GTR+

Africa 2022

Africa trade leaders roundtable
Trade and economic overview
Africa's inflation paradox

Sponsored by

BACB

GTR Global Trade Review

Editorial
Editorial director: Shannon Manders
Senior reporters: John Basquill, Eleanor Wragg
Reporter: Felix Thompson

GTR Design
Creative director: Kris Ellis
Lead designer: Mireia Márquez
Junior designers: Molly Harris, Jose Leguizamón

Marketing
Head of marketing: Elisabeth Spry
Marketing executive: Deena Ahmed
Marketing assistant: James Henderson

Events
Chief operating officer: Anna Skinner
Director, event logistics: Mark Daly
Director, content and production: Jeff Ando
Associate director, content and production: George Mitchell
Associate director, event logistics: Anna Vilka
Content producer: Jack Longman

Sales
Co-founder and CEO: Peter Gubbins
Co-founder and CEO, Asia: Rupert Sayer
Director, global sales: Ed Virtue
Associate director & GTR Directory manager: Sam Cheung
Associate director, international business development: Beatrice Boldini
Head of business development: Queenie Taylor-Wong
Subscription & delegate sales executives: Ben Cohen, Tom Easey
Team co-ordinator: Michelle Hosking
Representative, Dubai: Maninder Bhandari

Contact anyone at GTR: initialsurname@gtreview.com

GTR, Exporta Publishing & Events Ltd
4 Hillgate Place, London SW12 9ER, UK
Tel: +44 (0)20 8673 9666

Printed in the UK by www.micropress.co.uk

From the editor

The release of our annual edition of **GTR+** Africa comes as the continent faces the triple threat of the Russia-Ukraine war, the protracted Covid-19 pandemic and climate vulnerabilities. This year's publication delves into the socioeconomic and geopolitical challenges that have arisen as a result.

According to the African Development Bank (AfDB), the continent risks sliding into stagflation – a prolonged period of slow growth and high inflation. Given the severe impact of the Ukraine crisis on Africa's economy and disruption to the agricultural, fertiliser and energy sectors in particular, real GDP growth is expected to slow to 4.1% in 2022 from nearly 7% last year. If the conflict persists, the AfDB expects growth to stagnate further at 4% in 2023. It warns the impact will be asymmetrical, with potential upsides for net oil and other commodity-exporting countries offset by high costs and economic fragility among their net-importing peers.

"Vulnerable populations, especially in urban areas, will bear the greatest burden of rising food and energy prices, and in the absence of measures to cushion the impact, this could stoke social tension across the continent," the AfDB's African Economic Outlook 2022 report reads.

It calls on African countries to diversify their import and export strategies for crucial goods and commodities so as not to be dependent on any single supplier or bound too closely to raw commodity prices, and to build resilience to future shocks. Longer-term policy responses should include boosting intra-African trade, the bank says.

The African Continental Free Trade Area (AfCFTA) has been heralded an important enabler of trade diversification for the continent, with one of our Africa trade leaders in this issue's roundtable discussion declaring it the "biggest focal point for the year".

Trading under the agreement was set to begin in January 2021. Although preparations have intensified, no trade has yet taken place under the new regime as a result of delays in negotiations on tariff reductions, rules of origin and trade in services – a complicated exercise.

As government agency parties thrash out the details of tariff schedules and phase-down periods and agree which goods will be excluded from liberalisation, progress on the deal continues to be made elsewhere.

In July, the free trade area's secretariat launched the AfCFTA Hub, a platform to link together governments and private sector partners to help African SMEs and startups navigate the technical intricacies and infrastructural challenges of doing business in the single market. Several countries are reported to be in advanced stages of platform adoption. Elsewhere, the United Nations Economic Commission for Africa has created the AfCFTA Country Business Index, a tool to identify bottlenecks in intra-continental trade at a country level.

Given the complexities of trade in, and with, the African continent, as detailed in the pages of this publication, the development of a 1.4 billion-person inclusive, innovative and integrated free trade area has the potential to be a game-changer – especially at a time of global retreat from trade integration.

The world awaits the implementation of this ambitious deal.

SManders

Shannon Manders
Editorial Director
smanders@gtreview.com

Contents

Follow us on Twitter: @gtreview

Keep up with **GTR**'s latest news, videos and podcasts on **www.gtreview.com**

North Africa: how specialist banks support safer trade

Richard Snookes, BACB

***Richard Snookes*, head of financial crime risk and money laundering reporting officer at British Arab Commercial Bank (BACB), shares his outlook on North Africa.**

North Africa is Europe's primary gateway to the rest of Africa, and it is no coincidence that international traders have long been eager to unlock the economic opportunities presented by the region, one rich in resources and home to a young population. Yet many international businesses struggle to obtain the trade finance required to mitigate the associated risks – hindering their expansion into promising new markets.

Why is North African trade considered risky?

Naturally, entry into any new market brings with it both opportunities and risks – but for many international traders and investors, North Africa sits at the higher end of the risk spectrum. Whilst this perception is sometimes exaggerated, the region's distinct circumstances do lend it a unique risk profile. The geopolitical instability that has rocked the likes of Tunisia and Libya in recent decades continues to spook foreign investors. But while both economies are on the road to recovery, having achieved hard-fought stability, challenges remain for foreign businesses looking to tap into these markets.

Many of Africa's developing economies have less mature regulatory frameworks in place when compared with their international counterparts, not only at a government level but also with respect to individual financial institutions. Furthermore, North African markets often have a relatively high proportion of informal economic activity and undocumented cross-border trade, with some remaining heavily cash based.

Certain governance issues add to the region's risk profile – indeed, several markets face restrictions from international bodies, serving as evidence of ongoing concerns, including corruption, money laundering and the financing of terrorism. This should not necessarily serve as an obstacle to trade, but it does mean that risks must be managed carefully – and traders will undoubtedly be aware that financial institutions often approach North Africa with caution.

How can specialist banks support trade?

These concerns can be addressed given the right risk management strategy, with an approach to trade not only involving robust due diligence procedures and compliance checks, but also providing expertise and understanding. The role of a smaller, specialist trade bank can be to not only mitigate risks but also to bridge the knowledge gap between understandably wary traders and potentially fruitful markets.

1. By mitigating the risks for traders

With specialist markets in North Africa often categorised as high risk, international banks like BACB can play a key role in bringing credibility to trade flows, guaranteeing and financing international transactions through strict transaction monitoring processes.

Specialist trade finance banks, with on-the-ground knowledge, support this process by carrying out risk assessments of their customers – providing a system of checks and controls that reassures all sides of a transaction. By fostering a dialogue with customers, and actively soliciting customers' queries on how to improve processes and procedures, banks like BACB can also help inform local partners on how to improve their profiles, raising them to an international standard.

The benefits of this approach are far-reaching, as ultimately, the day-to-day monitoring of transactions supports the integrity of key trade flows.

2. By promoting higher compliance standards in the markets themselves

Raising governance standards within African markets reduces the aforementioned risks, but the building of more robust compliance capabilities requires both investment and commitment from local governments. Progress is being made in this area, with many African economies working hard to raise both regulatory and corporate standards.

Financial institutions in the region are also establishing processes and building control frameworks. International banks, themselves operating within stringent regulatory regimes, can play a crucial role to support their African partners in this process.

Indeed, BACB has a proven track record of sharing its expertise with many local institutions over its 50-year history, something it continues to do as part of the bank's strategy of safe, sustainable growth. Operating from London, with representative offices in Africa, BACB benefits from the regulatory guidance provided directly by the UK government, Prudential Regulation Authority and the Financial Conduct Authority, whilst being able to maintain a deep understanding of the needs of its counterparties based in the bank's core African markets.


BACB held a training conference in Tunis in July 2022

> "Helping to build the institutional resilience of African financial systems is a key part of BACB's strategy."
>
> **Richard Snookes,** BACB

3. Organising compliance training sessions on the ground

Helping build institutional resilience is a key component of BACB's growth strategy. Through the provision of extensive training for colleagues in its London headquarters as well as its representative offices in Algiers, Tripoli and Abidjan, BACB can demonstrate its commitment to upholding the highest regulatory and compliance standards across all activities.

BACB also organises specialised regulatory and compliance training workshops for its banking partners operating in North African markets, aimed at strengthening the capabilities of the region's financial institutions.

The most recent of these training sessions took place in Tunis in July 2022, following on from a larger conference held the previous month in Tripoli. The ongoing commitment of specialist banks like BACB in aiding the continuous improvement of the governance standards of the markets they operate in will ultimately lead to the expansion of international risk appetite for African markets, resulting in greater prospects for growth.

4. Capacity building: origination and distribution

The African Development Bank estimates the annual gap between demand and supply for trade finance in Africa to be around US$81bn. The need to bridge this gap has never been more apparent, and the role that international financiers can play to promote the financial inclusion of developing countries is significant. Operating a strong trade asset distribution function from one of the world's financial capitals, BACB sources capacity from international providers for quality trade assets originated in its African markets. BACB has a trusted name, deep knowledge of African markets, and proven experience in the origination of safe, sustainable trade assets, coupled with longstanding partnerships with global traders. This strong foundation provides BACB with the capacity to work with banks and insurers in the UK to generate larger risk appetite and greater pools of liquidity for Africa.

Supporting African markets: spotlight on Libya

Economic recovery

Libya is a natural gateway for trade with North Africa, as well as a link between Europe and Sub-Saharan emerging economies. The impact of conflict and the pandemic has left Libya reckoning with significant social and economic damage to its communities. Furthermore, the associated risks of working in Libya have meant that global banks are often reluctant to handle Libyan businesses, leaving the country with limited opportunities to access the global financial markets.

Specialist international banks operating in Libya, like BACB, play a strategically important role in keeping the North African country connected and trade flowing. BACB is pre-eminent in the UK as an issuer of letters of credit for corporates working in the Libyan oil sector, creating a vital link for Libya to access the global financial system.

Of course, navigating such a specialist market comes with a unique set of challenges. Aside from handling oil exports, BACB also supports the difficult process of economic rebuilding in Libya – including the issuance of letters of credit for the importation of parts to repair damaged factories and infrastructure. To reduce delay, Libyan banks place their trust in London-based BACB to receive and check shipping documents, and to make payments on their behalf. This is a testament to the strength of BACB's local relationships and the bank's ability to provide solutions for its clients.

