to press for preferential treatment in global trade within the multilateral trade arrangements being spear-headed by the WTO. In addition, the failed Seattle Round of Trade Negotiations in 2000 strengthened the resolve of the African, Caribbean and Pacific (ACP) member countries to push for the next round of trade preferences under the Lome Convention Agreement with the EU. This culminated in an eight-year roll-over of the existing trade preferences between the EU and ACP member countries.

4.4 AFRICAN TRADE FINANCE

Trade finance flows to the continent were small and far-between in 1994 and 1996, with Africa accessing only 1.5% of trade finance flows to the developing world in 1996. Although, trade finance flows to Africa declined in 1998, 1999 and 2001, strong recoveries occurred in 2000 and 2003 (Tables 4.7 and 4.8). The evolution observed reflected the difficulties that occurred in 1997/98 and 2001, as well as the following more specific factors.

- a) the gradual return of syndicated loan flows that began to occur during 1993 and 1996 as structured finance became an instrument of choice in financing trade under a difficult environment (see Box 2.1 for a discussion of Structured Finance). Deals done were those done in support of major Commodity Boards, such as Ghana Cocobod, which, in 1995, raised an amount of US\$225 million which was then considered an important achievement. Other major syndicated deals done in that year included an oil pre-payment Facility in an amount of US\$310 million on behalf of the Angolan National Oil Company, Sonangol; a US\$56 million Syndicated Facility in favour of Compagnie des Bauxites

Figure 4.3: World Trade Settlement Modes by Country Groupings
(Proportion of Total Trade Settled by Payment Mode, %), 1995.



* US, Canada, France, Germany, Italy, UK, Japan.

Source: Estimated by Afreximbank staff from data obtained from FT International Trade Finance.

Table 4.7 Distribution of Some Major Syndicated Transactions/Club Deals Arranged or Operating in Africa by Sector, 1999-2003

(US\$ million unless otherwise indicated)

						Average Annual Growth Rate, %	Average Share by Sector, %
	1999	2000	2001	2002	2003	1999 - 2003	1999 - 2003
Agriculture	501.10	444.96	108.60	638.65	1,051.50	14.82	5.38
Financial Institutions	1,411.00	2,236.00	2,750.00	2,787.50	2,491.02	11.37	23.95
Infrastructure	650.00	0.00	0.00	0.00	21.50	-68.18	2.02
Metals and Minerals	889.30	2,056.00	1,389.90	1,081.17	2,563.40	21.17	15.14
Energy	1,817.50	937.60	2,020.00	3,088.70	3,195.32	11.28	23.35
Services	0.00	0.00	0.00	0.00	88.00		0.13
Telecommunications	670.00	1,726.80	614.20	298.00	1,583.73	17.21	8.94
Transport	55.00	297.97	150.00	574.27	1,334.63	63.78	4.20
Manufacturing	0.00	200.00	1,122.70	172.81	480.55		4.12
Government	0.00	4,750.00	0.00	17.50	9.47		6.54
Others	535.00	2,000.00	0.00	472.00	550.00	0.55	6.23
Total	6,528.90	14,649.30	8,155.40	9,130.60	13,369.12	14.33	100.00

average annual growth rate = $[(1/n) * \ln(Y_n/Y_0)] * 100$

Sources: 1) Capital Data Limited, U.K

2) Afreximbank

Table 4.8 Distribution of Some Major Syndicated Transactions/Club Deals Arranged or Operating in Africa by Sub-Region, 1999-2003

(US\$ million unless otherwise indicated)

						Average Annual Growth Rate, %	Average Share by Sub-region/Country, %
	1999	2000	2001	2002	2003	1999 - 2003	1999 - 2003
North	2,030.50	1,609.00	197.00	1,210.42	1,783.02	-2.60	14.22
South	3,682.30	11,121.50	6,804.90	4,432.72	7,977.98	15.46	64.80
Central	0.00	102.80	700.00	388.81	53.39		2.79
East	0.00	539.90	20.00	98.00	134.00		1.20
West	816.10	1,176.10	293.60	2,483.65	2,690.73	23.86	14.29
Others	n/a	0.00	30.00	347.00	550.00		2.07
Multilateral Institution (Afreximbank)	n/a	100.00	140.00	170.00	180.00		1.40
<i>memo item</i>							
- South Africa	1,965.00	10,265.00	5,719.90	3,520.72	6,079.87	22.59	50.87
- Egypt	750.00	609.00	197.00	417.50	1,066.00	7.03	6.12
- Nigeria	n/a	n/a	0.00	1,430.00	1,068.04		7.88
Total	6,528.90	14,649.30	8,155.40	9,130.60	13,369.12	14.33	100.00

average annual growth rate = [(1/n)*ln(Yn/Yo)]*100

Sources: 1) Capital Data Limited, U.K
2) Afreximbank

de Guinée (CBG), Guinea; a US\$ 50 million facility for Zambia Consolidated Copper Mines (ZCCM) and a US\$ 30 million facility to a Gabonese Manganese Mine, Comilog. Owing to strict provisioning requirements for lending for tenors exceeding one year to African entities, all the deals were of one year maturities. As seen from the above, lending was selective and hinged on transferring payment risk to OECD countries with average spreads generally higher in Africa than in other parts of the developing world (Afreximbank, 1994/95). Despite the renaissance seen in the African syndicated loans market, import financing was virtually non-existent, unless cash-collateralized. Figure 4.3 shows the different trade settlement modes for different groups of countries during the period. The figure shows that Africa suffered the most unfavourable terms with most of its trade conducted on Confirmed Letter of Credit basis, with the L/Cs confirmed against full cash cover by African L/C opening banks. This problem further restrained intra-African trade. As pointed out in Afreximbank (1994/95), the perceived high payment risk of many African economies did not help matters as the relatively long transfer delays and the high risk attached to such delays meant that import financiers imposed the most stringent terms (Table 4.9).

- b) Although many international banks lost money as a result of the Peso and Asian crises, no such losses occurred in Africa and structured trade finance became actively used in supporting commodity financing across the continent, especially in Côte d’Ivoire (cocoa, cotton and coffee), Ghana (cocoa), Nigeria (cocoa), Cameroon (cotton and cocoa), Mali (cotton), Zambia (copper), Tanzania (cotton) and Angola (oil).
- c) From about 1998, a number of developments began to unfold that had some impact on Africa’s access to syndicated loans flow. First, as a result of losses suffered by major international banks as a result of the Asian crisis as well as Russia’s unilateral

Table 4.9: Africa: Indicators of Payment Risks for Short-Term Transactions

Countries	Delays (months)a)		Collection Experience		Preferred Terms**		Min. Terms***	
	Jun-95	Dec-95	Jun-95	Dec-95	Jun-95	Dec-95	Jun-95	Dec-95
Algeria	5	5	Poor	Poor	CLC	CLC	CLC	CLC
Angola	5	3	Poor	Poor-Fair	CLC	CLC	CLC	CLC
Benin	5	4	Poor	Poor	CLC	CLC	CLC	CLC
Burundi	9	9	Poor	Poor	CLC	CLC	CLC	CLC
Cameroon	3	2	Fair	Fair-Good	ULC	ULC	CLC	CLC
Chad	4	2	Poor	Poor-Fair	CLC	CLC	CLC	CLC
Congo	6	4	Fair	Fair	CLC	CLC	CLC	ULC
Cote d'Ivoire		3		Fair-Good		ULC		SD
Djibouti	4	3	Fair	Fair	ULC	ULC	ULC	ULC
Egypt	3	3	Fair-Good	Fair	ULC	ULC	ULC	ULC
Ethiopia - Old	84	60	Poor	Poor	CIA	CIA	CIA	CIA
- New	9	7	Poor	Poor	CIA	CIA	CIA	CIA
Gabon	4	4	Poor	Poor	CLC	CLC	CLC	CLC
Gambia	4	3	Fair-Good	Fair-Good	ULC	ULC	ULC	ULC
Ghana	4	4	Fair	Fair-Good	ULC	CLC	SD	ULC
Kenya	3	3	Fair-Poor	Fair-Poor	CLC	CLC	ULC	SD
Liberia	9	3	Poor	Poor	CIA	CIA	CIA	CLC
Libya****	5	3	Poor	Poor-Fair	CIA	CIA	CLC	CLC
Madagascar		2		Good		ULC		SD
Malawi	4	3	Fair	Fair	CLC	CLC	ULC	ULC
Mauritania	3	2	Poor	Fair	CLC	ULC	ULC	SD
Mauritius	2	2	Fair-Good	Fair-Good	ULC	SD	SD	SD
Morocco	3	4	Fair	Fair	ULC	ULC	ULC	ULC
Mozambique	5	2	Fair-Poor	Fair	CLC	CLC	ULC	ULC
Niger		2		Fair-Good		ULC		SD
Nigeria	4	3	Fair	Fair	CLC	CIA	CLC	CLC
Rwanda	8	7	Poor	Poor	CLC	CLC	CLC	CIA
Senegal	3	2	Fair	Fair-Good	ULC	ULC	ULC	SD
Seychelles	3	3	Good-Fair	Fair	SD	ULC	SD	SD
South Africa	3	3	Good-Fair	Fair	ULC	ULC	SD	SD
Sudan		5		Poor-Fair		CLC		CLC
Tanzania	3	3	Fair	Fair	ULC	ULC	ULC	SD
Togo	4	4	Fair-Poor	Fair-Poor	ULC	ULC	ULC	ULC
Tunisia	3	3	Fair	Fair	ULC	ULC	SD	SD
Uganda	4	4	Fair	Fair	ULC	ULC	ULC	CLC
Zaire - Old	6	5	Poor	Poor	CLC	CLC	CLC	CLC
- New	4	3	Poor	Poor	CLC	CLC	CLC	CLC
Zambia	4	3	Mostly LC	Mostly LC	CLC	ULC	ULC	ULC
Zimbabwe	2	2	Good	Good	ULC	ULC	SD	SD
Averages*****	4.25	3.38						
Average of Industrialized Countries	2.14	2.00						
Average of Others	2.90	2.22						

a) Average delays refer to the time taken from the due date for the importer to deposit local currency with the central bank or other authorising body and for hard currency to be transferred to the exporter.

Collection Experience refers to the risk attached to delays.

** Recommended
*** Most Liberal acceptable terms.
**** Limited shipments due to sanctions.
***** Pre rescheduling are excluded

OA - Open Account
ULC - Unconfirmed Letter of Credit
CLC - Confirmed Letter of Credit
CIA - Cash In Advance
CAD - Cash Against Documents
SD - Sight Draft, 30/SD to 180/SD - day sight draft
Old/New: delays pre- and post-rescheduling

Source: International Trade Finance, Financial Times, (various issues).

declaration of moratorium on debt payment, a wave of consolidation began to emerge in the international banking scene; second, the Asian crisis caused a sharp decline in commodity prices such that between November 1997 and October 1998, prices of energy, metals and minerals and agricultural products fell by 26%, 16% and 18% respectively (Afreximbank 1998); third, commodity sector reforms became more pervasive leading to the dismantling of commodity boards on which structured finance was hinged. The above factors led to a retreat in supporting African exports through trade finance and lenders began to find other ways of lending to Africa. Beginning from that period, oil financing became important and despite Nigeria being under military rule at that time, subsidiaries of oil majors operating therein began to access unsecured facilities to bridge the cash-call gaps arising from late payments on cash calls from the national oil company of Nigeria. Table 4.7 shows the evolution of syndicated loans flow to Africa by sector and the dominance of energy financing over time. Further, the privatization of telecoms brought an upsurge in demand for telecom financing which saw telecom financing assume for an increased share of syndicated loans flows to Africa towards 2003 (Table 4.7).

- d) By 1996, after two years of operation, Afreximbank had begun to be recognized as an important trade finance bank in Africa and was sought after to participate in African deals as the market began to appreciate its depth of local knowledge, prudence of its operating model and benefits of its preferred creditor status. This vindicated the pioneer management's focus of earning respect through results and not allowing the Bank to begin to have its L/Cs cash covered. In view of the way the market was evolving in terms of disappearance of the African anchor on which structured finance was hinged, the Bank introduced a Country Risk Guarantee Facility with the aim of using it to leverage international financing into Africa by transferring African country risks to Afreximbank credit risk. A schematic presentation, in Box 4.1 shows that the product could enable an international bank to obviate country risk provisioning by using the product. The objective of Afreximbank was to ensure that L/Cs were confirmed without insistence on cash-collateral and that country risk was minimized for those lending to Africa. The product became quite attractive and caused the return of international banks to African L/C business on more normal terms. Further, as Afreximbank's profile rose, it began to access international syndicated loans for on-lending to other African countries, such that by 2003, its annual syndications had become a major event in the London market.
- e) Perhaps due to the fact that Central Africa region was the sub-region least represented in the Bank, the region received the lowest share of syndicated loans to Africa, with southern, western and northern Africa receiving the largest shares (Table 4.8). These regions were highly represented in the membership of the Bank during the review period.

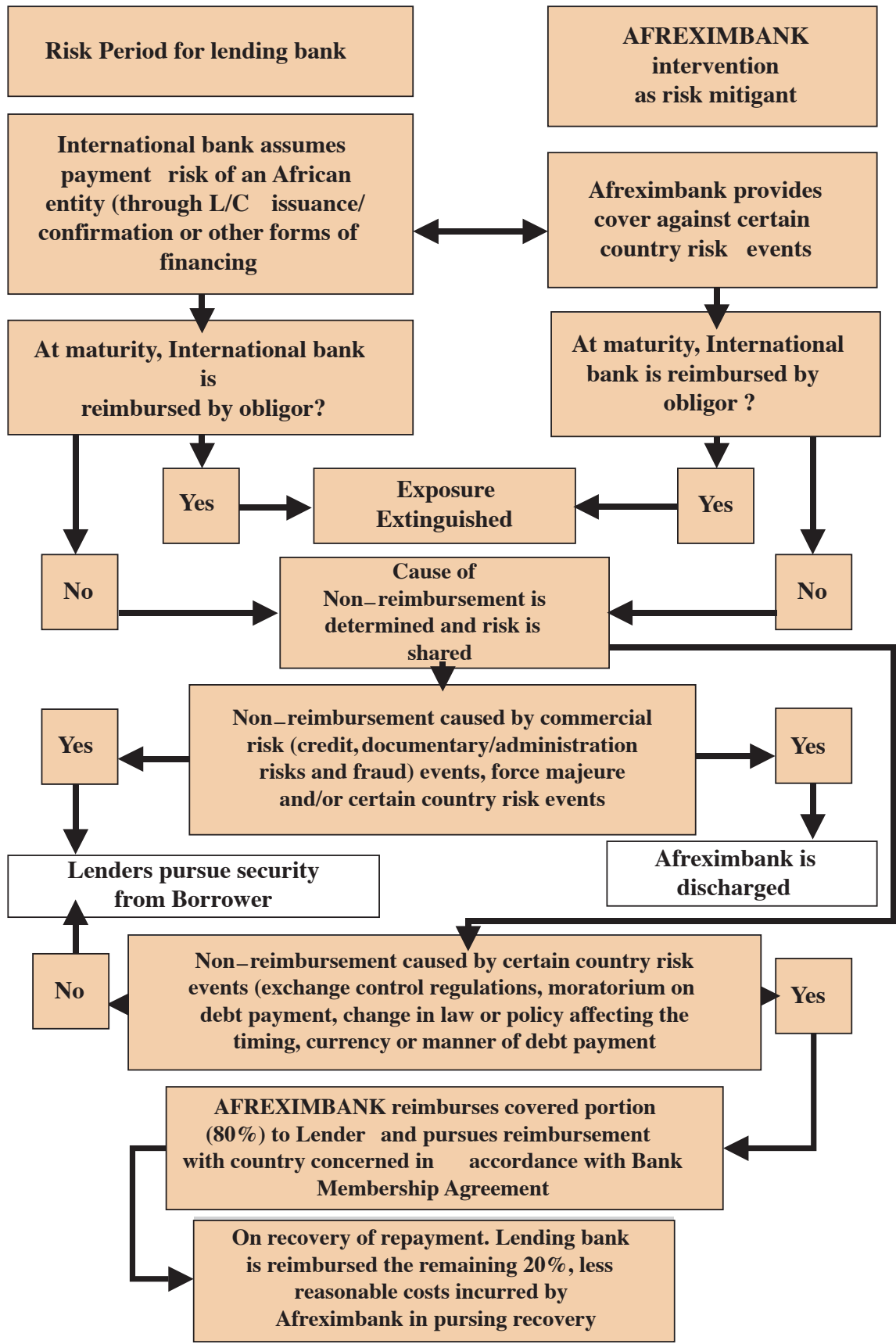
4.4 IMPLICATIONS FOR A CONTINENTAL TRADE FINANCE INSTITUTION

The operating environment and the evolution of African trade and trade finance during 1994–2003 as described above reveal a decade with episodes of weak and strong economic growth performances. While the decade witnessed the longest period of economic boom in the US, the engine of the global economy, it also witnessed episodic shocks that had profound consequences on the way the international financial markets operated, among others. These in turn affected the way companies operated during that decade.

For emphasis, we list below some of the highlights of events/issues that shaped the decade:

- i) bouts of financial crises that hit Latin America, Asia, Russia and Brazil at different periods, but especially in 1994/95 and 1997/98, which prompted a rethink of the international financial architecture to avert a repeat of crises of such magnitude;
- ii) The high volatility in commodity prices around a declining price trend in the period up to 2001 caused by three main factors, namely:
 - 1. the financial crises mentioned above which led to a collapse in asset prices and weakened demand for raw materials;
 - 2. structural over-supply of commodities caused by agricultural subsidies available to U.S. and European farmers; and
 - 3. the suspension of economic clauses in the Commodity Agreements negotiated under the auspices of UNCTAD to stabilize commodity prices at levels fair to consumers and remunerative to producers.
- iii) intensification of globalization following the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations and the signature of the WTO Treaty in 1994. These facilitated further reduction in trade barriers and supported the rapid expansion in global trade mentioned elsewhere in this document. The impetus provided made it possible for WTO members to set an agenda (the Doha Development Agenda) for further multilateral trade negotiations to bring in Agriculture, Services, Market Access and Trade Related Intellectual Property Rights (TRIPS) into multilateral trade rules;
- iv) reduction in barriers to financial flows with most countries having acceded to Article 14 of the IMF Agreement;
- v) the ascendance of the internet economy which accelerated out-sourcing of services, promoted internet-based markets and internet banking;
- vi) a period in which the U.S. economy witnessed the longest period of boom extending from 1992 to 2001, despite periodic shocks that hit the global economy. The resilience of the U.S. economy largely on the back of strong productivity gains made it easier for the global economy to recover from devastating episodic shocks it suffered;
- vii) The September 11, 2001 attacks on the U.S., which caused a major disruption of the U.S. and global economies and affected shipping, immigration, banking and other critical services that support trade. The ensuing war launched on Afghanistan and Iraq by the

Box 4.1 AFREXIMBANK COUNTRY RISK GUARANTEE FACILITY
FLOW OF TRANSACTIONS



- U.S. in response to the attacks further compounded global economic difficulties, such that from 2001 to 2003 the U.S. and major European economies underwent serious growth weaknesses;
- viii) The unprecedented low international interest rates that prevailed from 2002 to 2003, which was prompted by the attempts of monetary authorities to forestall a serious recession in the U.S. and Europe. The interest rate cuts brought U.S. rates to a 40-year low in 2003;
 - ix) The early 2000s also revealed corporate governance weaknesses in the U.S. and Europe and led to a rethink of accounting rules, and a reform of corporate governance structures around the world.
 - x) An upsurge in mergers and acquisitions in banks and the corporate sectors. The M&As in banks had implications on their lending capabilities especially as regards lending limits and gross funding availability to regions, such as Africa.
 - xi) Intensification of negotiations regarding Basle II which is expected to provide guidelines that would deal with weaknesses seen in Basle I.

