ATDER

ANNUAL TRADE DEVELOPMENT EFFECTIVENESS REPORT

2019

Interim Report

AFREXIMBANK

Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

What is the Annual Trade Development Effectiveness Report (ATDER)?

The ATDER is an annual publication that assesses the impact of the Afreximbank's (the 'Bank's') interventions on African trade and development, as guided by the Bank's newly adopted Trade Development Impact Assessment (TDIA) Framework.

First edition

This first edition of the ATDER is an interim report – it offers provisional results of the Bank's TDIA, based on interventions between April (when the framework was first implemented) and December 2019.

Find out more www.afreximbank.com

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Foreword

This is the first edition of the Annual Trade Development Effectiveness Report (ATDER). The ATDER, drawn on the Afreximbank's new Trade Development Impact Assessment (TDIA) Framework, provides stakeholders and partners with a better understanding of the impact of the Bank's interventions on Africa's trade and development each year.

Africa achieved an important milestone with the launch of the operational phase of the African Continental Free Trade Area (AfCFTA) in 2019. Africa's leaders and people acknowledge that, with a 3 percent share in global trade, 16 percent share in intra-African trade, US$120 billion trade finance gap, 420 million unemployed youth, 500 million people living in poverty, and the least-diversified export baskets, Africa cannot afford to have low ambitions. The AfCFTA creates opportunities for expanding intra-African trade and promoting value addition and industrialisation for sustainable development – the objectives that drive the Bank and its key stakeholders.

To realise these ambitions, we need to track our progress methodically and transparently so that member states, partners, and other stakeholders across the continent have accurate information about our performance. It is for this reason that in 2019 we introduced the TDIA Framework – our key monitoring and evaluation tool – to give greater attention to Africa's trade and development challenges and how the Bank is addressing them.

Our new TDIA Framework will enable us to improve our development impact, increase value for money, and help us to strengthen our role as Africa's leading trade development finance institution.

Professor Benedict Oramah
President and Chairman of the Board of Directors
African Export-Import Bank (Afreximbank)

Delivering Impact in the Bank's Key Strategic Areas

Continent-Wide Projects

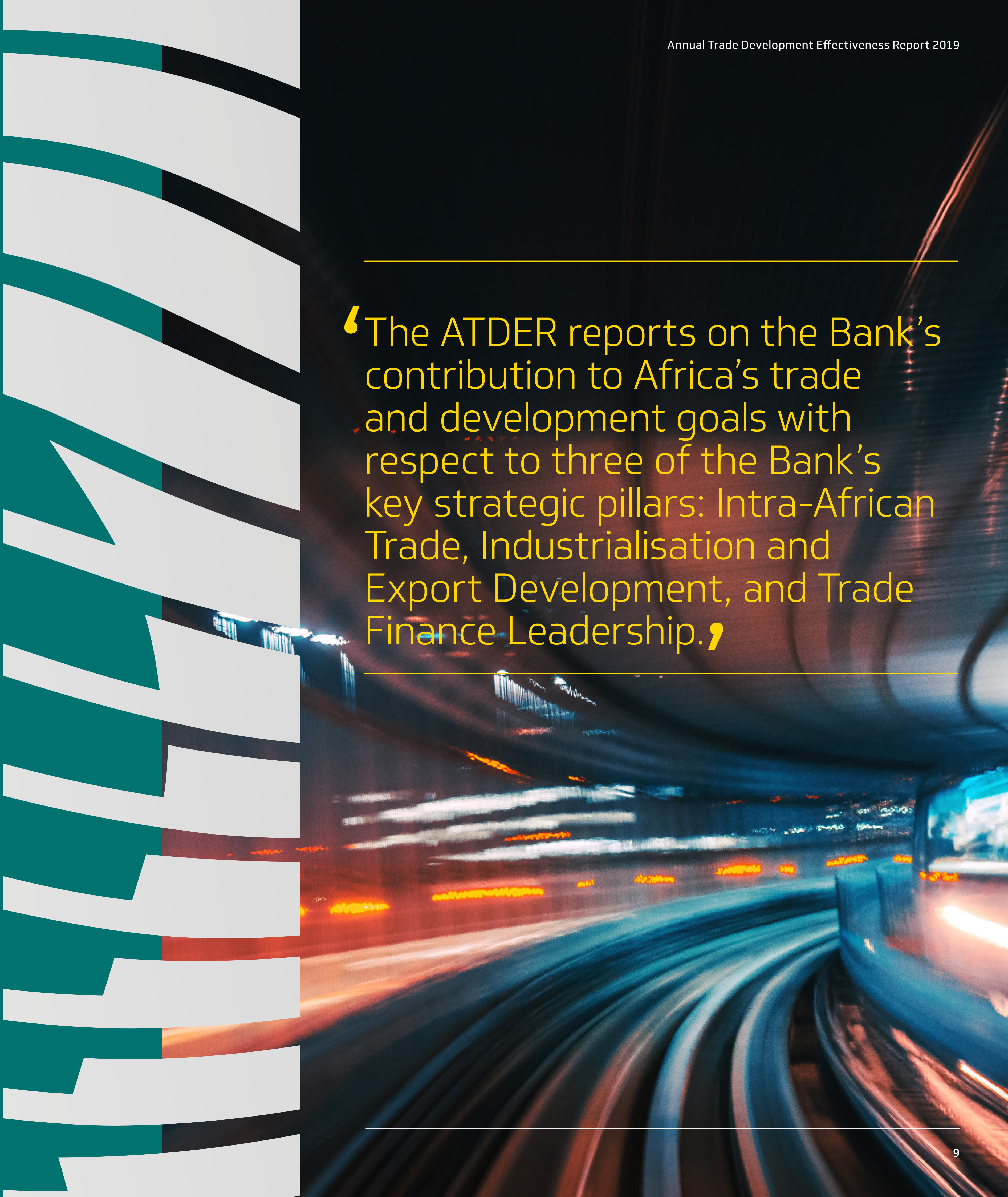
- Arrangement of a US$4 billion AfCFTA Adjustment Facility
- Establishment of the Pan-African Payment and Settlement System (PAPSS)
- Working towards the harmonisation of trade standards
- Bank's Trade Information Portal
- African Customer Due Diligence Repository Platform (MANSA)
- African Collaborative Transit Guarantee Scheme

Executive Summary

The Annual Trade Development Effectiveness Report (ATDER) is a key element in the results-management cycle of the Afreximbank ('the Bank'), drawn on its Trade Development Impact Assessment (TDIA) Framework, which is structured around the Bank's fifth Strategic Plan: IMPACT 2021 – Africa Transformed.

The ATDER reports on the Bank's contribution to Africa's trade and development goals with respect to three of the Bank's key strategic pillars: Intra-African Trade, Industrialisation and Export Development, and Trade Finance Leadership (the fourth being Financial Soundness and Performance).

This first edition of the ATDER is an interim report – it offers provisional results of the Bank's TDIA, based on interventions between April (when the framework was first implemented) and December 2019.