Building compliance capabilities

Working with the Central Bank of Libya, BACB jointly held a high-profile banking conference in Tripoli in June 2022, focusing on upskilling top Libyan financial institutions in the areas of governance and compliance. The Libyan Banking Conference on Compliance 2022, hosted by the Central Bank of Libya, was the first major banking conference to take place in Tripoli since 2011, and included senior representatives from all commercial banks in the Libyan financial sector. Several training sessions were delivered by BACB's in-house experts to an audience of CEOs and chairs from Libya's top financial institutions.

Helping to build the institutional resilience of African financial systems is a key part of BACB's strategy, demonstrating the bank's steadfast commitment to its core markets. Governance and transparency play a crucial role in rekindling risk appetite towards the continent, and BACB's presence on the ground makes the sharing of expertise with local partners even more effective.

Africa trade report: Many challenges, and few opportunities

Just as the continent seemed to be staging an economic recovery from the Covid-19 pandemic, a new shock in the shape of the Russian invasion of Ukraine is weighing on Africa's prospects – although some bright spots remain. *Eleanor Wragg* examines the outlook for trade and explores some of the most interesting aspects.

After a better-than-expected post-pandemic rebound last year, economic growth in Sub-Saharan Africa is expected to stall in 2022, dropping from 4.6% in 2021 to 3.8%, according to the International Monetary Fund (IMF), as the global shock triggered by Russia's invasion of Ukraine sets back the region's prospects.

With surging fuel prices and import bills straining the external and fiscal balances of commodity-importing countries, recent progress on poverty alleviation in Africa is at risk, to the extent that the latest World Bank *Global Economic Prospects* report finds that it is now expected to remain the only emerging market and developing economy region where per capita incomes will not return to their 2019 levels by 2023.

A closer look into the GDP figures reveals that economic growth continues to vary widely across countries and sub-regions – as could be expected from a diverse and heterogenous continent made up of 54 sovereign states encompassing the full range of income groups.

As figure 1 shows, North Africa staged the most impressive post-pandemic rebound, with the African Development Bank (AfDB) estimating its growth at 11.7% in 2021, largely driven by the lifting of the oil exports blockade on Libya in late 2020. Meanwhile, in East Africa – which was cushioned to a great extent against the pandemic shock by its recent economic diversification – GDP growth has been supported by public spending on flagship infrastructure projects, along with closer intra-regional trade ties and a strong agricultural performance. Meanwhile, Southern Africa, the region hardest hit by the pandemic, returned to healthy growth in 2021 after South Africa posted its highest GDP growth since 2007, which was driven by large fiscal stimuli. However, the AfDB forecasts that growth in the sub-region will decelerate in 2022 as the effects of these stimuli peter out.

"Disruptions to global trade and supply chains – primarily in agricultural, fertiliser, and energy sectors – following the Russia-Ukraine conflict and the corresponding sanctions on trade with Russia have tilted the balance of risks to Africa's economic outlook to the downside," says AfDB president Akinwumi Adesina in the multilateral institution's *Africa Economic Outlook Report 2022*.

"The impact is, however, likely to be asymmetrical. On the one hand, net oil- and other commodity-exporting African countries could benefit from higher prices of their exported commodities. On the other, the impacts on net energy-, food-, and other commodity-importing countries are concerning as higher food and energy prices will exacerbate inflationary pressures and constrain economic activity."

But although some sub-regions may be doing better than others, none can expect an entirely smooth ride this year.

An uneven trade rebound

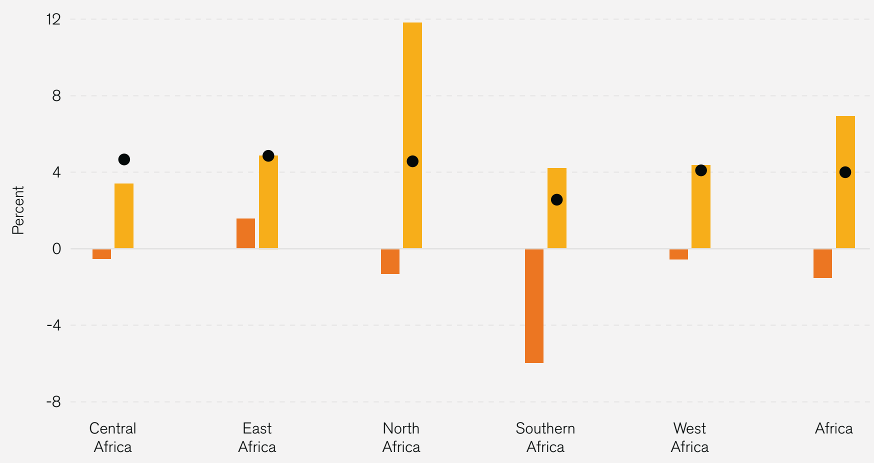
Africa's post-pandemic trade recovery continues (see figure 2), with the IMF's Direction of Trade Statistics (DOTS) showing that, after a sharp dip during the worst of the pandemic, exports have risen ever since, reaching US$150.1bn in the first quarter of 2022 and topping pre-Covid levels.

But, as in the case of GDP growth, this trade growth is not coming from all

> **"Disruptions to global trade and supply chains – primarily in agricultural, fertiliser, and energy sectors – following the Russia-Ukraine conflict and the corresponding sanctions on trade with Russia have tilted the balance of risks to Africa's economic outlook to the downside."**
>
> **Akinwumi Adesina,** AfDB

Figure 1

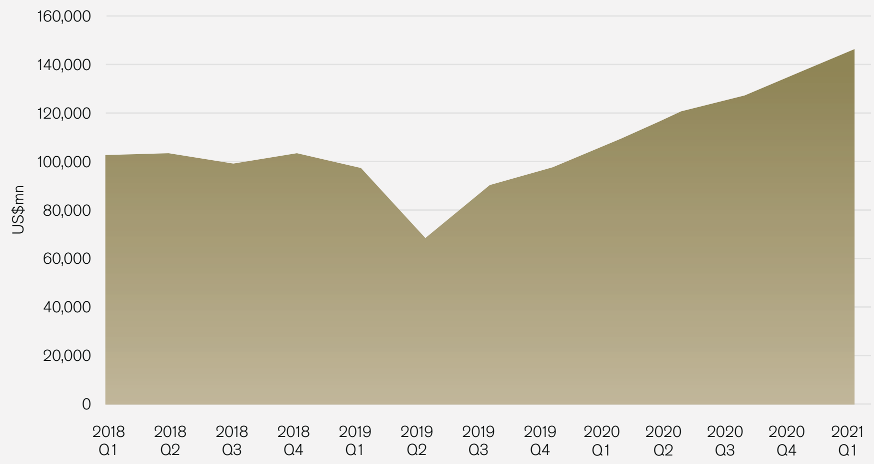
GDP growth in Africa, by region grouping, 2020-22



Source: African Development Bank statistics

Figure 2

Africa's exports, free on board (FOB) to world, in US$mn



Source: IMF DOTS, accessed August 2022

sub-regions equally. As figure 3 shows, exports from East Africa – defined by the AfDB as Burundi, Comoros, Djibouti, Ethiopia, Eritrea, Kenya, Rwanda, Seychelles, Somalia, South Sudan, Sudan, Tanzania and Uganda – have remained relatively steady since 2019. However, at the individual country level, there are some stand-outs. Rwanda, which only accounts for 8% of the sub-region's total trade, put on a stellar performance over the period, with an increase in exports from US$227.2mn in the first quarter of 2019 to US$695.1mn in the fourth quarter of 2021, supported by GDP growth of 7.4% in 2021.

Looking ahead, the increase in food, energy, and other commodity prices will have mixed effects for trade across Africa, with some countries benefiting while others lose out. Energy-exporting countries are poised to see gains from higher-than-expected prices, as long as they can find the extra production capacity. However, energy- and food-importing countries may struggle with inflationary pressures, compounded by disruptions in global supply chains.

Most African countries are net energy importers, meaning they export crude oil but import refined petroleum products because they lack domestic refining capacity. This overall trend puts downward pressure on the continent's economy. While net oil- and other commodity-exporting countries could see benefits from higher prices, the negative impacts on net energy- and commodity-importing countries are likely to cancel out these gains. Meanwhile, net crude oil-exporting countries that subsidise fuel could experience fiscal shocks due to the higher price of imported refined petroleum products.

In addition, Russia and Ukraine are significant sources of raw materials such as platinum group elements, nickel, and neon gas, which are used in the automotive industry, consumer electronics, and renewable energy devices. In particular, the ongoing global shortages of these vital components may constrain vehicle production and exports in Morocco and South Africa.

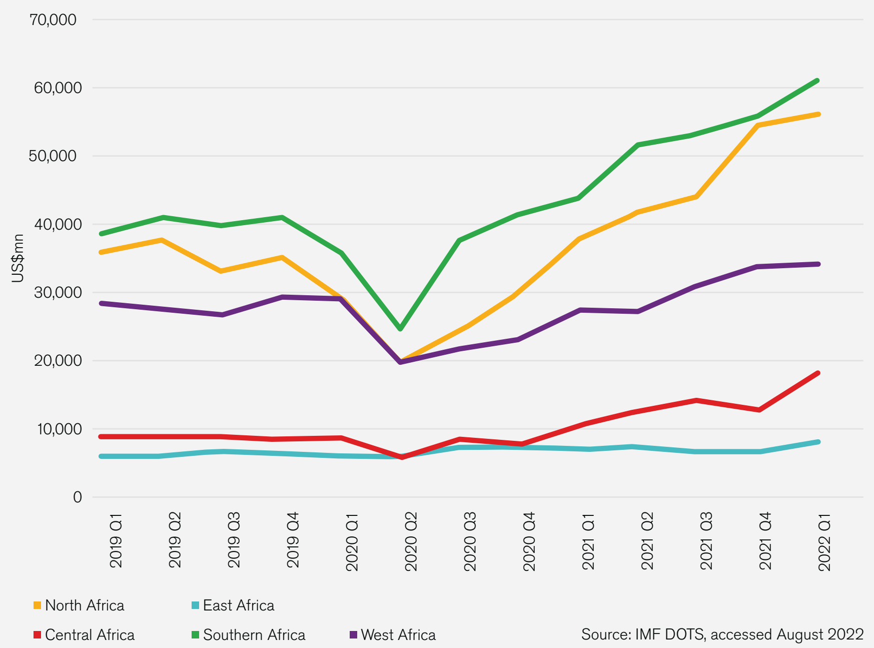
Africa looks inwards

Trade under the African Continental Free Trade Area officially began as of January 1, 2021, but although the World Bank estimates it will lead to an increase in intra-African exports of 109% by 2035, several roadblocks remain to its full execution, and it is unlikely to move the needle on intra-regional trade in the near term.

