On COVID-19, AfCFTA and the Role of the Afreximbank as Pan-African Multilateral Trade Finance Institution

By:

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On COVID-19, AfCFTA and the Role of the Afreximbank as Pan-African Multilateral Trade Finance Institution: An Afronomicslaw.org Interview with Prof Ben Oramah, President Afreximbank

On the 24th of March 2020, the African Export-Import Bank (Afreximbank) announced a US$3 billion facility to help its member countries weather the economic and health impacts of Covid-19. In this interview, Prof Ben Oramah, President Afreximbank, discusses this pandemic facility, the African Continental Free Trade Area, (AfCFTA) and more. Prof Oramah became the President and Chairman of the Board of Directors of Afreximbank in September 2015. Prior to this, he was Executive Vice President responsible for Business Development &

Corporate Banking (October 2008 – September 2015). In that role, he supervised Trade Finance, Project & Export Development Finance, Syndications & Specialized Finance, and Corporate Finance & Advisory Services. He also supervised the Research and Strategy functions of the Bank.

Afronomics Law Blog (ALB): Please outline what the Afreximbank's COVID-19 Pandemic Trade Impact Mitigation Facility is and how much is designated to mitigate the COVID-19 pandemic?

Prof Ben Oramah (BO): The general objective of Afreximbank's Pandemic Trade Impact Mitigation Facility (PATIMFA) is to assist Afreximbank member countries to manage the adverse impact of health, financial and economic shocks caused by epidemics or pandemics, such as COVID-19. For example, there may be pandemic-induced sharp declines in commodity prices, sudden significant drops in tourism earnings, disruptions in supply chains and export manufacturing facilities; sudden declines in financial flows, including trade and project finance, migrant remittances, portfolio flows and Foreign Direct Investments, among others. Afreximbank has provided a global limit of US$3 billion for the PATIMFA to support its member countries.

ALB: Since the funding available will be made through typical arrangements such as direct funding, lines of credit, guarantees and cross-currency swaps, are there any built-in cushions at the backend such as lower interest rate payments to ensure African economies can survive the COVID-19 crisis in a sustainable manner?

BO: Pricing will be consistent with the Bank's pricing benchmark. However, every effort will be made to avail the facility at a price reflective of the purposes of the Facility.

ALB: What is the criteria to enable countries access the facility? Will there be priority given to the countries most afflicted by the pandemic?

BO: The criteria is defined by Afreximbank's Risk Management Policies and Procedures, (RMPP), as may be in force from time to time. The Participating States must in addition be experiencing or affected by Epidemics or Pandemics

and must also be:

1. Experiencing a significant drop in tourism earnings as a result of a sharp decline in tourist arrivals; and/or
2. Experiencing a sudden decline in export demand, occasioned by the outbreak of a pandemic or epidemic. The decline in export earnings may be related to a shutdown of export markets, sharp price declines, disruptions in supply chains, and or disruptions in domestic production.
3. Experiencing significant declines in financial flows, including trade finance, project finance, migrant remittances and tourism flows.

ALB: What is the difference between the Afreximbank's Pandemic Trade Impact Mitigation Facility, (PATIMFA), and the World Bank's Pandemic Emergency Facility (PEF)? Does the Afreximbank's Pandemic Trade Impact Mitigation Facility come with any governance conditionalities, including on how the money must be spent? If not, why not?

BO: The main difference between the Afreximbank's facility and the World Bank PEF is that PATIMFA will focus on trade finance and related interventions. It is also Africa-focused. It targets sovereigns, financial institutions and corporations. Additionally, PATIMFA will fill an important gap by providing support in the event there are cuts in credit lines to African entities who are most vulnerable to the current COVID-19 situation.

ALB: What types of support is Afreximbank giving to support the AfCFTA? How is that working? BO: Afreximbank has a number of strategic initiatives which to support the implementation of the AfCFTA. Some of these interventions include:

- **The Intra-African Trade Fair (IATF)** which is now a biennial event, with the second edition scheduled to be held in Kigali, Rwanda from 1-7 September 2020. Afreximbank will host the IATF together with the African Union (AU) and other partners. A primary goal of the IATF is to bridge the gap on trade and market information and to create a sustainable platform for connecting buyers and sellers within the continent as well as those from abroad to enable them to conclude deals. The 1st edition of IATF held

in Cairo, Egypt in 2018 attracted thousands of delegates and over 1,000 exhibitors from 45 countries resulting in over $32 billion worth of trade and investment deals that were closed at the event. Some of the success stories for 2018 include:

- A young African entrepreneur who participated at IATF2018 under a Tony Elumelu Foundation sponsorship got a contract to manufacture drones in Singapore. This story was featured on CNN recently and this success has been attributed to the entrepreneur's participation at IATF2018.
- In an Article in the Kenyan Airways in-flight Magazine, Ms. Zodidi Gaseb, Founder of an African Hair and Skin Products business in Namibia has claimed that she did not dream big enough and was comfortable with supplying locally until she participated in IATF2018.

