



AFREXIMBANK: 20 YEARS PROMOTING AFRICAN TRADE





PROMOTING
AFRICAN TRADE

AU SERVICE DU
COMMERCE AFRICAIN

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FOREWORD

Afreximbank is 20 years old! Two decades in the life of an institution is an important feat worth celebrating. For Afreximbank, a continental trade finance institution which was established to address inhibitions to trade development in Africa following the severe global and African economic difficulties that emerged at the beginning of the 1980s, its Twentieth Anniversary provides a unique opportunity for all Stakeholders, including its Founding Fathers, Shareholders, Partner institutions, Clients, etcetera to pause to assess the extent to which the Bank has been able to fulfill its mandate of promoting African trade development while operating as a commercially viable entity.

This occasion therefore gives me pleasure and great honour to have the opportunity to write the foreword to this special 20th Anniversary Publication, which documents the history, founding philosophy and objectives for the establishment of the Bank; reviews the operations and activities of the Bank with regards to the operational and financial targets set in its various strategic plans; and establishes the extent to which the dreams and aspirations of the Founding Fathers have been achieved. This book puts into appropriate context the difficult operating environment in which the Bank's operations and activities were conducted over the past twenty years and the tenacity of purpose, dexterity and ingenuity with which the Bank's affairs were managed, and reflects the current optimism about the capacity of Africans to address their problems when sufficiently challenged. It also highlights the commendable strides made by the Bank, including its strong financial performance, credibility in the international credit markets evidenced by its investment grade credit ratings by the three leading international Credit Ratings Agencies and repeated oversubscriptions for its syndicated loans and bond issuances in the international credit markets, the constructive partnerships it has forged to support its operations and activities, and the significant contribution it had made towards trade and economic development in its member states during two decades of its corporate existence.

The Bank could not have achieved these successes without the support of its Founding Fathers, Shareholders, and Partner Institutions, among others, some of whom I wish to acknowledge. I take this opportunity to pay tribute to the Founding Fathers of the Bank for their vision in conceiving the idea of the formation of the Bank and the unbending commitment and invaluable sacrifices they made which led to the establishment of the Bank in October 1993. In this regard, I wish to place on record the pioneering role played by the African Development Bank (AfDB) under the leadership of Dr. Babacar Ndiaye. The AfDB and Dr. Ndiaye deserve special mention in this book for without the vision of President Ndiaye and unflinching support of the Management of AfDB, the Afreximbank project may not have been realised. I wish to also acknowledge the sterling contribution of

the pioneer President and Chairman of the Board of Directors of the Bank, Mr. Christopher Chuka Edordu, who, out of the constitutive documents, created Afreximbank as a physical going concern, and his capable pioneer and subsequent Board of Directors and Management for their dedication to the Afreximbank project, and the impeccable professionalism with which they laid a solid, fool-proof foundation for the operations of the institution during the first ten years.

When I took over the stewardship of the Bank from the pioneer President, I was fully aware of the numerous responsibilities and challenges we needed to successfully manage in order to meet the aspirations of the Founding Fathers and other stakeholders of the Bank. I was optimistic that I could count on the support of all stakeholders and that with the support of all and sundry, we will succeed in building on the foundation that had been laid, and in so doing, move our Bank to a higher pedestal. The operational and financial performances presented in this book attest to the fact that the anticipated support of our shareholders, board members, partner institutions and staff were magnanimously availed to the Bank's Management, which made it possible for me to continue in the successful path that my predecessor set for the Bank. Thus, we all deserve a pat on the back for the commendable results reported in this book.

The preparation of this publication was the responsibility of Staff of the Bank's Research, Planning and International Cooperation Department as well as short term staff. Other departments of the Bank provided important materials and data in support of preparation of this book. On behalf of the Board and Management of the Bank, I would like to thank them for their tireless efforts and hard work in producing this document. It is, however, possible that some readers of this publication who were involved in the formative stage of the Bank and/or who identified with the operations of the Bank at one point or the other during the twenty years of the Bank's existence might notice some omissions and errors in the publication despite the due care with which it has been written. I would like to invite readers who may notice such important omissions to draw the Bank's attention to them so that future efforts to document the Bank's history will take them into account.

It is our hope that stakeholders and readers of this publication will find it a useful reference material and that the achievements, challenges and lessons documented in this book will inspire Africans and their non-African partners to continue to use collective and visionary efforts to pursue results-oriented strategic programmes to address the trade and economic development challenges currently facing our beloved continent.

Jean-Louis EKRA

President and Chairman of the Board, Afreximbank

June, 2013

ABBREVIATIONS

AAIFI	Association of African International Financial Institutions	AUC	African Union Commission
ABA	African Bankers' Association	BADEA	Arab Bank for Economic Development in Africa
ABF	African Bankers' Forum	BIS	Bank for International Settlements
ACBF	African Capacity Building Foundation	BLADEX	Banco Latinoamericano de Comercio Exterior
ACP	Africa, Caribbean, and Pacific Group of state	BOAD	West African Development Bank
ADB	Asian Development Bank	BOT	Build, Operate, and Transfer
ADFP	Afreximbank Direct Financing Programme	BOOT	Build, Own, Operate, and Transfer
AEDFP	Afreximbank Export Development Programme	BRIC	Brazil, Russia, India and China
AfDB	African Development Bank	BRICS	Brazil, Russia, India, China and South Africa
AFPPF	Afreximbank Future-Flow Pre-payment Financing	CAF	Banco de Desarrollo de América Latina
AFREXIMBANK	African Export- Import Bank	CAR	Capital Adequacy Ratio
AFRICOIN	African Cocoa Initiative	CBA	COMESA Bankers' Association
AFRICOR-RBANKING	African Correspondent Banking and Letter of Credit Confirmation Scheme	CBE	Commercial Bank of Ethiopia
AGM	Annual General Meeting	CCPIT	China Council for Promotion of International Trade
AISFP	Afreximbank Infrastructure and Services Financing Programme	CDB	China Development Bank
AKFTA	ASEAN Korea Free Trade Area	CISFTA	Commonwealth of Independent States Free Trade Area
ALCO	Assets and Liabilities Committee	COFACE	Compagnie Française d'Assurance pour le Commerce Extérieur
ALCP	Afreximbank Local Currency Programme	COMESA	Common Market for Eastern and Southern African
ALOCP	Afreximbank Line of Credit Programme	CONDICAF	Conditionnement de Cacao et Café
AMU	Arab Maghreb Union	CONTOUR	Construction/Tourism-Linked Relay Facility
APRM	African Peer Review Mechanism	COPAL	Cocoa Producers Alliance
ASEAN	Association of Southeast Asian Nations	COTICO	Cotton Company of Zimbabwe
ASP	Afreximbank Syndications Programme	DBSA	Development Bank for Southern Africa
ASRP	Afreximbank Special Risks Programme	DFI	Development Finance Institution
ATFP	Arab Trade Financing Programme	DSB	Dispute Settlement Body
ATIA	African Trade Insurance Agency	EAC	East African Community
AU	African Union	FRN	Floating Rate Note

FSB	Financial Stability Board
FTA	Free Trade Agreement
GAMCEL	Gambia Telecommunications Cellular Company Limited
GAMTEL	Gambia Telecommunications Company Limited
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIB	Ghana International Bank
GNEXID	Global Network of EXIM Banks and Development Finance Institutions
GSP	Generalized System of Preferences
GTLP	Global Trade Liquidity Programme
IACO	Inter-African Coffee Organization
ICCO	International Cocoa Organization
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFG	International Factors Group
IIF	Institute of International Finance
IMF	International Monetary Fund
EADB	East African Development Bank
EBID	ECOWAS Bank for Investment and Development
ECAs	Export Credit Agencies
ECCAS	
ECOWAS	Economic Community of West African States
EDFP	Export Development Finance Programme
EDP	Export Development Programme
EFSF	European Financial Stability Facility
EFTA	European Free Trade Association
EKN	Swedish Export Credit Guarantee Board
EMC	Emergency Management Committee

EMEA	Europe, the Middle East, and Africa
EMTN	Euro Medium Term Note
EPAs	Economic Partnership Agreements
ESMC	Environmental and Social Risk Management Committee
ETI	ECOBANK Transnational Incorporated
EU	European Union
EWG	ECONET Wireless Global
EWZ	ECONET Wireless Zambia
FAL	Final Acts of Lagos
FBN	First Bank of Nigeria
FDI	Foreign Direct Investment
FIB	First International Bank
FOCAC	Forum on China Africa Cooperation
FOMC	Federal Open Market Committee
INTRAFAP	Intra-African Trade Facilitation Programme
L/Cs	Letters of Credit
LIBOR	London Inter-Bank Offer Rate
LATAM	Africa and Latin America
LMA	Loan Market Association
LPA	Lagos Plan of Action
LTRO	Long Term Refinancing Operation
MANCOCO	Management Compliance committee
MFI	Multilateral Financial Institutions
MOU	Memorandum of Understanding
MSCs	Mining Service Companies
NAFTA	North American Free Trade Agreement
NBE	National Bank of Egypt
NEPAD	New Partnership for Africa's Development
NEXIM	Nigerian Export-Import Bank
NGOs	Non-Governmental Organizations
NNPC	Nigerian National Petroleum Corporation
NTEs	Non-Traditional Exports

NTF	Nigeria Trust Fund
OAU	Organization of African Unity
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OGSCs	Oil and Gas Service Companies
OIC	Organization of Islamic Conference
OPEC	Organization of Petroleum Exporting Countries
OPG	OLAM Palm Gabon
PAFTRAC	Pan African Private Sector Trade Policy Committee
PFI	Project Finance Intermediaries
PTA	BANK Preferential Trading Area Bank
RCF	Revolving Credit Facility
RECs	Regional Economic Communities
RFP	Request for Proposal
RISTRAC	Risk and Strategic Committee
ROA	Return on Average Asset
ROAE	Return on Average Equity
RPA	Risk Participation Agreement
RTA	Regional Trade Agreements
SADC	Southern African Development Community
SAPs	Structural Adjustment Programmes
SEPLAT	Seplat Petroleum Production Company
SLB	Sale and Leaseback

SLP	Syndicated Loans Programme
SMEs	Small and Medium-Scale Enterprises
SSA	Sub-Saharan Africa
STF	Structured Trade Finance
TCG	Trade Credit Guarantee
TCPP	Trade Cooperation and Promotion Programme
TFIs	Trade Finance Intermediaries
UNCF	United Nations Common Fund for Commodities
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
WABA	West African Bankers' Association
WAEMU	West African Economic and Monetary Union
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WTO	World Trade Organization
ZANACO	Zambia National Commercial Bank
ZESCO	Zambia Electricity Supply Company
ZETDC	Zimbabwe Electricity Transmission and Distribution Company
ZETREF	Zimbabwe Economic and Trade Revival Facility

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CHAPTER ONE:

INTRODUCTION/EXECUTIVE
SUMMARY

1. INTRODUCTION/EXECUTIVE SUMMARY

The African Export-Import Bank (“Afreximbank” or the “Bank”) was created as a regional trade finance institution based on a unique international public-private partnership among African public and private investors and non- African investors to spearhead trade development in Africa by promoting and financing intra- and extra-African trade. The idea of a continental trade finance bank was conceived by African Ministers of Finance who attended the Annual Meeting of the Board of Governors of the African Development Bank (AfDB) in May 1987 in Cairo, Egypt. At that meeting, the management of AfDB was mandated to initiate studies to determine the feasibility of establishing a continental trade finance institution to promote the development of intra- and extra- African trade by addressing the challenges to trade development in the continent. Those challenges included, among others, the low level of intra-African trade, decline in trade and project finance flows to the continent and worsening external debt position of many African countries. The Ministers were of the view that a specialized continental financial institution was needed and that such an institution would be viable. The outcome of the feasibility study pointed to the viability of setting up such an institution. Following conclusion of preparatory works for its establishment, the Bank was formally launched at the maiden General Meeting of Shareholders that was held

in October 1993 in Abuja, Nigeria.

As an international public–private partnership, the Bank was expected to operate in a manner that meets the trade and economic development aspirations of its public sector shareholders while using commercial approaches to create and deliver to its private sector shareholders remunerative financial returns on their investments in the Bank --- a balancing act that the Bank’s Board and Management have successfully managed to achieve during approximately twenty years of the Bank’s corporate existence.

To mark the twentieth anniversary of the establishment of the Bank, this Special 20th Anniversary Publication (the “Book” or the “Report”) documents the history, founding philosophy and objectives for the establishment of the Bank; reviews the operations and activities of the Bank, its performance in terms of the operational and financial targets set in its various strategic plans; and the near- to medium-term prospects of the Bank. The Report is intended to serve as a useful reference material to the Bank’s stakeholders and potential investors on the performance of the Bank over the past two decades vis-à-vis the objectives for which the Bank was established and against the backdrop of the operating environment within which it conducted its business.

The rest of this Book is organized in six Chapters. Chapter Two examines the global and African eco-

economic antecedents to the creation of the Bank while Chapter Three discusses the processes and activities leading to the formal establishment of the Bank as well as critical elements of the Bank as drawn from its Constitutive documents. Chapter Four reviews the global and African operating environments in which the Bank's operations and activities were carried out during the past twenty years followed in Chapter Five by a discussion of the Bank's planning processes and an in-depth analysis and assessment of the Bank's operational and financial performances in the context of the corporate objectives set under its medium-term strategic plans. A sample of operational transactions and activities showcasing the development impact of the Bank's business are discussed in Chapter Six. Chapter Seven elaborates on the medium-term prospects for African trade and the Bank's business, and concludes highlighting important lessons for the development of African trade, going forward.

The Book shows that the challenges in the global and African macroeconomic environments that necessitated the creation of Afreximbank were quite detrimental to Africa's economic development aspirations. During the period from the late 1970s to the mid-1980s, the global economy weakened considerably reflected by sharp deceleration in the rate of growth of the economies of member countries of the Organization for Economic Cooperation and Development (OECD) largely as a result of adverse movements in commod-

ity prices, especially the oil price shock of the early 1980s. The slowdown of the economies of the OECD countries seriously dented demand for Africa's export commodities, which resulted in low export prices and export revenues for many commodity-dependent African countries. Besides the serious economic difficulties arising from the unfavorable external economic environment, poor macroeconomic management, and decline in net exports coupled with severe external debt service difficulties also limited the access of African counterparties to much-needed external trade and project financing. It was against this backdrop of challenging global and African macroeconomic environments and the obviously dismal prospects for growth and development of African trade that the idea for the creation of Afreximbank was mooted in 1987. The Book also notes that the case for the creation of the Bank was strong and a visionary collective action required to address the trade development challenges the continent faced during the 1980s, considering the growing realization at the time that trade could contribute immensely to the transformation of African economies in light of the growing narrative regarding the instrumental role trade played in driving the transformation of the economies of the so-called Asian Tigers.

The African Ministers of Finance at a Meeting in June 1987, adopted a historic Resolution (Resolution B/BG/87/09) requesting the Management of AfDB to initiate studies on the desirability of establishing a re-

gional institution to provide trade finance facilities to support African trade, especially intra-African trade. The Resolution was adopted by African Ministers as a result of concerns regarding the deteriorating macroeconomic situation in Africa and other challenges to trade development in the continent, which in their view, could be better addressed through visionary collective efforts on the part of African governments and their development partners.

The Book highlights some of the institutions that made key contributions toward the establishment of the Bank, including the African Development Bank (AfDB), under President Dr. Babacar Ndiaye, which initiated the Afreximbank project, mobilized potential African and non-African investors to join as shareholders of the Bank, provided secretarial, logistic and banking support for the initiative, and committed significant resources in the form of manpower and equity investment, among others. The United Nations Development Programme (UNDP), through the effort of its Regional Director for Africa, Mr. P. C. Damiba, provided funding for the preparation of the Feasibility Study that established the commercial viability of the Bank. Another institution that supported the creation of the Bank included the National Bank of Egypt (NBE), which apart from being a major investor in the Bank, also provided tremendous assistance at the pre-operational stage of the Bank, including hosting of many meetings and assisted the Bank at the early

stages in obtaining critical approvals necessary for its operational take-off, and whose Chairman at that time, Mr. Mahmud Abdel-Aziz, facilitated negotiations of the Headquarters Agreement that was signed between the Bank and the Government of the Arab Republic of Egypt. In addition, pioneer shareholders, including the Governments of Egypt, Nigeria, Zimbabwe, Côte d'Ivoire, Senegal and Tunisia provided equity investment and financial and non-financial support; and international banks such as Standard Chartered Bank, Export-Import Bank of India (Exim-India) and Pryor McClendon Counts and Co, USA provided invaluable support for the Bank's operational take-off. The book also shows that the two Constitutive Documents of the Bank: "**The Agreement**" establishing the Bank and which confers on the Bank the status of an international organisation was signed by Member States in Abidjan, Côte d'Ivoire, on May 8, 1993; and the "**Charter**", annexed to the Agreement and which regulates the corporate dealings of the Bank, was signed by all shareholders, including signatories to the Agreement, and private sector entities who are not party to the Agreement.

With regards to the operating environment during the Bank's corporate existence, the report suggests that the performance of the global economy during the last 20 years was characterised by major cyclicity occasioned by negative shocks, including the financial crises of the 1990s in Asia and Latin America, and the

global financial and economic crises of 2008/9 amid the economic successes of the group of developing economies led by Brazil, Russia, India and China (the “BRICs”),¹ deepening of regional integration in Europe (with the introduction of the Euro), and continued recourse to multilateral and bilateral arrangements in international trade and economic relations around the world. The period also saw a steady improvement in the global trading environment following the establishment of the World Trade Organization (WTO) in January 1995; some improvements in macroeconomic fundamentals across the developing world, including Africa following the implementation of economic reforms; changing direction of trade with the rising importance of many emerging economies, particularly Brazil, China, India and other major “South” economies in global trade and sustained growth in South-South trade. Commodity prices experienced strong rally during the first half of the 2000s on the back of sustained expansion of global manufacturing and firm demand for commodities by emerging and developing economies led by China and India.

It is pertinent to note that, notwithstanding the multiplicity of challenges that emerged in the global and African operating environments during the period, the Bank made tremendous strides in achieving its twin-goal of operating as a commercial entity by making

¹ The original grouping made up of Brazil, Russia, India and China (BRICs) has been expanded to include South Africa and abbreviated as BRICS.

reasonable returns to shareholders while successfully pursuing the goal of trade development in Africa. In this regard, the Bank successfully deployed its financial programmes and facilities under its credit operations to support African trade expansion and diversification as well as export development such that cumulative credit approvals, since its inception, grew steadily to reach US\$25 billion at the end of 2012. Further, gross loan outstandings grew at an average annual rate of 28% from a level of US\$27.5 million in 1995 to US\$3.1 billion at the end of 2012. The stellar growth in loan outstandings propelled a consistent growth in the Bank’s assets to US\$3.73 billion at the end of 2012. Further, the Bank’s net income rose at an average annual rate of 14% from US\$6 million in 1995 to US\$64.8 million in 2012, and enabled the Bank to consistently pay out increasing amounts as dividends to shareholders over the years. Return on Assets (RoA) and Return on Equity (RoE) also remained strong during the period. In spite of the rapid growth in loan portfolio, the quality of the Bank’s loan asset was not impaired evidenced by the Bank’s average non-performing loans as percentage of gross loans outstanding standing well below 2%, with the average cost/income ratio for the period 1995-2012 being 25.6%, significantly lower than the industry benchmark of over 50%.

The book further notes that the Bank made significant impact on trade and economic development in the continent by supporting various bankable trade and project ventures in its member countries during

the approximately 20 years of its corporate existence. In this regard, the Bank’s operations and activities impacted African trade and economies via several channels, including the promotion of local content across Africa’s enclave extractive industries; financing of trade-supporting infrastructure, especially in aviation, power and telecommunications to facilitate Africa’s integration into the global economy; supporting on-going efforts at diversification of exports by financing the processing of commodities for exports; and supporting large scale agricultural production and agro-processing ventures in Africa, among others. The Bank’s capacity building and other initiatives directed at facilitating African trade and integration are also discussed in the Book.

The Bank’s syndications, country risk and investment guarantee programmes, among others, also enabled it to leverage financing into the continent to support various bankable trade and trade-related projects in Africa during the almost 20 years of operations. The Bank’s strategic and results-oriented alliances with relevant multilateral and regional development agencies and financial institutions as well as African and non-African commercial banks, which have been very supportive of its operations and activities, also underscore the Bank’s position, regionally and globally, as the “Trade Finance Bank of Africa” and preferred partner in the arranging of “big ticket” syndicated trade and project financing in support of African counterparties. Fur-

ther, the Bank is increasingly becoming a partner of choice in the design and implementation of policies and programmes aimed at facilitating trade development in Africa.

Looking ahead, the Bank expects the global economy to improve somewhat over the near- to medium-term on the back of expected return to moderate-to-strong growth in the United States; successful resolution of the sovereign debt crisis of the Eurozone bloc due to the unbending resolve of the Eurozone authorities to restore growth and create jobs; and unrelenting robust expansion of the group of developing economies. Growth of the African economies, as a group, is also expected to improve over the near- to medium-term buoyed by firm commodity prices; steady pickup in capital inflows as a result of expected growth in foreign direct investment (FDI) by multinational corporations expanding their operations into Africa; forecast modest improvement in social and economic infrastructure as African sovereigns enter the international bond market to mobilise resources to fund infrastructure development; continued recourse to growth-enhancing macro-economic policies; and pursuit of export-led growth strategies and greater access of African exporters to developed countries’ markets.

On account of the expected gradual improvement in the global and African macroeconomic environments over the near- to medium-term, the Bank plans to grow its loan asset from a level of US\$3.1 billion at the end

of December 2012 to about US\$5 billion by the end of December 2016 with the view to having a meaningful impact on African trade and trade finance. Besides, under its fourth strategic plan, 2012-16 (Plan IV), the Bank intends to consolidate its position as “the Trade Finance Bank for Africa” and a market leader in Africa in five product areas, namely: (i) Trade Finance, (ii) Syndications, (iii) Export Development; (iv) Research and Training; and (v) Risk-bearing facilities. Further, the Bank plans to deepen activity regarding the development of African trade with emphasis on five key trade development impact activities, namely: (i) promotion of intra-African and South-South trade; (ii)

expansion of manufactured and service exports; (iii) facilitate access of African entities to trade finance at affordable terms; (iv) support activities that promote commodity market efficiency as well as African content promotion in extractive industries; and (v) capacity building for trade negotiations and trade finance.

The Bank believes that the pursuit of the above objectives of Plan IV, will enable it to improve its financial performance; enhance its credit ratings; contribute to raise the share of African trade in global trade; enhance intra-African trade share of total African trade; and contribute to trade and economic development in Africa over the medium-term.



CHAPTER TWO:

ANTECEDENTS TO, AND THE
CASE FOR, AN AFRICAN
EXPORT-IMPORT BANK

2.1 GLOBAL ECONOMIC CONDITIONS IN THE DECADE PRECEDING THE CREATION OF THE BANK

The global and African macroeconomic conditions that necessitated the creation of Afreximbank were quite detrimental to Africa's economic development aspirations. During the period from the late 1970s to the mid-1980s, the level of global economic activity weakened reflected by a sharp deceleration in the rate of growth of the economies of members of the Organization for Economic Cooperation and Development (OECD). This largely was due to adverse movements in commodity prices, especially the oil price shock of the early 1980s which brought oil prices to a record high of US\$40 per barrel.

The slowdown of the economies of OECD countries had varying effects on economic activities in different regions of the world. Noteworthy in this regard is the fact that it seriously dented demand for commodities which resulted in low export prices and export revenues for many commodity-dependent African countries. Major soft commodities-exporting African countries experienced the greatest declines in export revenues, as a result of the sharp drop in cocoa and coffee prices. In some instances, the nominal international prices of commodities were halved between the early 1970s and early 1980s.

Moreover, the former Soviet Union and East European countries were then undergoing gradual but definite political and economic changes, which negatively impacted 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 their high levels during the boom. Latin American economies were still grappling with external debt service difficulties and political uncertainties, which adversely affected the rate of growth of these economies, as a group.

In Developing Asia, the successful export diversification strategies of some countries, such as South Korea, Malaysia, Indonesia, Taiwan and Hong Kong, meant that they were better able to absorb the adverse effects of the slowdown of the economies of members of the OECD, including the sharp decline in global commodity prices.

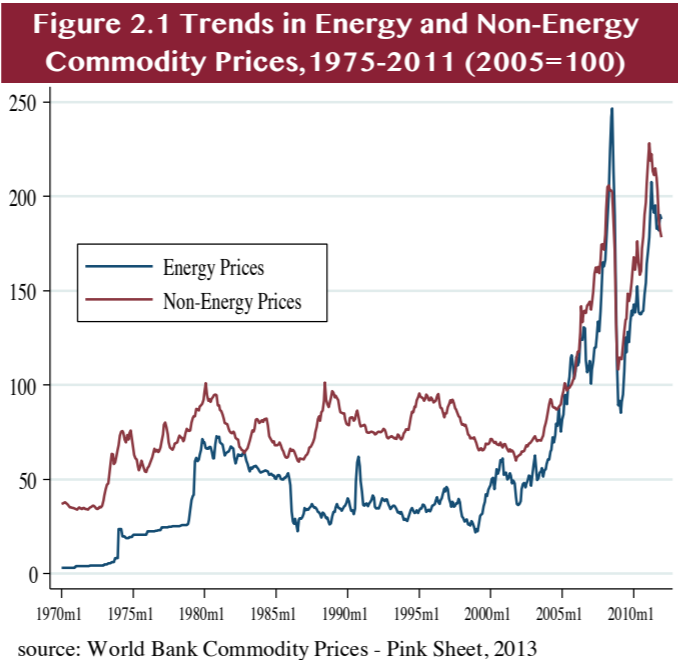
2.2 AFRICA

In the run-up to the establishment of the Bank, African economies experienced serious economic difficulties as a result of the unfavorable external economic environment, poor macroeconomic management, and severe external debt service difficulties, which limited the access of African counterparties to much-needed external financing.

During the first half of the 1980s, for instance, the average real per capita income for Africa declined at an annual rate of 3%. This development arose from a slowdown of the average rate of real GDP growth from 4.3% during 1976-80 to 2.2% during 1981-1985 vis-a-vis a much faster annual population growth rate of 3%. The sharp slowdown of African economies resulted primarily from a weakening of economic growth in OECD countries, which accounted for over 70% of Africa's exports. On account of the strong trade and economic links between Africa and Western Europe, the major trading partners of the continent, the slowdown of their economies adversely affected demand for African commodities and precipitated a weakening of activity and the rate of output growth in Africa.

Corollary to the above was the heavy dependence of African economies on the export of a few commodities, including agricultural products such as cocoa, coffee, cotton, tea, etcetera; minerals and metals, including gold, copper, lead, etcetera; and oil, which accounted for over 75% of Africa's merchandise exports. The high commodity dependence meant that the sharp fall in commodity prices during the early 1980s translated to adverse terms of trade which negatively impacted export earnings and external finances of many African economies. Figure 2.1 shows that non-oil real commodity prices fell continuously beginning from the early 1980s, implying worsening terms of trade and declining foreign exchange earnings for many commodity-dependent African economies.

Records also suggest that whereas Asian and Latin



American economies were able to increase the volumes of their commodity exports to ensure somewhat stable export revenues in the face of declining global commodity prices, for many African countries, the commodity price decline coincided with sustained fall in export volumes. Consequently, there occurred a sharp decrease in real export earnings of the continent. The problem was compounded by structural rigidities that made it difficult for African countries to diversify the composition of their exports through manufactured exports. The declining fortunes of raw commodities, which arose partly from over-production and rising global inventories, also triggered the suspension of economic clauses in various North-South Commodity Cooperation Agreements (entered into by developing country commodity producers and developed country consumers). This also contributed to further worsen

the near- to medium-term market prospects for most of the commodities of trade interest to Africa.

In addition to the above problems, the massive government involvement in the economy created a number of inefficiencies which were detrimental to economic growth. Thus, the use of economic incentives or disincentives had very limited impact. Further, the high incidence of military coup d'état and poor governance also fuelled formidable uncertainties and risks for local and international investors, which contributed to constrain much-needed capital investments for diversifications of African trade and economies.

Despite the above challenging developments, many African economies could not instantaneously cut back on imports in the face of declining exports. The inability to cut back on imports at a time of declining exports meant that some African countries could no longer meet their external payment obligations. Foreign debt accordingly mounted, generating serious debt service difficulties for these economies. Consequently, international commercial banks became unwilling to expose themselves to sovereign risks in Africa. By the mid-1980s, many international commercial banks had suspended their credit lines of between US\$5 million to US\$40 million per country to cover payments against Letters of Credit ("L/C"). This move of international banks derived from the fear that foreign exchange scarcity would cause these countries to default on their external debt service obligations. As a result of the above, L/Cs issued by African counterparties were opened or confirmed by

these banks against cash cover and at fees far in excess of charges for similar services to counterparties in other continents. Project financing flows also dried up in the wake of the problems.

Another structural weakness of African trade was the concentration of trade in the markets of OECD economies. Intra-African trade stood at about 5% of total African trade at the time. This problem derived from Africa's colonial history which created 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 the problem by creating a preference for industrialized country exports even where equivalent goods were available at competitive prices in neighboring or other countries. This problem, as a matter of fact, prevented a competitive search for goods and services. Accordingly, it is not a surprise that integration programmes initiated in Africa during that period achieved little results. Table 2.1 highlights the performance of regional trade groupings that were in existence in Africa 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 (consistent with the Lagos Plan of Action adopted by African Governments in April 1980), in practice, the results of these integration schemes in Africa were quite disappointing compared to the experience of other regions or blocs.

Table 2.1: Basic Indicators For Selected Economic And Trade Groupings, 1983

GROUP	Share of Regional Trade 1) (Trade=Exp+Imp.)	Degree of Openness (Trade/GNP)	Net Trade Gains 1) (Change in degree of openness) 2)	Crude Trade Creation 3)	Trade Diversion or Gains with Non-Partners 3)	GDP					Distribution of GDP (%)			
						US\$ Bn 1986	Avg. Annual Growth 1965-80	Growth Rates 1980-86	POP (mls) mid-1986	GDP p.c. (US\$)	Agr 1986	Ind 1986	Manufa 1986	Area (thousands of square kms)
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

Notes:

1) 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.

2) 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 (column 6). 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	ANDEAN PACT:	Andean Community of Nations

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

Inconvertibility of many African currencies, high trade barriers (tariff and non-tariff), lack of strong or well-functioning national/sub-regional trade finance institutions, economic and legal inhibitions to supply of trade finance, and absence of credible cross border trade payment arrangements to support regional trade were found to have contributed to the poor outcomes of these integration efforts. Further, the Clearing Houses established to support intra-regional trade under those arrangements suffered from currency weaknesses that

faced the continent. The lackluster participation of all the countries in the settlement arrangements meant that a significant portion of the trade had to be settled in hard currency. That situation undermined the relevance of the settlement arrangements, since some countries were in perpetual surpluses, while others remained in arrears.

2.3 THE CASE FOR AN AFRICAN TRADE FINANCE INSTITUTION

In light of the foregoing, a collective action was required to address the trade development challenges the continent faced during the 1980s as many African countries appeared to have been overwhelmed by the enormity of the difficulties. Coincidentally, around the same time, trade economists began to gain more influence in 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 and transformation of the economies of the so-called Asian Tigers.

Against this backdrop, it was thought that trade could be instrumental in the transformation of African economies. Policy prescriptions for dealing with the Continent's problems therefore focused on promoting trade-led economic recovery. Macroeconomic policies were thus targeted at ensuring export competitiveness by depreciating the real exchange rate of national currencies and liberalizing trade. Sector-specific reform policies were aimed at removing rigidities that hindered exporting at the firm level, including privatization of export sector activities which were previously run by the State, as a way of improving efficiency of resource use.

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

- Africa's share of world trade fell from 5.4% in 1973 to 3.2% in 1986;
- African exports as a percentage of world exports fell from 5.0% in 1973 to 4.2% in 1985;
- The share of manufactured exports in Africa's total exports was 9% in 1985 significantly lower than the level in 1975;
- Intra-African trade share of total African trade stood at paltry 4.4% in 1985 compared to 58% for the European Economic Community and 27% for Asia.
- Exports to GDP ratio for Africa was at 24.2 % in 1985, significantly lower than the level in 1975.
- High concentration in trade destination with more than 70% of the continent's trade destined for markets in the OECD countries.

The grim picture reflected by the above statistics was further compounded by the external debt crisis which 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 available to Africa. These international banks, in compliance with new stringent regulatory requirements in their countries, suspended lending to Africa on a clean basis and insisted that Letters of Credit be cash-covered. Pre-export financing by international banks in favour of African counterparties was also suspended. Given that Africa's financial sector was not well developed with a limited number of well-capitalized banks and other trade support services, local financial institutions could not bridge the gap created by the departure of the international financial institutions. Accordingly, supply of international trade financing to African countries virtually dried up during the 1980s, compounding Africa's trade and economic difficulties. Table 2.2 shows the sharp declines in trade finance flows to selected African countries between 1980 and 1985.

Following the sharp retreat in trade finance flows from external sources, African borrowers suffered 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. According to AfDB (1992), the key factors that contributed to adversely affect the volume of trade finance flows to Africa included the following:

- 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 counter parties from foreign banks;

- demand by foreign suppliers for extra credit assurances from African importers; and
- the non-availability of export-related project financing that could contribute to raise the volume of exports and foreign exchange earnings.

ii) Increased Cost of Financing African Trade:

As the supply of trade finance to Africa decreased, the cost of available credit rose. The following examples given in AfDB (1992) illustrate the point:

- the cost of trade finance to African traders estimated to be 15% of the value of imports compared unfavorably to a global average of 1.5-2.0%. This amounted in value terms to US\$10 billion in 1986 – a figure equivalent to 3% of Africa's nominal GDP in that year;
- African traders paid a margin on trade finance of about 3 percentage points above the London Inter-Bank Offer Rate (LIBOR); 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 external 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. The demise of commodity boards on

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

Country	1980	1985	% Change (1985/1980)
Cameroon	422	173	-59
Democratic Republic of Congo	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)

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 in situations where country risks were found acceptable.

iii) Stringent Lending Terms

On account of the international debt crisis and the consequent 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 loans to African counterparties with tenors exceeding one year. As a result of the high cost of capital that such provisioning requirement entailed, there was little appetite for longer-tenured African 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 flows under a self-liquidating financing

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, 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.

structure (see Box 2.1).

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 the above context 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 potential 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 lesser financing risk than any one of its member countries having its own institution 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 for international lenders to begin to relax their stringent terms of lending to African counterparties;
- c) it was also argued that successful operations of such a bank would, through demonstration effect, prompt the return of international banks to Africa;
- d) it was further 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 in 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 well-resourced and functioning 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 in the diversification of export markets by providing such facilities.

In light of the foregoing, with the support of the African Development Bank (AfDB), African Governments, in 1993, moved to establish an international public-private regional trade finance 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

ESTABLISHMENT MILESTONES,
CONSTITUTIVE DOCUMENTS
AND GOVERNANCE

3.1 IMPORTANT MILESTONES IN THE ESTABLISHMENT OF AFREXIMBANK

Following the adoption of the historic resolution by the African Ministers at the Annual Meeting of the AfDB in June 1987 (Resolution B/BG/87/09) requesting a study on the desirability of establishing a regional institution to provide trade finance facilities to promote African trade, especially intra-African trade (see Box 3.1), the management of AfDB, in October 1987, 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.

On November 5, 1991, approximately 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 November 29, 1991, supplementary documents were prepared and submitted to the AfDB Board on February 14, 1992. A summary of the Main Findings of the Feasibility Study is presented in Box 3.2. In the main, the study concluded that a continental trade finance institution was necessary, would be viable and was timely.

On March 26, 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.”

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 a level of US\$500 million as 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, a citizen of Nigeria, as the pioneer President of the Bank;
- elected pioneer members of the Board of Directors;¹

¹The 10 Pioneer 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 Abbay (Ethiopian).

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.

- 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 that 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.

Following the completion of administrative and legal formalities, the Bank commenced operations when it executed its first trade finance transaction in September

1994 by participating in a US\$150 million receivables-backed syndicated loan facility in favour of the Ghana Cocoa Board (GHANA COCOBOD). Its participation was in an amount of US\$6.5 million. In November 1994, the Bank officially launched its operations and relocated from its temporary offices at the Semiramis Intercontinental Hotel to its offices at the World Trade Center in Cairo. Major corporate milestones regarding the evolution of the Bank is shown in Annex 1.



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 Abbay; 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 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 international 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. The AfDB, being the promoter, was expected to participate in the equity capital of 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 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%

Class "C" shareholders

International financial institutions and economic organizations (including foreign banks, export-import banks, insurance companies, etc.) **25%**

TOTAL 100%

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 deals to be funded mostly on off-balance sheet basis through guarantees.

Legal and Institutional Framework

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.

Basic Operational Principles and Objectives

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)

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 of Afro-pessimism as many African economies were experiencing immense economic difficulties

compounded by major political and economic changes, it took enormous courage to sell such a project to potential investors/sponsors. Nevertheless, courageous leadership of the Board of Directors 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 part 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 had

subscribed to the shares of the Bank 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) providing secretarial, logistics and banking support for the initiative, as well as committing significant resources in the form of manpower and funding. By the time the Bank became operational, AfDB had spent slightly under US\$1 million on pre- operational activities which was later reimbursed at operational take-off of the Bank.

3.2.2 The United Nations Development Programme (UNDP)

The African Export-Import Bank would, perhaps, not have become 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 of consultants 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 BLADEX; 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 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. The then Chairman of NBE, 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 logistic 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 McClendon Counts and Co. are international banks whose roles in the establishment of the Bank are worth special mention. These institutions released their staff to participate in 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 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, Cote d'Ivoire, on May 8, 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 States,² 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,

² Participating States are States parties to the Agreement which established the Bank (Afreximbank, 1993).

Participating States grant to the Bank in their territories, certain 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 search, requisition, 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 .

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 shareholder 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, was adopted in Abuja, Nigeria in October 1993, to regulate 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 21.1 A); introduced the principle of rotation in Board retirements (Article 21.3A); and amended Article 42 to entrench the Article. The Charter was further amended in Gaborone, Republic of Botswana, on June 5, 2010, through the resolution Afreximbank/2EGM/2010/single (the "Second Amendment") and in Harare, Zimbabwe, on December 8, 2012 ("the Third amendment"). In particular, the second amendment introduced further clarity to the Charter article relating to the appointment of the President. The third amendment, among others, increased the authorized capital of the Bank to US\$ 5 billion and introduced a new Class of shares, Class "D" shares, which is open to subscription by any investor, African or non-African.

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 institution;
- 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;
- 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; and
- to provide capital to African exporters and importers through equity investments which shall include, but not be limited to, shares, share warrants, redeemable preference shares and loan stock and to do so whether or not in conjunction with the extension of credit.

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 four categories of shareholders, with the majority of shareholders currently being African Governments and African public and private financial institutions. Further to the third amendment of the Charter, Class A shareholders representing African governments now

would hold 35% of the shareholding against 65% for the Private sector, African and non-African (see Table 3.1). However, the original principles of the Bank as determined by the founding fathers are preserved by conferring a veto power to Class A over matters affecting the fundamental character of the institution.

The Bank's authorized share capital is in an amount of US\$5 billion, payable in five Installments for Classes A, B and C of which two installments have been called as at December 31, 2012, whereas the new Class D shares will be fully paid at the subscription. The Board of Directors has the discretion to determine the timing of any further call for the payment of the balance of the installments. The nominal value of the issued share of the Bank is US\$10,000. As at December 31, 2012, 42,624 units of shares with nominal value of US\$426,240 million had been subscribed. As at December 31, 2012, there were 125 Shareholders of different classes (see Annex 2).

3.3.4. Organizational Structure

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, the Vice-Presidents and other employees. 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 is entitled to one vote in respect of every share held.

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;
- 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;
- deciding the country 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;
- exercising such other powers as are expressly reserved to the General Meeting in the Charter; and
- considering any matter referred to it by the Board of Directors.

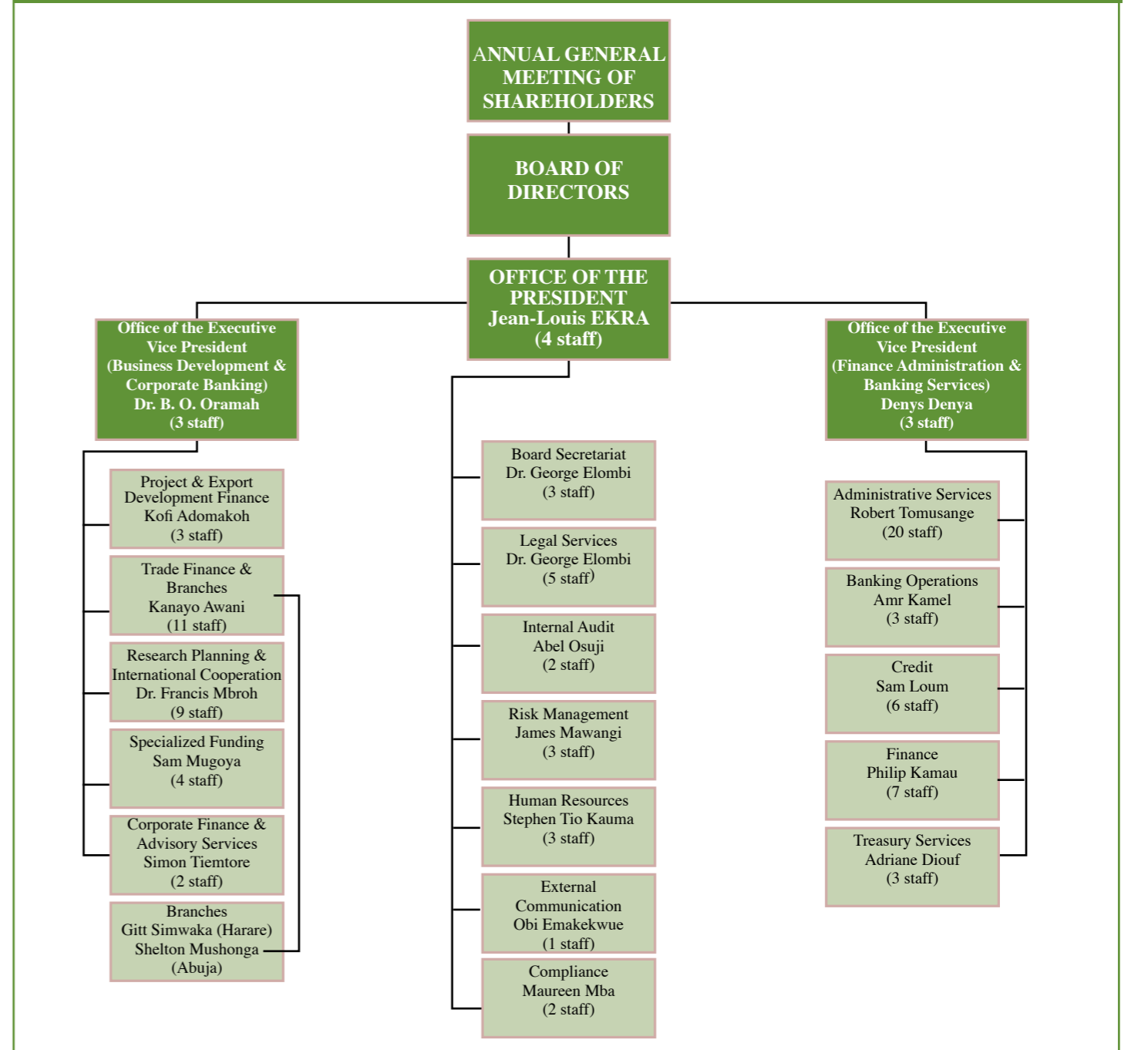
Table 3.1: AFREXIMBANK Shareholding Structure (%), December 2012

Category	As proposed in the Feasibility Study	As adopted by Shareholders in 1993	As Amended in May 2000	Actual as at December 2012
Class A				64,14
• African States or their designated institutions ¹	65	-	75 max with Class "A" no less than 35	
• The African Development Bank				
• African continental, regional and sub-regional financial institutions and economic organizations		35		
Class B				25,788
• African national financial institutions	10			
• African private investors		40		
Class C				10,09
• International financial institutions and economic organizations	25	25	25	
• Non-African financial institutions				
• Non-African private investors				
Class D				
• Any investor				0

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

Figure 3.1 The Organizational Structure of the African Export-Import 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. Eighteen other Annual General Meetings have been held since then. The 20th annual meeting will be held during June 17-23, 2013 in Addis Ababa, Ethiopia.

In the spirit of cooperation and partnership on which the Bank is founded, the Bank’s Annual General Meeting had been held in different African countries and once out of the Continent, in Beijing, China in July 2012. Further, the holding of the meetings in different parts of Africa helped to create awareness of intra- African trade opportunities in different member countries as the organized private sector arranged Trade Exhibitions on those occasions. Table 3.2 shows the host countries of the Bank’s past General Meetings.

3.3.4.2 The Board of Directors

The Charter provides that the Board of Directors shall be composed of not more than twelve 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, four Directors; One of whom shall be nominated by the AfDB. The representatives of Classes “B”, “C” and “D” Shareholders shall,

after a transitional period elect and may remove six Directors. All shareholders, at a general meeting, shall elect two Independent Directors to represent the interest of shareholders as a whole. In the election of Directors, the shareholders shall have due regard to high competence in economic, financial and trade matters required for the office and relevant to Africa. To ensure inclusiveness, two directors should not be of the same nationality and all efforts further made for Board representation to be fairly distributed to reflect the African and non-African, and public-private partnership nature of the Bank.

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.

The Board of Directors provides policy guidance to the Management of the Bank and reports to the General Meeting. Article 22 of the Charter lists the following functions of the Board of Directors:

- Preparing the work of the General Meeting;
- 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;

Table 3.2: Host Countries of AFREXIMBANK’s Annual General Meetings, 1994-2012

Annual General Meeting	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
11	Cote d’Ivoire/Abidjan	2004	Yes
12	Zimbabwe/Harare	2005	Yes
13	Namibia/Windhoek	2006	Yes
14	Ghana/Accra	2007	Yes
15	Uganda/ Kampala	2008	Yes
16	Botswana/ Gaborone	2009	Yes
17	Cameroun/ Yaoundé	2010	Yes
18	Angola/Luanda	2011	Yes
19	China/Beijing	2012	Yes*

*Unlike previous years, the focus of the Exhibition was expanded to cover both Trade and Investment

source: Afreximbank

- taking decisions concerning particular 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;
- approving the Annual Budget of the Bank;
- nominating and recommending to the shareholders for appointment at a general meeting the President in accordance with such procedures as the Board of Directors may from time to time establish;
- appointing, upon recommendation of the President, a senior Executive Vice-President, and one or more Executive Vice-Presidents; and
- upon the recommendation of the President, determining the organizational structure, staffing level, salary scales and benefits of the Bank, and prescribing Staff Regulations.

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 Remuneration Committee whose mission is to oversee the establishment and retention of a coherent and coordinated policy for the recruitment, retention and remuneration of staff.

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 term of five years. The President is the Chairman of the Board of Directors and is responsible for developing the Bank's business strategies, its relationships 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 Officer 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).

Mr. C.C. Edordu

The pioneer President of the Bank, Mr. C.C. Edordu, a Nigerian economist and banker, 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.

Mr. J-L Ekra

In 2005, Mr. Ekra, an Ivorian banker, took over from the pioneer President, Mr. Edordu, as the President of the Bank. In 2010, he was re-elected for a second term of 5 years. Prior to his appointment as President of the Bank, Mr. Ekra was appointed as the first Executive Vice President of the Bank in 1996, and was promoted to the position of Senior Executive Vice President in December 2003.

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 October 2008, Dr. Benedict Okechukwu Oramah was appointed Executive Vice President (in charge of Business Development and Corporate Banking),

and in April 2010, Mr. Denys Denya was appointed as Executive Vice President (responsible for Finance, Administration and Banking Services).

3.3.4.5. Departments

The Bank commenced operations in 1994 organized around four departments, namely Finance & Accounts, which also performed Administrative 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 depository and custodian of the Bank's seal. Seven staff members (excluding the pioneer President) were in the employment of the Bank as at December 31, 1994.³ Subsequently, staff numbers enlarged under the various strategic plans, that is, Strategic Plans I, II, III and IV in line with target growth in the volume of business. Consequently, at the end of the first year in Plan IV, there were 17 departments/units and two branch offices. Figure 3.1 shows the reporting lines of the Departments while Table 3.3 shows the distribution of 103 staff members of the Bank by Departments as at March 2013. The Departments' functions are summarized hereunder:

- Research, Planning and International Cooperation Department** prepares the Bank's Strategic Plans and monitors plan implementation; assists in preparing the Bank's Annual Budgets; provides policy support to Senior Management; prepares the Bank's periodic reports, such as the Annual,

³ The pioneer staff members were: Mr. John Washington Thomas Otieno, Dr. Kamal El-Kheshen, Mr. Philip Kamau, Dr. Benedict Okechukwu Oramah, Dr. Olusegun Akin-Olugbade, Mrs. Maureen Nneka Mba, and Mrs. Nevine Mohamed Amin.

Table 3.3: AFREXIMBANK: Distribution of Staff Members by Category and Department as at March 31, 2013

	Executive Staff	Professional Staff	Administrative & Support Staff	Total
Office of the President	1	1	2	4
(Office of the EVP (BDCB	1	1	1	3
(Office of the EVP (FABS	1	1	1	3
Administrative Services & IT		9	12	21
Banking Operations		7	2	9
Board Secretariat & Legal Services		5	2	7
Credit		5	1	6
Compliance		1	1	2
Treasury		3		3
Finance		5	2	7
Human Resources		2	1	3
Internal Audit		1	1	2
Project & Export Development Finance		2	1	3
Research, Planning & International Cooperation		6	3	9
Risk Management		2	1	3
Specialised Funding		3	1	4
Trade Finance & Branches		10	1	11
External Communications		1		1
Corporate Finance & Advisory Services		2		2
Total	3	67	33	103

source: Afreximbank

Half Year and African Trade Reports; prepares country and sector reports; sets annual country credit exposure limits; handles product development, and forges partnerships with African and non-African institutions to support operations and activities of the Bank.

- (ii) **Legal Department:** advises Senior Management on legal issues that affect the Bank, including advising on the legal interpretation of policy documents and the privileges and immunities of the Bank and its staff. It also provides legal services for all the Bank's operations including drafting relevant documen-

tation for sovereign and non-sovereign loans, guarantees, trade finance, project finance, syndicated loans, and transactions.

- (iii) **Administrative Services Department (AS):** assists the Bank through provision of a range of support services including: premises management, protocol and government relations, travel services, information and communication technology (ICT) services, and general office management services. As part of its premises management function, the department oversees the management of all Bank facilities, both owned and leased (head office and branches), to ensure that they are properly managed, secured and maintained according to required international standards and local country regulations.

- (iv) **Finance Department:** responsible for a full range of the Bank's finance functions, including performance reporting encompassing management accounts and IFRS compliant financial statements. It also prepares financial analyses, budgets and forecasts and respond to investor queries. The Department also provides strategic business support.

- (v) **Banking Operations Department:** handles loan administration, documentary credits, relationship management, and correspondent banking. It also has an Agency and Security Trustee unit dealing with syndicated deals as an independent function under Banking Operations, handles credit, back-office operations, customer accounts and correspondent banking. It also monitors

compliance as regards lending limits, including country limits.

- (vi) **Project & Export Development Finance Department:** facilitates the diversification and development of African exports by offering project financing, twinning and market access services. It offers Finance and Business Development Services (BDS) in pursuit of these goals.

- (vii) **Board Secretariat:** performs a number of statutory functions, including acting as the Bank's depository and custodian of the Bank's Seal. It also services meetings of the Board and the General Assembly, deals with shareholder relations and facilitates cooperation between the Bank and Member States.

- (viii) **Risk Management Department:** oversees and promotes the development and implementation of good governance and risk control frameworks across the Bank. The Department essentially provides risk management support services to other units of the Bank, and is responsible for risk monitoring and reporting, and problem loan management.

- (ix) **External Communications Unit:** the Unit manages the development and implementation of the Bank's communications strategy by coordinating the collection, production and dissemination of the Bank's business information to external stakeholders, including shareholders, customers, partners, the media and the general public. The Unit manages the Bank's brand image and serves as the public's primary point of contact with the Bank.

- (x) **Internal Audit Unit:** The Internal Audit unit provides independent and objective assurance and consulting services designed to add value and improve the Bank's operations. Specifically, the Internal Audit unit assists the Board of Directors and Management in the effective discharge of their responsibilities by bringing a systematic, disciplined approach to evaluating the adequacy and effectiveness of the Bank's risk management, control and governance systems.
- (xi) **Credit Department:** is responsible for assessment of all loan applications received by the Bank and making appropriate recommendations to the approving authority regarding the applications. The Department also conducts periodic review of the Bank's loan portfolio in line with the Bank's branch Management Policies and Procedures.
- (xii) **Trade Finance & Branches Department** leads the Bank's business development and origination activities with a view to achieving the trade expansion and diversification goals of the Bank. In this regard, it interfaces with the Bank's trade finance intermediaries, entities eligible for direct support and a network of partner institutions. It also coordinates business origination activities of the Bank's branches offices.
- (xiii) **Treasury Services Unit:** is responsible for funding of the Bank's activities within the boundaries of authority delegated and managing market, interest rate and foreign exchange risks while ensuring the adequacy of

the pricing policy with the Bank's objectives.

- (xiv) **Human Resources Unit:** The HR Unit is responsible for organizing financial and technical resources to support operations and activities of the Bank. It plays this role by performing, among others, the following management tasks: (i) Reward & Benefits Management; (ii) Performance Management and Improvement; (iii) Manpower Planning and Talent Management; (iv) Organisational Dynamics Management; and (v) HR Services & Information Systems Management.
- (xv) **Compliance Unit (CU):** The Unit was created to spearhead Afreximbank's efforts towards the global fight against cross-border financial crimes, including money laundering and terrorist financing. To ensure that the Bank's infrastructure and business processes are not used to perpetrate any form of financial crime, the Unit conducts customer due diligence assessments on all potential shareholders of the Bank, suppliers of goods and services to the Bank valued in excess of US\$20,000.00, as well as principal counterparties involved in all credit transactions with the Bank. It also monitors global trends in anti-money laundering and terrorist financing as well as other illicit crimes, and advises Senior Management of the Bank on appropriate actions to safeguard the Bank's reputation as a responsible international corporate citizen.
- (xvi) **Specialized Funding Unit:** The Specialized Funding Unit (SFU) was established to

mobilise asset-targeted funding from non-traditional bank sources, such as Export Credit Agencies (ECAs), Development Finance Institutions (DFIs), and Multilateral Financial Institutions (MFIs). The unit also manages the Bank's syndicated loan, co-financing and asset-sale functions in addition to origination, structuring and execution of specialised asset-based transactions, such as aircraft, vessel and telecommunications financing.

- (xvii) **Corporate Finance & Advisory Services Unit:** provides specialist advisory services to clients, particularly devising appropriate financing structures to match the corporate strategies of businesses in a manner that supports the Bank's trade promotion mandate. Typical transactions being handled include but are not limited to mergers and acquisitions, bond issuances, initial public offerings, rights issues, capital restructuring and equity disposals.

3.3.5 Afreximbank Mission

To set a clear focus for the Bank, Management in developing the Bank's First Strategic Plan launched in 1996, defined a corporate mission for the Bank. That mission statement was, at the Management Strategic Plan Retreat held in November 2006 in Livingston, Zambia, redefined as follows:

- to stimulate a consistent expansion and diversification of African trade so as to rapidly increase Africa's share of global trade; and
- in doing so, to operate as a first class, profit-oriented, socially responsible 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 manufactured and services exports;
- d. a diversification of the destination of Africa's exports;
- e. improving Africa's share of global trade;
- f. provision of up to date information and generation of incisive studies on issues pertaining to African trade and its promotion;
- g. promotion of active participation of the African private sector in the development of African trade; and
- h. conducting its business as a socially-responsible corporate citizen that cherishes environmental sustainability.

3.3.6 Corporate Culture

During the twenty years of its corporate existence, 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 years 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 drives innovation and efficiency.

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 two decades of existence. The other element to complete the background information is an understanding of the operating environment that prevailed during the last two decades of its corporate existence. Chapter Four reviews the global and African macroeconomic environments within which the Bank operated during that period.

3.3.7 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 construction of the building, which is a 12-Floor Complex including 10-over ground floors and two underground floors, was completed and handed over to the Bank in May 2007. The Bank moved to its new headquarters building on 1st November, 2010 (see Figure 3.2).

Figure 3.2 Afreximbank’s Headquarters Building in Heliopolis, Cairo





CHAPTER FOUR:

THE GLOBAL OPERATING
ENVIRONMENT, 1993-2012

4.1 Introduction

This Chapter reviews major politico-economic developments in the global, developed and developing economies that shaped various forms of activities, particularly in the spheres of international trade and trade finance and examines the extent to which those developments impacted Africa's trade and economic activities during 1993-2012. The Chapter also examines major developments in global trade and trading environment with the view to highlighting the challenges and opportunities that emerged in the operating environment within which the Bank's operations and activities were conducted during that period.

During the period, the global economy was affected by positive and negative shocks. The economic success of emerging economies led by the BRIC, a deepening of regional integration efforts around the world, especially in Europe (with the introduction of the Euro) and absence of disruptive international trade wars, among others, contributed to a strengthening of the global economy. Further, international debt service difficulties in Latin America and the Caribbean during the 1980s, financial crisis in Asia in 1997/8 and sovereign debt crisis in Europe in 2009/10, political instability across the Middle East and the global financial and economic crises of 2008/9, adversely affected global growth.

The period also saw a sturdy improvement in the global trading environment with the establishment

of the World Trade Organization (WTO) in January 1995, widespread liberalisation of many economies, increased recourse to bilateral and plurilateral trade arrangements and changing patterns of trade with the emergence of new power houses, particularly China, India and Brazil, in international trade.

Commodity prices rose to record levels, especially during the last decade amid fluctuations. The commodity boom emanated mainly from a strong demand for commodities by emerging and developing economies, led by China.

4.2 Global Economic Environment

4.2.1 Global Output Growth, 1993-2012

Available data show that the global economy, during 1993-2012, broadly experienced significant growth despite the emergence of a number of negative shocks (Figure 4.1). The rate of expansion of the global economy, which averaged 3.7% during 1986-90, weakened to an average of 2.7% during 1991-1995 due to the stock market collapse in advanced economies (Table 4.1 and Figure 4.1).