"As an African myself, I'm quite used to sound policy being written and ideas being shared, but the implementation is always a challenge," says Mukudzei Borerwe, chief operations officer at

Figure 3

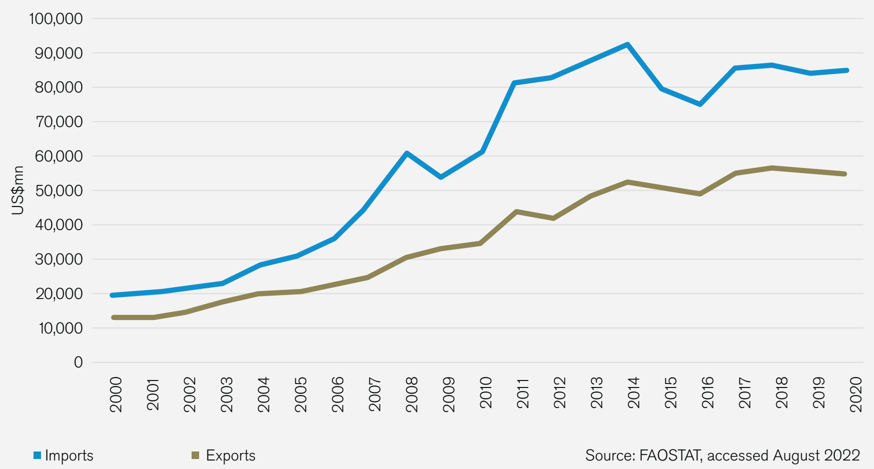
Africa's exports, free on board (FOB) to world, by sub-region, in US$mn



Source: IMF DOTS, accessed August 2022

Figure 4

Africa's trade in agricultural products, in US$mn



Source: FAOSTAT, accessed August 2022

> **"Covid-19, disrupted supply chains, and slowing demand for Africa's resources in China are forcing African countries to weaken their dependence on Asia and start building up their domestic markets."**
>
> **Robert Besseling,** Pangea-Risk

Asoko Insight, a corporate data platform for Africa. "Part of the challenge in Africa is simply dealing with the fact that the region holds 54 countries. It's extremely diverse from a social standpoint, and also from an economic standpoint. Several countries are currently going through election cycles, and politics always comes into it, so it's difficult to ensure that everybody's focused on getting trade right among more local priorities."

However, other external factors are driving a growth in intra-regional trade, says Robert Besseling, CEO of specialist intelligence consultancy Pangea-Risk.

"Covid-19, disrupted supply chains, and slowing demand for Africa's resources in China are forcing African countries to weaken their dependence on Asia and start building up their domestic markets," he tells **GTR**. "Before, you could see a large proportion of Africa's oil and gas, in addition to many soft commodities and manufactured goods going to China, while all the manufactured goods coming into Africa were coming from China or from other markets like Vietnam. Those supply chains have taken a knock, and we're now seeing countries with particularly diversified markets, like Kenya, boosting domestic processing and setting themselves up as hubs for intra-regional trade. They see this as a longer-term opportunity."

A slew of export credit agency and development finance institution-backed infrastructure development projects, including a new dry bulk port in Côte d'Ivoire, the rehabilitation of the Beitbridge border post that connects Zimbabwe and South Africa, and road and rail upgrades the length and breadth of the continent, will go some way towards closing the infrastructure gap – the bane of Africans doing business within Africa, although there's still some way to go.

"What we're seeing now is a trend in which infrastructure is slowly being rolled out," says Besseling. "We know there's a big deficit still, but it is happening: there are deals all the time."

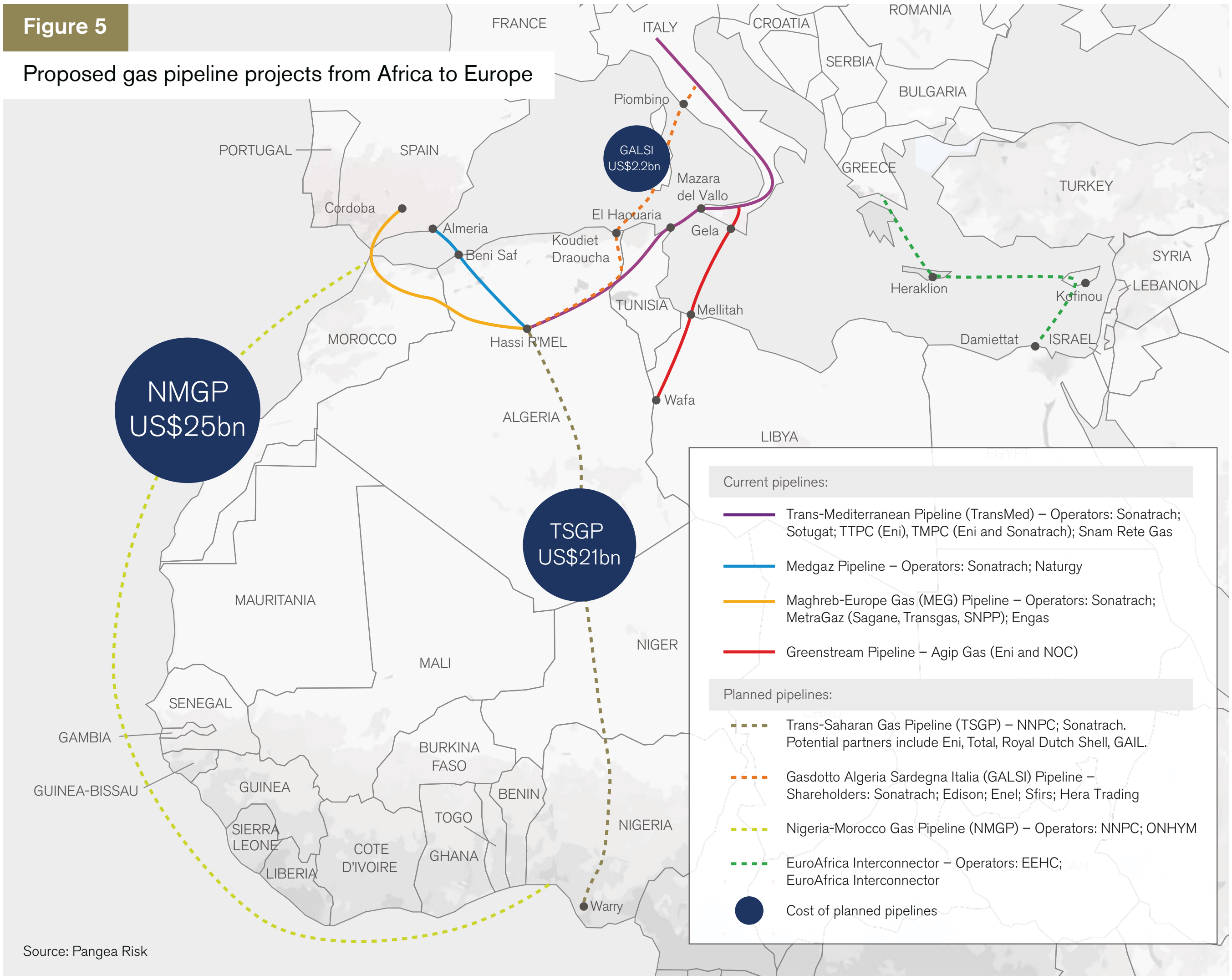
Trade for food security

Another interesting trend is around trade in food and agricultural products. Africa both imports and exports more food than it did two decades ago (see figure 4), with lower-middle-income countries such as Côte d'Ivoire, Ghana and Kenya, becoming leading exporters of agricultural products, with a net agricultural trade surplus of more than US$5bn annually.

Despite being home to around 60% of the world's arable land, almost half the continent depends on imports from Russia and Ukraine for more than a third of its wheat, and supply disruptions and

Figure 5

Proposed gas pipeline projects from Africa to Europe



Source: Pangea Risk

surging prices have pushed millions of people into food insecurity.

In an attempt to tackle this issue, some African countries have put domestic price controls and export restrictions in place, such as Ethiopia, Nigeria and South Africa. Benin has enacted an export ban. Meanwhile others, like Malawi and Uganda, are offering cash subsidies to vulnerable groups.

As the crisis rumbles on, some countries are seeing an opportunity to boost local agriculture, says Besseling. "Zambia is putting money into the development of local agriculture and wheat growing – even though they're struggling to get access to fertilisers. Ethiopia is now expecting a 70% increase in grain production this year. Meanwhile, after several weeks of nationwide protests against cereal shortages, Cameroon's government has increased funding to grow more wheat, allocating some US$15mn, with a further US$63mn coming in from the AfDB," he says.

> **"As African companies find more opportunities to participate in global value chains, ESG scoring is becoming increasingly important. European, American and Asian multinational corporations are being held to a higher standard from an ESG standpoint, and that flows down the supply chain."**
>
> **Mukudzei Borerwe,** Asoko Insight

Pipeline diplomacy and ESG considerations

Another consequence of Russia's war in Ukraine is its rekindling of Europe's demand for African fossil fuels, reviving interest in projects that were previously shunned due to costs and climate change concerns. According to the International Energy Agency, Africa could replace one-fifth of Russia's gas exports to Europe by 2030 – although that depends on whether proposed new pipeline projects (see figure 5) see the light of day.

"At least US$50bn in new pipeline investments may be signed off this year," says Pangea Risk's Besseling. "However, bilateral disputes and long-time Russian affiliations are complicating such efforts and European governments will need to offer concessions on food security,

HONORING THE PAST BY PRESERVING THE FUTURE!