The IATF2018 was a resounding success and the Trade Fair was credited by the AU as the first deliverable of the AfCFTA even before the Agreement entered into force. The 2nd edition of IATF is expected to be even bigger and aims to attract over 5,000 conference delegates and 1,100 exhibitors, including over 1,000 buyers from over 55 countries who will engage to grow trade and investment on the African continent. More than US$40 Billion in trade and investment deals are being targeted at the IATF2020.

- **The Pan-African Payment and Settlement System (PAPSS),** was launched during the Extraordinary Summit of the AU Head of States in Niamey, Niger in July 2019. Afreximbank is also working with the African Union Commission (AUC) to develop a continent-wide regulatory framework for cross-border payments and settlements to be included in the AfCFTA negotiations on trade in services. The key benefits of implementing a Pan African Payment and Settlement System include use of local currency in intra-African trade payment which will lead to increase in intra-African trade, proper operation of the African single market in payment services, reduction in transaction costs for consumers; reduction in duration and time variability of cross-border payments across Africa, reduction in liquidity requirements of commercial banks for cross border payments, reduction in liquidity requirements of central banks for settlement as well as its own payments, reduction on reliance on informal means of payments for informal traders.

- **The AfCFTA Adjustment Facility**. Afreximbank has agreed with the African Union to put in place an AfCFTA Adjustment Facility to enable countries that maybe negatively impacted by fiscal revenue losses arising from removal of tariffs to adjust over time. At the AU Summit of Heads of States held in Addis Ababa in February 2020, Afreximbank was mandated by the AU to work with the AU and African Ministers of Trade to develop the AfCFTA statutes and plans for funding.
- **Afreximbank-African Collaborative Transit Guarantee Scheme** which will facilitate the movement of goods under a single transit bond within Regional Economic Countries (RECs) and throughout the continent in line with Annex 8 of the AfCFTA dealing with transit. Africa has many land-locked countries (out of 32 landlocked countries in the world, 16 of them are in Africa) and only COMESA has a functional transit guarantee system. In many countries, traders are required to post national bonds at each border, and this leads to delays which add costs and affect competitiveness and development of regional value chains and stifle intra-African trade. The Transit bond will provide confidence to the Customs Officials to enable them to allow goods to move in transit throughout the continent while guaranteeing them that in the event that the transit procedures are not completed properly, they will be able to secure their duties.
- **Development of an Africa Quality Policy and Harmonisation of Standards** to facilitate trade under the AfCFTA. The Bank in partnership with The Physikalisch-Technische Bundesanstalt (PTB) has provided technical and financial support to African Organisation for Standardisation (ARSO) to develop the Africa Quality Policy that will assist the continent to develop national policies on quality infrastructure. The support that the Bank is providing in this area will also support a complimentary initiative by the Bank on **Africa Quality Assurance Centres** which will provide Conformity assessment services such as Testing, Inspection and Certification services as well as training services. The Bank is already working on establishing a pilot lab in Ogun State, Nigeria. This lab will be used to test and certify products produced in Nigeria for export to other African countries as well as abroad and will help to reduce the rejection rate of Nigerian products in Europe and the US. A similar project is under review in Egypt.

The Bank is also working with ARSO on harmonization of standards in the automotive sector to facilitate the development of regional value chains in the automotive industry. The automotive industry is one of the sectors that will play a vital role in catalyzing the development of other sectors. The Bank will work with other partners to harmonise standards in other sectors.

- **Afreximbank Trade Information Services** providing strategic intelligence and decision support to Importers and Exporters, seeking to enter or expand existing capabilities in Africa through a range of integrated trade intelligence solutions.
- **Policy Advocacy** to lobby AfCFTA State Parties to support the adoption and implementation of policies and measures to boost intra-African trade.
- **Pan-African Private Sector Trade and Investment Policy Committee (PAFTRAC)** to coordinate the African private sector to provide an effective voice in trade and investment policy formulation.
- **Training on How to Export under the AfCFTA** that will be delivered by Afreximbank in collaboration with the International Trade Centre.
- **Grant to the AfCFTA Secretariat.** Afreximbank has provided a $3million grant to support the AfCFTA Secretariat to ensure that it has all the capacity to facilitate the implementation of the AfCFTA.

ALB: What other long-term plans does Afrexim Bank have to support the AfCFTA and ancillary objectives such as those contained in the African Union's Strategic Framework for the Implementation of the Action Plan for Boosting Intra-Africa Trade (BIAT)?