In Africa,

- i. privatization of the export sector in some cases led to a dismantling of commodity boards which created difficulties in sustaining commodity exports. Meanwhile, lack of appropriate financing made it difficult to develop non-traditional exports. The effect was a decline in trade finance flows to the commodity sector. In contrast, energy and telecoms began to receive increased syndicated loans flows over the period.
- ii. drought that at various times affected parts of eastern and southern Africa as well as Morocco and Tunisia negatively affected agricultural production;
- iii. wars and civil strifes restrained economic activities in many countries. However, the period also witnessed the return to democracy of major economies of the region, such as Nigeria, Algeria and Angola. South Africa also gained majority rule. These developments enabled the African Union to be eventually launched which in turn facilitated the resolution or near-resolution of a number of armed conflicts;
- iv. regional integration in Africa also received greater impetus during the period with ECOWAS, SADC and COMESA making the most progress in integrating politically and economically. African Heads of States also launched the NEPAD as a blueprint for collective action towards pursuit of Africa's economic development.
- v. the period witnessed a gradual return of international banks to Africa initially on structured finance basis but towards the end of the period on a selective clean basis. Afreximbank's profile and activities facilitated the return of these banks to African trade finance. The evidence is seen in the low level of international trade finance received by central African economies, a sub-region with the least membership in Afreximbank and where therefore, Afreximbank had limited activity.

From the foregoing, it can be seen that the decade was one that posed challenges and opportunities to banks operating in Africa. Successful operation therefore required an adaptive response to the events and developments, especially for a continental trade finance institution which has the objective of shaping some of those events at the regional level. In the next Chapter, we review the operations of the Bank during the period which will throw light on how it adapted to the challenges and opportunities.

CHAPTER FIVE

Operating Performance in the Context of The Bank's Strategic Objectives

5.1 PREAMBLE

As explained in Chapter Four, the rapidity and frequency of occurrence of negative and positive shocks that prevailed during the period under review meant that international banks faced immense risks and uncertainties. Successful operation therefore required deliberate actions and responses to deal with any problems and opportunities. Management of the Bank recognized this early in the life of the Bank and adopted Strategic Planning as an instrument that would enable it chart a course of action targeted at meeting set objectives. In view of the volatile environment foreseen, the Bank's five-year Strategic Plans were drawn-up as rolling plans, requiring periodic reviews, and the Bank's annual budgets were used as instruments of plan implementation.

Two such five-year plans were approved by the Bank's Board of Directors during the decade, namely:

- the First Plan (Plan I) which covered the period 1996-2000; and
- the Second Plan (Plan II) covering the period 2001-2005.

In what follows, we discuss the events leading up to the First Plan, and the Bank's planning model and philosophy before proceeding to review the Bank's operations in the context of the Plans.

5.2 ACTIVITIES LEADING UP TO PLAN I

The Bank began operations on September 30, 1994, following the signature of a Headquarters Agreement concluded by, and between, the Government of Egypt and the Bank on August 31, 1994.

The facilities that were available from the Bank at the commencement of business included:

- pre-export credit;
- post-export advances and acceptances;
- pre- and post-export credit guarantees;
- Letter of Credit confirmation and refinancing;
- project-related financing; and
- trade information and exporter advisory services among others.

During the Bank's first statutory financial year, extending from the Bank's inception up to the end of 1995, the major focus was to ensure the establishment of adequate systems. In this regard, using external consultants and in-house expertise, various policy documents that would guide the Bank's operations were established. The key documents so produced included:

- the Bank's Credit Policies and Procedures;
- the Operating Policies and Procedures;
- the Treasury Guidelines;
- Staff Instruction Manual; and
- Guidelines for setting Country Exposure Limits, among others.

In addition, important systems for a smooth operation of the Bank were established, key among which were:

- an Executive Committee of the Board of Directors with the mandate of approving lending commitments of the Bank up to a certain level;
- an Audit Committee of the Board;
- a Management Credit Committee (CRECO); and
- a Management Assets and Liabilities Committee (ALCO).

Commitment limits with respect to the different organs and grades of staff of the Bank were also approved.

The period was also used in preparing and furnishing the Bank's temporary offices at the World Trade Centre Buildings in Cairo, Egypt. Other issues related to the physical and legal establishment of the Bank in Egypt were also concluded.

Following the successful conclusion of the physical and legal establishment of the Bank in Egypt, staff recruitment exercise began and resulted in raising the staff number from a core team of 7 (including the President) at the commencement of the Bank's operations to 21 as at the end of 1995.

The trade finance activities of the Bank from commencement of operations in September 30, 1994, and up to the end of 1995, revolved around the provision of short-term export and import credits. The major instrument used in delivering the Bank's resources during the period was pre-export financing, which accounted for, in value terms, 64% of total commitments.

The cumulative lending approvals on all facilities operated by the Bank at the end of 1995 stood at US\$141 million.

In line with the Bank's credit policies, all lending done during the period were directed at its shareholder countries or through its shareholder institutions and principally went to corporates and parastatals rather than governments. All loans were linked to specific transactions. Loan pricing was related to the Bank's assessment of country risk of the country where the direct obligor resided. Loan pricing was linked to the London Interbank Offered Rate (LIBOR).

The Bank's major sources of funding during the period were paid-in share capital and retained earnings. Surplus funds were invested in international and African banks that met certain credit criteria. Preference in fund placements was given to shareholder banks.

5.3 THE PLANNING PROCESS AND FRAMEWORK

5.3.1 The Planning Process/Philosophy

The Bank's planning process is such that assists it in meeting its goal of using such plans to provide a framework for the direction and control of the Bank's operations. The plans charted a course for the Bank at given periods and detailed actions needed in maintaining that course.

In this regard, the plans served as resource allocation guides for the Bank, identifying resource requirements, availability and efficient deployment modalities in line with any chosen strategy (Afreximbank, 1996). The Bank's Plans were therefore important instruments of control, preventing the Bank from straying into activities that would not contribute to its objectives or those that it could not properly perform.

In developing the Bank's plans, ideas were drawn from numerous sources, such as the Bank's Shareholders, Board of Directors, the Advisory Group on Trade Finance and Export Development in Africa (the "Group"), staff, clients and other partners of the Bank. Staff Seminars/ retreats were convened to debate critical issues pertaining to the plans and to test their assumptions. These approaches helped in developing the two plans the Bank launched in its ten years of operation.

5.3.2 The Planning Framework

The planning model adopted by the Bank in developing Plans I & II is based on a modified version of the Ohmae model⁵ (Ohmae [1982] and Ohmae [2000]). The model suggests that the preparation

⁵Interested readers should see (1) K. Ohmae (2000) *Invisible Continent: Global Strategy In The New Economy*, McGraw Hill (2) K. Ohmae (1982) *The Mind of the Strategist*, McGraw Hill.

of a viable strategic plan requires the planner to consider three important variables:

- a) the customer;
- b) competition; and
- c) the institution to which the Plan relates (that is, its strengths and weaknesses).

In addition to these background studies, two additional variables that are to be carefully examined as part of the groundwork for the preparation of a strategic plan are:

- a) country risk (for example, government created obstacles to business and trade, and reliability of the legal and regulatory framework of a country); and
- b) other risks (especially currency risk).

The Ohmae model suggests that once these five background studies have been concluded, planners should proceed to make any of four strategic decisions after a careful understanding of “**Key Success Factors**” (KSF) within the industry the planning institution operates. With the industry KSF in mind, the company should:

- a) focus on the KSFs and deploy its resources according to the KSF of the market leader;
OR
- b) deploy resources where competitors are not involved;
OR
- c) upset the competitive environment via aggressive initiatives against the market leader;
OR
- d) innovate in areas that are untouched by major competitors.

Designing a feasible Plan based on the above framework therefore requires that the Bank carefully identifies its comparative advantage given its knowledge of the *Key Success Factors (KSF)* in the market in which it will operate. In this regard, the Bank, on each planning occasion, combined its knowledge of the environment from the point of view of its best estimate of forecast economic conditions and other players in the market with elements of the Bank’s constitutive instruments, its operational history and other factors, to identify the key success factors in the Bank’s business and therefore the Bank’s strengths and weaknesses with respect to those factors.

The Bank early in its life identified the following as Key Success Factors in its industry:

- a) a good knowledge of the market and the risks and opportunities therein;
- b) ability to manage policy and other political risks either through bonds formed as a result of historical linkages or other privileges;
- c) local presence;
- d) extensive correspondent network around the world;
- e) ability to cope with obstacles sometimes created by officials;
- f) ability to deal with inherent concentrations in the market that create problems of credit concentration;

- g) strong links with high credit quality companies, operating in the market;
- h) thorough knowledge and understanding of commodities;
- i) patience given the extended time it takes to close lucrative deals; and
- j) integrity and transparency that enable the building of partnerships required for leveraging resources for on-lending into the market.

Based on the above, the Bank on each planning occasion identified its comparative advantages and proceeded to make strategic choices.⁶

5.4 REVIEW OF PERFORMANCE UNDER THE FIRST PLAN WHICH WAS IMPLEMENTED DURING 1996-2000

The First Plan (“Plan I”) was drawn up against the backdrop of a Bank that was then newly established and therefore with limited operational experience to guide strategy formation. It was also formulated against the background of a global economy that appeared to be coming out of a slowdown that occurred during 1990-93 (Afreximbank, 2001). The signs of global economic recovery that began to manifest in 1994/95; the expectations of improved economic prospects; as well as the establishment of the WTO, among others, were thought to provide a strong basis for a significant growth in global trade expansion, well above its then long term trend rate of 5.5% per annum. Plan I, however, forecast a significant weakening in the prices of commodities of export interest to Africa, especially as compared to their 1994 levels.

Further, Plan I expected some stability in the international trading environment as a result of the establishment of the WTO. It, however, predicted a slowdown in international financial flows to developing countries as a result of investors’ fears about a possible repeat of the 1994 Mexican Peso crisis, elsewhere; higher international interest rates; and higher demand for capital within the OECD capital exporting countries.

Plan I was also predicated on improved growth prospects for Africa. In this regard, Africa’s GDP was forecast to increase at an annual rate of 3.8% on account of better macroeconomic management and increased levels of African trade, despite weakening commodity prices. In the area of access to trade finance, Plan I forecast modest improvements with no significant changes in the nature of such flows; that is, their high cost, short term nature and other onerous terms, unless deliberate actions were taken to deal with these problems. It also forecast a low availability of local export finance due to the absence of major national export credit arrangements, limited ability to manage external risks amongst African banks, and other factors.

⁶Interested readers should read Afreximbank (1996) and Afreximbank (2001).

On account of the above, Plan I set two broad objectives, namely (a) macro-economic/ sectoral objectives expected to be met in collaboration with other partners; and (b) corporate/ operational objectives.

5.4.1 The Macro/Sectoral Objectives were:

- (i) that the Bank would work with its partners to ensure that:
 - Africa’s share of world trade, especially Africa’s share of world exports, was doubled to 5% by 2000.
 - Africa’s export share of GDP was to be systematically increased to reach 27% by 2000.
 - Africa gained access to trade finance at competitive terms.
 - intra-African trade share of Africa’s total trade was raised on a consistent annual basis through trade creation.
 - privatization of exporting activities would be efficiently promoted, with minimum disruptive consequences.
 - the sovereign risk of African countries would be widely acceptable.
 - an effective trade payments mechanism for the Continent would be developed;
- (ii) that the Bank would develop a framework for cooperating with African central banks to ensure that it mobilized deposit funds from them;
- (iii) that the Bank would ensure that legal issues restraining African trade and trade finance were simplified. In this regard, the Bank was to indigenize the documentation of its transactions;
- (iv) that the Bank would launch an authoritative “Trade Data Base” and publish a journal– “African Trade Journal”; and
- (v) that the Bank would broaden the its shareholder base and begin dividend payments.

5.4.2 Operational Objectives

Table 5.1 presents a Table of Strategic Schemes planned for implementation under Plan I. It was then anticipated that these programmes would enable the Bank achieve its corporate and macroeconomic goals including those listed under “Other Actions” on Table 5.1.

The objectives were pursued and implemented with varying degrees of success during Plan I period. A number of the targets were essentially macroeconomic and could not be achieved solely through Afreximbank’s efforts. Others were corporate targets, reasonably within the control of the Bank. The above characterization of the objectives would help an understanding of the evaluation of the extent to which Plan I targets were met.

With respect to macroeconomic objectives set under Plan I, modest gains were achieved. Table 5.2 shows the evolution of some of the relevant macroeconomic variables over the review period.

Table 5.1 Afreximbank's Programme Of Strategic Schemes

SCHEMES / PROGRAMMES	1996	1997	1998	1999	2000	Outcome
African Trade Expansion and Diversification scheme:						
1. Line of Credit Programme (ALP)	**	**	**	**	**	a
2. Direct Financing Programme (ADP)	**	**	**	*	*	a
3. Syndication Programme (ASP)	**	**	**	**	**	a
4. Special Risk Programme (ARP)						a
- Country Risk Guarantee Facility	*	*	**	**	**	a
- Export Credit Insurance Facility		*	*	**	**	n
- Price and Exchange Rate Guarantee Facility 1)						n
- Joint Bill Discounting / Financing and Refinancing Facility	**	**	**	**	**	a
- Countertrade-linked Guarantee Facility	*	*	**	**	**	n
5. African Trade Payments Programme	*	*	*	*	*	n
6. Infrastructural and Services Financing Programme						
EXPORT DEVELOPMENT SCHEME:						
1. Project-Related Financing Programme	*	*	**	**	**	a
2. Suppliers' and Buyers' Credit Programme	*	*	*	**	**	s
3. Guarantees Related to obtaining large contracts		*	*	*	**	s
4. Merchant Marine Programme	*					s
Other Actions 3)						
- Branch Opening in Harare	*		2)			a
- Dividend payment			*	*	*	a
- African Trade Finance Roundtable	*					a
- Joining Darkar Union of African Export Credit Agencies	*					n
- Cooperation Agreements with ITC & WTO	*					a
- Registration of the Bank in the United Nations	*					a
- Full ratification of the Bank Agreement by all members	**	**	**	*	*	p
- Membership mobilization	**	**	*	*	*	p
- Investment Grade Rating			*			n

a - Achieved

n - Not achieved

s - selectively implemented

p - some progress made

Study to be commissioned in 1996

**indicates higher priority

1) To be determined after conducting a study.

2) Branch office for West Africa.

3) Indicates when action should be taken and results achieved.

Table 5.2 Evolution of Key Macro-economic Targets set under Plans I and II*

Variable	----- Actual Values -----										Average 1995-2000	Plan I Target ^{a)}	Average 2001-2003	Plan II Target ^{b)}
	1995	1996	1997	1998	1999	2000	2001	2002	2003					
Total African Merchandise Trade, US\$m	242,051	262,717	254,791	261,126	265,704	291,547	273,627	301,829	320,692	257,278	549,700	298,716	raise	
Total Intra-African Trade (Merchandise), US\$m	21,837	25,690	28,518	25,914	27,439	25,397	26,095	27,331	30,925	25,880	n.a ^{c)}	28,117	n.a ^{c)}	
Africa's share of world trade, %	2.37	2.46	2.24	2.35	2.26	2.1	1.93	2.32	2.25	2.25	5	2.17	3.5	
Africa's share of world export, %	2.24	2.44	2.27	2.18	2.07	2.13	1.97	2.31	2.19	2.20	5	2.16	3.5	
Africa's export share of GDP, %	22	24	23	22	22	27.29	24.55	27.37	24.12	24.04	27	25.35	27	
Intra-African trade as a % of Africa's total trade, %	9	9.8	11.22	10.47	9.46	8.72	9.54	9.06	9.65	9.66	Raise	9.42	Raise	
Share of Africa's regional output traded within the region (Intra-African Exports/GDP, %)	2.95	3	3.66	3.13	3.1	2.22	2.25	2.43	2.34	2.79	3 - 4	2.34	4	
<i>Notes:</i> ^{a)} Indicates levels targeted by 1999/2000														

Notes: ^{a)} Indicates levels targeted by 1999/2000

^{b)} Indicates levels targeted by 2005/2006

^{c)} Target under Plan I was to increase intra-african trade but by no specified target level.

* The apparent inconsistency of the figures between this Table and Table 4.5 is due to the fact that the trade figures considered in this Table are for merchandise trade only while in Table 4.5 they are for both goods and services trade.

Sources: 1) EIU, *Country Report (various issues)*.

2) Afreximbank, *Annual Report (various issues)*.

3) IMF, *Direction of Trade Statistics (various issues)*.

4) IMF (2004) *World Economic Outlook Database (April)*

5) ADB, *African Development Report (various issues)*.

6) World Bank (2000) *World Development Indicators*.

Table 5.3 Afreximbank: Leveraging Activity through Syndications, 1996-2003

	Plan I (1995-2000)					Plan II (2001-2003)				
	1996	1997	1998	1999	2000	2001	2002	2003	US \$ (000)	US \$ (000)
Total Syndicated Amount*	197.40	161.00	502.00	1,844.60	1,967.00	1,364.00	582.00	180.00	4,672.00	2,126.00
Afreximbank's Participation*	44.70	45.00	119.00	211.90	181.00	126.83	96.75	90.00	601.60	313.58
Leveraging Ratio**	4.42	3.58	4.22	8.71	10.87	10.75	6.02	2.00	7.77	6.78

* in USD million

** Shows amount attracted per USD participation by the Bank.

Source: Afreximbank

Table 5.4 Afreximbank: Borrowing Activity

	Plan I (1995-2000)										Plan II (2001-2003)	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	US \$ (000)	US \$ (000)	US \$ (000)
Borrowings and outstanding debt	-	-	14,000	54,500	108,200	137,300	171,817	180,790	266,663	314,000.00	619,270.00	
Borrowing costs	-	-	-	2,198	2,998	7,877	7,321	4,627	3,186	13,073.00	15,134.00	

In 1997, the Bank started borrowing to support its activities by drawing on US \$14 million from bilateral treasury lines. Over the years, the borrowing activities in various forms from international capital markets has increased in order to meet the Bank's growth and leveraging objectives.