The global economy made a strong recovery during the second half of the 1990s with an average 3.8%

Table 4.1 Global Output, Trade and Prices, 1981-2017 (percent change)

	1981-85	1986-90	1991-95	1996-2000	2001-05	2006	2007-11	2012*	2013*	2014-17*
1. Real GDP										
World	2.75	3.79	2.65	3.80	4.00	5.20	3.38	3.15	3.31	4.34
Advanced Economies	2.52	3.80	2.29	3.32	2.09	3.03	0.79	1.25	1.23	2.51
<i>Euro Area</i>	1.59	3.35	1.71	2.70	1.50	3.25	0.49	-0.58	-0.34	1.43
Emerging and Developing Economies	3.25	3.76	3.36	4.51	6.26	8.28	6.31	5.06	5.31	5.97
Central and Eastern Europe	1.64	2.10	0.95	3.65	4.30	6.43	2.96	1.61	2.15	3.36
Commonwealth of Independent States			-9.75	1.72	6.79	8.83	3.52	3.36	3.41	3.98
Developing Asia	6.47	6.82	8.60	6.40	7.95	10.42	8.89	6.64	7.13	7.60
Latin America and the Caribbean	1.90	2.09	3.49	3.12	2.71	5.66	3.83	3.00	3.38	3.87
Middle East	2.22	2.05	3.56	3.91	4.94	6.30	3.21	4.82	3.10	4.36
Africa	2.23	3.05	1.85	3.73	4.66	6.40	4.86	4.72	5.57	5.78
2. Inflation										
World	16.90	17.34	19.40	5.98	3.72	3.61	3.91	3.59	3.82	3.70
Advanced Economies	8.31	4.05	3.27	1.96	1.95	2.29	1.94	1.91	1.69	1.98
<i>Euro Area</i>	n/a	n/a	3.00	1.63	2.23	2.20	2.01	2.50	1.73	1.55
Emerging and Developing Economies	40.46	56.36	61.05	13.77	6.73	5.58	6.87	6.15	5.92	5.26
Central and Eastern Europe	32.01	67.00	74.21	43.42	14.51	6.27	5.96	5.79	4.36	3.58
Commonwealth of Independent States	n/a	n/a	613.13	37.92	13.93	9.37	10.75	6.15	6.76	6.58
Developing Asia	10.12	7.58	10.81	5.48	3.13	4.17	5.77	4.71	5.03	4.55
Latin America and the Caribbean	96.02	201.24	178.13	11.23	7.26	4.80	5.29	5.15	6.14	5.34
Middle East	8.74	12.01	14.02	7.45	6.24	8.80	10.46	13.61	9.58	8.17
Africa	15.27	15.85	32.87	15.34	8.80	6.66	9.56	10.28	7.21	5.80
3. Trade (Goods)										
World										
Import Volume	3.00	7.15	7.31	8.24	5.98	9.02	4.26	2.01	3.73	5.71
Export Volume	3.44	6.45	7.27	8.01	5.40	9.19	4.28	2.76	3.36	5.42
Advanced Economies										
Import Volume	3.18	5.26	6.75	8.56	4.82	8.02	2.75	0.59	2.12	4.54
Export Volume	4.79	5.52	6.84	7.65	4.22	8.66	3.55	2.76	2.38	4.46
Euro Area										
Import Volume	1.87	4.70	4.44	8.70	4.30	8.92	2.69	-1.40	-0.07	2.92
Export Volume	4.36	4.88	5.81	8.24	4.44	8.68	3.42	2.29	1.62	3.43
Emerging and Developing Economies										
Import Volume	2.50	3.39	10.29	7.19	9.73	11.76	7.67	4.58	6.47	7.61
Export Volume	-0.79	2.60	9.29	9.32	8.62	10.32	5.56	4.17	4.74	6.74
Central and Eastern Europe										
Import Volume	2.67	4.94	10.57	13.54	9.10	12.86	4.63	-0.52	5.35	6.75
Export Volume	4.80	2.50	5.59	12.02	11.14	12.28	5.99	4.80	3.06	4.90
Developing Asia										
Import Volume	8.57	7.70	15.28	6.69	12.44	11.10	8.53	5.08	7.55	9.28
Export Volume	3.91	6.24	14.85	13.49	12.38	16.92	8.96	4.42	6.65	9.40
Latin America and the Caribbean										
Import Volume	0.21	5.98	13.31	10.54	3.29	12.63	7.40	3.04	6.17	5.98
Export Volume	6.08	6.47	9.91	9.38	4.09	5.67	2.31	3.46	5.69	5.64
Middle East and North Africa										
Import Volume	n/a	1.47	2.85	3.96	10.88	6.98	7.59	7.58	4.27	5.14
Export Volume	n/a	-1.03	5.38	2.90	5.69	3.18	2.70	3.98	1.07	2.91
Sub-Saharan Africa										
Import Volume	0.83	1.07	4.42	4.47	8.27	7.98	7.90	5.62	6.26	5.93
Export Volume	n/a	n/a	n/a	3.57	4.54	3.43	3.37	4.25	5.95	5.69
4. Memo Items :										
Short Term Interest Rates										
<i>United States</i>	10.46	7.02	4.42	5.20	2.15	4.85	1.23	0.08		
<i>Euro Area</i>	n/a	n/a	6.68	4.16	2.79	3.01	1.95	0.06		
<i>Japan</i>	4.91	3.37	2.34	0.42	0.01	0.42	0.25	0.09		
<i>LIBOR</i>	12.11	11.75	7.47	6.14	4.27	4.67	2.30	0.31		

* Forecast

a. Estimates

Sources:

1. World Bank World Development Indicators Database, 2013

2. IMF International Finance Statistics, 2013

3. EIU Global Forecast Service, 2013

growth in real GDP, in spite of the growth constraining effects of the Asian financial crisis. The rate of global GDP growth was robust for most part of the 2000s. It averaged about 4% during 2001-5 and rose further to 5.2% in 2006, but weakened thereafter due to the global financial and economic crises of 2008/9 and the sovereign debt crisis of the Eurozone, which followed.

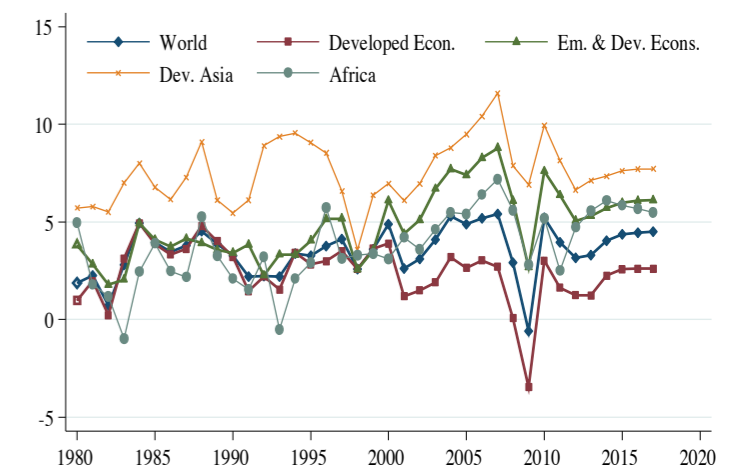
Despite the multiplicity of financial and economic challenges coupled with terrorist attacks that affected economic activities in major OECD countries and a spate of natural disasters that severely affected various forms of activity across both advanced and developing economies, global output grew at an average annual rate of 5.9% during 1995-2010. Following these developments, the global economy expanded by more than two-fold from US\$29.8 trillion in 1995 to more than US\$70 trillion in 2011 (Figure 4.2).

Global Economic Performance During 1991-95

The observed weakening in global output growth during the first half of the 1990s resulted from the global stock market collapse that began in the US in 1987 and its contagious effect on the Japanese and other stock markets in advanced economies and some emerging markets. During the late 1980s, structural rigidities and distortions within the Japanese economic system fueled speculative asset price bubble of massive scale, which finally burst, resulting in a 45% decline in the country's stock market capitalisation between 1989 and 1992, and a 20% decline global stock markets during the same period.¹ Those difficulties coupled

¹ World Bank, World Development Indicators, 2013

Figure 4.1: Trends in Real GDP Growth, 1980-2017 (percent)



Sources:

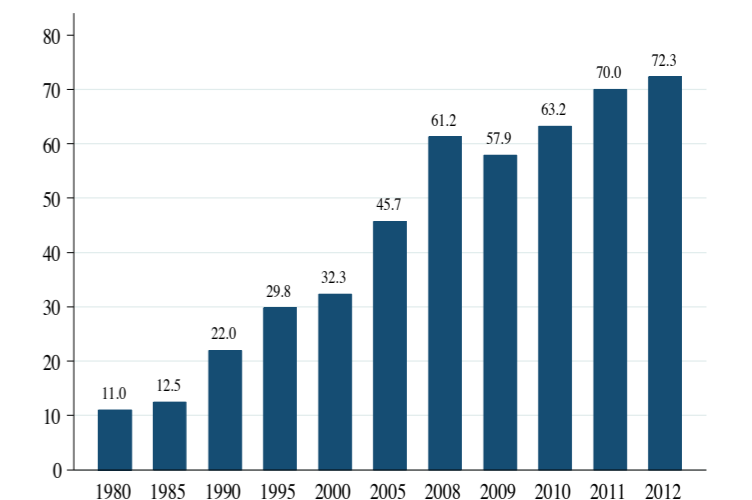
1. World Bank World Development Indicators, 2012

2. IMF International Financial Statistics, 2013

3. EIU Global Forecast Service, 2013

4. Afreximbank Medium-term Strategic Plan, (various issues)

Figure 4.2 Evolution of Global Nominal GDP, 1980-2012 (US\$ Trillion)



Source: World Bank World Development Indicators, Database, 2013

with the Mexican financial crisis and the European Monetary System (EMS) crisis weakened global output growth from an average annual rate of 4% during 1986-89 to 2% during the first four years of the 1990s (Figure 4.1). The sharp decline in the rate of global output growth was precipitated by respective 0.3% and 1.4% contraction of the US and UK economies in 1991 and a sharp weakening of the rate of growth of the Japanese economy from over 5% during 1986-1990 to 1% during 1991-5. Further, a let up in activity in Germany in 1994 followed by a contraction in 1995 contributed to weaken the rate of expansion of the global economy during the first half of the 1990s.

The continued expansion in global output, albeit at a decelerating rate, was supported by robust growth performance of the group of economies in Developing Asia, which grew at an average annual rate of 8.6% during 1991-5, up from a level of 6.8% achieved during the second half of the 1980s (Table 4.1). Global output growth was also supported by an expansion of the economies of Latin America and the Caribbean, and the Middle East.

Global Economic Performance During 1996-2000

During 1996-2000, the global economy recovered from the slowdown experienced during most part of the preceding half decade. The growth performance of the global economy was stronger-than-expected given the Asian financial crisis that broke in 1997, which affected some Asian economies, including Thailand, Indonesia, South Korea, Malaysia, and the Philippines, and spread to Brazil and Russia in 1998.

The effect the Asian financial crisis on Russia and Brazil caused a fall in asset prices, sharp commodity price declines in 1997/98, and a global economic slowdown in 1998. Against the backdrop of U.S. dollar appreciation, the exports of many Asian countries whose currencies were pegged to the dollar became less competitive resulting in sharp contraction in merchandise exports of the affected Asian countries. Consequently, the economies of Thailand, Indonesia, Malaysia and South Korea contracted by respective 7%, 13%, 11% and 7% year-on-year at the height of the crisis in 1998. The Brazilian economy moderated sharply from average annual growth of over 4% during 1993-6 to 0.1% during 1997-99. The Russian economy, which recovered in 1997 from the 7.3% annual contraction suffered during 1990-1996, plunged into another recession in 1998 and suffered output contraction of 5.3% in 1998.

However, the continued improvement in performance of the global economy witnessed during the second half of the 1990s was supported by strong growth of a number of advanced economies, including the US (4.4%), Canada (3.9%), and the UK (3.2%), as well as the group of developing economies led by Developing Asia (6.4%), the Middle East (4.8%), Central and Eastern Europe (3.7%) and recovery of the Commonwealth of Independent States (CIS) economies, which compensated for the output contractions suffered by some Asian economies as a result of the Asian financial crisis. The expansion of the global economy during the second half of the 1990s was also buoyed by the deliberate pursuit of accommodative monetary policies in the form of

lower interest rates across the economies of OECD countries and other major developing economies.

Global Economic Performance During 2001-2005

The global economy, which recovered during the second half of the 1990s despite the effect of the Asian financial crisis of 1997 on a number of developing economies, strengthened further during the first half of the 2000s. Accordingly, the rate of global output growth averaged 4% per annum during 2001-5, up from a level of 3.8% during 1996-2000. This growth performance was better-than-expected considering the significant weakening of activity across the group of advanced economies during 2001-5 (Figure 4.1) as a result of the terrorist attacks in the US and some parts of Western Europe and the sovereign debt crisis in Argentina and Turkey, which triggered a transitory withdrawal of international banks and other investors from developing market economies during 2001-3.

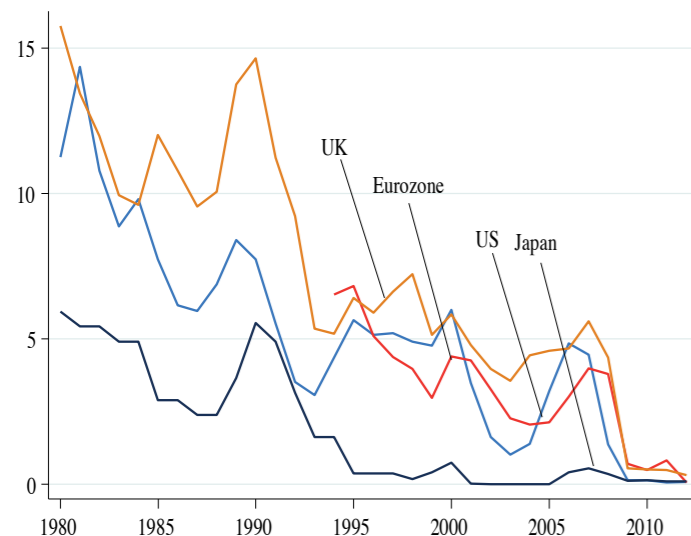
The terrorist attacks transmitted major negative economic shocks to many sectors, especially the aviation and tourism industries as well as shipping and movement of goods and services as a result of new forms of restrictions on global movement of goods and capital and other financial services that were imposed in line with the U.S. government-led global war on terror. In London, for example, the terrorist attacks severely constrained activity in the city as the railway and public transport systems and financial institutions became targets. Consequently, the rate of growth of the financial services-driven economy of the UK weakened significantly to 1.1% and 1.8% in

2001 and 2002 respectively, from a level of 4.2% in 2000. Similarly, the rate of growth of output in the US also decelerated to respective 2.8% and 2.4% in 2001 and 2002, from a level of 4.2% achieved in 2000.

It is pertinent to further note that the performance of the global economy was, during the first half of the 2000s, weighed down by the Argentine debt crisis dubbed the “Peso Crisis”. The crisis emerged from the inability of the Argentine government to honour its external debt payment obligations to its international private creditors and multilateral financial institutions, including the IMF and the World Bank. The eventual default by Argentina on its US\$155 billion debt in December 2001, which forced the Argentine Government to impose restrictions on US dollar withdrawals as well as convert all foreign currency accounts into local currency or “peso” accounts, ruffled the international capital markets and worsened the risk perception of developing country counterparties. This, together with the financial difficulties of Turkey, Russia and Venezuela, worsened the market perception of the credit risk of developing country counterparties --- culminating in many developing country borrowers being either denied access to credit or granted credit at relatively higher interest rates during 2001-2.

The aforementioned developments in the global economy coupled with limited opportunities for investment across the OECD economies, led to excess liquidity in major financial centres in the developed world. Eventually, the search for investment opportunities among international investors and banks, the continued pursuit of macroeconomic and

Figure 4.3 Trends in Short Term Interest Rate, 1980-2012 (percent)



Source: IMF International Finance Statistics, 2013

structural reforms in many developing countries, such as Brazil, Argentina, Turkey, Indonesia, South Africa and Nigeria, as well as an earlier-than-expected containment of the Argentine and Turkish financial crises, prompted a favourable review of the risk perception of the developing country borrowers in general during 2003-5. Further, global growth, during the first half of the 2000s, was weighed down by a number of natural disasters such as Tsunami and Hurricane Katrina that adversely affected the level of activity in the countries bordering the Indian Ocean and the U.S. Gulf Coast respectively.

However, in an effort aimed at stimulating global output growth, the period 2001-5 witnessed proactive pursuit of more accommodative fiscal and monetary policies, especially across the major industrialised economies. Thus, aside from massive fiscal stimulus packages as

seen in the US and Japan, for example, accommodative monetary policies were pursued across other OECD economies with a view to accelerating global output growth. In this regard, short-term interest rates were steadily reduced in the US, Japan, Canada, Britain and the Eurozone and other major OECD countries during 2000-3 and remained at generally low levels during 2001-5 as highlighted in Table 4.1. In the US, for example, the Federal Open Market Committee (FOMC), of the Federal Reserve System, made eleven successive cuts in the Federal Funds rate from 5.2% during the 1996-2000 to 2.2% during the first half of the 2000s with a view to minimizing the intensity and duration of the anticipated slowdown of the US economy (Table 4.1 and Figure 4.3). Also, as a result of the urgency of the need to revive the fragile Japanese economy, short term interest rates were kept at near zero level (0.01%) throughout 2001-5 compared to 0.4% during the second half of 1990s (Table 4.1 and Figure 4.3).

Other factors that supported the continued expansion of the global economy during 2001-5, included the emergence of the big and fast growing developing economies led by Brazil, Russia, India and China (BRIC), as major contributors to global output growth, providers of FDI and other forms of capital inflows to other developing countries, and as major buyers of raw commodities. Available data show that during the first half of the 2000s, the BRIC's share of global output rose to 11% in 2005, from 8% in 2000. Further, China and India, two of the four BRIC economies, posted the highest respective average rates of growth of 9% and 8% during 2001-5 (Figure 4.4).

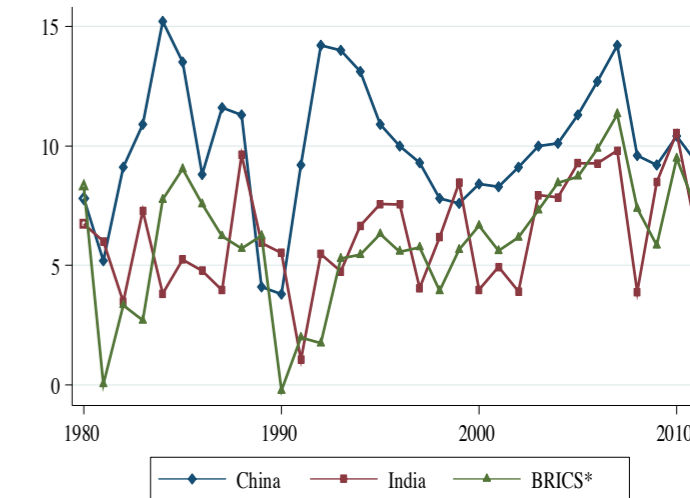
Additionally, the share of the BRIC in global output, which stood at 6.3% during 1980 rose to over 18.4% in 2010, significantly higher than the combined share of all other developing and emerging economies in 2010 (Figure 4.5). The continued expansion in global output was also supported by the strong growth performance of other groups of developing economies, including CIS (6.8%), Central and Eastern Europe (4.3%) and Middle East (4.9%) during 2001-5 (Table 4.1).

Global Economic Performance During 2006-2011

The factors that supported global output growth during 2001-5 continued in 2006 and beyond. Thus, the rate of global output growth strengthened to 5.2% and 5.4% in 2006 and 2007 respectively before slowing to 3.2% in 2008. This impressive performance of the global economy was powered by a robust expansion of the group of developing economies, with the BRICs, for example, accounting for about 70% of the increase in global output in 2008.

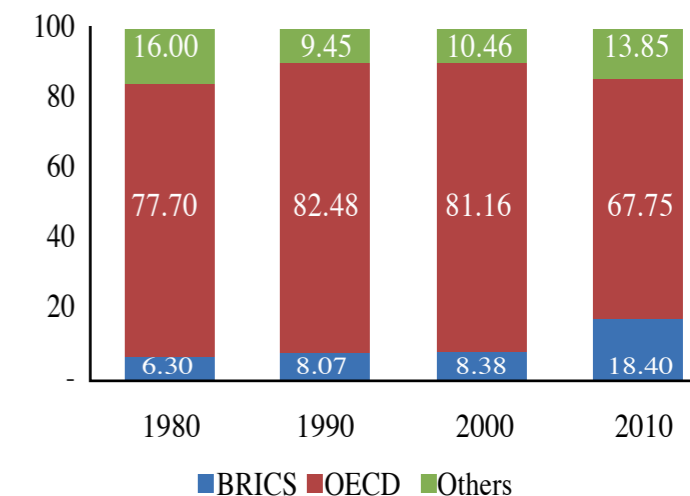
Global growth was, however, reversed in 2009 on account of the global financial and economic crises that emerged in 2008/9. The growth constraining effect of the global financial crisis that broke in 2008 was transmitted to other economies through a weakening of global demand, which affected economies dependent on commodity exports for growth. In addition, the financial crisis resulted in a sharp decline in asset prices as a result of severe dent to consumer and investor confidence, especially across the mature economies; sharp retreat in FDI and other forms of private capital flows to developing countries; and

Figure 4.4 Trends in Real GDP Growth for BRICS, 1980-2011 (percent)



* BRICS real GDP growth trend computed from the 2005 GDP data from WDI
Source: World Bank World Development Indicators, Database, 2013

Figure 4.5 The Share of BRICs in Global Output, 1980-2010 (percent)



Source: Computed from World Bank World Development Indicators, 2013

virtual dry-up of liquidity in international financial markets. Those developments in the global economy adversely impacted the level of economic activity across the developed world. In this regard, global output growth, which decelerated sharply to 3.2% in 2008, degenerated into a contraction of 0.6% in 2009.

Nevertheless, the global economy recovered strongly in 2010 on the back of an unprecedented coordination of macroeconomic policy interventions led by multilateral financial institutions, such as the IMF and the World Bank, as well as OECD governments and central banks under the auspices of the G20. Some of the interventions were in the form of massive fiscal stimuli, bailout of major financial and non-financial institutions that were considered “too big to fail” through provision of liquidity and public guarantees, and pursuit of more accommodative monetary policy reflected by coordinated cuts in interest rates to near zero levels, as well as government-backed recapitalizations of financial institutions across the mature economies (Table 4.1). Besides, the continued expansion of emerging economies, albeit at a decelerated rate, aided the recovery of the global economy in 2010. Additionally, continued implementation of sound macroeconomic policies across the developing world coupled with modest recovery in FDI inflows into the extractive industries on the back of an earlier-than-expected rally in commodity prices, helped to lift the level of activity in many capital-deficient and commodity-dependent economies.

In 2009, the global economy began to slow as a result of the Eurozone sovereign debt crisis. The crisis

resulted from a growing concern among investors over rising Greek government debt and doubts over its ability to honour its repayment obligations. Those concerns intensified in 2010 and 2011 as default risks of other sovereigns in the Eurozone, including Italy, the third largest economy in the Eurozone, Portugal, Ireland and Spain as well as Cyprus (in 2012) rose. These countries showed high levels of sovereign debt and limited prospects of being able to honour their debt repayment obligations with new debt issuances, evidenced by rising spreads on new bond issuances and credit default swaps (CDS) as discussed in Box 4.1. The perilous state of the sovereign debt crisis and the large exposure of banks to some of the fiscally distressed sovereigns also raised concern about the health of many major Eurozone banks, which led to an adverse feedback loop between sovereigns and banking sector soundness and funding. The worsening of the Eurozone sovereign debt crisis and the eventual write-down of the sovereign debts owed to banks, led to the downgrading of the credit ratings of at least 9 sovereigns and 17 major financial institutions across the Eurozone in 2011.

The worsening crisis and its adverse effect on economic activity across the region prompted the European Governments and the European Central Bank (ECB), with the support of the IMF, to introduce new policies and programmes to calm the markets and shore up investor and consumer confidence. Some of the measures taken to address the challenges included (i) urging Greece’s creditor banks to accept a 50% write-off of debt owed by the Greek government, (ii) increasing the resources of the European Financial

Box 4.1 Sovereign Default Risk: Measurement and Management

Sovereign default risk refers to the risk that a government may default on its debt obligations while sovereign default refers simply to a failure by the government of a sovereign state to honour its debt repayment obligations. Literature suggests that default could be one of two main forms: debt service default or technical default. Debt service default arises when the borrower/debtor is unable to make scheduled payment of interest and principal while technical default occurs when an affirmative or a negative covenant, undertakings as well as representations and warranties under a debt instrument or agreement is violated. Whenever there is a higher likelihood that a government may fail to pay its debt in the future, creditors (lenders and/or bondholders) demand a higher rate of interest (or coupon rate) as a compensation for assuming a higher risk of default. A situation of rapid surge or increases in interest rate on government debt driven largely by fears or higher probability or risk of default is often referred to as sovereign debt crisis.

History is replete with many sovereign default episodes that occurred in geographic clusters. Sturzenegger and Zettelmeyer (2006) noted that episodes or incidence of sovereign default tend to happen in clusters and usually follow lending booms. The first cluster of default, which occurred during 1824-1840, coincided with a lending boom precipitated by the gaining of political independence and access of Latin American countries to international financial markets in the 19th Century. The default episodes of the nineteenth century were reportedly concentrated mainly in Latin America and countries in peripheral Europe; those of the 1930s in Europe and Latin America; and those of the 1980s in Latin America and Africa. On a regional

basis, during 1824- 2004, Latin America recorded the highest number of sovereign default episodes of 126, followed by Africa with 63 episodes.¹ Almost all credit lending booms end in busts in which some debtors or beneficiaries of the preceding credit boom either default or reschedule repayment of their debts. More recent sovereign defaults and debt restructuring include:

- (a) Latin American debt crisis (1980s);
- (b) 1994 economic crisis in Mexico;
- (c) 1998 Russian financial crisis;
- (d) Argentine debt restructuring (2002); and
- (e) 2010 European sovereign debt crisis.

Records show that busts are usually triggered by at least one or combination of the following factors: (i) a deterioration of the terms of trade of debtor countries; (ii) a recession in the core countries that were providers of capital; (iii) a rise in international borrowing costs driven by events in creditor countries, such as tighter monetary policy; and (iv) a crisis in a major debtor country, transmitted internationally through financial and trade linkages.² According to economic literature on sovereign debt, the risk of default usually increases by: (a) deteriorating fiscal conditions; (b) deep recession/ depression; (c) wars; (d) political risk; (e) social unrest; (f) deflation; and (g) loss of control over one’s sovereignty (including monetary policy and the ability to print its own money).

¹ For more insight on default episodes and cluster, see Borensztein, E. and Panizza, U. (2008), “The Cost of Sovereign Default”, *IMF Working Paper* WP/08/238.

² “Sovereign Defaults and Debt Restructurings: Historical Overview” provides an elaborate discussion of the triggers for sovereign default and spike in sovereign default risk. (Available at : www.mitpress.mit.edu/books)

The framework of the post-war Bretton Woods Agreement underlying the current international financial architecture provides that the International Monetary Fund could be invited to intervene to avert or mitigate the adverse effects of sovereign default. Further, since the 1990s, the opportunity to insure against potential sovereign default through the purchase of credit default swaps, has also contributed to minimise the incidence of sovereign default. Accordingly, sovereign defaults in the post-second world war era have been confined largely to developing economies. Nevertheless, rapid accumulation of debt by some governments of Organization for Economic Cooperation and Development (OECD) countries and those in the European Union (EU) in particular, has recently raised the specter or possibility of default by countries with mature financial and economic systems, as reflected in sudden increase in risk premia on their bond/debt issuances. This is on account of the fact that the international capital markets tend to raise the expected yield from a bond issue (or interest on loans) if the probability or risk of default by a country is considered as significant and/or expected to rise. Such a situation may raise the cost of debt service via an increase in “risk premium”. Fear of destructive cycle of ever-increasing risk premia driven by unending expectation or aggravating perception of default usually reduces investors’ appetite for and thus the market’s attitude to a country considered as prone to default --- a situation termed as “debt intolerance”. “Debt intolerance”, until the recent European debt crisis that broke in early 2010, was reserved for bond issues of developing countries, but it has reportedly been applied to Greece, Spain, Ireland and Portugal.

The most common measures of sovereign default risk widely used by investors and the market are: (i) sov-

ereign bond spread, (ii) sovereign risk rating of credit rating agencies, such as Moody’s, S&P, and Fitch, and, (iii) sovereign credit default swap. Sovereign bond spread reflects the level of financial distress of a sovereign entity and thus the probability of default on its future debt obligations. It is measured, for U.S. dollar debt instrument, as the difference between the spread on the foreign bond (or loan) issuance of a government of a sovereign state over US Treasury securities of equivalent maturity. A government is considered as distressed with a higher probability of default if the difference between the spread on its bond or debt issuance and that of US Treasury instruments of equivalent maturity exceeds 1,000 basis point or 10%. Sovereign risk rating, which is an objective measure of both the ability and willingness of a country to service its debt, is derived on the basis of qualitative and quantitative assessment of key economic and socio-political attributes of a sovereign entity, such as solvency and liquidity factors in establishing the economic ability to pay, the level of development of governance systems and institutions, degree of integration into the global financial system, level of civil and political stability, and a country’s history as a borrower from international credit markets, among other important factors. Sovereign ratings are thus assessments of relative likelihood that a borrower will default on its debt obligations, with the probability of default ranging between zero and hundred.

A sovereign rating of 100 implies a country has the strongest debt service capacity and least possibility of default, while a rating of zero represents weakest debt service capacity and highest default risk. Experience has shown that, the markets are heavily influenced by ratings assigned by ratings agencies on account of their impact or effect on actual behaviour

of investors. Governments, especially those in mature financial markets tend to procure credit ratings for the purpose of easing their access to international capital markets since investors normally prefer rated debt securities (issued by rated sovereign entities) over unrated securities (issued by unrated sovereign entities). Whenever a rating agency, on the basis of its evaluation, anticipates a higher probability of default, it downgrades the credit rating of the sovereign entity. Accordingly, during the Eurozone debt crisis of early 2010, the probability of default and thus the sovereign default risk of the countries were deemed to have risen. The perceived higher probability of default contributed to push up both spread and the sovereign risk premium on bond issuances of Portugal, Ireland, Greece and Spain during the first half of 2010, following the downgrading of sovereign ratings of Greece, Portuguese and Spain in April 2010 by Fitch and S&P Rating Services.

Sovereign credit default swaps (CDS) is another benchmark for gauging sovereign risk. A CDS is simply a contract between two parties whereby the buyer of protection makes periodic payments (often referred to as CDS “fee” or “spread”) to the seller, in return for a contracted amount if there is a credit event (such as default). The buyer of the CDS may be an investor who holds a government bonds (or loan), and prefers to hedge the risk of sovereign default or bankruptcy by buying a CDS. The amounts of regular payment that has to be made by a buyer under a CDS are expressed in basis point. The market appears to be more concerned about default possibilities and demands higher levels of financial protection in the form of higher levels of CDS, and vice versa. In this regard, for example, at the height of the Eurozone debt crisis during the second quarter

of 2010, protection costs on debt issuances of some of the fiscally- challenged EU countries increased by more than two fold, with the CDS rate on bond issuance by Greece soaring 190%; those on Irish issuance rising by 168%; and increases of 129% and 127% on issues by Spain and Portugal respectively, according to CMA’s Global Sovereign Credit Risk Report (see www.bloomberg.com/news/2010-07-06/world-sovereign-default-risk-climbs-).

On account of the global economic difficulties caused by past episodes of sovereign debt default and the challenges created by a the Eurozone debt crisis in particular, there has been renewed calls for a more proactive approach to the management of sovereign debt via a strengthening of traditional sovereign debt and risk management systems and practices. In furtherance of this goal, the IMF and the Swedish National Debt Office hosted in Stockholm, Sweden, the 10th Annual IMF consultations on “ Policy and Operational Issues Facing Public Debt Management” during July 1-2, 2010. The Forum, which was attended by public debt managers, central bankers and representatives of the private sector from 31 advanced and emerging market countries, debated and adopted an enhanced “Principles of Managing Public Debt in the context of Market Turbulence” dubbed the “Stockholm Principles”. The Stockholm Principles, which seek to improve public debt and sovereign risk management, focus on three mutually reinforcing activity areas: (i) framework and operations, (ii) sound market communication strategies, and (iii) more cautions portfolio risk management. Concerning *Framework and Operations*, the SP recommends the following: (a) the scope of debt management should be defined in a way that also accounts for any relevant interactions between the nature of financial assets, explicit

and implicit contingent liabilities, and the structure of the debt portfolio; (b) strategic and operational debt management decisions should be supported by relevant information sharing at the domestic, regional, and global levels; and (c) flexibility in market operations should be maintained to minimize execution risk, improve price discovery, relieve market dislocations, and support secondary market liquidity.

With regard to *Communication Strategies*, the SP recommends: (a) proactive and timely market communication strategies should be maintained to support a transparent and predictable operational framework for debt management; (b) modifications to the operational toolkits of debt managers should be properly explained; (c) communication among debt managers and monetary, fiscal and financial regulatory authorities should be promoted, given greater inter-linkages across objectives, yet with each agency maintaining independence and accountability for its respective role; and (d) a close and continuing dialogue with the investor base should be promoted to keep abreast of its characteristics and preferences. Concerning *Risk Management*, the SP propose that: (a) debt portfolio risk should be kept at prudent levels, while funding costs are minimized over the medium to long term; (b) when determining medium-term debt management strategies, the range of risk factors considered should be consistent with the broadest definition of the debt portfolio and the associated range of poten-

tial scenarios; and (c) prudent risk management strategies covering the full range of risks facing sovereign debt managers should be adopted and communicated to investors.³ It is worth noting that the SP derive from a critical review of existing sovereign debt management policies and practices currently in force in a number of advanced and developing countries, best practices in debt capital market advisory services, as well as best practices in debt management policies and programmes of the IMF.

Africa has since the debt crisis of the 1980s not experienced any episode of Sovereign default of that nature due to years of implementation of sound macroeconomic policies. Better economic management, more transparency in credit standing through submission to credit ratings, sustained improvement in political stability, and resolution of the debt burden many countries experienced in the 1980s have combined to facilitate the return of African sovereigns into that international capital (bond) markets with issuances by countries such as Senegal, Ghana, Nigeria, Gabon, in addition to traditional issuers, such as Republic of South Africa, Egypt, Tunisia and Morocco. Afreximbank is facilitating this process through providing Country Risk Guarantees to enhance the credit of African borrowers as a way of reducing the spreads their debt instruments attract.

³ See IMF, 2010, Stockholm Principles. (Available at www.imf.org/external/np/mcm/stockholm/principles.htm)

Stability Facility (EFSF) from €440 billion to about €1 trillion, (iii) directing European banks to maintain a minimum tier 1 capital ratio of 9%, (iv) lengthening the maturities and lowering the interest rates on EFSF loans to member states, (v) broadening the mandate of the EFSF to enable it intervene in the primary

sovereign debt market, (vi) introduction of the Long-Term Refinancing Operations (LTRO) by the ECB, (vii) introduction of a fiscal pact, the EU Plus Pact, to facilitate fiscal consolidation in the Eurozone, and (viii) introduction of a Growth Pact to stimulate investment and economic growth in the region.

On account of bold and coordinated macroeconomic policy interventions, the global economy experienced an earlier-than-expected pickup in activity levels across many sectors and national economies in 2010, but slowed somewhat in 2011 and 2012 (as discussed in Box 4.2). In this regard, global output rose by 5% in 2010 and decelerated to respective levels of 3.9% and 3.2% in 2011 and 2012. Consequently, the rate of global output growth averaged 3.4% during 2007-2011, significantly lower than the 4% realised during the first half of the 2000s (Table 4.1).

4.2.2 Global Economic Prospects

The performance of the global economy, which weakened significantly in 2012, is expected to pick up in 2013 and further strengthen during 2014-17. In this regard, the rate of global output growth is forecast to rise marginally from 3.2% in 2012 to 3.3% in 2013, and increase to average 4.3% per annum during 2014-17 (Table 4.1). The forecast strengthening of the global economy over the medium term stems from an expected pick-up in output growth in the United States; possible acceleration in economic activity in Japan buoyed by continued recourse to growth-inducing macroeconomic policies and programmes, including massive fiscal stimulus as declared by the new prime minister in his inaugural address and subsequent public statements in early 2013. It is also hinged on a possible return of the Eurozone economies to growth by 2014 on the back of bold efforts at addressing their sovereign debt crisis, including

proactive implementation of the recently introduced “Growth Pact” which is expected to simulate public and private sector investment to revive the region’s growth performance; and continued sturdy expansion of the group of emerging economies led by China, India and Brazil. On the back of these and other policy interventions by governments of OECD countries, activity levels are expected to stabilise with the rate of growth of the group of advanced economies expected to remain almost unchanged between 2012 and 2013 (on account of forecast contraction of the Eurozone economies, as a group) before recovering thereafter to average 2.5% during 2014-17. The Eurozone economy, as a group, which contracted by 0.5% in 2012, is expected to suffer another 0.3% contraction in output in 2013 and recover thereafter with an average annual GDP growth of 1.4% during 2014-17.

The rate of output growth across the developing economies, as a group, over the near- to medium- term, is expected to exceed that of advanced economies, albeit with significant differences across economies. The group of developing economies are expected to continue to drive global output growth over the medium term and is forecast to expand at an average annual rate of about 5.6% during 2013-17, slightly lower than the 6.7% achieved during 2006-11. On a regional basis, real GDP is forecast to grow at an average annual rate of 7.6% in Developing Asia; 4.4% in the Middle East; 3.9% in Latin America and the Caribbean; and 3.4% in Central and Eastern Europe, during 2014-17 (Table 4.1).

Box 4.2 Resolving Global Economic Problems through Macroeconomic Policy Coordination: The Role of the G20

Over the past few decades, financial crises such as the one that occurred in Latin America and other parts of the developing world in the early 1980s, Mexico in 1995, East Asia in 1997/8, Russia in 1998, and Argentina in 2002, have become more frequent, more disruptive and contagious as a result of inter-relatedness of national economies. Rapid integration of national economies with the global economy through cross border trade, capital and investment flows in recent times portends economic gains as well as risks, such as the current global financial and economic crises. The current crisis was transmitted globally through reduction in demand for exports, which affected economies dependent on exports for growth; sharp declines in asset prices as a result of sustained weakening of consumer and investor confidence; sharp retreat in FDI and other forms of private capital flows; and virtual dry-up of external credit in international credit markets, among other channels.

The current global financial crisis has shown that growing business links among financial markets and a deepening of cross-market integration coupled with under-regulation of international securitization and other banking activities undermined market efficiency, fuelled systemic risk and exacerbated cross-border transmission of financial shocks. A heightening of global economic uncertainties, rising default and asset write-offs, and the turbulence that ensued created panic in late 2008 which occasioned a disorderly deleveraging process and consequent dampening of economic activity across both the developed and developing worlds, especially

during the first half of 2009. These worrying global economic developments prompted academics and policy-makers in major developed and developing countries particularly members of the G20,¹ to see the crisis as a global challenge that required a coordinated policy response.

Policy coordination may be defined simply as “supranational rules” or norms agreed upon by Member States of an economic bloc or group of countries which leave primary responsibility for the policy area with the national authorities, but sets limits on their discretion. The coordinated effort may cover monetary, fiscal, cross-border trade, investment, and a gamut of policies with the intention and capacity to influence the structure and overall performance of national economies or the economies in a trade bloc or grouping. Thus, policy coordination seeks to: (i) improve allocative efficiency by removing or minimizing policy distortions affecting commodity and factor movements within a trade bloc and economy; and/ or (ii) prevent or avoid negative spillovers from one national economy to other national economies in a trade bloc or that of a trading partner.

In the absence of policy coordination, one government could, for example, crowd out other governments in international credit markets through its massive borrowing which could cause weak performance

¹The Group of 20 (G20) is a grouping which was created in 1999 as a response both to the financial crises of the late 1990s and the need to include key developing economies in global economic discussion and governance. The Group comprises the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, republic of Korea, Turkey, the United Kingdom, and the United States of America plus representatives of the European Union.

and economic slowdown in other countries. Such a situation could also trigger countervailing measures from affected economies which may eventually weaken the performance of the global economy. This explains why there emerged a consensus on the need for policy coordination among the G8 economies in late 2008 and, later among the G20 countries in early 2009. The decision to switch towards the enlarged composition of the G20, as opposed to the G8, was an acknowledgement of the global nature of the crisis, the growing economic importance and potential contribution of major developing economies (such as the BRICs) towards amelioration of global economic difficulties, as well as growing interdependence among national economies, markets and institutions.

Against this backdrop, governments and central banks sought to ameliorate the current global economic challenges through policy coordination. In this regard, over the short term, as a way of thawing the international credit freeze for the resumption of lending to revive the receding global economy, leaders of the G20 undertook coordinated cuts in policy interest rates. Following this coordinated efforts, policy interest rates in major developed and developing countries maintained a downward trend to near zero, as highlighted in Table B4.2.1. Bail-outs and recapitalization of ailing financial institutions and major non-financial corporates with global subsidiaries and operations were also deemed necessary measures to stimulate global economic recovery.

Further, as a more dynamic forum for international macroeconomic policy coordination, leaders of the G20 agreed a broad set of measures to be followed by national policy makers and national and international regulators in order to safeguard the stability of the

Table B4.2.1 Nominal Policy Rates in Selected Mature Economies, 2007 – 9 (%)

	Dec-2007	Dec-2008	Dec-2009
Federal reserve of the US	4.25	1.00	0.25
Bank of England	5.50	2.00	0.50
European Central Bank	4.00	2.50	1.00
Bank of Canada	4.25	1.50	0.25
Bank of Japan	0.50	0.10	0.10
G7* (Average)	3.70	1.31	0.42

* G7 – Canada, France, Germany, Italy, Japan, the UK and the US)

Source: Central Banks' Websites

global financial system in the future. In this regard, in order to promote international financial stability over the long term through better information exchange and international cooperation, the G20, at their Summit Meeting held in London in April 2009, established the Financial Stability Board (FSB), as the new regulator of global financial stability. Membership of the FSB includes representatives of the G20, Spain and the European Commission. In order to avert the recurrence of a financial crisis of the magnitude as the recent one, the new regulator, FSB, is to coordinate, at the international level, the work of national financial authorities and international standard setting bodies as well as develop and facilitate implementation of effective regulatory, supervisory and other financial sector policies. Specifically, the FSB has the mandate to: (i) assess vulnerabilities affecting the financial system and identify and oversee action needed to address them, (ii) promote co-ordination and information exchange authorities responsible for financial stability; (iii) monitor and advise on market developments and their implications for regulatory policy; (iv) advise on and monitor best practice in

meeting regulatory standards; (v) undertake joint strategic reviews of the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities, and addressing gaps; (vi) set guidelines for, and support the establishment of supervisory colleges; (vii) manage contingency planning for cross-border crisis management, particularly with respect to systemically important firms; and (viii) collaborate with the IMF to conduct Early Warning Exercises.

The establishment of college of supervisors to oversee the activities of all major cross-border financial institutions, for example, is a clear evidence of enhanced co-operation at the international level. Further, to ensure policy harmonization, during the review period, the FSB began developing a system of peer reviews among member countries involving both single-country and thematic reviews in order to assess progress and convergence in the implementation of agreed international financial standards and policies.

The Forum provided by the G20 is also a perfect platform for addressing longer-term global economic problems. It is expected that rigorous pursuit of the mission of the FSB of the G20 could contribute to restrain national governments from resorting to

“protectionist” policies that may deepen the crisis or undermine the budding recovery in other countries and elsewhere, given the commitment of members to cooperate at the international level on issues of common economic interest.

Overall, it is expected that international policy coordination via the platform provided by the G20 will enable effective monitoring of global financial stability through better exchange of economic and business information between authorities of the major developed and developing economies. It could also enhance the pursuit of mutually compatible macroeconomic policies and targets while adjusting to the selection of policy instruments, their magnitude and timing to avoid conflict with trade/economic partners or countries based on agreed joint actions that are mutually beneficial to partner countries.

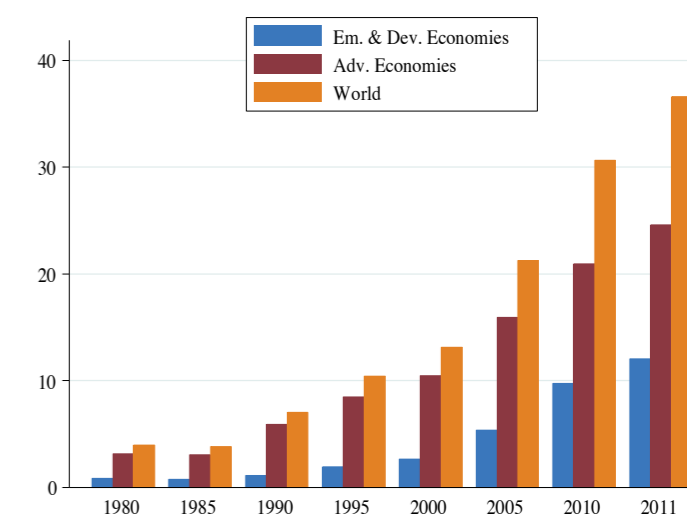
Policy coordination among the G20 economies could also help to better manage the evolving structural changes in the global economy, given that it would help re-balance economic power to take account of evolving “geographical shifts” in the distribution of the global foreign exchange reserve holdings, savings, and exports, among others.

global output growth, the level of global merchandise trade increased by more than fivefold from US\$7 trillion in 1990 to US\$36.6 trillion in 2011 (Figure 4.6). In this regard, the volume of global merchandise trade, which grew at an average annual rate of 5% during 1981-1990, rose steadily at an average annual rate of 7.2% during 1991-5, and strengthened to 7.3% during 1996-2000 (Table 4.1 and Figure 4.7). The rate of growth in the volume of global merchandise

trade, however, moderated to average 5.7% and 4.3% during 2001-5 and 2007-11 respectively (Table 4.1 and Figure 4.7). Similarly, the group of advanced economies experienced strong expansion in volume of their merchandise trade during the 1990s and moderate growth in the trade during the 2000s. In more specific terms, the volume of merchandise trade for the group of advanced economies quickened from an average annual rate of 6.8% during 1991-5 to 8.1% during 1996-2000 (Table 4.1 and Figure 4.7). The rate of growth in volume of merchandise trade, however, decelerated to an average annual rate of 4.5% and 3.2% during 2001-5 and 2007-11 respectively. The growth was largely driven by merchandise imports, which grew at an average annual rate of 5% during the 2000s, down from a level of 7.6% during the 1990s.

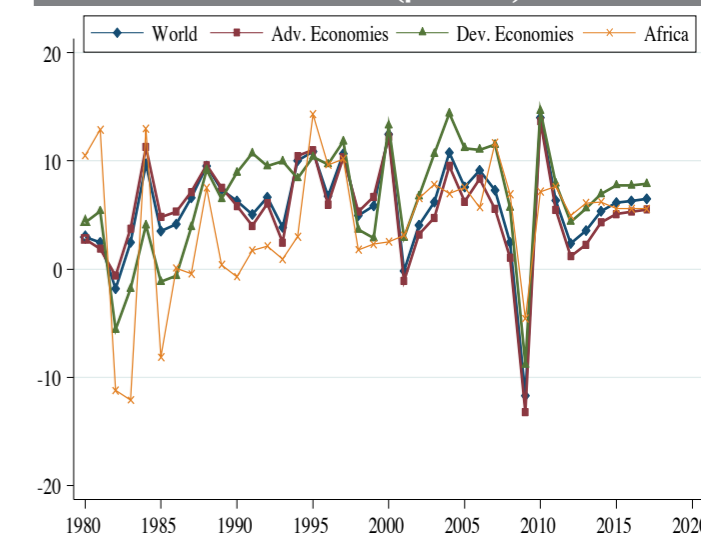
The volume of merchandise trade for the group of developing economies grew at a relatively faster average annual rate compared to advanced and the global economies during the period. Specifically, the volume of merchandise trade for the group of developing economies grew at an average annual rate of 9.8% and 8.3% during 1991-5 and 1996-2000 respectively, compared to the 6.8% during 1986-90. Developing economies’ trade picked up during the first half of the 2000s, growing at an average annual rate of 9.2%, and moderated to average 6.6% during 2007-11. Similar to the group of advanced economies, the rise in volume of merchandise trade for the group of developing countries were driven by merchandise imports, which grew at an average annual rate of 8.9% during the 2000s, marginally lower than the 9% seen during the 1990s.

Figure 4.6 Trends in Global Trade, 1980-2011 (US\$ Trillion)



Source: World Bank, *World Development Indicators*, 2013

Figure 4.7: Trends in Volume of Global Trade, 1980-2020 (percent)



Source: IMF *World Economic Outlook Database*, 2013

4.2.3 Developments in Global Trade, 1993-2012

Records show that the value of global merchandise trade maintained an upward trend during the last two decades with the average rate of growth quickening over the past decade broadly in tandem with the expansion in global output seen during the same period. Consequently, except for brief periods of severe interruptions or shocks, which adversely impacted

During the 1980s, developing-country exports grew at 3.4% while exports of developed countries expanded at an average rate of 7% per annum during the period. However, this trend in export performance was reversed with the group of developing economies' exports, during the 1990s, growing at an average annual rate of 9% compared to 7.5% for the group of developed economies. The volume of merchandise imports of the group of developing economies grew at an average annual rate of 8.7% during the 1990s, up from an average annual rate of 2.9% during the 1980s. Consequently, the volume of total trade of the group of developing countries increased at an average annual rate of 9% during 1991-2000, significantly higher than the 1.9% achieved in the 1980s. Despite the impressive 9% expansion in the volume of world trade during 1991-2000, the level of trade fluctuated and slowed sharply to 4.2% in 1998, before recovering somewhat to 4.6% in 1999. The deceleration in 1998 arose from sharp decline in domestic absorption caused by the Asian financial crisis and its knock-on effect on trade of a number of advanced and developing economies.

The expansion in global merchandise trade seen during the 1990s was sustained during the 2000s, albeit at a decelerating rate. From an impressive year-on-year growth of 12.1% in 2000, the volume of global trade contracted by 1% in 2001. The sharper-than-expected deceleration in the volume of global merchandise trade in 2001 stemmed from the trade inhibiting effect of the September 11 Event and the concomitant global war on terror, and a sharp retreat in activity in the export oriented economies of Developing Asia.

The level of global trade subsequently rebounded with the rate of growth in volume of global merchandise trade recovering to 3.4% and 10.6% in 2002 and 2004 respectively, before retreating to 7.4% in 2005. The rally in global trade, which began in 2002, continued with the volume of global merchandise trade rising by 9.1% year-on-year in 2006, before moderating somewhat to 7.2% in 2007. The robust growth in global merchandise trade during 2002-7, despite the negative effects of the September 11 terrorist attacks and the Latin American debt crisis, was supported by firm global demand led by the advanced economies, especially the US and other G-8 economies; sustained robust growth in merchandise trade of the emerging and developing economies led by Brazil (3.8), Russia (7%), India (8%) and China (11%); unprecedented rise in commodity demand and prices, which enabled many commodity dependent developing economies to fund higher levels of imports and thereby raise their overall level of trade; and sustained improvement in trade performance across the developing world on the back of widespread pursuit of export-led growth strategies, among other supportive factors.

Another striking development that emerged in the global trading arena during the last two decades was the rapid growth in trade relations among developing economies in the South. The South, as defined by the United Nations Organization (UN) encompasses

Table 4.2 Distribution of South - South Trade, 1980-2010 (percent)

South - South Trade (% of Total South Trade)	Exports				Imports				Total Trade			
	1980	1990	2000	2010	1980	1990	2000	2010	1980	1990	2000	2010
South - South Trade (% of Total South Trade)	18.58	22.95	24.91	39.30	23.96	22.70	25.69	40.25	20.94	22.83	25.28	39.76
Regional Share of South - South Trade (%)												
Africa	8.44	8.75	8.83	8.27	11.84	12.99	10.31	10.28	10.15	10.78	9.54	9.26
Developing Asia	23.82	45.17	49.67	55.83	28.22	44.61	46.20	53.68	26.03	44.90	48.01	54.77
Latin America	33.29	23.05	17.13	19.08	15.42	16.72	12.72	15.11	24.31	20.02	15.02	17.12
Middle East	34.45	23.02	24.37	16.82	44.52	25.68	30.77	20.93	39.51	24.30	27.44	18.85

Source: IMF *Direction of Trade Statistics*, 2013

Developing Asia (excluding Japan), Latin America, Africa and the Middle East (WTO, 2003; Athukorala and Nasir, 2012).² Records show that the share of South-South trade in the South's total trade grew steadily during the 1990s and 2000s, in sharp contrast to the pattern observed during the 1970s and 1980s (WTO, 2003; OECD 2006; AfDB, 2010).

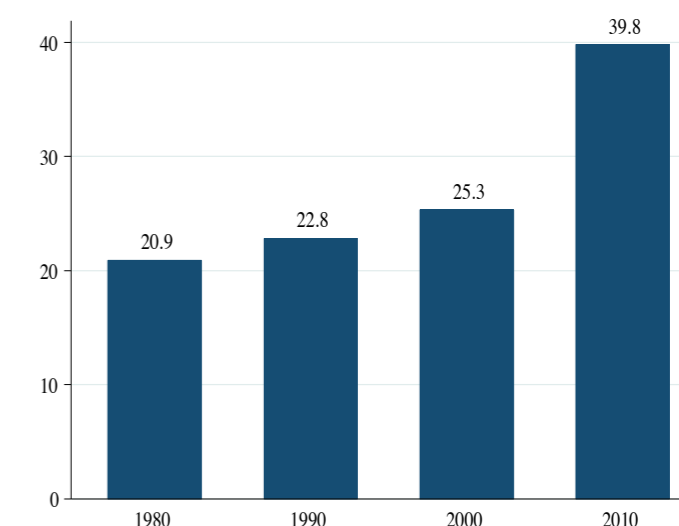
Trade among economies in the South also gained momentum during the last two decades, particularly during the last decade. The share of intra-South trade in total South trade grew from 23% in 1990 to about 40% in 2010 (Table 4.2 and Figure 4.8). Developing Asia accounted for the largest share of 55% of total intra-South trade, followed by Middle East (19%) and Latin America (17%). Despite the growth in the volume of Africa's trade with other South economies, the continent's share of total South trade averaged about 10% during 1980-2010. This development is in sharp contrast to what happened during 1980s and 1990s.

The commodity composition of South-South trade is dominated by manufactured goods, although there are notable differences across countries/regions, reflecting differences in resource endowment and

² The conventional North-South categorization of countries is based on the UN Standard Country Classification.

stage of economic development. Manufactured goods accounted for 63% of total trade among South economies with fuels and mining and agricultural commodities accounting for respective shares of 28% and 9% in 2010 (Table 4.3a and Figure 4.9). Developing Asia accounted for the lion's share of South-South exports of agriculture commodities (56%) and manufactures (88%) in 2010 while the Middle East accounted for the largest share of fuels and mining product exports to the South followed by

Figure 4.8 Intra-South Trade, 1980-2010 (percent)*



* As a percentage of total South trade

Source: IMF *Direction of Trade Statistics Database*, 2013

Table 4.3a. Commodity Composition of Intra-South Trade, 2010 (percent)

Commodity	Imports	Exports	Total
Agriculture	10.55	8.72	9.37
Fuels & Mining	25.78	28.96	27.84
Manufactures	63.67	62.32	62.80

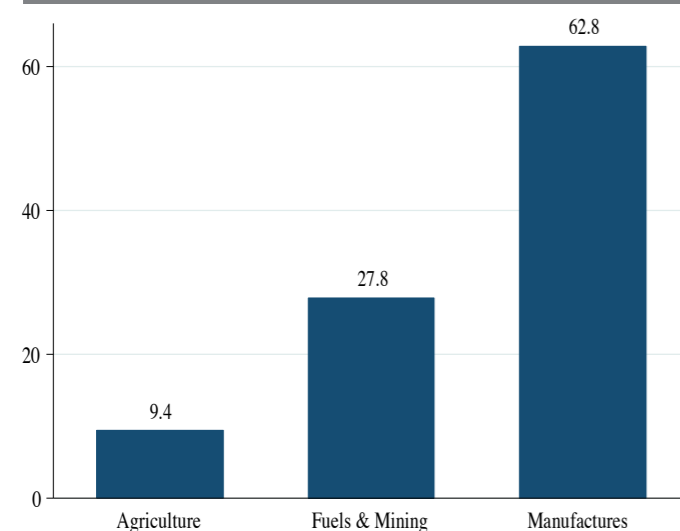
Source: WTO *International Trade Statistics*, 2013

Table 4.3b. Regional and Commodity Distribution of Intra- South Trade, 2010 (percent)

Region	Imports			Exports		
	Agriculture	Fuels & Mining	Manufactures	Agriculture	Fuels & Mining	Manufactures
Africa	11.40	5.53	6.13	8.76	16.94	2.27
Developing Asia	66.42	79.81	80.24	56.21	31.20	88.27
Latin America	9.70	9.68	3.75	30.34	14.30	4.08
Middle East	12.48	4.97	9.88	4.70	37.56	5.38
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: WTO *International Trade Statistics*, 2013

Figure 4.9 Commodity Composition of Intra-South Trade, 2010 (percent)

Source: WTO *International Trade Statistics Database*, 2013

Developing Asia (Table 4.3b). The two regions account for a combined share of 69% of the intra-South export of fuels and mining products (Table 4.3b).