> 'The ATDER reports on the Bank's contribution to Africa's trade and development goals with respect to three of the Bank's key strategic pillars: Intra-African Trade, Industrialisation and Export Development, and Trade Finance Leadership.'

Executive Summary

Chapter 1 of this report focuses on key intra-African trade challenges and opportunities as well as the Bank's contribution to unlocking these potentials; Chapter 2 explores Africa's progress in building a viable industrial sector and the Bank's contribution to industrialisation and export development; Chapter 3 examines the extent of the trade finance gap in Africa and the Bank's contribution to narrowing it; and Chapter 4 concludes with a summary of progress in implementing the TDIA Framework.

HIGHLIGHTS

2019, the year that marked the beginning of the second half of the implementation of the Bank's fifth Strategic Plan, was a year of change and progress. It was the year that Africa made an historic achievement with the launch of the operational phase of the African Continental Free Trade Area (AfCFTA), which has the potential to unlock significant intra-African trade opportunities and deliver greater impact of the Bank's development objectives.

The Bank is working diligently to support the realisation of the AfCFTA's goals in recognition of the fact that – together with strong growth prospects, a young population, and a widening middle class – regional economic integration can help propel the continent towards economic transformation. To that end, the Bank successfully expanded its operations with a record level of US$8.9 billion in disbursements in 2019. Our growing regional projects are helping to connect countries, promote trade, improve competitiveness, build an industrial base, and, in turn, transform economies and foster sustainable development across the continent.

INTRA-AFRICAN TRADE

The Bank believes deeply in the prospects of economic integration to expand intra-African trade and promote inclusive growth. The Bank's Intra-African Trade strategic pillar supports the African Union's vision for the continent (Agenda 2063) and the establishment of the AfCFTA.

In 2019 the Bank financed about 1.8 percent of total intra-African trade – which was beyond the set target of 1.6 percent – and this was expected to directly contribute to a more than US$1.8 billion increase in the value of total intra-African trade.

As part of its effort to support the successful implementation of the AfCFTA, the Bank is arranging a US$4 billion AfCFTA Adjustment Facility; establishing the Pan-African Payment and Settlement System (the first continent-wide digital instant payment system); and is working towards the harmonisation of trade standards to facilitate a reduction in non-tariff barriers across the region.

Through our strategy to promote the emergence and expansion of export trading companies, we are providing market access and a range of services required to facilitate exports to smallholder farmers and are working to ensure that a fair share of value-added goes to producers.

In 2019 we supported the processing of 732,600 metric tons of agricultural commodities, which is expected to directly contribute to a US$254 million increase in intra-African trade a year and generate income and employment for 33,000 local farmers in Benin, Cameroon, Côte d'Ivoire, Kenya, Mozambique, and Nigeria.

In addition, we are helping to provide an efficient and less expensive logistic solution to create a one-stop facility for trade through our Liwonde Dry Port project in Malawi. Once completed, it is expected that this project will reduce the time to import (export) by 19 days (14 days) as well as costs to import (export) by US$1,666 (US$971) a day. It is also forecast to improve Malawi's trade balance by 58 percent after coming on stream and create 1,000 direct jobs and 2,600 indirect jobs. The Bank also supported the construction and commissioning of a civil aviation and immigration security system for the South Sudan Juba international airport to enhance the flow of goods, services, investment, and people across East Africa.

Adequate, easily accessible, and timely trade information is necessary for taking full advantage of opportunities for expanded intra-African trade and bridging the trade and market information gap. To that end, we plan to convene the second Intra-African Trade Fair (IATF) in 2021 in Kigali, Rwanda. Almost half of the US$32 billion in trade deals that were struck at the 2018 IATF have been closed as of December 2019. The beneficiary countries include Egypt, Ghana, Malawi, Morocco, Namibia, Nigeria, Sierra Leone, and South Sudan. A number of African entities gave testimonies to the success of the 2018 IATF. In addition, the development of our Trade Information Portal is almost complete.

Under its transit guarantee scheme, the Bank is working with regional economic communities and the African Union to roll out a single transit bond that will facilitate the movement of goods within regional economic communities and under the AfCFTA.

INDUSTRIALISATION AND EXPORT DEVELOPMENT

Industrial development links entrepreneurs, processors, and both small and large manufacturers and producers to local, regional, and global supply chains, creating value addition for inclusive growth. However, the growing pace of structural transformation in Africa, measured by an increase in industrial output, is concentrated in only a few countries, most notably Egypt, Kenya, Nigeria, and South Africa. Strengthening regional integration, building a strong industrial base, and targeted industrial and sector strategies can spur further industrial growth.

In 2019 the Bank financed about 1.3 percent of Africa's total manufactured exports, which compares favourably to the target of 1 percent. This was estimated to have directly contributed to a US$474 million increase in the value of Africa's total manufactured exports.

Through its Centre of Excellence for Medical Services Initiative, the Bank invested in the development of a first-class medical centre for the people of Liberia to drive excellence and promote intra-African medical tourism. The centre is the first in the country to provide magnetic resonance imaging and has now performed more than 300 investigation studies.

In a similar vein, the Bank has finalised plans to set up a 500-bed world-class Medical Centre of Excellence in Abuja, Nigeria.

The centre will offer a full spectrum of medical services (diagnostics, in-patient, and out-patient) in oncology, cardiology, haematology, including sickle cell anaemia, and general health care services. It will also provide world-class research, education, and development capabilities to ensure that it remains at the leading edge of delivering clinical services.

In addition, the Bank supported the acquisition of rolling stock (17 locomotives and 740 wagons) and extension of rail handling capacity in the Gabon Special Economic Zone Mineral Ports to clear congestion at Port Owendo (Gabon's largest port) and boost trade in Central Africa. We are also scaling up efforts and building innovative partnerships to help a number of pilot countries establish industrial parks and/or export processing zones.

To increase the scale of inputs used in value-added exports, the Bank has invested in the maintenance of a vertically integrated agro-allied and fertiliser-producing African entity to restore its production capacity to 1,500 metric tons a day in West Africa.

Furthermore, the Bank supported the Nesitu Hybrid Solar Photovoltaic project in South Sudan, which promises an estimated annual 29 gigawatts of clean energy, benefiting more than 58,000 South Sudanese households and eliminating more than 12,000 tons of carbon dioxide a year.

In 2019 the Bank financed about **1.8%** of total intra-African trade.

In 2019 the Bank financed about **1.3%** of Africa's total manufactured exports.

Executive Summary

We are also helping the government of Tanzania to build a 2,100 megawatt hydropower project to spur industrial growth and export competitiveness. This project is unique as one of the largest intra-Africa engineering, procurement, and construction contracts wholly financed by African institutions arranged by the Bank.

In addition, the second peat power plant project in Gisagara District, Rwanda, is expected to produce 80 megawatts of energy at a cost 35–40 percent cheaper than the national utility company.

The oil and gas sector is the backbone of African oil-producing economies, accounting for more than one-third of the continent's total merchandise export revenues. However, it remains an enclave with limited linkages to other sectors of African oil-producing economies. In support of this sector, the Bank has invested in the construction of the largest liquefied natural gas seventh train in Nigeria to raise the country's existing liquefied natural gas production capacity by an additional 7.4 metric tons a year and exports by US$3.1 billion.