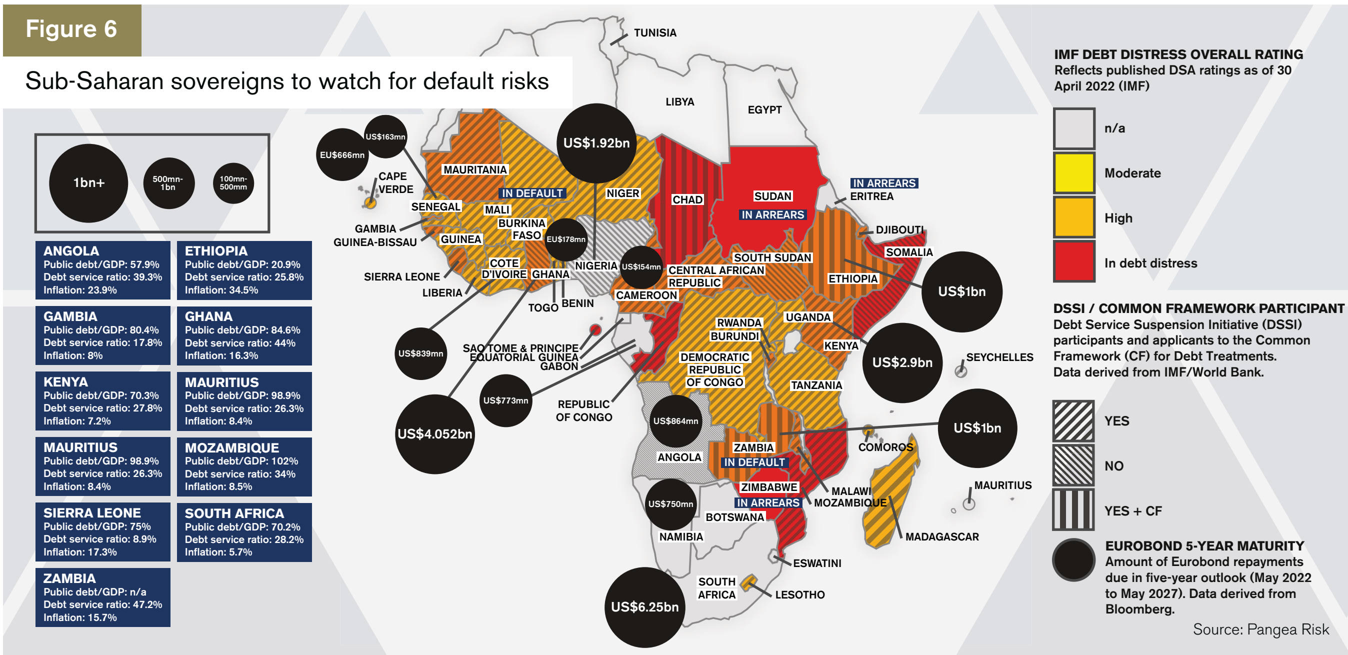
Sustainability to Nature

SCAN THIS CODE
TO KNOW ABOUT
OUR ESG EFFORTS

Tax Registration No. 204-891-949

Figure 6

Sub-Saharan sovereigns to watch for default risks



Source: Pangea Risk

vaccine manufacturing, and climate change targets to secure African support."

This last point is an important one: despite accounting for a negligible 3% of cumulative worldwide CO2 emissions historically, climate change and extreme weather events disproportionately affect Africa, with severe economic, social, and environmental consequences for its people. Moves to ramp up the continent's fossil-fuel extraction and export industry for European consumers, especially since European demand looks likely to plummet in the coming years as investments in renewables come online, fly in the face of recent calls to halt similar projects, among them the East African Crude Oil Pipeline.

Indeed, environmental, social and governance (ESG) awareness is growing among Africa's exporters, says Asoko Insight's Borerwe, who says that he sees African trade as becoming more – not less – sustainable.

"There is a growing private sector focus on ESG, which is critically important from the standpoint of global competitiveness. As African companies find more opportunities to participate in global value chains, ESG scoring is becoming increasingly important. European, American and Asian multinational corporations are being held to a higher standard from an ESG standpoint, and that flows down the supply chain," he says. "This is all part of competitiveness, and adopting strategies and creating an environment that allows you to participate in supply chains that were previously not accessible to you."

An uncertain future for trade

Africa's trade outlook is an uncertain one: higher commodity prices, headline inflation and the tightening of global financial conditions are putting the continent's productive capacity at risk.

A serious downside risk to further trade growth is the growing threat of sovereign defaults. The tough global economic backdrop coupled with the ongoing Covid-19 pandemic, and food and energy shortages, all hitting at a time when countries' policy space to respond to them is minimal to non-existent, are putting more and more countries in the region at risk of debt distress (figure 6).

"We are monitoring a number of countries, including some big trading partners across the continent, and there is a high probability for these countries to default on their sovereign debt in the five-year outlook, but some of them from 2023 onward," says Besseling, adding that Ghana and Kenya are "very high up" on the list.

"These countries have not yet been able to recover from the pandemic-induced slowdown. Some of them may have diversified economies, but there's simply not enough government revenue to service the debt. We're looking at capital repayments on eurobonds that are due in the next three to five years. This is relevant to trade because the moment that a country defaults they can't tap into international markets anymore and their trade finance facilities also disappear."

> **"We are monitoring a number of countries, including some big trading partners across the continent, and there is a high probability for these countries to default on their sovereign debt in the five-year outlook, but some of them from 2023 onward."**
>
> **Robert Besseling**, Pangea-Risk

Overall, sentiment is anything but buoyant, says Asoko Insight's Borerwe. "In 2021, coming off the back of Covid-19, Africa's bounce back was as strong as anywhere else in the world, but the invasion of Ukraine has just created another challenge," he says. "If you'd asked me, pre-invasion, then buoyancy would have certainly been the word. Business owners were looking at a new global business community in which they could participate. But we've all kind of taken a step back. And I think that, right now, in a lot of economies, it's just about survival." GTR

Africa's sustainable trade opportunity

Motasim Iqbal,
Standard Chartered

Roshel Mahabeer,
Standard Chartered

Although Africa's post-pandemic economic recovery has been set back by the impact of the Ukraine crisis, the opportunity remains for sustainable trade to drive a more resilient future.

standard chartered

After a better-than-expected bounce back from the Covid-19 pandemic, Africa's economies are now being put to the test once more amid trade disruption, food and fuel price spikes and macroeconomic instability caused by Russia's war in Ukraine.

In 2021, the region – which prior to the pandemic was the world's second fastest-growing –exceeded GDP growth expectations of 3.7%, posting an expansion of 4.5%. This, said United Nations Assistant Secretary-General Ahunna Eziakonwa in a recent keynote at the US Institute of Peace, was largely a result of effective strategies towards greater resilience. "While multilateralism appeared to be shrinking in the rest of the world, it was expanding in Africa," she said.

Today, as the continent faces another crisis that threatens to reverse its hard-won gains, Africa has an opportunity to build on the experience of the past two years to pull together once again.

"Africa's current trade challenges can be neatly boiled down to the three Cs: commodities, Covid-19, and containers," says Motasim Iqbal, head of transaction banking sales, Africa and Middle East at Standard Chartered. "In commodities, we're talking essentially about food and fuel, the rising costs of which are having a very significant impact on import bills as well as leading to issues in terms of foreign exchange availability in some markets. Meanwhile, Covid-19, particularly the resurgence of lockdowns in China, continues to have an impact, especially because Africa is very dependent on China. This then brings us to containers, because the cost of shipping, although it has levelled out somewhat, is still punitive to companies' bottom line."

In spite of these challenges, corporates are striving for growth. "In our *Future of Trade 2030* report, we asked corporates in Africa what their priorities were, and building resilience in the face of these issues was at the top of the list," says Iqbal. "Almost six in 10 said their main concern was de-risking their supply chain and realigning their footprint to protect against disruptions, while half said they wanted to capture value from bilateral, regional and trade bloc agreements – such as the African Continental Free Trade Area (AfCFTA)."

Enabling infrastructure

But in order for them to capture that value, they need the supporting infrastructure. According to a recent report[1] by consultancy firm McKinsey, inadequate transport links add as much as 40% to the costs of goods traded among African countries, holding back cross-border business.

"In some of the key port cities in Africa, we are seeing long waiting times for goods to be released," says Iqbal. "This eats into corporates' working capital to the extent that some of our clients have asked us for financing specifically for the period of time between the vessel coming in and the unloading of the goods."

However, a recent upswing in

infrastructure spending, from the newly completed Nairobi Moja Expressway to work on Tanzania's Standard Gauge Railway project, is improving connectivity, laying the groundwork for the AfCFTA to achieve its full potential – as well as building the foundations for a more sustainable future.

"All of the infrastructure development that is going on has a huge social upliftment, as well as a positive environmental impact," says Roshel Mahabeer, head of clean tech industry and sustainable finance for trade and working capital at Standard Chartered. "It's creating jobs. It allows businesses to operate more efficiently. There's a massive positive social impact coming out of the way that the infrastructure gap is being addressed in Africa."

What's more, alongside the large infrastructure investment, new opportunities are emerging to bolster the health and resilience of supply chains and enable trade to flourish, explains Iqbal.

"There is a lot of demand to see if we can replicate in Africa some of the large value structured trade deals that we're used to doing in the Middle East, to support infrastructure growth," he says. "While there are lots of transactions in infrastructure, we're also doing a lot of work supporting large fast-moving consumer goods companies, helping them to meet their broader working capital requirements as well as co-ordinate with multiple banks. We are also working with a growing number of home-grown corporates that have expanded across the continent as they are increasingly asking us for more support in terms of structured financing solutions."

Another trend that is contributing to greater resilience is the growth of supply chain finance, which is increasingly serving as a conduit for greater economic participation. "We've had a lot of success with the payables model where many suppliers are linked to a key client of ours," says Iqbal. "Within that dynamic, we're providing the financing from day zero, whereas our anchor is paying us on day 60, or day 90 as per the payment terms. We really encourage this, because it's helping to lift participation and enable SMEs to get access to finance. We have carried out some very interesting transactions with this model across different markets, supporting SME suppliers, and this will be a big focus for us as we go forward."

Meanwhile, with African countries especially hard hit by wheat and fertiliser shortages as a result of the war in Ukraine, bolstering capacity in the domestic agricultural sector has become a priority. In order to meet growing needs in this space, Standard Chartered has started to bring in multiple investors to boost the availability of capital. "In the past, we would typically go to a client and offer credit capacity on the basis of their financials or their business model," says Iqbal. "Now, particularly in the food and agriculture space, we are reaching out to multilaterals and other institutions who can come in and participate in the risk, which enables us to increase the amount of capacity available to a client."

"There's a massive positive social impact coming out of the way that the infrastructure gap is being addressed in Africa."

Roshel Mahabeer, Standard Chartered

An opportunity space for sustainable finance

Last year, Standard Chartered launched its sustainable trade finance proposition, embedding the Loan Market Association's (LMA) green and sustainability-linked loan principles into its offering.

The solutions can be used to finance underlying goods that are farmed, processed or produced aligning to the best sustainability standards, to support trade with incentives for suppliers who improve ESG metrics, or to finance trade in sustainable industries, such as renewable energy, and transition activities that support emissions reduction.