Source: Afreximbank

On the positive side, although there were swings in the level of intra African trade over the Plan I period, total intra-African trade rose by about 16% from about US\$22 billion to US\$25.4 billion between 1995 and 2000.

Nevertheless, although total African trade was in nominal terms about 20% higher in 2000 than its level in 1995, Africa's share of global merchandise trade remained at a paltry 2.1%, a slight decline from the 2.37% level in 1995 and below the target of 5% set in Plan I. Further, export to GDP ratio targeted to reach 27% was also not achieved while Africa continued to be heavily commodity dependent. These disappointing outcomes reflected the difficulty of removing the restraints to trade expansion in Africa which were identified in the Plan I document. Falling commodity prices; wars and political disturbances; lack of appropriate investment financing; low level of entrepreneurship; and market destabilization arising from reforms, all combined to thwart the best efforts of the Bank directed at achieving the trade performance objectives set out in Plan I.

On a positive note, there were clear indications that the Bank made considerable progress in leveraging international finance flows, at better terms, into the Continent. In this regard, using its country risk guarantee facility, introduced in 1996, it attracted an aggregate amount of approximately US\$130 million in international financing into African countries during the period. These financings supported medium term projects and essential imports of so-called difficult countries. Using its syndications programme, it leveraged consistently higher amounts on an annual basis over the period (Table 5.3). In 2000, for example, it leveraged about US\$11 from each dollar of its investment in syndicated transactions. The amount leveraged amounted to US\$1.8 billion. As can be seen on Table 5.3, between 1996 and 2000, the Bank leveraged an amount of US\$7.77 for every US dollar of its total investments in African syndicated deals.

Through its international borrowing activities, the Bank also attracted a total amount of US\$374 million in new trade finance funds into Africa during Plan I period (Table 5.4). Through the Bank's leveraging activities and instruments, international banks also began to take a more favourable attitude towards African risk even though a lot of these still relied largely on Afreximbank in making their initial entries into the continent.

5.4.3. Corporate Goals

With respect to *corporate goals*, significant progress was made. First, the Bank successfully launched most of the programmes it targeted to launch during the period. In this regard, the Line of Credit; Direct Financing; Project-Related Financing; Syndications; Special Risk; and Infrastructural and Services Financing Programmes were successfully launched and implemented. Under the Special Risk Programme, the highly successful Country Risk Guarantee Facility was implemented. In addition, the Forfaiting Facility and Investment Banking Programmes were launched.

As envisaged in the Plan I period, these Programmes and Facilities addressed specific problems they were targeted at. The performance of the Bank in implementing these programmes are detailed below and summarized in Tables 5.5 and 5.6.

Afreximbank Line of Credit Programme (LOCP)

This programme was designed under Plan I to enable the Bank assist small and medium-sized exporters whose size and export volumes would not qualify them for the Bank's direct lending. Through this programme, the Bank provided funded and unfunded credit lines to credit-worthy banks designated as Trade Finance Intermediaries (TFIs) for on lending to sub-borrowers. As can be seen from Table 5.5 this programme accounted for the largest share (45%) of all approvals during the plan period, reflecting the Bank's strategy of using banks as vehicles for risk mitigation and reaching medium-sized exporters. During the Plan I period, the programme accounted for 29.6% of loans outstanding. (Table 5.6).

Afreximbank Direct Financing Programme (ADP)

Under this programme, the Bank provided pre- and post-export financing at competitive terms directly to corporates with balance sheet size of at least US\$2 million and an annual export turnover of at least US\$10 million. In 1997, total approvals rose by 126%. Approvals declined in 1998 by 61.13% but grew in 1999 to 56.86% (Table 5.5). In 1998, the Bank de-emphasized the ADP because of the uncertainties surrounding the African commodity sector and the increased risks arising therefrom as discussed extensively in Chapter Four. An amount of US\$6.7 million was outstanding under this programme by the end of 2000.

Project-Related Financing Programme

The Bank designed this programme in order to develop Africa's export manufacturing capacity by supporting the import of equipment needed for export manufacturing and for implementing essential projects. The programme was, however, de-emphasized due to the difficult African and global economic environments during the second half of Plan I implementation period. Table 5.5 shows that total approvals under this programme amounted to US\$29 million by the end of 2000 with about US\$14 million outstanding as at the end of December 2000 (Table 5.6).

Syndications Programme (ASP)

This is a risk sharing programme that the Bank uses to leverage trade and project finance into the continent. In collaboration with other international banks, the Bank was able to attract substantial international funding to Africa using this programme. Table 5.3 shows that during the period under review, the Bank arranged or co-arranged transactions amounting to US \$4,672 million out of which it funded US\$601.6 million or 14.06%. Thus, for every one US Dollar funding provided by the Bank during the period, it was able to attract US\$7.8 from the international financial market.

Table 5.5 Afreximbank: Distribution of Loan Approvals by Type of Programme, 1995-2003

Type of Programme	Approvals (US\$ m)								Average Annual Growth Rate (%)			Average Share of Approvals by Type of Programme (%)	
	1995*	1996	1997	1998	1999	2000	2001	2002	2003	Plan I**	Plan II***	Plan I**	Plan II***
1. Line of Credit Programme	9,000	128,000	211,500	301,000	476,000	694,000	578,000	823,000	917,000	86.90	15.38	45.03	69.02
2. Direct Financing Programme ^{a)}	23,200	29,000	65,600	25,500	40,000	0,000	320,000	145,000	120,000		-32.69	7.69	17.59
3. Project-Related Financing Programme	0,000	19,000	0,000	0,000	0,000	10,000	0,000	0,000	0,000			1.15	0.00
4. Syndications Programme ^{b)}	92,700	107,450	195,910	184,615	211,900	181,000	169,830	140,750	90,000	13.38	-21.17	34.75	12.01
5. Special Risk Programme:	16,000	35,724	48,600	19,100	10,000	131,750	27,000	7,000	7,000	42.17	-45.00	8.02	1.24
a- Country Risk ^{c)}	16,000	35,724	41,600	19,100	10,000	20,000	17,000	7,000	7,000	4.46	-29.58	5.99	0.93
b- Other Risks ^{c)}	0,000	0,000	7,000	0,000	0,000	111,750	10,000	0,000	0,000			2.03	0.30
6. Forfeiting	0,000	0,000	7,200	25,729	20,677	12,240	0,000	0,000	0,000			1.65	0.00
7. Export Development Finance Programme	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	5,000			0.00	0.15
Memorandum Items													
Country Programme ^{d)}	0,000	0,000	0,000	0,000	0,000	0,000	0,000	50,000	105,000			0.00	0.00
Investment Banking Programme ^{e)}	0,000	0,000	0,000	0,000	0,000	225,000	730,000	410,000	165,000		-49.57	3.64	39.30
Total	156,900	319,174	528,810	555,944	758,577	1,028,990	1,094,830	1,115,750	1,139,000	37.61	1.32	100	100
Cumulative Total ^{f)}	156,900	476,074	1,004,884	1,544,828	2,303,405	3,332,395	4,427,225	5,542,994	6,681,994	61.12	13.72		

a) Mostly conducted as Note Issuances guaranteed by banks

b) Includes co-financing and sub-participation

c) Contingent liabilities

d) Mostly for food and oil imports in countries facing temporary economic difficulties

e) Advisory mandate won

f) Since the Bank began operation in September 1994

* includes 4th Quarter of 1994 approvals

** as at the end of 2000

*** as at the end of 2003

Note: Gaps represent infinity.

average annual growth rate = $[(1/n)^{\frac{1}{n}}(Y_n/Y_0)]^{*100}$

Source: Afreximbank

Table 5.6 Afreximbank: Distribution of Loans Outstanding by Type of Programme, 1995-2003

Type of Programme	Outstandings (US\$m)										Average Annual Growth Rate (%)		Average Share of Outstandings by Type of Programme (%)	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	Plan I*	Plan II**		Plan I*	Plan II**
1. Line of Credit Programme	2.190	14.480	50.550	50.250	103.986	173.328	233.745	271.548	309.818	87.43	9.39		29.56	65.31
2. Direct Financing Programme ^{a)}	0.000	10.000	0.000	0.000	9.000	6.667	50.374	73.43	118.563		28.53		3.17	18.84
3. Project-Related Financing Programme	0.000	0.000	5.500	18.350	17.104	13.851	7.500	4.500	1.500		-53.65		3.85	1.18
4. Syndications Programme ^{b)}	25.28	47.27	77.35	103.8	144.385	111.875	42.667	55.442	41.182	29.75	-1.18		57.96	11.33
5. Special Risk Programme:	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000				0.00	0.00
a- Country Risk ^{c)}	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000				0.00	0.00
b- Other Risks ^{c)}	0.000	0.000	0.000	0.000	0.000	0.000	15.062	0.000	0.000				0.00	1.44
6. Forfeiting	0.000	0.000	6.620	28.200	22.341	21.022	0.000	14.134	11.455				5.46	1.92
7. Export Development Finance Programme								0.000	0.000				0.00	0.00
Total	27.470	71.750	140.020	200.600	296.816	326.743	349.348	419.054	482.518	49.52	10.76		100.00	100.00

a) Mostly conducted as Note Issuances guaranteed by banks
b) Includes co-financing and sub-participation
c) Contingent liabilities
d) Mostly for food and oil imports in countries facing temporary economic difficulties
e) Advisory mandate won

* 1996 - 2000
** 2001 - 2003

Note: Gaps represent infinity.
average annual growth rate = $[(1/n)^{*}\ln(Y_n/Y_0)]*100$

Source: Afreximbank

Special Risk Programme

The Special Risk Programme is a programme designed by the Bank to provide comfort to international banks extending facilities to African sovereigns, banks and corporates by transferring some of the risks to Afreximbank credit risk. The programme was conceptualized to include the following facilities:

- i) Country Risk Guarantee Facility;
- ii) Export Credit Insurance Facility;
- iii) Price and Exchange Rate Guarantee Facility;
- iv) Joint Bill Discounting/ Financing and Refinancing Facility; and
- v) Countertrade-linked Guarantee Facility.

During the period under review, emphasis was placed on the Country Risk Guarantee Facility through which the Bank supported some international banks' lending operations in Africa. The Facility, which was essentially unfunded, enabled international banks to confirm Letters of Credit for their African clients without requesting for cash collateral, as would be required in the absence of the Bank's guarantee facility. The Facility was also used to foster intra- African trade. The Bank also offered other guarantees that enabled European suppliers to sell goods to African entities on deferred payment terms. The Bank's cumulative commitment under this Programme during the First Plan period amounted to US\$261.2 million. (Table 5.5).

Forfaiting

The Bank introduced a Forfaiting Facility in 1997 as one of the dual recourse instruments that it deployed to enable it manage the risks arising from operating in a difficult economic environment. In this regard, the Facility offered the Bank an opportunity of having recourse not only on the project being financed, and its promoters, but also to banks acceptable to Afreximbank. Banks that provided guarantees, under the Facility, had better local knowledge of the projects they supported than Afreximbank. Under the Forfaiting Facility, the Bank was able to support the import of equipment for export generating businesses and essential projects. It was also used to support the import of other essential goods into Africa. Total approvals during the period amounted to US\$65.8 million with an amount of US\$21 million outstanding at the end of the Plan I period in 2000.

Deal Size, Beneficiaries, Sectoral Distribution, etc.

In line with a periodic review feature provided in Plan 1, market circumstances prompted the Bank to commence providing Investment Banking Services in 1999 even though it was not explicitly provided for under Plan I. It executed its first deal in February 2000 in an amount of US\$100 million and by the end of December 2000 had built up a reasonable number of prospects.

The **number of transactions** approved by the Bank increased from 21 in 1995 to 72 by 2000. Similarly, the average size of transactions grew from US \$6.5 million in 1994 to US \$14.3 million recorded in 2000.

With respect to **sectoral distribution** of the Bank's loan approvals, Table 5.7a reveals that the bulk of the Bank's loan approvals went to financial institutions followed by agriculture, energy, and metals and minerals sectors. Towards the end of the 1990s, loan approvals to the agricultural sector dropped drastically largely due to the dismantling of agricultural marketing boards (following the pursuit of the IMF/World Bank-sponsored economic reforms). The new corporates that replaced the marketing boards were either too small and/or lacked sufficient track record to attract international trade finance flows into the agricultural/export sector. As for the energy sector, the majority of the Bank's loan approvals went to support activities in the oil sub-sector.

Table 5.8a also shows that banks were the major recipients of the Bank's loan approvals, accounting for about 53% of total approvals during Plan I followed by Corporates/Parastatals largely on account of the fact that commercial banks acted as trade finance intermediaries (TFIs) on behalf of the Bank. In terms of loans outstanding, Corporates/Parastatals accounted for a lion's share of approximately 58% of the Bank's total loan portfolio during Plan I followed by Banks (39.1%) and Governments (3.3%) (Table 5.8b).

With regard to **Direction of Trade financed** by the Bank, the bulk of the Bank's loan approvals were directed at financing intra- and extra-African trade. Table 5.9a shows that the amount of loan approvals made in favour of intra- and extra-African trade grew at an average annual rate of 60% from US \$43.2 million in 1995 to US \$875 million by 2000 with a large part of these loans disbursed through the Bank's TFIs. During Plan I period, intra- and extra-African trade accounted for a large share of about 70% of total loans outstanding (Table 5.9b).

From the foregoing, it can be seen that the operations of the Bank robustly tackled the mandate of the Bank with emphasis on the focus chosen under Plan I. Cumulative approvals grew at an annual rate of 63% to reach US\$3.3 billion between 1995 and 2000. Evidence of increased loan processing capacity gradually gained during the period is reflected in the increase in approvals granted annually from US\$141 million in 1995 to US\$1 billion in 2000. The operations of the Bank also exhibited considerable adaptability with respect to changes in the operating environment, as slant and emphasis changed over the Plan I period in response to threats or opportunities that arose.

Other targets that were achieved included:

- (i) opening a branch office at Harare, Zimbabwe;
- (ii) beginning the payment of dividends. In this regard, the first dividend payment was as planned made in 1998 based on 1997 results;

Table 5.7a Afreximbank: Distribution of Loan Approvals by Sector, 1995-2003

Sector Financed	Approvals (US\$m)						Average Annual Growth Rate (%)		Average Share of Approvals by Sector (%)				
	1995*	1996	1997	1998	1999	2000	2001	2002	2003	Plan I**	Plan II***	Plan I**	Plan II***
Agriculture	71.900	97.250	136.160	106.665	107.300	29.000	34.830	30.750	25.000	-18.16	-11.05	23.90	2.71
Energy	24.000	53.920	119.000	112.000	197.000	212.500	172.000	205.000	60.000	43.62	-35.10	20.53	13.12
Services	0.000	0.000	10.000	0.000	10.000	0.000	120.000	145.000	100.000		-6.08	0.53	10.91
Metals and Minerals	17.000	41.000	29.250	73.750	20.000	18.750	0.000	25.000	0.000	1.96		8.03	0.75
Transportation	0.00	0.000	0.000	19.514	20.077	34.240	0.000	0.000	0.000			1.58	0.00
Manufacturing	7.00	7.500	6.000	0.000	1.600	0.000	53.000	0.000	0.000			1.44	1.61
Telecommunications	0.00	0.000	0.000	14.090	0.000	100.000	80.000	25.000	75.000		-2.15	2.04	5.38
Government	5.00	8.000	0.000	19.100	10.000	31.750	17.000	7.000	7.000	36.97	-29.58	2.32	0.93
Financial Institutions ^{a)}	16.00	111.504	228.400	210.825	392.600	602.750	618.000	678.000	872.000	72.58	11.48	39.62	64.59
Total	140.900	319.174	528.810	555.944	758.577	1028.990	1,094.830	1,115.750	1,139.000	39.77	1.32	100.00	100.00
Cumulative Total ^{b)}	140.900	460.074	988.884	1,544.828	2,303.405	3332.395	4,427.225	5,542.975	6,681.975	63.27	13.72		

* includes 4th Quarter of 1994 approvals

** 1996 - 2000

*** 2001 - 2003

a) Approvals for financial institutions include unfunded credit guarantees but excludes commodity specific lending made through banks. Outstandings for financial institutions exclude commodity specific lending made through banks.

b) Since the Bank began operations in September 1994
average annual growth rate = $[(1/n)^{\frac{1}{n}}(Y_n/Y_0)] \times 100$

Source: Afreximbank

Table 5.7b Afreximbank: Distribution of Loans Outstanding by Sector, 1995-2003

Sector Financed	Outstanding (US\$m)														Average Annual Growth Rate (%)		Average Share of Credit by Sector (%)	
	1995*	1996	1997	1998	1999	2000	2001	2002	2003	Plan I*	Plan II**	Plan I*	Plan I*	Plan II**				
Agriculture	7.170	14.8	36.74	36.623	61.885	39.723	22.127	33.914	57.099	34.240	31.600	26.197	41.751					
Energy	8.900	16.99	45.63	63.796	132.549	159.359	152.832	111.185	49.306	57.702	-37.710	74.585	72.731					
Services	0.000	0.00	0.00	2.625	12.022	16.417	9.639	42.500	58.000		59.821	4.780	50.250					
Metals and Minerals	9.210	20.00	15.56	42.026	19.513	24.786	16.956	39.261	21.116	19.800	7.314	21.423	26.726					
Transportation	0.000	0.000	0.000	20.559	35.469	24.227	26.942	22.361	16.670		-16.003	11.955	19.516					
Manufacturing	0.000	5.080	9.210	2.320	1.288	15.013	0.700	0.000	0.000			5.387	0.000					
Telecommunications	0.000	0.000	0.000	8.480	0.000	2.082	49.856	12.779	37.421		-9.564	10.070	25.100					
Financial Institutions ^{a)}	2.190	14.880	32.880	24.171	34.090	45.136	70.296	157.054	242.906	60.516	41.332	31.592	153.492					
Total	27.470	71.750	140.020	200.600	296.816	326.743	349.348	419.054	482.518	49.522	10.765	185.989	317.031					

a) Excludes commodity specific lending made through banks.