The above developments, which reflect a declining share of advanced economies in global trade as well as their trade with developing economies in the South, emanated from lacklustre trade performance of many OECD countries vis-a-vis unrelenting robust growth in trade of major developing and emerging economies in the South (Table 4.4). The trade boom experienced by developing economies, as a group, partly reflects an on-going geographic dispersion of global production, with assembly plants migrating to lower-wage locations particularly in Asia and Latin America. Additionally the outward-oriented growth strategies currently being pursued by numerous

Table 4.4 Distribution of Global Merchandise Trade, 1980-2011 (percent)

Region	1980	1990	1995	2000	2005	2010	2011
World	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Advanced Economies	69.36	78.66	75.75	73.99	67.94	60.94	59.60
Eurozone	27.68	31.49	27.76	28.25	28.94	25.94	25.29
Emerging and Developing Economies	28.56	20.01	22.92	25.03	30.66	37.58	38.71
Developing Asia	4.68	5.98	9.43	10.37	13.35	17.63	17.64
Central and Eastern Europe	2.39	2.40	1.95	2.27	3.15	3.58	3.71
Commonwealth of Independent States	2.51	1.52	2.04	1.78	2.70	2.99	3.32
Latin America and Caribbean	5.79	4.17	4.85	5.75	5.33	6.02	6.20
Africa	4.25	2.37	1.93	1.90	2.29	2.61	2.79
Middle East	8.91	3.53	2.63	2.94	3.80	4.70	5.00

Source: IMF *Direction of Trade Statistics*, 2013

Table 4.5 Share of Intra-Bloc Trade, 1995-2011 (percent)

Region/FTA/Custom Union	Total				
	1995	2000	2005	2010	2011
America					
FTAA (Free Trade Area of the Americas)	48.74	53.72	51.60	48.12	48.30
NAFTA (North American Free Trade Agreement)	41.87	47.64	45.11	41.04	40.81
Asia					
APEC (Asia-Pacific Economic Cooperation)	71.61	72.43	70.04	68.04	66.80
ASEAN (Association of South-East Asian Nations)	21.48	22.52	25.43	24.90	24.43
Europe					
CIS (Commonwealth of Independent States)	29.83	30.20	23.18	21.44	18.88
EU (European Union)	64.84	64.65	64.57	61.66	61.29
Africa	9.61	9.24	9.56	10.69	11.27

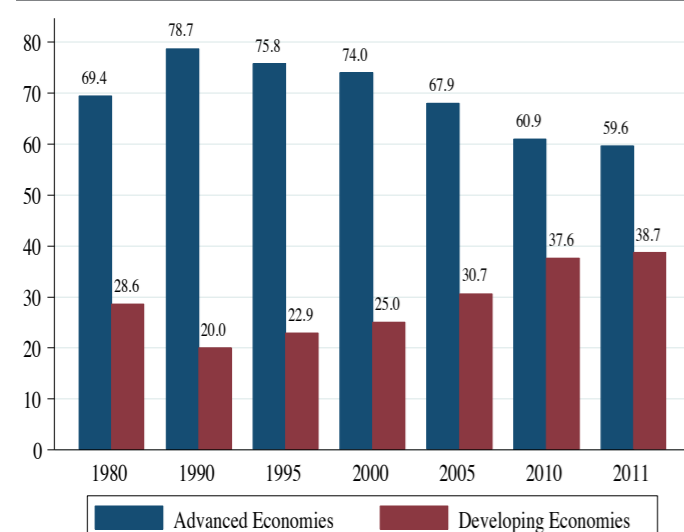
Source: UNCTAD, *UNCTADSTAT*, 2013

economies in the South, particularly those in emerging Asia, also contributed to lift their share in global trade during the last two decades. Consequently, the share of global trade of the group of developing economies, which stood at about 20% in 1990, rose steadily to about 39% in 2011, reducing the share of advanced economies over the same period from 78.7% to 59.6%

(Table 4.4 and Figure 4.10).

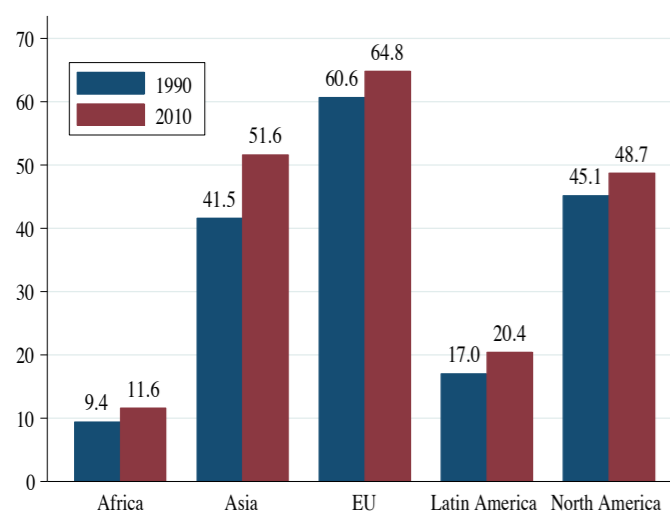
In line with on-going regional and sub-regional integration efforts around the world, intra-regional trade also grew and became more important to national and sub-regional economies as one of the principal drivers of economic growth. In this regard, during

Figure 4.10 Distribution of Global Trade, 1980-2011 (percent)



Source: IMF, *Direction of Trade Statistics*, 2013

Figure 4.11: Intra-Regional Trade, 1990 - 2010 (percent)



Source: IMF, *Direction of Trade Statistics*, 2013

1990-2010, the groupings that made most progress with regard to economic integration, measured by the share of intra-bloc trade as a percentage of their total trade, included Asia-Pacific Economic Community (APEC, 66.8%), the EU (61.3%), Free Trade Area for the Americas (FTAA, 48.3%) and North America Free Trade Area (NAFTA, 40.8%) (Table 4.5 and Figure 4.11).

Trade within regional trade blocs is being actively promoted due to the known economic benefits associated with it. The rapid growth in regional trade of emerging and developing economies and Developing Asia in particular, partly reflects their diminishing reliance on distant global markets in North America and Western Europe and the gradual decoupling of the South economies from economic developments in Europe and North America.

In conformity with the mounting evidence that trade within a dynamic regional grouping could be a vehicle for harmonising macroeconomic and structural policies, promoting large-scale capital investments needed to support economic growth and development and facilitating economic efficiency, plurilateralism gained much currency during the last two decades. The period 1990-2012 witnessed the creation of about 252 Bilateral and Plurilateral trade arrangements among the 157 developed and developing member countries of WTO (WTO, 2013).³ The steady rise in the conclusion and implementation of these arrangements arose partly from unanticipated difficulties in concluding the Doha

³ List of All RTAs in force as at end of 2012 are available at <http://rtais.wto.org/UI/PublicAllRTAList.aspx>

Round of Multilateral Trade Talks and the need to accelerate national and regional trade and economic development.

The European Union, a follow-up organization to the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) created in 1951 and 1958 respectively, promotes economic and political union of its 27 member countries. The principal objectives of the EU was the development of a common market/single market and the introduction of a single currency among member countries, with a view to facilitating free movement of goods, capital, people and services within the EU, and application of a common external tariff on all goods entering the EU market.

Apart from facilitating free flow of goods across borders of member countries, the EU intensified efforts to promote easy access of member countries to other markets, particularly emerging markets. In this regard, the EU entered into Free Trade Area (FTA) arrangements with several countries, including Andorra in (1991), Tunisia (1998), Israel (2000), South Africa (2000), Chile (2003), Egypt (2004), Algeria (2005), Albania (2006), Eastern and Southern Africa States (2012), Central America (2013), and Colombia and Peru (2013).

Other Free Trade Agreements operating in Europe include the European Free Trade Association (EFTA) and the Commonwealth of Independent States Free Trade Area (CISFTA). The European Free Trade Association (EFTA) is an intergovernmental

organisation set up in 1960 for the promotion of free trade and economic integration to the benefit of member countries, namely Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. Finland joined in 1961, Iceland in 1970 and Liechtenstein in 1991. In 1973, the United Kingdom and Denmark left EFTA to join the EEC. They were followed by Portugal in 1986 and by Austria, Finland and Sweden in 1995. As at 2012, the EFTA had only 4 members, namely Iceland, Liechtenstein, Norway and Switzerland.

The Commonwealth of Independent States (CIS) launched a Free Trade Area (FTA) in 2011 called the CISFTA to facilitate trade and economic cooperation among member states. The CISFTA was formed by eight of the eleven CIS states, namely Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Ukraine at a meeting held in St. Petersburg, Russia on October 2011. At that meeting, an agreement was also signed by the prime ministers of member states of CIS on currency regulation and controls within the CIS. The Free Trade Agreement eliminates export and import duties on a number of goods, but also contains a number of exemptions that would be phased out over the medium term.

The last two decades also witnessed increased efforts among Asian countries to advance trade and economic relations within their region through creation of economic unions and Free Trade Areas. Notable among the FTAs are the Association of South Eastern Asian Nations (ASEAN FTA), South Asian Free Trade Area (SAFTA) and Asia-Pacific Trade Agreement (APTA).

The ASEAN was established in 1967 with an initial membership of five countries, namely Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei Darussalam, in 1984, acceded to the Agreement establishing the ASEAN, raising membership of the group to 6. In 1992, the six member countries launched the ASEAN Free Trade Area (AFTA), a trade bloc, to increase ASEAN's competitive edge as a production base in the world market by eliminating, within ASEAN, tariffs and non-tariff barriers, and attracting more foreign direct investment to the bloc. Membership expanded to ten countries following the accession of Vietnam (1995), Lao PDR (1997), Myanmar (1997), and Cambodia (1999) to the Agreement establishing the bloc.

In 1997, the ASEAN and three countries from East Asia, namely China, Japan and South Korea, created the ASEAN Plus 3 (APT) to facilitate market access, financial cooperation, trade facilitation, disaster management, people-to-people contacts, and investment flows across the 13 member countries. The ASEAN has also entered into several other Trade and Investment Agreements, including the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA, 2009), ASEAN–China Free Trade Area (ACFTA, 2010), ASEAN–India Free Trade Area (AIFTA, 2010), ASEAN–Japan Comprehensive Economic Partnership (AJCEP) and ASEAN–Korea Free Trade Area (AKFTA, 2010).

The Asia-Pacific Trade Agreement (APTA) was created in 1975 with the aim of promoting economic development and cooperation among

member countries through implementation of mutually beneficial trade policies and programmes. Its membership, at the launch in 1975, included Bangladesh, India, Republic of Korea, Lao People's Democratic Republic, Sri Lanka, Nepal and the Philippines. China acceded to the Agreement in 2001.

During the same period, the North American Free Trade Agreement (NAFTA) was also created to facilitate trade and economic cooperation among member countries, namely the US, Canada and Mexico, by eliminating barriers to trade and investment flows within the North American sub-region. The NAFTA, which was launched in 1994, led to immediate elimination of tariffs on more than 50% of Mexico's exports to the U.S. and more than 30% of U.S. exports to Mexico. Most U.S.-Canada trade was already duty free at the time of launching of NAFTA in 1994. NAFTA also seeks to eliminate non-tariff trade barriers and protects intellectual property rights.

World Trade Organization (WTO)

Establishment

Another significant development that emerged in the global trading arena during the review period was the creation of the WTO. The WTO was established on January 1, 1995 for the purpose of providing a platform for governments and policy makers to negotiate trade agreements and settle trade disputes. The core mandate of the WTO includes, among others, facilitating trade negotiations, implementation and monitoring of trade related agreements, dispute

resolution, capacity building and undertaking trade supporting outreach programmes.

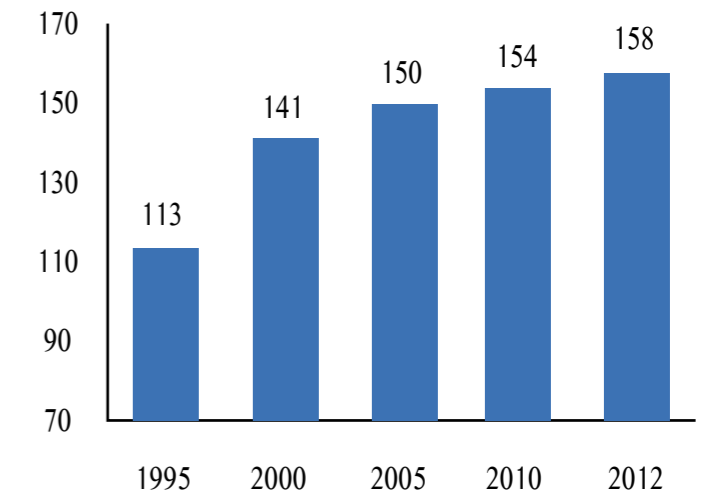
Membership Mobilization

Since its establishment, membership of the WTO has risen steadily from 113 in 1995 to 158 as at the end of 2012. In 2012 alone, 4 countries, namely Montenegro, Russia, Samoa and Vanuatu acceded and ratified their memberships of the WTO, raising total membership of the world body to 157 at the end of 2012 (Figure 4.12).

Dispute Resolution

The WTO has, since its inception, displayed enormous dexterity in reconciling the diverse interests of its members by providing a credible mechanism for resolution of trade related disputes among member nations. Its reputation has been bolstered by the successful handling of more than 300 trade disputes as at 2004 by its Dispute Settlement Body (DSB). On account of its growing reputation as a fair arbiter capable of reconciling the diverse trade interests of various member countries, the number of cases brought before the DSB of the WTO increased to 454 at the end of 2012 from the respective levels of 219 in 2000 and 335 in 2005 (WTO *Chronological list of Disputes Cases*, 2013). For instance, during the period, a number of contentious trade disputes referred to the DSB of the WTO included dispute between the US and the EU on one hand and China on the other, over the introduction of anti-dumping measures in the US and EU as a means of restricting imports

Figure 4.12 Membership of the WTO, 1995 - 2012



Source: WTO, 2013

from China and other countries and the subsequent countermove by China, which could have triggered countervailing measures against exports from the US and the EU into China. Other cases included a dispute between Canada and the EU over the introduction of feed-in tariff program in Canada; the raging dispute regarding provision of agricultural subsidies to US and European farmers amidst opposition from a large group of developing countries; and strong opposition to the introduction of Genetically Modified Organisms (GMO) in the EU in spite of repeated objections from the US, were also considered by the DSB

Capacity Building Initiatives

Capacity building is an important component of the mandate of the WTO. In this regard, a number of capacity building initiatives have been introduced

by the WTO to equip its members, particularly developing country members with basic skills in the spheres of trade policy formulation, trade negotiations, and dispute resolution, among others. Supported by financial contributions/donations and technical assistance from a number of developed country members and other emerging economies, including China and India, many capacity building seminars/workshops have been organized by the WTO. These training programmes are being organized at the regional, sub-regional, and national levels and at the Technical Training Institute of the WTO in Geneva (Switzerland).

Also, an e-learning programme was launched to enhance WTO's outreach to policy makers, academic institutions and individual students. The programme offers interactive courses over the Internet which provides participating government officials online access to training material. The interactive e-learning platform involves live chat sessions, and discussion fora on various WTO issues, including: (i) overview of the WTO, (ii) Dispute settlement, (iii) sanitary and phyto-sanitary measures, (iv) trade in services, (v) the WTO: economic underpinnings, (vi) the WTO: legal underpinnings, (vii) Accession Procedures, (viii) trade facilitation (ix) trade facilitation needs assessment, and (x) trade finance.

Doha Round of Multilateral Trade Negotiations

The Doha Round of Trade Negotiations was launched in 2001 with the objective of facilitating trade through the removal of barriers in order to increase the level of global trade. The Round, which was preceded by

the Uruguay Round (1986–1994) and scheduled to end in 2005, remains inconclusive. The impasse and inability to conclude the Doha Round after 12 years of negotiations, emanates from a multiplicity of challenges, including (i) sharp disagreements over domestic support for agricultural exports by developed countries through provision of special subsidies, imposition of tariffs on processed agricultural products by developed countries, anti-dumping duties, and the rules governing Regional Trade Agreements (RTAs); (ii) the increasing number and diversity of WTO membership which has rendered the task of building consensus too cumbersome and complicated, compared to only 23 GATT signatories; and (iii) disagreement over the special safeguard mechanism used to protect domestic farmers in developing countries from agricultural import surges.

4.2.4 Global Trade Prospects

The volume of global merchandise trade is forecast to grow at an average rate of 5.6% per annum during 2014-17, higher than the rate of 2.4% achieved in 2012 and the estimated rate of 3.5% expected to be achieved in 2013. However, the projected growth in volume of global trade over the medium-term is significantly lower than the respective average annual increases of 7.7% and 6.4% achieved during the 1990s and 2000s. Merchandise exports of advanced economies, which slowed to 0.6% in 2012 from a pre-crisis high of 8% in 2006, is expected to recover to 2.9% in 2013 and average 4.5% during 2014-17. The developing economies, as a group, is expected to post 6.5% growth in volume of their merchandise exports

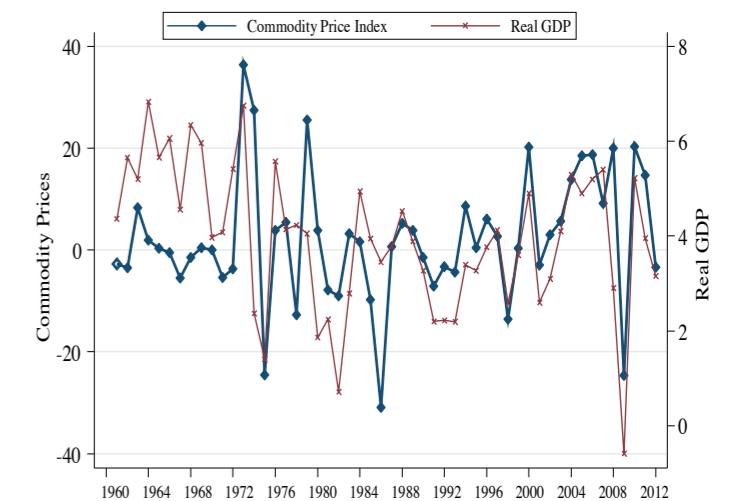
in 2013 and an average annual increase of 7.6% during 2014–17 (Table 4.1). On the import side, developed economies are expected to register 2.4% growth in 2013 and average annual increase of 4.5% during 2014-17, while the group of developing economies are expected to achieve a 4.7% growth in volume of their merchandise imports in 2013, which will strengthen to average 6.7% per annum during 2014-17 (Table 4.1). Other regions are expected to improve on their recent trade performances over the medium-term as highlighted in Table 4.1.

4.2.5 Commodity Prices

4.2.5.1 Commodity Price Developments

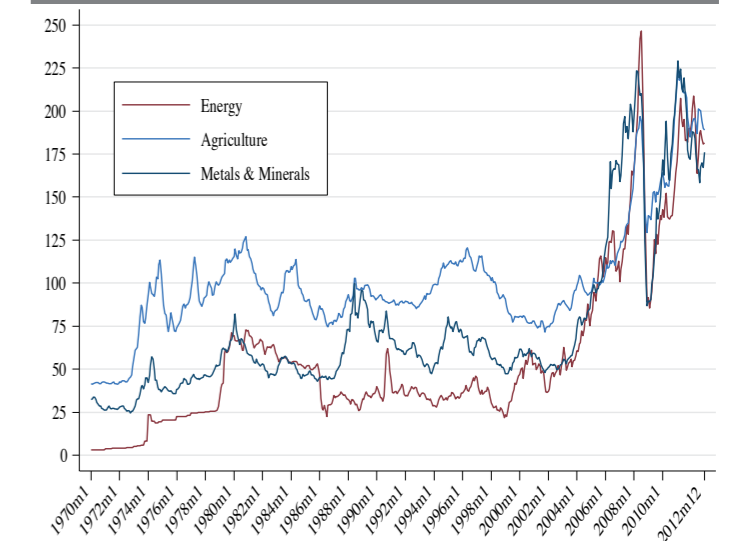
Primary commodity prices tend to move in cycles that are highly correlated with fluctuations in global economic activity and aggregate demand (Figure 4.13). These cyclical patterns of rising and falling prices of varying magnitude and duration were shaped by macroeconomic factors and a spate of natural disasters that occurred during the last two decades as discussed in Section 4.2. After weakening during the first half of 1980s, commodity prices reversed course and enjoyed a decade of sustained increases, amid fluctuations. The commodity boom of 1986-95 was, however, reversed during the second half of 1990s and the first two years of 2000s. Commodity prices, thus, recovered after 2002 and rose to record levels during the first half of 2008. Prices collapsed during the second half of 2008 and 2009. Recovery began in 2010 and firmed in 2011.

Figure 4.13 Global Output and Commodity Prices, 1960-2012 (percent)



Sources:
1. World Bank, *World Development Indicators Database*, 2013
2. World Bank, *Commodity Prices - Pink Sheet*, 2013

Figure 4.14 Trends in Major Commodity Prices, 1970-2012 (2005=100)



Source: World Bank, *Commodity Prices - Pink Sheet*, 2013

Table 4.6 Commodity Prices and Forecast, 1980-2018

Commodity	Unit	Actual										Forecast						
		1980	1985	1990	1995	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Energy																		
Coal, Australian	\$/mt	40.1	33.75	39.7	39.37	26.3	47.62	127.10	71.84	99	121.4	96.4	93	91	90	91	91.9	92.9
Crude oil, avg. spot	\$/bbl	36.9	27.18	22.9	17.18	28.2	53.39	96.99	61.76	79	104	105	102	102.2	102.1	101.9	101.7	101.5
Natural gas, European	\$/mmbtu	4.2	3.65	2.8	2.73	3.9	6.33	13.41	8.71	8.3	10.5	11.5	11.2	11.1	11	10.9	10.8	10.7
Natural gas, US	\$/mmbtu	1.6	2.51	1.7	1.72	4.3	8.92	8.86	3.95	4.4	4	2.8	3.5	4	4.5	5	5.3	5.5
LNG, Japanese	\$/mmbtu	5.7	5.23	3.6	3.45	4.7	5.99	12.53	8.94	10.8	14.7	16.7	16	15.5	15	14.8	14.5	14.3
Agriculture																		
Beverages																		
Cocoa	€/kg	260	225.45	127	143.24	91	153.81	257.71	288.88	313	298	239	235	232	230	229	228	227
Coffee, Arabica	€/kg	347	323.08	197	333.23	192	253.22	308.16	317.11	432	598	411	380	370	360	359	358	357
Coffee, robusta	€/kg	324	264.86	118	277.07	91	111.45	232.09	164.42	174	241	227	205	190	185	183	182	180
Tea, auctions (3) ave	€/kg	166	174.95	206	148.86	188	164.71	242.05	272.40	288	292	290	285	288	291	295	298	301
Food																		
Fats and Oils																		
Coconut oil	\$/mt	674	590.17	337	669.58	450	616.98	1224.00	725.38	1,124	1,730	1,111	950	940	930	927	924	921
Groundnut oil	\$/mt	859	904.92	964	990.92	714	1060.44	2131.12	1183.67	1,404	1,988	2,436	2,150	1,950	1,900	1,895	1,890	1,885
Palm oil	\$/mt	584	500.58	290	628.25	310	422.08	948.54	682.83	901	1,125	999	930	910	900	889	879	869
Soybean meal	\$/mt	262	572.00	200	625.08	189	544.92	1258.25	848.69	378	398	524	520	460	410	407	404	401
Soybean oil	\$/mt	598	157.17	447	196.92	338	214.38	424.42	407.69	1,005	1,299	1,226	1,200	1,100	1,050	1,045	1,040	1,035
Soybeans	\$/mt	296	224.42	247	259.25	212	274.69	522.83	436.92	450	541	591	570	540	520	519	518	517
Grains																		
Barley	\$/mt	78	58.82	80	104.01	77	95.08	200.52	128.32	158	207	240	230	215	200	198	197	195
Maize	\$/mt	125	112.23	109	123.49	89	98.67	223.12	165.51	186	292	298	290	270	250	248	246	244
Rice, Thai, 5%	\$/mt	411	196.93	271	320.96	202	286.27	650.19	554.99	489	543	563	540	520	500	498	496	494
Wheat, US, HRW	\$/mt	173	135.83	136	176.98	114	152.35	326.03	224.07	224	316	313	320	300	270	270	271	271
Other Food																		
Bananas US	\$/mt	377	378.07	541	445.10	424	602.84	844.21	847.14	868	968	984	980	970	950	947	944	941
Meat, beef	€/kg	276	215.41	256	190.70	193	261.69	313.80	263.65	335	404	414	410	360	315	323	330	338
Meat, chicken	€/kg	76	83.80	108	122.32	131	162.94	186.55	188.78	189	193	208	201	201	201	202	203	203
Oranges	\$/mt	400	398.41	531	531.47	363	874.67	1107.31	909.04	1,033	891	868	845	860	900	903	906	909
Shrimp	€/kg	1,152	1197.14	1,069	1509.25	1,515	1033.82	1068.53	945.09	1,004	1,193	1,006	1,005	1,035	1,100	1,110	1,120	1,130
Sugar, world	€/kg	63.2	35.04	27.7	68.80	18	66.54	69.69	52.44	46.9	57.3	47.5	45	40	38	37.7	37.4	37.1
Timber																		
Logs, Cameroonian	\$/cum	252	173.88	343	339.51	275	334.37	526.89	421.47	429	485	451	450	457	465	473	481	489
Logs, Malaysian	\$/cum	196	121.73	177	255.62	190	203.12	292.30	287.20	278	391	361	356	362	368	374	381	387
Sawnwood, Malaysian	\$/cum	396	307.13	533	739.95	595	659.38	889.09	805.52	848	939	876	875	885	902	919	937	955
Other Raw Materials																		
Cotton A Index	€/kg	206	131.83	182	212.79	130	121.70	157.39	138.20	228	333	197	180	190	200	205	209	214
Rubber, Malaysian	€/kg	142	75.87	86	158.00	67	148.80	258.63	192.07	365	482	338	330	325	320	318	316	314
Tobacco	\$/mt	2,276	2611.82	3,392	2643.44	2,976	2789.65	3588.74	4235.20	4,333	4,485	4,294	4,200	4,100	4,000	4,010	4,020	4,030
Fertilizers																		
DAP	\$/mt	222	168.96	171	216.57	154	247.03	967.20	323.05	501	619	540	500	490	480	478	476	474
Phosphate rock	\$/mt	47	33.92	41	35.00	44	42.00	345.59	121.66	123	185	186	175	160	150	145	140	135
Pottasium chloride	\$/mt	116	83.96	98	117.76	123	158.18	570.12	630.43	332	435	459	430	410	380	375	369	364
TSP	\$/mt	180	121.38	132	149.63	138	201.48	879.38	257.42	382	538	462	430	425	420	415	409	404
Urea	\$/mt	192	109.79	119	187.21	101	219.02	492.73	249.57	289	421	405	390	370	350	345	339	334
Metals and Minerals																		
Aluminum	\$/mt	1,775	1040.73	1,639	1805.66	1,549	1898.31	2572.79	1664.83	2,173	2,401	2,023	2,200	2,400	2,500	2,537	2,575	2,614
Copper	\$/mt	2,182	1417.38	2,661	2935.61	1,813	3678.88	6955.88	5149.74	7,535	8,828	7,962	7,800	7,400	7,000	6,980	6,960	6,939
Iron ore	€/dmtu	28	26.56	33	28.38	29	65.00	155.99	79.98	146	168	128	130	132	135	136	138	139
Lead	€/kg	91	39.09	81	63.10	45	97.64	209.07	171.93	215	240	206	210	215	220	221	222	223
Nickel	\$/mt	6,519	4899.04	8,864	8228.04	8,638	14743.96	21110.64	14654.63	21,809	22,910	17,548	18,000	18,200	18,500	18,948	19,407	19,877
Tin	€/kg	1,677	1153.90	609	621.38	544	737.98	1851.01	1357.39	2,041	2,605	2,113	2,200	2,250	2,300	2,346	2,392	2,440
Zinc	€/kg	76	78.34	151	103.11	113	138.13	187.47	165.51	216	219	195	210	220	230	232	234	236
Precious Metals																		
Gold	\$/toz	608	317.91	383	384.16	279	444.84	871.71	972.97	1,225	1,569	1,670	1,600	1,550	1,500	1,479	1,458	1,437
Silver	\$/toz	2,080	611.52	483	520.02	495	730.84	1499.65	1464.35	2,015	3,522	3,114	3,100	2,950	2,800	2,768	2,737	2,706
Platinum	\$/toz	679	292.50	472	424.34	545	896.53	1574.50	1203.40	1,610	1,719	1,551	1,544	1,469	1,395	1,379	1,363	1,348

Source: World Bank, *Commodity Prices - Pink Sheet*, 2013

Table 4.7: Commodity Prices and Price Forecast in Real 2005 US Dollars

Commodity	Unit	Actual										Forecast						
		1980	1985	1990	1995	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Energy																		
Coal, Australian	\$/mt	84.21	70.87	83.37	82.68	55.23	100.00	266.91	150.87	207.89	254.93	202.43	195.29	191.09	188.99	191.09	192.98	195.08
Crude oil, avg. spot	\$/bbl	69.11	50.91	42.89	32.18	52.82	100.00	181.66	115.68	147.97	194.79	196.67	191.05	191.42	191.23	190.86	190.49	190.11
Natural gas, European	\$/mmbtu	66.39	57.69	44.26	43.11	61.64	100.00	211.91	137.67	131.19	165.96	181.77	177.03	175.45	173.87	172.29	170.71	169.13
Natural gas, US	\$/mmbtu	17.95	28.16	19.07	19.32	48.23	100.00	99.34	44.31	49.35	44.86	31.41	39.26	44.86	50.47	56.08	59.45	61.69
LNG, Japanese	\$/mmbtu	95.16	87.31	60.10	57.58	78.46	100.00	209.13	149.18	180.30	245.41	278.80	267.11	258.76	250.42	247.08	242.07	238.73
Agriculture																		
Beverages																		
Cocoa	€/kg	169.04	146.57	82.57	93.13	59.16	100.00	167.55	187.81	203.50	193.74	155.38	152.78	150.83	149.53	148.88	148.23	147.58
Coffee, Arabica	€/kg	137.04	127.59	77.80	131.60	75.82	100.00	121.70	125.23	170.60	236.16	162.31	150.07	146.12	142.17	141.78	141.38	140.99
Coffee, robusta	€/kg	290.71	237.65	105.88	248.60	81.65	100.00	208.25	147.52	156.12	216.24	203.68	183.94	170.48	165.99	164.20	163.30	161.51
Tea, auctions (3) ave	€/kg	100.78	106.22	125.07	90.38	114.14	100.00	146.96	165.38	174.85	177.28	176.07	173.03	174.85	176.68	179.10	180.93	182.75
Food																		
Fats and Oils																		
Coconut oil	\$/mt	109.24	95.65	54.62	108.53	72.94	100.00											

Energy price weaknesses of the 1980s continued during the first half of 1990s resulting in an average annual decline of 1.7% during 1991-1995, albeit marginally lower than the 2.2% decline suffered during 1981-1990 (Table 4.6 and Figure 4.14). The decline in Energy prices was precipitated by lower global demand caused by weaker global activity and output growth, particularly among OECD economies, and higher crude oil production by non-OPEC countries (ECB, 2008).⁴ Energy prices weakened during the second half of the 1990s to end the period at US\$26.3 per barrel from US\$39.4 per barrel in 1995 (Table 4.6). The decline was the result of weak global demand caused in part by the Asian financial crises, and surge in global production inventories.

However, from the beginning of 2002 crude oil prices began to recover from the decline suffered during the second half of the 1990s. The price recovery was supported by inter-temporal factors, including the 2005 Hurricane (Hurricane Katrina), which led to the shutdown of major portion of U.S. refinery capacity as well as some crude oil production and delivery capacities; surge in oil imports by Europe and major emerging economies, including China and India; and tight production and supplies from major oil producing nations, especially key producers in the Middle East. The upward trend in energy prices continued until the end of third quarter of 2008. The price bubble burst in the fourth quarter 2008 at the onset of a global financial crisis. As the global financial crisis worsened, crude oil prices fell from

US\$147 per barrel in July 2008 to an average price of US\$38 per barrel in December 2008. As the global economy began to recover in 2010, oil prices started to pick-up strongly. The price recovery continued in 2011 when socio-political uprising across the Middle East especially in Libya, a major oil producer interrupted some supplies to Europe. Consequently, crude oil prices rose to average US\$121.4 per barrel in 2011.

Similar to the trend in energy prices, the price of the group of **Metals and Minerals** declined during the 1990s at an average annual rate of 2%. The decline in prices of Metals/Minerals was the result of decreases in prices of Lead (44%), Copper (32%), Gold (27%), Zinc (25%) and Iron ore (12%). The decline in prices continued up to the early part of the 2000s. Prices, however, recovered strongly during 2003-8. Consequently the price index of metals and minerals rose at an average annual rate of 13% during 2001-8. The commodity price rally ended during the second half of 2008 as a result of the global financial and economic crises of 2008/9 and rising inventory levels. Metals/Minerals prices recovered steadily during 2010 and 2011, growing at an average annual rate of 32% (Table 4.7).

Agricultural commodity prices also showed significant cyclicity during the last two decades. In this regard, agricultural commodity prices declined during the 1990s. This price development was caused by sharp declines in the prices of major agricultural commodities, including cocoa (from US\$225.5/kg in 1985 to US\$91/kg in 2000), coffee (arabica) (from

US\$323.1/kg in 1985 to US\$192.0/kg in 2000) and cotton (from US\$182/kg in 1990 to US\$130/kg in 2000) (Table 4.6). Agricultural commodity prices, however, recovered in 2003 and strengthened during 2004-8. The rally in agricultural commodity prices was aided by firm pickup in global demand, particularly from the fast growing emerging market economies in the South. Like all other commodity groups, Agricultural commodity prices plummeted in 2009, declining by 30% compared to 2008. The prices, however, recovered strongly in 2010 and firmed in 2011 and continued in 2012, albeit at a decelerated rate.

4.2.5.2 Commodity Price Forecast, 2013-17

Tables 4.6 and 4.7 highlight the forecast nominal and real prices of commodities of trade interest to Africa during 2013-17. The price prospects for these commodities appear to be mixed over the medium-term. The Tables show that all commodity groups are forecast to experience mild weakening in prices over the medium term, compared to their average nominal and real levels in 2012. It is, however, worth noting that these price forecasts, which appear to be very conservative as a result of the prevailing uncertainties in the global economy and those of the Euro zone in particular, are not significantly different from their average levels in 2012.

Commodity prices are forecast to exhibit relative stability during 2013-17 compared to the high volatility observed during the second half of 2000s. Prices are expected to decline from their peak in 2011 at an average annual rate of approximately 2% during

2013-17. Overall, agriculture prices are expected to suffer the largest decline of about 2% followed by metals and minerals of about 1.7%. Energy prices are forecast to remain relatively stable during the period, suffering only 1% decline on the average per annum during 2013-17.

The medium term outlook for major commodities are based on the following assumptions (i) expected marginal improvement in activity levels across the global and advanced economies; (ii) lingering uncertainties regarding resolution of the sovereign debt challenges facing economies in the Eurozone bloc; and (iii) forecast increases in global supply of some commodities as a result of pursuit of export-led growth strategies by many developing countries, among others.

4.3 The African Economy

4.3.1 Output Growth, 1993 – 2012

In the few years preceding the establishment of Afreximbank, many African economies experienced serious economic difficulties as a result of poor macroeconomic management, external economic shocks, and external debt service challenges, among others. Closely related to the above was the dependence of most African economies on unstable foreign exchange earnings from export of a few primary commodities which are associated with high price volatilities in international commodity markets.

⁴ For more on this see European Central Bank (ECB) *Occasional Paper Series* No 98 / OCTOBER 2008

The period 1994-2003 stand out generally as a decade in which Africa began a sustained recovery from its dismal performance of the 1980s and early 1990s following implementation of Structural Adjustment Programmes (SAPs) supported by the IMF and the World Bank. Accordingly, the rate of growth of the group of African economies recovered from 2.1% in 1994 to 5.7% in 1996 and averaged 3.7% per annum during 1996-2000 (Table 4.1 and Figure 4.15).

During the 1990s and early 2000s, Africa's economic performance was largely driven by developments in commodity prices, the level of social and political stability, the quality of economic governance across the continent and economic performance of major industrialized economies. Figures 4.15 and Figure 4.16 capture the relationship between Africa's GDP growth and some of the above variables. Figure 4.15 shows that Africa's growth performance is positively related to commodity prices and economic developments in the advanced economies, key trading partners of Africa.

Tables 4.6 and 4.7 show that nominal and real prices of commodities of trade interest to Africa such as cocoa, coffee and gold, exhibited considerable volatility during the last two decades. Further, the high concentration of exports in markets of OECD countries exposed commodity dependent African economies to the adverse effects of the socio-economic difficulties that impacted the advanced economies. In this regard, the growth weaknesses experienced by African economies mirrored those of the advanced economies. It is, however, important to note that the

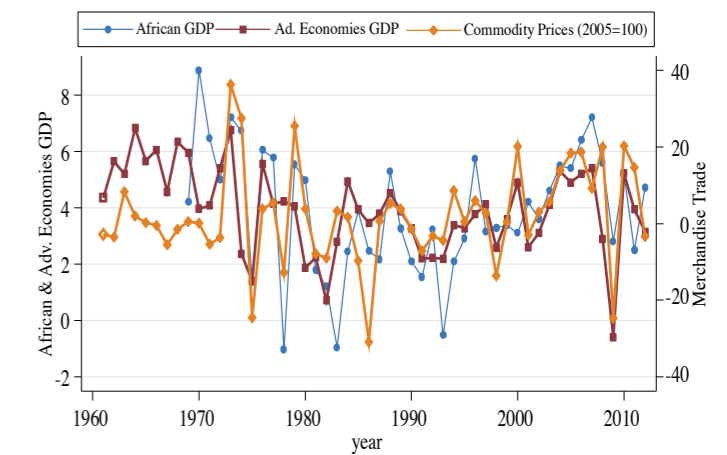
full impact of the growth weaknesses of the advanced economies on Africa was somewhat mitigated by strong economic fundamentals resulting from the recent structural reforms and recourse to sound macroeconomic policies, as well as the gradual but steady shift in the continent's trade direction toward faster-growing developing economies in the South such as those of the BRIC. A key factor worthy of note that prevented Africa from achieving its full growth potential during 1991-2000 was the numerous internal conflicts it had to contend with. Towards the end of 2000, however, some of those conflicts were resolved or were near resolution through the effort of African Governments under the auspices of the African Union. For instance, Liberia, Sierra Leone and Angola ended their civil wars. The conflicts in Sudan and the Democratic Republic of the Congo (DRC) were also close to resolution.

The continent's better growth performance of the 1990s was maintained during 2001-5 resulting in the attainment of a higher rate of output growth compared to the preceding 5-year period (Table 4.1). Other factors that supported Africa's growth performance during 2001-5 included higher commodity prices; and recourse to sound macroeconomic policies which reduced the continent's vulnerability to commodity price volatilities and helped to attract FDI, among others. Further growth was supported by continued diversification of national economies and trade; pursuit of outward oriented growth policies; strengthening of state institutions; regulatory reforms in banking and financial sector coupled with better capitalization of banks; and improvements in political governance,

among others. The level of democratic governance in the continent improved significantly evidenced by an increase in the number and frequency of parliamentary and presidential elections held during 2001-5 compared to 1996-2000. Further, Fitch Ratings, in collaboration with the United Nations Development Programme, began rating a number of African countries bringing transparency to political and economic governance in the continent. Accordingly, the rate of output growth for African economies, as a group, maintained its upward trend to average 4.7% per annum during 2001-5. This figure compares favourably with the average annual growth in global output of 4.0% during the same period, and the average annual growth of 1.9% and 3.7% of Africa economies, as a group, during in 1991-95 and 1996-2000 respectively (Table 4.1).

During 2001-5, the level of cooperation among African countries was intensified resulting in the transformation of the Organisation of African Unity (OAU) into a better-resourced African Union (AU) in July 2001 to spearhead social and economic development in the continent. An "African-owned" development blue-print titled: the "New Partnership for Africa's Development" (NEPAD), which aims to: (i) eradicate poverty in Africa and place African economies on the path of sustainable growth and development, and (ii) promote the role of women in all activities, was also introduced to guide Africa's development efforts. Established in 2003 by the AU, the African Peer Review Mechanism (APRM), which is a scheme through which African Governments voluntarily assess the credibility of each other's political and economic stewardship, seeks to foster

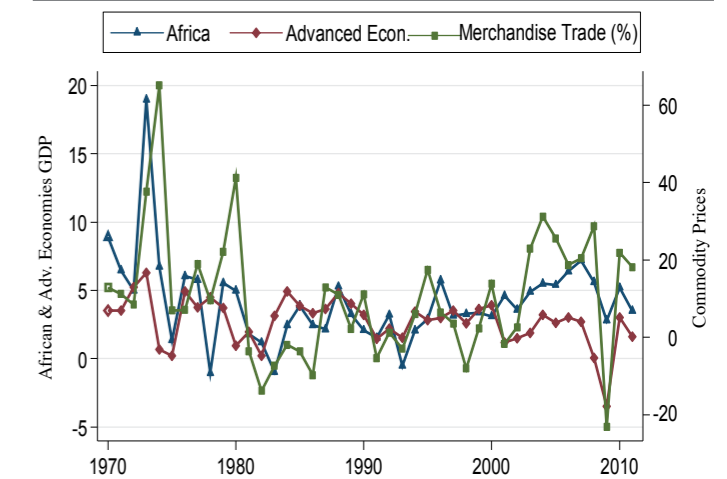
Figure 4.15 Africa's Real GDP Growth and Drivers, 1960-2011 (percent)



Sources:

1. World Bank, *World Development Indicators*, 2013
2. World Bank, *Commodity Prices - Pink Sheet*, 2013
3. IMF, *International Finance Statistics*, 2013

Figure 4.16 Evolution of Africa's Real GDP, Trade and Global Economic Growth, 1970-2011 (percent)



Source:

1. World Bank, *World Development Indicators Database*, 2013
2. World Bank, *African Development Indicators Database*, 2013

the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through experience sharing and reinforcement of successful best practices, including identifying deficiencies in, and assessment of requirements for, capacity building.

The continent witnessed further improvements in its economic performance during 2007-11. Except for a slowdown in 2009, where the average annual rate of growth of African economies, as a group, retreated to 2.8% due to the global financial and economic crises, Africa's growth performance continued to strengthen during 2007-11. During 2007-8, firm commodity prices, continued expansion of the global economy, sustained pick-up in external capital inflows including FDI, and continued recourse to sound macroeconomic policies contributed to respective average growth of 7.2% and 5.6% in GDP achieved by Africa in 2007 and 2008 (World Bank, *World Development Indicators*, 2013). Available statistics suggest that the continent weathered the recent global financial and economic crises of 2008/9 better than other regions by achieving continued expansion in output (albeit at a decelerating rate) in 2009 at a time when the global and advanced economies were contracting.

Again in 2010, African economies, as a group, posted an average annual growth rate of 5.2%, reflecting a significant improvement on the previous year's performance. The strong rebound in 2010 was aided by recovery in commodity prices, which contributed to lift export receipts and economic activity of many

African economies. Available statistics show that all three broad commodity groups of trade interest to the continent, namely Agriculture, Energy and Metals posted impressive respective nominal price increases of 28.4%, 30.2% and 39.4% in 2010. Other factors that supported the rebound of the African economies in 2010 included a robust pick up in official capital inflows from multilateral development finance institutions and western donor governments in the form of emergency funding (as discussed in Box 4.3), modest recovery in tourism receipts and migrant remittances, and continued recourse to sound macroeconomic policies and improvement in political governance across the continent.

In addition, the continent continued to attract more external capital for infrastructure development on the back of growing international investor confidence in Africa and the emerging and frontier market economies in the continent in particular. On account of these developments, the continent recorded an average annual growth in real GDP of 4.9% during 2007-2011 which compares favourably with corresponding figures of 3.4% and 0.8% for the global and advanced economies respectively during the same period (Table 4.1). The significant improvement in Africa's growth performance amidst the multiplicity of challenges that prevailed in the global and African macroeconomic environments at the time reflects the resilience of the emerging African economy and the growing capacity of the continent to withstand internal and external shocks.

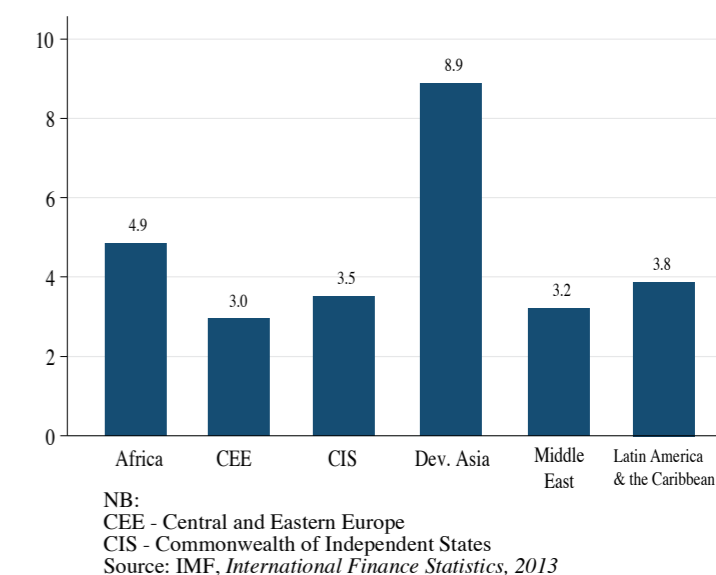
Also, Africa's growth performance compared favourably with that of other developing regions, such as Latin America and the Caribbean, Middle East, and Central and Eastern Europe who posted respective average annual growth rates of about 3.8%, 3.2% and 3.0% during 2007-11 (Table 4.1 and Figure 4.17).

During 2012, economic activity across African economies remained firm despite the worsening of the Eurozone debt crisis, socio-political challenges in Mali and Central African Republic, the Sudan/South Sudan conflict, and other forms of socio-economic difficulties that emerged in the global and African macroeconomic environments. In this regard, the rate of growth of the African economies, as a group, which slowed sharply from 5.2% in 2010 to 2.4% in 2011 recovered to 4.7% in 2012 (Table 4.1). The strong rebound in activity in Africa witnessed in 2012 was, once again, supported by the same socio-economic factors that supported the continent's growth performance in the preceding half decade as related above, especially FDI flows from major economies in the South (e.g. China, India, Brazil, etc.) into the continent's extractive and service industries.

4.3.2 African Economic Prospects

African economies, as a group, is forecast to post an impressive 5.6% GDP growth in 2013 and an average annual growth of 5.8% during 2014-17. The forecast growth performance of Africa compares favourably with corresponding forecasts for the global and the advanced economies, as well as the average growth

Figure 4.17 Growth Rate of Real GDP by Region, 2007-11 (percent)



performance achieved by the continent during the 2000s (Table 4.1). In this regard, the continent's nominal GDP, which reached an estimated US\$2 trillion in 2012, is forecast to trend upwards to reach US\$2.5 trillion by the end of 2017. Over the medium term, 26 (of the 54) countries in Africa are expected to grow at a minimum average annual rate of 6%, with Nigeria, one of the continent's flagship economies, forecast to post an average annual growth rate of 7% during 2014-17, from an estimated rate of 6.3% in 2013. South Africa, the other flagship economy, is expected to grow at an average annual rate of 3.2% achieved per annum during the same period, higher than the estimated 2.5% achieved in 2013. A number of frontier market economies in the region are also expected to record significant improvements in economic activity, with Côte d'Ivoire, Tanzania,

Box 4.3 Emergency Financing Mechanisms of Multilateral Agencies: Elements and Impact on the Global Economic Crisis.

Emergency Financing Mechanisms (EFMs) are financial assistance programmes provided by Multilateral Financial Institutions (MFIs), such as the International Monetary Fund (“IMF” or the “Fund”), the World Bank (“WB” or the “Bank”), African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB), among others, to assist their member countries deal with socio-economic challenges arising from shocks, such as terms of trade and aid shocks, political disturbances, and natural disasters, such as droughts, floods, earthquakes and hurricanes. These EFMs take different forms such as balance of payments support intended to meet importation of essential goods (such as food, drugs and fuel), prop up national currency and restore macroeconomic stability; concessional medium to long term financing for critical infrastructure that may have been destroyed by civil war or natural disaster; and short term financing to provide liquidity to meet external payment commitments, among others. In this Box, we explore the key elements of some of these EFMs provided by the MFIs and how such support schemes contributed to ameliorate the effects of the global financial and economic crises on some national economies during the period.

The IMF has since the 1960s been providing emergency financial assistance to its member countries hit by natural disasters under the Fund’s Emergency Natural Disaster Assistance (ENDA) programme. Such support is usually to help crisis-hit member countries deal with balance of payments challenges arising from unexpected shortfalls in export earnings and/or increased import financing

needs occasioned by the disaster. It was, however, not until 1995 that the IMF set up its Emergency Financing Mechanism. This EFM facilitates rapid approval of IMF lending to its eligible member countries. Under the IMF’s EFM, conditions for lending still have to be agreed but disbursement is rapid and the loan size can be higher than normal. One element of IMF’s EFM is the acceptance that there would be an understanding rather than a legal obligation that the member country would make early repurchase of the resources made available under emergency procedures, provided the member overcame its difficulties quickly. Records show, for example, that EFM was used by the IMF in 1997 during the Asian crisis to support Philippines, Thailand, Indonesia and Korea, in Turkey in 2001, in Georgia in 2008, etcetera. In Africa, the IMF provided a US\$23 million emergency financing support to Malawi in 2002/03 to help the country deal with food shortages precipitated by prolonged drought. The Fund also introduced the Emergency Post-Conflict Assistance (EPCA) programme in the mid-1990s to assist economic recovery efforts of its member countries coming out of civil wars or conflict situations. These programmes seek to support implementation of comprehensive economic recovery programmes by recipient countries as, in most cases, their economic infrastructure and production capacities might have been damaged by the conflict. In some cases, technical assistance is also provided by the Fund for capacity building in the areas of macroeconomic management and structural reforms. Available records show that the IMF provided emergency financing support to many African countries coming out of civil war or

conflicts, including Rwanda, Sierra Leone, Guinea-Bissau, Central Africa Republic and Burundi, among others.

In response to the effects of the global financial crisis on African economies, the IMF overhauled its lending programme to address its member countries’ need for emergency financing support. A few of the emergency financing extended by the IMF to African countries during the global financial crisis included a US\$1.4 billion loan to Angola, aimed at restoring macroeconomic balances for a country whose economy suffered severely when oil prices plunged in early 2009; and a US\$551 million loan to Democratic Republic of Congo, one of the post-conflict countries hard hit by the effects of the global financial crisis. Further, to make its financial support more flexible and tailored to the diversity of low-income countries while helping them deal with the effects of the global financial crisis, the Fund established a new **Poverty Reduction and Growth Trust**, which has the following three new lending windows, all under highly concessional terms:

- i. **Extended Credit Facility (ECF)**, which replaced the Poverty Reduction and Growth Facility (PRGF) and provide a framework for addressing, on a sustainable basis, the medium- to long-term balance of payments difficulties; and offers more flexibility on program extensions, the timing of structural reforms, and formal poverty reduction strategy document requirements;
- ii. **Standby Credit Facility (SCF)**, which provides flexible support to low-income countries with short-term financing and adjustment needs occasioned by domestic shocks, such as policy slippages or external

socio-economic shocks; and targets countries that no longer face protracted balance of payments problems but may require help from time to time; and

- iii. **Rapid Credit Facility (RCF)**, which provides quick-disbursing financial support in the form of a single, up-front payout to low-income countries facing urgent domestic and/or external financing needs, successive drawings for countries in post-conflict or other fragile situations; and provides flexible assistance without program-based conditionality when use of the above-mentioned facilities are either not necessary (due to limited nature of need) or not possible (on account of institutional or capacity constraints).

Available records show that IMF concessional lending to low-income countries increased significantly from US\$1.2 billion in 2008 to US\$3.8 billion in 2009 in an attempt at addressing the acute external financing needs of such countries precipitated by the global financial crisis. The Fund expects to more than double the concessional resources available to low-income countries up to \$17 billion through 2011-14. It is expected that these new facilities, introduced in January 2010, would contribute to enhance the Fund’s emergency financing activities in low-income countries, including those in Africa. The emergency financing programmes of the World Bank (WB) are usually of a medium to long term nature and are intended to support the recovery of economies of crisis-hit member countries by addressing structural issues and constraints to economic growth occasioned by one form of crisis or the other. The focus of these programmes may include rehabilitation of economic

and social infrastructure, rebuilding and strengthening core state functions and institutions, and enhancing the policy and institutional framework to sustain economic recovery. In the recent past, the WB has supported countries such as Liberia, Sierra Leone, Rwanda, and other countries coming out of crisis to deal with such challenges. For example, the WB, together with the AfDB and the International Finance Cooperation (IFC) has put in place a Joint Assistance Strategy (JAS) to support Sierra Leone during 2010-13. The Bank and its partners expect to mobilize about US\$300 million to support the country's economic growth through financing of investments in agriculture and fisheries, energy, transport and the financial sector. The JAS further entails financial assistance for human development purposes, such as improving delivery of health services, education, water supply, and child healthcare services, among others. In addition, the World Bank has in place other emergency support programmes that provide, among others, food aid for the poor and vulnerable members of the society such as women, children and the unemployed, school feeding programs, and road reconstruction. The school feeding program, for instance, is a targeted social security arrangement intended to provide educational and health benefits to the most vulnerable children with a view to increasing enrollment levels in primary education in developing countries, especially those coming out of conflict. Due to socio-economic challenges faced by many African countries as a result of the global economic crisis, the WB extended its school feeding program as a social safety net to support the vulnerable in some African countries, including Burundi, Central African Republic, Guinea-Bissau, Liberia and Togo, among others, during the crisis.

The European Bank for Reconstruction and

Development (EBRD) also supported countries within its domain of operations, that is, countries across Central Europe and Central Asia, with emergency financing to complement support programs provided to these countries by other multilateral agencies, including the IMF and WB, during the global financial crisis. In this regard, under a Joint Action Plan with the European Investment Bank (EIB) and the WB, the EBRD contributed €6 billion towards a €24.5 billion Fund to support the financial and non-financial sectors of the economies in Central Europe and Central Asia. Other emergency funding provided by EBRD to countries within the two regions over the 2009-10 period included financing support worth about €680 million to the manufacturing and services sector; provision of trade financing in an amount of €573 million under a trade facilitation programme of the EBRD; financing to the energy sector worth about €840 million; infrastructure financing to the tune of €480 million; and financing for agribusiness projects worth about €640 million.

The African Development Bank (AfDB) also has in place EFMs to support crisis-hit African economies. In addition to implementation of Joint Country Assistance Strategy programmes with the WB for African countries coming out of civil wars, such as Democratic Republic of Congo, Liberia and Sierra Leone, the AfDB also provides emergency financing to support member countries deal with trade finance and other crisis-induced challenges. For instance, at the height of the global financial crisis, the AfDB established a US\$1.5 billion Emergency Liquidity Facility (ELF) to address the adverse effects of the global credit squeeze on the capacity to fund essential imports of member countries following the withdrawal of international banks from the financing

of African trade. The ELF is specifically aimed at providing financial support to private sector entities and financial institutions in Africa to enable them meet essential trade finance needs, and those of imports in particular.

It is worth noting that the emergency financing schemes of these multilateral agencies were supported by the Group of 20 (G-20).¹ In this regard, the G-20 committed resources to these and other multilateral agencies to enable them implement their EFMs and thereby ameliorate the adverse effects of the crisis on national and global economies. In furtherance of this goal, at its meeting in London in April 2009, the G-20 pledged to make available additional US\$850 billion through the IMF and multilateral development banks to support growth in developing countries, in the areas of infrastructure and trade, balance of payments support, debt rollover, and social support schemes, among others. Further, the G-20 agreed to support capital increases in favour of the multilateral development banks (MDBs), including ADB, IDB, AfDB, and EBRD. It also pledged to support other initiatives of the MDBs intended to leverage private capital more effectively, through the use of guarantees, insurance and bridge financing; and supported the IFC's Global Trade Liquidity Pool which aimed to mobilize up to US\$50 billion of trade finance to support developing countries over the 2009-11 period. In this regard, the G-20 pledged to provide US\$3-4 billion in voluntary bilateral contributions to the IFC Pool and also supported steps taken by other

¹The Group of 20 (G-20) is a grouping which was created in 1999 as a response both to the financial crises of the late 1990s and the need to include key developing economies in global economic discussion and governance. The Group comprises the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America plus representatives of the European Union.

MDBs to increase support to global trade finance, and medium and long-term project finance through national export credit and investment agencies of member countries. The financing support provided by the G-20 and other bilateral donors enhanced the multilateral agencies' capacity to provide emergency financing support to developing countries, including those in Africa. These emergency funding from multilateral development finance institutions and donor governments, to some extent, compensated for the retreat in private capital flows, and together with modest recovery in tourism receipts and migrant remittances, and continued recourse to sound macroeconomic policies, contributed to support the increased level of economic activity seen in Africa in 2010.

Afreximbank, as Africa's premier trade finance bank, also played an important role in facilitating the inflow of funding arising from some of the foregoing EFMs. In this regard, it participated actively in meetings where some of the EFM arrangements were discussed and agreed. It also acted as a vehicle for purveying some of these funds into Africa. Emergency funding in response to the crisis were received from the IFC, the AfDB and the UK Department for International Development (DFID). Funding approvals from Export Credit Agencies (ECAs) under arrangements agreed under the G-20 came in at close to US\$1 billion in 2009/10. These enabled Afreximbank to support trade finance requests that rose five-fold to about US\$15 billion in 2010.

Ghana and Kenya posting respective average annual growth rates of 7.7%, 6.9%, 6.3% and 6.2% during 2014-17.

The bright medium term outlook for the African economies derives from possible firming of global commodity prices as manufacturing activity in the major developing economies and OECD countries recover and contribute to lift global demand for commodities; forecast improvement in economic infrastructure as many African governments enter the international bond market to raise financing for infrastructure development; expected improvement in international investor confidence in emerging and frontier markets in the continent and with it a rise in external capital inflows, including FDI needed for modernization and extension of capacity for increased production of goods and services; improvement in efficiency of resource use through continued recourse to sound macroeconomic policies and better political governance, among other factors.

Over the medium term, the continent is expected to attract significant capital flows into its extractive industries, especially the oil & gas industry. FDI inflows are expected to rise from US\$46.5 billion in 2011 to US\$55.6 billion in 2015. Mozambique, for example, is expected to attract about US\$50 billion in foreign direct investment for the development of its huge coal deposits and offshore gas discoveries over the next decade. Similar investments are also expected to flow into the minerals sector in West Africa. According to a recent survey by the World Bank, 60% of multinational corporations that are

currently not operating in Africa indicated in a 2012 survey their intention to expand into the region over the next 3-5 years. Following that survey, the Carlyle Group and two other partners announced in 2012 plans to invest some \$210 million in a Tanzanian agribusiness entity. Additionally, it is expected that many African countries, including first timers like Rwanda, Uganda, and Mozambique, will tap term funding from international capital markets for infrastructure development over the medium-term. External financial resources are also expected to flow into the continent from major South economies who, over the last decade, have become important sources of financial and technical resources for Africa's economic development. In this regard, it is expected that a sizable portion of the US\$20 billion lines of credit pledged by the Chinese government during the Forum on China-Africa Cooperation (FOCAC) that was held in July 19, 2012 in Beijing, China will be released to support modernisation and extension of production capacity over the medium term.

Downside risks to this outlook relate to possible loss of momentum by the fast growing emerging and developing economies, especially Brazil, China and India, which could lead to a weakening of commodity prices and adversely impact many commodity dependent economies in the continent, especially those relying on one or two commodities for a bulk of their export revenues such as the oil and gas exporting countries, namely Angola, Nigeria, Gabon, Algeria, Equatorial Guinea and Sudan; possible failure on the part of the Eurozone to resolve its sovereign debt crisis and return to growth so as to raise their demand

for African commodities as well as meet their ODA commitments to developing countries, especially those in Africa; and potential ruffling of international markets due to lack of agreement among major economies on how to control the activities of international banks, among others. Other potential downside risks include disruptions to productive activity from political, civil and labor unrests around the world.