"When we designed the green and sustainable trade finance document, we did so thinking about all of our home markets," says Mahabeer. "An important point to bear in mind is that many countries in Africa have made key commitments around net-zero strategies, for example, and it's our job as financiers to help them on this journey. What Standard Chartered did was to contextualise all of the good work the bank had been doing in driving the sustainability agenda, which also allowed investors to access markets where investment is needed, but it wasn't being directed."

In Africa, where the trade finance gap is estimated at an annual US$91bn, this is key.

"Trade remains a key driver of Africa's social and economic development, and the African continent represents a significant sustainable finance opportunity space," says Mahabeer. "The harder you look, the more you'll see complete alignment in terms of environmental and social standards, as well as willingness from both government and the private sector to meet broader international standards. In commodities and agriculture, for example, by virtue of a lot of trade in Africa going to Europe, many of our African clients have already adopted industry best practice standards in how they produce, and they're aligning themselves with the export market."

"This is helping to attract more liquidity into the market," adds Iqbal, "to the extent that when we go to investors to create more capacity, they are a lot more interested if we present a solution to them that already has a sustainable lens to it."

A sustainable future for African trade

According to Standard Chartered research, global trade is predicted to increase by 70% to almost US$30tn by the end of this decade, with Africa expected to play an important role. Of the 13 markets that the *Future of Trade 2030* report finds will drive much of the world's trade growth, three are in Africa: Kenya and Ghana are expected to pivot and enhance their roles in the world's supply chains, while Nigeria is tipped as a "hypergrowth" market that is rapidly progressing towards becoming a major global trade partner.

As business environment improvements, enhanced regional co-operation and infrastructure investments continue to boost these markets' trade prospects, opportunities to reinforce sustainable practices across the continent are emerging, cementing Africa's place at the centre of efforts to make trade more equitable and responsible for all.

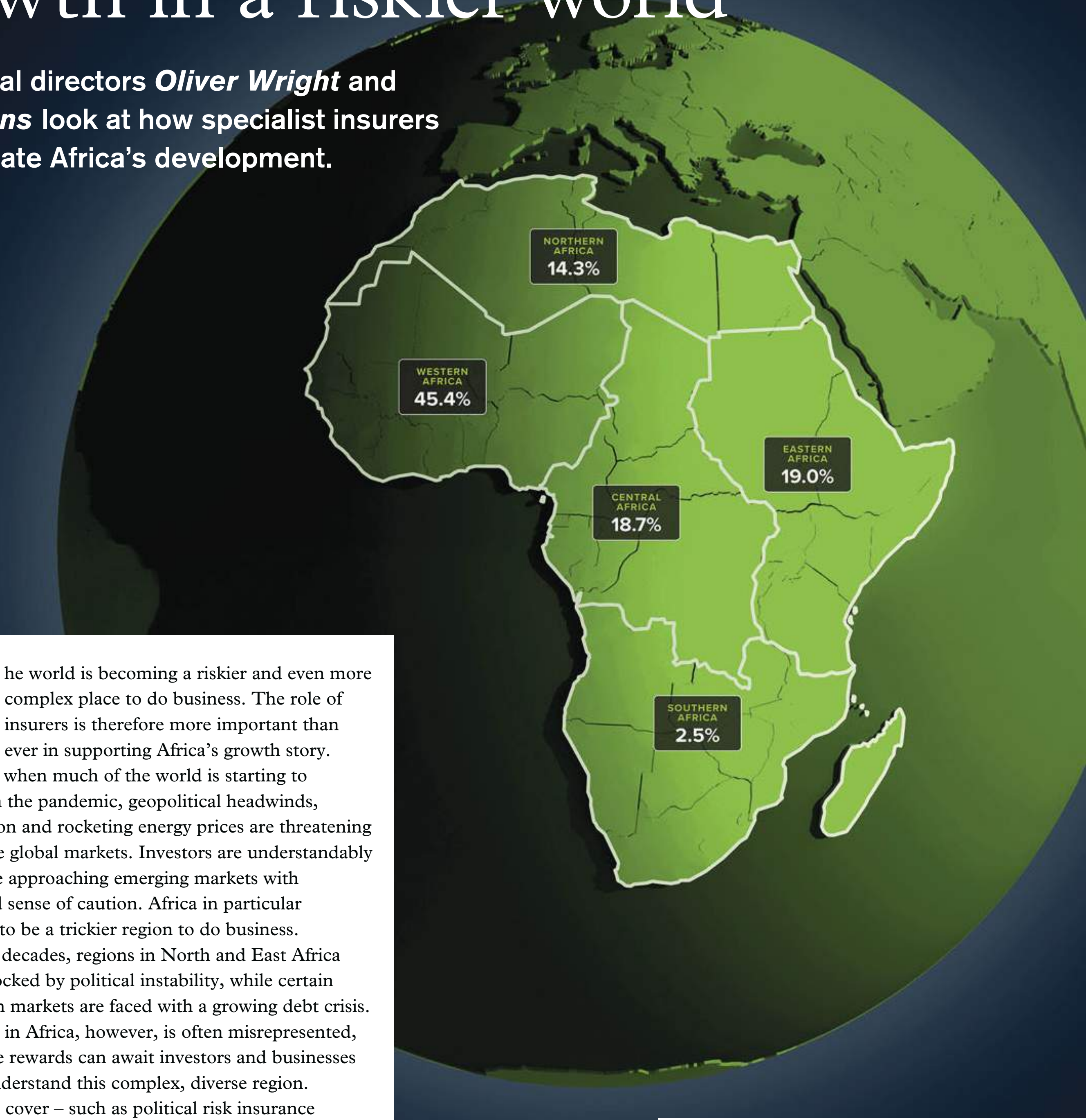
Reference

1. https://www.mckinsey.com/business-functions/operations/our-insights/solving-africas-infrastructure-paradox

BPL Global

Supporting Africa's growth in a riskier world

BPL Global directors *Oliver Wright* and *Sam Evans* look at how specialist insurers can facilitate Africa's development.



Africa represents BPL Global's largest regional exposure, accounting for US$9.65bn of our portfolio. This chart reveals our exposure across the continent by region

The world is becoming a riskier and even more complex place to do business. The role of insurers is therefore more important than ever in supporting Africa's growth story.

At a time when much of the world is starting to emerge from the pandemic, geopolitical headwinds, rising inflation and rocketing energy prices are threatening to destabilise global markets. Investors are understandably wary and are approaching emerging markets with a heightened sense of caution. Africa in particular is perceived to be a trickier region to do business.

In recent decades, regions in North and East Africa have been rocked by political instability, while certain West African markets are faced with a growing debt crisis. Political risk in Africa, however, is often misrepresented, and lucrative rewards can await investors and businesses willing to understand this complex, diverse region.

Specialist cover – such as political risk insurance (PRI) – fortifies transactions, helping projects to become more economically viable and protecting cash flows,


Oliver Wright, BPL Global


Sam Evans, BPL Global

"The role of PRI to facilitate attractive investment and sustainable trade with African markets is evident. There is now a greater need for institutions that want to do business with the continent to source the right PRI insurance, and the appetite from underwriters is evidently there to provide it."

while facilitating much-needed foreign investment into the region. From a PRI perspective, Africa is a natural market for this type of cover. With a heightened perceived risk profile, the continent already forms a large part of many underwriters' books.

Understanding PRI

Naturally, investors and multinational corporations view political turbulence as a threat to their assets. Instability in a region can cause the value of assets to plummet or, if the situation escalates, property may be destroyed or confiscated.

PRI, however, provides specialist protection for investors, businesses and financial institutions against losses resulting from certain political events. For example, that government action will derail a project and cause the insured to experience significant financial losses. This type of cover offers longer tenors too, to match the timescales of return for certain developments in emerging markets.

Recent studies, however, have shown that the benefits of political risk insurance relative to its cost have been systematically underestimated by equity investors. Aside from the obvious advantage of a monetary recovery if a covered loss occurs, PRI insurance provides an effective safety net for a class of risks that are – by their nature – hard to predict, particularly in the long term. This cover also reassures prospective lenders and gives enhanced exit options. The cost of PRI is therefore far outweighed by the benefit it creates.

Supporting Africa's growth story

Through PRI, insurers have a part to play in Africa's development too. Specialist cover can help to mobilise much-needed capital into emerging markets. Presently, Africa's budding economies are in desperate need of foreign investment to finance essential infrastructure development and the sustainable energy transition, a core focus not only for the continent but for global climate change targets. According to the African Development Bank, Africa will require an estimated US$170bn annually by 2025 to finance the necessary development of its infrastructure. If current capital flows are anything to go by, that could mean a financing gap of around US$100bn per year.

Realising Africa's renewable transition, including the potential of captive power projects, requires specialised project financing. Underwriters are therefore seeing more hybrid project/corporate finance deals as a result, alongside the large, sophisticated renewable energy projects. The PRI market has the technical ability and appetite to underwrite these deals.

A strong appetite for Africa

As a specialist PRI broker, Africa accounts for BPL Global's largest regional exposure, around a sixth of our total book. In Africa alone, BPL Global placed new policies with an aggregate limit of US$2.8bn during 2021/22. But this comes with a relatively low loss ratio. This may be surprising to banks and other insurers, particularly in North America, who perceive Africa as inherently risky. But time and again, we continue to see robust, good-quality transactions.

There is strong appetite from the insurance market to support a range of transactions in Africa, albeit with a mannered approach. The region is preferred among many of the underwriters we work with who specialise in emerging markets. These underwriters actively support transactions in Africa, are comfortable with the territory, and able to roll with the punches rather than hit the panic button if they are faced with glitches or delays.

The role of PRI to facilitate attractive investment and sustainable trade with African markets is evident. There is now a greater need for institutions that want to do business with the continent to source the right PRI insurance, and the appetite from underwriters is evidently there to provide it.

The overlying message is clear: when it comes to Africa, the PRI market is open for business.

About BPL Global

BPL Global is the world's leading specialist credit and political risk insurance broker for multinational corporations, banks and non-bank financial institutions. Find out more at www.bpl-global.com

Digital trade and ESG: African solutions for African problems

In a roundtable discussion hosted at GTR Africa in early 2022, GTR brought together Africa trade finance leaders to discuss the progress of, and nuances around, industry trends such as trade digitalisation and sustainability efforts on the continent.