* 1996 - 2000

** 2001 - 2003

average annual growth rate = $[(1/n) \cdot \ln(Y_n/Y_o)] \cdot 100$

Source: Afreximbank

Table 5.8a Afreximbank: Distribution of Loan Approvals by Type of Beneficiary Institution

Type of Beneficiary Institution	Approvals (US\$ m)									Average Annual Growth (%)				Share of Approvals by Type of Institution (%)	
	1995*	1996	1997	1998	1999	2000	2001	2002	2003	Plan I**	Plan II***	Plan I**	Plan II***		
Corporates/Parastatal	109.404	150.920	286.810	203.079	158.900	365.250	459.830	285.750	210.000	24.11	-26.12	46.02	28.68		
Bank	26.500	168.250	239.000	339.175	594.600	654.500	618.000	823.000	922.000	64.13	13.34	52.97	70.39		
Government	5.000	0.000	3.000	13.69	5.077	9.240	17.000	7.000	7.000	12.28	-29.58	1.01	0.93		
Total	140.904	319.170	528.810	555.944	758.577	1,028.990	1,094.830	1,115.750	1,139.000	39.765	1.318	100.00	100.00		
Cumulative Total ^{a)}	140.904	460.074	988.884	1,544.83	2,303.405	3,332.414	4,427.244	5,542.994	6,681.994	63.267	13.721				

* includes 4th Quarter of 1994 approvals

** 1996 - 2000

*** 2001 - of 2003

a) Since the Bank began operations in September 1994

average annual growth rate = $[(1/n)^*\ln(Y_n/Y_0)]*100$

Source: Afreximbank

Table 5.8b Afreximbank: Distribution of Loans Outstanding by Type of Beneficiary Institution

Type of Beneficiary Institution	Outstanding (US\$ m)									Average Annual Growth (%)				Share of Outstandings by Type of Institution (%)	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	Plan I	Plan II*	Plan I	Plan II*		
Corporates/Parastatal	25.280	53.120	79.870	83.590	118.089	77.324	80.380	148.824	160.588	22.36	23.07	57.58	30.60		
Bank	2.190	18.630	59.150	98.570	170.703	239.900	261.786	262.936	315.235	93.93	6.19	39.12	67.67		
Government	0.000	0.000	1.000	18.440	8.024	9.519	7.182	7.294	6.695		-2.34	3.30	1.73		
Total	27.470	71.750	140.020	200.600	296.816	326.743	349.348	419.054	482.518	49.522	10.765	100.00	100.00		

Note Gaps represent infinity

* 1996 - 2000

** 2001 - 2003

average annual growth rate = $[(1/n)^*\ln(Y_n/Y_0)]*100$

Source: Afreximbank

Table 5.9a Afreximbank: Distribution of Loan Approvals by Trade Direction, 1995 -2003

Trade Direction	Approvals (US\$m)										Average Annual Growth Rate (%)			Average Share of Approvals by Trade Direction (%)		
	1995*	1996	1997	1998	1999	2000	2001	2002	2003	Plan I**	Plan II***	Plan I**	Plan II***	Plan I**	Plan II***	
Intra-African	30.00	15.920	31.600	6.500	15.000	21.750	120.000	130.000	100.000	-6.432	-6.077	3.24	10.46			
Extra-African	67.704	81.000	219.210	127.479	80.900	132.280	216.830	91.750	210.000	13.396	-1.067	22.66	15.49			
Intra- and Extra- African	43.200	222.250	278.000	421.965	662.677	874.960	758.000	894.000	829.000	60.167	2.985	52.23	74.05			
Total	140.904	319.170	528.810	555.944	758.577	1,028.990	1,094.830	1,115.750	1,139.00	39.77	1.32	100.00	100.00			
Cumulative Total ^{a)}	140.904	460.074	988.884	1544.828	2,303.405	3,332.414	4,427.244	5,542.994	6,681.99	63.27	13.72					

* includes 4th Quarter of 1994 approvals

** 1996 - 2000

*** 2001 - 2003

a) since the Bank began operations in September 1994.

average annual growth rate = $[(1/n)^{\ast} \ln(Y_n/Y_0)] \ast 100$

Source: Afreximbank

Table 5.9b Afreximbank: Distribution of Loans Outstanding by Trade Direction, 1995 - 2003

Trade Direction	Outstanding (US\$ m)							Average Annual Growth Rate (%)				Average Share of Outstanding by Trade Direction (%)	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	Plan I*	Plan II**	Plan I*	Plan II**
Intra-African	0.000	37.920	3.690	0.000	0.000	1.334	0.000	70.000	45.000			11.18	8.68
Extra-African	3.200	3.200	17.060	69.010	48.704	85.916	78.919	78.919	143.554	65.804	19.943	18.75	23.73
Intra- and Extra- African	24.270	30.630	119.300	131.590	248.112	239.493	270.135	270.135	293.964	45.786	2.818	70.07	67.59
Total	27.470	71.750	140.050	200.600	296.816	326.743	349.054	419.054	482.518	49.522	10.793	100.00	100.00

* 1996 - 2000

** 2001 - 2003

average annual growth rate = $[(1/n) \cdot \ln(Y_n/Y_0)] \cdot 100$

Source: Afreximbank

- (iii) broadening the Bank's shareholder base (during the Plan I period, the number of shareholders rose from 101 in 1995 to 108 as at the end of December 2000), bringing the number of shares subscribed to 36,739 with nominal value of US\$146.1 million as compared to 364.26 shares with nominal value of US\$137 million as at December 1995;
- (iv) raising funding in the international market for on-lending to African borrowers. During Plan I period, the Bank raised an amount of US\$314 from the international financial markets through a variety of instruments;
- (v) registration of the Bank Agreement at the United Nations under Article 12 of the UN Charter (achieved in 1997). The registration confirmed the supranational/multilateral status of the Bank; and
- (vi) the Bank also successfully initiated the establishment of an African Bankers' Forum.

5.4.4 *Financial Performance*

The Bank achieved an increase in its loan assets, increased profitability levels and a decline in cost/income ratios during the Plan I period. On the basis of capital adequacy, asset quality, earnings performance and liquidity, the overall financial condition and performance of the Bank was quite satisfactory. Tables 5.10 to 5.12 show key financial highlights of the Bank covering the period 1994-2003.

In general, the Bank saw considerable growth in all measures of financial performance. As evident in Table 5.10, loans and advances (after provisions) grew by 1,051% from US\$27.5 million at the end of the Bank's first financial year in 1995 to US\$316.21 million in December 2000. Other headline figures, such as total revenues, net income and reserves also showed remarkable growth rates characteristic of an institution in a growth phase.

With respect to capital adequacy, the Bank's capital adequacy ratio continued to be above the internationally acceptable threshold of 8% set by the Bank for International Settlements (BIS). Although the Bank is not bound by any minimum regulatory capital requirements, the Bank's Board set a minimum Tier I capital ratio of 12% for the Bank during Plan I period. During the period, the Bank's capital adequacy ratio was consistently above the 40% mark (Table 5.11). Further, Table 5.11 shows that the ratio of equity to total assets during Plan I period declined steadily from as high as 99.4% in 1995 to 55.5% in 2000, which is a measure of the Bank's progression in leveraging Shareholders' equity in order to improve return on equity as well as play an important leveraging role it was mandated to perform. The rapid progression seen reflected the speed at which the Bank gained the confidence of the market.

The quality of the Bank's assets remained good during Plan I period. It is noteworthy that the Bank did not record any non-performing loans in the first three years of its operations. The ratio of non-performing loans to gross loans, therefore, averaged 2.4% during Plan I period (Table 5.11).

Table 5.10 Afreximbank: Financial Highlights

	Average Annual Growth Rate											
	Average											
	Plan I						Plan II					
1995	1996	1997	1998	1999	2000	2001	2002	2003	(1995-2000)	(2001-2003)	1995 - 2003	
US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	US \$ (000)	%	
Loans (net)	27,470	71,391	139,323	194,860	290,761	316,205	335,223	401,135	462,232	173,335	399,530	31.37
Total Assets	143,862	160,952	185,677	239,317	310,978	346,455	410,632	456,296	523,848	231,207	463,592	14.36
Debt	844	4,713	22,559	68,793	132,655	154,115	207,603	240,910	294,065	63,947	247,526	65.04
Equity	143,018	156,239	163,118	170,524	178,323	192,340	203,029	215,386	229,783	167,260	216,066	5.27
Total Revenues	12118	9653	12638	15201	18141	23120	23637	24269	25228	15,145	24,378	8.15
Operating Expenses	-4990	-3316	-4380	-4303	-4781	-5031	-4998	-5231	-5406	-4,467	-5,212	0.89
Net Income	5,994	6,121	7,917	9,333	10,059	13,647	14,155	16,045	18,476	8,845	16,225	12.51
- net interest income	11,730	8,568	10,302	12,965	13,605	16,978	14,496	10,324	10,559	12,358	11,793	-1.17
- net fee and commission income	365	1,067	2,093	1,992	4,364	5,969	8,800	13,815	14,580	2,642	12,398	40.97

average annual growth rate = $[(1/n)^{\ln(Y_n/X_0)}] \times 100$
Source: Afreximbank

Table 5.11 Afreximbank: Key Financial Ratios

	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average	
										Plan I (1995-2000)	Plan II (2001-2003)
<u>Profitability</u>											
Return on Average Assets	4.17	4.02	4.57	4.39	3.66	4.15	3.74	3.70	3.77	4.16	3.74
Return on Average Equity	4.19	4.09	4.96	5.59	5.77	7.36	7.16	7.67	8.30	5.33	7.71
<u>Capital Adequacy and Leverage</u>											
Equity/Total Assets, %	99.41	97.07	87.85	71.25	57.34	55.52	49.44	47.20	43.86	78.07	46.84
Equity/Net Loans, %	504.94	218.85	117.08	87.51	61.33	60.83	60.57	53.69	49.71	175.09	54.66
Equity/Liabilities, %	16,945.26	3,315.06	723.07	247.88	134.43	124.80	97.80	89.41	78.14	3,581.75	88.45
Capital Adequacy Ratio, %								49.05	45.08		47.07
<u>Asset Quality</u>											
Loan loss reserves/Gross loans, %	0.50	0.50	0.50	1.10	1.44	2.85	3.61	3.71	3.65	1.15	3.66
Loan loss provisions/Net interest revenues, %	1.21	2.52	3.31	11.28	15.27	30.86	23.79	22.62	12.70	10.74	19.70
Loan loss reserves/Non-performing loans, %	n/a	n/a	n/a	92.51	52.70	83.07	60.24	53.29	69.49	76.09	61.00
Non-performing loans/Gross loans, %	n/a	n/a	n/a	1.19	2.73	3.43	6.00	6.96	5.26	2.45	6.07
<u>Efficiency</u>											
Cost to income ratio, %	41.18	34.35	34.66	28.31	26.35	21.76	21.14	21.55	21.43	31.10	21.38
Operating expenditures/Average total assets, %	3.47	2.18	2.53	2.02	1.74	1.53	1.32	1.21	1.10	2.24	1.21
Operating profit per employee (US \$000)	356.40	275.52	294.93	351.55	318.10	452.23	454.61	464.34	483.46	341.45	467.47
Operating expenditures per employee (US \$ 000)	249.50	144.17	156.43	138.81	113.83	125.78	121.90	127.59	131.85	154.75	127.11
<u>Liquidity</u>											
Liquid Assets/Total Assets, %	79.07	54.60	23.99	16.72	5.29	7.39	17.20	10.56	9.98	31.18	12.58
Net Loans/Total Assets, %	19.69	44.36	75.04	81.42	93.50	91.27	81.64	87.91	88.24	67.54	85.93
Current Assets/Current Liabilities, %	16,937.32	3,399.60	718.28	282.32	162.81	205.58	180.92	188.01	174.50	3,617.65	181.14

Source: Afreximbank

The Bank's cost management and earnings attainments were also satisfactory with the cost to income ratio declining from 41.2% in 1995 to 21.8% in 2000, reflecting increased efficiency in the administration of the Bank (Table 5.11). In absolute terms, the Bank's net income rose steadily during Plan I period from a level of US\$5.99 million in 1995 to US\$13.65 million by 2000 (Figure 5.10). In terms of profitability, the Bank maintained improved performance as reflected in the consistent increase in return on average equity (ROAE) during the period from a level of 4.19% in 1995 to 7.36% in 2000 (Table 5.11), close to 8.5% projected in the Feasibility Study for establishing the Bank. Return on Average Assets was at an average of 4.16% more than double the forecast 2.06% in the Feasibility Study.

The Bank's liquidity position during Plan I period, was such that current ratio (i.e. ratio of current assets to current liabilities) remained consistently above the threshold of 50% (Table 5.11). The ratio of liquid assets (cash or near cash) to total assets declined during the referenced period from a level of 79.1% in 1995 to 7.4% in 2000, underscoring the deployment of the Bank's cash resources to loans and advances which represent the core of the Bank's mandate.

It is to be noted that the increases seen in the Bank's loan portfolio and other key financial figures during Plan I period were not only a reflection of the high demand for trade finance, but also an indication of the profitability of trade finance ventures on the continent. During Plan I period, the Bank also managed to consolidate its operations through the implementation of non-credit activities and other strategic initiatives. These are discussed in more detail in Chapter Six.

5.4.5 Missed Targets

Despite the above successes, a number of corporate targets were, however, not met. In this regard, despite all the efforts made with a view to ensuring that legal impediments to increased trade finance flows into Africa, especially the high documentary taxes prevalent in some African countries, were removed, very little was achieved due to complex policy bottlenecks in the countries concerned. Nevertheless, during Plan I period, through meetings and seminars organized by the Bank and direct contacts with various authorities, the Bank increased awareness of the problem. Further, although an intra-African inter-bank payments mechanism was not launched, its groundwork was concluded by the gradual emergence of an African Bankers' Forum which the Bank promoted. Due to a need to prepare a full implication of seeking an early rating, the Bank was not rated as envisaged under Plan I document.

Also, difficulties in concluding legal documentation made it impossible to open a branch office of the Bank each in north and west Africa, even though necessary corporate approvals for opening the branches were received in 1998. The Bank could also not join the Berne and Dakar Unions as envisaged as it was yet to launch its credit insurance programme.

The “Afrinet” database and African Trade Journal were also not published. However, the Bank published a comprehensive document titled “Africa in Figures” which contained important and detailed macroeconomic data on the Continent.

Despite the considerable effort devoted to ensuring ratification of the Bank Agreement by all member countries, only 16 ratifications were in place by 2000 largely as a result of legislative bottlenecks in a number of countries. Three multilateral institutions, however, ratified the Agreement bringing to 19 the total number of ratifications in place by 2000.

Implementation of Plan I was not problem-free. Some of the problems encountered included:

- volatility introduced to the operations of the Bank by the high commodity dependence of the African economy. In this regard, the Asian crises of 1997, which caused a sharp decline in commodity prices, impacted negatively on the Bank’s operations by slowing credit growth;
- commodity policy changes in some obligor countries increased the risk of doing business in those countries;
- counter productive trade and tax policies compounded by a weak and unstable legal and regulatory regimes;
- low appetite for African risks due largely to the high political and economic risk perception of the African continent by international investors. This made it difficult to leverage external finance into Africa as the Bank had only limited country limits for each country thereby constraining the extent to which it could assist those countries through borrowing and on-lending;
- under-developed private sector that lacked entrepreneurial fervour; lack of political will and appropriate support policies and mechanisms for promoting intra African trade.
- underdeveloped banking sector in a large number of African countries. As a result, it was difficult to find sound domestic banks in many African countries through whom financing could be channeled to support activities of domestic exporters, especially under the Bank’s Line of Credit Programme;
- There was also a lack of appropriate financing vehicles, such as venture capital funds with which the Bank could work in supporting start-up companies. This was a major constraint to expanding the Bank’s project financing activities, especially given the nascent nature of the Continent’s private sector, during the period.

It is against the above background that the Bank launched its second Strategic Plan in 2001. Presented below is a review of the Bank’s performances under that Plan.

5.5 REVIEW OF THE BANK'S PERFORMANCE UNDER THE SECOND STRATEGIC PLAN (PLAN II), 2001-2005

5.5.1. The Guiding Principles of Plan II

To a great extent, the second Strategic Plan (covering the period 2001-2005) is a continuation and consolidation of the gains achieved during the span of the first Strategic Plan, especially in so far as macro/sectoral and corporate goals are concerned. The Bank carried forward the same objectives, particularly those that were not met during the first Strategic Plan and added new objectives arising from its evaluation of the slant the Bank's priorities should take based on lessons of experience.

Having operated for about six years and implemented its First Strategic Plan, the Bank had, by 2000 built a memory that could guide its future plan of action. In particular, it was then in a better position to understand its strengths and weaknesses and to position itself in such a manner that it took maximum advantage of its strengths while minimizing the negative consequences of its weaknesses.

Further, the Second Plan was shaped by the need to conform with the desires of the Bank's Founding Fathers, as captured in the Bank's mandate which required that the Bank pursued its trade developmental objectives using commercial approaches. It therefore sought to walk the fine line of creating financial value to shareholders and social value for the African Continent.

Plan II also recognized the new risks emerging in the continent at the time of its formulation, especially arising from economic reforms, in particular the liberalization of the commodity sector. Plan II therefore, sought to make the transition as seamless as possible by helping to mitigate the risks and ensuring continued flow of international financing to the sector.

Plan II also recognized the gradually changing nature of market participants, that is the gradual entry of some multilateral institutions in its core business area, and therefore sought to use its experience to create synergies with those institutions.

In determining its targets, Plan II also considered the changes that had occurred in the international and African economies since the Bank's inception, especially issues arising from the world trading environment, the emerging economic opportunities, and the structural and political reforms being undertaken by its governmental shareholders. It also recognized the rapid advances in information technology and its implications on African trade and development and anticipated new issues that might arise from the next round of global trade negotiations under the WTO. In this regard, it set targets that were consistent with the aspirations of its member governments, as well as the multilateral institutions to which these governments belonged.

Plan II, as in the First Plan, factored in the fact that the Bank was founded on a complex partnership that, if well utilized, would be a source of strength. Plan II also recognized the principle of shared vision, and in this regard, its objectives were tailored to be in conformity with the development aspirations of other continents, especially developing countries.

Plan II recognized that resource constraints would make it impossible to pursue all Plan objectives/ targets simultaneously. Thus, as in the First Plan, Plan II recognized the danger of addressing all pressing issues in one fell swoop. Plan II therefore, provided that the Bank would change the relative emphasis of programmes from one period to the next, in response to changes in the relative importance of the problems over time.

The Bank's limited resources were considered in setting Plan II targets. In this regard, the ability of the Bank to adapt swiftly to changing circumstances and respond to certain signals was considered crucial in determining how efficiently it would be able to address its mandate under conditions of resource constraints and economic uncertainty. In this regard, the Bank's Annual Budgets remained important instruments for implementing the Bank's Plan II. The above parameters played an important role in shaping Plan II targets described below.

5.5.2 Macro/ Sectoral Goals

Considering that as at the time of preparing this document, Plan II had still about two years to go, the analyses provided here covers only three out of the five years over which Plan II was scheduled to be implemented. The period covered is 2001 to 2003.

Box 5.1 lists the goals and targets of the Bank under Plan II. Tables 5.2 and 5.13 provide data on the progress being made in pursuit of those goals. It must be noted that the Bank recognized that most of the macro/ sectoral problems it hoped to address were structural and would take time to evolve towards the desired target. Further, the attainment of those goals was also not entirely under the Bank's control. It would need concerted effort of all stakeholders, including African Governments, African private businesses, multilateral development finance institutions, foreign governments and foreign investors, etc. for them to be realized.