We continue to invest in the building of a 650,000-barrels-a-day integrated refinery and a 2.5-million-metric-tons-a-year polypropylene project under construction in the Lekki Free Zone near Lagos, Nigeria, which is expected to be Africa's largest oil refinery and the world's largest single-train facility upon completion, with opportunities for 9,500 direct and 25,000 indirect jobs. The Bank is also providing support to an Egyptian petroleum company to enable it to invest in an oil refinery company to ramp up production.

Furthermore, the Bank is financing a leading African cement producer with production capacity of more than 45.6 million metric tons a year and 24,000 employees across 10 African countries where it operates – Cameroon, The Republic of Congo, Ethiopia, Ghana, Nigeria, Senegal, Sierra Leone, South Africa, Tanzania, and Zambia – to increase production and boost intra-African trade volumes and enhance continental value chains.

In 2019 the Bank also signed a memorandum of understanding with a leading South African railway conglomerate to collaborate in modernising the continent's railways as a catalyst to promoting trade, investment, and economic skills development, with particular emphasis on the freight railway sector.

The Bank, through its Project Preparation Facility, is providing technical and financial support in preparation and development of projects from conceptual stage to bankable stage. In addition, the Fund for Export Development in Africa – a development-oriented subsidiary of the Bank that was launched in 2018 with an initial US$100 million commitment from the Bank – entered into operational phase in 2019. It expands the Bank's offerings to include equity investments and will facilitate foreign direct investment into the African export sector. The target fund size over the medium term is US$1 billion.

TRADE FINANCE

The Bank is helping to fill financing and knowledge gaps in Africa's trade finance market. We are investing in challenging markets, including those under fragile conditions.

In 2019 we contributed to the narrowing of Africa's trade finance gap by almost 10 percent. The value of Bank-related trade finance disbursed amounted to US$8.4 billion, 23 percent of which was dedicated to intra-Africa trade, 38 percent to extra-African trade, and 39 percent to multi-directional trade.

Through the Afreximbank Trade Facilitation Programme, we onboarded 305 African banks and extended letter of credit confirmation lines to a good number of them to enable them to access correspondent services.

The Bank also granted 129 trade finance lines, amounting to US$5 billion, to 24 African countries to enable them to meet their trade financing needs. These lines helped support small and medium-sized enterprises in light manufacturing and agro-processing activities.

Our African Customer Due Diligence Repository Platform entered into its operational phase in 2019. The platform will provide the single trusted source of primary data on Know Your Customer and make it possible for entities participating in the arrangement to have access to important information needed to undertake their due diligence and thereby reduce their costs of compliance, which will help decrease the cost of trade finance in Africa and, consequently, facilitate greater access to trade finance.

Under our newly introduced Country Export Programme, we assisted the Central Bank of Egypt to establish an export credit agency (export credit risk guarantee company), which is expected to unlock about US$60 billion annually in export credit to Egyptian exporters. We are also in discussion with a number of other countries to help them establish export credit agencies. Often, exporters from other developed economies are backed by their national export credit agencies with attractive credit packages, making it extremely difficult for some exporters in Africa to compete because of a lack of competitive export credit support.

PROGRESS IN IMPLEMENTING THE TDIA FRAMEWORK

The Bank's TDIA Framework, adopted in 2018, was first introduced in April 2019. Since then, we have achieved significant progress in implementing the framework, which has helped us to work more effectively and improve how we track and assess development outcomes of our operations in 2019.

We kicked off the implementation of the TDIA Framework with the standardisation of data collection, necessary to establish baselines and build a relevant foundation for monitoring and evaluation. Due to the strategic nature of TDIA, the buy-in from across the Bank exceeded expectations and allowed for quick adoption of this process. While we continue to improve on this, in the course of 2020 we will introduce TDIA scoring in our initial assessment of facilities to capture how well a project can be expected to assist the Bank in achieving its development mandate. Each onboarding facility will be assigned a score (high, significant, moderate, and low) before it goes to final credit assessment.

Through the Afreximbank Trade Facilitation Programme, we onboarded

305

African banks.

Chapter 01

Intra-African Trade

Intra-African trade is a driver of structural transformation and sustainable economic development. It creates the potential for high-value manufacturing, knowledge transfer, productivity growth, and job creation.

This chapter presents some key challenges and opportunities in growing intra-African trade and the Bank's contribution to unlocking the continent's potential in this regard.

Intra-African Trade

INTRA-AFRICAN TRADE: KEY CHALLENGES AND OPPORTUNITIES

At 16 percent of total trade in 2019, Africa's intra-regional trade is among the lowest in the world. There are cases where products could have been sourced competitively from other African countries but were procured from outside the continent. For example:

- Africa has the potential to feed the continent but, currently, only 4 percent of Africa's imported cereals come from the region. The region's imports of oilseed products (more than 80 percent) are broadly reflective of global flows of processed oilseeds into the continent that farm them.
- Burkina Faso and Mali are significant producers and exporters of raw cotton, but they suffer from a lack of logistics and industrial infrastructure needed to connect to some of their coastal neighbours.
- More than 80 percent of firms across the continent are small and medium-sized enterprises, mostly in the informal sector, with little experience and a relatively weak industrial base.
- Intra-regional trade is held down by inadequate trade information, a high level of informal trade, weak market integration, multiple national currencies, complex customs and administrative procedures and regulations, and inefficient and costly transit systems.

There are opportunities to deepen regional integration. By lowering tariffs on 90 percent of African goods, addressing non-tariff barriers to trade, and promoting deeper financial integration, the recently established AfCFTA will help expand access to regional and international markets, generate additional income for Africans, and relieve poverty across the continent. Large markets with large economies of scale and regulatory cooperation will reduce costs of doing business in Africa. Our Intra-African Trade strategic pillar supports the implementation of the AfCFTA.

THE AFREXIMBANK'S CONTRIBUTION TO BOOSTING INTRA-AFRICAN TRADE

In 2019 the Bank financed about 1.8 percent of total intra-African trade, which was well beyond the set target of 1.6 percent, and this was expected to directly contribute to more than US$1.8 billion (1.3 percent) to intra-African trade.

Supporting the implementation of the AfCFTA

While most of the potential benefits of trade liberalisation accrue in the long-run after economic resources have moved to their most efficient uses, short-run structural changes arising from the reallocation of labour, capital and other factors of production entails costs of adjustment.

Table 1.1 summarises various components of adjustment costs under two broad categories, namely private and public-sector adjustment costs. Crucial private adjustment costs arise from temporary unemployment and lower wages in declining sectors, and from underutilised capital. A key challenge in many economies is related to labour adjustments as existing industries face increased competition. For the public sector lower tariff revenues are the most pronounced concern in many developing countries, including in Africa, especially given the importance of import taxes as a source of fiscal revenue. The United Nations Conference on Trade and Development estimates that the AfCFTA could cost between US$3.2 to US$4.1 billion in trade revenue losses.
The International Monetary Fund finds that, given existing tariffs and regional trade links, revenue losses in some countries could be significant, exceeding 1 to 2 percent of GDP and in some instances reaching up to 3 to 5 percent of GDP.