Roundtable participants

- **Louis du Plessis**, head of trade finance, Rand Merchant Bank
- **Laurie Hammond**, cross-border banking and finance partner, Hogan Lovells
- **Gwen Mwaba**, director and global head, trade finance, African Export-Import Bank (Afreximbank)
- **Onyebuchi Memeh**, executive director and head of trade, transaction banking, South Africa and Southern Africa, Standard Chartered
- **Duarte Pedreira**, head of international development organisations coverage, Crown Agents Bank
- **George Wilson**, head of institutional trade finance, Investec Bank
- **Shannon Manders**, editorial director, **GTR** (*chair*)

GTR: Over the last couple of years, the conversation around sustainability in our industry has gathered pace, with governments, export credit agencies and banks around the world vowing to support decarbonisation and push renewable energy sources. How much momentum do these efforts have in Africa?

Wilson: I think the issue that Africa faces is that the dominant voices around trade and sustainability come from developed markets, which generally means that the solutions, standardisations and frameworks that they look to position are most appropriate for those markets.

In my mind, there are two major concerns: one being that there's a degree of misapprehension of the African marketplace among those dominant voices. Secondly, there's a problem from a product perspective in that there's a strong tendency for global environmental, social and governance (ESG) experts in the wider field of debt to try and transfer the existing ways of thinking and technology directly onto the African trade finance market. It's not a perfect fit.

The key performance indicators for large global transactions are not going to be applicable to many African SME trade facilities. I think that's been overlooked by the global community and has caused some ruction.

Thankfully, we have now seen the likes of Baft and the International Trade and Forfaiting Association establish ESG-focused committees that are actively seeking input from emerging market trade financiers, including those in Africa.

Memeh: I see ESG and sustainability practices as an opportunity for Africa.

From left to right: Duarte Pedreira, Laurie Hammond, Onyebuchi Memeh, Gwen Mwaba, George Wilson, Louis du Plessis, Shannon Manders

The issue of the 'G' for governance is a historical one on the continent, and the global push will ensure progress continues to be made.

There's an economic advantage for Africa if these efforts are successful. The continent is home to some of the least industrialised countries. If you're looking to build manufacturing and industrial capacity, you can't afford to invest in systems and infrastructure that will be obsolete in 10 years' time.

But I agree with George – we need African voices to be heard at the highest level when it comes to creating standards and frameworks.

Wilson: My big thrust is that African trade finance is sustainable by definition, simply because of its benefits for developing economies and the 'trade not aid' perspective, and governance is embedded into trade finance in a way that it's not with vertical debt. And that is because trade finance on the continent – pretty much all the way through to SMEs – is mediated by African banks. These are banks that are heavily regulated, they're audited, and they independently inspect every single trade asset, including all of the dimensions of that asset in terms of transmission, where the goods are coming from, the buyers, the sellers, etc.

"There's a strong tendency for global environmental, social and governance (ESG) experts in the wider field of debt to try and transfer the existing ways of thinking and technology directly onto the African trade finance market. It's not a perfect fit."

George Wilson, Investec Bank

That's something which seems to have been missed. It is very frustrating that there are deep pools of dollar liquidity looking for a sustainable home that could be deployed immediately if the international community would recognise the fact that trade finance is sustainable in Africa. That's a route to actually filling in the trade finance gap rather than just endlessly talking about it.

Mwaba: The reality on the ground is that a lot of the African banks and corporates are not ready for this transition.

As Afreximbank, we are expected to be ESG-compliant because we access the international bond and loan syndication market to raise our liquidity. The bank has a huge oil and gas portfolio, and we wonder whether these requirements are going to impede our ability to raise funding in the international market in the future.

We also lend to African financial institutions (FIs) and are expected to try to apply ESG requirements to those African FIs. The truth is they're not ready. When we ask the question, they then go away to try and come up with an ESG strategy in order for them to access funding. It's challenging from an implementation point of view as we need to give African FIs time to prepare to become compliant.

To answer the question about there being enough traction in Africa, I think the effort is there. But there are so many African economies whose economic wellbeing depends on production from fossil fuels. What's going to replace that in the short term?

International banks are already pulling out of funding those types of projects, and people are looking to institutions like Afreximbank to step in and support reserve-based lending facilities on the continent. We've seen billions of dollars' worth of demand.

The western world has had many years to prepare for where they are today.

Gwen Mwaba, Afreximbank

Duarte Pedreira, Crown Agents Bank

Louis du Plessis, RMB

There's now an expectation for Africa to fall in line immediately, when the reality is that we also need time to find our way on this journey. And we should be given that space given how little we contribute to carbon emissions as a continent compared to the western world.

Pedreira: It needs to be a model that works with Africa, rather than being imposed on Africa. I agree with the fact that we need to focus a lot more on the governance side, and we have seen some excellent progress being made in countries like Rwanda.

To the point about emissions, there's certainly an argument that Africa can and should be compensated through the purchase of carbon credits to offset global residual emissions. This could not only preserve the continent's carbon sinks, but also offer it a way of recovering economically from the impact of the pandemic and the Ukraine war.

du Plessis: We have to be realistic about the challenges, but I agree with Memeh, it's an opportunity. Everyone agrees that ESG is the right thing to do, and I don't think that what is required at the moment is overly sophisticated in terms of deal structure.

Eventually we'll see supply chain finance – driven by large corporates – really accelerate the sustainability agenda in Africa, all the way down to the smaller suppliers.

GTR: Trade digitalisation has been brought into sharp focus by the pandemic. What have been some of the standout successes in terms of regulatory initiatives or trade finance instruments in the region? What is the extent to which digitalisation can work for SME trade?

> "The western world has had many years to prepare for where they are today. There's now an expectation for Africa to fall in line immediately, when the reality is that we also need time to find our way on this journey."
>
> **Gwen Mwaba,** Afreximbank

du Plessis: It's an interesting conversation to have in Africa, where we have quite a concentrated banking market and many of our banking institutions have very long histories.

Trade finance as a product, with all of its required documentation, is quite expensive to deliver into the market. So, there's an internal and an external conversation to be had around digitalisation. Internally, banks need to ensure they have a profitable trade finance product, and externally, there are a number of fintech and software companies developing new solutions and systems that relate to how banks engage with the wider trade ecosystem.

What we're interested in is having our clients direct the conversation as much as possible. A lot of our thinking is in terms of how we can coordinate all of this technology internally and externally in a way that best suits their needs.

Mwaba: From a bank perspective, we have seen an uptick in digitalisation, whether that's using artificial intelligence for document checking or electronic marketplaces to originate deals or for price discovery, all of which create internal efficiencies.

From a development finance institution perspective, there's a broader conversation around the need to both drive and track trade amongst SMEs and MSMEs. That's a perennial, as yet unsolved, problem.

One of Afreximbank's initiatives has been the roll out of the Pan-African Payment and Settlement System (PAPSS), which facilitates payments for goods and services in local currencies, without having to use the US dollar or any other third currency. A Kenyan buyer can pay in Kenyan shillings to import goods from South Africa, and the South African seller receives rand. The system processes settlements across all participating central banks at the same time.

In addition, our Mansa customer due diligence platform has been launched.

We're also launching a supply chain finance programme across the continent. Afreximbank has recognised the need to support supply chain finance, and to do so by means of a digital platform which will drive penetration and acceleration.

One of the reasons that intra-African trade is so low is because of a lack of information. To remedy that, Afreximbank has started integrating all

its digital platforms towards creating a single window, the Africa Trade Gateway, which will be a digital ecosystem that includes a payment and settlement system, customer due diligence data, trade information and trade regulation portals.

All of these technologies, once put together, will be a game changer.

Hammond: The progress that we've seen in terms of digitalisation in the last few years alone has been amazing.

When we're talking about finance for SMEs, it's worth bearing in mind their practical constraints, such as internet access.

And then there are the legal and regulatory issues around the use of data on platforms – especially across borders. Rules around things like data protection and the use of electronic signatures are complex and often in flux.

GTR: As leaders of African trade, what are your individual areas of focus and expectations for the year ahead?

Wilson: With the ongoing crisis in Ukraine, inflation and interest rates are going to remain very important considerations. There was an expectation that this would work in Africa's favour, but that remains to be seen.

We need to resolve the sustainability challenge, and as I said before, I do believe there is a shortcut to doing so in Africa.

Rather than everyone arguing about how we define and certify sustainable trade, we need to get the message across that 'trade, not aid' creates a significant developmental impact for things that aren't easy to measure. Carbon emissions are scientifically relatively easy to measure; the other UN Sustainable Development Goals are much harder to quantify.

If we had a sufficient groundswell of opinion for people to understand the benefits of trade finance on the continent, delivering up to a third of GDP growth in fragile developing economies, it seems intuitively obvious to me that we'd be able to move things along.

> **"My biggest focal point for the year is unquestionably the African Continental Free Trade Area (AfCFTA), which is bringing together the African continent in a way that that hasn't been seen in the past."**
>
> **Duarte Pedreira,** Crown Agents Bank

Pedreira: There's far too much uncertainty at the moment. It's not only the war in the Ukraine, but it's the knock-on effect that it is having globally.

Putting that aside, my biggest focal point for the year is unquestionably the African Continental Free Trade Area (AfCFTA), which is bringing together the African continent in a way that hasn't been seen in the past. I'm optimistic and ambitious about the deal and what it's setting out to do. I think we should use it to solve some of the biggest issues that have affected the continent for a long time.

One of these issues is the trade finance gap. This is also something that digitalisation can go a long way in addressing, by enabling better access to good data related to the multitude of SMEs that banks to date simply do not want to engage with because they know nothing about these smaller players.

If there's a future where we can plug in open banking as part of the AfCFTA so that banks can assess things like cash flow and creditworthiness, and digital solutions can be built around that, it will help us close the gap once and for all. We'll eventually be able to understand SMEs. The question is, how far do we want to take the good momentum around the AfCFTA?

du Plessis: Looking ahead, Africa is going to be dealing with geopolitical risks, inflation and high commodity prices – all of which is going to translate into higher interest rates.

The continent also has highly indebted governments – and potentially corporates, given the fact that it's been a tough few years. So, I think one has to be careful from a credit risk point of view. But from a financier's perspective, it might be good for trade finance business. There will be a greater need for trade finance instruments, such as guarantees and letters of credit, which can be used to support balance sheets and boost cross-border activities.