4.3.3 Developments in African Trade, 1993-2012

4.3.3.1 Changes in African Trade

There is a growing evidence that international trade was one of the key drivers of growth and structural transformation of many countries that are considered developed today, including the United States, the United Kingdom, Canada, Australia, and Japan, among others. Trade is also widely believed to have played a key role in the recent impressive transformation of many emerging economies such as those of China, India, South Korea, Brazil, Taiwan, Hong Kong, and Malaysia, among others.

Although, records suggest that Africa has not been left out in global trade, its level of participation in the trade has historically been minuscule and declining, and largely influenced by the continent's colonial past. Thus, Africa is becoming increasingly marginalised as far as global trade is concerned. Available data suggest that African trade has not changed in any significant way since the 1960s especially in terms of composition and destination of its exports. For instance, Table 4.8 shows that since the 1980s, over 50% of African economies have been depending on petroleum and

up to 3 non-fuel commodity exports for over 70% and 50% of export revenue respectively. This shows concentration on primary commodities and obvious lack of diversification of African exports. Over the last decade and half, however, many African governments have been making efforts to diversify their export basket and markets as well as import sources through active pursuit of new trading relationships with a view to developing their trade sector and making it more supportive of their national economic development efforts.

During the colonial era, capital investments were encouraged in agriculture and a few natural resource extractive industries, such as metals and minerals. The prime objective for promoting such investments was to generate raw materials to feed manufacturing industries in Europe. This led to a flow of capital investment and thus concentration of activity in the natural resource extraction industries, and eventual orientation of Africa's export industries towards the production and export of raw commodities. It must be noted, however, that several decades after attainment of political independence, the colonial legacy appears to have taken hold on many African economies. Thus, though, total African trade underwent a rapid average annual growth of 5.4% from US\$217.4 billion in 1980 to US\$1,164.6 billion in 2011 (Table 4.9), the continent's export basket is still dominated by commodities, which account for about 70% of total export revenues compared to the share of manufactured exports of about 30% of total export revenue (Tables 4.10).

In more specific terms, a review of Africa's trade

Table 4.8: Concentration of Africa's Exports, 1980-2010

	1980		1990		2000		2010	
	# Countries	% of Total	# Countries	% of Total	# Countries	% of Total	# Countries	% of Total
Dependence on Petroleum for >70% of Export Revenue	6	11.32	6	11.32	6	11.32	6	11.32
Dependence on Non-Fuel Commodity for >50% of Export Revenue								
Agriculture Raw Material	1	1.89	1	1.89	1	1.89	1	1.89
Food Exports	20	37.74	18	33.96	16	30.19	11	20.75
Metals and Minerals	5	9.43	5	9.43	5	9.43	5	9.43
Total	32	60.38	30	56.60	28	52.83	23	43.40

Source: World Bank, *World Development Indicators*, 2013

performance shows that the recovery in African merchandise exports that began during the first half of the 1990s was interrupted by a significant contraction in export earnings in 1998 (Figure 4.18). Thereafter, Africa's total merchandise exports rose steadily to US\$148.35 billion in 2000 (Table 4.9).

The continent's total export merchandise earnings further grew to US\$508.98 billion and US\$597.3 billion in 2010 and 2011 respectively. Imports also rose steadily from 1995, with the exception of 1998 when a marginal contraction was recorded. Furthermore, the value of total African imports, rose steadily during 2000-5 to reach US\$255.9 billion in 2005, from US\$129.4 billion in 2000 amid a decline in 2001, and expanded uninterruptedly thereafter to reach US\$467.4 billion and US\$567.2 billion in 2010 and 2011 respectively (Table 4.9 and Fig. 4.16). On the back of these developments, total African trade expanded significantly to reach US\$1,164.6 billion at the end of 2011, from a level of US\$566.7 billion in 2005 (Table 4.9 and Figure 4.18).

It is, however, worth noting that in spite of the recent surge in value of Africa's merchandise trade, the continent's share of global merchandise trade has been declining. According to the World Bank, Africa's share of global trade declined from about 7% in 1960, to an all-time low of 2.4% in 2000, before recovering to reach 3.6% in 2010 (Figure 4.19).⁵

In 2012, the continued modest expansion of the global economy and growing economic and trade links between major developing economies in the South and Africa contributed to raise the value of the continent's merchandise trade. As a result, the value of Africa's merchandise exports and imports maintained their upward trend with respective 8.9% and 11.1% year-on-year increases in 2012. Following this development, the value of total African trade grew by 10% year-on-year to US\$1,280.6 billion in 2012 as shown in Table 4.9.

⁵ World Bank (2013). *World Development Indicators*

Composition of African Trade

Many African countries have been depending on few commodities for a bulk of their export revenues. In 2010, for example, 6 out of the 53 African countries, namely Algeria, Angola, Equatorial Guinea, Gabon, Libya, and Nigeria depended on oil and gas exports for over 70% of their total merchandise export revenues with 17 countries in the continent depending on a maximum of three non-fuel primary commodities for over 50% of their export earnings (Table 4.8). This concentration and over-reliance on primary commodity exports has generally been the trend in the continent over the last three decades reflecting the lack of diversification of Africa's exports over the period. Manufactured exports are significant only in a few countries, such as Tunisia, Morocco, South Africa, and Mauritius. Moreover, it is worth noting that the sub-regions in Africa also exhibit concentrations in different commodities they export. For example, West African economies export largely oil, cocoa, cotton, coffee and rubber. The main exports of Southern African countries are minerals, such as gold, diamonds and copper. Eastern African countries depend on export of coffee, tea and to some extent cotton, while exports of North African economies are largely oil and gas, and fish. The above distribution and variation in the origin of export commodities reflect divergences in natural resource endowments as well as climatic differences across the continent. In a nutshell, Africa's exports were composed mainly of primary commodities either of agricultural, minerals/metals or fuels (Table 4.10).

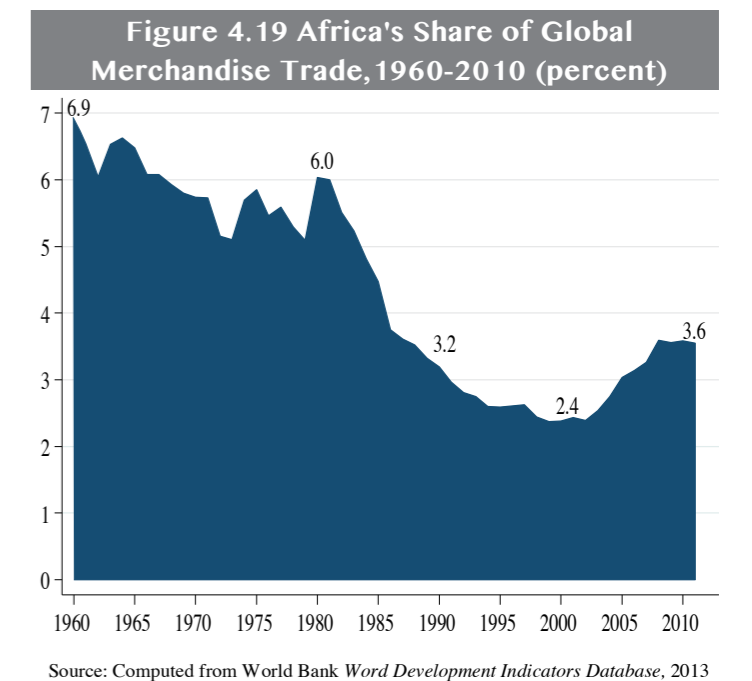
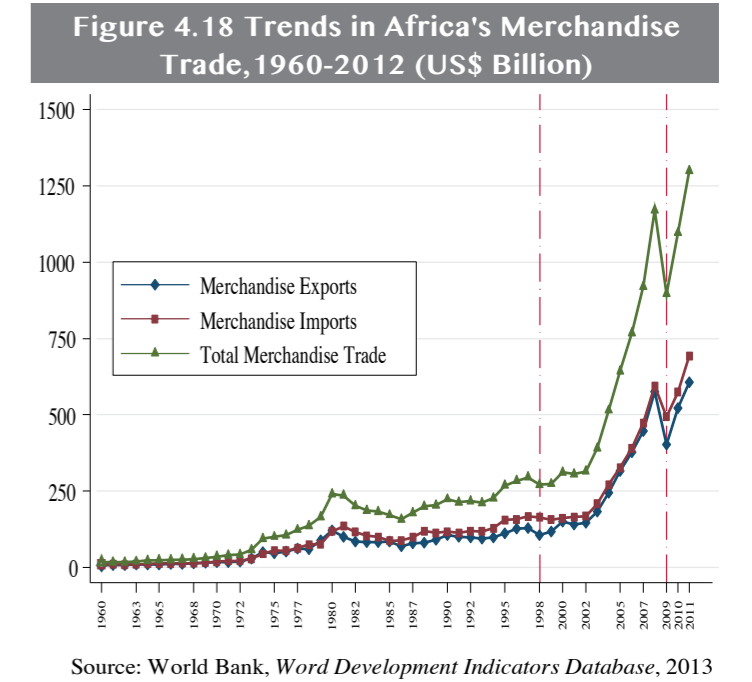


Table 4.9 African Trade, 1980-2011 (US\$ Billion)

	Merchandise Exports													Merchandise Imports							Total Merchandise Trade																		
	1980	1990	1995	2000	2005	2010	2011	2012*	2013**	2014**	2015**	2016**	2017**	1980	1990	1995	2000	2005	2010	2011	2012*	2013**	2014**	2015**	2016**	2017**	1980	1990	1995	2000	2005	2010	2011	2012*	2013**	2014**	2015**	2016**	2017**
Algeria	13.87	12.93	10.26	22.03	46.00	57.05	73.39	77.68	79.61	81.33	82.09	84.36	85.87	10.56	9.78	10.10	9.17	20.36	40.47	46.45	50.72	52.79	54.41	55.17	55.99	56.78	24.43	22.71	20.36	31.20	66.36	97.53	119.84	128.39	132.40	135.74	137.26	140.35	142.65
Angola	1.88	3.91	3.64	7.92	24.11	50.59	65.50	71.67	77.30	79.83	81.09	83.64	85.55	1.33	1.58	1.47	3.04	8.35	16.67	21.00	23.73	25.93	26.83	27.21	27.51	28.13	3.21	5.49	5.11	10.96	32.46	67.26	86.50	95.41	103.24	106.67	108.30	111.15	113.68
Benin	0.06	0.29	0.42	0.39	0.58	1.39	1.80	2.17	2.36	2.45	2.53	2.61	2.68	0.33	0.27	0.75	0.61	1.02	2.16	2.70	3.23	3.50	3.59	3.66	3.76	3.85	0.39	0.55	1.17	1.01	1.60	3.55	4.50	5.40	5.86	6.04	6.19	6.37	6.54
Botswana	0.50	1.78	2.14	2.68	4.43	4.69	5.79	6.24	6.45	6.54	6.66	6.86	6.98	0.69	1.95	1.91	2.08	3.16	5.66	7.16	8.55	9.26	9.61	9.89	10.22	10.50	1.19	3.73	4.05	4.76	7.59	10.35	12.95	14.79	15.71	16.16	16.55	17.08	17.47
Burkina Faso	0.09	0.15	0.28	0.21	0.47	1.29	1.80	2.27	2.52	2.69	2.86	3.02	3.14	0.36	0.54	0.46	0.61	1.26	2.05	2.60	3.00	3.20	3.29	3.36	3.45	3.53	0.45	0.69	0.73	0.82	1.73	3.34	4.40	5.27	5.72	5.98	6.23	6.48	6.68
Burundi	0.07	0.08	0.11	0.05	0.06	0.10	0.14	0.17	0.18	0.19	0.21	0.22	0.22	0.17	0.23	0.23	0.15	0.27	0.51	0.70	0.79	0.83	0.87	0.90	0.94	0.96	0.23	0.31	0.34	0.20	0.33	0.61	0.84	0.96	1.02	1.07	1.11	1.15	1.19
Cameroon	1.38	2.00	1.65	1.83	2.86	3.88	4.60	4.95	5.11	5.17	5.19	5.27	5.35	1.60	1.40	1.20	1.49	2.74	5.13	6.50	7.67	8.27	8.50	8.67	8.94	9.16	2.99	3.40	2.85	3.32	5.60	9.01	11.10	12.62	13.37	13.67	13.86	14.21	14.51
Cape Verde	0.01	0.01	0.01	0.01	0.02	0.04	0.07	0.10	0.11	0.12	0.13	0.13	0.14	0.07	0.14	0.25	0.23	0.44	0.74	0.95	1.07	1.14	1.16	1.18	1.20	1.23	0.07	0.14	0.26	0.24	0.46	0.79	1.02	1.17	1.24	1.28	1.30	1.34	1.37
Central African Republic	0.12	0.12	0.17	0.16	0.13	0.14	0.16	0.16	0.16	0.16	0.16	0.17	0.17	0.08	0.15	0.18	0.12	0.18	0.30	0.38	0.43	0.46	0.47	0.48	0.50	0.51	0.20	0.27	0.35	0.28	0.30	0.44	0.54	0.60	0.62	0.64	0.65	0.66	0.68
Chad	0.07	0.19	0.24	0.18	3.08	3.50	4.70	5.17	5.38	5.51	5.61	5.79	5.92	0.07	0.29	0.37	0.32	0.95	2.10	2.10	2.31	2.41	2.44	2.46	2.48	2.50	0.15	0.47	0.61	0.50	4.03	5.60	6.80	7.47	7.79	7.94	8.06	8.26	8.42
Comoros	0.01	0.02	0.01	0.01	0.01	0.02	0.05	0.06	0.07	0.08	0.09	0.10	0.11	0.03	0.05	0.06	0.04	0.10	0.23	0.23	0.26	0.27	0.28	0.29	0.29	0.29	0.04	0.07	0.07	0.06	0.11	0.25	0.28	0.32	0.35	0.36	0.38	0.40	0.41
Congo, Dem. Rep.	2.27	2.33	1.56	0.81	2.40	5.30	6.60	8.08	8.86	9.33	9.69	10.17	10.47	1.52	1.74	0.87	0.68	2.69	4.50	5.50	6.30	6.69	6.90	7.05	7.23	7.39	3.79	4.07	2.43	1.49	5.09	9.80	12.10	14.38	15.54	16.23	16.74	17.40	17.85
Congo, Rep.	0.91	0.98	1.17	2.49	4.75	9.30	10.80	12.58	13.47	14.10	14.51	15.11	15.44	0.58	0.62	0.67	0.47	1.30	4.00	5.10	6.19	6.76	7.07	7.35	7.67	7.90	1.49	1.60	1.84	2.95	6.05	13.30	15.90	18.77	20.22	21.17	21.86	22.79	23.34
Cote d'Ivoire	3.13	3.07	3.81	3.89	7.70	10.32	11.13	11.80	12.10	12.29	12.38	12.43	12.53	2.97	2.10	2.93	2.48	5.86	7.85	6.68	6.93	7.05	7.07	7.05	7.06	7.03	6.10	5.17	6.74	6.37	13.56	18.17	17.81	18.73	19.15	19.36	19.43	19.49	19.56
Djibouti	0.01	0.03	0.01	0.03	0.04	0.39	0.53	0.59	0.65	0.78	0.94	1.13	1.19	0.21	0.22	0.18	0.21	0.28	0.36	3.50	4.11	4.81	6.57	9.01	12.59	17.88	0.23	0.24	0.19	0.24	0.32	0.75	4.03	4.70	5.46	7.35	9.95	13.72	19.07
Egypt, Arab Rep.	3.05	3.48	3.45	5.28	12.91	26.44	30.53	29.15	30.05	30.72	30.96	31.37	31.61	4.86	12.41	11.76	14.58	22.45	52.92	58.90	61.30	63.99	65.62	66.52	67.66	68.38	7.91	15.89	15.21	19.85	35.36	79.36	89.43	90.45	94.05	96.33	97.48	99.03	99.99
Equatorial Guinea	0.01	0.06	0.13	1.10	7.06	9.90	13.50	15.73	16.79	17.34	17.56	18.10	18.60	0.03	0.06	0.12	0.45	1.31	5.70	6.00	7.56	8.41	8.93	9.27	9.51	9.73	0.04	0.13	0.25	1.55	8.37	15.60	19.50	23.29	25.20	26.27	26.83	27.61	28.33
Eritrea	-	-	0.09	0.04	0.01	0.01	0.40	1.75	1.97	2.23	2.51	2.84	3.20	-	-	0.45	0.47	0.49	0.69	0.90	1.02	1.08	1.11	1.15	1.18	1.21	-	-	0.54	0.51	0.50	0.70	1.30	2.77	3.05	3.34	3.66	4.02	4.41
Ethiopia	0.43	0.30	0.42	0.49	0.90	2.33	2.61	3.16	3.45	3.61	3.75	3.90	3.99	0.72	1.08	1.15	1.26	4.09	8.60	8.90	10.00	10.54	10.84	10.97	11.14	11.27	1.14	1.38	1.57	1.75	5.00	10.93	11.51	13.17	13.99	14.45	14.72	15.04	15.25
Gabon	2.17	2.20	2.71	2.60	5.07	8.69	12.50	14.74	16.29	17.25	17.94	19.02	19.72	0.67	0.92	0.88	0.95	1.47	2.98	3.80	4.47	4.81	4.98	5.14	5.30	5.44	2.85	3.12	3.60	3.55	6.54	11.67	16.30	19.21	21.09	22.24	23.08	24.33	25.17
Gambia, The	0.03	0.03	0.02	0.02	0.01	0.03	0.04	0.07	0.09	0.11	0.13	0.14	0.15	0.17	0.19	0.18	0.19	0.26	0.29	0.30	0.31	0.32	0.32	0.31	0.32	0.32	0.20	0.22	0.20	0.20	0.27	0.32	0.34	0.38	0.41	0.42	0.45	0.45	0.46
Ghana	1.26	0.90	1.72	1.67	2.80	7.96	13.00	14.97	16.72	17.85	18.93	20.02	20.93	1.13	1.21	1.91	2.97	5.35	10.92	15.00	17.95	19.46	20.32	21.03	21.99	22.70	2.39	2.10	3.63	4.64	8.15	18.88	28.00	32.91	36.17	38.18	39.96	42.01	43.63
Guinea	0.40	0.67	0.70	0.67	0.85	1.47	1.75	1.98	2.09	2.15	2.20	2.28	2.32	0.36	0.72	0.82	0.61	0.82	1.40	2.00	2.37	2.55	2.65	2.74	2.87	2.96	0.76	1.39	1.52	1.28	1.67	2.88	3.75	4.35	4.64	4.80	4.94	5.14	5.28
Guinea-Bissau	0.01	0.02	0.02	0.06	0.09	0.12	0.23	0.30	0.34	0.36	0.38	0.40	0.43	0.06	0.09	0.13	0.06	0.11	0.22	0.30	0.36	0.39	0.40	0.42	0.43	0.44	0.07	0.11	0.16	0.12	0.20	0.34	0.53	0.66	0.73	0.76	0.80	0.83	0.87
Kenya	1.25	1.03	1.88	1.73	3.42	5.17	5.76	6.39	6.70	6.85	6.95	7.09	7.18	2.13	2.22	2.99	3.11	5.85	12.09	14.78	17.16	18.35	18.95	19.42	19.98	20.43	3.37	3.25	4.87	4.84	9.27	17.26	20.54	23.56	25.05	25.81	26.37	27.07	27.61
Lesotho	0.06	0.06	0.16	0.22	0.65	0.88	1.10	1.22	1.27	1.31	1.33	1.37	1.39	0.46	0.67	1.11	0.81	1.41	2.30	2.60	2.91	3.06	3.14	3.21	3.29	3.34	0.52	0.73	1.27	1.03	2.06	3.18	3.70	4.13	4.33	4.44	4.54	4.66	4.74
Liberia	0.59	0.87	0.82	0.33	0.13	0.22	0.30	0.35	0.38	0.39	0.40	0.42	0.43	0.54	0.57	0.51	0.67	0.31	0.71	0.81	0.95	1.01	1.05	1.07	1.10	1.12	1.12	1.44	1.33	1.00	0.44	0.93	1.11	1.30	1.39	1.44	1.47	1.52	1.56
Libya	21.91	13.23	8.98	13.38	31.36	48.90	17.50	27.67	28.35	28.58	28.45	28.79	28.76	6.78	5.34	5.39	3.73	6.08	10.50	5.00	9.09	9.68	10.03	10.26	10.46	10.65	28.69	18.56	14.37	17.11	37.44	59.40	22.50	36.76	38.03	38.62	38.71	39.24	39.41
Madagascar	0.40	0.32	0.51	0.82	0.85	1.07	1.59	1.79	1.88	1.92	1.97	2.02	2.09	0.60	0.65	0.63	1.10	1.71	2.53	2.90	3.29	3.49	3.55	3.55	3.62	3.62	1.00	0.97	1.14	1.92	2.56	3.60	4.49	5.08	5.37	5.47	5.51	5.59	5.71
Malawi	0.30	0.42	0.41	0.38	0.51	1.07	1.24	1.42	1.51	1.55	1.59	1.61	1.64	0.44	0.58	0.48	0.53	1.17	2.17	2.29	2.65	2.83	2.93	2.97	3.02	3.06	0.73	0.99	0.88	0.91	1.67	3.24	3.53	4.07	4.34	4.48	4.56	4.63	4.70
Mali	0.21	0.36	0.44	0.55	1.10	2.00	2.46	2.73	2.86	2.95	3.00	3.07	3.12	0.44	0.60	0.77	0.81	1.54	2.85	3.25	3.74	3.99	4.12	4.17	4.26	4.34	0.64	0.96	1.21	1.35	2.64	4.85	5.71	6.48	6.85	7.06	7.16	7.33	7.46
Mauritania	0.19	0.47	0.49	0.35	0.63	2.07	2.67	3.13	3.36	3.51	3.64	3.81	3.91	0.29	0.39	0.43	0.45	1.43	1.94	2.60	3.11	3.38	3.53	3.63	3.78														

Table 4.10: Share of Manufactured Goods in Total African Merchandise Exports, 2000-11, %

Region	2000	2003	2006	2009	2010	2011
All Africa	30.14	32.28	29.57	26.81	27.53	26.17
Sub-Saharan Africa	30.74	33.76	31.17	29.51	30.74	28.50

Source: World Bank, *African Development Indicators Database*, April 2013

Table 4.11 Africa: Direction of Merchandise Trade, 1980-11 (percent)

Region	Merchandise Exports					Merchandise Imports					Total Merchandise Trade				
	1980	1990	2000	2010	2011	1980	1990	2000	2010	2011	1980	1990	2000	2010	2011
World	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Advanced Economies	67.93	71.28	68.34	58.72	58.70	71.84	73.52	66.81	49.43	47.68	69.83	72.41	67.66	54.00	53.19
Eurozone	30.33	36.00	34.70	25.95	27.59	38.99	39.61	37.29	27.84	26.43	34.53	37.82	35.85	26.91	27.01
Emerging and Developing Economies	12.35	14.53	23.61	40.08	37.78	17.71	19.70	32.16	47.79	49.79	14.95	17.13	27.41	44.00	43.79
Africa	5.25	7.34	8.46	11.61	10.65	5.10	7.92	10.21	10.27	11.67	5.18	7.63	9.24	10.94	11.15
Central & Eastern Europe	1.26	1.31	1.54	1.59	1.42	1.42	1.84	1.63	2.38	2.79	1.33	1.58	1.58	1.99	2.10
Commonwealth of Independent States	0.91	0.59	0.31	0.52	0.44	0.71	0.74	1.62	1.12	1.59	0.81	0.67	0.89	0.83	1.01
Developing Asia	1.54	2.61	8.38	21.75	20.28	2.87	3.55	7.62	21.31	22.67	2.18	3.08	8.04	21.53	21.47
Latin America and Caribbean	2.45	1.30	3.52	3.72	4.23	1.97	1.94	2.30	3.57	4.30	2.21	1.62	2.98	3.64	4.26
Middle East	0.87	1.20	1.34	2.05	1.84	5.62	3.30	8.72	8.23	7.95	3.17	2.26	4.62	5.19	4.90
Memo Item:															
US	18.39	17.44	18.74	18.79	16.87	8.94	7.70	7.54	5.72	6.06	13.81	12.53	13.76	12.15	11.46
China	0.77	0.99	3.18	13.64	12.81	1.23	2.00	3.99	13.66	14.16	0.99	1.50	3.54	13.65	13.49
BRIC (4 Countries)															

Source: IMF, *Direction of Trade Statistics*, 2013

Direction of African Trade

In terms of direction, Africa's trade has historically been directed to a few markets as shown in Table 4.11. Specifically, Africa's traditional trading partners in Europe and North America account for about 60% of total African exports. The concentration in the destination of Africa's exports is explained largely by colonial ties. The story with import is not different as a bulk of Africa's imports are sourced from its traditional trading partners. For example, imports from OECD countries into Africa accounted for respective shares of 73.3%, 66.8% and 58.2% of Africa's total imports in 1995, 2000 and 2005 (IMF, *Direction of Trade*, 2013). Available data also suggest a gradual but steady shift in the direction of African trade and the increasing

importance of the BRICs, especially China and India, as Africa's trade partners (Table 4.11).

In spite of the sustained rise in value of Africa's merchandise trade from US\$235.3 billion in 1995 to US\$1,164.6 billion in 2011 (Table 4.9), the share of intra-African trade in total African trade remained significantly low compared to other regions. Specifically, from a level of 7.6% in 1990 and 9.2% in 2000, the share of intra-African trade in total African trade hovered around 10% for a greater part of the last two decades, and improved only marginally to about 11% in 2011 (Figure 4.20). Records show that intra-African trade is predominantly driven by trade within three regional sub-groupings, namely the East African Community (EAC), Southern African Development Community (SADC), and West African Economic

Table 4.12 Africa: Sub-Regional Trade, 1995-2011 (percent)

Region/FTA/Custom Union	Total				
	1995	2000	2005	2010	2011
Africa	9.61	9.24	9.56	10.69	11.27
CEMAC (Economic and Monetary Community of Central Africa)	2.27	2.18	2.91	3.42	2.94
COMESA (Common Market for Eastern and Southern Africa)	5.00	4.92	5.79	7.40	6.85
CEN-SAD (Community of Sahel-Saharan States)	6.74	6.67	6.66	6.58	6.82
EAC (East African Community)	13.95	15.29	14.53	14.92	13.80
ECCAS (Economic Community of Central African States)	1.64	1.67	1.57	2.57	1.65
ECOWAS (Economic Community of West African States)	9.08	10.78	10.62	9.08	8.50
WAEMU (West African Economic and Monetary Union)	11.79	12.86	12.07	11.27	11.43
SACU (Southern African Customs Union)		8.11	5.49	4.41	3.52
SADC (Southern African Development Community)		15.59	12.58	12.94	11.63
UMA (Arab Maghreb Union)	3.77	2.77	2.46	2.81	3.59

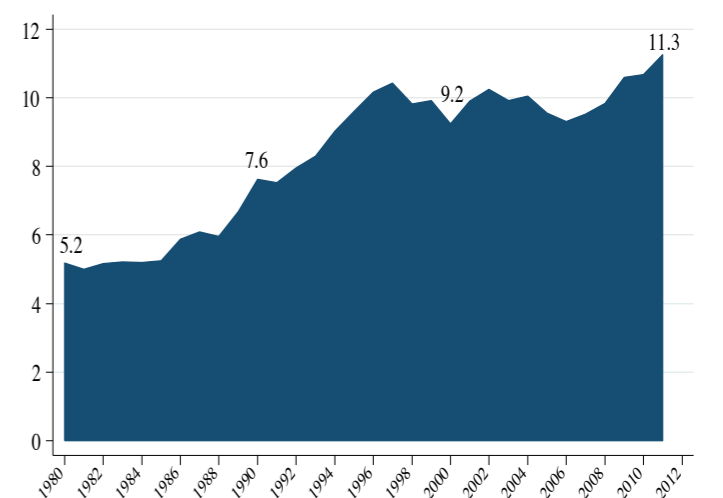
Source: UNCTAD, *UNCTADSTAT*, 2013

and Monetary Union (WAEMU) as shown in Table 4.12. These figures suggest that the integration efforts of the 5 main sub-regional blocs (COMESA, ECOWAS, SADC, ECCAS, Arab Maghreb Union and East African Community), which are supposed to be the building blocs for the creation of the proposed African Economic Community by 2028, are not yet functioning as envisaged.

The continued surge in the value of intra-African trade is supported by the pursuit of export-led growth and trade diversification strategies by many African countries; continued deepening of regional integration efforts at the regional and sub-regional levels through adoption of results-oriented policies to boost intra-African trade; increased sourcing of oil and grains from near-markets within Africa by many African countries on the back of continued search for intra-African trade opportunities by African entrepreneurs.

The continued expansion in intra-African trade is also the result of sustained improvements in political governance and legal and regulatory frameworks; continued efforts at enhancing the financial, transport,

Figure 4.20 Share of Intra-African Trade in Total African Merchandise Trade, 1980-2011 (percent)



Sources:
1. IMF, *International Financial Statistics*, 2013
2. World Bank, *African Development Indicators Database*, 2013

communication and other relevant trade-supporting infrastructure across the continent; and a deepening of intra-regional banking arrangements led by Afreximbank-sponsored African Bankers' Association (ABA) and banking sector reforms in many African countries, which together enabled many African countries to obtain their desired imports from within the Continent.

4.3.3.2 Africa's Services Trade

Services trade has the potential to contribute to the diversification of Africa's exports away from commodities, create employment, and foster economic growth. Africa's share of global services trade is presently very small in comparison to that of other developing regions. Nevertheless, services trade is beginning to receive attention from many governments in the continent due in part to growing demand from the continent's rising middle class and the need for diversification of exports away from commodities. To this end, African governments are partnering and/or supporting the private sector to improve supply of quality and affordable services for domestic consumption and exports.

Services trade has gained significant traction during the last three decades, rising steadily at an average annual rate of 8.5% from under US\$42.8 billion in 1980 to US\$268 billion in 2012 (Table 4.13), even though it only represented 20% of total trade of goods and services and averaged 14.3% of GDP during 2001-11 (Figure 4.21). Services exports, which represent 40% of total services trade, grew from US\$21.7

billion in 1990 to US\$95.7 billion in 2012 on the back of significant growth in transport and travel services during 2000-12. Transport and travel services, which accounted for a combined share of about 70% of total services exports, rose threefold from US\$22.4 billion in 2000 to US\$67.8 billion in 2012. Other commercial services also rose in monetary terms during the last 12 years, including Communications (17%), Computer and Information (17%), Construction (15%), financial services⁶ (13%) and Insurance (10%). There were significant variations in services export growth at the sub-regional level. During 2000-12, North Africa, which accounts for a 31% share of the total services export of the continent, posted an average annual growth of 11% in the trade. The growth was driven largely by their relatively developed services industries, particularly the tourism, transport and travel industries in Egypt, Libya, Morocco and Tunisia. Central Africa recorded the fastest average annual growth of 17% in services trade, followed by West Africa (15%) and Southern Africa (10%) (UNCTAD, 2013).

International tourism receipts, another important potential source of foreign exchange for many African countries, also rose sharply during 2005-11. Total tourism revenues, which represent 8.3% of total export (goods and services) receipts, grew from US\$33 billion in 2005 to US\$50 billion in 2010, before retreating to US\$46 billion in 2011 (Figure 4.22). The 5 largest tourist destinations in Africa account for over 74%

⁶ Financial services covers financial intermediation services such as commissions, foreign exchange transactions, and brokerage services; and auxiliary services such as financial market operational and regulatory services.

Table 4.13 Africa's Services Trade, 1980-2012 (US\$ Billion)

Category	1980	1990	2000	2005	2010	2011	2012
Total	42.80	52.00	75.00	137.20	243.00	260.20	268.30
Exports	13.40	21.70	33.30	59.70	90.70	92.00	95.70
Imports	29.40	30.30	41.70	77.50	152.30	168.20	172.60
Memo							
Composition of Africa's Services Exports							
Transport	5.20	6.00	7.90	14.90	23.00	24.30	26.10
Travel	4.30	7.30	14.50	28.70	42.20	40.50	41.70
Other services	3.90	8.40	10.80	16.00	25.40	27.20	28.00
Communications	-	-	0.90	1.90	4.00	4.20	4.33
Construction	-	-	0.40	1.10	1.90	1.50	1.60
Insurance	-	-	0.80	1.20	1.10	1.10	1.20
Financial services	-	-	0.70	1.40	1.90	2.10	2.30
Computer and information	-	-	0.30	0.40	1.00	1.20	1.24
Royalties and licence fees	-	-	0.50	0.60	0.60	0.50	0.52
Other business services	-	-	5.40	5.30	9.60	9.70	9.99
Personal, cultural and recreational services	-	-	0.10	0.30	0.30	0.40	0.40
Government services n.i.e.	-	-	1.70	3.80	4.90	6.40	6.10

Source: UNCTAD, UNCTADSTAT, 2013

of the continent's total tourism receipts during 2005-11. Egypt, the largest tourism destination, recorded US\$13.6 billion in revenues in 2010; followed by South Africa (US\$10.3 billion), Morocco (US\$8.2 billion), Tunisia (US\$3.5 billion) and Kenya (US\$1.6 billion) (World Bank, 2013).

Afreximbank, in furtherance of its mission of promoting services exports as a way of facilitating diversification of African trade, recently introduced a new programme called Construction/Tourism-linked Relay Facility (CONTOUR) with the view to contributing to the development of tourism facilities across the continent (see Box 4.4).

4.3.4 African Trade Prospects

The remarkable growth in Africa's merchandise trade during the last decade is expected to continue over the medium term, buoyed by continued improvements in trade related infrastructure, expected improvement in

trade financing conditions for traders in the continent, continued pursuit of export-led growth strategies, and bold efforts towards diversification of Africa's export basket and markets, among others. The continent's merchandise exports are forecast to rise, on average, by

Figure 4.21 Africa: Contribution of Services Trade, 1990-2011 (percent)



Sources:
1. World Bank *World Development Indicators*, 2013
2. UNCTAD, UNCTADSTAT, 2013

Box 4.4 Banking On Tourism: Introducing A New Product For Financing Tourism In Africa

Africa's exports are dominated by merchandise goods with agriculture, fuels, metals and minerals being the principal export commodities. Export of services such as financial, insurance, travel and tourism, and information and communications technology, among others, is largely insignificant, with the exception of a few countries, namely Egypt, Morocco, South Africa and Tunisia. Available data shows that service exports accounted for about 13% of total export receipts of the economies of Sub-Saharan Africa, as a group, in 2007, compared to respective shares of 55%, 43% and 24% of total exports of Egypt, Morocco and Tunisia.¹ The relatively lower share of service exports in total exports of South Africa of about 13% is due to its huge merchandise export receipts. That notwithstanding, South Africa emerged as the second largest exporter of services in Africa after Egypt in nominal value terms in 2007. The importance of the service export industry is underscored by its potential contribution to foreign exchange earnings, fiscal revenues, job creation and poverty alleviation, especially in developing economies. It has been argued that a well-developed tourism industry, for example, could make immense contribution to employment given that it is a labour-intensive industry that employs a wide range of skilled as well as unskilled labour.

Accordingly, the tourism industry has been identified as one of the key service industries with great potential to contribute to the growth and development of African economies. This view is hinged on the quality and enormity of the Continent's resource endowment for tourism, including its vast cultural heritage; the scenic beaches; and exotic ecosystems, etcetera. Ongoing promotion efforts, low costs and general warmth of

¹ World Bank (2009) "World Development Indicators, 2009"

staff and people at holiday resorts and destinations in Africa appear to have contributed to lift the overall level of activity in the continent's tourism industry in recent times. World Tourism Organization (WTO) statistics show Africa as one of the fast-growing tourist destinations, and the only region that experienced growth in tourism business in 2009 as shown in Table B4.4.1.²

That notwithstanding, the continent's 5.5% share of the global tourism business compares unfavourably with its tourism resource endowment and potential. Except for a handful of countries, including South Africa, Morocco, Egypt, Kenya, among others, many African countries have less developed tourism infrastructure, such as hotel and resort facilities of international standards, reliable internal aviation services, good road and railway networks, etcetera. The situation is compounded by limited marketing of the industry to global holiday makers; low human resource capacity in the industry; and low quality of service delivery, among other constraints. Further, the creation of physical infrastructure for tourism is severely constrained by unavailability of long-term finance for such capital-intensive projects.

In recognition of the potential economic contribution and developmental impact of tourism in Africa and its mandate to promote African trade, including service exports, Afreximbank is presently spear-heading a new continent-wide initiative aimed at promoting the development of the requisite infrastructure to support tourism activities in Africa. In this regard, the Bank has developed and launched a special instrument for the financing of tourism facilities in Africa. The Bank's earlier attempts at financing the development of

² Measured by the number of International Tourist Arrivals

Table B4.4.1 International Tourist Arrivals by Region, 2000-9 (in millions)

Region	2000	2005	2008	2009	Annual Growth (vs. 2008 2009)	Average Annual (Growth (2000-2009)
Europe	392.2	441	487.1	459.7	-5.60%	1.80%
Asia and the Pacific	110.1	153.6	184.1	180.5	-2.00%	5.60%
Americas	128.2	133.3	147.1	139.6	-5.10%	1.00%
Africa	27	36.4	45.7	48	5.00%	6.60%
North Africa	10.2	13.9	17.2	17.7	2.90%	6.30%
Sub-Saharan Africa	16.8	22.5	28.6	30.4	6.30%	6.80%
Middle East	24.9	37.9	55.6	52.5	-5.60%	8.60%

Source: World Tourism Organization (2010), *UNWTO World Tourism Barometer*. (January)

tourism projects in Africa were constrained by a major challenge relating to the risk of project completion as it is not well equipped to manage that risk. The new product offers an opportunity for the Bank to transfer project completion risks to contractors and/or financial institutions able to manage such risks while it retains operating risks it has the expertise to manage.

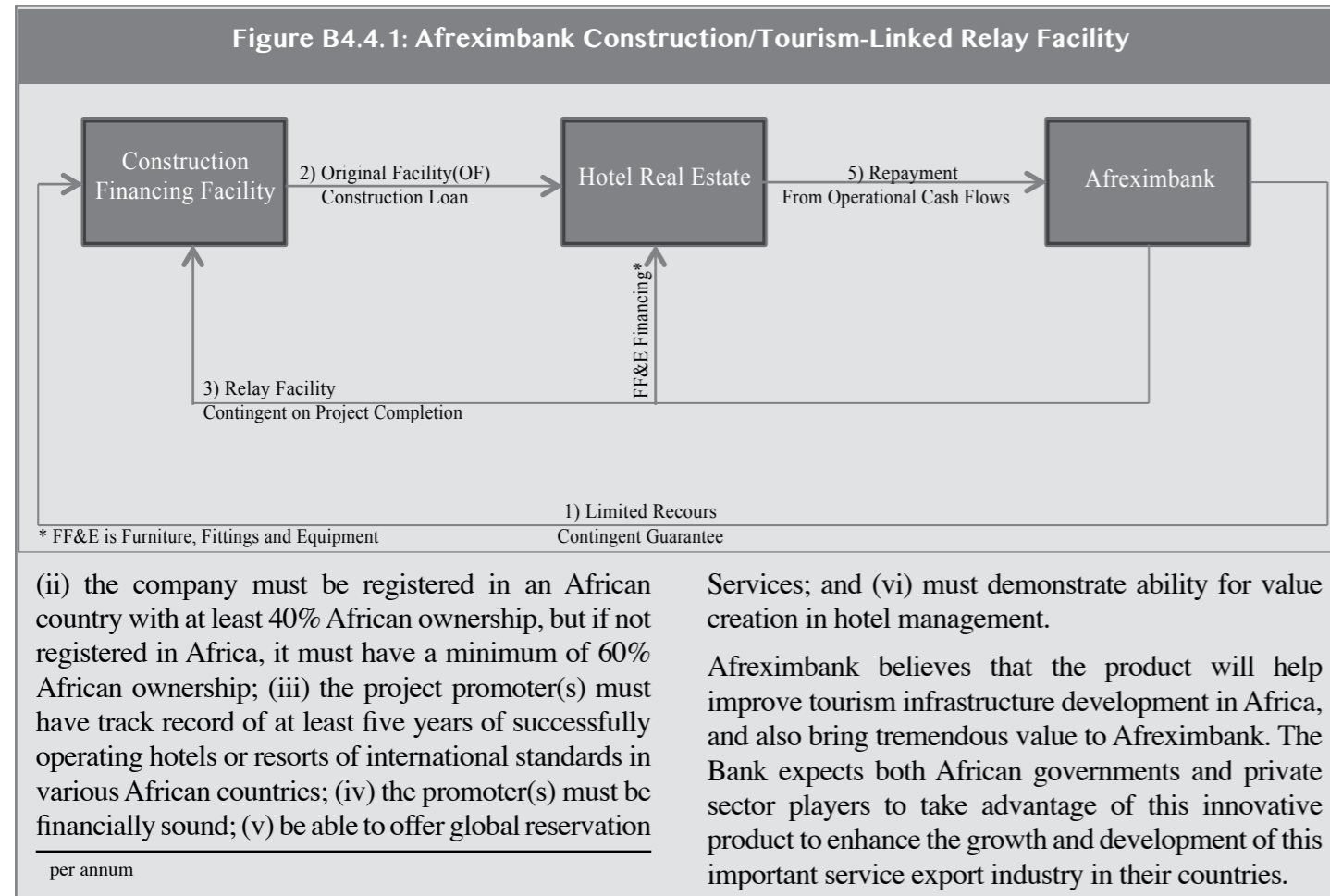
The financial product is called Afreximbank Construction/Tourism-linked Relay Facility. The product is managed through a risk sharing arrangement in which a partner bank or similar institution will be responsible for structuring, arranging and providing loans for the construction of hotels and other tourism facilities as a real estate project on the back of contingent guarantee to be provided by Afreximbank.³ Recourse to Afreximbank under the guarantee will be limited to the successful completion and hand-over of the real estate project and delivery of the security taken for its construction financing to the Bank (and

³ And any other syndicate of banks Afreximbank may arrange to jointly fund such projects.

other Lenders). Upon completion of construction of the tourism facility, construction financing parties are refinanced by Afreximbank, which will also provide additional financing for Furniture, Fittings and Equipment (FF&E) and pre-operating expenses for the hotel or resort facility. The risk sharing arrangement ensures that tourism infrastructure projects benefit from the experience of partner institutions in managing the risks in real estate development and Afreximbank's expertise in structuring financial future flow transactions as they relate to hotels and tourism facilities. A diagrammatic presentation of the financing structure/relationship is shown in Figure B4.4.1

The financial product is targeted at project promoters, governments, consultants and financial advisory service companies and others involved in the promotion of tourism projects or facilities in Africa. Some of the key eligibility requirements for Afreximbank support under the programme include: (i) the project to be financed must satisfy a minimum of 30% African content;⁴

⁴ Measured by the sum of rent, interest, wages, and profit retained in Africa



5.7% per annum during 2014-17 with imports rising at a corresponding rate of 5.9% during the same period. In this regard, the volume of merchandise trade of the continent is projected to grow at an average annual rate of 5.8% during 2014-17. In value terms, Africa's total merchandise trade is expected to maintain its upward trend over the medium term to reach approximately US\$1.5 trillion in 2017, from an estimated level of US\$1.28 trillion in 2012 (Table 4.9).

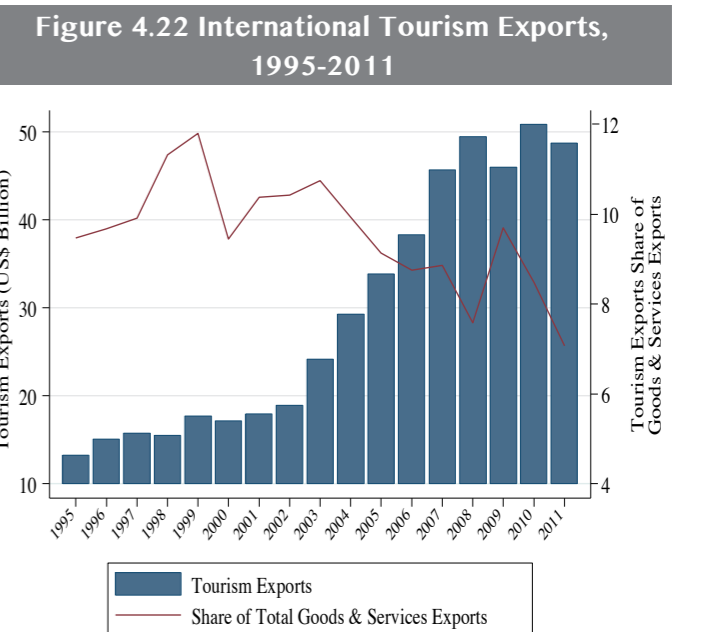
Intra-African trade is also expected to expand significantly over the medium term. Specifically, the trade is forecast to increase from an estimated level of US\$144 billion in 2012 to US\$266 billion in 2017. It is also expected that the share of intra-African trade in total trade will rise from a level of 11.3% in 2011 to 15% by 2017. The optimistic outlook for intra-African trade hinges on continued pursuit of outward oriented growth policies in Africa; creation of a Free Trade Area (FTA) in the SADC region in 2008 and continued

pursuit of FTA arrangements across the COMESA and EAC regions followed by the proposed creation of a new 26-country FTA among members of SADC, EAC and COMESA with the view to deepening regional integration; and expected further improvements in financial and other trade related infrastructure across Africa in support of the trade.

Available records further show that most African governments, multilateral and regional development agencies have over the last decade focused on the elimination of supply-side constraints by increasing capital investments in trade-related infrastructure, including rail networks, ports & harbours, air transport, and ICT. Moreover, the World Bank's 10 Year African Trade Strategy and the Joint Initiative of the AU/NEPAD, WTO, IFC and the EU are aimed at contributing to reducing the cost of trade in Africa through increased capital investments in trade supporting infrastructure, including ports and harbours, telecommunications, rail networks etcetera via the creation and operations of infrastructure-related funds. It is therefore expected that private and official capital flows in support of infrastructure projects in African countries will increase over the medium-term.

4.4 African Trade and Project Finance

Compared to the 1980s and 1990s the flow of trade and trade-related project financing to emerging and frontier market economies in Africa improved significantly



Source: World Bank Africa Development Indicators, 2013

during the 2000s, despite the sharp retreat in flows seen during the second half of 2008 and 2009. This development resulted from economic and political reforms that swept through the continent during the 1990s and early 2000s, good international commodity market conditions and strong growth in export earnings that enhanced the debt service capacity of African counterparties and thus their access to international markets for trade and project finance, debt forgiveness in favour of some countries in the continent under the world Bank's Heavily Indebted Poor Countries (HIPC) Initiative, improvement in investment climate and regulatory framework, better macroeconomic fundamentals and sustainable external and internal debt position (Radelet 2010), and continued discovery of natural resources and development of new mines and oil fields, among others.

In this regard, net capital flows (private and official) to Africa grew at an average annual rate of approximately 45% from US\$8 billion in 2001 to US\$117 billion in 2007, before declining by 48% year-on-year to US\$61 billion in 2008. The flows subsequently recovered to US\$78 billion in 2009. The rebound was driven primarily by robust FDI inflows, which accounted for about 50% of the total capital flows into Africa during 2001-10. Net FDI inflows to Africa reportedly rose from US\$17 billion in 2001 to US\$61 billion in 2008 before retreating by about 19% per annum to US\$42 billion in 2010 (Table 4.14).

Bond issuances by African counterparties in international capital markets were, during the 1990s, limited to the more developed economies in Northern Africa (Egypt, Morocco and Tunisia) and South Africa. However, in the early 2000s, a number of counterparties, especially sovereigns, from African countries were better placed to access international markets, as a result of sustainable external debt position following debt relief under the HIPC Initiative and growing export earnings, established capital market frameworks and improvements in macro-economic management. Beginning from 2004, on the back of high yields relative to the perceived risks, better macroeconomic fundamentals, and portfolio diversification benefits, international investors began investing in debt instruments issued by sovereigns of Botswana, Nigeria, Ghana and Kenya, among others. Consequently, net bond issuances by African Sovereigns rose from US\$1.9 billion in 2001 to US\$6.7 billion in 2007 before contracting to US\$-0.7 billion in 2008. Net bond issuances recovered thereafter to

US\$2 billion in 2010. Entry of African governments and private sector entities into the international bonds market increased in 2011 and 2012. Nigeria and Namibia in 2011 raised US\$500 million 10-year bond each for development of oil and other trade-supporting infrastructure. Zambia also raised US\$750 million 10-year bond in 2012 for the construction of road and energy infrastructure. Box 4.5 discusses the growing access of African sovereigns into the international bond market for the purpose of financing infrastructure development. Short-term debt inflows remained the single most important component of financing from private creditors to developing countries and Africa in particular, accounting for over 44% of total debt flows during 2008-10. These flows, primarily trade related, rose steadily from US\$2.1 billion in 2003 to US\$3.7 billion in 2010 amid a decline in 2006.

One of the key drivers of financial flows to Africa during the last decade has been growing trade and economic ties with major emerging economies in the South. Africa-South investment flows from China, Brazil, India and Malaysia has risen in recent years. Brazil's total investments, for instance, in Africa exceeded US\$ 10 billion in 2009. The recent acquisition of telecom company, Zain Africa, by Indian Bharti for US\$10.7 billion was the largest South-South acquisition ever. In addition, many Export Credit Agencies (ECAs) in the South, including Exim Bank of India, Exim Bank of China and Korea Exim Bank increased their trade finance lines to African counterparties during 2000-12. For instance, as at November 2011, Africa accounted for a lion's share of 54% of gross Lines of Credit amounting to US\$7.05

Table 4.14 Net Capital Flows to Africa, 1995-2012

Financial Flows	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Private Flows (Equity + Debt)	8.1	7.5	14.5	21.2	28.5	76.6	117.7	61.4	77.7	N/a	N/a
Net Equity Flows	13.10	10.40	14.00	17.70	26.10	37.00	38.70	28.90	40.20	32.09	0.00
Net FDI inflows	17.07	14.21	18.23	15.55	30.37	37.01	52.36	60.69	49.39	41.89	46.55
Net Portfolio Equity Inflows	-3.97	-3.81	-4.23	2.15	-7.72	-20.22	-14.70	28.70	-13.95	-9.80	
Net Debt Flows	-2.10	-0.40	6.00	6.40	6.90	5.40	14.60	10.00	5.10		
Official Creditors	0.00	2.60	6.80	2.40		-2.00	2.50	4.50	9.50		
Private Creditors	-2.10	-3.00	-0.80	4.00	7.90	7.40	12.10	5.50	-4.40		
Net Medium- and long-term debt flows	0.00	-1.20	0.90	2.70	4.80	-2.00	8.00	0.80	5.60		
Bonds	1.90	1.50	0.40	0.60	1.30	0.30	6.70	-0.70	1.90	2.00	4.50
Banks	-1.90	-2.70	0.50	2.10	3.50	-2.30	1.30	1.60	3.70		
Others											
Net Short-term debt flows	-2.10	-1.80	-1.70	1.40	3.00	9.40	7.00	4.60	-9.50	2.80	-0.50

N/a: not available

Source: World Bank, *Global Development Finance*, (various issues)

billion extended by Exim India to counterparties in developing countries. Eighty seven (87) Lines of Credit in an amount of US\$3.78 billion have been extended to thirty nine (39) African governments and private sector entities as at November 2011. Eighteen (18) new lines of credit amounting to US\$1.5 billion were extended to African entities in 2012. Also, China Exim bank, Africa's largest financier during 2001-10, invested over US\$67 billion in trade-related projects across the continent. Other Export Credit Agencies (ECAs) and Development Finance Institutions (DFIs) from major South economies, including Banco Latinoamericano de Comercio Exterior (BLADEX) and Banco de Desarrollo de América Latina (CAF), have also increased their lending in support of their region's exports to Africa. It is worth noting that, despite the rise in Africa-South trade, the West continues to account for the bulk of the continent's merchandise trade as discussed in Section 4.3.3. Consequently, significant proportion of the short and

medium term trade and project finance is provided by ECAs and DFIs in OECD countries.

Moreover, on account of rapidly improving political governance, macroeconomic fundamentals and better external finances, during 2004-10, private credit insurers also began to share in African risks by providing comfort to international commercial banks to fund higher levels of African trade as shown by the level of syndicated trade and project finance deals arranged by the Bank in favour of African counterparties during 2004-10. Syndicated loans to African counterparties rose at an average annual rate of 40% from US\$1.4 billion in 2004 to US\$6.1 billion in 2010 (Table 4.15). Table 4.15 also shows that the energy, financial institutions, and agriculture sectors were the dominant recipients of international syndicated financing. For example, the Financial Institutions sector alone received between 23.5% and 70.5% of all syndicated loan deals the Bank participated in or

Table 4.15: Distribution of Some Major Syndicated Transactions/Club Deals Arranged or Operating in Africa by Sector, 2009 – 2010 (US\$ millions unless otherwise indicated)

Sector	2004	2005	2006	2007	2008	2009	2010
Agriculture	45	50	1031	62	171.2	225	1443
% Share	3.11	4.69	36.7	2.47	6.52	7.19	23.69
Financial Institutions	897	752	954	1295.67	1423.4	1028.25	1430.8
% Share	61.95	70.48	33.96	51.65	54.19	32.88	23.49
Metals and Minerals	50	60	110	125	465	15.5	204
% Share	3.45	5.62	3.92	4.98	17.7	0.5	3.35
Energy	260	140	457.1	680.75	470.2	1175.6	1572.4
% Share	17.96	13.12	16.27	27.14	17.9	37.59	25.81
Telecommunications	58	20	192	241	10	465	698.3
% Share	4.01	1.87	6.83	9.61	0.38	14.87	11.46
Services	56	0	10	10	42	67	241.8
% Share	3.87	0	0.36	0.4	1.6	2.14	3.97
Others (a)	82	45	55	94	45	151	501.3
% Share	5.66	4.22	1.96	3.75	1.71	4.83	8.23
Total	1448	1067	2809.1	2508.42	2626.8	3127.35	6091.6

Source: Afreximbank: *Annual Report* (various issues)

arranged during 2004-10, followed by the Energy sector with a share of between 13% and 38% of syndicated flows during the same period. The share of agriculture sector ranged between 2.5% and 23.7% during 2004-10. The share of Government, Infrastructure, Manufacturing and Transport continue to be insignificant. The relatively low share of the manufacturing and other sectors derives from the fact that most of the export processing projects in the continent appear to be increasingly funded by equity and FDI in particular, with less debt financing as many African economies reformed their investment code and regulatory framework and sought to attract FDI and other forms of equity finance during the last

decade. The share of telecommunications also grew steadily from 2% in 2005 to approximately 15% in 2009. This share is expected to rise significantly over the medium- to long term given the firm international investor interest in the continent's ICT sector.

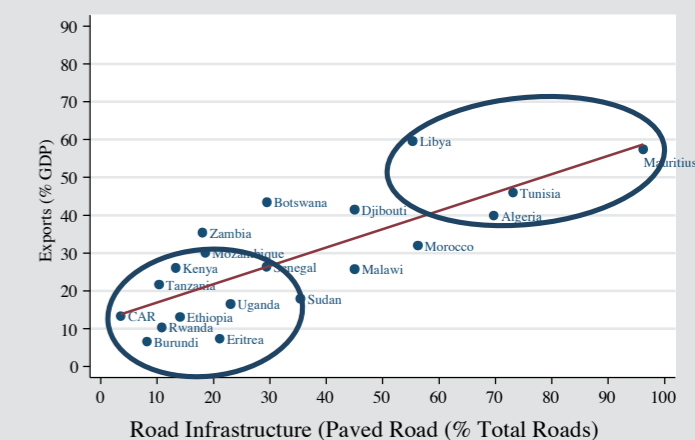
Over the medium term, the reform of the financial sector across the continent is also expected to facilitate the flow of external trade and project financing into Africa. The forecast improvement in financial flows to Africa is based on expected continuous improvement in economic conditions, continued recourse to democratic governance and respect for the rule of law and growing appetite of international investors for

Box 4.5 Growing Access of African Sovereigns to the International Bond Market for Infrastructure Development: The Drivers, Opportunities and Prospects

The role of infrastructure in improving a country's competitiveness, facilitating domestic and international trade, and supporting economic growth and poverty alleviation cannot be overemphasized. The literature suggests that improvement in infrastructure and those of economic nature such as roads, railways and ports, for example, could significantly raise activity levels and thus gross domestic product and trade. Calderon Moral-Benito and Servén (2011),¹ for instance, showed that doubling of infrastructure finance could raise GDP by between 7% and 10%. The World Bank (2008) also noted that a well-developed transport infrastructure and efficient freight services can reduce delays in transit times, make traded goods more affordable, increase consumer choice and help developing countries to integrate into the global supply/production chains. In Africa, the Africa Infrastructure Country Diagnostics (2010),² and Calderon (2009) noted that well-developed infrastructure could potentially contribute as much as 2% to GDP, with particularly positive effects in East and Central Africa.³ The AfDB (2012) also noted that infrastructure development in Africa could contribute to double intra-African trade from the current levels of 11% to 22% and increase Africa's share of world trade by at least twice today's share of 2%.⁴ The assumed positive relationship between

openness/trade competitiveness and infrastructure is highlighted in Figure B4.5.1. The figure shows that countries with relatively limited paved roads as a percentage of total roads, such as Burundi, Eritrea, Ethiopia, Rwanda, Central African Republic and Tanzania, have low export/GDP ratio, a measure of export/trade competitiveness. It also shows that Libya, Tunisia, Mauritius, and Algeria with relatively better road infrastructure have higher exports/GDP ratio.

Figure B4.5.1 Infrastructure and Africa's Trade Competitiveness, 2001-10



Source: World Bank African Development Indicators, 2013

Despite the obvious potential economic benefit from infrastructure, the rate of addition to capital investments in infrastructure in Africa has not kept pace with growth in demand, resulting in a huge infrastructure deficit across the continent. It is estimated that just about 40% of the continent's population has access to electricity; about 33% of the rural population has access to roads; and only about 5% of agriculture land

¹ Calderón, César; Moral-Benito, Enrique; Servén, Luis. 2011. Is Infrastructure Capital Productive? A Dynamic Heterogeneous Approach. © World Bank. Available at <https://openknowledge.worldbank.org/handle/10986/3446>

² Africa Infrastructure Country Diagnostic Study, World Bank 2010

³ Infrastructure and Growth in Africa; Cesar Calderon; World Bank, 2009

⁴ AfDB (2012) African Leaders Endorse Major Continental Infrastructure Programme. Available at <http://allafrica.com/stories/201202010971.html>

is under irrigation. According to African Development Bank (AfDB, 2010),⁵ Africa's infrastructure deficit would require additional capital investment of about US\$93 billion annually till 2020 to address (AfDB, 2010). Current levels of social infrastructure does not present any comforting image as only 34% and 65% of Africa's population have access to modern sanitation and clean water respectively. The limited availability of infrastructure across Africa, however, suggests the existence of untapped productive potential that could be unlocked through scaling up of capital investment in infrastructure (AfDB, 2010). In this context, Africa offers huge investment opportunities particularly in the area of infrastructure where returns are noted to be higher compared to similar investments in other developing regions (AfDB, 2010). It is in the light of the above that mobilizing financing from the international capital markets to fund the continent's infrastructure deficit becomes critical.