Table 1.1 Components of Adjustments Costs Arising from Trade Liberalisation

Economic and social adjustment costs	Private adjustment costs	Labour	Unemployment
			Lower wage during transition
			Obsolescence of skills
			Training costs
			Personal costs (for example, psychological suffering)
		Capital	Underutilised capital
			Obsolete machines or buildings
			Cost of shifting capital to other activities
			Investments to become exporter
	Public sector adjustment costs	Fiscal	Lower tax revenue
			Social safety net spending
			Implementation costs of trade reform

Source: Reproduced from François et al. (2011).

In a context where a number of African countries rely on international trade taxes for a large share of their total revenues, the policy challenge is how to maintain fiscal stability when liberalising trade under the AfCFTA. Several policy mechanisms exist to mitigate trade shocks that arise from market opening under bilateral, plurilateral, and/or multilateral trade liberalisation. Trade assistance or adjustment programmes provide one such mechanism.

In February 2020, the Thirty-Third Ordinary Session of the Assembly of Heads of State and Government, requested the ministers of trade and finance, in partnership with the Afreximbank, to conclude the work on the AfCFTA Adjustment Facility during the course of 2020 and bring to the February 2021 Summit, the draft statutes and resource mobilisation plan and initiative for its consideration. As part of its effort to support the successful implementation of AfCFTA, the Bank instituted a US$1 billion AfCFTA Adjustment Facility in 2019, while raise an additional US$3 billion from the markets to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the AfCFTA. The facility was also extended to the African private sector to support retooling of industries, with a view to boosting manufacturing output and accelerating the process of industrialisation.

The need for a Pan-African Quality Policy was first identified in the Abuja Treaty in 1991. The AfCFTA recognises the centrality of having in place the said policy as a means of facilitating free movement of goods across the continent. In light of this, in 2019 the Bank and the Physikalisch Technische Bundesanstalt (Germany's national metrology institution), the African Organisation for Standardisation, and the African Union, in consultation with regional economic communities and member states, developed the draft Pan-African Quality Policy. This policy will support the Bank in the development of Africa Quality Assurance Centres, including the development of regional reference labs in collaboration with the African Union Commission.

Connecting African industries to markets

Adequate, easily accessible, and timely trade information is necessary for taking full advantage of opportunities for expanded intra-African trade and bridging trade and market information gaps.

The Bank plans to convene the second IATF in 2021 in Rwanda against the backdrop of the successful first IATF held in Egypt in 2018. Almost half of the US$32 billion in trade deals that were struck during the 2018 IATF have been closed as of December 2019 (40 percent are still in process and 10 percent did not materialise). The beneficiary countries include Egypt, Ghana, Malawi, Morocco, Namibia, Nigeria, Sierra Leone, and South Africa.

A number of African entities gave testimonies to the success of the 2018 IATF. For example, after gaining access to the IATF, a robotic-based African entrepreneur was linked to the Singapore Ministry of Manpower and, today, the drone company is up and running in Singapore. In addition, a Moroccan fashion designer, who developed a women's wear production line that has become a leading designer in Morocco, was able to find an Egyptian franchisee through participating in the 2018 IATF. And, after participating in the trade fair, a Namibian developer of an African natural ethnic hair and skincare line expanded beyond African borders. Furthermore, the trade fair afforded an African commodity trader the opportunity of meeting with its client for the first time, leading to an increase in the volume of its exports. Finally, an indigenous large firm was able to connect with potential off-takers for its business and new projects, helping it to expand across the continent.

All in all, the trade fair was a platform for Africa partnerships and trade integration, availing great opportunities to African entities to meet African and global manufacturers, investors, and financiers. A testimonial from the government of South Sudan on the importance of the trade fair and other Bank interventions in South Sudan and rest of the continent, underscores the commitment of the Bank to fulfil its mandate in support of intra-African trade and regional integration.

In addition, the development of the Bank's Trade Information Portal for importers and exporters looking to access African markets or expand existing operations across the continent is almost complete. The portal will provide information about how current supply chains are oriented in Africa at the company, sector, market, price, and trade flow levels. It will also offer professional services support. As such, the portal will be a tool to connect users looking to understand African markets; equip them with the necessary information to facilitate transactions; provide on-the-ground, direct consultancy services support to entities; and deliver an online marketplace for buyers and sellers to connect.

Given that the portal will facilitate business-to-business exchanges, it will ultimately facilitate intra-regional trade and investment deals.

Intra-African Trade

The Pan-African Payment and Settlement System: An Instrument for Boosting Intra-African Trade

Africa's challenge, when it comes to payments and settlements, stems from its multiple local currencies meaning that cross-border payments typically involve a third currency, such as the US dollar or the euro. A continental single currency payments system would promote and support intra-regional trade flows by increasing speed and convenience, reducing costs, lowering payment risks, and enhancing competition—thereby facilitating the effective and efficient flow of goods and services across the continent. It would also help integrate African countries' financial systems and capital markets across the region and with global financial markets. Making cross-border payments easier, cheaper, and safer is an obvious critical step in implementing the AfCFTA.

The Pan-African Payment and Settlement System, which focuses on facilitating payments for goods and services in intra-African trade, was launched at the Extra-Ordinary Summit of African Heads of State in Niamey, Niger, in 2019. The platform is expected to save the continent more than US$5 billion in payment transaction costs every year; formalise a significant portion of informal cross-border trade within the region; and, above all, contribute to boosting intra-African trade. The platform will be piloted in West Africa and expanded to the rest of the continent in 2020.

Leveraging for intra-African trade facilitation

One-stop border posts also facilitate the free movement of goods across the continent. According to the African Development Bank, there are now 76 one-stop border posts across Africa, with several more in the pipeline. Before 2009 there were none. Trade facilitation is a strong focus of the Bank. Improving the procedures, limiting the controls that govern the movement of goods, and lowering trade costs across national borders in Africa are vital to efforts for African countries to integrate.

Through our Liwonde Dry Port project, we are providing an efficient and less-expensive logistic solution to create a one-stop facility for trade in Malawi – a country that has one of the most expensive road freights in Africa, even when compared to other landlocked countries, according to the World Bank's *Doing Business 2019* report. High transportation costs in Malawi are mainly due to single mode and single access way to the exporting port. Once completed, this project is expected to reduce the time to import (export) by 19 days (14 days) and costs to import (export) by US$1,666 (US$971) a day. It will also improve Malawi's trade balance by 58 percent after coming on stream and create 1,000 direct jobs and 2,600 indirect jobs.

The Bank also supported the construction and commissioning of a civil aviation and immigration security system for the Juba international airport to enhance the flow of goods, services, investment, and people. The project is anticipated to support South Sudan's development agenda and is in line with the objectives of the Single African Air Transport Market – the African Union project that seeks to integrate the African aviation industry and create a single market for air transport in Africa as a quick way of advancing the African Union's Agenda 2063.