BO: In addition to interventions highlighted above, the following initiatives also contributes towards supporting the AFCFTA and BIAT:

Facilitating the Emergence and Expansion of Export Trading Companies (ETC).

Afreximbank has an initiative on supporting the emergence and expansion of Export Trading Companies across the continent as lead institutions to serve as fulcrum to assist relatively small companies with export potential and integrating them into global value chains. Export Trading Companies played a vital role in terms of facilitating trade in Japan and South Korea and could play a vital role in terms of aggregating products produced by SMEs and smallholder

farmers and even large companies and connecting them to the market. To this end, the Bank launched its Strategy on ETCs in June 2019 and is already providing support (finance and trade facilitation) to ETCs. The Bank is currently developing a model regulatory framework to facilitate the emergence and expansion of ETCs across Africa. If the model framework is included under the AfCFTA, this will facilitate harmonization of regulations governing ETCs across Africa and reduce costs.

Trade Infrastructure.

The Bank undertook a study in SADC which seeks to identify the routes that carry the most trade with a view to establishing whether those routes have the requisite infrastructure to carry trade, especially in the context of the AfCFTA. The study identified a number of gaps in terms of trade carrying infrastructure ranging from hard infrastructure such as roads, railways, ports to soft infrastructure such as one stop border posts, single windows and truck stops. The Bank will use its Project Preparation Facility and engage other development partners to mobilise resources required to address the gap on trade-carrying infrastructure.

Creative Africa Programme.

The creative and cultural industries are increasingly recognized as a significant sector and meaningful contributor to Africa’s economy and structural transformation agenda; however, while Africa has a deep pool of talent, it lacks the infrastructure and capacity to commercialize its creative talent and reap the vast fortunes lying in wait. On this realisation and as part of its initiative to promote Intra-African Trade and trade in services and support the implementation of the AfCFTA, the Bank has developed a strategy that looks to support the creative and cultural sector through:

- Providing financing to creative enterprises in intra-Africa trade and export development value chains.
- Providing technical training and support to African creatives to enable them produce world class goods and services competitively.
- Developing digital marketplaces to invigorate Africa’s creative industries and enable cross-continental trade.

- Facilitating a strong African presence in the global creative clusters through partnerships.
- Positioning Africa’s creative enterprises as attractive commercial assets and viable components of global investment portfolios.

In this regard, the Bank announce a $500 million Facility which it plans to use to invest in the sector over the next two years and is rolling out the Creative Africa Programme which is being envisaged as a one-stop shop for governments, creative companies and individuals to find and access technical support, finance and investment. Creative Africa will invest in talented people and their creative ideas across the creative industries in Africa, in particular fashion, film, music, arts and crafts.

Development of the Automotive Industry.

The Bank is working with the African Association of Automotive Manufacturers (AAAM) to support the development of the automotive industry. It will provide a range of financing, facilitation, trade and market information and advisory services in support of the automotive industry. The automotive sector has potential to transform the continent and boost intra-African trade under the AfCFTA. The development of the automotive industry will also catalyse development of other sectors such as the petrochemical industry, electronics, leather and textiles, steel. There are about 30,000 components in a car and this presents opportunities for developing regional value chains in the sector.

Trade Finance.

Once of the responsibility of Afreximbank under BIAT is to provide trade finance. To this end, the Bank has developed a range of financial instruments that are aimed at supporting intra-African trade. The Bank committed to disburse, on a revolving basis, about US$25 billion by 2021, to support the growth of intra-African trade to about 24% of the Bank’s total portfolio. In terms of run-rate, intra-African trade now accounts for over 28% of the Bank’s total portfolio and an aggregate of over US$15 billion has so far been disbursed by the Bank between January 2017 and December 2019. Some of the key financing instruments include the INTRA-AFRICAN TRADE CHAMPIONS (INTRA-CHAMPS) and the Trade and Investment Promotion Programmes among others.

ALB: Being an advocate of strong private sector participation in the AfCFTA, what message do you have for private sector actors in supporting the implementation of the AfCFTA?

BO: The AfCFTA is expected to be a game changer in terms of intra-African trade as it creates the largest FTA in terms of number of countries. The AfCFTA seeks to create a single market of 1.2 billion people with a GDP of $2.5 trillion. The population of Africa is projected to reach 2.5 billion by 2050 and the economy is estimated to grow twice as rapidly as that of the developed world. To put this into perspective, if Africa is treated as a single market it would rank number 8 in terms of global GDP-just above Italy but slightly below the UK. This creates enormous opportunities for the private sector. The AfCFTA is expected to create about $1 trillion opportunities in agribusiness by 2030, $1trillion manufacturing opportunities by 2025, and 1.6 billion people will need clothing by 2030. However, for the private sector to benefit from the AfCFTA, they need to start preparations now and Afreximbank has a range of products to support them to derive benefits from the Agreement as highlighted above.

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