Although, extant literature suggests that capital investments in public infrastructure and production

⁵ African Development Bank (2010), "Infrastructure Deficit and Opportunities in Africa", Economic Brief, vol.1, Sept. Issue

capacity have the potential of boosting an economy's productivity and growth over the long-term, most developing economies, especially those in Africa do not have sufficient internally-generated resources to finance such capital intensive projects. Accordingly, the main source of funding for public and private projects has historically been external financial resources made up of official and private debt creating flows and grants. Such external resources comprise official development assistance (i.e. concessional loans and grants), commercial bank loans, bond finance and direct investment or equity finance flows. Until very recently, public infrastructure projects in developing countries were largely funded with external financing from official sources, that is, i.e. multilateral and bilateral financial assistance while private sector capacity extension projects in developing countries were supported with external financing from international banks and other private sector investors. Thus, public infrastructure project financing deals in developing countries were, until the late 1990s and the 21st Century, of very minimal or no interest to the international private sector investors. For various reasons, international private

Table B4.5.1: Recent Bond Issuances by African Sovereigns, 2007-12

Country	Sovereign Rating	Year	Purpose	Amount (US\$ million)	Tenor
Ghana*	B	2007	Infrastructure	750	5-year
		2012	Infrastructure	750	3-5 years
Gabon	BB-	2007	Debt Restructuring	1000	10-year
Congo, Republic*	NR	2007		477.8	5-year
Senegal*	B+	2009	Energy Infrastructure	200	5-year
Cote d'Ivoire**	NR	2010	Infrastructure	2332	20-year
Tunisia		2010	Infrastructure	300	10-year
Nigeria	B+	2011	Infrastructure	500	10-year
Namibia	BBB	2011	Development of Oil infrastructure	500	10-year
Zambia*	B	2012	Road and Energy Infrastructure	750	10-year

investors are currently interested in the financing of public infrastructure projects evidenced by steady rise in the entry of public agencies/governments of developing countries into the international capital markets to raise financing to support infrastructure development. According to the international investor community, governments of developing countries could access financing from the international capital markets if such countries show sufficient capacity and willingness to honour their external debt repayment obligations reflected by strong export performance, favourable external balances, sound regulatory environment and respect for rule of law, strong economic fundamentals and favourable sovereign credit rating, and political stability, among others. Most African economies do not have very favourable credit rating, yet governments of a number of them have been able to access the international debt capital markets in recent times as shown in Table B4.5.1, as a result of favourable economic circumstances of those countries.

The obvious question is what factors seem to be driving the growing appetite of international investors for sovereign debt instruments such as bonds issued by African governments?

* Countries that have reached the completion point of the HIPC initiative as at January 2012 and have benefited from full debt forgiveness under the HIPC initiative;

** Countries that are yet to reach the completion point of the HIPC initiative as at January 2012 and have benefited from partial debt forgiveness under the HIPC initiative; (Source: AfDB, 2013)⁶

The recent growth in access of African sovereigns to the international capital markets has been attributed

⁶ For more on this observation, see African Development Bank (2013), "Attractiveness of African Sovereign Bonds", January

to a number of factors such as political stability, better macroeconomic fundamentals, and investment-friendly regulatory environment, among others. These factors reinforce each other to present a credible evidence of an assurance regarding the ability and willingness of African sovereigns to honour their external debt repayment obligations.

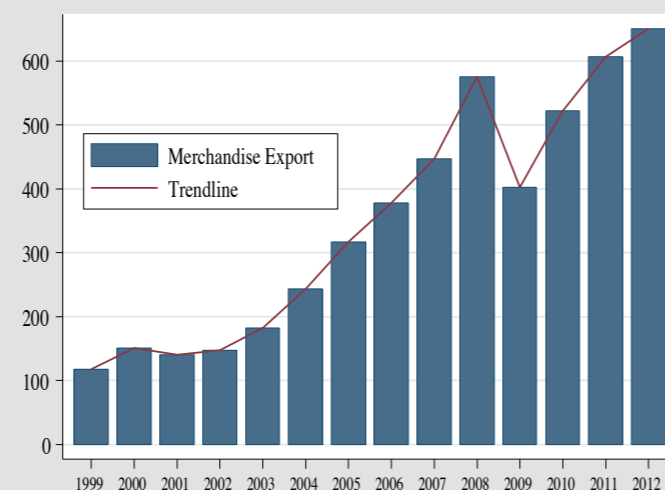
Political stability is regarded as an important condition required of a country intending to access the international capital market. On this score, the level of political governance across the continent has undergone significant improvement during the last two decades evidenced by declining number of coup d'états and let-up in socio-political conflicts from its peak during 1970-79. Many African countries are currently being governed by democratically-elected governments, about 43 democracies today compared to less than 30 during the 1970s. Other developments such as continued improvement in the capacity of the African Union in dispute resolution, and implementation of the African Peer Review Mechanism (APRM), all seem to be contributing to better political governance on the continent. In more specific terms, most African countries including those listed in Table B4.5.1 have adhered to democratic tenets in order to endear themselves to the international community and development partners due to emphasis placed on the rule of law, respect for human rights, and stronger democratic institutions, among others, by these countries. In related studies, Ames (1987) and Levi (1988) have shown that there is a positive relationship between adherence to democratic system of governance and economic growth and development. These positive developments have contributed to assure the international investor community that the emerging democratically elected governments including those listed in Table B4.5.1 who respect the

rule of law are unlikely to repudiate or renege on their repayment obligations relating to their borrowings from the international debt market.

Rapidly improving macroeconomic fundamentals in a number of African countries continue to attract the attention of international investors looking for safe investment locations that offer attractive returns. The good growth performance of the continent during the last decade averaging about 4.9% per annum, second only to Developing Asia's average annual GDP growth of 5.1% during the same period seems to underscore the continent's position as a new promising investment frontier where safe business could be done (World Bank, *World Development Indicators*, 2012). Africa, during the last decade, maintained macroeconomic stability on the back of recourse of many sovereigns to prudent macroeconomic policies and structural reforms. Consequently, the rate of inflation African economies, as a group, declined from an average rate of 24.5% during 1990-99 to 8.7% during 2000-10 (IMF, *International Financial Statistics*, 2012). The observed improvement in inflation, the modest decline in average interest rate spread (IRS) from a level of 11% during 1990-2000 to about 9.2% during 2001-11, have enhanced macroeconomic stability and the continent's debt service capacity of a number of African economies. For instance, the continent's External Debt/GNI ratio declined from 69.1% during 1990-2000 to 37.5% during 2001-11 aided by support from IMF/World Bank-sponsored HIPC (Heavily Indebted Poor Countries) Initiative, robust expansion in export revenues, and prudent management of external finances. These macroeconomic developments contributed to improve external finances and debt service capacity and consequently the access of a number of African sovereign to the international capital markets including those listed in Table B4.5.1.

Improvement in export performance over the last decade has also contributed to improve the continent's external reserve holdings resulting in enhanced capacity of many countries to source term financing from the international capital markets. For instance, total value of Africa's merchandise exports trended upward with a sturdy average annual growth of 15.6% during 1999-2012, except for a brief interruption in 2009 on the heels of the global financial and economic crises that broke in 2008/9 as illustrated in Figure B4.5.2.

Figure B4.5.2 Trends in Africa's Export Value 1999 - 2012 (US\$ Billion)



Source:
1. World Bank World Development Indicators Database, 2013
2. UNCTADSTAT, 2013

Countries such as Ghana, Kenya, Namibia and South Africa posted strong export performance during the last two decades, with their merchandise exports growing at respective average annual rates of 19.33%, 10.90%, 12.13% and 12.35% during 2001-11. Strong export receipts helped to lift external reserve holdings and thus the external debt service capacity of these countries, and improved their access to international

capital markets during the last decade.

Sustained improvement in the legal and regulatory environment has also enhanced the access of these African frontier market sovereigns to international capital markets. This is because, continued improvement in the legal and regulatory environment driven by legal reforms and strengthening of state institutions contributed in creating business friendly regulatory environment, which spurred international investor confidence in these African economies and consequently their access to international capital markets. Furthermore, African sovereign bonds are noted to offer higher returns compared to the returns associated with bond issuances of some other non-African developing country counterparties. This situation has equally enhanced the attractiveness of sovereign debt instruments issued by governments of some African countries, especially those considered as frontier markets. This emerging realization of comparatively better returns in Africa seems to be feeding into investment decisions of non-African investors and thus demand for African debt instruments.

The rapidly improving and/or growing economies in the continent offer several opportunities for investment in the infrastructure sector in Africa. The observed infrastructure gap offers opportunity for private investment in areas such as Energy, Transport and ICT sectors, among others. In 2008, only 38% of Africans had access to electricity compared to an average of 68% for all developing countries, 53% for South Asia and 80-90% for Latin America (AfDB, 2010). The figure is even worse for Sub-Saharan Africa (SSA), which currently stands at 26%. African countries endure on average 11.5 days of power outages per year due largely to lack of regional interconnectivity of the electricity grids and shortages in affected countries in 2007 (AfDB, 2010). Presently, some of the countries that

used to have surpluses like South Africa have deficits due to increases in demand for electricity. Limited and unreliable transport infrastructure across the continent also presents enormous opportunity to international investors. For example, total road network in SSA is only 204 km per 1,000 km² of land area compared to the world average of 944 km per 1,000 km² of land area (AfDB, 2010). These statistics confirm the existence of investment opportunities in the sub-sector. It is worthy to note that the proceeds of Ghana's sovereign bond issued in 2007 was largely used to finance transport infrastructure. Railway network, which is among the least developed public infrastructure in Africa also presents another opportunity to international investors. The limited railway network in the continent means service to fewer people for most African countries which currently ranges from 30 to 50 per million people with a few countries (such as Gabon, Botswana and South Africa) having railway networks that serve more than 400 people (AfDB, 2010). These figures are very low compared to Europe's range of 200 to 1000 lines per every 1,000km² of land area with their railway network serving thousands of people. Considering the bulky nature of Africa's primary commodity exports, a well-developed rail network offers a better means of transport than road transport. The development of a modern railway network and associated facilities across the continent offers opportunities to investors. Scaling up infrastructure also requires addressing poor linkages between roads and rail lines, and poor connectivity to ports, which further requires term funding.

Water and Sanitation is another area that offers enormous opportunities to investors. It is estimated that only 65% of Africans have access to clean water compared to 87% for East Asia and Pacific, and 91% for Latin America and the Caribbean. Furthermore,

access to fixed-line telephones in the ICT sector is estimated to be 1.38 per 100 people in SSA, compared to 18.5% in Latin America and the Caribbean, and 16.2% in the Middle East and North Africa. Further the lack of other reliable telecommunication infrastructure provides opportunity to investors. For instance, African Development Bank (2010) contends that the continent's power costs almost more than twice (i.e. 14 US cents per kilowatt-hour versus 5 – 10 US cents) and mobile telephony service costs about 50% more (i.e. USD 12 per month versus USD 8 per month) elsewhere. These offer opportunities to be taken for better returns on investment since investors that have gone into the telecommunications subsector have realized better returns compared to investments in any other developing region (AfDB, 2010).

Though Africa is still saddled with many socio-economic challenges including poverty, its economic growth over the past decade has been quite impressive. Despite its history of economic instability during the mid-1970s up to the late 1980s, the continent presently offers one of the most attractive locations for, and returns on, investment. Consequently, sovereigns of emerging/frontier markets in the continent have been increasing their entry into the international bond markets, taking advantage of excess liquidity and/or continued search by investors for safe-haven assets in emerging/frontier markets. Specifically, global investors seeking to diversify their portfolio are attracted by higher yields offered by African debt instruments as they discount the risks in the face of rapidly improving political and economic governance, strong economic fundamentals and better external finances and debt service capacity across the continent. Thus, the growing appetite of global investors for African sovereign bonds reflects the continent's bright economic prospects and the rewarding investment opportunities it offers (AfDB 2013).

The continent is, overall, expected to continue in its present growth trajectory on the back of rapidly improving macroeconomic fundamentals, which is probably the best ever in its history. Over the medium-to long term, African economies, as a group, is expected to maintain good economic performance, especially strong export performance and consequent improvement in debt service capacity to continue to assure international investors that African counterparties will be able to honour their debt service obligations in the foreseeable future. Specifically, African economies, as a group, is forecast to grow at an average annual rate of 5.7% during 2013-17; total merchandise exports of the continent is forecast to rise at an average annual rate of 5.6% over the medium term; the budding systems of democratic governance, transparency and respect for the rule of law are expected to continue in the foreseeable future, suggesting that African governments are more likely to honour their obligations to the international community including creditors; expected decline in inflation to 6% by 2018 from average level of 9.28% in 2012; suggests economic stability over the medium term and discovery and opening of new oil fields/mines over the near-to medium-term are also expected to strengthen government finances and external revenues, and consequently external debt service capacity – making it much easier for many African sovereigns to mobilize term funding from the international markets over the medium to long-term.

Afreximbank, in furtherance of its mission, intends to continue to work with its African and non-African partners to leverage term financing to support the development of infrastructure projects such as ports and harbours, airports, telecommunications, among others, with the view to improving the infrastructure needed to support extra-and intra-African trade. Accordingly,

the Bank, through its Syndications, Project-related financing, Guarantee programme in support of African Government commitments to project promoters, ECA loans facilitation and Asset-backed lending programmes will continue to assist public and private African project promoters to enable them successfully enter the international credit markets to leverage term funding to support modernization and extension of trade-related infrastructure in the continent. Further,

Africa counterparty risk as they continue their search for safe haven assets in developing countries, among others. A bulk of the trade finance flows into the continent is expected to be absorbed by the mining and energy sectors over the medium term. Consistent with the on-going ICT revolution on the continent external financing inflows in support of capital investments in the telecommunications sector, is also expected to soar over the medium term.

Given the increasing focus of African governments and their development partners on the creation of capacities for diversification of the continent's export basket through processing, it is expected that the share of financing for the extension of capacity for value-added manufacturing will rebound somewhat over the medium term. Some specific initiatives that are expected to contribute in raising availability of African trade finance over the medium-term include, among others, the African Global Competitiveness Initiative (AGCI) being sponsored by the US Government, the trade finance programme of the African Development Bank (AfDB) Group; the International Finance Corporation (IFC)-coordinated

through its research and policy advocacy programmes, the Bank intends to continue to assist member countries to introduce appropriate policies and programmes to raise their export earnings and thereby improve external reserve holdings and debt service capacity in order to enhance their credit worthiness and thus their capacity to mobilize term funding from the international credit markets for projects in Africa.

Global Trade Liquidity Programme; the G8/G20 coordinated funding for the Group of ACP countries, such as the European Investment Bank (EIB)-coordinated Investment Facilities of the EU; and the Aid-for-Trade (AFT) Initiative of the WTO, among others.

External financing support for manufacturing and public infrastructure is also expected to increase over the medium term. Aside from the expected rise in supply of trade financing from external sources, local bank lending in support of African trade is also expected to increase as local banks increase their capitalization and build technical capacity to support export and import transactions of their clients. Nevertheless, the expected growth in local bank support for trade finance and services is likely to be far below expectation of what is required given the absence of well-functioning ECAs in many African countries. The data highlighted in Table 4.16, provides a cursory view of potential supply of finance in support of the trade in individual countries.

Table 4.16 Africa: Institutional Arrangements for Export Credit			
	State of Institutional Arrangement:	Number of Countries	% Number of Countries
A	Countries with No Export Finance Institution:		
	Angola, Cape Verde, Democratic Republic of Congo, Eritrea, Gambia, Guinea, Kenya, Mauritius, Madagascar, Namibia, Niger, Republic of Congo, Sao Tome and Principe, Seychelles, Swaziland and Uganda	15	28.3
B	Countries with No Data Available About Credit Support:		
	Comoros, Djibouti, Libya, Rwanda, Sudan, Burundi and Zambia	7	13.21
C	Countries with No Export Finance but Some State Credit for Domestic and Export Production		
	Benin, Botswana, Burkina Faso, Central African Republic, Chad, Equatorial Guinea, Ethiopia, Guinea Bissau, Malawi, Mozambique and Togo	11	20.75
D	Countries with Broad Institutional Coverage (Pre-shipment Export Finance, Pre-shipment Short-Term and Medium Term and Long Term Finance, Export Credit Insurance/Guarantee):		
	Cote D'Ivoire, Morocco, Nigeria and Swaziland	4	7.55
E	Countries with Full Coverage (As Under D Plus Pre-shipment Export Finance Guarantee):		
	Egypt, Republic of South Africa, Tunisia and Zimbabwe	4	7.55
F	Countries with Some Institutional Facilities:		
	Algeria, Ghana, Liberia, Mali, Mauritius, Senegal, Sierra-Leone, Somalia, Tanzania, Lesotho and Cameroun, Gabon	12	22.64
Total		53	100

Source: AFREXIMBANK Staff Update on Information Contained in the Feasibility Study for the Establishment of AFREXIMBANK and Strategic Plan (2007-11)

Given the cyclical nature of external trade finance and for the purpose of supporting Africa's trade development, African policy-makers may have to

rethink their position on the creation of development banks and national export credit agencies in particular.



CHAPTER FIVE

OPERATING PERFORMANCE IN
THE CONTEXT OF THE BANK'S
STRATEGIC OBJECTIVES

5.1 PREAMBLE

The review of the global and African macroeconomic environments captured in Chapter 4 suggest that the impact of a myriad of new socio-economic shocks that emerged during the last two decades raised the level of uncertainties and risks that international banks and investors had to contend with in their financing of cross-border trade and investments, especially African deals. Those challenges demanded of international financiers and investors considerable ingenuity and well-thought, risk-efficient strategies in order to survive. The Management of the Bank, right from inception, had this realization which enabled it to chart a course of action in the form of medium-term strategic plans to guide the pursuit of its corporate goals while creating and protecting shareholder value. In recognition of the multiplicity of challenges in its operating environment, the Bank's five-year Strategic Plans were drawn-up as rolling plans, requiring periodic reviews, using Annual Budgets as instruments for their implementation.

During 1996-2012, four five-year plans were approved by the Bank's Board of Directors for implementation. These included:

- the First Strategic Plan (Plan I) which covered the period 1996-2000;
- the Second Strategic Plan (Plan II) covering the period 2001-2005;
- the Third Strategic Plan (Plan III or "Project ASPIRE") covering the period 2007-11; and
- the Fourth Strategic Plan (Plan IV or "Project 3 - 5 - 3") covering the period 2012-16

The transition challenges that emerged in 2005 delayed the preparation and launching of Plan III from 2006 to 2007. Plan IV was approved by Board of Directors and launched in January 2012.

The next Section shed light on routine preparatory activities leading to the launch of the Bank's Strategic Plans and the planning model and philosophy, followed by a review of the objectives and operational performance under the first three plans of the Bank.

5.2 ACTIVITIES LEADING UP TO PLAN I, II and III

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

The principal programmes and facilities deployed during 1994-2012 by the Bank in furtherance of its mandate and mission included:

African Trade Expansion and Diversification Scheme:

▶ *Dual Recourse Programme*

i) Note Purchase Programme

-Credit-Linked Notes and Structured Notes

ii) Receivable Purchase/Discounting Programme

- Forfaiting Facility
- Invoice/Receivable Discounting Facility
- Factoring and Receivables Management Facility
- Joint Bill Discounting/Financing and Refinancing Facility

▶ **Non-Dual Recourse Programmes**

i) Line of Credit Programme

- Pre- and Post-export Financing
- Letter of Credit Confirmation and Refinancing Facility
- Export Credit Guarantees
- Reimbursement Guarantee Facility
- Correspondent Banking/African Letter of Credit Facility

ii) Direct Financing Programme

iii) Syndications Programme

iv) Special Risks Programme

- Country Risk Guarantee Facility
- Investment Guarantee Facility

v) Financial Future-Flow Pre-Financing Programme

Export Development/Diversification Scheme:

- Export Development Finance Programme (EDFP);
- Project-Related Financing Programme;
- Suppliers' and Buyers' Credit Programme;

- Guarantee Programme Related to Obtaining Large Contracts;
- Guarantee Programme in Support of African Government Commitments to Project Promoters;
- ECA Loans Facilitation Programme;
- Advisory Services/Investment Banking Programme;
- Asset-Based Lending Programme;
- Carbon Financing Programme;
- Country Programme; and
- Trade Information Programme.

During the first statutory financial year extending from the Bank's inception up to the end of December 1995, the focus of Management of the Bank was to ensure the establishment of credible and robust operating systems. In this regard, using external consultants and in-house expertise, various policy documents were prepared and adopted to guide the Bank's operations. The focus of the documents was overtime, broadened to better address the operational needs of the Bank with regard to efficient management of operational risks. The key operational documents in place as at the end of the 3rd Strategic Plan included:

- The Bank's Risk Management Policy and Procedures (which in line with the enterprise risk management approach of the Bank, encompasses the credit policies and procedures, operating policies and procedures, syndications guidelines, business continuity contingency plan, and environ-

- mental and social risk management policies and procedures, among others);
- The Treasury Guidelines;
- Staff Manual; and
- Guidelines for setting Country Exposure Limits, among others.

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

Board Committees:

- an Executive Committee of the Board of Directors with the authority to approve lending commitments of the Bank up to a certain level;
- an Audit Committee of the Board of Directors;
- a Board Remuneration Committee (REMCOCO); and
- a Branch Management Committee of the Board of Directors.

Management Committees:

- a Management Credit Committee (CRECO);
- a Management Assets and Liabilities Committee (ALCO);
- Risk Management and Strategy Committee (RISTRAC) that provides oversight regarding implementation of the Bank's RMPP;
- Environmental and Social Risk Manage-

- ment Committee (ESMC);
- Management Compliance Committee (MANCOCO);
- Emergency Management Committee (EMC); and
- Staff Management Committee.

Commitment limits with respect to the different organs and grades of staff of the Bank were also approved. The period also witnessed the completion of construction work on the Bank's permanent headquarters office building in Heliopolis, Cairo, Egypt, and eventual movement of staff from its temporary offices at the World Trade Centre Building in Cairo, Egypt in November 2010. Other issues related to the physical and legal establishment of the Bank in Egypt were also concluded.

In support of planned expansion of operations and activities under the various strategic plans, additional staff were recruited over time, raising the head-count from initial number of 7 pioneer staff at the end of December 1994 to 103 at the end of March 2013.

The scope of the trade finance operations of the Bank, which during Plan I period revolved around provision of short-term export and import credits, was during the period of Plans II and III, gradually extended to cover provision of term funding for the extension of export processing capacity and trade-related infrastructure as the Bank built human resource capacities and gained knowledge and experience to manage the risks associated with the financing of trade-related projects. The major instruments used in delivering the Bank's

resources during the period were the line of credit, direct financing and syndications programmes, which collectively accounted for over 70% of the Bank's loan portfolio at the end of Plan III period. On a cumulative basis, credit approvals for all facilities made by the Bank, which amounted to US\$141 million in 1995, rose at an impressive average annual rate of 31.4% to reach the US\$21.34 billion at the end of Plan III in 2011.

In line with the Bank's RMPP, all lending done during the period were in favour of counterparties in the Bank's shareholder countries or through its shareholder institutions, and largely supported 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 where the direct obligor resided and linked to either the London Interbank Offered Rate (LIBOR) or the Euro Interbank offered Rate (EURIBOR).

Aside from paid-in capital and retained earnings, other major sources of funding to the Bank during the approximately twenty years of its corporate existence included borrowings from the Euro credit market, international bond market, and financing from Export Credit-Agencies and Development Finance Institutions (ECA/DFIs). Surplus funds were from time to time invested in international and African banks that met certain credit criteria of the Bank. Preference in fund placements was, however, given to shareholder banks and African and non-African partner institutions that are more supportive of the Bank's operations.

5.3 THE PLANNING PROCESS AND FRAMEWORK

5.3.1 The Planning Process/Philosophy

The Bank, a year after commencement of operations, adopted strategic planning as an instrument it could use to advance its medium to long-term corporate goals. The strategic planning process assists the Bank to establish a framework for the direction and control of the Bank's operational performance; create a common platform for decision-making within the organisation; set a proper context for budget decisions and performance evaluations; and instill confidence in the chosen direction of the Bank's business.

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). Against this backdrop, the Bank's Strategic Plans are important instruments of control that serve to ensure that the Bank does not stray into activities that would not contribute to the attainment of its target objectives or those that it could not perform in a cost-efficient manner while instilling group confidence in the pursuit of targets of agreed strategic goals and programmes, and providing appropriate benchmarks for evaluation of operational performance during each plan period.

For the purpose of ensuring the usefulness of the plans, ideas were drawn from numerous stakeholders, such as the Bank's Shareholders, members of the

Board of Directors, members of the Bank's Advisory Group on Trade Finance and Export Development in Africa (the "Group"), staff, clients and other partner institutions of the Bank, especially those whose activities complement and/or supplement the Bank's operations and activities. Staff Seminars and Management Retreats were also convened to debate critical issues pertaining to the plans, including successes made under each plan as well as failures so as to inform and test the assumptions underlying the targets of new or incoming plans. These approaches helped Management in developing results-oriented strategic plans.

5.3.2 The Planning Framework

The planning model adopted by the Bank in developing Plans I, II, III and IV is based on a modified version of the Ohmae Model (Ohmae, 1982 and Ohmae, 2000). The model suggests that the preparation of a viable strategic plan requires the planner to consider, in the form of thorough study or review, three important variables, namely the Customer, Competition, and the Institution to which the Plan relates (in terms of its strengths and weaknesses).

In addition to these background studies, two additional variables that require careful examination as part of the groundwork for the preparation of a strategic plan are:

- a) Country risk (for example, government policy inhibitions 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, a planner could proceed to make any of four strategic decisions after a careful review of the "*Key Success Factors*" (KSF) within the industry the institution operates. With the industry KSF in mind, the company should:

- a) *Focus on KSF 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.*

To design a feasible Plan based on the above framework, the institution for which the plan is developed needs to carefully identify its comparative advantage given its knowledge of the *Key Success Factors* 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 industry in which the

Bank operates as well as 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 risks and opportunities in the operating environment;
- b) ability to manage policy and other political risks either through bonds formed as a result of historical linkages or other privileges;
- c) strong 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;
- j) integrity and transparency that enable the building of partnerships required for leveraging resources for on-lending into the market; and
- k) ability to forge results-oriented partnerships with operational and non-operational partner institutions involved in the

promotion and/or financing of intra- and extra-African trade.

Based on the above, the Bank, on each planning occasion, identified its comparative advantage and proceeded to make strategic choices. Against this backdrop, for the purpose of a successor to Project ASPIRE, a Management Strategic Plan Retreat was held in May 2011 in Ain Sokhna, Egypt. At that Retreat, the following were undertaken:

- (i) A "careful, objective, self-evaluation" of the Bank with regard to its mission and vision, operating systems, and performance under Project ASPIRE (2007-11), strengths and weaknesses, as well as opportunities and threats in its operating environment;
- (ii) A critical review of the Bank's operating environment with due consideration to its (existing and potential) customers in respect of customer needs and retention, relevance or otherwise of segmentation of customers by objective, geographic coverage and customer-mix etcetera, bearing in mind discernible differences in operations and strengths of our competitors and the evolving competition in the environment by identifying, sufficiently correctly, appropriate mix of customer- and competitor-based strategies that would enable the Bank to stay ahead of the competition in its operating theater; and
- (iii) Based on (i) and (ii) above, evolved a complementary set of strategic programmes, plans and activities to be pursued over Plan IV period, 2012-16, consistent with the mission and vision of the Bank.

5.4 Review of Bank's Performance under the Three Strategic Plans

5.4.1 Review of Performance under Plan I and Plan II, 1996 - 2005

5.4.1.1 Overview of Operating Environment under which Plans I and II were Implemented

Plan I was conceived against the backdrop of limited operational experience to guide strategy formulation by the Bank. It was also based on signs of a global economic recovery in 1994/95 from the slowdown that occurred during 1990-93. The expectation of better global economic prospects during the Plan I period and the establishment of the WTO were thought to offer a strong basis for significant growth in global trade over the near to medium-term. However, downside risks to the near- to medium- term global trade and economic prospects were anticipated. These risks included expected significant weakening of the prices of commodities of export interest to Africa, especially compared to their 1994 levels; potential slowdown in international financial flows to developing countries as a result of investors' concern 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 conceived on the assumption of better growth prospects for Africa on account of better

macroeconomic management and increased levels of African trade, despite a weakening of commodity prices; modest improvement in access to trade finance, but without significant changes in the terms and conditions of such flows, that is, their high cost, short tenor and other stringent terms such as full cash cover for confirmation of Letters of Credit. The Plan further assumed limited availability of local export finance due to the absence of major national export credit arrangements on the continent, limited capacity of African banks to manage external risks; and withdrawal of international banks from African trade finance, among other factors.

The Second Strategic Plan was conceived bearing in mind the new risks emerging in the continent during the mid- to late 1990s arising from economic reforms recommended by the IMF and the World Bank, especially the liberalization of the commodity sector and the roll-back of the State in economic activities in particular; the gradually changing nature of market participants in the African trade finance scene, including the entry of some multilateral institutions into the Bank's core business; rapid advances in information technology and its implications for African trade development and e-commerce in particular; and new issues that might arise from the Multilateral Trade Negotiations. Further, the Bank's experiences gained from implementation of Plan I, its limited resources and ability to adapt swiftly to changing circumstances and respond to certain business opportunities and threats in its operating environment were considered crucial in determining how efficiently it would be able to address its

mandate under conditions of resource constraints and economic uncertainty during Plan II period.

For the Bank, the implications of the environment in which the Bank was expected to operate during the two plan periods were slightly different. For Plan I, the strategic thrust was to launch targeted programmes and facilities that it could readily deploy in support of its African trade expansion and export development goals and ensuring that it was able to break-even quickly in line with its commercial goals. With the experience gained during implementation of Plan I, the focus of Plan II was to consolidate the achievements made during Plan I period and develop innovative financing instruments to deal with the emerging challenges and opportunities that the operating environment provided.

5.4.1.2 Corporate/ Operational Objectives under Plans I and II

Against the background of the foregoing forecast operating environment, the key corporate (operational and financial) objectives set for Plans I and II were as follows:

Develop and launch key programmes and facilities planned for introduction during Plan I period for the purpose of supporting African trade expansion and diversification as well as support export development, including:

► ***Programmes and Facilities intended to support African Trade Expansion and Diversification, including:***

- Line of Credit Programme;
- Direct Financing Programme;
- Syndication Programme;
- Special Risk Programme;
- African Trade Payments Programme; and
- Infrastructural and Services Financing Programme.

► ***Programmes and Facilities in Support of Export Development, including:***

- Project-Related Financing Programme;
- Suppliers' and Buyers' Credit Programme; and
- Guarantee Related to Obtaining Large Contracts.

Other key strategic objectives set for Plan I period included (i) opening a Branch Office in Harare to promote business development in the Southern African sub-region; (ii) achieving profitability and paying dividends to shareholders so as to meet the commercial interests and thus expectations of the private sector shareholders; (iii) establishing an African Trade Finance Roundtable to provide a unique and intellectual platform for financiers, policy makers, academics and private sector entities, among others, to debate and generate useful ideas to inform the Bank's strategy on the promotion and financing of African trade; (iv) entering Cooperation Agreements with key international agencies involved in the promotion of global and African trade such as the International Trade Centre (ITC) and the World Trade Organisation (WTO);

(v) registering of the Bank with the United Nations as an international organisation; (vi) full ratification of the Bank Agreement by member countries; and (vii) spearheading membership mobilization across all the different classes of shareholders.

Having achieved to a large extent its corporate targets for Plan I period, the strategic thrust of Plan II was to consolidate the achievements made under Plan I by:

- (i) continuing with the deployment of programmes and services that could not be introduced during the Plan I phase;
- (ii) seeking to do business across the continent with eligible countries under the Bank's country risk rating such that not less than 75% of the countries would have been covered by end of 2005;
- (iii) strengthening non-credit (fee-earning) services with the view to raising the share of fee income in the Bank's total income to 40% in 2005;
- (iv) achieving about 10% annual increase in the Bank's loans outstanding all through Plan II such that by December 2005, credit outstandings would reach an amount of US\$0.6 billion while maintaining capital adequacy ratio of more than 12%;
- (v) sustaining operational efficiency by maintaining cost-income ratio at a maximum of 40%;
- (vi) mobilising additional shareholders while intensifying the leveraging of its current shareholders' funds;

(vii) raising the required financial resources for achieving the goals of Plan II. In this regard, the Plan aimed to ensure that the Bank entered the syndicated loans market annually/biannually to raise the funding it requires; deepen and widen the use of money market lines and bilateral loans to finance its assets growth; seek to use other borrowing instruments to raise funding, including Floating Rate Notes (FRNs), Bond Issuance, Commercial papers, and other off-balance sheet instruments; and to introduce a Deposit Taking Programme to target stable sources of deposits and to operate the programme in a manner that would minimize reputational risks; and

(viii) opening of two Branch Offices – one each in West Africa and North Africa; obtaining confirmation from OECD central banks regarding the Bank's supranational status; introducing a Technical Assistance Programme (involving training, attachments and workshops for governments, banks and corporates); achieving full ratification of the Bank Agreement by all members; and continuing with shareholder mobilisation efforts.

5.4.1.3 Level of Attainment of Operational Objectives under Plans I and II

With respect to the above corporate goals, commendable progress was made with regards to attainment of planned objectives under Plans I and II.

First, the Bank successfully introduced most of the programmes it targeted to launch during Plan I period. Specifically, the Line of Credit; Direct Financing; Project-Related Financing; Syndications; and the Special Risk Programmes were successfully launched and implemented. Under the Special Risk Programme, the highly successful Country Risk Guarantee Facility was implemented.

On the back of the strides made and operational insights gained of its operating environment under Plan I, the Bank, during the Plan II period, successfully launched and implemented other Programmes, namely the Note Purchase Programme, the Receivable Purchase/Discounting Programme, and the Joint Bill Discounting/Financing and Refinancing Facility. These programmes supported the Bank's African trade expansion and diversification scheme. Regarding the Export Development Scheme, most of the programmes were not actively implemented with the exception of the Investment Banking Programme, which offered the Bank opportunities for cross-selling.

Following the discussion of the programmes and facilities introduced during Plan I and Plan II periods in support of credit operations, the next section reviews the in detail performance of the Bank's credit operations and activities during the ten-year period 1996 – 2005.

5.4.1.3.1 Operational Analysis of Bank's Performance, 1996 – 2005

As shown in Tables 5.1a and 5.1b, the Bank's credit operations grew significantly during Plan I and II periods. In this regard, cumulative credit approvals soared from US\$141 million in 1995 (prior to the launch of Plan I), to US\$8.9 billion at the end of the Plan II period, representing a compound annual growth rate (CAGR) of 41.4% over the period (Table 5.1a). Gross loan outstandings also grew at a CAGR of 29.9%, from US\$27.5 million at the beginning of 1996 to US\$546.5 million at the end of 2005 (Table 5.1b).

In terms of performance of the Bank's programmes and facilities, Tables 5.1a and 5.1b show that the Line of Credit, Syndications and Direct Financing were the major programmes of the Bank. Credit approvals under the Line of Credit programme accounted for the lion's share of 63.5% of total loan approvals during the two plan periods (Table 5.1a). The programme also accounted for the largest share of the Bank's loan portfolio with an average share of 52.6% during the two Plan periods (Table 5.1b).

The Syndications Programme, which is one of the main risk-sharing instruments the Bank uses to leverage international trade and project financing into Africa, accounted for the second largest share of credit approvals and loan outstandings. Credit approvals under the programme accounted for an average share of 16.6% of total loan approvals during the Plan I and II periods (Table 5.1a). Credits outstanding under the programme underwent a CAGR of 18.1% to account

Table 5.1a Afreximbank: Distribution of Loan Approvals by Type of Programme, 1996- 2005 (US\$ Millions)

Type of Programme												Avg. Annual Growth Rate (%)	Avg. Share of Approvals (%)
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-2005	1996-2005
1. Line of Credit Programme	9.000	128.000	211.500	301.000	476.000	694.000	578.000	823.000	917.000	892.000	532.000	40.8	63.53
2. Note Purchase Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	115.000	-	1.32
3. Receivables Purchase/Discounting Programme	0.000	0.000	7.200	25.729	20.677	12.240	0.000	0.000	0.000	0.000	50.000	-	1.33
4. Direct Financing Programme	23.200	29.000	65.600	25.500	40.000	0.000	320.000	145.000	120.000	281.000	85.000	13.0	12.71
5. Project-Related Financing Programme	0.000	19.000	0.000	0.000	0.000	10.000	0.000	0.000	0.000	0.000	0.000	-	0.33
6. Syndications Programme ^{a)}	92.700	107.450	195.910	184.615	211.900	181.000	169.830	140.750	90.000	77.000	90.000	(0.3)	16.57
7. Special Risk Programme ^{b)} :	16.000	35.724	48.600	19.100	10.000	131.750	27.000	7.000	7.000	17.000	10.000	(4.7)	3.58
Country Risk	16.000	35.724	41.600	19.100	10.000	20.000	17.000	7.000	7.000	7.000	10.000	(4.7)	2.00
Other Risk	0.000	0.000	0.000	0.000	0.000	111.750	10.000	0.000	0.000	10.000	0.000	-	1.51
8. Future-Flow Pre-Financing Programme	0.000	0.000	0.000	0.000	0.000	0.000	-	-	-	-	0.000	-	-
9. Asset-Backed Lending Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-	-
10. Export Development Finance Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	5.000	15.000	35.000	-	0.63
Total	140.900	319.174	528.810	555.944	758.577	1,028.990	1,094.830	1,115.750	1,139.000	1,282.000	917.000	18.7	100.00
Cumulative Totals^{c)}	140.900	460.074	988.884	1,544.828	2,303.405	3,332.395	4,427.225	5,542.975	6,681.975	7,963.975	8,880.975	41.4	-

a) Includes co-financing and sub-participation

b) Contingent liabilities

c) Since the Bank began operations in September 1994

Note: Gaps represent infinity.

Source: Afreximbank

Table 5.1b Afreximbank: Distribution of Loan Outstandings by Type of Programme, 1996 - 2005 (US\$ Millions)

Type of Programme												Avg. Annual Growth Rate (%)	Avg. Share of Outstandings (%)
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-2005	1996-2005
1. Line of Credit Programme	2.190	14.480	50.550	50.250	103.986	173.328	233.745	271.548	309.818	290.263	266.813	48.0	52.60
2. Note Purchase Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-	-
3. Receivables Purchase/Discounting Programme	0.000	0.000	6.620	28.200	22.341	21.022	0.000	14.134	11.455	7.425	7.087	-	3.53
4. Direct Financing Programme	0.000	10.000	0.000	0.000	9.000	6.667	50.374	73.430	118.563	118.775	118.861	-	15.07
5. Project-Related Financing Programme	0.000	0.000	5.500	18.350	17.104	13.851	7.500	4.500	1.500	0.000	0.000	-	2.04
6. Syndications Programme ^{a)}	25.28	47.27	77.35	103.8	144.385	111.875	42.667	55.442	41.182	105.030	153.753	18.1	26.31
7. Special Risk Programme ^{b)} :	0.000	0.000	0.000	0.000	0.000	0.000	15.062	0.000	0.000	0.000	0.000	-	0.45
Country Risk	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-	-
Other Risk	0.000	0.000	0.000	0.000	0.000	0.000	15.062	0.000	0.000	0.000	0.000	-	0.45
8. Future-Flow Pre-Financing Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-	-
9. Asset-Backed Lending Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-	-
10. Export Development Finance Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-	-
Total	27.470	71.750	140.020	200.600	296.816	326.743	349.348	419.054	482.518	521.493	546.514	29.9	100.00

a) Includes co-financing and sub-participation

b) Contingent liabilities

Note: Gaps represent infinity.

Source: Afreximbank

for 26.3% of the Bank's loan assets (Table 5.1b) during plan I & II periods.

Activity under the Direct Financing Programme, which provides pre- and post-export financing directly to corporates with balance sheet size of at least US\$2 million and an annual trade turnover of at least US\$10 million, also grew significantly to account for respective average shares of 12.7% and 15.1% of loan approvals and loan portfolio (Tables 5.1a and 5.1b).

Sectoral distribution of the Bank's credit indicates that the Financial Institutions received the largest percentage of credit approvals consistent with the Bank's emphasis on Dual Recourse Facilities (DRF), with respective average shares of 57.5% and 24.5% of loan approvals and loan outstandings (Tables 5.2a and 5.2b). Other key sectors that received financing from the Bank over the two plan periods were Energy, Agriculture, Metals/Minerals and Telecommunications, with respective shares of 30%, 13%, 8.2% and 8.1% of the Bank's loan assets (Table 5.2b).

With regard to the type of beneficiary entities, banks stood out as the major beneficiaries of the Bank's loan approvals, accounting for an average share of about 68% of total approvals (Table 5.3a). Banks also held an average share of 60% of the Bank's loan assets (Table 5.3b).

In terms of direction of trade financed by the Bank, the bulk of the Bank's loan approvals and loan outstandings were in support of mixed directional trade, that is, intra- and extra-African trade as shown in Tables 5.4a and 5.4b.

5.4.1.3.2 Financial Performance Review, 1996 - 2005

On the back of the robust operational performance discussed above, the Bank met all key financial targets of the two plans evidenced by increases in loan assets, total assets and profitability levels while ensuring that asset quality and operational efficiency were maintained. In this regard, net loans and advances increased from US\$27.5 million at the start of Plan I to US\$528.7 million at the end of Plan II in December 2005, representing a CAGR of 29.6% (Table 5.5). This propelled a more than four-fold increase in the Bank's total assets from US\$143.9 million at the end of 1995 to US\$587 million at the end of 2005 (Table 5.5)

With respect to profitability performance, net income growth was strong, rising steadily from US\$6 million in 1995 to US\$23 million in 2005 (Table 5.5). The remarkable growth in net income was driven by strong fee and commission income growth during the review period as well as prudent cost management. In this regard, the robust growth in fee and commission income contributed to lift the fee income/total revenue ratio steadily from 3% in 1995 to 64.5% in 2004 before declining to 45.5% in 2005 (Table 5.5). Further, the Bank achieved a consistent increase in return on equity (ROE) from a level of 4.2% in 1995 to 9% in 2005 (Table 5.5), a return which exceeds the target of 8.5% assumed in the Feasibility Study and Business Plan for establishing the Bank. Return on Assets (ROA) also averaged 4% during the two plans period, a figure well in excess of the forecast 2.06% in the Feasibility Study and Business Plan (Table 5.5).

Table 5.2a Afreximbank: Distribution of Loan Approvals by Sector, 1996 - 2005 (US\$ Millions)

Sector Financed	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. Annual Growth Rate (%)	Avg. Share of Approvals (%)
												1996-2005	1996-2005
Agriculture	71.900	97.250	136.160	106.665	107.300	29.000	34.830	30.750	25.000	110.000	80.000	1.1	8.66
Energy	24.000	53.920	119.000	112.000	197.000	212.500	172.000	205.000	60.000	120.000	130.000	16.9	15.81
Services	0.000	0.000	10.000	0.000	10.000	0.000	120.000	145.000	100.000	136.000	45.000		6.48
Metals and Minerals	17.000	41.000	29.250	73.750	20.000	18.750	0.000	25.000	0.000	55.000	25.000	3.9	3.29
Transportation	0.000	0.000	0.000	19.514	20.077	34.240	0.000	0.000	0.000	25.000	15.000		1.30
Manufacturing	7.000	7.500	6.000	0.000	1.600	0.000	53.000	0.000	0.000	50.000	0.000	-	1.35
Telecommunications	0.000	0.000	0.000	14.090	0.000	100.000	80.000	25.000	75.000	57.000	20.000		4.25
Government	5.000	8.000	0.000	19.100	10.000	31.750	17.000	7.000	7.000	7.000	10.000	6.9	1.34
Financial Institutions ^{a)}	16.000	111.504	228.400	210.825	392.600	602.750	618.000	678.000	872.000	722.000	592.000	36.1	57.53
Total	140.900	319.174	528.810	555.944	758.577	1,028.990	1,094.830	1,115.750	1,139.000	1,282.000	917.000	18.7	100.00
Cumulative Total^{b)}	140.900	460.074	988.884	1,544.828	2,303.405	3,332.395	4,427.225	5,542.975	6,681.975	7,963.975	8,880.975	41.4	

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

Note: Gaps represent infinity

Source: Afreximbank

Table 5.2b Afreximbank: Distribution of Loan Outstandings by Sector, 1996 - 2005 (US\$ Million)

Sector Financed	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. Annual Growth Rate (%)	Avg. Share of Outstandings (%)
												1996-2005	1996-2005
Agriculture	7.170	14.8	36.74	36.62	61.89	39.72	22.13	33.91	57.42	74.52	59.76	21.2	13.04
Energy	8.90	16.99	45.63	63.80	132.55	159.36	152.83	111.19	49.31	124.07	149.10	28.2	29.95
Services	0.00	0.00	0.00	2.63	12.02	16.42	9.64	42.50	58.00	72.36	50.12		7.86
Metals and Minerals	9.21	20.00	15.56	42.03	19.51	24.79	16.96	39.26	21.29	41.34	33.66	13.0	8.18
Transportation	0.00	0.00	0.00	20.56	35.47	24.23	26.94	22.36	16.89	20.58	21.28		5.61
Manufacturing	0.00	5.08	9.21	2.32	1.29	15.01	0.70	0.00	0.00	20.33	36.08		2.68
Telecommunications	0.00	0.00	0.00	8.48	0.00	2.08	49.86	12.78	37.42	70.13	92.74		8.15
Government	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		-
Financial Institutions ^{a)}	2.190	14.880	32.88	24.17	34.09	45.14	70.30	157.05	242.91	98.167	103.77	38.6	24.54
Total	27.470	71.750	140.020	200.600	296.816	326.743	349.348	419.054	483.196	521.493	546.514	29.9	100.00

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.

Note: Gaps represent infinity

Source: Afreximbank

Table 5.3a Afreximbank: Distribution of Loan Approvals by Type of Beneficiary Institution, 1996 - 2005 (US\$ Millions)

Type of Beneficiary Institution	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. Annual	Avg. Share of
												Growth Rate (%)	Approvals (%)
												1996-2005	1996-2005
Corporate/Government Agency/Parastatal	109.404	150.920	286.810	203.079	158.900	365.250	459.830	285.750	210.000	353.000	210.000	6.5	30.70
Bank	26.500	168.250	239.000	339.175	594.600	654.500	618.000	823.000	922.000	922.000	697.000	32.7	68.39
Government	5.000	0.000	3.000	13.69	5.077	9.240	17.000	7.000	7.000	7.000	10.000	6.9	0.90
Total	140.904	319.170	528.810	555.944	758.577	1,028.990	1,094.830	1,115.750	1,139.000	1,282.000	917.000	18.7	100.00
Cumulative Total ^{a)}	140.904	460.074	988.884	1,544.828	2,303.405	3,332.395	4,427.225	5,542.975	6,681.975	7,963.975	8,880.975	41.4	

a) Since the Bank began operations in September 1994
source: Afreximbank

Table 5.3b Afreximbank: Distribution of Loan Outstandings by Type of Beneficiary Institution, 1996 - 2005 (US\$ Millions)

Type of Beneficiary Institution	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. Annual	Avg. Share of
												Growth Rate (%)	Outstandings (%)
												1996-2005	1996-2005
Corporate/Government Agency/Parastatal	25.280	53.120	79.870	83.590	118.089	77.324	80.380	148.824	160.588	215.26	257.406	23.2	37.99
Bank	2.190	18.630	59.150	98.570	170.703	239.900	261.786	262.936	315.235	303.57	286.781	48.7	60.13
Government	0.000	0.000	1.000	18.440	8.024	9.519	7.182	7.294	6.695	2.67	2.327	1.88	
Total	27.470	71.750	140.020	200.600	296.816	326.743	349.348	419.054	482.518	521.493	546.514	29.9	100.00

Source: Afreximbank

Table 5.4a Afreximbank: Distribution of Loan Approvals by Trade Direction, 1996 - 2005 (US\$ Millions)

Trade Direction	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. Annual	Avg. Share of
												Growth Rate (%)	Approvals (%)
												1996-2005	1996-2005
Intra-African	30.00	15.92	31.60	6.50	15.00	21.75	120.00	130.00	100.00	200.00	50.00	5.1	7.90
Extra-African	67.70	81.00	219.21	127.48	80.90	132.28	216.83	91.75	210.00	178.00	84.00	2.2	16.26
Intra- and Extra- African	43.20	222.25	278.00	421.97	662.68	874.96	758.00	894.00	829.00	904.00	783.00	29.0	75.83
Total	140.90	319.17	528.81	555.94	758.58	1,028.99	1,094.83	1,115.75	1,139.00	1,282.00	917.00	18.7	100.00
Cumulative Total ^{a)}	140.90	460.07	988.88	1,544.83	2,303.41	3,332.40	4,427.23	5,542.98	6,681.98	7,963.98	8,880.98	41.4	

a) Since the Bank began operations in September 1994
Source: Afreximbank

Table 5.4b Afreximbank: Distribution of Loan Outstandings by Trade Direction, 1996 - 2005 (US\$ Millions)

Trade Direction	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. Annual	Avg. Share of
												Growth Rate (%)	Outstandings (%)
												1996-2005	1996-2005
Intra-African	0.000	37.920	3.690	0.000	0.000	1.334	0.000	70.000	45.000	49.502	45.000	-	8.06
Extra-African	3.200	3.200	17.060	69.010	48.704	85.916	78.919	78.919	143.554	221.530	128.167	36.9	27.95
Intra- and Extra- African	24.270	30.630	119.300	131.590	248.112	239.493	270.135	293.964	45.786	250.461	373.347	27.3	63.98
Total	27.470	71.750	140.050	200.600	296.816	326.743	349.054	442.883	234.340	521.493	546.514	29.9	100.00

Source: Afreximbank

On the back of strong profitability performance, strong earnings retention ratio and shareholder mobilisation efforts, total Shareholders' Funds grew from US\$143 million at the end of 1995 to US\$265 million at the end of 2005 (Table 5.5).

With respect to capital adequacy, the Bank's capital adequacy ratio (CAR) continued to be above the then 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, for the purpose of having sufficient buffer to cushion the Bank against unexpected contingencies, the Bank's Board set a minimum Tier I capital ratio of 12% for the Bank during the two plan periods. During Plans I and II periods, the Bank's capital adequacy ratio was consistently above the 40% mark.

The quality of the Bank's assets remained strong during the two plan periods. It is noteworthy that the ratio of the Bank's non-performing loans to gross loans averaged 2.4% during 1996 – 2005.

Further, prudent cost management regime and strong earnings performance also contributed to improvements in operational efficiency which helped to push downward the Bank's cost-to-income ratio from 41.2% in 1995 to 21.1% in 2005 (Table 5.5).

Other Key Strategic Objectives Achieved

Other targets that were achieved during Plans I and II periods included opening of branch offices in Harare, (Zimbabwe), Abuja (Nigeria), and Tunis (Tunisia)¹;

¹ The Tunis branch was subsequently closed due to lack of sufficient business

consistent payment of dividend to shareholders; broadening the Bank's shareholder base, with the number of shareholders rising from 101 in 1995 to 116 at the end of December 2005; registration of the Bank Agreement at the United Nations in 1997; and ratification of the Bank Agreement by 22 members in 2005, up from 16 in 2000. The Bank also successfully initiated the establishment of an African Bankers' Association.

However, a number of operational objectives were not met, including expanding the Bank's borrowing instruments to include bond issuance or Floating Rate Notes as well as the planned Deposit Taking Programme.

5.4.2 Review of Performance under Plan III, 2007-11

The Bank's Third Strategic Plan was conceived taking cognizance of the prevailing global and African macroeconomic and trade conditions, which implied considerable threats but offered business opportunities to the Bank over the medium term. The global economy was expected to see further growth over the medium term on the back of continued expansion of the advanced economies led by the US and other major emerging economies, such as China and India. The African economies, as a group, was also forecast to maintain a robust output growth of about 5% over the medium term. Other macroeconomic factors that informed the preparation of the Third Plan included growing prominence of the BRIC as markets for African commodities and as sources of better priced manufactured imports and FDI; continued widespread pursuit of

Table 5.5 Afreximbank: Financial Highlights, 1995 - 2005 (US\$ Millions, unless otherwise stated)

	Plan I (1996 - 2000)					Plan II (2001 - 2005)					CAGR (%)	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		2005
Loans (net)	27.47	71.39	139.32	194.86	290.76	316.21	335.22	401.14	462.23	499.21	528.72	29.6
Total Assets	143.86	160.95	185.68	239.32	310.98	346.46	410.63	456.30	523.85	531.88	587.06	14.1
Debt	0.84	4.71	22.56	68.79	132.66	154.12	207.603	240.91	294.07	283.68	322.54	59.5
Shareholders' Funds	143.02	156.234	163.12	170.52	178.32	192.34	203.03	215.39	229.78	248.20	264.52	6.1
Net Interest Income	11.73	8.57	10.30	12.97	13.61	16.98	14.12	16.05	10.56	10.13	17.30	3.9
Net Fee and Commission Income	0.37	1.07	2.09	1.99	4.36	5.97	8.80	13.82	14.58	18.77	14.61	36.9
Total Revenues	12.12	9.65	12.64	15.20	18.14	23.12	23.64	24.27	25.23	29.13	32.07	9.7
Operating Expenses	4.990	3.32	4.380	4.30	4.78	5.03	5.00	5.23	5.41	7.33	6.81	3.1
Net Income	5.99	6.121	7.92	9.33	10.06	13.65	14.16	16.05	18.48	20.01	23.04	13.5
<i>Key Ratios (%) :</i>												AVERAGE (1996-2005)
Net Fee Income as share of Total Revenues	3.0	11.1	16.6	13.1	24.1	25.8	37.2	56.9	57.8	64.5	45.5	35.3
Return on Assets (ROA)	4.2	4.0	4.6	4.4	3.7	4.2	3.7	3.7	3.8	3.8	4.1	4.0
Return on Equity (ROE)	4.2	4.1	5.0	5.6	5.8	7.4	7.2	7.7	8.3	8.4	9.0	6.8
Cost-to-Income Ratio (CIR)	41.2	34.4	34.7	28.3	26.4	21.8	21.1	21.6	21.4	25.0	21.1	25.6

Source: Afreximbank

outward oriented growth policies in Africa; delays in the conclusion of the Doha Round of Multilateral Trade Talks; low competitiveness of African traders and unfettered liberalization of global trade and their implication for Africa's position in the global economy; firm global commodity prices and their implications for efforts at diversification of Africa's exports away from commodities; and the absence of commodity boards and its implications for quality assurance, and financing arrangements and other logistics needed to support commodity production and exports.

The Third Plan also took account of the well-known challenges in raising appropriate and reasonably-

priced financing to support trade and trade related projects in Africa, including difficulties in accessing international credit markets; and the ongoing ICT revolution and urgency of the need to develop the requisite ICT infrastructure to support African trade over the medium to long term. Also, the Bank's growing recognition as Africa's Trade Finance Bank meant that it needed to mobilize resources to address some of the structural constraints to the development of African trade. Against this backdrop, the Third Plan sought to lay emphasis on leveraging funds to improve availability of long term financing for extension and modernization of productive capacity and other trade-related infrastructure needed to support the

development of African trade consistent with the Bank's mandate. In addition, Plan III took account of the progress made under the Bank's African Trade Expansion and Diversification Scheme during Plan I and II periods and the need to deepen activity under the Export Development Scheme.

5.4.2.1 Corporate/ Operational Objectives under Plan III

Against that backdrop, a number of strategic operational/corporate goals were set for Plan III as detailed hereunder.

a) Operational Activity Goals

On the operational front, the focus of Plan III was to: (i) intensify deployment of the Bank's programmes and facilities and introduce new programmes to support export development, including service exports; (ii) enhance geographic diversification of the Bank's portfolio by doing business in at least 90% of member countries eligible for the Bank's support; (iii) continue to emphasize earning diversity by increasing activity under its fee earning services, such as investment banking, corporate advisory and correspondent banking services; (iv) work with other African banks to ensure that a useful network is formed on which to base an effective trade payment mechanism for intra-African trade, such as creation of a Bankers' Acceptances Market; (v) finance intra-African trade in at least 10 member countries; (vi) finance new exports of at least 15 member countries and service exports in at least 10 member countries; (vii) finance SMEs in supply chains in at

least 15 member countries; (viii) work towards the development of export-oriented Business Units in Africa as a way of promoting export processing; introduce an Equity Investment programme to enable the Bank invest equity in strategic businesses in the continent; and (ix) achieve an investment grade rating from major credit rating agencies during the Plan period.

With regards to shareholder matters, Plan III sought to broaden the Bank's shareholder base and reduce shareholder concentration by ensuring that at least 75% of African countries, including Republic of South Africa become Participating States by signing the Bank Agreement; target ratification of the Bank Agreement by at least 80% of all Class "A" Shareholders; increase Classes "B" and "C" Shareholders; and continue with the equity mobilization drive to grow the Bank's capital base to support planned business growth.

The Managerial and organizational objectives of the Bank were to fill the positions for two Executive Vice Presidents, one in charge of Business Development and Corporate Banking and the other for Finance, Administration and Banking Services; raise staff levels to 94 at the end of Plan III period to support the envisaged business growth; review the staff performance appraisal system; and install an efficient Management information system, among others. Other key corporate targets of Plan III included opening two new branch offices: one to serve the East African sub-region and the other for Francophone West Africa; supporting the promotion of national and regional commodity funds and trading exchanges; strengthening

IT Policy and Management Systems; ensuring that the Bank's Business Continuity Contingency Plan is fully installed and operational to enable the Bank deal with unexpected contingencies that may threaten its operations and activities; putting in place a well-equipped, modern library; working to ensure that the Bank is listed by the Basle Committee as an Export Credit Agency so as to attract low risk weighting under the emerging Basle II Accord; and ensuring that the Bank becomes Basel II compliant.

b) Financial Performance Goals

Based on the foregoing operational targets, the following financial performance goals were set:

- (i) grow the Bank's assets to over US\$ 1 billion by end of 2011 on the back of expanded credit operations;
- (ii) maintain cost/income ratio of a maximum of 45% during Plan III period;
- (iii) make sufficient financial return to the Bank's shareholders (in terms of earnings growth, return on equity and return on assets);
- (iv) meet the additional funding requirements of African trade by ensuring that the Bank enters the Euro syndicated loan market annually or bi-annually to raise the funding required to grow its loan assets;
- (v) attract funds into Africa by intensifying the use of its Country Risk, Reimbursement Undertaking, and Investment Guarantee Facili-

ties to mitigate the risks to African and non-African lenders and investors operating in the Continent; and

- (vi) implement the Bank's Syndication Programme in such a way that it becomes a major originator of African syndications in which international banks can take participation.