Having flagged the above notes of caution, it can be seen from Table 5.2 that on an annual basis, Africa's total merchandise trade increased in 2002 and 2003 after a decline in 2001. On average, however, the value of African merchandise trade was about 9.9% higher than its value in 2000 but 16.1% higher than the average value of African trade attained during Plan I period. Although Africa's share of world trade and world exports was respectively below target, the average figures were distorted by 2001 figures. As discussed elsewhere in this book, 2001 was an atypical year as the September 11, 2001 attacks which disrupted trade significantly.

Table 5.2 shows that as targeted under Plan II, intra-African trade showed a consistent year-on-year expansion over the period such that on average, the level of intra-African trade during 2001-2003 was about 9% higher than its average level during 1995-2000. Intra-African trade share of Africa's total trade was at 9.65% in 2003 higher than its level of 8.72% in 2000. Apart from 2002 when this ratio declined slightly, it showed a consistent annual increase since 2000 (Table 5.2). It is to be noted that pursuit of intra-African trade promotion is at the heart of the Bank's mandate. The Bank pursued this goal tirelessly through direct intervention in the form of provision of financing and guarantees as well as through providing information on African producers of goods and services some of its clients were trying to source from outside Africa. The Bank also promoted an African Bankers' Forum (ABF), discussed in more detail in Chapter Six of this document, in order to create an enabling financial infrastructure for a facilitation of the trade, among other initiatives.

With regard to leveraging migrant remittances in support of African export projects and/or essential projects and imports, the Bank continued work in this area during Plan II, building on the successes it achieved earlier. The Bank's work in this area recognized that migrant remittances were important resources that could be used to support essential projects that would otherwise be considered unbankable. Given the size of such remittances coming to Africa, which some estimates placed at US\$9 billion in 2000 (World Bank, 2003) the Bank formally actively began pre-financing such remittances in the form of Financial Future Flow pre-financing.

The Bank also worked actively, during the period, to improve the terms at which African businesses were granted trade finance. Through its effort, facilities became more available as discussed in Chapter Four. Also, pricing more market conformed and tenors began to be lengthened. The Bank also began to access medium term facilities during the period through which it hoped to lead the market to longer tenors, in effect repeating the success it achieved in getting international banks to return to African trade finance. It is hoped that under Basle II, those regulatory restrictions that hindered term lending to Africa would reduce and add impetus to this effort.

BOX 5.1 PLAN II GOALS AND TARGETS

1. MACRO/SECTORAL GOALS

The Bank to work with its partners and other stakeholder to achieve the following objectives:

- 1.1 Raise Africa's share of world trade and Africa's share of world exports respectively to 3.5% by 2005, within the context of increasing trade volumes;
- 1.2 Raise Africa's export share of its GDP on consistent annual basis, from the current level of 22% to 27% by the year 2005;
- 1.3 Expansion of intra-African trade following the modest success achieved during Plan I period and increasing the level of Africa's regional output traded within the region to 4 % by 2005;

- 1.4 Promote a Financial Policy that makes it less of budgetary and tax burden to finance infrastructural projects;
- 1.5 Ensure the increased availability of trade financing to African exporters, importers and governments at considerably improved terms;
- 1.6 Increase the number of syndicated deals following the reform of commodity boards and the declining number of such institutions which were normally the beneficiaries of such deals and make Afreximbank syndicated loan issues the “flagship” of African syndications. Also create schemes to address the weaknesses of the “New” commodity sector through training; improvement in exporting logistics, such as warehousing; and creating new financing structures;
- 1.7 Establish and/or reform Export Processing Zones and Export Credit Agencies (ECAs), and commodity sector regulatory arrangements;
- 1.8 Develop ways of leveraging financial future flows arising from African migrants remittances in financing export-oriented and essential projects;
- 1.9 Create an enabling environment for a rapid advancement of information technology in Africa following the importance of e-commerce as a vehicle for conducting international trade; and
- 1.10 Develop programmes that will facilitate regional integration in Africa.

2. CORPORATE GOALS

2.1 African Trade Expansion and Diversification Scheme

A. Dual Recourse Programmes: to introduce and/or continue to implement -

1. Note Issuance Programme
2. Receivable Purchase/Discounting Programme
 - Forfaiting Facility
 - Invoice/Receivable Discounting Facility
 - Joint Bill Discounting/Financing and Refinancing Facility

B. Non-Dual Recourse Programmes

1. Afreximbank Line of Credit Programme (ALOCP)
2. Afreximbank Direct Financing Programme (ADFP)
3. Afreximbank Syndications Programme (ASP)
4. Afreximbank Special Risk Programme (ASRP)
 - Country Risk Guarantee Facility
 - Export Credit Insurance Facility
5. Afreximbank Future-Flow Pre-Financing Programme (AFPFP)
6. Afreximbank Local Currency Programme (ALCP)
7. Afreximbank Infrastructure and Services Financing Programme (AISFP)

2.2 Export Development Scheme

2.2.1 Project-related Financing Programme / Export Development Programme

2.2.2 Suppliers and Buyers Credit Programme

2.2.3 Guarantee Programme Related to Obtaining Large Contracts:

- Bid Bonds
- Advance Payments Guarantee
- Performance Guarantee

2.2.4 Guarantee Programme in support of African government commitments to project promoters.

2.2.5 ECA Loans Facilitation Programme

2.2.6 Investment Banking Programme

2.2.7 Export Venture Fund Scheme (separate window)

2.3 Operational/ Financial objectives

2.3.1 Make sufficient financial returns to the Bank's shareholders

2.3.2 Achieve 10% annual increase in its loans outstanding (US\$0.6 billion by end of Plan II) ensuring a capital adequacy ratio of more than 12%.

2.3.3 Maintain cost/income ratio at no more than 40% through the plan period.

2.3.4 Seek to do business increasingly across the Continent with countries qualifying under the Bank's country risk rating such that no less than 75% of the countries would have been covered by the end of the Plan period,

2.3.5 Make non-credit (fee-earning) services a core product and deliberately raise the proportion of the Bank's income accounted for by fees to 40 % in 2005, from 26% achieved in 1999. Fees arising from non-credit activities will be targeted to reach 15% of total revenues.

2.3.6 Find a framework for cooperation with African central banks to ensure that it mobilizes deposit funds from them.

2.3.7 Ensure that legal issues pertaining to trade and trade finance are simplified.

2.3.8 Promote Foreign Direct Investment (FDI) into Africa in support of exports.

2.3.9 Evolve an organizational structure that is dynamic and flexible enough to enable it respond rapidly to new opportunities and challenges.

2.3.10 Organize itself such that it is equipped to participate in a global market that is likely to be more driven by information technology as it joins the internet economy.

2.4 Others

2.4.1 Open branch offices in West Africa and North Africa

2.4.2 Introduction of Regional Raw Materials Policy

- 2.4.3 Technical Assistance Programme (involving training, attachments and workshops for governments, banks and corporates).
- 2.4.4 Obtain letter from OECD central banks recognizing the Bank's supranational status.
- 2.4.5 Development of Afrinet database
- 2.4.6 African Trade Journal (Launch)
- 2.4.7 Publish Africa at a Glance
- 2.4.8 Publish Africa in Figures
- 2.4.9 Intensify membership mobilization and attract more categories "B" and "C" shareholders
- 2.4.10 Launch the African Bankers' Forum
- 2.4.11 Full ratification of Bank Agreement by all members

Source: Afreximbank 2001, Five Year Strategic Plan 2001 - 2005

5.5.3 Corporate Goals

5.5.3.1 Operations

As a result of the attacks on the U.S. on September 11, 2001 and the Turkish and Argentine financial crises and the consequential slowdown of the global economy, there occurred some corporate failures in major economies, which impacted the slant of the Bank's operations during Plan II. In setting the Bank's operational objectives, under Plan II, there were some challenges and opportunities that were foreseen, including a global economy that would only see a sluggish recovery; an international financial market that would continue to face low interest rates and further banking sector restructuring; and an African economy that would continue to see growth as a result of gradually strengthening commodity prices. Accordingly, the key operational philosophy of the Bank hinged on the maintenance of a judicious balance between profitability, liquidity, and safety was retained with greater emphasis as in 1997-2000 placed on safety. In this regard, the Bank intensified the use of Dual Recourse Facilities, (DRFs) that is those facilities that enabled the Bank to look not only at corporates financed but also at financial institutions of acceptable standard, for repayment. Further, given low U.S. dollar interest rates, and the constraints to faster growth in volume needed to compensate for their impact, emphasis was placed on securing more fee-based business through greater focus on advisory services and similar business.

Bearing in mind the general lack of clear direction of the global economy at the time of conceptualization of Plan II, and the risks such an uncertain environment presented, the Bank conducted its credit operations with some caution during 2001-2003. On the basis of the above,

the Bank achieved a modest expansion in loans growth during the first three years of Plan II, which saw approvals grow by a 1.32% annual rate compared to an average annual growth rate of 38% achieved during the span of Plan I (Table 5.5). The Bank's loan portfolio, however, saw a further expansion with loans outstanding rising by 48% during Plan II period to reach US\$482.52 million at the end of 2003, from US\$326.7 million as at December 2000 (Table 5.6). Nevertheless, the average annual growth rate of loans outstanding slowed from 50% to 11%, reflecting the entry into a consolidation phase by the Bank. The slowdown also reflected the caution the operating environment called for. The average **transaction size** increased from about US\$14.3 million in 2000 to about US\$ 16.8 million in 2003. The **average maturities** of facilities approved by the Bank increased to about 443 days during 2003 from 437 days during 2000. The observed increase was the result of some evolution in the Bank's non-equity liability structure to maturities of two years and more as well as the Bank's gradual entry into export development financing.

Financial Institutions continued to receive the lion's share of the Bank's credit facilities in terms of approvals and credits outstanding during 2001-2003, reflecting the Bank's emphasis on DRFs. In this regard, in terms of **sectoral distribution**, financial institutions, during the period, accounted for a share of 65 per cent of total approvals, up from 40% during Plan I (Table 5.7a). Other major recipient sectors include Energy as well as Services. Agriculture, which was a leading recipient of the Bank's resources during Plan I period fell to 5th place accounting for 3% of approvals. This indicated the greater risk seen in directly financing agriculture and high reliance on the Bank's DRFs as a risk mitigating instrument. The risks arose, as discussed in Chapter Four, from the reform of the commodity export sector which led to the entry into the market of inexperienced new exporters with little or no capability to manage the risks in commodity exporting. Many could not present good counterparties to buyers and could therefore not even enter into firm sales contracts critical for commodity export financing. On the other hand, the Services Sector received larger financing, partly in response to the Bank's deliberate effort to create industry clusters around leading export sectors. In this regard, most of the Services Sector financing went to support oil field services, so that the enclave oil industries could be integrated to the rest of the domestic economies of African oil producing economies. In terms of **beneficiary institutions**, during the Plan II period, banking institutions accounted for the bulk of the Bank's approvals and loans outstanding (70% and 68%, respectively) (Tables 5.8a and 5.8b). The period also saw less lending directed to governments. With regard to **direction of trade financed** by the Bank, intra- and extra-African maintained its leading position accounting for respective shares of 74% and 68% of the Bank's loan approvals and outstanding during 2001-2003 (Tables 5.9a and 5.9b).

With regard to **Programmes and Facilities**, the Bank adopted new categorization in its menu of products, namely Dual Recourse and Non-Dual Recourse Programmes.

Programmes under the Dual Recourse (DR) category were those in which the Bank lent to a corporate against the guarantee or aval of an acceptable bank. This category of programmes helped the Bank to rely on the nearness of local banks to the underlying borrowers in monitoring the loans it made and therefore helped mitigate the risk of lending to new generation exporters that replaced the dismantled boards. It also helped in dealing with the impediments to extending finance to certain countries due to the problems posed by documentary taxes. By using DR structures, the Bank extended recourse to all the parties in a deal mitigating the risk of the impairment of the security it might have taken which might not have been properly registered. Thus, the re-categorization reflected the Bank's adaptive response to the challenges of its operating environment.

Programmes in the Non-Dual Recourse (NDR) category were operated with direct recourse to one obligor. Such deals were as expected done with established corporates and banks, and/or where the legal regime allowed proper perfection of securities.

Detailed below is a description of specific new programmes and facilities that were introduced as envisaged under Plan II.

A. Dual Recourse Programmes

- (1) Note Purchase Programme
- (2) Receivable Purchase/Discounting Programme.

(1) Note Purchase Programme

This is a programme through which the Bank provides financing to corporates by purchase of Promissory Notes or similar instruments issued or accepted by them and avalized or guaranteed by an acceptable bank. The purchase is done with recourse to the issuer and avalor.

There are two main kinds of such Notes;

- * Credit Linked; and
- * Structured Notes.

Credit linked notes are those in which the Bank purchases the Notes based solely on the credit of the issuer and the avalor. Structured Notes are those where the Bank essentially holds the avalized Notes as security since the source of repayment is separated from the avalor and Note Issuer. This arises when the Note Issuer and/or the Avalor generates receivable which may be assigned to the Bank. The Notes are redeemed from the receivables that flow into a usually charged Collection Account held with the Bank.

This programme was during Plan II period used in financing a variety of transactions, including export, import and services contract (especially oil and mining services).

This programme is also intended to be useful in creating an enlarged market for African debt papers in order to help the Bank achieve its goal of creating an African trade debt paper market.

During Plan II implementation, the programme was implemented as a sub-component of the Bank's Line of Credit programme since that eased management of bank lines and ensured that focus was retained.

(2) Receivable Purchase/Discounting Programme

This programme comprises of a family of facilities involving purchase of specific receivables of goods and services to foreign or domestic buyers, with or without recourse to the seller or presenter. The facilities operated under this programme are:

(a) Forfaiting Facility

As pointed elsewhere in this volume, Forfaiting is the sale or purchase of a TRADE receivable on a without recourse basis. As in Plan I period, this facility was to be used by the Bank to support the purchase of essential imports, such as oil, food, and pharmaceuticals, on a short term basis, and over the medium term, export generative or other, essential equipment (e.g. telecom equipment). The Bank also intended to use it to assist African exporters in their shipment of capital and other goods to new markets. Using the Facility, the Bank transfers the payment and country risks of the import transactions to Afreximbank risk enabling the importers to receive in most cases fixed rate tenored credits.

This Facility is one instrument which the Bank targeted to use in broadening the African trade paper market. In this regard, the Bank intended, under Plan II, to develop a system for trading African forfait papers in the internet. Activity under this programme was quite slow during 2001-2003 as many forfaiting companies lost large sums of money during the aftermath of the Asian crisis in 1997/98 and September 11, 2001 event. Accordingly, there were no approvals under the Facility during 2001-2003 while loans outstanding under the Facility amounted to US\$11.5 million in 2003 (Tables 5.5 and 5.6).

(b) Invoice/ Receivable Discounting Facility

This is a facility whereby the Bank purchases or sells receivables usually represented by accepted invoices, on a without recourse basis. Usually, the Bank requires that a local bank guarantees payment of the invoices. During Plan II, this Facility was used by the Bank in the financing of service contracts, especially oil service contracts, even though its use was also intended to be extended to other transactions for which the receivable is in foreign currency. It is different from factoring in that all discounted receivable are self liquidating, individual transactions in which the Bank does not assume collection services for the original beneficiary of the receivables.

During the Plan II period, the Bank expanded its support for indigenous oil and mining service contract holders through this Facility. It was also implemented as a component of the Bank's Line of Credit Programmes.

(B) Non-Dual Recourse Programmes

These include;

1. Afreximbank Line of Credit Programme (ALOCP)
2. Afreximbank Direct Financing Programme (ADFP)
3. Afreximbank Syndications Programme (ASP)
4. Afreximbank Special Risk Programme (ASRP)
5. Afreximbank Future-Flow Pre-Financing Programme (AFPFP)
6. Afreximbank Local Currency Programme (ALCP).
7. Afreximbank Infrastructure and Services Financing Programme (AISFP).
8. Project-Related Finance Programme and Investment Banking Programme as a part of the Export Expansion Scheme.

At the time of publication of this book, only Programme number 6 was not operational while Programme number 5 operated as a sub-component of the Line of Credit Programme, in order to ensure its proper management until deals under the Programme expand sufficiently, to enable it to be operated on its own.

As the other programmes have been discussed elsewhere in this book, we describe below the Bank's Financial Future-flow pre-financing programme, as well as the Investment Banking Programme which had not been previously described in detail. Also, to be described is the Bank's Country Programme, which although was not envisaged under Plan II, became operational in 2002, in response to a felt need for such a programme.

(i) Financial Future-Flow Pre-Financing Programme

Financial future-flow transactions refer to future-flow debt offerings that rely upon receivables not generated from export of physical goods for repayment. Such receivables include credit card or cheques, migrant remittances, royalties arising from Bilateral Air Services Agreements (BASA), over flight fees, etcetera. In many countries, such as Turkey, Philippines and Mexico, such receivables had been used to raise financing in support of essential projects that would otherwise have been difficult to finance. During Plan I period, the Bank began a limited implementation of this Programme, by collateralizing aircraft financing deals using BASA royalties. During the plan II period, the Bank moved actively to pursue the use of this programme to attract financing to African countries for use in implementing essential projects.

(ii) Investment Banking and Advisory Services Programme

Pursuant to its Mission Statement and in line with the Bank's commitment to innovation, the Bank introduced the Investment Banking and Advisory Services Programme with a view to offering its clients quality advisory and underwriting services. Accordingly, in 2002 and 2003 the value of advisory mandates won amounted to US\$410 million and US\$165 million with cumulative value of mandates under implementation in each year totalling US\$850 million and US\$375 million, respectively. These advisory and underwriting mandates covered a wide spectrum of sectors, notably oil and gas, telecommunications, power and government.

(iii) Country Programme

The Bank introduced this Programme to enable it assist its member countries in peculiar difficulties that may not be solved using any of the menu of products on offer by the Bank. It involves the use of a combination of programmes, such as advisory services, guarantees and lines of credit deployed in such a manner as to reinforce one another in dealing with such problems. Introduced in 2002, aggregate approvals reached US\$155 million in 2003 (Table 5.5).