Onyebuchi Memeh, Standard Chartered

George Wilson, Investec Bank

Laurie Hammond, Hogan Lovells


GTR 2021 Leaders in Trade
GTR 2022 Best Deals
YOUR FIRST PORT OF CALL FOR TRADE FINANCE
We are proud to once again be recognised at the GTR Awards. These accolades reaffirm our client-centric approach of partnering with our clients to mitigate their risk in international trade transactions. Our understanding of cross-border trading complexity drives growth and unlocks opportunities for our clients across the continent.
GTR AWARDS
GTR Best Trade Finance Bank - Southern Africa 2018 – 2022
GTR Best Deal of the Year 2021 – 2022
GTR Africa Leaders in Trade – South Africa 2019 – 2022
GTR Africa Leaders in Trade - Zambia 2022
GTR Africa Leaders in Trade – Angola 2019 – 2021
For more on our award-winning products, visit **rmb.co.za**
Traditional values. Innovative ideas.
RMB a division of FirstRand Bank Limited, is an Authorised Financial Services and Credit Provider NCRCP20.
RMB
GTR AWARDS
CORPORATE AND INVESTMENT BANKING

Another important factor for the next couple of years is the reshaping of supply chains, as driven by the fallout from the pandemic. Companies are looking to localise supply chains. Although it might not be good for cross-border trade activity, these onshoring and reshoring measures drive local trade opportunities. They could also bring supply chain finance opportunities, especially for banks that are not too keen on cross-border supply chain finance but can do local currency and finance local supply chains, which should then release some liquidity into those companies.

In terms of the ESG agenda, the onus is on us to figure out how we unlock those pools of capital for the benefit of African borrowers.

Memeh: The cost of funds is going to be a critical issue. Margins are going down in an increasingly competitive environment, whereas stricter capital requirements, interest rates and forex liquidity challenges are increasing the transaction costs and overall constraints of participating in trade finance in Africa.

At Standard Chartered, we have very advanced digital trade capabilities but when it comes to trade digitalisation in Africa, I am of the view that more needs to be done by African regulators and policymakers to encourage adoption through appropriate regulation and greater efforts at standardisation. I think there's an opportunity for more conversations to be had around that in an African context.

"Everybody needs to be very careful with their contracts in this kind of environment. In such volatile times it can be quite easy to inadvertently breach something."

Laurie Hammond, Hogan Lovells

Hammond: Since 2020, disruption has been an ongoing trend, but one that also brings opportunity – it's just about finding those pockets of opportunity. I think that collaboration is the key to finding solutions and thinking about things in terms of the bigger picture. We need to be more open to opportunities to work with the wider ecosystem to solve problems on a long-term basis, rather than only dealing with short-term emergencies. Within my business we're keeping an eye on the longer term and trying to be receptive to what clients and other contacts are doing to see where those opportunities lie.

Then, from a purely legal perspective, I think everybody needs to be very careful with their contracts in this kind of environment. In such volatile times it can be quite easy to inadvertently breach something. You've got to be really cautious, not to 'over lawyer' it, but be clear on what you want and how you can avoid breaching.

Mwaba: I think the challenge is, will there be enough capacity to finance trade in Africa given the increase in commodity prices? We're already seeing clients needing to double lines. With petroleum imports, for example, when we put lines in place, the price of crude was US$50 a barrel, and now look at where it is and where it's projected to go.

How much more can African banks do collectively to continue supporting trade, especially given that international banks are not as present as they should be? Will we be able to issue and confirm all of the trade instruments that are required on the continent given that Africa remains a net importer? I think we will face problems in finding enough financing to actually fund the trade that's required on the continent.

On a more positive note, in terms of the AfCFTA, intra-African trade presents a fantastic opportunity. Do we really need to import everything from outside Africa when there are pockets of great expertise in some of our neighbouring countries? Could we look to our neighbours to satisfy our food needs, for example? When it comes to exporting, if we can aggregate our expertise in certain centres before then exporting collectively, not as individual countries but as Africa, we can extract more value. We will have better negotiating power because we're doing bigger volumes and meeting higher quality standards. This, I think, might be the biggest opportunity of all. GTR

GTR Leaders in Trade AFRICA

The GTR Leaders in Trade awards for Africa celebrate the best trade finance banks in the region, based on submissions sent to GTR and input from industry experts. Congratulations to the winners.

GTR Leaders in Trade: Africa country awards	
Country	**Winner**
Best trade finance bank in Côte d'Ivoire	UBA United Bank for Africa
Best trade finance bank in Kenya	Standard Bank
Best trade finance bank in Ghana	FCMB
Best trade finance bank in Mauritius	MCB
Best trade finance bank in Nigeria	Ecobank The Pan African Bank
Best trade finance bank in South Africa	RMB
Best trade finance bank in Tanzania	CRDB BANK The bank that listens
Best trade finance bank in Zambia	RMB


GTR
Leaders
in Trade
AFRICA
UBA
United Bank for Africa
UBA CÔTE D'IVOIRE
reste au coeur de vos
opérations de trading

Standard Bank

Promoting sustainable development amidst post-pandemic challenges

As businesses around the world navigate the post-pandemic era, new challenges such as global economic headwinds, supply chain disruption and increased requirements to align with environmental, social and governance (ESG) considerations have come to the fore, writes *Justin Milo*, Executive, Head: Trade South Africa for Standard Bank Group.

Justin Milo, Standard Bank

Financial institutions have a role to play in assisting businesses with the management of post-pandemic challenges. Encouragingly, the trade finance suite of products is uniquely positioned to add value and manage these challenges through traditional solutions and new innovative solutions, bolstered by digitisation and the evolving technology landscape.

These solutions are not a means to an end in themselves, but rather part of a broader solution to promote economic growth and sustainable development in emerging market economies and especially closer to home in Africa.

Since the beginning of 2022, the global economy has been rocked by rising inflation, increasing interest rates, exchange rate volatility and the threat of recessionary conditions in major economies. In this context, there has been a recalibration in the perceived risks faced by trading counterparties, with businesses becoming more risk averse – especially regarding the mitigation of payment risk.

Heightened risk awareness has encouraged a movement back towards the use of letters of credit (LCs) and LC confirmations to mitigate buyer payment risk, financial institution payment risk and country risk. Swift data for the South African market suggests that the demand for LC confirmations has risen by 47% year on year (y/y) in the first six months of 2022 and export letter of credit transaction values have grown by 28% y/y, while South Africa's exports have grown by 10.1% y/y over the same period according to the South African Revenue Services (SARS).

As a leading provider of letters of credit and LC confirmations in the African market, Standard Bank has played an active role in facilitating these transactions on behalf of MNCs, local corporates and SMEs. This has been achieved through the bank's vast network of institutional relationships and the adoption of digital technologies to enhance the speed and accuracy of the document-checking process required to complete these transactions.

Standard Bank was the first bank in South Africa to implement the Traydstream platform, which utilises optical character recognition (OCR) and machine learning (ML) technologies to review and scrutinise documentation presented under LCs and other trade finance transaction types.

The rise of ESG

The movement towards the adoption of ESG key performance indicators (KPIs) started off slowly a few years ago with the rollout of the first green bonds. It accelerated rapidly over the past two years, with increased publicity and awareness of global warming, the just energy transition, the United Nations Sustainable Development Goals (SDGs) and the United Nations' Annual Climate Change Conferences. Not only is the adoption of ESG KPIs the "right thing to do", but in some ways it has become a license to operate and source of competitive advantage in certain industries.

To assist businesses with adherence to ESG principles, financial institutions have rolled out a number of ESG solutions into the market – from green bonds in the capital markets to funds underpinned by ESG principles in the asset management industry, to ESG-linked loans in the banking industry.

These solutions typically adopt one of two approaches:

1. **Use of proceeds**, where the ESG merits of the transaction are evaluated based on the counterparties and the nature of the underlying project or type of goods purchased (for example, project financing loans or guarantees for renewable energy projects or LCs issued to support the importation of solar panels)
2. **An ESG overlay**, where businesses specify their ESG KPIs and have their loan financing rates linked to the attainment of these KPIs after an independent verification.

Multinationals and local corporates in Africa are increasingly leveraging ESG solutions to demonstrate their commitment to aligning their businesses to ESG principles, but there is consensus that there is scope for more significant growth in widespread ESG adoption. This is most likely due to other fundamental challenges that businesses in Africa face, such as supply chain disruptions, the lack of foreign exchange reserves, electricity supply issues and infrastructural constraints at ports, via rail and in key logistics corridors.

At the same time, supply chains are under increasing scrutiny from regulators, investors and customers: regulators requiring companies to monitor and mitigate environmental and social risks in their supply chains; investors asking companies to address social justice and sustainability through their operations; and customers (and employees) having higher expectations of companies to address ESG concerns. Balancing this equation is critical for all participants in the global trade finance system – and financial institutions have an important role to play in providing solutions to meet the ESG needs of market participants.

ESG concepts have also made their way into the world of trade finance, with the natural application of these solutions linking to the counterparties involved in the ecosystem (typically buyers and suppliers), supply chain sustainability and continuity, the type of goods procured, the nature of projects undertaken and the optimisation of the businesses' own ESG KPIs.

"Standard Bank recently launched the first solution in its ESG trade finance portfolio, being an ESG overlay for working capital facilities, to complement the bank's established ESG-linked term lending product offering."

Justin Milo, Standard Bank

Standard Bank recently launched the first solution in its ESG trade finance portfolio, being an ESG overlay for working capital facilities, to complement the bank's established ESG-linked term lending product offering.

Distressed supply chains

Another spin off opportunity for economic growth and sustainable development emanates from an unlikely source – supply chain disruption. This phenomenon first made headlines during the initial stages of the Covid-19 pandemic, in which hard lockdowns led to production stoppages across the world and the resulting acute shortage of key consumer products and production inputs, along with increased shipping and container costs. This was further exacerbated by geopolitical events in Europe and the Suez Canal blockage caused by the Ever Given container ship. These events have forced businesses to reconsider their procurement strategies and increasingly focus on diversifying their procurement by increasing the contribution of regional and local suppliers. This dynamic bodes well for employment, economic growth and the development of SMEs in Africa, and has positive spin-offs for sustainability as regional and domestic transit routes are likely to be more environmentally friendly.

The one challenge that remains, however, is supplier development and supply chain continuity as it relates to domestic and regional players – especially SMEs, which are subjected to long payment terms. One way in which this can be addressed is through the adoption of domestic supplier financing programmes to enable domestic and regional suppliers to receive early payment on their sales to the anchor buyer (typically multinationals or large local corporates), at financing rates aligned to the financial standing of the anchor buyer.