Under its African Collaborative Transit Guarantee Scheme, the Bank is working with regional economic communities and the African Union to roll out a single transit bond that will facilitate the movement of goods within regional economic communities, as stipulated under the AfCFTA. Under the scheme, only a single transit bond will be required to move goods in transit, instead of posting a bond at each and every border as is currently the case in a number of countries. The amount of guarantees that will be required on a revolving basis will exceed US$2 billion.

THE PAN-AFRICAN PAYMENT AND SETTLEMENT SYSTEM: AN INSTRUMENT FOR BOOSTING INTRA-AFRICAN TRADE

Africa's cross-border payment and settlement infrastructure is underdeveloped and fragmented and has resulted in Africa being one of the least financially integrated regions in the world. This shortcoming is one of the most significant impediments to growth in intra-African trade and, if not addressed, will have dire consequences for the continent. In response, in 2019, the Afreximbank formally launched the Pan-African Payment and Settlement System (PAPSS), designed to support payment arrangements for the purpose of expanding Africa's trade and economic and financial integration.

DRAWBACKS IN AFRICA'S PAYMENT SYSTEM

Africa's cross-border payment system—characterised by exorbitant costs; payment delays; operational inefficiencies; limited transparency; compliance concerns for traders, buyers, and sellers; and complicated transferral of remittances—poses multiple challenges to executing intra-African payment services. As such, a significant portion of African payments are routed offshore for clearing and settlement through international banking relationships, with less than 20 percent of payment flows being cleared in Africa. For instance, in 2017, 39 percent of cross-border transactions sent by African banks to African counterparty banks were cleared via a correspondent bank in North America. This has resulted in persistent liquidity pressures and an inefficient flow of funds across the African financial system, thereby hindering economic growth.

An additional challenge is posed by the fact that 40 percent of Africa's cross-border trade is informal. While informal trade is an important source of job creation in Africa—providing 20–75 percent of total employment in most countries—it also means that only 60 percent of Africa's trade is declared and recorded. And, because it is difficult to obtain precise data on informal trade, policymakers and providers of financial services face major challenges in formulating appropriate interventions targeted at this sector. As such, there is, for example, little innovation in designing mechanisms or services to integrate informal trade activities into the formal financial system or to reduce incentives for cross-border traders to rely on informal means of engaging in financial transactions. As a result, the informal sector and a significant portion of small and medium-sized enterprises across the continent are marginalised.

ADDRESSING THE DRAWBACKS

The African Continental Free Trade Area (AfCFTA), launched in 2018, established a single continental market for goods and services, with a combined population of more than 1.2 billion people and a combined GDP of more than US$2.5 trillion. It is the world's largest free trade area since the creation of the World Trade Organization in 1995, and is expected to increase intra-African trade by 52.3 percent by 2022.

A United Nations Conference on Trade and Development report notes that, as intra-African trade comprises a higher skill and technology content compared to Africa's trade with others, the AfCFTA can boost diversification and the industrial product and technology content of African Union member state exports. Furthermore, intra-African trade in industrial products could increase by US$60 billion annually if the implementation of the AfCFTA is accompanied by robust trade facilitation measures.

Recognizing that the realisation of the AfCFTA's potential hinges on a supportive trade environment—a key component of which is financial integration—on 7 July 2019, at the African Union Summit of Heads of States and Governments, the Afreximbank launched the PAPSS. The PAPSS is a digital payments system that provides the mechanism for the processing, clearing, and settling of intra-African trade and commerce payments in local currencies. More importantly, it aims to underpin the seamless operation of the AfCFTA single market in payment services.

The ultimate goal of the PAPSS is to provide convenience by cutting the cost of cross-border payments and reducing the duration and time variability of cross-border payments; lower recurrent hard currency liquidity shortages across Africa; strengthen central banks' oversight of cross-border payment systems; and help formalise a significant proportion of the estimated US$50 billion of informal intra-African trade.

Chapter 02

Industrialisation and Export Development

A dynamic industrial sector is a critical engine of inclusive growth and economic transformation. Industrial development has the potential to create the jobs required for large-scale poverty reduction and generate valuable export revenue for African economies. To sustain growth, Africa is diversifying its economies and strengthening regional ties.

This chapter explores Africa's progress in building a viable industrial sector as well as the Bank's contribution to industrialisation and export development.

Industrialisation and Export Development

PROGRESS IN BUILDING INDUSTRIES AND GROWING EXPORT DIVERSIFICATION

While the manufacturing sector's share in value added has doubled in Africa over the past two decades – from US$137 billion to US$265 billion – more than half of this value is located in just three countries: Egypt, Nigeria, and South Africa. Africa lags behind other emerging regions in this respect, as much of its manufacturing remains small-scale and fragmented (Table 2.1).

Table 2.1 Value Added from Manufacturing (constant at 2015 prices)

	1979	1989	1999	2009	2018
Manufacturing value added (US$ billions)	107	130	137	193	265
North Africa	19	34	52	80	97
West Africa	40	36	33	40	70
Southern Africa	21	27	28	37	43
East Africa	7	9	12	18	29
Central Africa	20	24	12	18	26

Source: United Nations.

To gain further insight into this issue, we look at export diversification, measured by the change in composition of a country's export basket. This is because trade plays a critical role in promoting structural transformation. For example, the growing role of many Asian countries in international trade reveals high industrial performance and trade-induced structural transformation.

Table 2.2 Africa's Export Diversification Index

	1999	2009	2018
Export diversification index	0.60	0.57	0.55
Number of products exported	259	260	258

Source: United Nations Conference on Trade and Development.

Table 2.2 shows that Africa's export diversification has declined by 6 percent over the past 20 years. However, there have been positive trends towards greater regional integration of industrial value chains and increased intra-Africa investment.

THE AFREXIMBANK'S CONTRIBUTION TO AFRICA'S INDUSTRIAL DEVELOPMENT

While the implementation of the AfCFTA will make it possible to build cross-border value chains, achieving inclusive and sustainable industrial development in Africa requires full realisation of commodity-based and labour-intensive industrialisation. This will depend on countries implementing effective industrial and sector strategies to address constraints to industrial development and on investment in industrial and trade-enabling infrastructure.

As a trade development financier, the Bank plays a facilitative and catalytic role, working with public and private sectors and specialist international organisations. In 2019 the Bank financed about 1.3 percent of Africa's total manufactured exports, which was beyond the set target of 1 percent. This is estimated to have directly contributed to a US$474 million (0.9 percent) increase in the value of Africa's total manufactured exports.

Driving agribusiness to diversify economies

The Bank is actively supporting the processing of African commodities for export and has prioritised the light manufacturing and agro-processing sectors in Africa, which remain largely untapped.

In 2019 the Bank invested in the maintenance of a vertically integrated agro-allied and fertiliser-producing African entity to restore its production capacity to 1,500 metric tons a day (from the current 1,000 metric tons a day) and contribute to the provision of specialised fertilisers and increase the scale in inputs used in value-added exports.