5.5.4 Operations of the Programmes and Facilities During Plan II

A look at Table 5.5 shows that the Line of Credit (LOC) programme was the dominant programme used in delivering the Bank's credit during Plan II period, with its share of approvals rising from an average of 45% in Plan I to 69% during 2001-2003 (the relevant Plan II period). The LOC programme also saw its share of credits outstanding rise from 29.6% during Plan I to 65.3% during the 2001-2003 covered under Plan II (Table 5.6). The dominance of this programme reflected the Bank's emphasis in the use of DRFs to implement its credits as a result of the numerous uncertainties that began to manifest from the period of the Asian crisis and compounded by the events of September 11, 2001 in the USA. Direct Financing programme also saw a resurgence, as some of the new operators that replaced Government monopolies began to gain experience. However, most credits under the Direct Financing Programme were granted under a Dual Recourse framework. The Syndications Programme which dominated credits outstanding in the First Plan period when it accounted for 58%, also saw its share of credits outstanding decline to 11.3% during Plan II. During 2001-2003 the Bank also actively implemented two key programmes that contributed immensely to the advancement of its mandate and income, namely an Investment Banking Programme and a Country Programme (both described in detail above). Mandates implemented under the Investment Banking Programme during 2001-2003 amounted to about US\$1.3 billion. They contributed in helping the Bank achieve its financial goal of bringing fee income to more than 40% of total revenues. It also helped the Bank to advise African corporates interested in accessing the Euro credits market. Shortly after the launch of Plan II, Management of the Bank considered the most effective way to implement the Project-related financing programme

given its limited use in the Plan I period and the fact that the Bank had gained experience to more efficiently manage the risks inherent in export projects. It also felt that a proactive pursuit of export project implementation was necessary for the attainment of the Bank's mandate of promoting export diversity. Accordingly, it created a new project finance window to supplement the project-related financing programme. That programme launched in 2002 was dubbed Export Development Programme (EDF). Due to its importance, its details are presented below.

Export Development Programme

Rationale

The Bank's key mandate, as already discussed extensively is to provide financing to support Africa's export growth and diversification. Given that the Bank had a variety of objectives to pursue at inception, it decided to prioritize its areas of intervention. In this regard, the Bank began operations by offering trade financing services to sectors considered worst hit by the withdrawal of traditional trade financiers from the continent. Within that broad area of financing, the Bank decided to commence operations with short-term trade finance services. This approach was considered prudent given that there was a more urgent need for trade finance given that project finance which was required for achieving the goal of export diversity was riskier and needed a more careful approach that would benefit from experience gained in implementing short-term trade financing.

After six years of operations, the Bank decided to pursue the goal of export diversification under its Strategic Plan II. Hence, in 2002, the Bank created an Export Development Finance Department (EDF) to implement the Bank's Export Development Programme (EDP). The Bank defines Export Development Finance as "a process of combining credit, risk bearing, twinning, market access as well as advisory services geared towards creating non-commodity export products for sale to a broad range of export markets".

Objectives

In line with the above, the Bank's EDP is aimed at achieving the following objectives:

- a) to facilitate non-commodity export production, especially export manufacturing, targeted at exploiting certain bilateral and multilateral market access opportunities open to Africa;
- b) to facilitate non-commodity export production, especially export manufacturing, targeted at exploiting intra-African trade opportunities;
- c) to facilitate the implementation of regional projects, including tradable infrastructural services, that are likely to foster (a) and (b) above as well as promote greater regional economic integration; and
- d) to boost the "technological" content of export production and assist the generation therefrom of "branded" exports, that will assist in "de-commoditising" African exports.

Instruments for implementing the Programme

The instruments used in implementing the Programme include:

- i. Structured Project Finance products whereby funding or guarantees are provided to qualifying projects using a financing structure that minimizes construction and operating risks;
- ii. Twinning and Market Access Services whereby the Bank uses its extensive contacts to foster alliances between a project and parties with proven technical and managerial competencies as well as market access capabilities; and
- iii. Advisory Services through which the Bank may prepare projects for promoters requiring such services, and assist in raising financing for such projects.

Qualifying Projects

The Programme puts emphasis on:

- i. projects promoted by companies that have developed a successful local brands and operation and want to enter the international market;
- ii. greenfield projects where there are credible and proven technical partnerships (with equity commitments); and
- iii. regional projects, such as oil pipelines, power projects, etcetera.

Partnerships

The Bank implements the Programme through its partners, such as:

- a) African, non-African and multilateral Development Finance Institutions (DFIs);
- b) African and non-African EXIM Banks;
- c) African and non-African banks and venture capital funds;
- d) African and non-African governments; and
- e) African and non-African corporates.

5.5.5 Financial Performance Under Plan II

Table 5.10 presents key financial highlights of the Bank for the period 1994/95 to 2003. The years relevant to the current analysis are 2001 to 2003. From that Table and the accompanying Table 5.12, it can be seen that the Bank's net income in 2003 amounted to US\$18.476 million; about 35% higher than the US\$13.647 million achieved in 2000. This growth in net income came about as a result of higher levels of fee income and increased volume of operations which led to higher revenues in spite of the low levels of interest rates that prevailed during the period. Net

Table 5.12 Growth Rate of Key Financial Figures, 1994 - 2003
(percent)

	Average growth rate, %									
	1996	1997	1998	1999	2000	2001	2002	2003	Plan I (1995-2000)	Plan II (2001-2003)
Increase in total assets	11.88	15.36	28.89	29.94	11.41	18.52	11.12	14.80	19.50	14.82
Increase in loans and advances	152.05	95.16	40.71	49.73	10.34	6.85	19.78	15.17	69.60	13.93
Increase / (decrease) in interest margin	(31.17)	5.44	2.74	(19.34)	3.31	(26.49)	(37.95)	(9.38)	-7.80	-24.61
Increase / (decrease) in operating profit	(11.10)	30.31	31.97	22.59	35.40	3.04	2.14	4.12	21.83	3.10
Increase in net income	2.12	29.34	17.89	7.78	35.67	3.72	13.35	15.15	18.56	10.74
Increase in reserves	100.00	66.67	35.00	27.41	30.95	22.54	20.27	20.75	52.01	21.19
Increase in net asset value per share	3.86	3.75	4.29	4.34	7.60	5.46	5.91	6.57	4.77	5.98
Increase in dividends	n/a	n/a	15.00	13.04	38.46	11.11	7.50	9.30	22.17	9.30
Increase in dividends per share	n/a	n/a	n/a	14.88	12.99	38.42	11.11	7.38	13.94	18.97

Over the first ten years the Bank has registered positive growth in returns to shareholders, loans and advances and in total assets.

Source: Afreximbank

interest income however, declined by 38% to US\$10.56 million in 2003 from a level of US\$16.98 million achieved in 2000 as a result of low average interest rates that prevailed during 2001-2003. Net fee and commission income rose during Plan II by an impressive 44% from a level of US\$5.97 million in 2000 to US\$14.580 million in 2003. The increase is explained mainly by increased revenues from advisory services resulting from the Bank's strategic shift in emphasis to fee earning activities as a way of compensating for the erosion in interest income that was precipitated by the sustained decline in interest rates that occurred during 2001-3.

During Plan II, net revenues increased by 3.9% to reach US\$25.23 million in 2003 from US\$23.12 million in 2000. The observed increase is explained mainly by an increase in fee and commission income arising from higher investment banking services.

With regard to operating expenses, these increased by 75% to US\$5.41 million mainly as a result of the enlarged operations of the Bank. It is to be noted, however, that revenue growth outstripped growth in expenses which ensured that the Bank achieved good operating margins and cost-to-income ratios during 2001-3 (Table 5.11). The Bank's cost-income ratio during 2001-3 averaged about 21%, almost unchanged from its level in 2000, and well below the banking industry acceptable norm of about 63% (Table 5.11). This development reflected effective cost controls and higher operating efficiency achieved by the Bank during the period - a process that was carried over from Plan I.

Provisions for possible losses on loans and advances declined by 74% during the period from a level of US\$5.24 million in 2000 to US\$1.341 million in 2003. The decrease was as a result of lower specific provisions on loan facilities in line with the improved quality of the Bank's loan portfolio. Consistent with the observed improvement in operational and financial performance of the Bank, total assets increased by 51% to US\$23.85 million in 2003, although, year-on-year, growth rate was slower than in Plan I years. This reflected the fact that the Bank entered a consolidation phase during Plan II. It also reflected deliberate measured growth strategy consistent with the challenges of the operating environment seen during the Plan II period.

Table 5.13 shows the Bank's performance against the targets set in Plan II. From that Table it can be seen that the Bank met most of the financial performance targets. In this regard, net income as well as dividends paid to shareholders increased. Asset growth was on track to enable the attainment of a target of US\$0.6 billion projected for 2005. Cost/ income ratio was consistently well below the maximum of 40%, while fee income accounted for more than 40% of total revenues all through the period.

5.6 OTHER ACTIVITIES AND STRATEGIC PURSUITS

5.6.1 Treasury Operations

During 2001-2003, the Bank conducted its treasury activities in line with the provisions of its Treasury Policies and Procedures under the supervision of a Management Assets and Liabilities Committee (ALCO). These operations took the form of borrowings, investments and hedging related to non-US dollar exposures of the Bank. With respect to borrowings, the Bank raised money market lines from international financial institutions to fund its growing portfolio, such that liability to banks, about doubled from US\$137 million in 2000 to US\$267 million in 2003. The Bank also mobilized additional funds from its customers through deposit taking. Deposit liability of the Bank in this regard, almost tripled from US\$6 million in 2000 to US\$17 million in 2003. The deposits included funds in collection accounts held by borrowers, correspondent accounts and shareholder dividends/deposits for shares. In pursuit of its strategic goal of becoming the “Flagship” African syndicated loan issuer as well as the need to fund its operations, the Bank entered the Euro Syndication Market in 2000 and raised an amount of US\$100 million. Subsequently, between 2001 and 2003 it entered the market four times to raise syndicated term loans. All its syndicated loan issues were over-subscribed and in 2002, their tenors were extended to two years. The deals were all arranged by a core group of banks who started to support the Bank at its early stages, namely WestLB, Standard Chartered Bank, KBC and WZG Bank. This core group was later joined by other banks such as Bank of Tokyo-Mitsubishi, Natexis, RZB and HS Nordbank.

As for surplus funds, these had mainly been invested in international and African banks that met the Bank’s approved credit criteria with priority in investments given to shareholder banks while maximum exposure to any one bank was fixed at 15 per cent of shareholders’ funds. Other treasury operations conducted included hedging against foreign exchange risks with the Bank entering into forward contracts with creditworthy counterparties.

5.6.2 The Bank’s Leveraging Role

The Bank performed its leveraging role through a variety of means, namely:

- arranging syndications and inviting international banks to join such syndications;
- borrowing from the international market and on-lending to African borrowers
- providing guarantees, including country risk guarantees in support of banks lending to Africa; and
- providing advisory services that assisted African borrowers to raise international financing.

Table 5.13 Strategic Goals of the Bank under Plan II

Target	Actual
2.1 African Trade Expansion and Diversification Scheme To introduce and/or continue to implement: A. Dual Recourse Programme	
1. Note Issuance Programme	Being implemented
2. Receivable Purchase/Discounting Programme	
* Forfaiting Facility	Being implemented
* Invoice/Receivable Discounting Facility	Being implemented
* Joint Bill Discounting/Financing and Refinancing Facility	Being implemented
B. Non-Dual Recourse Programme	
1. Afreximbank Line of Credit Programme (ALOCP)	Being implemented
2. Afreximbank Direct Financing Programme (ADFP)	Being implemented
3. Afreximbank Syndications Programme (ASP)	Being implemented
4. Afreximbank Special Risk Programme (ASRP)	
* Country Risk Guarantee Facility	Being implemented
* Export Credit Insurance Facility	Being implemented
5. Afreximbank Future-Flow Pre-payment Financing Programme (AFPPF)	Being implemented
6. Afreximbank Local Currency Programme (ALCP)	Yet to be launched
7. Afreximbank Infrastructure and Services Financing Programme (AISFP)	Being implemented
2.2 Export Development Scheme	
2.2.1 Project-related Financing Programme/Export Development Programme	Being implemented
2.2.2 Suppliers and Buyers Credit Programme	Case-by-case implementation
2.2.3 Guarantee Programme Related to Obtaining Large Contracts:	
* Bid Bonds	Being implemented
* Advance Payments Guarantee	Being implemented
* Performance Guarantee	Being implemented
2.2.4 Guarantee Programme in support of African government commitments to project promoters.	Being implemented
2.2.5 ECA Loans Facilitation Programme	Being implemented
2.2.6 Investment Banking Programme	Being implemented
2.2.7 Export Venture Fund Scheme (separate window)	Feasibility study stage
2.3 Operational/ Financial objectives	
2.3.1 Make sufficient financial returns to the Bank's shareholders	Return on Equity = 8.3% in 2003 vs. 7.36% in 2000. Dividend payment began in 1998 based on 1997 results and continued.
2.3.2 Achieve 10% annual increase in its loans outstanding (US\$0.6 billion by end of Plan II) ensuring a capital adequacy ratio of more than 12%.	An increase of 48% as at the end of the year 2003 compared to end of 2000 figure.
2.3.3 Maintain cost/income ratio at no more than 40 per cent through the plan period.	Average cost/income ratio during the first three years of the Plan was 21.38%
2.3.4 Seek to do business increasingly across the Continent with countries qualifying under the Bank's country risk rating such that no less than 75% of the countries would have been covered by the end of the Plan period.	Being actively pursued

Target	Actual
2.3.5 Make non-credit (fee-earning) services a core product and deliberately raise the proportion of the Bank's income accounted for by fees to 40% in 2005, from 26% achieved in 1999. Fees arising from non-credit activities will be targeted to reach 15%	Achieved. Fee income as % of total revenues amounted to 58% in 2003.
2.3.6 Find a framework for cooperation with African central banks to ensure that it mobilizes deposit funds from them.	Modest success. The Bank is the main correspondent for one central bank.
2.3.7 Promote Foreign Direct Investment (FDI) into Africa in support of exports.	Being pursued by introducing Export Development Program
2.3.8 Evolve an organizational structure that is dynamic and flexible enough to enable it respond rapidly to new opportunities and challenges.	Achieved
2.4 Others	
2.4.1 Open branches offices in West Africa and North Africa	Completed. Abuja and Tunis branches opened in 2003.
2.4.2 Introduction of Regional Raw Materials Policy	In progress; study nearing completion as at July 2004.
2.4.3 Technical Assistance Programme (involving training, attachments and workshops for governments, banks and corporates).	Being implemented
2.4.4 Obtain letter from OECD central banks regarding the Bank's supranational status.	No longer necessary due to regulatory changes in OECD countries.
2.4.5 Development of Afrinet database	Not yet achieved but Africa-in-Figures 2003, Africa-at-a-Glance 2003 published.
2.4.6 African Trade Journal (Launch)	Not launched
2.4.7 Publish Africa at a Glance	Achieved
2.4.8 Publish Africa in Figures	Achieved
2.4.9 Membership mobilization to attract more categories B & C shareholders	As at the end of 2003, the number of Shareholders had increased by 5 from 107 at the end of Plan I to 112.
2.4.10 Launch of African Bankers' Forum	Achieved
2.4.11 Full ratification of Bank Agreement by all members	As at the end of 2003, the Bank Agreement had been ratified by 20 members from 16 members at the end of Plan I.
2.4.12 Investment Grade Rating	Not yet rated

Source: Afreximbank (2001) *Five Year Strategic Plan 2001 - 2005*.

With regard to syndications, the Bank in 2001 and 2002, arranged, co-arranged and/or participated in syndicated deals amounting to US\$1,364 million and US\$582 million respectively (Table 5.13). In 2001 and 2002, therefore, the Bank attracted US\$10.8 and US\$6, respectively into the continent for every one U.S. dollar funding it provided. In 2003, it attracted US\$2.00 for every U.S. dollar of its participation. Further, the Bank leveraged international financing into Africa by raising funds in its name from the international financial markets for on-lending to African entities that would ordinarily not have been in a position to access these funds in the global financial markets. In this regard, during 2000-3, the Bank entered the Eurocredit market to mobilise syndicated financing facilities amounting in total to US\$590 million for on-lending to African entities.

In addition, the Bank leveraged international finance into the continent through the provision of country risk and credit guarantees to creditors funding African entities. However, this arrangement was negatively affected by the lack of enthusiasm among international banks for taking developing country risks on the heels of the Asian crisis and September 11 events.

Through the Bank's Investment Banking Programme, a number of entities were prepared for entry into the Eurocredits market. During 2002 and 2003, the Bank won such mandates amounting to US\$410 million, and US\$165 million respectively.

5.6.3. Branching

In accordance with the Bank's branching policy, and as envisaged under Plan II, the Bank opened two branches in 2003, one each in Abuja and Tunis. The Tunis Branch covers the Maghreb region while the Abuja Branch covers the ECOWAS region. It is envisaged that another branch would be opened in the ECOWAS region to cover Francophone members of that regional body. During the period, the Bank was processing requests for opening of Branch offices from six member countries from east, central and west Africa.

5.6.4 Other Strategic Pursuits

Most other targets set under Plan II have been met. For example, the Bank introduced a Technical Assistance Programme and adopted some candidates during the review period. *Africa at A Glance* and *Africa-in-Figures* were also published and the African Bankers' Forum (discussed in detail in Chapter Six) was launched. Membership mobilization continued and resulted in the attainment of 112 shareholders, an increase of 7 in the number of shareholders as at December 2000.

There were some targets that were as at December 2003 not yet met, such as establishing an Afrinet database and full ratification of the Bank Agreement but all efforts continued to be directed at their attainment such that it is expected that by the end of Plan II period, most of them would have been substantially achieved.

CHAPTER SIX

Non-credit Activities and Other Initiatives

6.1 INTRODUCTION

A review of the Bank's credit and related operations and activities presented in the preceding chapter shows that the Bank's operations had grown both in scope and depth. It is however, important to isolate some important initiatives introduced by the Bank since its inception for a more indepth discussion. This chapter therefore focuses on the various non-credit activities and initiatives pursued by the Bank, including activities of the Bank's Advisory Group on Trade Finance and Export Development in Africa (herein referred to as the "Advisory Group" or the "Group"), the Bank's Capacity Building Initiatives as well as the African Bankers' Forum. Some of these activities of the Bank were mentioned elsewhere in the discussion of the Bank's performance. However, due to their importance to the continent and the Bank's work, they are discussed in more detail in this Chapter.