5.4.2.2 Level of Attainment of Operational Objectives under Plan III

Most of the financial programmes and facilities intended to be deployed to support African trade expansion and diversification were implemented during Plan III period as planned. Further, during the period, two new programmes in support of export development expansion and diversification were introduced: ECA Loans facilitation and Asset-backed Lending programmes.

On account of intensified efforts at deploying the Bank's programmes and facilities as well as increased demand for the Bank's financing following the retreat of international banks from African trade finance as a result of the global financial and economic crises that began in 2008, the Bank's cumulative loan approvals grew at an average annual rate of 14.8% during the Plan III period from US\$10.2 billion at the end of 2006 (that is, the year before the launch of Plan III) to US\$21.3 billion at the end of the Plan III period in 2011 (Table 5.6a). Following the surge in loan approvals, the Bank's loan assets grew at an average annual rate of 28.7% during Plan III period (Table 5.6b).

Table 5.6a Afreximbank: Distribution of Loan Approvals by Type of Programme, 2006 - 2012 (US\$ Millions)

Type of Programme	Plan III (2007 - 2011)						AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF APPROVALS (%)
	2006	2007	2008	2009	2010	2011		
1. Line of Credit Programme	662.000	541.000	477.400	671.250	1,254.448	1,621.100	1,252.94	17.9
2. Note Purchase Programme	105.000	70.000	84.000	149.000	28.000	100.000	100.000	(1.0)
3. Receivables Purchase/Discounting Programme	90.000	54.000	0.000	25.000	0.000	44.000	8.000	(14.3)
4. Direct Financing Programme	54.100	87.000	146.400	149.100	200.000	566.500	726.98	47.0
5. Project-Related Financing Programme	5.000	22.000	28.000	20.000	89.500	103.100	95.15	60.5
6. Syndications Programme ^{a)}	356.920	570.500	792.500	610.750	940.680	953.000	894.50	19.6
7. Special Risk Programme ^{b)} :	4.000	4.000	15.000	10.000	70.000	85.000	125.000	61.1
Country Risk	4.000	4.000	0.000	0.000	20.000	50.000	0.000	50.5
Other Risk	0.000	0.000	15.000	10.000	50.000	35.000	125.000	0.99
8. Future-Flow Pre-Financing Programme	25.000	10.000	31.000	107.000	73.900	153.200	508.89	36.3
9. Asset-Backed Lending Programme	17.000	32.000	0.000	0.000	29.000	126.500	0.000	40.1
10. Export Development Finance Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-
Total	1,319.02	1,390.50	1,574.30	1,742.10	2,685.53	3,752.40	3,711.46	20.9
Cumulative Totals ^{c)}	10,199.995	11,590.495	13,164.795	14,906.895	17,592.423	21,344.823	25,056.283	14.8

a) Includes co-financing and sub-participation

b) Contingent liabilities

c) Since the Bank began operations in September 1994

Note: Gaps represent infinity.

Source: Afreximbank

Line of Credit, Syndications and Direct Financing programmes remained the major programmes the Bank used in purveying its financing to eligible entities. The three programmes accounted for a combined share of 86% of total credit approvals and 80% of loan outstandings, significantly lower than their respective combined shares of 93% and 94% during 1996-2005.

The Line of Credit programme accounted for an average share of 41% of total loan facility approvals during Plan III period (covering trade finance support such as import finance facilities, pre- and post-export financing facility, L/C Confirmation and Refinancing Facility, and Re-imbursement Guarantee Facilities); and an average share of 32.8% of the Bank's loan portfolio (Tables 5.6a and 5.6b).

The Syndications programme accounted for the second largest share of 34.7% of credit approvals made, and 32.5% of loan outstandings at the end of 2011 (Tables 5.6a and 5.6b). Cumulative approvals under the Syndications programme amounted to US\$3.87 billion, up from a level of US\$1.4 billion at the end of 2000. Loan outstandings under the Syndications Programme at the end of 2011 stood at US\$802 million, up from US\$134.1 million at the end of 2006, representing an impressive CAGR of 35.8% during the period (Tables 5.6a and 5.6b). The programme helped the Bank in its efforts at leveraging private capital to support bankable, "big-ticket" trade and project finance deals in Africa, as discussed in detail in Chapter 6 of this Book. The Direct Financing Programme accounted for respective shares of 10.3% and 14.7% of total loan

Table 5.6b Afreximbank: Distribution of Loan Outstandings by Type of Programme, 2006 - 2012 (US\$ Millions)

Type of Programme	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF OUTSTANDINGS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
1. Line of Credit Programme	200.950	237.502	189.316	401.296	459.039	958.727	710.24	31.3	32.79
2. Note Purchase Programme	97.115	61.319	121.306	133.388	206.340	127.513	273.33	5.4	9.49
3. Receivables Purchase/Discounting Programme	16.248	16.582	15.603	0.000	0.000	0.170	170.95	(91.2)	0.47
4. Direct Financing Programme	94.395	161.636	106.089	124.394	356.860	258.298	398.67	20.1	14.70
5. Project-Related Financing Programme	0.000	4.238	25.699	11.776	54.530	70.364	146.56	-	2.43
6. Syndications Programme ^{a)}	134.129	197.249	405.797	339.489	483.400	801.995	992.12	35.8	32.52
7. Special Risk Programme ^{b)} :	0.000	0.000	0.000	0.000	0.000	15.250	119.59	-	0.22
Country Risk	0.000	0.000	0.000	0.000	0.000	15.250	119.59	-	0.22
Other Risk	0.000	0.000	0.000	0.000	0.000	0.000	0.00	-	-
8. Future-Flow Pre-Financing Programme	19.628	32.457	36.860	143.722	103.600	107.683	219.92	34.0	6.19
9. Asset-Backed Lending Programme	0.000	0.000	37.500	0.000	15.080	27.906	102.65	-	1.17
10. Export Development Finance Programme	0.000	0.000	0.000	0.000	0.000	0.000	0.00	-	-
Total	562.465	710.983	938.170	1,154.065	1,678.849	2,367.906	3,134.030	28.7	100.00

a) Includes co-financing and sub-participation

b) Contingent liabilities

Note: Gaps represent infinity.

Source: Afreximbank

approvals and loan portfolio during Plan III period (Tables 5.6a and 5.6b).

Regarding sectoral distribution, Table 5.7a shows that the bulk of the Bank's loan approvals went to financial institutions followed by energy, telecommunications and services sectors. Consequently, the financial institutions, energy, telecommunications, and services sectors accounted for respective average shares of 37.3%, 15.9%, 15.4% and 9.6% of the Bank's loan portfolio at the end of Plan III period in 2011 (Table 5.7b).

Table 5.8a shows that banks were the major recipients of the Bank's loan approvals and accounted for about 56.8% of total facility approvals during the Plan III period. This development emanated from

the Bank's continued use of local banks as trade finance intermediaries (TFIs) to purvey its financing to Small and Medium Scale Enterprises (SMEs) who cannot directly access the Bank's facility. In terms of loan outstandings, banks accounted for 50.7% of the Bank's total loan assets (Table 5.8b).

With regard to Direction of Trade financed, the bulk of the Bank's loan approvals were directed at financing intra- and extra-African trade. Tables 5.9a and 5.9b show that intra- and extra-African trade accounted for 75.6% of the Bank's total loan approvals and 74% of loan assets during the Plan III period.

Further, during Plan III period, bold efforts were made to support the development of exports in the Continent through a deepening of activity under the

Table 5.7a Afreximbank: Distribution of Loan Approvals by Sector, 2006 - 2012 (US\$ Millions)

Sector Financed	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF APPROVALS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
Agriculture	64.000	0.000	45.000	0.000	199.600	422.700	413.76	37.8	5.99
Energy	135.000	123.000	300.200	226.300	302.040	462.400	1287.88	24.6	12.69
Services	91.100	162.000	156.500	105.300	158.900	213.700	243.685	17.1	7.15
Metals and Minerals	55.000	45.000	87.500	72.750	105.000	145.000	0.000	19.4	4.08
Transportation	40.000	15.000	54.500	109.500	88.550	133.000	130.88	24.0	3.59
Manufacturing	21.420	82.000	71.200	40.000	67.200	196.500	87.81	44.3	4.10
Telecommunications	68.500	114.000	10.000	190.000	352.538	220.000	162.5	23.3	7.95
Government	4.000	4.000	0.000	0.000	0.000	0.000	0.000	-	0.04
Financial Institutions ^{a)}	840.000	845.500	849.400	998.250	1,411.700	1,959.100	1384.94	16.9	54.41
Total	1,319.020	1,390.500	1,574.300	1,742.100	2,685.528	3,752.400	3,711.455	20.9	100.00
Cumulative Total ^{b)}	10,199.995	11,590.495	13,164.795	14,906.895	17,592.423	21,344.823	25,056.278	14.8	

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

Note: Gaps represent infinity

Source: Afreximbank

Table 5.7b Afreximbank: Distribution of Loan Outstandings by Sector, 2006- 2012 (US\$ Millions)

Sector Financed	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF OUTSTANDINGS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
Agriculture	42.202	44.122	29.720	22.392	56.200	76.476	220.905	11.9	3.35
Energy	92.401	135.674	109.757	111.236	190.440	542.470	819.452	35.4	15.92
Services	67.688	139.973	171.683	157.764	128.940	58.051	111.226	(3.1)	9.59
Metals and Minerals	38.600	52.782	0.000	6.145	75.810	12.795	128.374	(22.1)	2.16
Transportation	31.547	60.662	80.394	54.117	156.660	118.716	402.212	26.5	6.88
Manufacturing	43.408	102.618	114.437	169.636	142.85	69.866	115.024	9.5	8.76
Telecommunications	104.622	60.303	111.762	152.875	363.120	363.192	358.820	24.9	15.36
Government	0.000	0.000	0.000	0.000	0.000	44.019	0.000	-	0.64
Financial Institutions ^{a)}	141.997	107.008	320.417	479.900	564.850	1082.321	978.022	40.6	37.33
Total	562.465	703.142	938.170	1,154.065	1,678.870	2,367.906	3,134.035	28.7	100.00

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.

Note: Gaps represent infinity

Source: Afreximbank

Bank's Export Development Finance Programme (EDFP), Project-related Financing Programme, ECA Loans Facilitation Programme, Investment Banking and Advisory Services Programme, and Asset-based Lending Programme. The Bank's Export Development Financing Programme (EDFP) was emphasized because of the holistic nature of the programme. The EDFP is defined 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. Further, to give it the latitude it deserves, in 2009, a new department, Projects and Export Development Finance department (PEDF) was created and staffed to spearhead the Bank's efforts in that regard. In addition, the Bank intensified its partnership building efforts with a view to expanding activities under the Programme by pursuing several funding lines from partner institutions.

Asset-based lending, a programme aimed at supporting local content promotion through financing of acquisition of physical assets by African entrepreneurs, saw brisk activity. Activity under ECA Loans Facilitation programme also rose significantly during the Plan III period, especially during 2009-11. In this regard, the Bank entered several partnership agreements with major ECAs in an effort to leverage ECA financing for the extension and modernization of production capacity in Africa as well as essential imports. As a result, ECA financing and guarantees in excess of US\$1.1 billion were mobilized. Term funding from DFIs, such as the International Finance Corporation (IFC), Development Bank of Southern

Africa (DBSA), AfDB, China Development Bank (CDB), and Proparco, among others, amounting to US\$570 million was also raised during Plan III period. These leveraging activities supported the extension and modernization of export processing capacities in member countries consistent with the Bank's efforts at supporting diversification and development of exports in Africa.

For the purpose of reinforcing the Bank's position as the "*Trade Finance Bank for Africa*", a set of managerial priorities were set under Plan III, most of which were achieved during the period. The organogram of the Bank was restructured to make it dynamic and responsive to new opportunities and threats in the operating environment as envisaged. This exercise resulted in the creation of eight departments, a board secretariat and three units as envisaged under Plan III. The Bank also filled the positions for two executive vice presidents as envisaged; additional staff were recruited in order to maintain the necessary manpower to support the planned expansion in the Bank's operations and activities. The number of staff was raised to eighty six at the end of 2011, from forty-three in 2006; the Bank installed the necessary infrastructure in the form of equipment at the Headquarters and the two branch offices to support the Bank's business. In addition, staff were provided training in many areas of relevance to the Bank's business. Also, the Bank continued to implement its training and knowledge sharing programmes; and staff performance assessment methods were reviewed in line with managerial priorities.

Table 5.8a Afreximbank: Distribution of Loan Approvals by Type of Beneficiary Institution, 2006 - 2012 (US\$ Millions)

Type of Beneficiary Institution	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF APPROVALS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
Corporate/Government Agency/Parastatal	330.020	486.000	575.400	671.350	1,284.128	1,793.300	2,326.520	33.9	43.16
Bank	985.000	900.500	998.900	1,070.750	1,401.400	1,959.100	1,384.940	13.8	56.80
Government	4.000	4.000	0.000	0.000	0.000	0.000	0.000		0.04
Total	1,319.020	1,390.500	1,574.300	1,742.100	2,685.528	3,752.400	3,711.460	20.9	100.00
Cumulative Total^{a)}	10,199.995	11,590.495	13,164.795	14,906.895	17,592.423	21,344.823	25,056.3	14.8	

a) Since the Bank began operations in September 1994
Source: Afreximbank

Table 5.8b Afreximbank: Distribution of Loan Outstandings by Type of Beneficiary Institution, 2006 - 2012 (US\$ Millions)

Type of Beneficiary Institution	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF OUTSTANDINGS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
Corporate/Government Agency/Parastatal	189.576	277.093	333.352	359.065	1,113.640	1,238.787	1,697.120	37.5	48.52
Banks	372.697	426.049	604.818	794.999	565.209	1,082.321	1,336.915	21.3	50.73
Government	0.192	7.841	0.000	0.000	0.000	44.019	100.000	108.7	0.76
Total	562.465	710.983	938.170	1,154.064	1,678.849	2,365.127	3,134.035	28.7	100.00

Source: Afreximbank

Table 5.9a Afreximbank: Distribution of Loan Approvals by Trade Direction, 2006 - 2012 (US\$ Millions)

Trade Direction	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF APPROVALS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
Intra-African	37.500	53.500	155.200	71.500	357.990	539.500	812.560	53.3	10.57
Extra-African	192.500	128.500	363.700	179.800	267.340	602.500	142.410	22.8	13.83
Intra- and Extra- African	1,089.020	1,208.500	1,055.400	1,490.800	2,060.198	2,610.400	2,756.485	17.5	75.60
Total	1,319.020	1,390.500	1,574.300	1,742.100	2,685.528	3,752.400	3,711.455	20.9	100.00
Cumulative Total^{a)}	10,199.995	11,590.495	13,164.795	14,906.895	17,592.423	21,344.823	25,056.3	14.8	

a) Since the Bank began operations in September 1994
Source: Afreximbank

Table 5.9b Afreximbank: Distribution of Loan Outstandings by Trade Direction, 2006 - 2012 (US\$ Millions)

Trade Direction	Plan III (2007 - 2011)							AVG. ANNUAL GROWTH RATE (%)	AVG. SHARE OF OUTSTANDINGS (%)
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011	2007 - 2011
Intra-African	21.041	72.896	114.975	53.485	193.440	442.892	738.687	60.9	12.82
Extra-African	87.202	245.841	77.601	97.739	98.520	377.120	529.770	29.3	13.10
Intra- and Extra- African	454.222	392.246	745.594	1,002.841	1,386.889	1,545.115	1,865.578	24.5	74.08
Total	562.465	710.983	938.170	1,154.065	1,678.849	2,365.127	3,134.035	28.7	100.00

Source: Afreximbank

Other corporate targets that were achieved during Plan III period included: (i) supporting the development of Pan African Commodity Exchanges that are likely to improve commodity trading in the continent and ensuring that the continent becomes the centre of trading for the commodities it produces on a large scale. In this regard, the Bank supported the establishment of Bourse Africa (BA), a Pan African Commodity Exchange based in Gaborone, Botswana, by taking equity stake in BA following the launch of the Bank's Equity Investment programme; (ii) launched the Afreximbank Construction/Tourism – Linked Relay Facility (CONTOUR) to support service exports in Africa and the African Correspondent Banking and Letter of Credit Confirmation Facility (AFRICORRBANKING) to facilitate intra-African trade; (iii) published a new brochure that elaborates on all programmes and facilities of the Bank, including the new ones such as Carbon Financing, Africorrbanking and CONTOUR for use by marketing teams; (iv) actively implemented Afreximbank's Annual Seminar series as a way of building capacity amongst African banks, traders and governments; (v) motivated staff by reviewing staff compensation scheme of the Bank and implemented the Bank's Award Scheme introduced in 2004 as a way of increasing the interest of all stakeholders in the Bank by recognizing and rewarding exceptional contribution to the development of the Bank.

5.4.2.3 Financial Performance Review

On the back of the strong operational performance detailed above, strides were made with regard to the financial performance targets of Plan III. Specifically, key financial objectives or targets achieved included, among others: (i) successfully growing the Bank's total assets from US\$0.6 billion at the end of December 2006 (prior to the launch of Plan III) to US\$2.87 billion at the end of 2011, representing a remarkable CAGR of 30.5% and about 187% above the Plan III target of US\$1 billion (Table 5.10); and (ii) Net income, during the period, grew at a CAGR of 12% from US\$31.6 million in 2006 to US\$57.9 million in 2011 (Table 5.10).

Besides, the operational efficiency of the Bank improved remarkably with the cost to income ratio averaging 23.9% compared to the Plan target of not more than 45% and significantly below the industry average of over 50% (Table 5.10). As a result of continued profitability of operations and increasing transfers from net income to reserves, shareholders' funds under Plan III rose at an average annual rate of 11.2% to reach US\$512.1 million at the end of 2011, from US\$292.5 million at the end of December 2006 (Table 5.10), while the Plan III target of diversifying income sources was also achieved with income from fees and commission growing strongly during the period, except for a dip in 2011 to account for about a third of total operating income on average during the period (Table 5.10).

Progress was also made on other fronts. With regard to earnings on shareholders' funds, return on equity averaged 10.9% during Plan III period (Table 5.10),

Table 5.10 Afreximbank: Financial Highlights, 1996 - 2012

	Plan III (2007 - 2011)						CAGR (%)	
	2006	2007	2008	2009	2010	2011	2012	2007 - 2011
Loans (net)	557.570	702.863	925.264	1,144.663	1,661.249	2,345.379	3,101.004	28.7
Total Assets	623.283	811.642	1,072.427	1,445.257	1,905.423	2,867.558	3,730.633	30.5
Debt	330.812	465.523	688.488	1,024.090	1,448.744	2,355.458	3,118.362	39.3
Shareholder s' Funds	292.471	346.119	383.939	421.167	456.679	512.100	612.271	11.2
Net Interest Income	26.154	30.997	35.163	38.519	42.364	69.761	75.463	19.6
Net Fee and Commission Income	13.541	16.937	22.754	22.930	27.165	17.481	27.721	5.1
Total Revenues	39.808	48.210	58.360	61.868	71.975	89.380	105.371	16.2
Operating Expenses	7.598	9.621	12.465	15.429	20.173	22.512	27.450	21.7
Net Income	31.567	36.524	38.742	42.613	44.403	57.867	64.811	12.1
Key Ratios (%) :								Average (2007-2011)
Net Fee Income as share of Total Revenues	34.0	35.1	39.0	37.1	37.7	19.6	26.3	33.7
Return on Average Assets (ROAA)	5.2	5.1	4.1	3.4	2.7	2.4	2.0	3.5
Return on Average Equity (ROAE)	11.3	11.4	10.6	10.6	10.1	11.9	11.5	10.9
Cost-to-Income Ratio (CIR)	19.1	20.0	21.4	24.9	28.0	25.2	26%	23.9

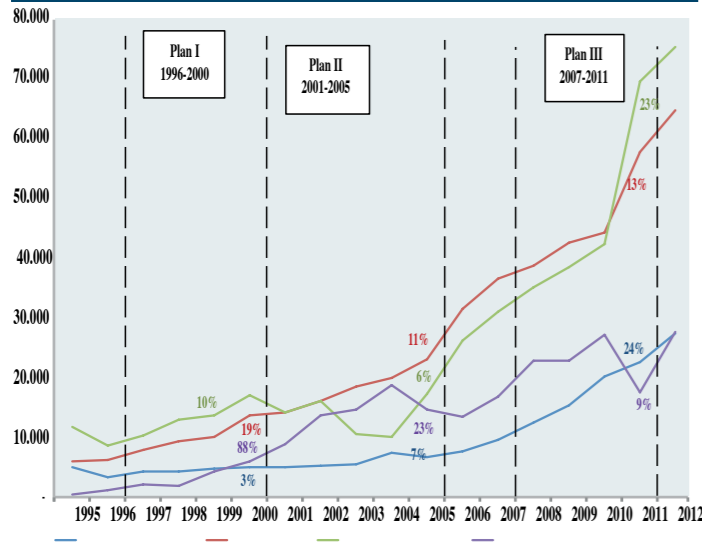
Source: Afreximbank

representing a significant improvement on the average rate of 6.8% achieved during Plan I and II period (Table 5.5); return on asset (ROA), which reflects the level of efficiency at which the assets are being used to generate earnings also averaged 3.5% under Plan III (Table 5.10), marginally down from an average level of 4.0% during Plan I and II periods, but above the industry average of 3.0% (Table 5.5); capital adequacy ratio during 2007-11 also averaged 31.8% compared to minimum target of 12%. A snapshot of the Bank's earnings performance over the three plan periods is shown in Figure 5.1.

To underscore its standing as a credible counterparty in the international credit markets during Plan III

period, the Bank subjected itself to credit ratings by the three major rating agencies. Accordingly, in 2009, the Bank received an investment grade rating of BBB- from Fitch Ratings Services; and received in 2010, investment grade ratings of BBB- from Standard and Poor's and Baa2 from Moody's Ratings Services. Following Annual Ratings Review of the Bank in 2011 and 2012, the three major ratings agencies, that is, Fitch, Moody's and Standard and Poor's affirmed the Bank's long term ratings of BBB-, Baa2 and BBB- respectively during 2011 and 2012. All ratings were assigned Stable Outlooks. The ratings were assigned on the basis of the intrinsic strength of the Bank and despite the fact that more than 80% of its assets are loans to African entities. The Bank's strong

Figure 5.1: AFREXIMBANK: Evolution of Revenues and Expenditure, 1995-2012 (US\$ million)



capitalization, structured finance operating model, and proven demonstration of its preferred creditor treatment in member countries underpinned the credit ratings achieved.

It is worth noting, however, that a number of key targets were not achieved as envisaged. Specifically, the objective to provide market and sector studies for clients at a fee; planned creation of two new branches; the launching of a study on the feasibility of establishing export oriented units in Africa and using them to promote SME exports in Africa; and the launching of a *Journal of African Trade*, were not achieved as planned although preparatory works on most of them commenced during the Plan period. Further, the Bank did business in 21 of the 32 eligible countries, lower than Plan III target of 29 countries by end of 2011; the

objectives of financing new exports in a target of 15 countries; financing SMEs in supply chain in at least 15 countries and financing services exports in at least 10 countries, as well as planned roll-out of country export development programmes for 10 pilot countries, among others, were not fully achieved as a result of staffing constraints. Moreover, the objective of seeking to raise funding via local currency bond issuances to support the Bank's operations was not achieved as planned due to staffing constraints.

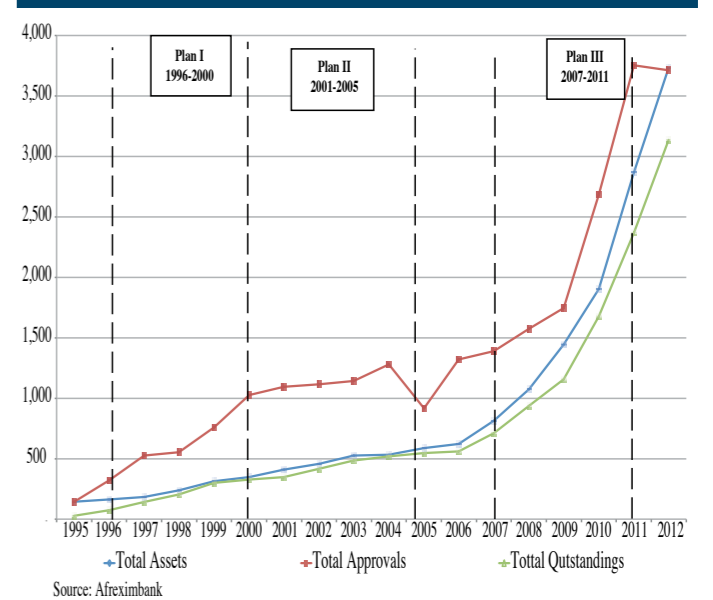
The review of the Bank's operational performance over the three plan periods shows a tremendous growth in credit operations which impacted significantly on its financial performance. As shown in Figure 5.2, credit approvals, gross loan outstandings, and total assets increased significantly. The observed strong growth reflects increased business development activities of the Bank across its member countries as well as rising confidence in the Bank across its markets. The strong growth in credit operations stimulated a consistent growth in earnings, and enabled the Bank to consistently raise its dividend payment to shareholders and retained earnings for business expansion. In recognition of the Bank's stellar performance and immense contribution to trade development through deployment of innovative financing products and structuring of ground-breaking trade and project finance deals, among others, the Bank received several Awards of Excellence conferred on it by Industry Analysts and other reputable international institutions. Some of the Awards of Excellence received by the Bank during the 2007-12 are captured in Annex 4.

5.5 The Fourth Strategic Plan, 2012-16 (Plan IV)

The Fourth Strategic Plan was conceived on the assumption that the rate of global output growth will strengthen, the Eurozone economies will recover from the recession suffered in 2011, the US economy will see moderate-to-strong growth, and developing economies, led by China and India, will continue to drive global output growth. Moreover, the group of African economies is expected to remain on its current growth trajectory over the medium-term. The medium term strategic goals of the Bank were set against the backdrop of the medium term prospects of the global and African economies as discussed in Chapter 4 of this book. Further, the objectives were premised on the rising regional spread of African banks; the Bank's more than 17 years' experience in the African trade finance market; and its credit standing as confirmed by international credit rating agencies. Also, the invaluable market knowledge of the Bank; the tested and proven preferred creditor status in member countries; experienced and knowledgeable management; and strong local presence founded on an extensive network of local banks serving as the Bank's Trade Finance Intermediaries (TFIs) informed the Bank's medium term objectives. Additionally, the plan took account of the challenges faced during implementation of the previous Strategic Plans in the setting of objectives and targets.

Emerging data suggest that Multinational Corporations are becoming more prepared to maintain and/or

Figure 5.2: Afreximbank: Evolution of Gross Loan Approvals and Outstandings, and Total Assets, 1995-2012 (US\$ million)



extend their operations in Africa. For instance, in a World Bank study in 2012, 60% of multinational corporations that are currently not operating in Africa indicated their intention to expand into the region over the next 3-5 years. It was against this budding Afro-optimism and the successes achieved in implementing the first three plans, among others, that the Bank's Fourth Plan was prepared. Over the medium term, the Bank intends to double its loan assets to a minimum of US\$5 billion by 2016 and be a market leader in the delivery of 5 key trade finance products and services in support of trade development in Africa. A summary of the key planks of the Fourth Plan is provided in Box 5.1. It is worth noting that the strategic objectives of plan III, which were still relevant to the Bank's mandate, were rolled over for implementation under the Fourth Strategic Plan.

BOX 5.1 AFREXIMBANK FOURTH STRATEGIC PLAN (PROJECT 3 – 5 – 3)**The Objectives**

The Fourth Strategic Plan captioned **Project Triple-5-3 (“3-5-3”)** was conceptualised to enable the Bank to more aggressively pursue its establishment purpose by focusing on attaining **3 Major Trade Developmental/Corporate Goals, namely:** (i) creating a sizeable bank that can meaningfully impact African trade by **growing the Bank’s assets to US\$5 billion by end of 2016;** (ii) ensuring trade finance leadership in Africa by **positioning the Bank as Leader in 5 product areas,** namely Trade Finance, Syndications, Export Development, Research and Training; and Risk Bearing facilities; and (iii) deepening trade development with **emphasis on 5 Key trade development impact areas,** namely promotion of intra-African and South-South Trade; expansion of value-added and Service Exports; facilitating access of African entities to trade finance at affordable terms; supporting activities that promote Commodity Market Efficiency as well as African Content Promotion in the Extractive Industries; and Capacity Building for Trade Negotiations and Trade Finance. The ultimate objective is for the Bank to **contribute towards the attainment of 3 broad goals, namely:** raising the share of Africa in world trade and enhancing intra-African trade share of total African trade; enhancing greater value-addition to Africa’s Exports, including enhanced African

Content in extractive industries; and achieving a 3 notch increase in credit rating by 2016.

The Bank intends to promote trade development in Africa over the medium term by facilitating increase in **intra-African trade share** of Africa’s total trade from about **11%** in 2011 to **15%** in 2016; **facilitating increases in developing economies’ share** of Africa’s total trade by **5%**; and increasing Africa’s share of world trade from about **3%** in 2010 to a minimum of **5%** by 2016. In furtherance of its mandate of facilitating African trade, the Bank, over the medium term, plans to continue to promote shareholder value by, among others, raising total assets to a minimum of US\$5 billion by 2016; ensuring that 80% of total asset is accounted for by loans and advances; building a financially sound and well respected bank by achieving a 3 notch increase in credit rating by at least one international reputable credit rating agency by 2016; maintaining cost/income ratio of not more than 45%; and intensifying income diversity by ensuring that fee income accounts for at least 40% of total revenue by 2016. Further the Bank plans to maintain capital adequacy ratio at a minimum of 3% above the minimum specified by the Basle Committee from time to time, but in any case no lower than 20%; and ensure reasonable diversity in the distribution of the Bank’s assets by geography, sector and product.

Strategies for Meeting the Trade Development Goals

- **Promote Intra-African and South-South trade as a way of improving Africa’s dynamic comparative advantage and share of global trade** by designing, installing and launching a new Programme called Intra African Trade Facilitation Programme (INTRAFAP), which will be implemented using 3 facilities and 2 services, namely intra-African Letter of Credit Support Facility (ILCSF); Intra-African Trade Services Support (ITSS); Intra-African Export Financing Facility (IAEFF); Advisory Services and Market Research; and Policy Advocacy.
- **Promote South-South Trade** by maintaining strong business and other forms of cooperation with key trade and project finance institutions in markets in the South, such as EXIM China, BLADDEX, EXIM India etc. The Bank will emphasise the financing of Africa-South trade by ensuring that the trade accounted for 20% of the Bank’s total loan portfolio by 2016.
- **Promote Value-Added and Services Exports as a way of promoting diversification of Africa’s export basket away from commodities.** The Bank plans to facilitate an increase in the share of manufactured exports in Africa’s total merchandise exports by 5% by, among others, intensifying the implementation of the Bank’s Export Development Financing

Programme (EDFP) using Structured Project Finance Products; Twinning and Market Access Services; and Advisory Services. Further, the Bank will introduce new programmes, including Non-Equity Modes (NEMs) of International Production, Africa Cocoa Initiative (AFRICOIN), and establish an Export Venture Fund (EVF) to help accelerate product diversification of Africa’s exports. Additionally, the Bank plans to intensify activity under its Construction Tourism-Linked Relay Facility (CONTOUR) and launch a new programme called Health and Medical Tourism Development Programme (HMTP) to promote services exports in Africa. The Bank, during the medium term will deepen activity under its Africa Content Support Programme (ACSP) with a view to increasing value-addition in Africa’s extractive industries. The ACSP will be made of facilities including Mining Services/Oil Services Facility, Facility for the Discount and/or Purchase of Receivables, and Asset-Based Lending Facility.

- **Facilitate the creation of capacity among Africans on matters of international trade negotiations and trade finance** by working to ensure that PAFTRAC fully gets off the ground and achieve its stated objective; equipping and ensuring the emergence of a strong research department and library resources to support the conduct of cutting edge research in trade policy matters and aspects of African

trade and trade finance; seeking partnerships and collaborations that will strengthen the Bank's research capability and research dissemination. Activity under the Bank's trade information programme whereby it provides banks, exporters and foreign investors with interest in Africa with relevant information on African economies, and trade and investment opportunities in Africa will be deepened during Plan IV period.

Strategies for Meeting Corporate Goals

- ***Business Origination and Processing***

The Bank will open two new branch offices (in Francophone West Africa and East Africa) during 2012/13 and 2013/14; continue to emphasize Road Shows as a means of expanding and diversifying the Bank's portfolio; modernize and expand the channels of the Bank's product delivery and promotion to ensure deeper penetration of its product offering; enhance its share of African trade finance market by seeking partnerships with selected credible African commercial banks, making the Bank's website capable of being an instrument for business-to-business transactions between the Bank and its clients, placing target advertisements, continuing to implement the Annual Seminar on Structured Trade Finance, and targeting international trading companies including Glencore,

Trafigura, Cargil, etc. in support of Africa's commodity financing and trade;

- ***Trade Finance***

The Bank, through its Trade Finance Department and Syndications Department intends to continue to support commodity trade financing in both the import and export directions using **Structured Trade Finance instruments**. The Bank will, accordingly, identify and support credible African traders of commodities, foster the emergence of credible warehouses by supporting the adoption of appropriate warehousing laws across Africa and financing warehouses development, and supporting the creation of Commodity Funds built around traders and logistics providers. Further, it is envisaged that the Bank will conclude its Equity Investment in Bourse Africa by 2012, and encourage Bourse Africa to operate in a way that would bring efficiency and confidence to the African commodity sector.

- ***Syndications***

The Bank will use its Syndications programme to leverage international finance into Africa by fully installing its syndications programme under a newly created Syndications and Specialized Finance Department, setting up a Representative Office in London, continuing to spearhead the formation of the Alliance of

African International Financial Institutions, and continuing to promote the culture of syndications among African banks by inviting them to syndicates it is running and through training.

- ***Risk Management***

Given the critical role of Risk Management in the attainment of the target corporate goals, the Bank intends to operate within tolerable risk bound by continuing to emphasize Structured Trade Finance and Dual Recourse Facilities as risk mitigating instruments, proactively implementing the newly approved Risk Management Policies and Procedures (RMPP), and properly resourcing the Risk Management Department (RMD) to effectively deal with non-performing loans that may arise due to growth in the Bank's loan portfolio.

- ***Export Development***

Aside from above-mentioned programmes aimed at promoting value addition in the continent, other initiatives will be implemented to support export development. These include fostering partnerships with ITC and UNIDO in providing technical support to SMEs in trade and industrial development; and supporting the emergence of Export Houses or Export Trading Companies (ETCs) under the Bank's Equity Investment Programme and/or Export Venture Capital Fund.

- ***Research and Training***

In order to attain its mission of being the "Centre of Excellence in African trade Matters", the Bank plans to strengthen the capability of its research department by hiring individuals with demonstrable skills to complement the currently available resource; create a well-resourced reference library; provide appropriate training and research equipment; and demerge the RPIC department into Research and Knowledge Management and International Cooperation and Strategy departments.

- ***Capital Management and Shareholder Issues***

In view of the rapidly increasing merchandise trade of the continent, the growing demand for the Bank's financial services, as well as the targeted US\$5 billion balance sheet size, the Bank will raise additional capital of about US\$500 million and seek to raise the Authorised Share Capital to US\$5 billion. The Bank will also mobilize 11 additional member countries to bring Participating States to 45; and broaden membership to include leading trading nations such as South Africa, Algeria and Morocco.

- ***Equity Investment Programme (EIP)***

During Plan IV period, the Bank will implement its EIP intended to facilitate the attainment of the Bank's objective where

only equity financing appears to be the most appropriate form of support. The Bank would aim at taking a minimum participation of 51% of the equity of an enterprise in activity it considers critical for the attainment of its mandate and/or strategic goals, for example, in an activity such as credit insurance; and 10% in entities operating in activities that it considers important for African trade and which the Bank's equity participation may help to promote.

Strategy for Leveraging Additional Corporate Funding Requirements

To ensure that the Bank raise adequate funding in support of African trade and trade-related projects, the Bank intends to deepen the use of Money Market Lines and bilateral loans to finance its assets; continue to raise funding to support its operations using instruments, including Floating Rate Notes (FRNs), Bond Issuance, Commercial Papers and other off-balance sheet instruments; introduce deposit mobilization programmes, including Central Bank

Deposit /Investment Programme (CBDIP); attain three notches up in credit rating from one reputable international credit rating agency by 2016 to facilitate access to better-priced credit in international credit market; provide requisite staffing and training to the treasury department in anticipation of the introduction of a Local Currency Programme and multi-currency facilities; and diversify the sources and markets for raising funding to reduce the Bank's reliance on the Euro credit market.

Strategies for Attracting Funds into Africa

Additionally, the Bank plans to actively implement its reimbursement guarantee facility, Africorrbanking, and Syndications Programme; introduce the Export Venture Fund Scheme; use innovative instruments such as Securitization and Deferred Purchase Agreements (DPAs); continue dissemination of positive information about Africa; and use investment banking and advisory services to leverage external trade and project financing into Africa.

working with its partner institutions. In more specific terms, the macro objectives are those goals that the Bank pursues working with governments, regional economic communities, and development finance institutions, among others, to support the development of African trade in terms of its composition and level (value), including to raise Africa's share of world trade; raise Africa's international competitiveness

5.6 Review of Macro/Trade Developmental Performance, 1993-2012

The Bank's macroeconomic/ sectoral objectives relate to trade promotion and development objectives for the continent, which the Bank aims to achieve by

Table 5.11 : Evolution of Key African Trade Indicators, 1995 - 2012

Variable	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total African Merchandise Trade (US\$ billion)	242	263	255	261	266	292	269	291	360	465	573	732	888	1,141	847	981	1,165	1,281
Total Intra-African Trade (US\$ billion)	22	26	29	26	27	25	26	28	33	40	45	62	77	115	97	108	130	144
Africa's Share of World Trade (%)	2.4	2.5	2.2	2.4	2.3	2.2	2.3	2.3	2.3	2.5	2.7	3.0	3.1	3.5	3.4	3.6	3.7	2.7
Africa's Share of World Exports (%)	2.2	2.4	2.3	2.2	2.1	2.0	2.2	2.2	2.2	2.3	2.4	2.9	3.0	3.4	2.9	3.0	3.2	2.7
Africa's Exports Share of GDP (%)	22.0	24.0	23.0	22.0	22.0	28.9	29.9	29.8	28.9	30.4	30.4	36.5	37.2	38.3	29.4	26.8	27.0	n/a
Intra-African Trade as % of African Trade	9.0	9.8	11.2	9.9	10.8	8.7	9.5	9.4	9.0	9.2	8.9	8.4	8.7	10.1	11.5	9.5	9.7	11.3

n/a: not available

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

2) EIU, *Country Report* (various issues).

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

4) World Bank, *World Development Indicators* (various issues).

measured by the ratio of exports to GDP; and promote regional integration, and intra-African trade, among others. A snapshot of the level of attainment of the macroeconomic/sectoral targets over the three plan periods is provided in Tables 5.11, which highlights the evolution of key African trade variables during the three plan periods.

Some considerable achievements were made in this area. The value of total African trade rose steadily from US\$242 billion in 1995 prior to the launch of Plan I to US\$573 billion at the end of Plan II, and further to US\$1.2 trillion at the end of Plan III. Despite the severity of the global financial and economic crises that emerged in 2008 and which adversely affected commodity prices, the level of African trade during

Plan III period was quite impressive. Total intra-African trade also grew significantly from US\$22 billion in 1995 prior to the launch of Plan I period to US\$45 billion in 2005 (end of Plan II period), and further to US\$130 billion in 2011 at the end of Plan III period. The share of intra-African trade, however, remained somewhat stagnant at an average level of 10% during the three Plan periods.

Nonetheless, Africa's competitiveness in the international market, measured by the ratio of African exports to GDP, improved marginally but consistently over the three Plan periods from an average level of 24% (Plan I) to 29.9% (Plan II) and further to 31.7% (Plan III) (Table 5.11).

It is pertinent to note that Africa's trade performance

during Plan III period was weighed down by the global financial crisis which partly led to a weakening of global demand and prices of commodities during the second half of 2008 and the first half of 2009; delays in concluding the Doha Round of Multilateral Trade Talks; and virtual dry up of international trade and commodity finance at the height of the global financial and economic crises in 2009.

5.7 Afreximbank's Non-Credit Activities and Other Initiatives

5.7.1 Activities of the Bank's Advisory Group on Trade Finance and Export Development in Africa

The Advisory Group on Trade Finance and Export Development in Africa (the "Group") is a non-statutory body created in November 1995 following the launch of the Bank's operations in September 1994. The Group was established to for the purposes of pooling experience and knowledge of its members to 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 non-permanent members, including eminent African personalities drawn from the academia, business community, bankers and policy-makers with proven knowledge of matters relating to African trade. Since its maiden meeting in 1994, the Group had provided a platform for African professionals to discuss issues relating to African trade and trade

finance and proffer policy recommendations that were valuable inputs in the preparation of the Bank's four strategic plans.

The Group, since 1994, has held 17 meetings with the 19th Meeting scheduled to be held in Addis Ababa, Ethiopia, during June 19-21, 2013. Major themes discussed during 1994-2012 are shown in Table 5.12. The maiden meeting of the Bank's Advisory Group held in November 1994 in Cairo, Egypt, at the Headquarters of the Bank was on the theme: "Leading Issues in African Trade: An Agenda for Afreximbank". Apart from the 18th meeting which was held in Beijing, China, subsequent meetings were rotated among capitals of member countries in Africa.

The 18th Meeting, which held in Beijing, China during July 11-13, 2012, also saw a change in the focus and slant from the previous Meetings. The Beijing meeting was broadened with the adoption of a new format for the meeting which entailed the organization of a 3-day Series of Seminars. The first day's Seminar held on July 11, 2012 focused on the theme: "A Dynamic South in an Uncertain World: Can Prosperity Be Universalized?" The Seminar was led by a thematic presentation on the topic: "South-South Cooperation under Conditions of Dynamic Disequilibrium in the Global Economy – Opportunities and Challenges", which was delivered by Dr Richard Kozul-Wright, Director, Economic Cooperation and Integration Division, United Nations Conference on Trade and Development (UNCTAD), on behalf of H.E. Mr Supachai Panitchpakdi, Secretary General of UNCTAD. This was followed by two panel sessions on the themes: "South-South Trade

Table 5.12: Major Themes of Afreximbank's Advisory Group Meetings

Date	Venue	Theme
November 1994	Cairo, Egypt	Leading Issues in African Trade: An Agenda for Afreximbank
May 1996	Addis Ababa, Ethiopia	Commodity Price Risk in Africa and Implications for Financing
June 1997	Harare, Zimbabwe	Intra-African Trade in Raw Materials: Issues and Problems
May 1998	Conakry, Guinea	Solid Minerals: Financing Issues and Problems
June 1999	Libreville, Gabon	Attracting International Finance in Support of Regional Trade: The Role of Domestic Banks
May 2000	Tunis, Tunisia	African Trade and Development at the Dawn of a New Millennium: Challenges, Strategies and the Role of Afreximbank
May 2001	Nairobi, Kenya	Harnessing Telecommunications Technologies for Accelerating African Trade and Economic Development: Opportunities and Challenges
May 2002	Dar-Es Salaam, Tanzania	Agricultural Marketing and Export Development in Africa
May 2003	Lusaka, Zambia	Promoting Export Diversification in Africa: Issues, Challenges and Financing Options
August 2004	Abidjan, Cote d' Ivoire	Indirect Exporters, Industry Clusters and Supply Chain Development: A strategy for Africa's Export Development
December 2005	Harare - Zimbabwe	Export Development Strategies, Export Success Stories And Lessons For Africa
September 2006	Windhoek, Namibia	Issues In Local Content Promotion In Africa's Extractive Industries
September 2007	Accra - Ghana	Africa And The New Commodity Boom: Riding The Tiger
October 2008	Kampala - Uganda	Can Africa Compete? – Defining Factors for Export Success in a Changing World of New Commodities, New Markets and New Technologies
July 2009	Gaborone - Botswana	Making Africa's Foreign Exchange Reserves Work for Africa – A Case for an Optimal Intra-African Foreign Exchange Resource Re-Allocation
July 2010	Yaoundé - Cameroon	Global Economic Crises, Trade Diversification and Access to Trade Finance: lessons of Recent and Past Experience and Implications for Africa
June 2011	Luanda, Angola	Linking Africa's Enclave Extractive Sector To Domestic Economy: Is Local Content Promotion A Panacea?
July 2012	Beijing, China	*A Dynamic South in an Uncertain World – Can Prosperity Be Universalized? *Africa-China Partnership for Economic Growth and Long-Term Prosperity * China's Development Experiences and Lessons for Africa
June 2013	Addis Ababa, Ethiopia	* Industry Clusters and Supply Chain as Prerequisites for Diversification and Sustainable Development of Exports in Africa * The Lost as the Head Cornerstone: The Diaspora as a Resource for Trade and Economic Development * A Market Emerges: Regional Integration and Intra-African trade as Drivers of Development in the Emergent New Africa

Source: Afreximbank

Drivers – The Forces of Change” and “Deepening the Link – Are South-South Financial and Investment Flows tracking Trade Flows? These were followed by a Special Session on “Programmes and Facilities Offered by Afreximbank and Exim China in Support of China-Africa Trade”, during which presentations were made by Dr Benedict Oramah, Executive Vice President responsible for Business Development and Corporate Banking (BDCB) at Afreximbank and Mr Zhu Xinqiang, Vice President, China Exim.

The second day's event entailed Trade Exhibition and Investment Forum under the theme: “Africa-China Partnership for Economic Growth and Long-Term Prosperity”. The Trade and Investment Exhibition was jointly opened by Mr Denys Denya, Executive Vice President responsible for Finance, Administration and Banking Services (FABS) at Afreximbank, Mr Zhu Xinqiang, Vice President, China Exim and Mr Xu Hubin, Secretary General of China Council for the Promotion of International Trade (CCPIT). The Trade and Investment Exhibition, which had the participation of over 50 Chinese and African companies with over 20 from Africa, provided an important platform for those companies engaged in China-Africa trade to market their products, exchange business ideas, explore business opportunities, and forge strategic alliances with the view to expanding their businesses into each other's market and thereby contribute to raise China-Africa trade and investment flows.

The Investment Forum was opened by Dr B. O. Oramah, Executive Vice President, (BDCB), Afreximbank and Mr Zhu Xinqiang, Vice President,

China Exim Bank. Discussions at the Forum were led by a presentation on “Africa: The New Investment Frontier” by Mr Zemedeneh Negatu, Managing Partner of Ernst and Young, Ethiopia and Head of Transaction Advisory Services, Ernst and Young, Africa. This was followed by an in-depth discussion on specific investment opportunities in Africa from sub-regional and sectoral perspectives at a Break-Away Session (BAS).

The climax of the Advisory Group meeting was the Seminar on the third day captioned: “Forum on China – Africa Financial Cooperation”, organized under the theme: “China's Development Experiences and Lessons for Africa”. Three Roundtable sessions were held at the Forum. These were on the theme: “Can China and Africa Learn from Each Other?”, “Chinese Perspectives on China-Africa Financial Cooperation in the Context of the Rising Importance of China as Africa's Major Trading Partner: Currency, Banking, Trade and Investment Issues” and “Perspective on China-Africa Financial Cooperation”

The 19th Meeting is scheduled to hold during June 19-21 in Addis Ababa, Ethiopia. Similar to the 18th Edition, the Addis Ababa meeting is a 3-day seminar-focused on three main themes, namely “Industry Clusters and Supply Chains as Prerequisites for Diversification and Sustainable Development of Exports in Africa”, “the Lost As the Head Cornerstone: The Diaspora as a Resource for Trade and Economic Development in Africa” and “A Market Emerges: Regional Integration and Intra-African Trade As Drivers of Development in the Emergent New Africa”.

5.7.2 Capacity Building Initiatives

The Bank's main objective is to position itself as a centre of excellence in African trade matters, and in so doing, contribute in addressing existing information gaps in African trade and trade finance. In furtherance of this goal, the Bank introduced a number of capacity development programmes in the form of annual seminars/workshops in structured trade and project finance, conferences, attachments and internships. In more specific terms, to strengthen the capacity of African trade development /promoting institutions, banks and corporates in understanding international trade and project financing issues, Management of the Bank introduced in 1999 the Bank's Annual Structured Trade/Project Finance Seminar/Workshop Programme targeted at African banks and corporates actively engaged in the promotion and financing of African trade and projects. The overall objective of the Bank's Annual Seminar/Workshop Programme is to equip participants with the technical skills and knowledge they need to manage the numerous challenges facing lenders and investors operating in the difficult political and economic environment in the continent reflected by high political and commercial risks. The training programme is organized in two courses, namely a Fundamentals Course and an Advanced Course, which are held in alternate years.

The specific objectives of the Fundamental Course are to:

- i. create an avenue for a thorough evaluation of the problems of African trade finance and to identify ways of ameliorating the problems;

- ii. equip participants with skills they need to tackle the identified problems;
- iii. introduce participants to new instruments that can enhance their ability to structure trade finance deals; and
- iv. create an avenue for networking for African bankers with a view to making them develop correspondent relationships amongst themselves.

With regard to the Advanced course, the specific objectives are to:

- i. complement the fundamentals course run by the Bank in order to properly equip participants in structuring complex trade/project finance deals;
- ii. create an opportunity for proper evaluation and understanding of the new financing challenges that the changes in the global and African environments portend in the near to medium term;
- iii. 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 the rapidly changing business environment;
- iv. understand the programmes and facilities Afreximbank is, or will be, introducing in the near term to deal with the new challenges; and
- v. create an opportunity for networking amongst African bankers.

Since the launch of the programme in 1999, twelve successful annual seminars/workshops have been held. The annual structured trade finance seminar series has gained continent-wide acceptance and therefore continue to receive very high patronage. During 1999-2012, the Bank's Annual Structured Trade/Project Finance Seminar/Workshop attracted over 1,000 participants from within and outside the continent. Participants at these seminars are usually middle to senior level management personnel working with financial institutions and others involved in trade and project finance.

The Bank is also in discussions with the African Capacity Building Foundation (ACBF), a regional institution based in Harare, Zimbabwe, dedicated to improving the technical capacity of Africans through education and training for the purpose of jointly introducing Structured Trade Finance into the curriculum of African Universities to ensure that training in that important skill becomes available to students; and also working with ACBF to develop a short standardized training curriculum on Structured Trade Finance with appropriate certification that can be recognized internationally.

Further, to ensure that African universities acquaint their students with basic skills in Structured Trade/Project Finance and African trade finance issues in general, the Bank is developing a programme to invite academics, at the Bank's cost, to the Bank's Annual Seminar on Structured Trade Finance; and also designing a programme, called Visiting Scholars Programme to accept academics of Economics,

Business and Finance orientation on Sabbatical. Moreover, in line with its capacity building initiatives, the Bank continues to offer internships to deserving students and is working towards resuming its Junior Professional Programme.

5.7.3 Afreximbank Publications

As part of its contribution to literature on African trade and 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 properly organized, time series data dating back from the 1970s, on the fundamental factors shaping social and economic development of Africa.

- ***African Trade Report (ATR):*** 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.

In furtherance of the goal of positioning the Bank as a Center of excellence in African trade matters, in 2011, the scope and depth of the ATR was broadened with the inclusion of an excerpt of a research on a topic of relevance to Africa's trade and economic development.

- ***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.
- ***Afreximbank Distinguished Lecture Series (ADLS):*** These are publications of important

papers that address current issues in Africa's economic and trade development. The papers are normally commissioned by Afreximbank and are usually delivered at Annual Meetings of the Bank's Advisory Group on Trade Finance and Export Development in Africa.

- ***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.
- ***The Journal of African Trade (JAT):*** is a Pan African Journal sponsored by Afreximbank as a contribution to ongoing effort at bridging some of the existing information gaps that had hitherto tended to either delay or adversely affect trade and investment decisions in Africa, and efforts of policy makers regarding the design of policies and programmes for trade development. The JAT is an international peer reviewed Journal devoted to the publication of studies and research in the areas of African Trade and Trade Finance, as well as other matters as they relate

to socio-economic development in Africa. The first issue of JAT is expected to be published in the first quarter of 2014.

- **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.

5.7.4 Strategic Partnerships and Cooperation

5.7.4.1 Operational Partnerships

Since its inception in October 1993, the Bank has been forging constructive partnerships with national and international financial institutions, including development finance institutions (DFIs) for the purpose of leveraging their strengths or support to advance the Bank's operations and activities across Africa. In line with its Charter, the Bank provides financing to eligible beneficiaries through trade finance intermediaries (TFIs) or local banks that meet the Bank's minimum credit criteria. Accordingly, during the two decades of its existence, the Bank actively sought and established banking relationships by evaluating and appointing a number of African banks as either trade finance intermediaries (TFIs) or project finance intermediaries (PFIs). During the second decade, more conscious efforts were made to establish operational relations

with providers of term financing (i.e. DFIs) and export credit agencies (ECAs). Additionally, the Bank made conscious effort toward the deepening of business relationships with major financial institutions in the euro credit market through business calls and participation in numerous syndicated and/or club deals originated by some of those partner institutions. The Bank also concluded a number of Memoranda of Understanding (MOUs) or cooperation agreements with African and international banks to provide a framework for cooperation in transactions. The Bank's operational partnerships with some of the major African and non-African institutions and industry associations are summarized hereunder.

5.7.4.1.1 The African Banker's Association (ABA)

The creation of an umbrella organization for the African banks and bankers was one of the key topics discussed at the second meeting of the Bank's Advisory Group on Trade Finance and Export Development in Africa in 1995 and during Seminars/Workshops on Structured Trade Finance organized by AFREXIMBANK in 1999 and 2000. As a follow up to these meetings and after extensive consultations with African banks and existing regional bankers' associations, such as COMESA Bankers' Association (CBA) and the West African Bankers' Association (WABA), African bankers signed a Memorandum of Understanding for the establishment of the African Bankers' Association (ABA) in November 2001, in Cairo, Egypt.²

² Originally, the African Bankers' Association (ABA) was called African Bankers' Forum (ABF) until the name was changed at the third Assembly of the Forum in December 2005. The change of name from ABF to ABA was proposed by the Executive Board Members of the Forum as they believed it was impor-

The general objectives of the ABA are to:

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

ABA's membership 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 Association include African regional economic organizations, the African Union, African Deposit Insurance institutions and central banks. Others include Securities and Exchange Commissions/tant that it assumed a formalized professional image, following the expansion of its activities and membership.

Bodies, African Export Credit Insurers and African Discount Houses.

The governance structure of ABA provides for a General Assembly composed of all member banks, an Executive Board composed of the Chairman, Vice Chairman and eleven members (two from each sub-regional economic grouping and the African Export-Import Bank), and a Secretariat. AFREXIMBANK was mandated to act as a temporary secretariat for the Forum until 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 formed on the approval of the General Assembly as recommended by the Executive Committee.

The activities of the Association have contributed to a significant growth in business relationships between African banks, particularly in the pursuit of cross-border trade finance deals.

5.7.4.1.2 The Association of African International Finance Institutions (AAIFI)

The global financial and economic crisis that emerged in 2008 had adverse effects on the performance of national economies of developed as well as emerging and developing countries. In the advanced economies, industrial production and trade declined as financial markets recorded steep losses. The emerging economies also suffered from the financial crisis as their combined output slowed in 2008. Following

these developments, debt and non-debt financial flows to the developing countries fell, thereby reducing significantly the availability of trade finance. At the same time, weak global demand depressed commodity prices and reduced exports earnings in many commodity-dependent countries.

Africa was particularly affected by a sharp decline in demand for its exports commodities which contributed to a significant deceleration in economic growth. At the G20 Summit in London in 2009, participants recognized the need to improve global trade finance availability. In this regard, regional development banks and the International Finance Corporation (IFC) were urged to increase significantly their trade finance and facilitation programmes. At the same time, export credit agencies were encouraged to design programmes for short-term lending and guarantees for small and medium-sized enterprises (SMEs), and some central banks with large foreign exchange reserves supplied foreign currency to local banks through repurchasing agreements.

Against this backdrop, in that framework, Afreximbank concluded that trade and project finance needs of African countries could be met through the establishment of partnerships amongst African international financial institutions. It was for this reason that Afreximbank initiated discussions with some of these institutions in late 2008. Consultations with some African International Financial Institutions in the last quarter of 2008 did confirm this fact as they revealed the following:

- a) some of the institutions were carrying excess liquidity which they could not deploy effectively given their lack of access to good quality high-yielding assets. In an environment of very low US Dollar deposit rates, some of the organizations faced a very difficult time during 2009 and 2010 unless they had access to relatively safe high-yielding assets to invest in. In parallel to the excess liquidity in some institutions, there existed excess demand for the services of other institutions which was expected to generate good quality, high-yielding assets. Many of the institutions with excess liquidity indicated strong interest to take on the higher yielding assets from institutions facing excess demand for funding. In fact, some bought loan assets from Afreximbank;
- b) there were also institutions with substantial liquidity which were interested in engaging into trade finance but had not built the needed infrastructure to deploy the services. Some of these institutions appeared to have adopted a strategy of using other institutions with trade finance experience to initially offer the services. Accordingly, some were looking to co-invest in trade-related deals with say the Afreximbank given its demonstrated origination capability;
- c) there were services offered by some of the institutions at very competitive charges compared to some other sources from outside Africa. For instance, Africa Reinsurance Corporation indicated its willingness to conduct

insurance due diligence on projects financed by Afreximbank, provided it would reinsure the underlying physical assets arising from the transaction;

- d) some of the institutions indicated that they sometimes originated deals that were far in excess of their lending limits but lacked the capability to distribute the excess. This occurred at the same time that some other institutions were looking for similar assets to invest in; and
- e) there were institutions which had very interesting experiences that could be shared with others and resulted in overall efficiency of meeting the separate and collective goals of the institutions. In addition, some needed to acquire skills that were easily available in other institutions and could be easily transferable.

It is in the above context that Afreximbank committed to pursue the initiative of forming an Alliance of African International Financial Institutions to be called "AAIFI" or "Allied Africa" as it strongly believes that it will enable these institutions to achieve their mandates more efficiently and in the collective interest of the continent.³ This initiative is also intended to ensure that the strategy of members supplements and complements the efforts of one another.