The Bank also organised capacity-building workshops in Eswatini, Malawi, Mozambique, and Namibia in an effort to assist member states to develop strong and coherent industrial policies that will foster private sector engagement and enable them to tap value from their commodities.

Enabling access to trade-related infrastructure

Through its Centre of Excellence Initiative, aimed at providing a range of specialist health care services to improve the quality of health care for Africans and promote intra-African medical tourism, the Bank invested in the development of a first-rate medical centre in Liberia. The centre integrates a premier clinic (general practice, specialists, pharmacy, and vaccines), a state-of-the-art laboratory, and imaging diagnostics in one outpatient medical centre.

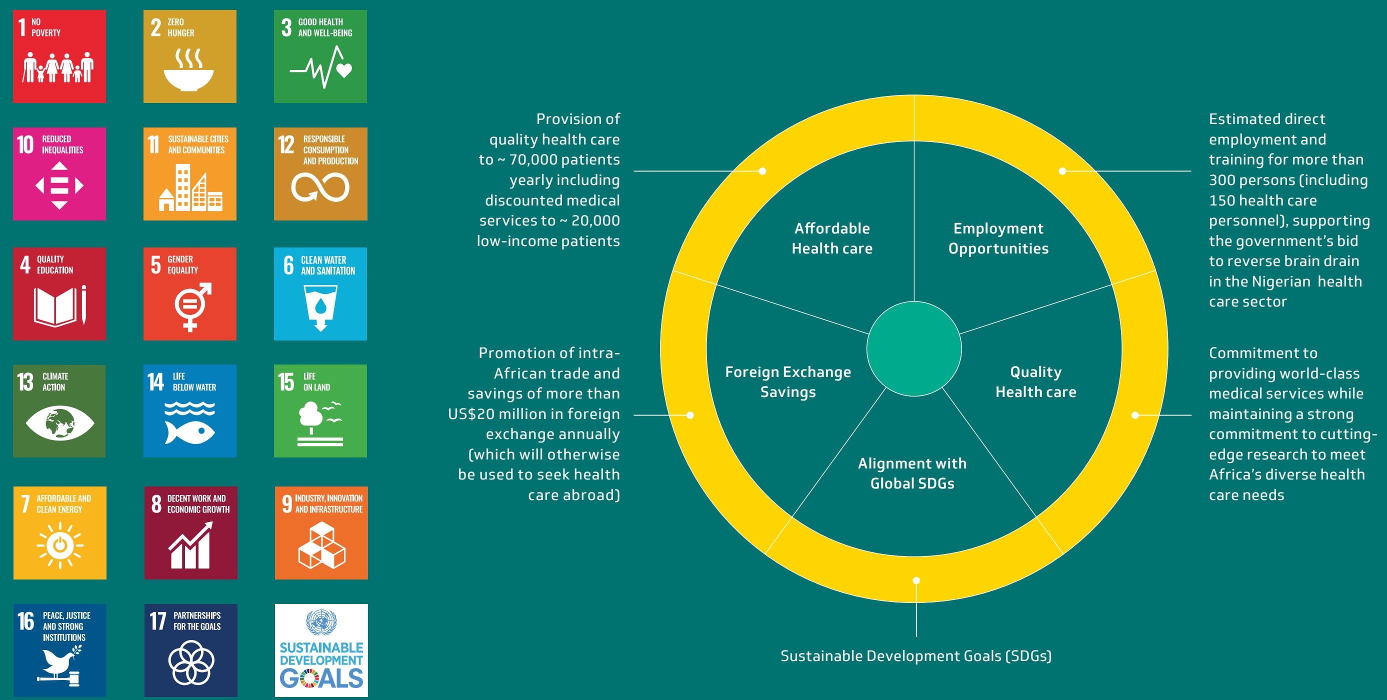
The medical centre is the first in the country to provide magnetic resonance imaging and has performed more than 300 investigation studies.

It is the only facility in the country that can offer radiologist-read computed tomography images and has generated more than 750 images with official reports; it has the highest-capacity private laboratory, with more than 5,500 studies performed; and is the largest private multi-specialist outpatient clinic in the country, seeing more than 3,000 patients.

In the same vein, the Bank has finalised plans to set up a 500-bed, world-class Medical Centre of Excellence in Abuja, Nigeria. The centre will offer a full spectrum of medical services (diagnostics, in-patient, and out-patient) in oncology, cardiology, haematology including sickle cell anaemia, and general health care services.

It will also provide world-class research, education, and development capabilities to ensure that it remains at the leading edge of delivering clinical services. The Centre has the potential to provide services to more than 200,000 patients in Nigeria and a further 150,000 patients from neighboring West African countries within its first five operating years.

Social and Economic Impact of Medical Centre of Excellence in Nigeria



Industrialisation and Export Development

The Bank also supported the acquisition of rolling stock (17 locomotives and 740 wagons) and extension of rail handling capacity in the Gabon Special Economic Zone Mineral Ports (GSEZ-MP). Due to the increase in import and export flows in Gabon (cargo traffic increased by an estimated 5 percent a year between 2009 and 2016), GSEZ-MP, the sole provider of transport and railway services in the country, is no longer adequately equipped to meet its clients' demand. This has led to severe congestion at Port Owendo (Gabon's largest port), which handles more than 95 percent of the country's mineral and agricultural products exports. Accordingly, through this facility, GSEZ-MP has embarked on an expansion plan to alleviate the severe transport constraints that the country is facing.

Furthermore, the Bank is scaling up efforts and building innovative partnerships to help a number of pilot countries establish industrial parks and/or export processing zones, including the development of the Abidjan PK-24 industrial park in Côte d'Ivoire, the financing of Phase 1 (1,351 hectares) of the special economic zone in Nigeria, and the construction of the fully integrated textile and garments park in Burkina Faso. We are also supporting the government of Malawi in implementing its Industrial Parks Initiative, and discussions are continuing with the governments of Ghana, Kenya, and Rwanda to develop and finance industrial parks in their countries.

In Nigeria, our investment in the seventh train of liquefied natural gas, which will be larger than the country's existing six trains, promises to raise the country's existing liquefied natural gas production capacity by an additional 7.4 metric tons a year (34 percent) and boost activities in the downstream sector. Nigeria accounts for more than 50 percent of current liquefied natural gas production capacity on the continent, contributing about 6 percent of global liquefied natural gas exports.

Once operational, this project is expected to increase exports by US$3.1 billion, create 10,000 direct and 40,000 indirect jobs, and generate US$1.1 billion in government revenue.

We also continue to invest in the ongoing building of a 650,000-barrels-a-day integrated refinery and a 2.5-million-metric-tons-a-year polypropylene project under construction in the Lekki Free Zone near Lagos, Nigeria, which is expected to be Africa's largest oil refinery and the world's largest single-train facility upon completion, with opportunities for 9,500 direct and 25,000 indirect jobs. The Bank has also been actively investing in Egypt's petroleum sector to increase local value-added, production, and exports.