6.2 ACTIVITIES OF THE BANK'S ADVISORY GROUP ON TRADE FINANCE AND EXPORT DEVELOPMENT IN AFRICA

Following the launch of the Bank's operations in September 1994, the Bank established the Advisory Group in November 1994 with a view to creating an organ that would through experience and expert knowledge of its members assist the Bank in defining an agenda for a strategic and more orderly pursuit of its corporate goals and mandate. The Group is composed of eminent African personalities drawn from the academia, business community, bankers and policy-makers with proven knowledge of matters relating to African trade. The Group had not only been providing fora where African professionals were afforded the opportunity of discussing issues relating to African trade, but its recommendations had been valuable inputs in the Bank's

BOX 6.1 THE THEMES OF AFREXIMBANK ADVISORY GROUP MEETINGS, 1994 - 2003

Date	Venue	Theme
November 17th , 1994	Cairo - Egypt	Leading Issues in African Trade – An Agenda for Afreximbank
May 11, 1996	Addis Ababa - Ethiopia	Commodity Price Risk in Africa & Implications for Financing
June 25, 1997	Harare – Zimbabwe	Intra-African Trade in Raw Materials: Issues and Problems
May 1998	Conakry – Guinea	Solid Minerals: Financing Issues and Problems
June 25, 1999	Libreville – Gabon	Attracting International Finance in Support of Regional Trade: The Role of Domestic Banks
May 9, 2000	Tunis – Tunisia	African Trade & Development at the Dawn of a New Millennium: Challenges, Strategies & the Role of Afreximbank
May 19, 2001	Nairobi – Kenya	Harnessing Telecommunications Technologies for Accelerating African Trade & Economic Development: Opportunities & Challenges
May 18, 2002	Dar-Es Salaam – Tanzania	Agricultural Marketing & Export Development in Africa
May 2003	Lusaka – Zambia	Promoting Export Diversification in Africa: Issues, Challenges and Financing Options

strategic planning. Since its inception in 1994, the Group had been meeting annually (except in 1995), usually as part of the activities marking the Bank’s Annual General Meetings. During 1994-2003, the Group met on nine occasions to discuss many issues that impinge on the growth and development of African trade as may be seen in the themes of the meetings as listed in Box 6.1. The papers presented during these meetings of the Group, which had been compiled for publication, touched on various important issues that are of relevance to the development of African trade. These meetings which were well attended generated intense debates and ideas which went a long way in shaping the strategic focus of the Bank in the past ten years.

6.3 THE AFRICAN BANKERS' FORUM

In November 2001, in Cairo, Egypt, African bankers gathered under the auspices of African Export-Import Bank signed a Memorandum of General Principles for the establishment of an African Bankers' Forum (ABF).

The idea of an umbrella institution for African banks and bankers was first mooted in 1995 during the second Meeting of Afreximbank Advisory Group on Trade Finance and Export Development in Africa. Delegates at that meeting and those who attended Afreximbank's Structured Trade Finance Seminar/Workshops held in 1999 and 2000 were concerned that the African banking system was highly fragmented and was therefore not in a position to play a catalytic role needed from them to promote intra-African trade. In communiqués issued at the Meetings, participants called on Afreximbank to work towards creating an umbrella organization that would foster cooperation amongst African banks and bankers. After extensive consultations with the African banking community, and regional bankers' associations, such as the COMESA Bankers' Association ("CBA") and the West African Bankers' Association ("WABA"), a meeting of African bankers was held in Cairo on November 9, 2001, where the initiative was formally launched even though its conceptual basis was established in 1999/2000.

The general objective of the Forum, as stated in its Constitutive documents adopted by its General Assembly in April 2004, is to provide an institutional vehicle that will facilitate greater interaction amongst African banks and bankers for the overall purpose of improving business relationships and cooperation. The specific objectives include:

- a) to create a framework within which African banks can have direct interaction amongst themselves, share ideas and discuss common problems;
- b) to facilitate the development of banking business relationships amongst African banks;
- c) to facilitate a greater understanding of the African business environment and develop practical solutions for dealing with problems therein;
- d) to create an avenue for a possible transfer of skills amongst African banks;
- e) to encourage the financing of intra African trade by African banks, possibly using Afreximbank as an initial anchor; and
- f) to facilitate the development of an information pool which could assist in providing credible credit information on banks in Africa.

Membership of the Forum is open to all African commercial and merchant banks; African continental, sub regional and national EXIM banks; sub regional Associations of African commercial and merchant banks and such other categories of African continental, sub regional and national financial institutions as the General Assembly may from time to time determine. Observer members of the Forum include African regional economic organizations, the African Union, African Deposit Insurance institutions and Central Banks. Others include Securities and Exchange Commissions/Bodies, African Export Credit Insurers and African Discount Houses.

The governance structure of the Forum provides for a General Assembly composed of all member banks, an Executive Committee composed of the Chairman, Vice Chairman and I I members (two from each sub-regional economic community and the African Export-Import Bank), and a Secretariat (Afreximbank was mandated to provide a temporary secretariat for the Forum until such a time that a location for the permanent secretariat is determined by the General Assembly). Provision was also made for three standing committees, namely an Education Committee, a Technical/Operations Committee and a Special Purpose Committee. Other committees may be constituted on the approval of the General Assembly as recommended by the Executive Committee.

At its meeting held in March 2004 in Cairo, Egypt, the General Assembly, among other things;

- i) debated and adopted a draft constitution submitted to it by the two legal consultants appointed by the Temporary Secretariat in line with recommendation of the 1st General Assembly that held in Tunis, Tunisia in March 2002;
- ii) elected officers of the Executive Board of the Forum;
- iii) agreed to maintain the Forum as a real African entity. In this regard, the Meeting agreed, for the purposes of determining eligibility for Membership under the adopted Constitution that an entity is African: a) if commercial with over 50% African ownership; and b) if an association, with over 50% African membership;
- iv) agreed to collaborate with other continental bodies, such as the Association of African Central Banks, the African Union, NEPAD Secretariat, the United Nations Economic Commission for Africa, among others, with a view to enlisting their support for the activities of the Forum; and
- v) charged the elected Executive and the temporary secretariat to conduct a study on: Creating a Correspondent Banking Network of African banks as well as to organize a Seminar/ Workshop on: Creating a Correspondent Banking Network to Support Intra-African trade.

6.4 CAPACITY-BUILDING INITIATIVES

An important element of Afreximbank's mission is its goal to serve as a centre of excellence in African trade matters. In pursuit of this mission, the Bank implements a number of capacity building initiatives and activities. One important activity implemented by the Bank in this regard in its first ten years was an Annual Seminar Programme on Structured Trade Finance. The choice of Structured Trade Finance was made due to the fact that it is an instrument of choice in financing trade transactions under a difficult economic environment. Accordingly, the general objective of the Seminar Programme was to ensure that African bankers got acquainted with structured finance tools and techniques that would help them in dealing with the many challenges

confronting lenders operating under a difficult political and economic environment characterized by perceived high country and commercial risks. The programme was also intended to strengthen the Bank's relationship with its different clients.

The seminar programme was comprised of two courses, namely Fundamentals of Structured Trade Finance Seminar (the "Fundamentals") and Advanced Structured Trade Finance Seminar (the "Advanced Course"). The two seminar courses were run in alternate years.

The specific objectives of the Fundamental Course were:

- a) to create an avenue for a thorough evaluation of the problems of African trade finance and to identify ways of solving them through the use of structured trade finance instruments;
- b) to equip participants with the skills needed to tackle the identified problems;
- c) to create an avenue for networking of African bankers with a view to making them develop correspondent relationships amongst themselves.

The objectives of the Advanced Structured Trade Finance Seminar were:

- a) to complement the Fundamentals Course in order to properly equip participants in structuring complex deals;
- b) to create an opportunity for a proper evaluation and understanding of the new financing challenges that the changes in African environment portend in the near to medium term;
- c) to equip participants with the knowledge of the financing tools and instruments that are currently being used or being proposed for use in financing African trade under its changing environment;
- d) to understand the programmes and facilities that Afreximbank is, or would be introducing in the near term to deal with the new challenges; and
- e) to create an opportunity for networking amongst African bankers.

The seminars were open to:

- a) senior executives of African banks and other financial institutions engaged in trade and project financing including African Export Credit Agencies (ECAs);
- b) senior executives of African country and sector funds and other venture capital institutions;
- c) senior executives of corporates engaged in trade, manufacturing and privatized infrastructure projects;
- d) the Bank's Trade Finance Intermediaries (TFIs) and Project Finance Intermediaries (PFIs); and
- e) African Lawyers.

Afreximbank hosted the seminars in collaboration with sub-regional bankers associations, namely COMESA Bankers' Association, West African Bankers' Association and Maghreb Bankers' Association. Course facilitators were drawn from the Bank; international organizations such, as UNCTAD; and international banks.

From the launch of the Programme in 1999 up to December 2003, four annual seminars had been successfully held. The seminars attracted 170 participants drawn from about 40 African banks and leading financial, commodity trading and law firms from about 30 countries. Certificates were issued by the Bank to participants who successfully completed the training programmes.

Another capacity-building initiative implemented by the Bank is an Attachment Programme it implemented whereby African professionals were attached to the Bank for a given period of time to gain experience in international banking. Further, the Bank implemented a Junior Professional Programme through which young Africans were employed in the Bank for two years to gain experience and knowledge about trade financing. In April 2004, the Bank began a Special Attachment Programme for African Lawyers in a bid to create trade finance documentation capacity in Africa.

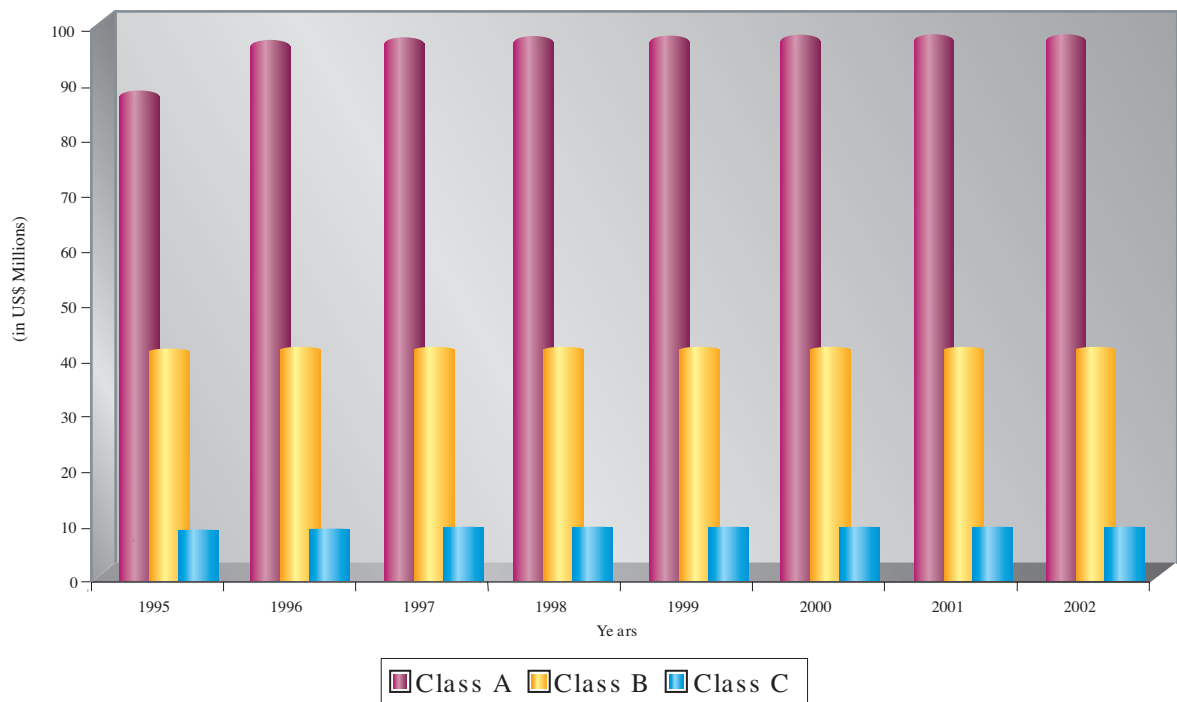
The Bank also implemented a *Knowledge Sharing Programme* whereby staff seminars were held to enable staff members who had acquired certain specialized skills through training or otherwise to share such skills with other staff members.

6.5 STRATEGIC PARTNERSHIPS AND CO-OPERATION

6.5.1 Strategic Partnerships

The Bank has been forging strategic partnerships with national and international financial institutions with a view to achieving its corporate goals. Throughout its first decade, the Bank continued to work with its relationship banks. The total number of Trade Finance Intermediaries (TFIs) reached 88 spread across 22 countries. Further, the Bank continued to receive delegations from major African and non-African financial institutions seeking to develop relationships with the Bank. Deliberate efforts were also made to strengthen business relationships with major financial institutions in the Euro-credit market through business contacts and participation in syndicated and/or club deals generated by some of those partner banks. In addition, the Bank entered into cooperation agreements with the HSBC Equator bank; Preferential Trade Area (PTA) bank; EXIM India; Banca Intesa; Italy; and Ecobank. A number of other Master Participation Agreements (MPA) were also concluded with African and international banks to provide a framework for cooperation in transactions.

Figure 6.1: Movements in AFREXIMBANK Common Stock, 1995-2002



Source: Afreximbank Publications.

6.5.2 Cooperation

Since its inception in October 1993, the Bank has initiated and concluded cooperation agreements with several international organizations aimed at advancing its macro/sectoral goals. In particular, the Bank signed cooperation agreements with the Inter-African Coffee Organisation (IACO) that was aimed at supporting the African coffee economy. The Bank also concluded agreements with the United Nations Economic Commission for Africa (UNECA), the International Trade Centre (ITC), International Fund for Agricultural Development (IFAD), the United Nations’ Common Fund for Commodities (CFC), and the Arab Trade Financing Programme (ATFP). In 1997, the United Nations issued the Bank with a certificate of registration, thus, confirming the Bank’s status as a multilateral organization, in accordance with Article 12 of the UN Charter. This is considered important in assuring the Bank’s partners of its multilateral status.

In addition to signing cooperation agreements with other organisations, the Bank participated in various fora hosted by national, sub-regional, regional and international organizations, such as, COMESA, the African Union, International Cocoa Organization, the World Bank, African Development Bank, the United Nations, etcetera.

6.5.3 Membership Mobilisation

The Bank continued with its membership mobilisation campaigns targeted, primarily, at attracting other African countries that had not yet joined the Bank. In addition, the effort was aimed at mobilising more categories “B” and “C” shareholders. The mobilisation activities pursued over the years yielded results with the number of shareholders rising steadily from 79 in 1993, through 101 as at December 1995, to 112 at the end of 2003. This raised the amount of shares subscribed to 36,786 units with a nominal value of US\$367.86 million at the end of 2003 (Figure 6.1). For the purpose of achieving the spirit of international partnership envisaged by its founding fathers, efforts were made to attract more Class “C” shareholders from Europe, USA, Japan and the Gulf countries. Further, the Bank’s Management embarked on membership mobilization tours of North Africa, some western European countries and South Africa in a bid to mobilize more Classes “B” and “C” Shareholders. Following these mobilization campaigns, a number of non-African investors were, by July 2004, close to concluding arrangements in respect of their participation in the Bank.

6.5.4 Publications

As part of its contribution to the literature on African trade financing and statistics and in accordance with its Mission Statement, the Bank had, over the years, been releasing a number of publications. Notable among the Bank’s publications are:

- **Africa at a glance**: As the title implies, this is a snap-shot statistical publication, which the Bank has been publishing since 1998. This publication is aimed at availing investors, academics, analysts, policy-makers and all those interested in Africa’s social and economic development, a fast, but reasonably in-depth statistical view of recent socio-economic developments in the continent. In addition, the publication is meant to bridge the statistical gap, which most users, especially investors, have been so desperately looking for. The statistical information in this publication is assembled from different data sources and presented in their raw form to enable users to form their own opinions.
- **Africa in figures**: In pursuance of the Bank’s mandate of providing trade and investment facilitating information on Africa, the Bank has been issuing this biennial publication since 1998. As with other Bank publications, this one is aimed at meeting the needs of a wide spectrum of users in need of the availability of properly organized, time series data dating back from the 1970s, on the fundamental factors shaping the social and economic development of Africa.
- **African Trade Report**: The Bank started publishing this Report in 2001, focusing on developments in African trade as well as the political and economic factors that shaped the trade. In this regard, the Report discusses developments in commodities of trade interest to Africa. Further, the Report analyses the challenges facing African trade, including the opportunities available to African exporters.

- **Annual Report:** In compliance with Article 35 of the Bank Charter, the Bank publishes an Annual Report of its operations and activities during each particular year, including its audited Financial Statements covering the same period. The Report also contains a review of the global and African economic developments, which may have influenced or impacted on the Bank's operations during the period in review.
- **Occasional Papers:** These are publications released occasionally by the Bank and which present reports of research conducted by Bank staff. Exceptionally, research done by entities not on the staff of the Bank may be published, in so far as they address important challenges related to the work of the Bank.
- **Afreximbank Discussion Papers:** These are papers prepared by staff members for discussion at the Bank's Knowledge Sharing Seminars. Certain research work in progress may also be published to elicit debate for its further refinement.
- **Other Publications:** Most of these publications could be accessed through the Bank's website: <http://www.afreximbank.com>, and they include publications such as: *Afreximbank Programmes and Facilities; Something for Everyone; Do You Know?; African Trade Coming to the Fore; Afreximbank Country Risk Guarantee Facility; Checklist when applying for a Loan; Guidelines for Applying for a Line of Credit, etc.*

6.5.5 **Headquarters Building Project**

On December 2003, the Prime Minister of Egypt, H.E. Dr. Atef Ebeid, laid the foundation stone for the construction of the Bank's permanent Headquarters building in the Heliopolis suburb of Cairo. The building, which is a 12-Floor Complex including 10-over ground floors and two underground floors, is expected to be completed by 2005 (see picture).



Model of AFREXIMBANK Headquarters Building (under construction)

CHAPTER SEVEN

Conclusions, Lessons and Prospects

7.1 CONCLUSIONS

The story of the African Export-Import Bank narrated in an analytical form, in this book reveals an institution whose creation was justified; its mandate clear and focused; its constitutional basis apt for its purpose and the challenges it would confront; its establishment process arduous and meticulous; and its score-card after ten years vindicative of its sound conception. It also shows an institution created out of vision, courage, collective self-reliance, and commitment to make a difference. The visionary aspects of the Bank's founding rests on the fact that the gloomy days of its conception were more likely to generate pessimism rather than hope as well as the disappointing experience with attempts at African integration and trade collaboration. There was courage in that at that time many African economies were undergoing serious economic difficulties and it took courage therefore to ask Governments facing severe budget constraints to commit to invest equity in a project that would at best not solve their immediate problems and at worse turn out to be a "white elephant". The Afreximbank project also benefitted from a spirit of collective self-reliance, novel in those days. In this regard, apart from being a pan-African initiative, it also involved public/ private partnership of African entities supported by non-African investors. That this mix of investors resulted in a successful creation of the Bank was proof that the Founding Fathers of the Bank were committed to making a difference.

In view of the above, the results achieved in the past ten years were not altogether unexpected as the pioneer Management of the Bank carried a burden of conscience arising from the enormous sacrifices African Governments and other investors made to realize the project as well as the desire of non-African investors who supported the initiative to give the continent a benefit-of-the-doubt.

The results are evident – a Bank that experienced a tremendous organic growth which saw its total assets almost triple within its first ten years of operation. Other notable achievements within

the decade were a 1,585% increase in its loans and advances; a 208% rise in net income, a more than 1,200% increase in reserves; and keeping faith with shareholders when, in 1998, it became the first multilateral institution in Africa to pay dividends and maintained dividend payments every year since then. Dividend growth between 1998 and 2003 was 135%. The Bank had also been efficiently run with cost-income ratio below 22% from 2000 to 2003; and non-performing loans non-existent in the first three years and over the 10-year period attaining an average ratio of 2.56% of non-performing loans relative to gross loans.