The key objectives of the AAIFI include the following:

- i) the development of an Internet-based platform

³ This includes African financial institutions with operational focus on more than one African country and/or sub-region and domiciled either within or outside the Continent. It also includes African multilateral financial institutions providing private sector services.

for sharing risks in transactions, sharing credit information and sharing information on country and sector risks;

- ii) the sharing of experience in transactions, product development, etc;
- iii) pooling of resources for tackling common problems, including training, co-branding of financial products, certain kinds of procurements, etc;
- iv) presenting a common front to other institutions doing business in Africa, thereby enabling each member to enjoy economies of scale in procurement and/or delivery of services;
- v) dissemination of information regarding services on offer by each institution making it possible for members to access those services easily rather than engaging in extensive search outside the network;
- vi) creation of a platform/mechanism for joint bid for certain businesses, such as investment banking business thereby increasing the prospect of winning such businesses by leveraging the individual strengths of the joint bidders;
- vii) creation of an instrument for lobbying African Governments, the African Union and other international institutions on matters that affect Africa as they concern the activities of member institutions, for example, the case of managing

- Africa's reserves by African central banks; and
- viii) creation of a platform for reciprocal inter-bank funds placements and a possible internal clearing system that may reduce transaction costs amongst members.

The legal preparatory work for the establishment of the initiative is ongoing. Nevertheless, the envisaged cooperation regarding pooling of financial and technical resources of members to support bankable trade and project finance deals has already begun with a number of club deals done. AFREXIMBANK, the Pan-African trade finance institution, which was created based on the philosophy of international partnerships, believes that this initiative will bring significant benefits to its members and to the continent as a whole and expects that the Alliance will provide its Members with the requisite platform to share business risks, information and technical, as well as financial resources needed for the realization of their individual corporate goals.

5.7.4.1.3 Global Network of EXIM Banks and Development Finance Institutions (G-NEXID)

Exports represent one of the main sources of foreign exchange for the financing of imports of consumer and capital goods necessary to meet domestic and production in many developing countries. Foreign exchange receipts are also essential for the acquisition of advanced technology and the creation of a business environment required for foreign direct investment (FDI). Thus, a strong export performance is a requisite

for sustained economic growth and development, and integration of developing countries into the global economy.

In line with the above and in recognition of the merit of appropriate (trade and project) financing and international partnerships in promoting trade and economic development, the United Nations Conference on Trade and Development (UNCTAD), sponsored the creation of a global network of Export-Import Banks (Exim banks) and Development Finance Institutions (DFIs) as a way of forging the necessary international partnership among such institutions to enable them better support cross-border trade in furtherance of their national trade and economic development efforts. It was in this context that following an UNCTAD-sponsored meeting in March 2005 in Geneva, Switzerland, preceded by a preparatory meeting in June 2004 in Rio, Brazil, five Exim banks and DFIs, signed a Memorandum of Understanding (MOU), marking the formal launch of the Global Network of Exim banks and Development Finance Institutions (G-NEXID). The pioneer institutions were African Export-Import Bank (Afreximbank), Andean Development Corporation (CAF), Venezuela, Export-Import Bank of India, Export-Import Bank of Malaysia and Eximbanka S.R. Bratislava. Membership of the Network presently stands at 24.⁴

⁴ Current members of G-NEXID include: African Export Import Bank, Egypt; Andean Development Corporation, Venezuela; Bank Ekspor Indonesia, Indonesia; Banco Centroamericano de Integración Económica, Honduras; Banque Nationale d' Investissement, Côte d'Ivoire; Banque Pour Le Financement De Petites Et Moyennes Entreprises, Tunisie; Central African States Development Bank, the Republic of Congo; Caribbean Development Bank, Barbados; China Development Bank, China; Development Bank of Mali, Mali; Development Bank of Namibia, Namibia; Development Bank of Zambia, Zambia; Development Bank

Objectives and Functions

G-NEXID serves as a global forum to promote trade and development finance through cooperation and joint technical assistance activities; fosters creativity and research; provides networking opportunities; and facilitates t national levels, as well as through organization of regular meetings;

- a) disseminating relevant specialist knowledge made available by UNCTAD and other international organizations;
- b) sharing country and regional experiences and best practices in trade and project finance, including those related to services and small and medium enterprises (SMEs);
- c) assisting its members in benefiting from technical assistance through the global Network's sponsored research work on various policy issues, new trends and opportunities, innovative financing mechanisms, and common problems and challenges facing its members as well as SMEs development and competitiveness;
- d) helping its members to benefit from capacity building and training services through the Network's sponsored events, study tours, internships, workshop, publications or by way of referrals to relevant international or mul-

of Southern Africa, South Africa; East African Development Bank, Uganda; Economic Community Of Western African States, Togo; Exim Banka S. R, Hungary; Export-Import Bank of India, India; Export Import Bank of Romania, Romania; Export Import Bank of Thailand, Thailand; Industrial Development Bank of Kenya, Kenya; Industrial Development Corporation South Africa, South Africa; Joint Stock Company «State Export-Import Bank of Ukraine, Ukraine; Nigerian Export-Import Bank, Nigeria; and PTA Bank, Kenya.

tilateral agencies;

- e) assisting Members in exploring various co-operative agreements, such as co-financings and joint operations;
- f) assisting and advising, on request, members in the structuring and implementation of export or import financing transactions;
- g) raising the necessary funds for the above activities; and
- h) carrying out any other relevant functions as decided by the General Assembly

Given the relevance of the objectives of G-NEXID to the Bank's mission, and as one of the founding members, the Bank has been actively participating in the activities of the Network. In this regard, aside from participating in training Workshops/Seminars, the Bank took the reins of the Network as Honorary President of the Steering Committee of G-NEXID for four years. Going forward, the Bank intends to make use of the platform the Network provides to build the necessary capacities as well as forge the international partnerships needed to advance its mission.

5.7.4.1.4 The Loan Market Association

The Loan Market Association (LMA) was established in 1996 with its headquarter in London, UK. With its key objectives of improving liquidity, efficiency and transparency in the primary and secondary syndicated loan markets in Europe, the Middle East and Africa (EMEA), the Association has now become one of the leading syndicated financing bodies in these

areas. Presently, membership of the Loan Market Association stands at 500 organizations, made up of commercial and investment banks, institutional investors, law firms, and other organizations involved in providing services to the loan market, such as rating agencies.

In January 2012, the Bank became a member of the Association. As a member, the Bank is able to access the services that the Association provides, including standardized documentation, market guidelines and pricing which are acceptable to the banking sector within its operational environment. The use of these services will enable the Bank to successfully implement its Syndicated Loans Programme (SLP) by sharing risks, leveraging international trade and project financing into the continent in furtherance of its mandate. Other services that the LMA provides to its members include education and training, advocacy and lobbying, all of which are of interest to the Bank.

Specific core activities of the LMA include:

- ***Documentation/ guidelines and market practices***

LMA members have access to a comprehensive library of loan documents and guidelines covering the primary and secondary market processes including term sheets and trading. Generally, members, including the Bank, customize these documents to align with the underlying requirements of their deals. These documents are published after extensive consultation with reputable loan practitioners and

law firms, and are subject to constant review to ensure compliance with legal matters; regulatory requirements; and practices related to the primary and secondary loan markets.

- ***Education and training***

The LMA offers a diverse range of training programmes to members in the form of seminars; conferences; syndicated loan courses for lawyers, as well as networking events with a view to providing a better understanding of market best practices across jurisdictions and product categories. With an increasingly technical market, these events have become a critical foundation for knowledge development for members. In 2012, a delegation from the Bank attended the LMA's Annual General Meeting, and participated in seminars/workshops focused on Market Trends and the Way Forward. In early 2013, another staff from the Bank also participated in an LMA's seminar as a panelist on "Financing challenges in Africa."

- ***Advocacy and Lobbying***

The LMA plays a critical role in lobbying regulators and government bodies on behalf of its members with a view to ensuring that any new or revised financial regulation does not adversely affect the syndicated loan market. This initiative is of particular importance, especially with the advent of Basel III⁵ and the related EU Capital Require-

⁵ Basel III (or the Third Basel Accord) is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk. It was agreed upon by the members of the Basel Committee on Banking Supervision in 2010-

ments, which could have direct impact on loan documentation and the overall lending operations. Hence, as part of its advocacy and lobbying responsibilities, the LMA continues to monitor these developments as they evolve for the benefit of its members.

- ***Pricing***

In its efforts to promote syndicated loans⁵ as one of the key debt instruments available to borrowers across the EMEA area, the LMA has established accepted market practices, including pricing mechanisms, allowing its members, especially banks, to monitor price developments, and enhance their deals. In this regard, the Bank's membership of the LMA enables it to understand and utilize appropriate market-based pricing methodologies in implementing its syndicated deals. Additionally, as a member of the LMA, the Bank has the opportunity to monitor the evolution of pricing in the market and the general behavior of current and potential investors and lenders interested in conducting business in Africa.

Given the useful services provided by the Loan Market Association, the Bank's membership seems vital for leveraging international trade and project financing into Africa, especially through its SLP, thus enabling the Bank to advance its mandate.

11, and was scheduled to be introduced from 2013 until 2015. The third installment of the Basel Accords was developed in response to the deficiencies in financial regulation revealed by the financial crisis that broke out during 2007/2008. Basel III was supposed to strengthen bank capital requirements by increasing bank liquidity and bank leverage.

5.7.4.1.5 International Factors Group

The International Factors Group (IFG) was founded in 1963 as the first international association of factoring companies. Its main mission is to help factoring companies to conduct cross-border business acting as correspondents for each other. Presently, IFG is represented in more than 50 countries by more than 160 members. With its global vision, IFG is organized as regional Chapters that cover Africa, Asia, Eastern Europe, Latin America, and the Middle East. In Africa, the existence of IFG provides the opportunity to reduce the reliance of the continent's international business and trade transactions on Letters of Credits (LCs) where the use of Factoring and open account remains low. To take advantage of the services that IFG offers and support its Factoring Programme, the Bank became a member of IFG in 2007. Since then, the Bank has taken requisite steps to promote factoring in Africa through the following channels:

- i. ***Acting as the Chair of the African Chapter of the IFG***

Afreximbank as Chair of Africa Chapter of IFG has and continues to facilitate the sharing of experiences amongst African members of IFG; report on these experiences to the worldwide IFG Members; advance the best interests of African members and partners; lobby legislators, ministers, government officials and others whose decisions or advice may influence the success or otherwise of members' and partners' businesses;

engage in public relations activities designed to raise local awareness of the benefits of international factoring; develop the skills of IFG members in Africa through training activities and staff exchanges; attracting new members, partners and sponsors; and offer of networking opportunities for members, partners and sponsors through seminars, meetings and other functions;

ii. Introduced/Launched the Factoring Facility to Support African Trade

In addition to assuming the chairmanship of the African Chapter of the IFG, the Bank, in 2009, launched the Factoring Facility to support intra- and extra-African trade. The purpose of this facility is to provide liquidity and payment risk protection to beneficiaries. Some of the products under this facility include:

- *Export Factoring* through which it supports exports of African goods and services. Through this Facility, the Bank helps African exporters of non-traditional items to compete at near equal footing in developed country markets. This is because it enables such exporters to offer credit terms to such importers instead of insisting on Letters of Credit, which is considered cumbersome and costly by importers.
- *Import/Reverse Factoring* whereby it supports African importers of goods and services. The Reverse Factoring makes it easier for African importers to import goods without having to establish Letters of Credit. The

Bank's Reverse Factoring Facility is provided, in most cases, on the back of debt instruments guaranteed by local banks unless the importing corporate is an acceptable name.

- *Domestic Factoring* through which it supports the integration of African SMEs into the export/service supply chains by providing them finance against accepted invoices and helping them in Sales Ledger Management.

iii. Capacity Building Programmes

One of the key constraints to the deployment of factoring in Africa's cross-border trade has been inadequate knowledge and skill on the use and benefits of factoring. In this regard, since 2009, the Bank in collaboration with IFG, has been organizing seminars/workshops on key aspects of factoring for participants drawn from African trade finance institutions and commercial banks. For instance, in partnership with IFG, Tunisie Factoring and Tunis International, the Bank organized a Forum on Factoring in 2009; and in November 2011, the Bank organized a one-day workshop on factoring in Accra, Ghana.

The use of factoring in business transactions continues to grow across sectors, including the manufacturing and service industries, and across regions. These developments have made factoring one of the key financing methods in contemporary business and international trade deals. In this regard, the Bank,

in collaboration with its partners particularly the IFG, will continue to spearhead the development of factoring businesses in Africa through deployment of innovative programmes and initiatives to advance its mandate.

5.7.4.1.6 Regional Development Banks

A number of financial institutions also provide financing in support of trade development in African countries. These institutions can be broadly classified into African multilateral and regional and non-African multilateral and regional.

African Multilateral and Regional Institutions

Africa has a number of multilateral financial institutions whose operations complement and supplement the Bank's efforts. Thus, the Bank deemed it necessary to forge partnerships with such entities during the nearly two decades of its operations. These include the African Development Bank (AfDB); the ECOBANK Transnational Incorporated (ETI); the Eastern and Southern African Trade and Development Bank (PTA Bank); the Arab Bank for Economic Development in Africa (BADEA); the East African Development Bank (EADB); the ECOWAS Bank for Investment and Development (EBID); the African Trade Insurance Agency (ATIA); the West African Development Bank (BOAD); the Development Bank of Southern Africa (DBSA); and some African commercial banks; and the Bourse Africa. There are also other regional (non-African) institutions that provide support to Africa. These include the Banco Latinoamericano de

Comercio Exterior (BLADEX), Asian Development Bank (ASDB), Arab Trade Financing Programme (ATFP), and the Islamic Development Bank Group (IDB Group).

- The AfDB, currently headquartered in Tunis, Tunisia, essentially provides concessional and non-concessional funding for development projects in African countries.⁶ Therefore, its lending is mainly long-term and usually to governments. It also lends directly or through co-financing with commercial banks, governments or other multilateral institutions using various lending instruments, namely Specific Investments; Lines of Credit; Project Loans; Policy-Based loans; and/or technical assistance grants and/or loans. The AfDB, through its Policy-based Loans, provides facilities to African economies for export expansion. In addition, through its Private Sector Development Department, the AfDB makes private non-guaranteed lending on non-concessional terms, usually in partnership with other lenders. Thus, being project and policy focused, AfDB's activities complement those of the Bank. Against this backdrop, the Bank has been working with AfDB's Private Sector Department in implementing export based private sector projects that may be identified.
- Regarding trade finance, the AfDB launched its Trade Finance Initiative in March 2009. AfDB is one of many DFI partners of the

⁶ The AfDB headquarters is officially in Abidjan, Côte d'Ivoire. However, it has been temporarily relocated to Tunis, Tunisia.

IFC-coordinated GTLP. The AfDB has committed \$1 billion of the US\$5 billion needed to cover the first phase of US\$500 million in direct letter of credit financing of African trade, and an additional US\$500 million as second phase multipurpose financing of African business (covering trade, project finance, and corporate finance, among others). The plan is for Africa to benefit from approximately US\$15 billion in trade financing out of the US\$50 billion lending over three years of the Programme. It is worth noting that the AfDB, during 2009-12, provided the Bank with financing amounting to US\$350 million under its line of credit programme. Going forward, the Bank intends to deepen cooperation with the AfDB so as to leverage its strengths to support the pursuit of the Bank's mission.

- The ATIA, based in Nairobi, Kenya, was established as a supranational organization to offer political risk (non-commercial) guarantee and export credit (commercial) insurance to support export trade and investments in its African member countries. Losses arising from non-commercial (political, sovereign) events are fully recoverable from Authorities of the respective member state that caused the loss while commercial (non-sovereign) risk event losses are covered from the agency's own resources. The agency has a growing export trade credit insurance business in addition to its political risk insurance

business. Under its current strategic plan, the agency intends to expand its operations to cover Central, West, and Southern Africa. The Bank intends to deepen working relations with ATIA as its activities complement the Bank's business.

- Headquartered in Khartoum, Sudan, BADEA provides financing to African governments for development projects. It also provides technical assistance, grants, and finances exports from Arab countries to African countries eligible for BADEA's assistance. In recognition of the role of trade as an engine of economic growth and development, a US\$100 million Foreign Export Financing Scheme was recently launched by BADEA for the purpose of financing Arab exports to Africa. Of this amount, US\$50 million was entrusted to the Islamic Development Bank to manage under its Trade Finance Window in line with an Agreement entered in 1998 by the two institutions. Going forward, the Bank will seek to forge constructive partnerships with BADEA, given its role in the financing of trade between the Arab World and the continent.
- Headquartered in Kampala, Uganda, the EADB is a development finance institution with lending operations across East Africa. EADB provides a range of financial products and services which are intended to address the region's development finance needs. Originally, its remit was to provide devel-

opment finance to governments in the East African Community. In support of ongoing economic reforms across the region that emphasizes private sector led growth strategies, the EADB presently lends largely to private sector entities. The current lending activities of EADB, including the financing of capital investments and trade, supplement and complement the Bank's lending operations. Therefore, going forward, the Bank will seek to deepen cooperation with EADB in areas that conforms to the Bank's mandate.

- The EBID, based in Lomé, Togo, was established in 2007 for the promotion of economic development in West Africa. The corporate objectives of the EBID, which was reorganized as a single entity for the purpose of streamlining two prior activities, are to: (i) mobilize resources within and outside the Community for the financing of investment projects; (ii) provide the technical assistance necessary within the ECOWAS Community for the study, preparation, financing and execution of development projects and programs; (iii) receive and manage the portion of the Community Levy resources meant for the financing of Community development activities; (iv) manage any Community special funds relevant to its corporate objects; and (v) carry out any commercial, industrial or agricultural activity relevant to its mandate.

- The sectors of investment interest to EBID include: (i) basic transport, energy and telecommunications infrastructure and equipment (roads, railways, harbor and airport infrastructure, energy production, transport and distribution infrastructure, telecommunications infrastructure); (ii) rural development and the environment (irrigation, floodwater control, rural water projects, agriculture, livestock raising, fishing, protection of the ecosystem, capacity building); (iii) social sector (vocational training, education, health, support for decentralization, social amenities in towns); (iv) industry (agribusiness, mining, other industries, transfer of technology, technological innovation); and (v) services (financial services, information technology related services, engineering, hotel industry, etc.).

EBID's financing in support of trade and trade-related infrastructure complement and supplement the Bank's activities. The Bank has business relations with EBID and, going forward, will continue to strengthen its business ties with EBID.

- Headquartered in Lomé, Togo, the ETI is a multinational institution operating in 33 countries in Africa as at March 2013, specializing in the financing of trade and investment, and merchant banking. Its issued capital came from the ECOWAS Fund, an inter-governmental financial arm of the

ECOWAS organization, and the balance was mobilized from private sources of ECOWAS member countries with the active support of national Chambers of Commerce. ETI supports investment activities through extensive transactions in telecommunications, energy, mining, construction and manufacturing. In the area of trade facilitation, it has designed products, including syndication programmes and structured trade finance to support African traders. ETI is currently cooperating with IFC in the financing of trade and investment activities of SMEs in Africa. Over the Bank's last three Plan periods, ETI's operations have been supportive of the work of Afreximbank in terms of delivery of trade finance services on the African continent. ETI's collaboration with Afreximbank should lead to an expansion of funded and unfunded credit lines in support of trade and trade related projects in Africa. Thus, cooperation between the two institutions is expected to be deepened over the medium- to long-term given the supplementary/complementary nature of its lending operations to the Bank's business.

- With its Head office in Bujumbura, Burundi, the PTA Bank provides development and trade financing to member countries of the Common Market for Eastern and Southern Africa (COMESA). It provides project financing to governments and private entities as well as trade financing. Afreximbank has been cooperating with the PTA Bank and

has, over the years, provided it trade finance lines of credit to augment its resources in pursuit of its mandate. The Bank has been collaborating with the PTA Bank in co-financing of private-sector and government projects, as well as in export and import financing. Accordingly, the Bank will continue to deepen its relations with PTA Bank over the medium to long term given mutual benefit that could be derived from pooling together the strengths and resources of our two institutions.

- Standard Bank, Barclays (ABSA) Bank, Rand Merchant Bank and Investec (from South Africa) as well as FBN, London, and UBN, London (subsidiaries of Nigerian banks); and GIB, London (off-shoot of a Ghanaian bank) are a few African-owned commercial banks that have become active in financing African trade. Their focus is, however, limited mainly to the telecommunications, minerals/metals and oil & gas sectors where they have been active in West Africa, especially in Nigeria. The Standard Bank of South Africa has been playing a major role in the financing of African trade and trade infrastructure in recent times. In 2009, for instance, through the support of the IFC's Global Trade Liquidity Programme, it raised US\$ 400 million to support trade between Sub-Saharan Africa and the BRICS. Given the relevance of the activities of these privately held banks to the development of

trade and trade-related investments in Africa and their growing presence across the continent, the Bank will continue to seek ways to deepen business relations with them over the medium to long-term.

- The DBSA is one of the development finance institutions in Southern Africa, headquartered in South Africa. Its main objectives are to support sustainable socio-economic development through provision of financing for rehabilitation and modernization of infrastructure; and building of institutional capacity in the region. The DBSA also provides advisory services and develops partnerships to mobilize financing. Given the complementarity between the activities of DBSA and the Bank's operations, a business relation was established between the two entities evidenced by the line of credit of US\$50 million provided by DBSA to the Bank in 2011. In this regard, going forward, the Bank will deepen partnership with DBSA for the financing of projects that are relevant to the mandate of both institutions.
- The BOAD has its Head office in Lomé, Togo. It joined the Bank in 2012 as a shareholder in Class A. It is the development arm of the West African Economic and Monetary Union (WAEMU/UEMOA). In addition to its traditional mission which includes poverty reduction, economic integration, promotion of private sector activity, and infrastructure improvement, the BOAD recently

extended its long- and medium-term loans, which were previously available to member governments and public institutions, to private businesses involved in development projects of regional importance as well as lines of credit to microfinance institution and SMEs. Over the medium to long-term, the Bank intends to forge a constructive partnership with BOAD for the purpose of financing trade and trade-related projects that are relevant to the mandate of the two institutions.

Non-African Regional Institutions

There are also non-African regional institutions that provide support to Africa in the sphere of trade. These include the Banco Latinoamericano de Comercio Exterior (BLADEX); the Asian Development Bank (ADB); the Arab Trade Financing Programme (ATFP); and the Islamic Development Bank Group (IDB Group).

- Headquartered in Manila, the Philippines, the ADB supports public and private investments some of which are trade related. In addition to traditional direct lines of credit, ADB has recently initiated several trade-focused financing Programmes. ADB's trade finance products are packaged in the form of trade credit guarantee (TCG), revolving credit facility (RCF), and risk participation agreements (RPA). The TCG provides guarantees (to exporters and banks based outside Asia) of up to 100% risk protection against

non-payment by approved participating Asian banks, in support of trade transactions. The RCF provides revolving credit facilities to eligible Asian banks for on-lending to traders to finance trade-related transactions, for example, pre-export financing; while the RPA offers up to 50% risk protection against non-payment of a financial obligation issued by a participating bank in support of a trade transaction. Given the expected surge in trade and investment flows between Africa and Asia over the medium to long-term, the Bank will seek to proactively collaborate with the ADB to support the financing of Africa's trade with Asia within the framework of South-South cooperation.

- The ATRP, headquartered in Abu Dhabi, UAE, provides trade finance and associated financial services to Arab countries and the six North African countries, namely Egypt, Libya, Algeria, Tunisia, Sudan, and Morocco. The facilities operated by ATRP include Pre- and Post-Export Credit, Letter of Credit Confirmation and Credit Guarantees. A bulk of its lending is provided in the form of Lines of Credit to banks in its member countries. The Bank has been nurturing business relationships with ATRP with a view to leveraging its services to supplement/complement its services in North African member countries, and plans to deepen such partnership to support trade between North Africa and the rest of the continent, going forward.

- BLADEX is a full-fledged supranational trade finance bank, headquartered in Panama City. Founded in 1975 by twenty three Central Banks in Latin America and the Caribbean to finance trade in the region, the entity commenced operations in 1979. The trade finance products of BLADEX include: (i) loans and revolving LCs, (ii) Pre and Post-shipment finance, (iii) import finance, (iv) commercial LCs, (v) stand-by LCs, (vi) reimbursement undertakings, (vii) Banker's Acceptances, and (viii) Structured Note Finance. Besides the trade finance program, BLADEX has other financial products and services that support trade, including structured trade finance; syndicated structured financing; transaction-based products; capital market products; and leasing. The trading activities of BLADEX could support Africa-Latin America trade, which conforms to the Bank's core goal of supporting South-South trade and investment flows. In this regard, in 2012, the two banks offered each other bilateral lines of credit to support trade between Africa and Latin America (LATAM). Such mutually-beneficial collaboration between the two institutions is expected to be deepened over the medium to long-term.

- The IDB Group, headquartered in Jeddah, Saudi Arabia, was established in 1975⁷ as a development and private sector finance insti-

⁷The IDB Group comprises five institutions, four of which are financial institutions, namely: (i) Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC); (ii) Islamic Development Bank (IDB); (iii) Islamic Corporation for the Development of the Private Sector (ICD); and (iv) International Islamic Trade Finance Corporation (ITFC).

tution that provides trade and project financing to members of the Organization of the Islamic Conference (OIC).⁸

The IDB Group provides a wide range of funded and unfunded trade and project finance facilities including: (i) export credit insurance and reinsurance to cover non-payment of export receivables resulting from commercial (buyer) and non-commercial (country) risks; and (ii) investment insurance and reinsurance against country risks stemming mainly from currency inconvertibility and transfer restrictions, expropriation, war and civil disturbance, breach of contract and non-compliance with sovereign financial obligations; (iii) loans and grants to finance development activities and trade; (iv) Shariah-compliant financing for private sector development; (v) trade finance and (vi) trade cooperation and promotion programme (TCPP). The TCPP consists of trade promotion; trade facilitation; capacity building; and strategic commodities development.

Since the IDB Group supports trade and project development in some Afreximbank member countries, the Bank will seek to partner with the Group to promote and finance trade and capital investments in these countries, possibly under the Islamic Financing Programme (IFP) being considered under Plan IV.

⁸Twenty six African countries are members of the OIC. Of these, 10 are members of the Bank, namely Cameroon, Senegal, Nigeria, Cote d'Ivoire, Mali, Guinea, Niger, Burkina Faso, Gabon, and Benin.

5.7.4.1.7 Export Credit Agencies

Export Credit Agencies (ECAs) are established to among others, boost national exports into foreign countries and sectors that privately-owned businesses and commercial banks perceive as too risky. ECAs participate in syndicated lending and facilitate trade in least developed countries under significant risks (including financial and political) in the host countries. Thus, ECAs manage risks associated with international trade, conduct market research and deal with foreign buyers and markets. Further, ECAs provide guarantees to international banks to enable them provide attractive and competitive loans to foreign governments or companies that are importing from the ECA's country. Their focus is on new projects/new contracts (goods and services). The ECA guarantee or insurance generally provides 95-100% cover for political and commercial risks. Hence, the international bank lending under the guarantee or insurance policy assumes the risk of the ECA rather than the risk of the underlying borrower. ECAs' activities, therefore, complement the efforts of the Bank in promoting extra African trade.

It is worth noting that the Bank, in its efforts at assisting member countries to access funds for the acquisition of essential import of goods and services (including machineries) as well as export-generating imports, at the height of the recent global financial and economic crises, the Bank intensified activity under its ECA Loans Facilitation Programme as some ECAs expressed interest in using the Bank as a vehicle to support domestic production and national export programmes.

The Bank believes that ECA financing could contribute to the funding of essential goods and services as well as capital investments needed to support sustainable growth and development of African economies. Therefore, it continues to pursue lines of credit/guarantees from many ECAs. Some of the ECAs with which the Bank had concluded financing arrangements include, Exim Bank of India, US Exim Bank, Swedish Export Credit Guarantee Board (EKN), and China Exim Bank, among others (see Table 5.13). Going forward, the Bank intends to deepen business relations with ECAs by obtaining lines of credit from them given their increased interest in supporting African imports of essential goods especially export generating capital goods.

5.7.4.2 Non-Operational Partnerships

5.7.4.2 .1 West African Monetary Institute

The West African Monetary Institute (WAMI) located in Accra (Ghana) is responsible for the preparatory technical work necessary for the establishment of the second West African Monetary Zone (WAMZ). The Economic Community of West Africa (ECOWAS) and WAMI have put in place an ECOWAS/WAMI Joint Task Force, which provides a platform for collaboration on integration and trade related issues. The main objective of the Joint Task Force is to recommend and implement measures that must be taken by member states in order to remove all tariffs and non-tariff barriers to trade and investment flows across the sub-region.

On the occasion of its 8th Annual Meeting, the Joint Task Force decided to launch a **Trade Facilitation Support Project** for the ECOWAS sub-region. The project is intended to assist member countries of WAMZ to effectively implement national and regional trade integration policies and programmes in line with the region's common market and monetary integration aspirations. Apart from implementation of the project, the Joint Task Force is required to publish an annual report on trade integration problems that face the WAMZ member countries.

The activities of the Joint Task Force is relevant to the Bank's core mandate of promoting intra-African trade. Therefore, the Bank intends to forge a working relationship with the Joint Task Force, and in so doing, be an active participant in the implementation of the above-mentioned trade facilitation support project. In addition, it will have the opportunity to contribute to the annual reports on the integration efforts of WAMZ countries. Besides these activities, going forward, the Bank intends to continue to work with WAMI in organizing Seminars / Workshops on the promotion of intra-ECOWAS trade in line with the existing cooperation agreement between our two institutions.

5.7.4.2.2 African Union and United Nations Economic Commission for Africa (UNECA)

Africa's economic and monetary integration has been on top of the development priorities of the Organization of African Unity (OAU), which was established in May 1963. The main objective of the transformation of the OAU into the African Union

in 2000 was to advance the integration agenda of the continent through the creation of several institutions. These institutions are mandated to work towards the elimination of existing trade barriers and reduction of investment restrictions within Africa. Within that framework, regional economic communities (RECs) are expected to be the pillars of continental integration.

Current integration efforts in Africa thus focus mainly on supporting the activities of the RECs. The African Union Commission (AUC), the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB), have established a Tripartite Committee with a mandate to map out strategic policies and programmes to support trade and economic development in Africa. The activities of the committee supplement and complement the Bank's trade development programmes. Since Afreximbank's mandate is to promote and finance extra and intra-African trade, it has a key role to play in the promotion of economic and monetary integration through the RECs. Accordingly, the Bank, over the medium- to long term, intends to identify with the Tripartite Committee and its activities by co-organizing seminars, workshops and conferences on trade-related issues such as Trade Finance, Trade Facilitation, Market Access, and promotion of intra-African trade, among others.

5.7.4.2.3 The Pan-African Private Sector Trade Policy Committee Initiative

The Pan African Private Sector Trade Policy Committee (PAFTRAC) was conceived and formally

inaugurated on December 3, 2011 in Accra, Ghana, on the sidelines of the 7th Ordinary Session of the African Union Conference of Trade Ministers. The objective is to enable the African private sector to participate in the formulation of trade policies at the national, sub-regional and regional levels in Africa and in multilateral trade negotiations. It was also in recognition of the fact that the African private sector could play a key role in driving intra-African trade and investment flows and, in so doing, contribute in advancing economic integration in the continent.

Organized business associations such as the African Business Roundtable (ABR) and the Association of Pan-African Chambers of Commerce and Industry (PACCI), have a critical role to play in PAFTRAC. At the same time, it is expected that African governments will conduct discussions with PAFTRAC and adopt common negotiation positions on matters currently being considered in the ongoing Doha Round of multilateral trade talks, especially matters of crucial importance to trade and economic development in Africa.

Since Afreximbank serves as the Secretariat of PAFTRAC, it intends to work with all partners of PAFTRAC to (a) synthesize and harmonize the views of different segments of the African private sector on trade issues; (b) provide up-to-date information to African Governments and private sector on status of negotiations on trade issues at the multilateral fora; (c) assist in the mobilization of resources to finance technical capacity building programmes for the benefit of the African private sector; (d) facilitate research and disseminate research findings on possible

impact of given trade issues on African economies; (e) promote dialogue between African governments and the private sector at the country level on trade issues; and (f) collaborate with the AU, the AfDB, the WTO and UNECA on their works on trade development in Africa and use them in lobbying at high levels for additional financial and technical resources in support of intra-and extra-African trade.

In furtherance of the objectives of PAFTRAC, over the medium term, the Bank intends to organize conferences, seminars/workshops on trade-related issues such as trade facilitation, market access and trade finance in partnership with AUC, UNECA, AfDB and the RECs.

5.7.4.2.4 United Nations Conference on Trade and Development

The **United Nations Conference on Trade and Development (UNCTAD)** was established in 1964 as a permanent intergovernmental body with the responsibility to propose policies and programmes to address the challenges facing developing countries with respect to economic development, international trade and financial flows, transport and technology transfers.⁹

Now UNCTAD serves as: (i) a forum for **intergovernmental deliberations**, supported by

⁹ The Conference ordinarily meets once in four years. The first conference took place in Geneva in 1964, second in New Delhi in 1968, the third in Santiago in 1972, fourth in Nairobi in 1976, the fifth in Manila in 1979, the sixth in Belgrade in 1983, the seventh in Geneva in 1987, the eighth in Cartagena in 1992 and the ninth at Johannesburg (South Africa) in 1996.

discussions with experts and exchange of experience aimed at consensus building; (ii) a **research, policy analysis and data collection** center for the debates of government representatives and experts; and (iii) a provider of **technical assistance** tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and economies in transition.

In performing its role, UNCTAD cooperates with member Governments and interacts with other specialized organizations of the United Nations system and regional commissions, as well as with governmental institutions, non-governmental organizations and the private sector, including trade and industry associations, research institutions and universities worldwide. In addition, UNCTAD'S technical assistance programmes are carried out in partnership with other agencies that provide trade-related technical assistance consistent with their respective mandates, expertise, and areas of comparative advantage. In this regard, over the medium- to long term Afreximbank intends to cooperate with UNCTAD to develop human and institutional capacity of African countries in areas such as (a) trade policy formulation and trade negotiations, and integration of developing countries in the multilateral trading system, (b) trade and investment promotion and enterprise development, and (c) trade support services, logistics and trade facilitation. Among its achievements, it is particularly important to note that UNCTAD conceived and implemented the Generalized System of Preferences (GSP) in order to promote exports of manufactured products from

Table 5.13. Operational ECA/DFI Lines of Credit In Favour of Afreximbank, April 2013

	Lender	Type of Facility	Purpose of Facility	Facility Amount \$m
1	Export Development Canada (EDC)	Line of Credit	Finance importation of Canadian goods and services by Afreximbank clients	30
2	The Swedish Exports Credits (Guarantee Board (EKN	Export Credit Guarantee Facility	Finance import of Swedish capital goods and services	150
3	Export-Import Bank of India	Line of Credit	Finance import of Indian Capital goods and services to Africa	30
4	China Exim Bank	Credit Line	Finance import of Chinese capital goods and services	100
5	SACE, Italy/COFACE-France	Export Credit Guarantee	Finance import of ATR aircraft by Fly 540 Angola Fly 540 Ghana	30
6	Korea Exim Bank	Export Credit Term Loan	Finance import of Korean capital goods and services	50
7	Japan Bank for International Cooperation/ Bank of Tokyo Mitsubishi	Export Credit Term Loan	Finance import of Japanese Capital goods and services	100
8	China Development Bank	Line of Credit	Finance eligible projects in Afreximbank member states	100
9	International Finance Corporation (IFC)	Global Trade Liquidity Facility	Finance eligible Trade Finance transactions in Afreximbank member states	200
10	African Development Bank	Line of Credit	Finance eligible Trade Finance transactions in Afreximbank member states	150
11	Development Bank of Southern Africa	Line of Credit	Finance Projects in SADC region	50
12	Saudi Export Programme	Line of Credit	Financing of Saudi Arabian Export to Africa	40
	TOTAL (USD)			1,144

Source: Afreximbank

developing countries. GSP was formulated with the objective of increasing manufactured exports and some agricultural products from developing countries to enter duty-free or at reduced rates markets of the developed countries.

5.7.4.2.5 *International Cocoa Organization (ICCO)*

The International Cocoa Organization (ICCO) is a global organization headquartered in London, UK, which was established in 1973 to implement the first International Cocoa Agreement negotiated in Geneva at the United Nations International Cocoa Conference. Since the establishment of ICCO, there have been seven Agreements. The Seventh International Cocoa Agreement, negotiated in 2010 in Geneva, came into force provisionally in October 2012. ICCO members include both cocoa producing and cocoa consuming countries. The mandate of the organization is to work on import tariffs on cocoa beans, as well as semi-processed and finished cocoa products; indirect taxes related to cocoa consumption and processing; production costs in different countries and regions; market information for cocoa farmers; and Price Risk Management for farmers through co-operatives.

To carry out its activities, ICCO has two main bodies: (a) Consultative Board on the World Cocoa Economy, and (b) the International Cocoa Council. Although the Consultative Board has a mandate that covers all aspects of the world cocoa economy, it only functions in an advisory capacity, as all final decisions are taken by the **International Cocoa Council**. On cocoa trade,

it is important to note that the Board has tried to address the issue of tariff escalation in the cocoa value chain by recommending that **all customs tariffs applied on imports of semi-finished products from producing countries should be zero** and that the governments and authorities concerned should achieve a zero rate on customs tariffs as soon as possible.

Some of the above-mentioned activities of ICCO are related to international trade and therefore complement and supplement Afreximbank's work of promoting African trade. All the major cocoa producing African countries are members of the Bank. Against this backdrop, the Bank intends to cooperate with ICCO to support the development of the cocoa industry in Africa, as well as trading of cocoa beans, semi-processed and finished (chocolate) cocoa products consistent with the objectives of the Bank's Africa Cocoa Initiative.

5.7.4.2.6 *Institute of International Finance*

The Institute of International Finance Incorporated (IIF) was created in 1983 in response to the international debt crisis. IIF is the world's only global association of financial institutions. Its members include commercial and investment banks, sovereign wealth funds, asset managers, hedge funds, insurance companies, multinational corporations, law firms, export credit agencies, multilateral agencies, development banks, and other organizations providing products and services to the financial services community. Afreximbank became an associate member of IIF in 2012.

The mission of IIF is to support the financial services industry in prudently managing risks, including sovereign risks; in developing best practices and standards; and in advocating regulatory, financial, and economic policies that are in the broad interest of its members and foster global financial stability.

The IIF publishes reports that cover economic and financial developments at both the global, regional and country levels. Reports with global focus include (a) the **global economic monitor**, which offers to IIF members an analysis of developments in mature and emerging economies; (b) the **capital markets monitor**, which provides a monthly chart-based analysis of key developments in major financial markets and asset classes in both mature and emerging economies; and (c) **daily comment**, which keeps IIF members informed of breaking developments in key parts of the global economy and markets. Further, IIF publishes reports that focus on individual economies.

Afreximbank can greatly benefit from the work of the IIF in many ways. To this end, the Bank intends to continue to access information made available by IIF to all its members, and co-organize with IIF seminars / workshops on the challenges of trade finance in Africa.

5.8 Concluding Remarks

The Chapter highlights the Bank's planning processes and the outcomes of the three strategic plans implemented by the Bank during 1996-2011, as well as

the fourth plan which was launched in January 2012. The analyses captured in this Chapter show that, in spite of the numerous challenges that prevailed in the global and African macroeconomic environments, commendable strides were made under Plans I, II and III, with similar successes expected to be made under Plan IV. The Bank's actual performance in 2012 compared to plan targets, signals possible robust performance under Plan IV.

The strong growth in loans and advances provided by the Bank in support of bankable trade and trade-related project ventures, the capacity building programme of the Bank, the conscientious leveraging of external financing into the continent in support of bankable deals (through various programmes-syndications, bond issuance and guarantees), expanded activity under various results-oriented, trade/economic transformation programmes such as the African Content Programme, AFRICOIN, and asset-based lending programmes, and promotion of service exports by financing the development of world class hotels and tourism facilities in some member countries, among others, are activities considered to have contributed to trade and economic development in member countries. A discussion of the development impact of the Bank's operations and activities in member countries with reference to a sample of most recent transactions, is presented in the next chapter, that is, Chapter 6 of this book.



CHAPTER SIX:

TRADE DEVELOPMENT IMPACT
OF THE BANK'S OPERATIONS
AND ACTIVITIES

6.1 INTRODUCTION

One of the principal objectives for establishing the Bank is to use it as a vehicle to advance trade and economic development in Africa by directly and indirectly supporting, among others, regional integration and trade within Africa as well as between Africa and the rest of the world. This broad objective is expected to be realised, on a sustainable basis, through profitable operations of the Bank and leveraging of strategic public-private and African and non-African partnerships. In pursuit of this objective, the Bank's operations and activities since inception in 1994 were, and continue to be, carried out in line with the philosophy of pursuing trade development in Africa using commercial approaches. Besides the operational and financial performances discussed in Chapter 5 above, this Chapter puts into appropriate context the (direct and indirect) development impact of the Bank's operations and activities for the benefit of its shareholders, especially the public sector or class "A" Shareholders whose main objective for investing in the Bank was to create a continental institution to spearhead trade development at the national and regional levels.

In line with international corporate reporting requirements and growing request from Class "A" Shareholders and non-shareholder partners, especially development finance institution (DFI) providing term funding in support of trade-related project financing deals, the Bank began to report on the development impact of its operations and activities in its 2010

Annual Report. This Section of the 20th Anniversary Publication features a sample of major and/or recent financing deals and activities of the Bank considered to have contributed or expected to contribute in a significant way towards trade and economic development in Africa consistent with the mandate of the Bank.

The Bank's trade development agenda as captured in its Vision and Mission Statements essentially entails addressing the trade challenges facing African countries, as a group, namely very low share of global trade; high product and market concentration; relatively low levels of intra-regional trade; stringent external trade and project financing terms; and low levels of local participation in the tradable sector, etcetera. As elaborated hereunder, the Bank's operations and activities, during the last two decades, reportedly impacted African trade and economies via several channels, including the promotion of local content across Africa's enclave extractive industries through its financing of African entities involved in the delivery of goods and services to major mining and oil & gas companies operating in the continent; financing of trade-supporting infrastructure, especially in aviation, power and telecommunications to facilitate Africa's integration into the global economy; supporting on-going efforts at diversification of Africa's export basket by financing the processing of commodities for exports under various programmes and facilities of the Bank, including the AFRICOIN programme; and supporting large

scale agricultural production and agro-processing in Africa with a view to adding value, especially to exports; actively supporting the development of service exports by promoting and financing the development of world-class hotels and tourism facilities in some member countries under the Bank's Construction/Tourism Linked Relay Facility ("ConTour Africa"); and contributing to better intra-African air transport and communication links in furtherance of intra-African trade by financing the acquisition of aircraft, and telecoms equipment, haulage trucks etcetera to support African entities providing those services.

As part of ongoing efforts at facilitating the return of international banks to African trade finance following the exit caused by multiplicity of challenging developments in the global and African operating environments, such as the global financial and economic crises that broke in 2008/9, the Bank, proactively leveraged external financing to support bankable trade and project ventures in member countries through various financing programmes, such as the Syndications and ECA Loans Facilitation programmes. The Bank also contributed to the creation of capacities in the structuring and management of trade and project finance deals through organisation of seminars/workshops and offered internships/attachments for the benefit of African bankers, traders and young professionals operating in the continent's trade sector.

The next Section of this Chapter highlights a sample of key transactions and activities undertaken by the Bank during the last two decades and 2010-12

in particular, which in the Bank's opinion, made or would be making significant contribution towards the attainment of trade and economic development in Africa consistent with the Bank's mandate.

6.2 CHANNELS OF DEVELOPMENTAL IMPACT

6.2.1 Promoting Local Content in Africa's Extractive Sector

Afreximbank's African Content Promotion Initiative was introduced to support African entities providing services to major mining and oil & gas companies operating on the continent. African Content is defined by the Bank as the sum of rent, interest, salaries and wages, profits and dividends retained in Africa under a given project. This initiative was born out of the fact that although activity level in Africa's extractive industries had risen significantly in recent times evidenced by expansion in mining activities across the continent, discovery of new oil and gas fields, opening up of new mines in new locations etcetera buoyed by good global commodity market conditions, the overall economy-wide impact of these extractive industries had tended to be very limited. Proactive policy-based promotion of local content in these enclave, extractive industries, has therefore been considered, as experience has shown, to be one of the effective mechanisms for increasing the domestic economy's share of the financial benefits arising from the activities of these industries in terms of receipts of rent, wages and salaries, interest and profits to domestic economic agents. Many African governments have embraced

this policy tool with different levels of success. Key constraint to success of such initiatives has been lack of access to appropriate financing to support indigenous operators interested in taking advantage of the opportunities. Financing has been difficult due to the medium term nature of funding operators require; their lack of sufficient equity to attract corporate finance; and limited capacity of local banks to structure deals in support of such operations, among others.

In furtherance of the goals of its African Content Promotion Initiative, the Bank has been providing appropriately structured trade and project financing and advisory services to support small- and medium-sized African firms' bid for service contracts as well as financing their working capital needs and acquisition of equipment and other logistics to enable them perform service contracts. The Bank's intervention has made many African service providers to emerge on the scene and encouraged governments to introduce similar policy initiatives across Africa.

In 2008, the Bank arranged a revolving US\$50 Million Syndicated Mining Services Contract Financing Facility in favour of Zambian Mining Service Companies (MSCs). The facility was used to finance the execution of mining services contracts entered into between Zambian MSCs and Mining Majors for the purpose of supporting local content in the mining sector in Zambia and thereby increasing local value added in the production and export of minerals in Zambia. The facility, which was the first of its kind for small and medium-sized MSCs in Zambia, assisted the MSCs to procure the necessary logistics and



equipment to perform service contracts, and to take on challenging, big ticket mining services contracts, which were previously the preserve of leading global mining services companies.

In 2009 and 2010, the revolving facility, which was still operational, assisted a number of Zambian MSCs to bid for larger and more technical service contracts in Zambia's extractive industries in line with the Bank's Africa Content promotion programme and the Zambian Government's own initiative of increasing local participation in those industries. Apart from job creation, the facility has a long term potential of skills and technology transfer to Zambian nationals and entities.

Further, during 2010/11, the Bank, under its Local Content Promotion Programme, arranged a US\$500 million syndicated term loan facility in favour of Seplat Petroleum Production Company (SEPLAT), a joint venture between two Nigerian oil exploration and production companies and a French independent oil company. SEPLAT was established in 2009 as a Special Purpose Vehicle (SPV) for the acquisition of a 45% interest in three on-shore Oil Mining Licenses (OLMs 4, 38 and 41) located in the Western Niger Delta Region in Nigeria with the remaining 55% owned by the Nigerian National Petroleum Corporation (NNPC). On the back of the US\$500 million syndicated financing facility arranged by the Bank and supported by First Bank of Nigeria PLC, United Bank for Africa PLC and Skye bank PLC, Nigeria, SEPLAT was able to refinance a US\$340 million bridge loan used in



acquiring its stake in the OLMs 4, 38 and 41, which had proven reserves of about 150 million barrels. An amount of US\$160 million was put in place as a Standby Facility to assist SEPLAT in pursuing other acquisition targets in Nigeria and to fund other oil field development activities. It is pertinent to note that this landmark deal was fully funded by African banks at a time many international banks were retreating from Africa on the heels of the tight international liquidity situation caused by the global financial and economic crises. Since SEPLAT began operating the field, its operations have been contributing to deepening the participation of local entities in the country's extractive industry. Further, the company's operations created numerous job opportunities (both skilled and unskilled) for local communities, raised fiscal revenues for the government of Nigeria and, in so doing, contributed to increase the overall share of the domestic economy's participation in the oil & gas industry in that Country.

The Bank, in 2012, arranged a US\$52 million Syndicated Mining Services Contract Financing Facility in favour of Engineers & Planners Limited (E&P), a medium-sized local Mining Services Company in Ghana, providing various forms of engineering services to support the operations of Mining Majors, including Gold Fields Ghana Limited and Golden Star Resources Limited. The proceeds of the credit facility, which was closed in 2012, is expected to be used for equipment importation and working capital finance to enable E&P execute mining service contracts for these Mining Majors. On the back of the syndicated financing facility underwritten

by the Bank, ECOWAS Bank for Investment and Development (EBID) and Access Bank Ghana, E&P was financially empowered to win engineering service contracts worth over US\$500 million, with potentially significant foreign exchange earnings for the country, which in the absence of the Bank's financing support, could leak out of the Ghanaian economy in the form of payments to foreign service providers. Besides, hundreds of direct and indirect skilled and unskilled jobs are expected to be created by E&P as a result of availability of financing for execution of service contracts won by the company. Further, the financing arranged by the Bank is expected to propel the firm to win more contracts as the Mining Majors become more confident in E&P's ability to successfully execute service contracts.

Besides, a US\$50 Million Revolving Syndicated Mining Services Contract Facility arranged by the Bank in favour of Zambian Mining Services Companies (MSCs) in 2008, which is still operational, continue to avail some funding support to a number of Zambian MSCs to bid for and execute mining services contracts in Zambia's extractive industries. In this regard, during 2012, further drawdowns were made under the facility which enabled these local firms to execute mining services contracts for the Mining Majors and, in so doing, increased the local or national share of the economic value resulting from the operations of the extractive industries, including job creation, transfer of skills and technology to Zambian nationals and entities operating in that sector, and enterprise development, among other benefits associated with increasing participation of local operators (individuals

and corporates) in the country's mining industry.

Aside from the US\$75 million Oil & Gas Services Financing Facility that was arranged to support Nigerian Oil & Gas Service Companies, (OGSCs) and the US\$50 Million Revolving Mining and Oil & Gas Services Contract Facility in support of African Content Promotion in Zambia, a US\$ 70 Million Revolving Syndicated Mining Services Contract Facility has been arranged in favour of Mining and Oil & Gas Service Companies in Ghana in furtherance of the Bank's African Content Promotion Initiative; with similar financing being arranged to support participation of local service companies in the extractive industries in Mali, Sierra Leone, and Zimbabwe.



Besides financing, the Bank supports local content promotion by engaging policy makers and public and private sector professionals in policy dialogue through its Advisory Group Meetings and at the firm level by providing advisory services to enable African entities procure and execute service contracts. In this regard, the Bank made local content promotion the subject of its 17th Advisory Group on Trade Finance and Export Development Meeting held in Luanda, Angola on June 24, 2011, by focusing on the theme “Linking Africa’s Enclave Extractive Sector to Domestic Economy: Is Local Content Promotion a Panacea?”. The consensus at that Meeting was that African governments should integrate local content promotion in their economic and trade policies as such programmes would promote sustainable economic growth and employment, provide opportunities for diversification of national economies, and offer scope for the development of the industrial and service sectors, among other benefits. The Meeting also proffered suggestions and solutions to the challenge of financing local businesses to enable them take advantage of opportunities in the continent’s extractive industries.

To date, the Bank’s work in this field has enabled many African service providers to emerge on the scene; and expanded the capacities of some local firms to perform. The Bank’s continuous intervention through this programme, which is expected to be extended to other member countries with significant mining sector operations will not only enhance the capacity of local firms to provide such services, but could also pave the way for the formulation and implementation of local

content policy initiatives in those countries for the benefit of African economies, as a group.

6.2.2 Supporting Export Diversification through Financing of Facilities for Processing of Commodities

In line with its mandate of promoting the diversification and development of African trade, the Bank has been actively supporting the processing of African commodities for exports given the high value addition (in terms of higher and more stable earnings, employment generation, technology transfer, and acquisition of managerial skills) associated with export manufacturing. As in previous years, during 2010, the Bank provided financial and advisory services support to Tropical Farms Limited (TFL), a medium-sized agro-processing company in Sierra Leone. TFL is engaged in value-addition through processing of cocoa and coffee for export. Afreximbank’s financing enabled TFL to pioneer in Sierra Leone the use of solar dryers for the drying of cocoa and coffee, a technology which is more cost efficient and environmentally-friendly.

The financial support provided by Afreximbank, through First International Bank (FIB), Sierra Leone, one of the Trade Finance Intermediaries (TFIs) of the Bank, enabled the company to expand its business and exports as a contribution to the generation of foreign exchange, which for a small economy with limited access to international capital markets, constitutes the principal source of funding for essential imports. Specifically, the improvement in value of its agro-

processing products and exports enabled Sierra Leone to generate additional foreign currency earnings of about US\$3 million through increased production for exports in 2010. Further, the company was able to more than double its core staff strength from 10 to 24 in 2010 in addition to the increase in the number of casual staff indirectly engaged as a result of the enhanced operations of TFL, offered training support to farmers, provided solar dryers and fermentation trays to farming communities, and educated farmers on bio-diversity and related issues.

It is worth noting that TFL has in place a management structure made up of local professionals, based on the company’s philosophy that there is a need to close the knowledge gap in the agro-processing sector and enhance human resource capacities in this sector, for a country that recently came out of civil war. The Bank believes that supporting such small- and medium-sized export-oriented agro-processing companies in Africa could make tremendous economy-wide impact due to the importance of such businesses and sectors to the overall development of the domestic economy.

During 2010, in Zimbabwe, Afreximbank supported the processing of commodities for exports through its financing of the Cotton Company of Zimbabwe (Cottco), an agro-processing entity that the Bank has been continuously assisting during the last seven years. Cottco is the largest single ginner and marketer of seed cotton in Zimbabwe and the Southern African sub-region. The company, through its Inputs Credit Scheme for Out-growers of Cotton, is involved in every facet of cotton production, including the provision

of advisory service to farmers, merchandising of planting seeds, provision of farming inputs, that is, planting seed, fertilizers and chemicals on credit as well as advances for weeding and harvesting, and transportation of cotton harvest from farms to the main collection and processing centres. After processing, the company markets the main product, cotton lint



and ginned seed, both locally and internationally, with between 70% and 80% of lint destined for the export markets.

Afreximbank’s revolving pre-export financing facility, including a US\$70 Million Syndicated Facility disbursed in 2010, provided the company with much



needed working capital to fund its Inputs Credit Scheme as well as buy seed cotton from contract farmers at a time many companies in Zimbabwe were facing major liquidity constraints. Further, the financing provided by Afreximbank offered the company a better alternative to domestic financing due to the high borrowing cost in the domestic market as well as local regulatory requirements which make it mandatory for all cotton merchants in Zimbabwe to have offshore lines of credit.

The Bank's support for Cottco and the company's determination to succeed through deployment of efficient operating systems and procedures led to a significant growth in depth and scope of the company's operations and profitability, and a brighter medium- to long-term prospects for the firm. First, Cottco runs the largest Inputs Credit Scheme in the country, with 86,426 growers; 199,551 hectares under tillage; has the most extensive network of growers, infrastructure resources, geographical reach and know-how; and during the buying season for raw cotton, employs as many as 4,200 people on average. Second, through its Inputs Credit Scheme, the Company is continuously developing and promoting the growth of cotton farming in new areas. Over the two years to 2010, new cotton growing areas amounting to 25,000 hectares were opened up in Chiredzi (south-eastern part of the country) and other areas. This was achieved by giving growers planting seed for free and to the extent that the land in question was virgin land, no fertilisers were used. Chiredzi is earmarked to be the highest production zone over the next few years. Third, the company

has been able to increase its crop intake over the years. In 2010, the company bought 111,000 metric tonnes and is reported to have bought 139,000 metric tonnes in 2011 and, by so doing, addressed on a continuous basis, the problem of marketing of raw cotton products, which used to be a big challenge to cotton growers in Zimbabwe.

Further, Cottco exports premium quality, handpicked cotton to 21 countries in Africa, Europe, South America and the Far East. Over the last few years, Cottco, on average, generated close to US\$100 million per annum in foreign exchange earnings, which was crucial in supporting the country's economic recovery programme. Overall, the Bank's support assisted Cottco in revitalizing its Inputs Credit Scheme, raised cotton production and processing for export, enabled the company to offer better prices to farmers, contributed to create direct and indirect employment, and contributed to lift overall export receipts for the financing of essential imports, especially during the last few years of the country's limited access to international credit markets.

In recognition of the fact that Africa accounts for at least 70% of global cocoa production and the fact that only 25% of that production is processed in Africa, the Bank, guided by its mission of supporting diversification and value addition to Africa's exports, sought to support on-going efforts by cocoa producing African countries at expanding their combined cocoa grinding capacity from its current level of 25% to a minimum of 35% over the medium term. In pursuit of this goal, the Bank launched in 2012 the Africa



Cocoa Initiative ("AFRICOIN" or the "Initiative") for the purpose of providing "End-to-End" solutions to Africa's cocoa sector through financing and provision of corporate finance and advisory services to eligible entities in the Cocoa Value Chain on the continent. Specifically, the Initiative seeks to support the development of new cocoa plantations to boost the continent's supply of cocoa beans, facilitate increases in cocoa sector productivity, promote value addition through processing of cocoa beans into industrial raw materials (cocoa butter, liquor and cocoa cake) to feed manufacturing plants in Africa, Europe, North America and Asia, and promote consumption of cocoa products in Africa, the Middle East, Latin America and Asia.



In furtherance of the goals of the Initiative, the Bank, in 2012, used various fora it organised and/or participated in to discuss with key stakeholders in cocoa-producing African countries pertinent issues relating to improvements in productivity and production with the view to enlisting their support for AFRICOIN. In this regard, for the purpose of informing the focus and slant of the Initiative, the Bank attended several important cocoa industry conferences/seminars, including the 85th Regular Session and 145th Executive Committee Meeting of the ICCO during March 17-21, 2012 in Ecuador, the 17th International Cocoa Research Conference of the Cocoa Producers Alliance (COPAL) during October, 17-19, 2012 in Cameroon, and the ICCO World Cocoa Conference held during November 19-23, 2012 in Cote d'Ivoire. Further, the Bank closed an €18.5 million and US\$18 million Medium Term Facilities in favour of Conditionnement de Cacao et Cafe (CONDICAF), Cote d'Ivoire and FTN Cocoa Processors Nigeria respectively under the AFRICOIN

programme on the sidelines of the ICCO World Cocoa Conference.

The facility extended to CONDICAF is intended to finance both capital investments needed to increase the company's cocoa processing capacity from current level of 12,000 metric tonnes per annum to about 45,000 metric tonnes per annum during the 2013/14 cocoa season, as well as fund the purchase of raw cocoa beans for processing. The company processes cocoa into liquor, cake and butter, which are exported to OECD buyers under fixed price contracts. Thus, the planned extension of processing capacity and exports will contribute to lift the country's foreign exchange earnings; create additional skilled and unskilled jobs; and contribute to fiscal revenues in support of the economic recovery efforts of the government of the Republic of Cote d'Ivoire.