With an estimated population of about 1.3 billion, Africa's per capita cement consumption of about 91 kilograms a year is well below the global average of 521 kilograms, reflecting the huge potential of the region. The Bank is financing a leading African cement producer with production capacity of more than 45.6 million metric tons a year and 24,000 employees across the 10 African countries where it operates – Cameroon, The Republic of Congo, Ethiopia, Ghana, Nigeria, Senegal, Sierra Leone, South Africa, Tanzania, and Zambia – to increase production, boost intra-African trade, and enhance continental value chains.

The Bank is also helping the government of Tanzania achieve its vision of increasing the country's total installed electricity capacity to 5 gigawatts by 2021 and to 10 gigawatts by 2025 to spur industrial growth and export competitiveness. A 2,100 megawatts hydropower project is being built with support from the Bank, which, with a gross output of 5,920 gigawatts, is expected to more than double the country's power generation capacity upon commissioning.

In addition, the Bank is supporting the construction of the second peat power plant in Gisagara District, Rwanda, which is expected to produce 80 megawatts of energy at a cost 35–40 percent cheaper than the national utility company. The power plant is expected to increase the country's power generation capacity by an estimated 61 percent and create 1,000 jobs.

The Nesitu Hybrid Solar Photovoltaic project in South Sudan also promises an estimated annual 29 gigawatts of clean energy, benefiting more than 58,000 South Sudanese households and eliminating more than 12,000 tons of carbon dioxide a year. Other trade-enabling infrastructure projects supported in South Sudan include the building and rehabilitation of Juba road, agriculture service training centres, community greenhouses hubs, and commercial agriculture projects. The latter has generated interest from European export credit agencies and KfW IPEX Bank as liquidity providers.

Furthermore, the Bank signed a memorandum of understanding on the sidelines of the 2019 Africa Investment Forum with a leading South African railway conglomerate to collaborate in supporting the modernisation of the continent's railways as a catalyst for promoting trade, investment, and economic skills development, with particular emphasis on the freight railway sector.

The Bank, through its Project Preparation Facility, is providing technical and financial support in preparation and development of projects from conceptual stage to bankable stage. In 2019 the facility was deployed to the government of Zanzibar towards financing the preparation of feasibility studies, environmental impact assessment studies, hydrological and marine studies, and procurement of transaction advisory services for the development of bulk liquid terminal with a capacity to handle 30,000–40,000 metric tons of refined fuel product to be located at Bumbwini/Mangapwani, Zanzibar.

ECONOMIC AND SOCIAL IMPACT OF THE GABON SPECIAL ECONOMIC ZONE

Gabon Special Economic Zone Infrastructures SA (GSEZ Nkok), the first special economic zone in Gabon, is one of the most successful of its kind in Africa, according to the World Bank's Policy Notes on Gabon's Export Diversification and Competitiveness Report.

The successful completion of GSEZ Nkok Phase I created assets worth €322 million as of September 2017. More than 81 percent of industrial area (308 out of 388 hectares) has been sold or rented, and full commercialisation is expected in 2020. Out of 105 export processing units, 72 are already operational, creating more than 12,000 jobs.

GSEZ Nkok has made an outstanding contribution to Gabon's industrialisation efforts, positioning the country as a global player in sawn wood exports (26th in the world, 4th in Africa) and veneer exports (3rd in the world, 1st in Africa). In an effort to replicate its successful model in other African countries, the Afreximbank is partnering with the GSEZ holding company (ARISE Integrated Industrial Park) to unlock the full potential of industrial parks and export processing zones to deliver the much-needed developmental impact on the continent.

A fund for export development in Africa

Africa's drive towards diversifying its exports away from commodities cannot be realised without a fund that is able to provide the long-term equity financing that such projects require. The Fund for Export Development in Africa – a development-oriented subsidiary of the Bank that was launched in 2018 with an initial US$100 million commitment from the Bank – entered into operational phase in 2019. It expands the Bank's offerings to include equity investments and will facilitate foreign direct investment into the African export sector. The target fund size over the medium term is US$1 billion.

Supporting small and medium-sized enterprise development

African small and medium-sized enterprises have a fundamental role to play in transforming African economies and accelerating the pace of industrialisation to sustain high inclusive growth. More than 80 percent of firms across the continent are small and medium-sized enterprises, accounting for about 60 percent of employment. The Bank's approach is to invest in whole supply chains, from farmers through to final customers, creating jobs and business opportunities along the chain.

Through its strategy to promote the emergence and expansion of export trading companies, the Bank provides smallholder farmers with market access and a range of services to facilitate exports and to ensure that a fair share of value-added goes to producers.

Since the introduction of this strategy in 2016, export trading companies have made a significant development impact:

- Their production processing capacity has grown almost five-fold – from 403,600 metric tons in six African countries (Ethiopia, Malawi, Mozambique, Tanzania, Uganda, and Zambia) in 2016 to 1,937,760 metric tons in five additional countries (Burkina Faso, Kenya, Nigeria, South Africa, Togo, and Zimbabwe) in 2019
- They have helped create jobs across the continent, with the number of full-time jobs growing from 6,150 in 2016 to 6,800 in 2019, and the number of part-time jobs growing from 812 to 1,025.
- The number of farmers participating in export trading companies' out-grower schemes grew from 10,000 in 2016 to 13,500 in 2019.
- In the countries where they operate, export trading export trading companies' revenue contribution to African governments amounted to about US$52 million.
- Their annual budget for professional training and skill development programs totalled more than US$430,000, benefiting more than 4,100 workers.

The Bank is also improving access to finance for small and medium-sized enterprises in the export supply chain by facilitating the growth of factoring in Africa through various interventions, including supporting the creation of a facilitative legal and regulatory environment for factoring; providing finance and guarantees to factoring companies; providing technical assistance; and forming strategic partnerships to promote the development of factoring.

In 2019 the Bank approved US$22 million to factoring companies in Africa. In addition, the Bank's model law was one of the source documents used by the Egyptian authorities to facilitate the drafting of the new Egyptian law on factoring and leasing. The law was ratified in 2019 and is now applicable. The implementation of a factoring law is also in progress in Nigeria, and Botswana is considering a factoring law using the Bank model law as a guide. Furthermore, three factoring workshops in Botswana, Egypt, and South Africa were organised, aimed at developing the skills of African factors, creating awareness, and promoting the development of factoring businesses across the continent. Through the efforts of the Bank and Factors Chain International, six companies from Egypt, Kenya, Mauritius, Nigeria, Senegal, and Uganda joined the latter in 2019. Through these efforts, the Bank aims to establish factoring as an alternative means of trade financing in no less than 30 countries in Africa over the next five years.

Chapter 03

Trade Finance

Trade finance provides the credit, payment guarantees, and insurance needed to facilitate the payment of merchandise or services on terms that satisfy both the exporter and the importer. Hence, trade finance is a lubricant of trade. For Africa to boost intra-African trade, promote value addition and industrialisation, and achieve sustainable and inclusive growth and development, it is essential that African countries become more integrated and have a strong and well- diversified export base. For this to happen, trade finance must be genuinely accessible and affordable.

This chapter examines the extent of the trade finance gap in Africa and the Bank's contribution to narrowing it.