The above financial performance was achieved even as the Bank implemented programmes and facilities that facilitated African trade, by providing credit and guarantees to African entities as well as advisory services. The Bank also actively leveraged international financing into Africa using a variety of instruments and began also a programme of promoting export manufacturing in a bid to promote the diversification of African exports by product and markets, among other important achievements.

With the solid financial performance and careful implementation of its mandate such that it brought complementarity and supplementarity in African trade finance, the Bank within a 10-year span became an influential partner and authority in matters of African trade with its participation in African syndicated deals providing a signal to other international banks to join such deals.

The above achievements were made through careful navigation of an external environment that was so volatile that it posed immense dangers to young financial institutions operating in so-called difficult markets. The success achieved by the Bank under such a scenario indicate that there are important lessons to be learnt from the Bank's experience. Below, an attempt is made to point out those lessons.

7.2 LESSONS OF AFRICAN TRADE FINANCE EXPERIENCE

The experience of the Bank in financing African trade during 1994 to 2003 throw up immense lessons. Some of the most important lessons are discussed hereunder:

- a) The success of the Bank is a vindication of the benefits of cooperation and the ability of Africans to solve their common problems through collective effort, if sufficiently challenged. Prior to the Bank's establishment, the conventional wisdom was that collaborative initiatives of that nature were unlikely to work in Africa. Pessimists cited lack of capital to adequately fund such an institution as well as lack of experienced management to deal with immense challenges such an institution would face. The success of the Bank laid this conventional view to rest and opens the door for more of such initiatives targeted at problems better dealt with through collective effort;
- b) The progress made by the Bank recommends involving the private sector in initiatives

promoted by the African public sector to serve the private sector. The involvement of the private sector in the Afreximbank project helped sharpen the focus of its constitutional documents. In this regard, the Charter signed by all shareholders, which was annexed to the Agreement signed by the Governments and multilateral institutions, made it possible for the Bank's operations to have commercial focus. Accordingly, it was possible to have structures and expectations that challenged the Management of the Bank to achieve results and to implement and price products in a manner that conformed to market. In fact, the ingenuity of the Bank's constitutional documents demonstrated a forward-looking group of Founding Fathers aware that the Bank needed the privileges and immunities in the Treaty to make it possible for it to operate under a difficult environment but also required a system that challenged as well as penalized and rewarded management for their actions and results achieved;

- c) The numerous shocks that hit the external environment posed immense risks through which the Bank navigated successfully. One reason for this was a reliance on established systems, and development of Strategic Plans. In this regard, Strategic Planning helped the Management of the Bank to find solutions to a variety of "What if" kind of questions. Ways out were found in every case which made it possible for the Bank to be adaptive in its operations, shifting emphasis and slants as the operating environment improved or deteriorated. It also helped the Bank to sharpen its focus on those things that would contribute to the attainment of clear objectives it set for itself and provided a framework for self-evaluation. It was therefore possible to predict where the Bank would be over any given period;
- d) The very low level of defaults on credit granted by the Bank demonstrated three key points;
 - i. the strength and usefulness of Structured Finance as an instrument of financing under a difficult environment. Structured Finance, in this regard, make it possible for risks to be decomposed, isolated and transferred from parties less able to bear them to those more equipped to bear them making it possible to make an unbankable deal bankable.
 - ii. the ability and willingness of African entrepreneurs to meet their obligations. It used to be that African entrepreneurs were dismissed as poor managers who do not understand the meaning of credit commitments they enter into. The Bank's 10 years of trade financing in Africa debunks this generalization. In fact, one lesson learnt by the Bank is that it is riskier to finance a non-African operating in Africa as these kinds of deals most times ended up in difficulties.
 - iii. the importance of local knowledge which the Bank had found helpful in selecting the right transactions for financing. Such local knowledge was gained from staff members who had operated in some of those markets and/or through the Bank's Trade Finance Intermediaries;

- e) The success the Bank had achieved in its Syndicated loan issues bring to the fore the value of unalloyed commitment to meet obligations as well as value of loyalty. The core group of banks that arranged all the Bank's syndicated loan issues were those the Bank had maintained the longest relationships with;
- f) Shareholder support is crucial to an institution like the Bank. In the case of the Bank, support given by Shareholders ensured that the Bank was properly capitalized to perform its functions. In a few cases when the Bank tested its preferred creditor status in some member countries, governments of these countries lived up to their treaty obligations which helped the Bank's credit operations to be implemented smoothly;
- g) For the Continent, one important lesson is the need to find solutions to the problems facing the commodity sector. As seen in this book, commodity exports of Africa are undergoing immense difficulties. To ensure that commodity exports continue, in the short term, it is important to remedy the institutional gaps arising from the dismantling of commodity boards in order to restore predictability to the sector. Under-capitalised and untested private sector entities that could hardly handle the commodity export business efficiently have emerged to fill the vacuum left by the dismantling of commodity boards. But these entities lack the requisite experience and other institutional facilities provided under the Board arrangement, such as quality control, warehousing and contract compliance capabilities. This development rendered the financing of African trade more risky at a time when more resources were needed to support the sector's growth. To mitigate the perceived risk of *financing* 'start-up' traders in commodities, African countries must introduce appropriate financing vehicles, such as lease financing, to enable them acquire the necessary logistics for effective trading. In addition, effort should be made to ensure the emergence of credible warehousing companies to provide a vehicle for mitigating export performance risks and facilitate access to financing;
- h) Availability of both short-term pre- and post-export credit as well as project-related financing is crucial in diversifying Africa's export base from the current composition of mainly agricultural and extractive commodities into manufactures, floriculture, horticulture and services. If the export diversification process is to be successful, export finance must be obtained at competitive terms. Further, experience shows that promoting the export of manufactures does not necessarily end with provision of financing. In fact, in many cases, financing was the least of the constraints as African entrepreneurs lacked the technical know-how, market knowledge and other qualities needed for successful export manufacturing. To promote export manufacturing, therefore, requires a systematic approach along the lines provided under the Bank's newly introduced Export Development Programme discussed extensively in Chapter Five;
- i) In the Bank's assessment, promoting intra-African trade could not depend solely on financing, if any meaningful progress is to be achieved. The Bank's experience shows that it was not enough to pay only lip-service to this matter, but African Governments could do more to promote the trade by simplifying immigration procedures to ease the

movement of people within Africa. They should also sincerely apply market access opportunities agreed under numerous bilateral/ multilateral agreements to promote the trade. Further, encouraging the growth of intra-African trade requires the development of strong correspondent banking relationships amongst African banks. Currently, African banks and traders are reluctant to accept African payment risk. A mechanism to make African payment risk acceptable to African financiers and traders is therefore required, if intra-African trade is to grow and contribute to the development of the continent. One way to start is through making African bankers to understand themselves as in most cases, perception is reality and the risk perceived may not really be there. Afreximbank began an effort in this regard by promoting an African Bankers Forum (ABF) discussed in detail in Chapter Six;

- j) The analyses conducted herein, reveal that the central African sub-region is the sub-region that consistently received the least of trade finance flows in Africa. It has been argued that one source of the problem is the limited activity of the Bank in that region, given that not many countries there were members of the Bank. To deal with this problem, requires that countries of that sub-region should join others as members of the Bank to enable the Bank to expand its operations in the sub-region and by so doing improve trade finance flows to those countries;
- k) Above all, African countries must deepen and hasten the pace of economic and political reforms embarked upon in the early 1990s, as this would be the only sustainable way to achieve the much-needed macroeconomic and political stability, which are both critical factors for attracting foreign capital inflows, particularly trade financing flows.

7.3 PROSPECTS

It is common knowledge that banks face the most risk of failure in their initial five years as systems would still be fragile and market knowledge shallow. Given that the Bank had not only survived the first ten years but had made a success of it, it seems safe to say that its future in the service of the Continent looks secure. The challenges ahead nevertheless, remain immense and the Bank has to be as adaptive as ever to continue to fulfil its mission effectively. Some of those challenges include the lingering uncertainties in the global environment, volatile commodity prices, the introduction of Basle II and what it may mean to the operations of the Bank and other international banks; the pressure to add more value by more aggressively financing export projects and intra-African trade and expectations of shareholders for even better performance. In the next 5 or perhaps 10 years, the Bank would be under the stewardship of a new President. As with all transitions, such a change would bring new challenges and pressures. The new management will have to convince the Bank's partners about their plans to meet or even surpass what had so far been achieved. These challenges would bring pressures which a careful continuation of the cautious approach of the past ten years can only help to deal with. As the second Plan would

still be in effect for about two more years, the new management will have a benefit of a well thought-out and debated strategy document to guide it. Accordingly, the Bank foresees a more successful next ten years in the service of the continent.

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ANNEX 1: AFREXIMBANK: CORPORATE MILESTONES

Below is a calendar of corporate milestones relating to the establishment and development of Afreximbank:

Date	Event
June 1987:	AfDB's annual meeting adopts resolution authorizing study by AfDB management into the establishment of an African export-import bank .
October 1987:	Study launched under the auspices of the AfDB.
Oct.1987 – Oct. 1992:	Study period involving missions, consultations and finalization of the study.
November 1992:	AfDB Board of directors approves participation in the equity capital of Afreximbank and authorizes its management to initiate formal consultations with prospective shareholders.
January 1993:	First consultative meeting of potential shareholders in Cairo. Bank's capital fixed at US\$ 500 million, with approximately US\$ 100 million subscribed on that occasion.
May 1993:	Constituent General Assembly Meeting in Abidjan, Cote d'Ivoire. Authorized capital of the bank raised to US\$ 750 million. Foundation Governments sign Bank Agreement.
October 1993:	First general meeting of shareholders in Abuja, Nigeria: • Establishment Agreement and Charter adopted. • First President elected (Mr. Christopher Edordu). • Board of Directors elected. • Cairo, Egypt selected as location of the Bank's headquarters. • Harare, Zimbabwe selected as location of the Bank's first branch office.
December 1993:	Inaugural meeting of the Board of Directors in Cairo. Three-member Executive Committee established to make investment, guarantee and financing decisions.

Date	Event
March 1994:	President officially assumes duty in Cairo.
September 1994:	First trade finance transaction undertaken.
November 1994:	Official launching of the Bank's operations.
December 1994:	Relocation from Semiramis Inter Continental Hotel, Cairo to its temporary offices at World Trade Center, Cairo.
October 1995:	Registration of the Establishment Agreement with the United Nations as an "international agreement" and therefore recognized as a multilateral organization under Article 12 of the UN Charter.
January 1996:	First Strategic Plan covering the period 1996 to 2000 launched.
November 1996:	First branch office opened in Harare, Zimbabwe.
May 1998:	The General Meeting approved the first dividend payment by the Bank, conforming to the projections in the Feasibility Study for the Establishment of the Bank.
April 2000:	First syndicated Euroloan in an amount of US\$100 million and involving 20 banks successfully concluded.
January 2001:	Second Strategic Plan covering the period 2001 to 2005 launched.
May 2001:	Completion of second syndicated Euroloan in an amount of US\$140 million involving a syndicate of 25 international financial institutions.
November 2001:	African Bankers' Forum, an initiative aimed at promoting business relationships among African commercial banks launched in collaboration with West African Bankers' Association and COMESA Bankers' Association.

Date	Event
May 2002:	Completion of third syndicated Euroloan in an amount of USD 85 million involving a syndicate of 25 international financial institutions.
July 2002	Creation of an Export Development Finance Department aimed at promoting export manufacturing in Africa.
November 2002	Completion of fourth syndicated Euroloan in an amount of USD 85 million involving a syndicate of more than 25 international financial institutions.
January 2003	Second Branch Office opened in Abuja, Nigeria.
March 2003	Third Branch Office Agreement signed and office space made available.
November 2003	Dual tranche syndicated term Euroloan in an amount of US\$180 million involving more than 30 international financial institutions.

ANNEX 2: LIST OF AFREXIMBANK SHAREHOLDERS AS AT 31ST JULY 2004

CLASS "A" SHAREHOLDERS

#	NAME	PIONEERS
1	FEDERAL REPUBLIC OF NIGERIA	*
2	CENTRAL BANK OF EGYPT	*
3	AFRICAN DEVELOPMENT BANK	*
4	RESERVE BANK OF ZIMBABWE	*
5	BANQUE CENTRALE DE TUNISIE	*
6	GOVERNMENT OF COTE D'IVOIRE	*
7	GOVERNMENT OF KENYA	*
8	GOVERNMENT OF ETHIOPIA	*
9	BANK OF GHANA	*
10	GOVERNMENT OF SENEGAL	
11	BANCO NACIONAL DE ANGOLA	*
12	BCEAO	
13	GOVERNMENT OF NAMIBIA	*
14	BANK OF TANZANIA	*
15	NATIONAL BANK OF ETHIOPIA	*
16	GOVERNMENT OF GUINEA	*
17	BANQUE CENTRALE DE GUINEA	*
18	BANK OF ZAMBIA	*
19	BANK OF SIERRA LEONE	*
20	GOVERNMENT OF MAURITIUS	
21	BANK OF MAURITIUS	*
22	GOVERNMENT OF NIGER	
23	GOVERNMENT OF MALI	
24	BANK OF GAMBIA	*
25	BANQUE CENTRALE DE MAURITANIE	*
26	GOVERNMENT OF BURKINA FASO	
27	GOVERNMENT OF GABON	*
28	GOVERNMENT OF MALAWI	*
29	GOVERNMENT OF BENIN	*
30	BANCO DO MOZAMBIQUE	*
31	BANK OF SUDAN	*
32	BANK OF UGANDA	*
33	PTA BANK	*
34	GOVERNMENT OF BOTSWANA	*
35	BANCO DO CABO VERDE	*
36	GOVERNMENT OF RWANDA	*
37	AFRICARE	*

CLASS "B" SHAREHOLDERS

#	NAME	PIONEERS
1	NATIONAL BANK OF EGYPT	*
2	BANQUE DU CAIRE	*
3	BANK MISR	*
4	BANK OF ALEXANDRIA	*
5	NIGERIAN EXPORT-IMPORT BANK	*
6	BRAWAL SHIPPING LINES LTD	*
7	ODOGWU GROUP OF COS LTD	*
8	SBM GLOBAL INVESTMENTS LIMITED	
9	LIBERTY MERCHANT BANK LTD	*
10	INDUSTRIE BENINOISE DE REFRIGERATION	*
11	EXPORT DEVT BANK OF EGYPT	*
12	SOCIETE NAT. D'INVEST. DU GABON	*
13	UNION BANK OF NIGERIA	*
14	FIRST BANK OF NIGERIA PLC	*
15	COMMERCIAL BANK OF ETHIOPIA	*
16	ETHIOPIAN INSURANCE CORPORATION	*
17	AFRIBANK	*
18	BANQUE CENTRALE POPULAIRE	*
19	NAL MERCHANT BANK PLC	*
20	BANQUE MAURIT. POUR LE COM. INT.	*
21	UNITED BANK OF AFRICA	*
22	CAISSE NAT. DE CREDIT AGRICOLE	*
23	ECOBANK-NIGERIA	*
24	AFRICAN INTERNATIONAL BANK LTD	*
25	PACIFIC MERCHANT BANK	*
26	ALLIED BANK	*
27	EKO INTL. BANK OF NIGERIA	
28	ARAB INVESTMENT BANK	*
29	BANQUE MAROCAINE DU COM. EXT.	*
30	UGANDA COMMERCIAL BANK	*
31	CHINGUITY BANK	*
32	DEVELOPMENT BANK OF MAURITIUS	
33	STATE INVESTMENT CORPORATION	
34	MAURITIUS COMMERCIAL BANK	

CLASS "B" SHAREHOLDERS

#	NAME	PIONEERS
35	SIB INTERNATIONAL	*
36	ETS M.C.K.	*
37	LA SOCIETE DE COMMERCE ET DE FINANCEMENT DE GUINEE	
38	INLAND BANK NIGERIA PLC	
39	SUMMA HOLDINGS NIGERIA LTD	*
40	NATIONAL INSURANCE CORPORATION	
41	INDIAN OCEAN INTL. BANK	
42	SOUTH EAST ASIAN BANK	
43	STATE TRADING CORPORATION	
44	ECOBANK-BENIN	*
45	ECOBANK-GHANA	*
46	BANQUE GABONAISE DE DEV.	*
47	SOCIETE CAMEROUNAISE DES INDUSTRIES ARO-ALIMENTAIRES	*
48	GHANA REINSURANCE ORGANISATION	*
49	DARA-SALAM GROUP LTD	*
50	VANSCO AIR FREIGHT	*
51	THE PEOPLE'S BANK OF ZANZIBAR LTD.	*
52	OCEANIC BANK INT. (NIG) LTD	*
53	ECOBANK - TOGO	
54	GREENLAND BANK LIMITED	
55	NATIONAL BANK OF KENYA	
56	INDUSTRIAL DEVELOPMENT BANK	
57	GENESIS INVESTMENT BANK LIMITED	
58	FIRST BANKING CORPORATION LIMITED	
59	FIDELITY BANK PLC	
60	TRUST BANK CORPORATION LIMITED	
61	GULF BANK OF NIGERIA PLC	
62	INTERFIN MERCHANT BANK OF ZIMBABWE LIMITED	
63	GUARANTY TRUST BANK PLC	
64	STB CAPITAL MARKETS PLC	

CLASS "C" SHAREHOLDERS

#	NAME	PIONEERS
1	BADEA	
2	EXIMBANK OF CHINA**	*
3	CITIBANK	
4	STANDARD CHARTERED BANK	*
5	HSBC EQUATOR BANK PLC	*
6	KREDITETBANK NV	
7	EXPORT-IMPORT BANK OF INDIA	*
8	MERIDIAN BIAO	*
9	BANCO DO BRASIL	*
10	CREDIT COMMERCIAL DE FRANCE	
11	SUMITOMO MITSUI BANKING CO	
12	PRYOR McLENDON, COUNTS & CO	*

** Exim China acquired the shares of Bank of China.

ANNEX 3: AFREXIMBANK LOGO



The logo has four main features described below:

- First, it bears broadly the map of Africa, indicating the pan-African or continent-wide character of the institution.
- Second, it shows open or undrawn edges of the continent's borders, indicating the openness of Africa to both outflows and inflows of its exports and imports and the Bank's readiness to cooperate with institutions both within and outside Africa in financing exports from and imports into the continent.
- Third, the Logo's active colours are green and yellow. The green colour depicts the optimism for blossoming intra -and extra-African trade across the continent and beyond its borders. The yellow colour depicts Afreximbank as a shining star and a leading institution for financing short-term trade in Africa. The house colour is therefore green and yellow (together or singly) but the Logo can also be presented neutrally in black and white.
- Fourth, the middle line on the Logo shows the AFREXIMBANK traversing the continent as a symbol of a bold institution designed to contribute to balanced growth and development of our continent.