The US\$18 million Medium Term Facility extended to FTN Cocoa Processors, one of the leading companies in Nigeria involved in the processing of cocoa beans into cocoa butter and cocoa cake/powder for the domestic market and export, is to enable the company to purchase cocoa beans and expand its processing capacity from current level of 10,000 metric tonnes per year to 20,000 metric tonnes per year. The programmed enhancements to purchasing and processing capacities of FTN are also expected to contribute to the creation of about 130 direct jobs and 250 indirect jobs, generate additional foreign exchange earnings of US\$40 million per annum through exports, enable the company to procure bigger export contracts by building stronger relationships with major multinational off-takers, and

enhance cocoa bean production through cocoa farmer support programmes.

Also in 2012, the Bank participated in a US\$309 million syndicated loan facility in favour of OLAM Palm Gabon (OPG) for the financing of an agro-industrial oil palm plantations project in Gabon. The Bank's participation in the project amounted to €70 million. OPG, which is a joint venture owned by Olam International ("OI") and the Government of Gabon, has as its principal business industrial production of oil palm fruits in Gabon and processing of the oil palm fruits into industrial raw materials for export. The US\$309 million syndicated loan facility arranged by ECOBANK Capital is the debt component of the US\$442.1 million project, with 30% equity finance provided by OI.

Under the project, OPG intends to establish a commercial oil palm plantation of 50,000 hectares in the country. The target 50,000 hectares oil palm plantation is expected to result in the production of 280,000 tons of oil palm fruit annually. It is also envisaged that the project will create 14,000 (8,000 direct and 6,000 indirect) jobs. In terms of export revenues, it is expected that US\$300 million of export revenues will be generated each year, with the eventual creation of a palm-oil refinery in Gabon.

The Bank's participation in this transaction was in recognition of the importance of the project to the Gabonese economy and the continent as a whole. Participation in the project conforms with the Bank's goal of supporting the diversification of trade and



economies of its member countries, including Gabon. The expectation is that the project will contribute to diversify the Gabonese economy away from oil with increasing focus on agribusiness, an industry with enormous potential given the country's extensive endowment of arable land for agriculture. Further, given that Africa reportedly accounts for a paltry 2% of the global palm oil trade, which is dominated by Benin, Côte d'Ivoire and Ghana (who account for a combined share of about 80% of the trade in Africa), the participation of Gabon in the sector as a major producer of palm oil in Africa will contribute to increase the continent's share of the global trade in this important product, which aside from human consumption, is required as important raw material by the cosmetic, animal feed and bio-fuel industries. Thus, the project is expected to contribute to the development of allied industries, including soap manufacturing, cosmetics and food industry, among others.

It is also worth noting that by partnering with OLAM International, one of the leading players in the global agriculture value chain, the Bank will contribute to promotion of Africa-South trade and investment flows as envisaged under its fourth strategic plan. Further, the Bank's participation in the syndicated finance deal arranged by ECOBANK Capital also underscores its belief in forging strategic alliances with pan-African financial institutions to support Africa's trade and economic development efforts. It is also worth mentioning that without the involvement of the Bank and its African partner, Ecobank Capital, this project would not have materialized given international

lenders' aversion to funding agriculture plantations and their relatively high risk perception of African projects, especially those requiring longer tenors.

6.2.3 Leveraging external financing to support african trade

In line with its strategy of using results-oriented partnerships and cooperation to attract external financing to support trade development in Africa, the Bank, during the last 20 approximately years of its operations, used various instruments to leverage international financing to support bankable trade and projects in Africa. Traditional instruments used by the Bank to leverage international financing into Africa include arranging and co-arranging syndications and club deals and inviting others to share the risk of such deals; granting lenders taking African exposures certain guarantees that enable them to fund such facilities; raising money in its name from the markets and on-lending to entities that would ordinarily not be able to access the international financial markets; and providing Advisory Services that encourage debt and non-debt capital inflows. For instance, in 2010, in fulfilment of its leveraging objective, the Bank arranged, co-arranged or participated in 28 syndicated financing transactions amounting to US\$4.23 billion. The Bank's participation in these syndicated deals was US\$941 million. Thus, for every US dollar funding committed by the Bank, it was able to attract into Africa, on the average, about US\$4.5 to support bankable trade and project ventures.

Table 6.1 Syndications/ Club Deals Arranged, Co-arranged by AFREXIMBANK, 2000 - 12

Year	Syndicated Deal	Total Amount in US\$ (million)	Afreximbank Participation in US\$ (million)	Leveraging Ratio* in US\$
2000	23	1,967.00	181.00	10.90
2001	8	1,379.00	125.00	10.80
2002	7	582.00	96.75	6.00
2003	5	180.00	90.00	2.00
2004	5	243.00	77.00	3.20
2005	7	360.00	145.00	2.50
2006	19	1,870.00	382.00	4.90
2007	23	1,630.00	570.50	3.00
2008	23	1,870.00	792.50	2.40
2009	21	2,050.00	610.75	3.40
2010	28	4,230.00	941.00	4.50
2011	14	3,270.00	953.00	3.40
2012	15	5,450.00	894.50	6.10
Total	198	25,081.00	5,366.25	3.71

* Leverage Ratio is the total amount the Bank raises per dollar invested
Source: Afreximbank Annual Report (various issues)

In 2011, the Bank arranged, co-arranged or participated in 14 syndicated financing transactions amounting to US\$3.27 billion. The Bank's participation in those syndicated deals amounted to US\$953 million. Aside from funding, the Bank, in some cases, supported the deals by providing additional comfort in the form of country risk guarantees to some members of the lending Syndicate. Thus, for every US dollar funding committed by the Bank, it was able to attract into Africa about US\$3.4 to support trade and bankable trade-related projects in the continent. In furtherance of its leveraging goal, in 2012, the Bank arranged, co-arranged or participated in 15 syndicated financing transactions worth US\$5.45 billion; and participated in those deals up to an amount of US\$894.5 million. Following these developments, for every US dollar committed by the Bank, it was able to attract into Africa about US\$6.10 to support bankable trade and trade related projects (Table 6.1).

Further, during 2011, the Bank supported CBZ Bank in the issuance of a three-year Zimbabwe Economic

Recovery Bond (ZERB). The US\$50 million bond issuance, which was arranged and guaranteed by the Bank, mobilised much needed long term funding for capital investments in key sectors of the Zimbabwean economy, including mining, energy and agriculture. The bond, which is being traded on the Cayman Islands Stock Exchange to allow for increased foreign investor participation, helped to mobilize resources from both domestic and foreign investors. The transaction reflects the success of the Bank's work towards encouraging the return of international investors into Zimbabwe in support of the country's ongoing economic recovery efforts.

Aside from the syndications Programme, the Bank leverages international funding into Africa through its partnership with Export Credit Agencies (ECAs), who provide financing and guarantees for importation of essential and capital goods from their country; and Development Finance Institutions (DFIs), who provide term financing for essential projects. Leveraging of financing from ECAs and DFIs has been scaled up

Table 6.2 Afreximbank: Sources of Non-Equity Funds, 2007-2012

Type of Funds	Total, US \$' Million ^a						Cumulative Total, US \$' Million	Average Growth		Share of Total, %			Share of Cumulative Totals, %			
	2007	2008	2009	2010	2011	2012		Plan I	Plan II	Plan III	1995-2012	Plan II/Plan I		Plan III/Plan II	Plan I	Plan II
Money Market Lines	93	261	150	143.00	262.8	238	414.38	557.40	909.80	2,217.97	34.51	63.22	68.74	37.61	18.17	25.36
Customer Deposits	68	102.068	56.67	93.39	157.851	322.805	28.40	154.55	477.98	983.73	444.19	209.27	4.71	10.43	9.54	11.25
Syndicated Loans		330.95	636.96	498.67	742.37	628.00	160.00	770.00	2,208.94	3,916.94	381.25	186.88	26.54	51.96	44.11	44.79
Bonds	n/a	n/a	300		500.00	35.00	n.a	n.a	800.00	835.00	n.a	n.a	n.a	n.a	15.98	9.55
ECA/DFI	n/a	n/a	n/a	304.00	307.00	181.00	n.a	n.a	611.00	792.00	n.a	n.a	n.a	n.a	12.20	9.06
Total	161.00	694.01	1,143.63	1,039.06	1,970.02	1,404.81	602.78	1,481.95	5,007.72	8,745.64	145.85	237.91	100.00	100.00	100.00	100.00
Cumulative Total	2494.12	3,188.13	4,331.76	5,370.82	7,340.84	8,745.64		2,084.73	6,489.67							

a. Cumulative Total for Plans 1, 2 and 3 excludes figures for 1994, 1995, 2006 and 2012
Source: Afreximbank Annual Reports, Various Issues

significantly in recent times, especially at the height of the global financial and economic crises in 2008/9 with a view to ensuring that African trade did not suffer as a result of the crises. In this regard, in 2010, for example, the Bank mobilised funded and unfunded facilities from ECAs, including Japan Bank for International Cooperation (US\$100 million), Korea Exim Bank (US\$50 million), Saudi Export Program (US\$40 million), and SACE (US\$32 million), among others. The Bank also leveraged funding support from DFIs, including the International Finance Corporation (IFC) of the World Bank (US\$200 million), African Development Bank (US\$150 million), China Development Bank (US\$100 million), and the Development Bank of Southern Africa (US\$50 million) in 2010. Overall, during 2009-12, the Bank leveraged term funding of over US\$.1.1 billion from partner ECAs and DFIs (Tables 5.13 and 6.2).

As part of its efforts at diversifying funding sources and more towards term funding needed to support trade-related projects in response to growing requests from African counterparties in member countries, the

Bank, in 2009, arranged a US\$1.5 billion Euro Medium Term Note (EMTN) programme to issue securities in the international bond markets. After successful roadshows in Europe and Asia, the order books were closed with orders in excess of US\$1.5 billion from 135 different accounts spread across Europe, Asia, Middle East and US offshore investors. Based on the Bank's funding needs, only US\$300 million was taken (Table 6.2). The tenor of 5 years was chosen in line with the objectives of the Bank to leverage term funding to support the capital investments in Africa.

Further, in July 2011, the Bank issued a benchmark size bond in an amount of US\$500 million under its EMTN programme. The deal which was priced at the tight end attracted a coupon of 5.75% for a tenor of 5 years. The bond was six times oversubscribed with an order book of US\$3.2 billion at time of market distress due to a worsening of the sovereign debt crisis of the Eurozone. The success of the transaction underscored the confidence of the bond market in the Bank's credit standing. Again, in December 2012, the Bank arranged a private placement with BNP Paribas to raise €35million under the US\$1.5 billion EMTN Programme. Besides, the Bank has been leveraging

financing into the continent by providing guarantees in support of lenders funding African entities. During 1995-2012, the Bank approved country risk guarantee and reimbursement guarantee in an amount of US\$642.2 million as comfort to entities funding African entities/projects. The Bank also actively used its borrowing activities in leveraging international financing into Africa as captured in Table 6.2.

6.2.4 Supporting Intra-African Trade through Directing Financing and Promotion of Air and Communication Links

As part of its effort at promoting intra-African trade, the Bank has been providing financing and advisory services support to African transport (including aviation) and communication service providers with a pan-African focus to enable them build the necessary infrastructure and/or provide the necessary services to support the trade. In this regard, during 2010, the Bank arranged and participated in an ECA-backed facility in favour of Lonrho's Fly540 (Fly540). Fly540 is building the first international standard, regional airline that fully connects Sub Saharan Africa --- East to West and North to South. Fly540 focuses on operations built around three regional hubs, in Nairobi (Kenya), Luanda (Angola) and Accra (Ghana). Each hub feeds passengers domestically, regionally and across the continent providing a route network that connects the continent, and offers intercontinental passengers arriving from Europe, USA, Middle East and Far East a pan African access. The Kenyan and Angolan hubs started operations well ahead of the third regional hub in Accra, Ghana, which commenced operations in 2011.



The US\$32 Million Aircraft Financing Facility for Fly540, which was underwritten by the Bank in 2010 and supported with ECA guarantees from COFACE and SACE in favour of HSBC, London, enabled the firm to acquire two new ATR 72 aircraft and also meet the operational goals of this promising ICAO-registered airline.¹ Fly540 is thus on course to establish reliable air links between eighteen countries in Africa by 2013. The Bank is of the view that supporting Fly540, which is focused on the delivery of world class airline services connecting countries in Africa, will undoubtedly support intra-regional trade and impact positively on regional integration efforts of the continent. It will also reduce costs of intra-African travels to the benefit of intra-regional trade, the promotion of which is a key mandate of the Bank.

The Bank has in recent years arranged syndicated financing facilities for acquisition of aircrafts by African-focused airlines such as Arik Air and Lonrho's Fly 540 and gained experience and built capacity in aviation financing on the Continent. On the back of this experience, in 2012, the Bank submitted a competitive bid and won the mandate from Kenya Airways (KQ)

¹ ICAO - International Civil Aviation Organization



to arrange and participate in a US\$1.968 billion syndicated Aircraft Acquisition Financing Facility for KQ. The financing facility, which is composed of Pre-Delivery Payment (PDP) facility of US\$359.8 million and a Delivery Facility of US\$1.608 billion is for the purchase of nine new Boeing 787-800s (Dreamliners) (B787s), one Boeing 777-300ER (B777-300ER), and ten Embraer -190 aircrafts (E-190s). The mandate was awarded to the Bank following due consideration and assessment of several financing proposals received from various international banks and development finance institutions in response to a request for proposals (RFP) issued by KQ in March 2012. The new deliveries will extend capacity as well as allow for replacement of aircrafts that are due for retirement. Specifically, the Dreamliners will replace KQ's B767

aircrafts due for retirement whilst the E190s will be used for capacity expansion on the Africa/regional routes.

Under the terms of the mandate, the Bank underwrote up to US\$300 million and took a final stake of US\$100 million in the syndication. The Bank's support to one of Africa's leading carriers with impeccable international reputation for delivery of quality services, KQ, is expected to enhance KQ's competitiveness in the growing aviation industry. Under the business expansion programme, KQ intends to operate in all major African cities; add at least six new locations to its flight destinations each year over the next five year period, 2012-16; expand its operations in Asia with more flights to China and India; and enhance its freight business to take advantage of the growing global cargo business, among others. Through this project, the Bank expects to contribute to the development of infrastructure in support of intra- and extra- African travel and trade; support diversification of Africa's exports from commodities to services; leverage finance from international banks in support of Africa's development from syndication partners and Export Credit Agencies (ECAs); support on-going efforts at modernising infrastructure in Africa's aviation sector; and contribute to foreign exchange and employment generation, among others.

During 2010, as part of its strategic goal of promoting the creation of the requisite physical infrastructure to support intra-African trade, the Bank supported the operations of ECONET Wireless Global (EWG), a diversified telecommunications group with

operations/telecoms interests in 7 African countries, namely Botswana, Burundi, Kenya, Lesotho, Nigeria, South Africa and Zimbabwe as well as in the United Kingdom and New Zealand. EWG offers ICT products and services in the core areas of mobile and fixed telephony services, as well as internet and satellite. Specifically, the Bank, in 2010, supported ECONET's regional business by arranging a US\$130 Million Syndicated Financing Facility for EWG to fund the procurement of GSM equipment (and related civil works), which EWG would lease to its GSM operating companies in Burundi and Zimbabwe.

Corollary to this, the Bank has been supporting EWG's subsidiary in Zimbabwe, ECONET Wireless Zimbabwe (EWZ) in its expansion programme by financing the acquisition of telecommunications equipment. For example, in December 2008, the Bank extended equipment import financing facility in an amount of US\$28 million to EWZ to fund importation of switching equipment and base stations for the expansion of the company's operations and network in Zimbabwe. Following the dollarisation of the Zimbabwean economy in 2009 and the introduction of economic tariffs coupled with continued financing support from Afreximbank, EWZ embarked on an ambitious network expansion program, which resulted in a four-fold increase in subscriber base, from 1.2 million in February 2009 to over 5 million at the beginning of February 2011. Through its business expansion programme, EWZ was able to contribute to the growth of the Zimbabwean economy through contributions to fiscal revenue via payment of direct and indirect taxes; employment generation with over



800 direct jobs in addition to indirect employment created through airtime distribution, payphone business, internet cafés, printing of recharge cards, and advertising, among others. With the Bank's support, EWZ was able to get Zimbabwe connected to the world enabling the conduct of e-business, and other IT-dependent activities that contributed to trade and economic development in that country.

During the last ten years, the Bank's cumulative credit approvals in support of the telecommunications sector rose steadily from US\$114.1 million in 2000 to US\$1.375 billion in 2012. The approvals were in favour of over 20 small and large telecoms operators in Liberia, Sierra Leone, Benin, Guinea, Cote d'Ivoire, Botswana, Lesotho, Nigeria, and Zimbabwe, among others.

Further, the Bank has been scaling up its promotion and financing of intra-African trade during the last decade. In this regard, the Bank has been providing financing and advisory services support to African businesses in activities the Bank believes they enjoy comparative advantage in providing to near markets. In many of the cases, the Bank provided solutions to the missing link in exploiting the market opportunities. Some of these included challenges related to market entry, country and commercial risk cover, and putting trading entities at near equal footing with their competitors by making it possible for them to grant buyer credits to their African customers. In this regard, during 2011, the Bank provided financing and related support in respect of sales/supply contracts awarded to El Sewedy Electric, an integrated power and energy solutions company based in Egypt, to undertake various projects relating to the electricity sector in three countries, namely Cameroon, Ethiopia and Zambia.

In Cameroon, the Government, as part of its strategy of increasing electricity production capacity in the country, awarded a contract to El Sewedy Electric for the supply of equipment for the generation of electricity in 3 main cities experiencing severe energy deficits, including a 20 Megawatt thermal power plant for the city of BAMENDA, 10 Megawatt thermal power plant for MBALMAYO and 10 Megawatt thermal plant for EBOLOWA. The transaction was supported by Ecobank Cameroun through the issuance of Letters of Credit to an amount of about €44 million in favour of El Sewedy. Afreximbank provided payment guarantees in respect of the Letters of Credit

issued by Ecobank in support of the deal to enable El Sewedy execute the contract.

In Ethiopia, the Bank entered an arrangement with El Sewedy where it committed to provide payment guarantees and/or undertaking to purchase payment instruments under Letters of Credit issued by Commercial Bank of Ethiopia (CBE) in favour of El Sewedy Electric in an amount of €65 million. The contract involved was for the design, supply, testing and commissioning of wind farm equipment for the development of a 60 Megawatt Wind Power Generation Project in that country. The project is intended to support, in an environmentally sustainable manner, the country's industrialisation process as well as economic activities of small and medium-sized enterprises and thereby contribute to job creation and employment in Ethiopia.

In Zambia, the Bank provided a Discounting Facility in an amount of US\$80 million in respect of accepted drafts drawn under Letters of Credit issued by Zambia National Commercial Bank (ZANACO) on behalf of Zambia Electricity Supply Company Limited (ZESCO), thereby making it possible for El Sewedy to grant appropriate credit terms to ZESCO and facilitating El Sewedy's successful bid for the project. The contract involves supply of equipment and substation upgrade, and supply of transformers and related equipment to ZESCO. The Zambian project is very important to ZESCO, which produces almost 100% of Zambia's electricity requirements. Zambia's economic development and growth strategies are centred around agriculture, mining and tourism

sectors, and thus reliable power supply is crucial to the viability and development of these sectors and sustainable economic growth and development of that country. Further, by financing ZESCO, an important power producer in the Southern African Development Community (SADC) under the Southern Africa Power Pool Arrangement, the financing support provided by Afreximbank to the ZESCO/El Sewedy transaction contributed to enhance regional trade and co-operation among countries in the SADC region.

The El Sewedy transactions with various buyers on the continent boosted intra-African trade, as the Bank's financing assisted an African supplier to provide services to countries in the region, reduced the cost of trade finance as the L/Cs opened by the local banks needed no international bank confirmation, benefited local industries, created employment in Egypt and the respective buyer countries, and contributed to strengthen economic co-operation among African countries. Moreover, the projects financed were considered very important to the countries' socio-economic development and economic growth strategies, given the importance of energy to activity across all sectors of national economies. Further, in the case of Ethiopia, the project in question has the potential of contributing to environmental sustainability with possibility of earning carbon credit for Ethiopia. The partnership with El Sewedy and selected companies with competitive advantage in exporting to Africa constitutes a solid foundation in the Bank's aggressive effort at promoting intra-

regional trade under its newly launched Intra-African Trade Facilitation Programme (INTRAFAP).

6.2.5 PROMOTING THE DEVELOPMENT OF SERVICE EXPORTS

Consistent with its corporate goal of promoting service exports in Africa, the Bank recently introduced the Construction/Tourism-Linked Relay Facility (Contour) to support the tourism industry, which has been identified as one of the key service export industries with enormous potential to contribute to the growth and development of African economies, through foreign exchange earnings, direct and indirect employment creation, skills transfer and development of supply chains. Through the facility, the Bank finances and promotes the development of world class hotels and tourism facilities in Africa.

The Bank, in 2010, promoted the development of such facilities in Mali, Zimbabwe, and Nigeria. In Mali, the Bank provided financing for the expansion of the facilities of a 5-Star Hotel, Residence Kome S.A.U (or Radisson Mali) in Bamako, Mali. Following the Bank's provision of a €10 million Tourism-Linked Hotel Extension Financing Facility in 2009 and additional €3 million for completion of extension works in 2010, the Hotel was able to expand the range as well as improve the quality of its services and, consequently, increase its turnover and contribution to the country's foreign exchange earnings, job creation, and payment of fiscal revenues to the State. In a similar vein, the Bank provided a Hotel Re-development Facility in an amount of US\$10 million to Central Hotels Limited

(CHL) in Kano, Nigeria, to finance the refurbishment and expansion of its facilities.

During 2011, with FBN Bank (UK) Ltd as Construction Financing Partner, the Bank, under its Contour facility, provided credit guarantees to support the construction phase of the development of a 5-Star hotel in Freetown, Sierra Leone. Besides, in line with the Bank's policy of providing assurances to investors that African governments will meet their commitments to foreign investors under development-oriented projects, the Bank provided a Country Risk Guarantee Facility to FBN Bank (UK) Limited with extension that covered certain Sierra Leone Government commitments to the project promoters for the construction phase. It is pertinent to note that the promoters of the Hilton Freetown Cape Sierra Hotel, IDEA (UK), is a local company set up by Sierra Leonean professionals previously living in the diaspora. With the Bank's support, IDEA (UK) secured the site for the new Hotel Project from the country's State Pension Fund under a 48-year concession.

The Bank's Contour Facility enabled IDEA (UK) to proceed immediately with the two year construction phase of the project, which involved the demolition of the original defunct hotel structures and replacing it with a new, modern facility that would make optimal use of the stunning Atlantic waterfront location upon which the hotel is situated. Demolition of the original hotel structures began in October 2011 and was successfully completed on schedule in January 2012. Actual construction of the new hotel, which began in 2011, is scheduled to be completed for

operational take-off during the first quarter of 2014. It is worth noting that upon completion of the physical construction works, Afreximbank will, under the terms of the Contour Facility, refinance the construction loan granted by FBN Bank, UK and fund the cost of installing Furniture, Fittings and Equipment (FF&E) as well as provide working capital to support the operations of the hotel facility. The project has the potential to create over 400 jobs for local skilled and unskilled workers during the construction phase, with an additional 450 workers expected to be directly employed by the hotel during the operations phase. Indirect local employment opportunities are also expected to be created throughout the supply chain during both the construction and operational phases of the hotel project. Further, the hotel facility will have a significant positive impact on the foreign exchange earnings capacity of the country by raising tourist arrivals and supporting investments in mining and other sectors.

It is also worth noting that IDEA (UK) has committed to providing facilities for training in the area of hospitality management in Sierra Leone. The proposed training facility is expected to contribute in improving the efficiency of service delivery within the hospitality industry in Sierra Leone. This would in turn positively impact the national tourism industry making Sierra Leone better-able to compete with more established tourism destinations in the sub-region. Over the term of the concession, the hotel project is expected to make rental payments to the State Pension Fund in excess of US\$100 million with the Government of Sierra Leone receiving a share of 10% of those rental

payments. The Government of Sierra Leone is further expected to receive over US\$70 million in corporate tax revenues --- resources that could be used to fund much needed investments in social services, such as healthcare and education.

6.2.6 Supporting the Development of Telecommunications Infrastructure in Afreximbank's Member Countries to enhance Africa's integration into the Global Economy

A reliable and efficient telecommunications sector is a pre-requisite for trade facilitation, and maintenance of international trade competitiveness and sustainable economic development, as national economies are becoming increasingly dependent on telephones, internet and other telecommunication technologies to source raw materials, explore new markets and trade in a more cost-efficient manner. A new way of trading or transacting business via the use of ICT infrastructure is becoming an important aspect of both domestic and international trade, because of lower transaction costs associated with such trade. Thus, presently, economies with modern ICT infrastructure and higher levels of penetration in telephony, for example, are more likely to attain higher operational efficiency than those that are not. It is from the foregoing that the telecommunications sector is increasingly becoming one of the key sectors the Bank has been supporting as part of its efforts at improving competitiveness of African traders and other economic agents.

As part of its effort at integrating Africa into the global economy under the rapidly evolving information



age, the Bank has been providing financing and advisory services support to African communication service providers to enable them build the necessary infrastructure and/or provide the necessary services to facilitate ICT development in the continent. In this regard, in 2011, Afreximbank, arranged a syndicated term loan facility of US\$125 million for SWAP Technologies & Telecomm Plc ("SWAP"), a telecommunications infrastructure service provider in Nigeria, to finance the acquisition of cell site infrastructure from Starcomms Nigeria, finance capital investments in various forms of telecommunications infrastructure, as well as meet technology upgrade requirements.

SWAP is one of the leading turnkey mobile and telecommunications infrastructure construction and service firms in Nigeria providing solutions to telecommunications operators and vendors who seek to build telecommunications infrastructure for fixed and wireless telecommunications services.

Until 2009, SWAP's business was focused on trading and distribution of telecommunication products, including airtime, distribution of telecoms towers, shelters and DC power equipment, and building of complete BTS sites for CDMA and GSM operators and ISPs. The company is currently positioning itself as a full-fledged telecommunications infrastructure management service provider focusing on:

- infrastructure deployment and management services;
- post construction management services (operations and maintenance); and
- Telecommunications Infrastructure Sharing and Leasing, referred to as Co-location.

Following the acquisition of 100 sites by SWAP from Zoom Mobile under a Sale-and-Leaseback (SLB) Agreement and the building of an additional 100 sites by the company through "Build-to-Suit" arrangements with clients of SWAP in October 2010, the company acquired 407 telecommunications towers from Starcomms Plc, Nigeria ("Starcomms") to add to its portfolio of over 200 telecomm towers through a competitive tendering process and thereafter upgraded all the acquired sites to meet its standards for co-location.

The US\$125 million Syndicated Senior Secured Term Loan Facility provided by Afreximbank and other lenders, namely First Bank, Nigeria, ECOWAS Bank for Investment and Development (EBID) and Diamond Bank, Nigeria will provide the company much needed financing to enable it pursue its key near to medium term expansion plan of providing "managed

services" to clients. The company is in the process of formalizing agreements in this regard for a total of 147 sites owned by Starcomms and 500 sites currently operated by Ericsson.

The support provided by the Bank facilitated the migration of the Nigerian Telecom Sector towards the outsourcing of key services to service providers enabling the companies to lower telecommunications service costs to consumers and to generate cash for further investments in new technology that is currently driving cross-border trade and economic activities.

In 2012, the Bank availed two Receivables Purchase Facilities amounting to US\$8 million to the Gambia Telecommunications Company Limited (GAMTEL) and the Gambia Telecommunications Cellular Company Limited (GAMCEL) to enable the company modernize its infrastructure to provide quality telecommunications services to its clients. The transaction involved the purchase of the underlying invoices/receivables arising from the sale of telecommunications equipment and services to the two service providers in Gambia by Huawei PTE Limited of Singapore ("Huawei"). The contract covers the design, supply, delivery, installation and commissioning of telecommunications equipment for the two companies. The project represents the first phase of the country's Telecommunications Improvement Project (TIP). The second phase is expected to be carried out upon successful completion of the first phase.

GAMTEL is the primary provider of telecommunications services in The Gambia and has monopoly over fixed line telephony service, while GAMCEL provides GSM Cellular services. The facilities are to improve their service delivery capacities in the telecommunications sector of The Gambia.

6.2.7 Supporting Small and Medium-Sized Enterprises Operating in Export Supply Chains

Afreximbank has in place arrangements for facilitating trading activities in its member countries coming out of crisis as a way of rapidly returning such economies to growth and prosperity. It does that under specific country programmes and other initiatives. In furtherance of this goal, the Bank proactively supports ongoing efforts at reviving economic and trade activities in Zimbabwe, one of the Bank's member countries. In this regard, besides various forms of financing provided through local banks under a Country Assistance Programme arranged in support of the country's economic recovery programme over the last decade, the Bank, in 2011, signed an Agreement with the Ministry of Finance of Zimbabwe (MOFZ) under which Afreximbank committed to provide a US\$100 million Zimbabwe Economic and Trade Revival Facility (ZETREF) in favour of selected Zimbabwean banks for on-lending to Small and Medium-Sized Enterprises (SMEs) in Zimbabwe. MOFZ participated in the facility in an amount of US\$20 million.

The facility, which is being disbursed through local banks approved by the Bank, is to facilitate access of strategic industries/sectors to reasonably-priced fi-

ancing to extend productive capacities of SMEs in Zimbabwe and, in so doing, enable them contribute effectively to economic and trade revival in Zimbabwe. The Facility is expected to support local businesses in the country which are currently facing challenges with respect to high cost of funds, limited financing opportunities and the lack of long-term financing. Under the facility, support will be extended to companies operating in regions less serviced by local banks. It is expected that 27 enterprises employing about 400 people will benefit directly and indirectly from the facility and capacity for export processing extended significantly for the benefit of high export revenues over the near to medium-term for the economy.

During 2010-11, the Bank provided a US\$10 million 5-year dual tranche financing facility in support of a capacity expansion project of a medium-sized company, Riggs Ventures West Africa Plc ("Riggs"), based in Nigeria. The company is engaged in the manufacture of high quality polypropylene bags and sacks for both agricultural and industrial products such as fertilizer, flour, salt, livestock feeds, malt cake, cocoa bean cake, palm kernel cake, cassava, cotton, beans, soya beans, sorghum, maize, rice, wheat, sesame seeds, cocoa beans, cashew-nuts, palm kernel, and coffee seeds, among others.

The facility, which was guaranteed by Nigerian Export Import Bank (NEXIM) in 2011, was utilized for importation of ultra-modern plant and machinery from Bag Solutions Worldwide (BSW) based in Austria. Following installation of the plant and machinery and commencement of production at the new factory, the

company was able to significantly raise its annual production capacity by more than seven fold from 9 million sacks to 69 million sacks. Riggs has also been able to increase its production lines, with the recent production of cement sacks in addition to its existing agro and industrial bag product lines. Further, on account of the Bank-sponsored capacity expansion programme, the company was able to increase its staff strength with the creation of 300 additional direct jobs and 500 indirect jobs. It is also worth noting that following the expansion project, Riggs Ventures now ranks as the 3rd largest manufacturer of polypropylene bags and sacks in Nigeria and plans to expand its operations to serve other parts of West and East Africa.

6.2.8 Financing Trade-Supporting Infrastructure in Member Countries

As part of its efforts at promoting and financing intra- and extra-African trade, the Bank finances the development of trade-related infrastructure in the spheres of transportation, energy/power, and telecommunications, among others, to support trade and to socio-economic development in its member countries. In this regard, in recognition of the crucial contribution of energy/power to the development of trade and national economies, the Bank, during 2012, provided a US\$35 million receivables-backed amortizing term loan facility to Zimbabwe Electricity Transmission and Distribution Company (ZETDC) to finance importation of power equipment and construction of five power sub-stations in Zimbabwe.

The facility, which was availed by way of Afreximbank confirming Letters of Credit (L/Cs) opened by Stanbic Bank for importation of power equipment, as well as for working capital financing purposes, was secured by future receivables expected from reputable mining companies in Zimbabwe under Power Supply Purchase Agreements signed between ZETDC and reputable global mining houses with extensive experience in mining activities in Zimbabwe. The planned enhancement to the power generating capacity of ZETDC arising from installation of the new sub-stations is expected to boost power supply and thereby improve the well-being of domestic consumers as well as support operations of manufacturing companies in Zimbabwe. It is further expected that the additional power supply will enable mining firms to revamp their operations by running additional shifts, which would contribute to raise mineral production and export earnings, and employment of additional staff who would have been redundant in the absence of regular power supply for 24-hour operations of the mines. Moreover, the enhanced power generating capacity arising from the project is expected to complement other energy sector reforms being implemented by the Government, such as review of electricity tariffs, and introduction of prepaid meters, among others, needed to ensure adequate and reliable supply of electricity to support production of goods and services consistent with the national economic recovery efforts of the country.

With low power generation of around 1,200 MW against installed capacity of 1,960 MW and national demand of approximately 2,200 MW, the project

is expected to contribute to bridge existing gaps in electricity generation. Using modern infrastructure and technology, the new sub-stations are expected to improve efficiency in the transmission and distribution

of electricity as well as enhance reliability of power supply especially to major electricity users in the mining sector, who are major drivers of the on-going economic recovery programme in Zimbabwe.



Chapter Seven:

CONCLUSIONS, LESSONS AND PROSPECTS

7.1 CONCLUSIONS

The narrative of the evolution of the Bank and the detailed analyses of its operational and financial performances presented in this book show an institution whose creation was justified and its overall contribution to trade development in Africa conforms with expectations of its founding fathers. The analyses further show an institution created out of vision, courage, collective self-reliance, and underscore the capacity of Africa to find solutions to its problems as well as an unbending determination of the promoters and management of the institution to make a difference. The visionary aspects of the Bank's founding derives from the fact that as a result of the high level of Afro-pessimism that prevailed at the time and the disappointing outcomes of the continent's integration and trade collaboration efforts, any suggestion regarding the creation of another continental institution was likely to have received a muted response. Further, the Afreximbank project benefitted from enormous courage in that, at that time, many African economies were undergoing serious economic difficulties and therefore it took considerable courage on the part of African Governments facing severe fiscal challenges 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" and a possible addition to the continent's litany of socio-economic failures. The Afreximbank project also benefitted from a spirit of collective self-reliance, which was 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 and that with vision and proper sense of direction, solutions could be found for many of the seemingly daunting socio-economic challenges facing the continent.

Against this backdrop, the results achieved within almost twenty years of the Bank's operations seem to conform with expectations as past and current 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 analyses in the preceding chapters of the book portray a very "heart-warming" outcome --- a Bank that experienced tremendous organic growth which saw its total assets increase by nearly 26 folds only twenty years after its establishment. Other notable achievements during this period of robust operations were an impressive average annual growth of 27.8% in its loans and advances from US\$27.5 million in 1995 to US\$3.1 billion in 2012; an average annual rise in net income of 14% from US\$5.99 million in 1995 to US\$64.8 million in 2012; a more than 70 fold increase in reserves from US\$3 million in 1995

to US\$222.86 million in 2012; more than four-fold increase in shareholders' funds from US\$143 million in 1995 to US\$612.3 million in 2012; and keeping faith with shareholders when, in 1998, it became the first multilateral institution in Africa to pay dividend and maintained dividend payments every year since then. Dividend growth between 1998 and 2012 was more than sixfold. The Bank had also been efficiently run with cost-income ratio averaging 24.3% from 2007 to 2011; and non-performing loans non-existent in the first three years and averaging, during 2009-2012, about 1% of gross loans.

The above financial performance was achieved by providing credit, guarantees as well as advisory services to African entities. The Bank also actively leveraged international financing into Africa using a variety of instruments, and during Plan III and current plan period, emphasised programmes aimed at supporting export manufacturing in a bid to promoting the diversification of Africa's export basket and markets.

Aside from the corporate (operational and financial) achievements, the Bank made significant contributions to trade and economic development in its member countries through several channels, including the promotion of local content across Africa's enclave extractive industries through its financing of African entities involved in the delivery of goods and services to major mining and oil and gas companies operating in the continent; financing of trade-supporting infrastructure especially in aviation, power and telecommunications sectors; strengthening of local industries in member countries to extend and/

or modernize capacities for processing of goods for domestic and foreign markets; supporting on-going efforts at diversification of exports by financing the processing of commodities for exports under the various programmes and facilities of the Bank.

Aided by the solid financial performance and careful implementation of its mandate as related above, the Bank within a period of about 20 years became a preferred partner in African syndicated deals providing significant comfort to other international banks to join such deals.

The foregoing achievements were made through conscientious management of the various internal and external shocks that emerged in the global and African macroeconomic environments, which had far-reaching implications for the survival of the Bank as well as successful pursuit of its mandate. Thus, the success achieved by the Bank under the difficult challenging operating environment discussed in Chapter Four of this book suggests important lessons for trade development in Africa.

7.2 LESSONS OF AFRICAN TRADE FINANCE EXPERIENCE

The Bank's experience in financing African trade during 1994 - 2012 throw up immense lessons as discussed hereunder:

- a) the achievements made by the Bank underscore the usefulness of cooperation between African public and private sectors as well as between Africa and its non-African development partners, and the enormous capacity of African countries to solve their common problems through collective effort. Prior to the Bank's establishment, the general belief was that collaborative initiatives of that nature were unlikely to work in Africa. Afro-pessimists further cited lack of capital to adequately fund such an institution as well as lack of experienced management to deal with the multiplicity of challenges such an institution would have to grapple with. The stellar performance of the Bank during the period of its existence undoubtedly reveals the capacity of Africa to survive and move forward, and opens the door for more of such initiatives to be targeted at some of the continent's socio-economic problems that require ingenious collective effort;
- b) the involvement of the private sector in the Afreximbank project helped to 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 show a forward-looking group of Founding Fathers that were aware of the fact that the Bank needed not only 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 rewarded management for its efforts at meeting the interests and expectations of its diverse shareholders;

- c) the multiplicity of shocks that emerged in the external environment posed immense risks which the Bank successfully managed. One of the reasons behind the Bank's success at managing the risks in the operating environment was a reliance on Strategic Plans. Specifically, the Strategic Planning process 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, by changing emphasis and slants as the operating environment changed for better or worse. 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 highlights three key points:
 - (i) the strength and usefulness of Structured Finance as an instrument of financing under a

difficult operation environment. Structured Finance, in this regard, makes 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 capacity and willingness of African entrepreneurs to meet their obligations. African entrepreneurs used to be regarded as poor managers who do not understand the meaning of credit commitments they enter into. The Bank's almost twenty years of trade financing in Africa debunks this generalization. In fact, a useful lesson learnt by the Bank is that it is riskier to finance a non-African businesses operating in Africa as these kinds of deals most often ended up in difficulties.
- (iii) the importance of local knowledge which the Bank 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. Local knowledge helped the Bank to spot and stay away from difficult deals with the potential to adversely impact the quality of the Bank's loan portfolio. It also helped the Bank to identify and forge constructive partnerships with relevant local entities to support the Bank's operations and activities.

- e) the strong appetite for the Bank's risk in international credit markets evidenced by repeated oversubscription for its Syndicated loans and bond issues reflects 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 loans and/or advised on the bond issues were those the Bank had maintained the longest relationships with;
- f) strong 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. The shareholder dispute that arose in January 2005 following the change of leadership from the pioneer President to the current President, for example, was amicably settled because all parties placed the ultimate survival of the Bank as a continental institution above individual shareholder interests. Moreover, when the need arose for the capital base of the Bank to be increased to enable it do more business, shareholders consulted extensively among themselves and attended several extra-ordinary general meetings to approve the required charter amendments to facilitate the equity raise;

- g) another important lesson for export development is the need to find solutions to the problems facing the commodity sector. As noted elsewhere in this book, Africa's commodity exports and earnings are subject to extreme volatilities in international commodity markets. To ensure that commodity production and exports continue to support the continent's economic transformation, in the short term, it would be necessary to remedy the institutional gaps arising from the demise of the commodity boards in order to restore predictability to the sector by fostering the creation of appropriate public-private partnerships to fill the vacuum. In this regard, 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 demise of the 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. Documented experience suggest that a well-thought out partnership between the government and the private sector as equals could go a long way in addressing, on permanent basis, most of the problems currently affecting activity in the continent's commodity sector ;

- h) availability of both short-term pre- and post-export credit as well as project-related financing is crucial to efforts at 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 capabilities needed for successful export manufacturing. Promotion of export manufacturing, therefore, requires a holistic approach along the lines provided under the Bank's Export Development Programme mentioned in this book;
- i) the Bank's experience suggest that promotion of intra-African trade requires more than financing for meaningful growth and development. The Bank's opinion is that African

Governments need to do more to promote the trade by simplifying procedures to ease the movement of goods and services within Africa. They should also strive to 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 as a result of limited correspondent banking relationship among African banks. 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 is to make African bankers understand themselves and better appreciate each other's risk, prior to their involvement in intra-African trade deals for which bank support is required on both sides of the trade. Afreximbank began an effort in this regard by promoting an African Banker's Association 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 many countries in that region are yet to join the Bank as shareholders. To address this problem, coun-

tries in that sub-region should be encouraged to 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 counterparties in that subregion;

- k) 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, and trade financing flows in particular;
- l) experiences from around the world suggest that state or institutional support is crucial to sustainable development of exports. Available records suggest that with the exception of a few countries such as South Africa, Egypt, Tunisia and Zimbabwe, many African countries lack effective national strategy and institutions to spearhead the development of trade and export in particular. Table 4.16 shows that only the above-mentioned four countries have full pledged institutional support for export credit, for example. Further, trade and export promotion agencies, where they exist, appear to lack the resources and technical capacity to robustly support export and trade development. This situation arises partly from the fact that instead of considering trade and export promotion as an integral part of the broader national development efforts, national trade/export development strategies are most often left to trade-linked

government ministries or trade promotion agencies of the government. Such sub-optimal arrangements had tended to result in very limited, sporadic and uncoordinated involvement of the business community, NGOs and non-trade-related government agencies in the promotion of trade/exports. Accordingly, technical input and support from non-trade-related agencies for trade/export development are withheld. The obvious lack of involvement of all and sundry in national trade/export development strategy formulation means genuine private sector concerns and other inhibitions to export development cannot be heard and addressed by the State. To address this structural and policy weaknesses, trade/export promotion strategies should be designed with input from all government departments, the business community and NGOs. Further, appropriate well-resourced state institutions should be created to champion trade/export development efforts.

7.3 PROSPECTS

Experience has shown that banks face the most risk of failure in their initial five years as systems would still be fragile and market knowledge shallow. Considering the fact that the Bank had not only survived the first twenty years but had made a success of it, it seems sufficiently correct to say that its future looks bright. Nevertheless, a lot of challenges remain in the Bank's operating environment which requires it to be as adaptive as

ever to continue to fulfill its mission effectively. Some of those challenges include the lingering uncertainties in the global economic environment, volatile commodity prices, the introduction of Basle III and its implications for the operations of the Bank and other international banks; and the urgency of the need to process African commodities by financing extension and modernization of export-related projects, among others.

Forging constructive partnerships to support the operations and activities of the Bank will be crucial. The Bank thus intends to build on the success made in the area of leveraging constructive partnerships to support its operations and activities. The partnerships forged and the goodwill acquired in the international credit markets, for example, will be harnessed to support the Bank's operations over the medium to long-term. In this regard, the current leadership will continue to convince its existing partners that the Bank's success implies better business and/or success for them (its partners) as well. Considering its performance over the years, Management will have to convince the Bank's partners about its plans to meet or even surpass what had so far been achieved. These challenges would bring pressures, which only a continuation of the cautious operational stance maintained over the past twenty years can help to deal with. As the fourth Plan would still be in effect for about three more years, Management will have the benefit of a well thought-out strategy document to guide it. Against this backdrop, Management expects the Bank to continue to deliver quality service to the continent in the coming years.

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ANNEX 1: AFREXIMBANK: CORPORATE MILESTONES

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: <ul style="list-style-type: none"> • Charter adopted. • First President elected (Mr. Christopher Edordu). • First 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.
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.
July 1996	First Branch Office Agreement signed in Harare, Zimbabwe
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 2000	First amendment of the Charter in Tunis at the Seventh General Meeting of Shareholders to make arrangements for any transitional period being any period when the actual shareholding proportion falls behind the then Charter distribution of 35% for class "A", 40% for class "B" and 25% for class "C" and to make provision for the rotation of Board members.
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.
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.
March 2011	Second Branch Office Agreement signed in Abuja, Nigeria.
July 2002	Third Branch Office Agreement signed in Tunis, Tunisia.
January 2003	Second Branch Office opened in Abuja, Nigeria.
March 2003	Third Branch Office opened in Tunis, Tunisia
November 2003	Dual tranche syndicated term Euroloan in an amount of US\$180 million involving more than 30 international financial institutions.
January 2005	Shareholders at their Reconvened 11th General Meeting held in Abuja, Nigeria appointed Mr. Jean-Louis EKRA President of the Bank to replace Mr. C.C. Edordu who served out his second and final term of office on that occasion.
March 2005	Mr. Jean-Louis EKRA assumed office as President of the Bank.
October 2005	Closed a Dual Tranche Syndicated Revolving Credit facility in an amount of US\$210 million involving more than 30 international financial institutions.
September 2006	Mr. Jean-Louis EKRA's appointment as President re-affirmed by Shareholders, bringing to closure the challenge of Egyptian Shareholders regarding the process of his appointment.
October 2006	Closed a Dual Tranche Syndicated Term Loan and Revolving Credit Facility in an amount of US\$150 million involving a Syndicate of more than 30 international financial institutions.
January 2007	Third Strategic Plan covering the period 2007/11- ("Project ASPIRE") launched. Among new products introduced was a Carbon Financing Programme.
January 2008	Concluded a syndicated Club Loan Facility in an amount of US\$150 million.
June 2008	Closed a Dual Tranche Syndicated Term Loan and Revolving Credit Facility (of US\$150 million and €22 million respectively) involving a syndicate of 25 international financial institutions.
October 2008	Closed a Dual-Tranche Syndicated Term Loan and Revolving Facility (of US\$65 million and €31 million respectively) involving a syndicate of 8 international financial institutions.
October 2008	Dr. B.O. Oramah was appointed Executive Vice President (in charge of Business Development and Corporate Banking).
July 2009	Closed a Dual-Tranche Syndicated Term Loan (of US\$185 million and €95 million respectively) involving a syndicate of 34 international financial institutions. This was the largest loan for Afreximbank to date and closed twice oversubscribed despite difficult market conditions.
November 2009	The Bank closed a 5 year US\$300 million Euroloan issue. The bond was rated BBB- by Fitch. The Order book amounted to US\$1.5 billion with a final geographical distribution: Europe 49%, UK 25%, Asia 14% and the Middle East 4%.
October 2009	Fitch Ratings has affirmed the African Export-Import Bank's (Afreximbank) Long-term Issuer Default Rating (IDR) at <BBB-> with a Stable Outlook and Short-term IDR at <F3>.
December 2009	Closed a Dual Tranche Syndicated Term Loan (of US\$180 million and €85 million) involving a syndicate of 31 banks. The facility closed significantly oversubscribed despite the continuing difficult market conditions. The facility at the time represented the largest ever financing raised through the international debt markets.

April 2010	Mr. Denys Denya was appointed as Executive Vice President (responsible for Finance, Administration and Banking Services).
May 2010	The Bank raised US\$320 million and €134 million through a dual tranche syndicated facility. The syndication attracted 49 Banks from, Europe, the Middle East, Africa and Asia and was nearly three times oversubscribed.
May 2010	Moody's assigned Baa2/P-2/C- to African Export-Import Bank; outlook stable
June 2010	Second amendment of the Charter in Gaborone at the second Extraordinary Meeting of Shareholders to provide further clarity on the Charter provisions relating to the appointment of the President.
November 2010	Standard & Poor's has affirmed the African Export-Import Bank's (Afreximbank) <BBB-/ A-3 with a Stable Outlook
November 2010	The Bank moved its offices to its new headquarter premises in Heliopolis, Cairo, Egypt
December 2010	The Bank arranged a club facility amounting to US\$140 million and €74.5 million.
February 2011	The Bank raised €34 million through a private placement under the EMTN programme.
June 2011	The Bank raised US\$307.5 million and €119.25 million through a dual tranche syndicated facility. The syndication attracted 35 Banks from, Europe, the Middle East, Africa and Asia.
July 2011	The Bank closed a 5 year US\$500 million Euro loan issue. The bond was rated BBB- BBB- and Baa2 by Fitch, S&P and Moodys respectively. The order book amounted to US\$3.156 billion with a final geographical distribution: Europe 25%, UK 37%, Asia 18%, US Offshore 15% and the others 5%.
March 2012	The Bank raised US\$378 million and €190 million through a dual tranche syndicated facility. The syndication attracted 27 Banks from, Europe, the Middle East, Africa and Asia.
December 2012	Third amendment of the Charter in Harare to increase the capital of the Bank to US\$ 5 billion and introduce a new class D shares, open for subscription to any investor, African or non African. Shareholders also approved the issue of new shares worth USD 500 million for the initial subscription in Class D Million for the initial subscription in class D. The exercise to raise to equity for the new class is ongoing.
June 2013	Closed a 5 year US\$500 million Euro loan issue. The bond was rated BBB- BBB- and Baa2 by Fitch, S&P and Moodys respectively. The order book amounted to US\$1.2 billion with a final geographical distribution: Europe 52%, UK 14%, Asia 16%, US Offshore 10%, Middle-East 7% and the others 1%.

Annex 2: List of Afreximbank Shareholders As At 31 December 2012

#	Class	Institution	Country
1	A	Federal Ministry of Finance of Nigeria	Nigeria
2	A	Central Bank of Egypt	Egypt
3	A	Reserve Bank of Zimbabwe	Zimbabwe
4	A	Bank of Ghana	Ghana
5	A	Ministry of Finance of Kenya	Kenya
6	A	Ministry of Finance & Economic Development of Ethiopia	Ethiopia
7	A	Banco Nacional de Angola	Angola
8	A	National Bank of Ethiopia	Ethiopia
9	A	Ministry of Finance of Namibia	Namibia
10	A	Bank of Tanzania	Tanzania
11	A	Bank of Zambia	Zambia
12	A	Bank of Sierra Leone	Sierra Leone
13	A	PTA Bank, The Eastern and Southern African Trade and Development Bank	Kenya
14	A	Bank of Mauritius	Mauritius
15	A	Ministry of Finance of Mauritius	Mauritius
16	A	Central Bank of Seychelles	Seychelles
17	A	Bank of Sudan	Sudan
18	A	Ministry of Finance of Malawi	Malawi
19	A	Ministry of Finance & Dev. Planning of Botswana	Botswana
20	A	Banco do Cabo Verde	Cape Verde
21	A	Bank of Gambia	The Gambia
22	A	Central Bank of Lesotho	Lesotho
23	A	Banco do Mozambique	Mozambique
24	A	African Reinsurance Corporation	Nigeria
25	A	Bank of Uganda	Uganda
26	A	Ministry of Finance	République du Rwanda
27	A	Banque Africaine de Developpement (AfDB)	Tunisie
28	A	Banque Centrale de Tunisie	Tunisie
29	A	Ministère de l'Economie et des Finances	Côte d'Ivoire
30	A	Ministère des Finances (MINFI)	Cameroun
31	A	Ministère de l'Economie, des Finances et du Plan, Senegal	République du Sénégal
32	A	La Banque Ouest Africain de Development (BOAD)	Togo
33	A	Banque Centrale des Etats de l'Afrique de l'Ouest - BCEAO,	République du Sénégal
34	A	Banque Centrale de la République de Guinée	République de Guinée

35	A	Ministère de l'Economie et des Finances, Guinee	République de Guinée
36	A	Ministère de l'Economie et des Finances, Niger	République du Niger
37	A	Banque Centrale de Mauritanie	Mauritanie
38	A	Ministère des Finances et de l'Economie, Benin	Bénin
39	A	Ministère des Finances et du Budget	Burkina Faso
40	A	Ministère de l'Economie et des Finances	République de Mali
1	B	National Bank of Egypt	Egypt
2	B	Banque du Caire	Egypt
3	B	Banque Misr	Egypt
4	B	Bank of Alexandria (ALEX BANK)	Egypt
5	B	Export Development Bank of Egypt	Egypt
6	B	Nigerian Export-Import Bank (NEXIM)	Nigeria
7	B	Brawal Shipping (Nigeria) Limited	Nigeria
8	B	United Bank for Africa Plc.	Nigeria
9	B	First City Monument Bank (FCMB) formerly FINBank Nigeria PLC	Nigeria
10	B	Skye Bank Plc	Nigeria
11	B	Commercial Bank of Ethiopia	Ethiopia
12	B	SIO Properties Limited - (Odogwu Group of Companies Ltd.)	Nigeria
13	B	Ethiopian Insurance Corporation	Ethiopia
14	B	SBM Investments Ltd.	Mauritius
15	B	Union Bank of Nigeria Plc.	Nigeria
16	B	First Bank of Nigeria Plc.	Nigeria
17	B	Mainstreet Bank - formerly Afribank Nigeria Plc.	Nigeria
18	B	Ecobank - Nigeria PLC, Head Office	Nigeria
19	B	EKO International Bank of Nigeria - care of Skye Bank	Nigeria
20	B	Unity Bank PLC	Nigeria
21	B	Sterling Bank	Nigeria
22	B	Arab Investment Bank	Egypt
23	B	Stanbic Bank Formerly (Uganda Commercial Bank)	Uganda
24	B	Standard Bank of South Africa (SBSA)	South Africa
25	B	Development Bank of Mauritius	Mauritius
26	B	State Investment Corporation	Mauritius
27	B	Zenith Bank Plc.	Nigeria
28	B	Dara Salam Group Ltd.	Ghana
29	B	Mauritius Commercial Bank	Mauritius
30	B	Access Bank - formerly Intercontinental Bank Plc	Nigeria

31	B	STB CAPITAL MARKETS LTD	Nigeria
32	B	Summa Holding Nigeria LTD	Nigeria
33	B	Allied Bank, c/o Nigeria Deposit Insurance Corp.	Nigeria
34	B	National Insurance Corporation	Tanzania
35	B	Interfin Banking Corporation Limited	Zimbabwe
36	B	Calag Capital Ltd	Nigeria
37	B	Ecobank , Ghana	Ghana
38	B	Ghana Reinsurance Organization	Ghana
39	B	Meridian Management and Investments Ltd.	Ghana
40	B	National Bank of Kenya	Kenya
41	B	IDB Capital Limited formerly Industrial Development Bank Ltd.	Kenya
42	B	SBI Mauritius formerly Indian Ocean International Bank	Mauritius
43	B	Bramer Banking Corp Formerly South East Asian Bank	Mauritius
44	B	State Trading Corporation (STC)	Mauritius
45	B	Mr. Babajide Rogers	Nigeria
46	B	Pan African Capital plc formerly Spring Capital	Nigeria
47	B	Oceanic Bank International (Nigeria), Ltd.	Nigeria
48	B	Fidelity Bank PLC	Nigeria
49	B	Gulf Bank c/o Nigeria Deposit Insurance Corp.	Nigeria
50	B	Gulf Bank c/o Nigeria Deposit Insurance Corp.	Nigeria
51	B	The People's Bank of Zanzibar Ltd.	Tanzania
52	B	Greenland Bank Ltd.	Uganda
53	B	Genesis Investment Bank Limited	Zimbabwe
54	B	FBC Bank limited	Zimbabwe
55	B	TRUST BANK CORP.	Zimbabwe
56	B	Kingdom Bank Ltd.	Zimbabwe
57	B	Banque Gabonaise de Développement	Gabon
58	B	Banque Nationale d'Investissement	Cote d'Ivoire
59	B	Mr. Sefou Fagbohoun	Bénin
60	B	Banque Centrale Populaire du Maroc	Maroc
61	B	BIAO, Cote d'Ivoire	Cote d'Ivoire
62	B	Caisse Nationale de Crédit Agricole du Maroc	Maroc
63	B	Banque Mauritanienne pour le Commerce International	Mauritanie
64	B	Banque Marocaine du Commerce Extérieur	Maroc
65	B	Chinguity Bank	Mauritanie
66	B	ETS M.C. K, Guinée	République de Guinée

67	B	La Société de Commerce et de Financement de Guinée	République de Guinée
68	B	Vansco Airfreight	Angola
69	B	Ecobank Bénin	Bénin
70	B	Société Camérounaise des Industries Agro-Alimentaires (SOCIAA)	République du Caméroun
71	B	Ecobank – Togo	Togo
72	B	Martine Helene Coffi-Studer	Cote d'Ivoire
1	C	Standard Chartered Bank	UK
2	C	The Arab Bank for Economic Development in Africa BADEA	Sudan
3	C	China Eximbank	China
4	C	Citibank Overseas Investment Corporation	U.S.A.
5	C	HSBC Bank PLC	South Africa
6	C	KBC Bank N.V.	Belgium
7	C	Export Import Bank of India	India
8	C	Meridian Biao SA (Wagener Rukavina Keetenmeyer)	Luxembourg
9	C	Banco Do Brazil	Brazil
10	C	Sumitomo & Mitsui Banking Corporation	UK
11	C	Pryor Counts & Co. Inc.,	USA
12	C	Orlean Invest Holding S.A.	Switzerland
13	C	Landesbank-Baden Wurttemberg (LBBW)	Germany

Annex 3: The Bank's 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.

Annex 4: Afreximbank Awards, 2007 - 12

Year	Award	Issuer
2007	Consultancy of the Year	Africa Investor
	Deal of the Year	Euromoney Trade Finance Magazine
2008	Deal of the Year	Euromoney Trade Finance Magazine
	Best Development Bank	the African Banker Magazine
	Best ECA/DFI in Africa	Euromoney Trade Finance Magazine
2009	Deal of the Year	Euromoney Trade Finance Magazine
	Best ECA/DFI in Africa	Euromoney Trade Finance Magazine
	Best Bond deal in Africa	Europe, Middle East and Africa (EMEA) Finance Magazine
2010	Best ECA/DFI in Africa	Euromoney Trade Finance Magazine
	Best Supranational Bond	Europe, Middle East and Africa (EMEA) Finance Magazine
	Best Development Finance Institution	Association of African Development Finance Institutions (AADFI)
2011	Best ECA/DFI in Africa	Euromoney Trade Finance Magazine
	Trade Finance Bank of the Year	Africa Investor
	Best Supranational Bond	Europe, Middle East and Africa (EMEA) Finance Magazine
2012	Best Supranational Bond	Europe, Middle East and Africa (EMEA) Finance Magazine
	Best ECNDFI	Euromoney Trade Finance Magazine
	Best Trade Finance Bank	Capital Finance International (CFI)
	Best Development Finance Institution	Association of African Development Finance Institutions (AADFI)
	Aircraft Debt Deal of the Year - Middle East and Africa	Global Transport Finance (GTF)