Trade Finance

OVERVIEW OF TRADE FINANCE IN AFRICA

According to the 2017 African Development Bank *Trade Finance Report*, the value of bank-intermediated trade finance in Africa in 2013 and 2014 is estimated at US$430 billion and US$362 billion, respectively, representing about one-third of total trade in Africa.

Unmet trade finance demand (the trade finance gap) in Africa is conservatively estimated at US$91 billion in 2014. Although this represents a 26 percent decline compared to 2011, the gap is still significant and ranges between US$90 billion and US$120 billion.

The most-frequently reported impediments to growth of trade finance in Africa are competition and lack of sufficient risk capital, followed by insufficient limits with correspondent banks, foreign exchange liquidity, and regulatory restrictions.

Access to letter of credit confirmation facilities is a major challenge to African banks. Virtually all letters of credit issued by African commercial banks require a third-party confirmation/guarantee. Global confirming banks have limited risk appetite for African banks and, in the current period of high cost of compliance, have cut trade service lines to Africa.

> The Bank is helping to fill both financing and knowledge gaps in Africa's trade finance market

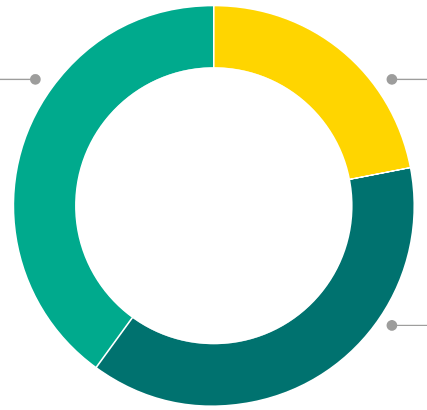
THE AFREXIMBANK'S CONTRIBUTION TO NARROWING AFRICA'S TRADE FINANCE GAP

The Bank is helping to fill both financing and knowledge gaps in Africa's trade finance market.

In 2019 the Bank contributed to the narrowing of the trade finance gap in Africa by almost 10 percent.

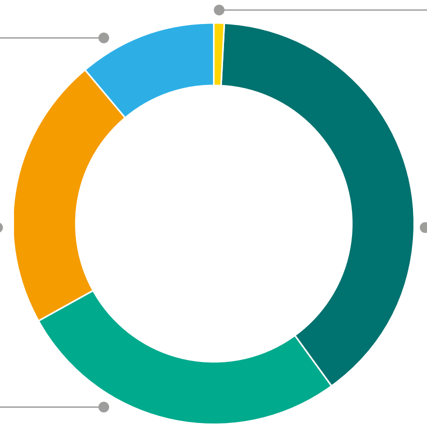
The value of Bank-related trade finance disbursed was US$8.4 billion, 23 percent of which was dedicated to intra-Africa trade, 38 percent to extra-African trade, and the remaining 39 percent to multi-directional trade (Figure 3.1).

Figure 3.1 Afreximbank-Related Trade Finance Disbursements in 2019, by Direction of Trade



Source: Afreximbank.

Figure 3.2 Afreximbank-Related Trade Finance Disbursements in 2019, by Region



Source: Afreximbank.

The Bank's Trade Facilitation Programme, which comprises the Letter of Credit Confirmation Programme and Letter of Confirmation Guarantee Programme, has achieved a great deal of traction. In 2019 the Bank onboarded 305 African banks (compared to the target of 500 by 2021) and extended letter of credit confirmation lines to a good number.

The Bank also granted 129 trade finance lines, amounting to US$5 billion, to 24 countries across Africa (predominantly landlocked countries) to meet their trade financing needs (Figure 3.2).

The Bank's African Customer Due Diligence Repository Platform entered into operation in 2019. The platform will provide the single trusted source of primary data required to conduct due diligence checks on counterparties in Africa. It will facilitate trade with and within Africa by de-risking compliance and strengthening relationships between international banks and global trading entities with their African counterparties. In 2019 a total of 18 central banks and 55 financial institutions across the continent were trained on how to upload their data onto the platform.

At the same time, Africa needs to develop robust national and continental export credit structures to help exporters on the continent compete favourably with exporters from other parts of the world. In most cases, exporters from developed economies are backed by their national export credit agencies with attractive credit packages, making it extremely difficult for some exporters in Africa to compete because of a financing disadvantage. In recognition of this, in 2019 the Bank introduced the Country Export Programme, which combines advisory services, financing, advocacy, cooperation, mentorship, and capacity building to help member states develop and enhance their trade and export credit-related activities.

The programme involves working closely with relevant authorities in member states to develop and promote their national export credit agencies and to work with existing export credit agencies to enhance their capabilities and effectiveness.

In 2019 the Bank assisted the Central Bank of Egypt to establish a national export credit agency (export credit risk guarantee company). The Central Bank of Malawi is considering similar support.

> The Bank also granted 129 trade finance lines, amounting to US$5bn to 24 countries across Africa

Chapter 04

Progress in Implementing the TDIA Framework

The realisation of the Bank's development objectives remains critical in ensuring that its programmes and products are effectively used towards the achievement of Africa's transformation agenda.

Our new TDIA Framework will enable us to improve our development impact, increase value for money, and help us to strengthen our role as Africa's leading trade development finance institution.

Progress in Implementing the TDIA Framework

The primary purpose of establishing the Bank was to promote intra-and extra-African trade, regional integration and structural transformation in Africa. To the extent that Africa can trade itself out of poverty, the Bank works to maximise the development impact of its clients' activities and to bring about additional benefits to the countries where they operate.

In doing so, the Bank conducts its business in a manner consistent with the commercial and developmental expectations of its stakeholders. The fifth Strategic Plan advocates a stronger orientation of monitoring systems towards development results. Under Plan V, the Bank planned to establish a mechanism for development impact measurement and reporting as a means of holding itself accountable towards the developmental goals it sets and driving value creation. It is also to achieve transformational success, as lessons learned can help ensure better design of projects and greater impact and strengthen strategy formulation.

The Bank's TDIA, developed in 2018, is the Bank's results-measurement framework to better monitor and enhance the impact of Bank interventions relative to its development objectives. It represents a significant commitment to improving the way the Bank measures its outcomes and performance as well as deepening its understanding of development impacts.

The Bank kicked off the implementation of the TDIA Framework in April 2019, with the standardisation of data collection, necessary to establish baselines and build a relevant foundation for monitoring and evaluation. While we continue to improve on indicators and data management processes, in the course of 2020, TDIA scoring will be introduced in the Bank's initial assessment of facilities to capture how well a project can be expected to assist the Bank in achieving its developmental mandate. Each onboarding facility will be assigned a TDIA score (high, significant, moderate, or low) before it goes to final credit assessment.

About 26 percent of transactions initiated in 2019 were closed the same year. We will continue to fine-tune our credit review processes to improve the quality and speed of operations. The time required to go from application stage to first disbursement will be managed downwards. Finally, with the revision of our environmental and social risk management parameters, we have made our criteria more exacting in measuring the sustainability of our operations in pursuit of our goals.

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