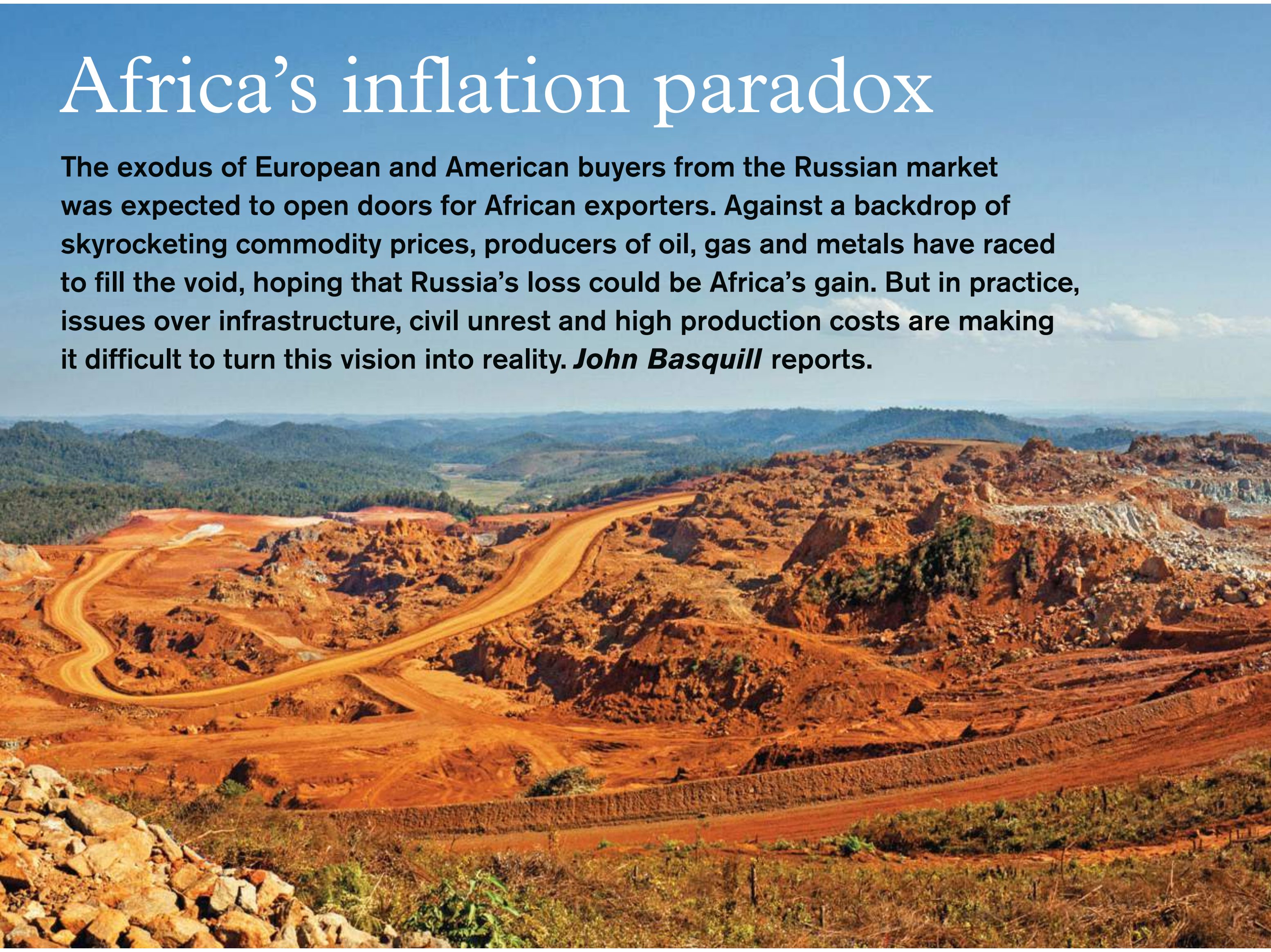
In line with Standard Bank's platform business strategy, the bank has partnered with best-of-breed technology providers and fintech companies to provide supplier financing and other supply chain financing solutions into the South African market, with Standard Bank also earning the accolade of being the 'best bank for supply chain finance in Africa' in 2021, according to *Global Finance Magazine*.

Traditional trade finance solutions may not necessarily be new, but these solutions continue to have an evergreen value proposition, with applicability to contemporary challenges such as the mitigation of payment risks stemming from recent economic headwinds, the promotion of supply chain continuity in the context of supply chain disruption and the promotion of sustainable development through alignment with an ESG framework.

These solutions are also increasingly being complemented by digital technologies which further enhance their value by adding convenience, speed and efficiency into the proposition. Financial institutions have an important role to play in addressing the unique challenges faced by MNCs, local corporates and SMEs through the provision of trade finance solutions, with the aim of promoting economic growth and sustainable development in Africa.

Africa's inflation paradox

The exodus of European and American buyers from the Russian market was expected to open doors for African exporters. Against a backdrop of skyrocketing commodity prices, producers of oil, gas and metals have raced to fill the void, hoping that Russia's loss could be Africa's gain. But in practice, issues over infrastructure, civil unrest and high production costs are making it difficult to turn this vision into reality. *John Basquill* reports.



Across almost all commodity types, the early months of 2022 were characterised by sky-high prices. Brent crude soared past US$120 a barrel in March – barely two years after reaching historic lows in the first months of the pandemic – while natural gas hit prices not seen since the global financial crisis in 2008.

Metals such as silver, platinum, copper and iron ore had already increased sharply in value during 2020, and though growth had generally tapered off by the start of this year, prices remained high.

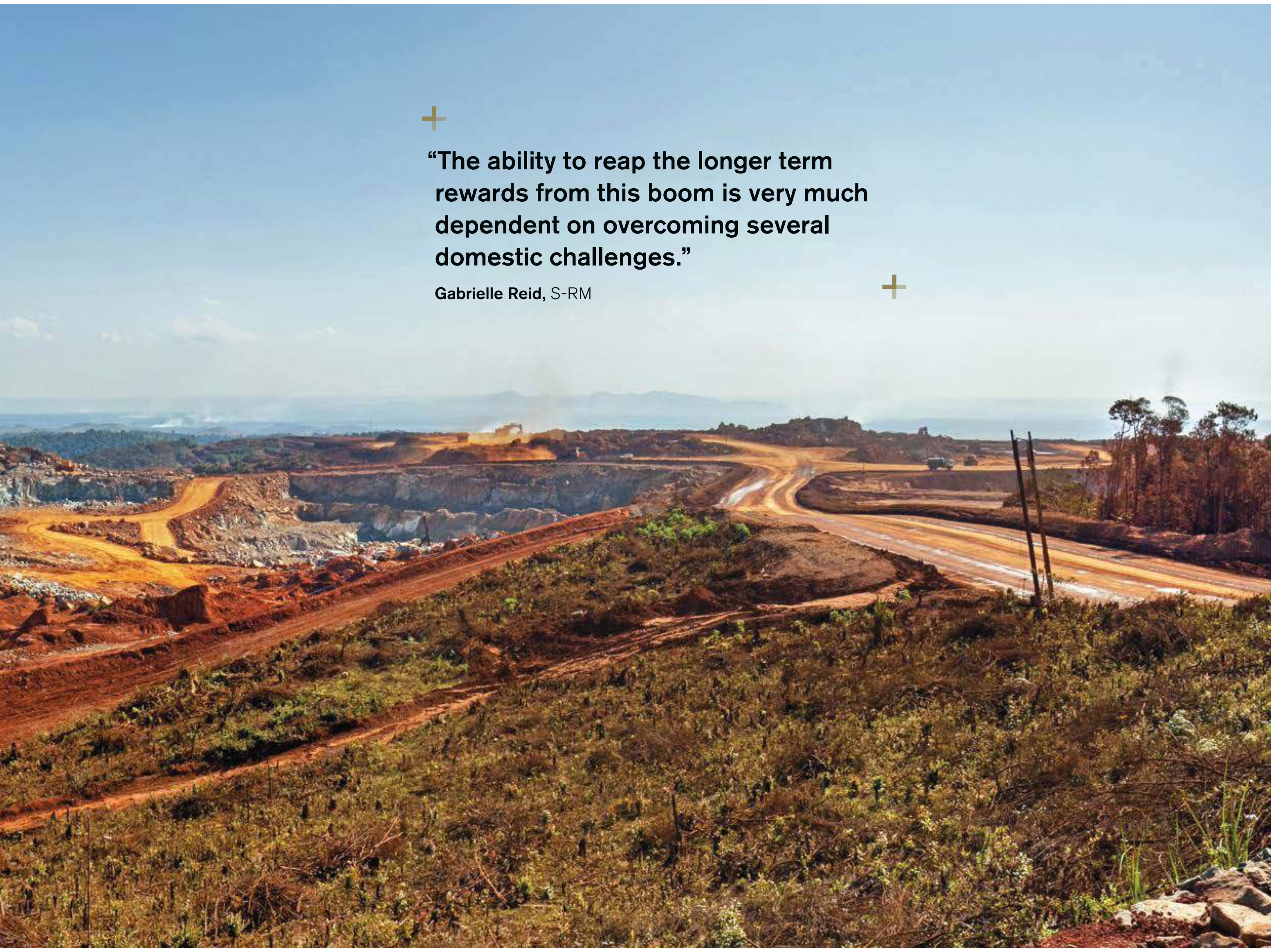
One driving force behind these surges in price was a mismatch between global supply and demand patterns during the pandemic, after markets in North America and Europe lifted virus containment measures earlier than many of their counterparts in Asia.

Then, in February 2022, when Russia's invasion of Ukraine prompted retaliatory sanctions from governments across the western world, a major supplier of oil, gas, metals and other primary commodities was suddenly no longer a viable trading partner.

Buyers scrambled to minimise their exposure to Russian suppliers, leading to speculation that alternative sourcing markets could be set to reap the rewards. For Africa's commodity exporters, the situation was touted as a major opportunity.

"Countries in Africa, notably Nigeria (oil), Mozambique, Nigeria and Senegal (gas) and Morocco (hydrogen) are expecting an increased demand for both their renewable and non-renewable energy sources," wrote Michael Foundethakis, global head of project, trade and export finance at international law firm Baker McKenzie, in a June 2022 article titled *'Good news for the continent'*.

Foundethakis noted that EU buyers could prioritise renewable energy sources rather than fossil fuels, but posited this as a further opportunity, citing a vow by European Commission president Ursula von der Leyen at February's EU African Union Summit to "help to



connect Africa's mineral wealth with the global market".

The African Development Bank (AfDB) estimates that real GDP growth in net commodity exporting nations topped 8% in 2021. That trend could be set to continue, with the bank's *African Economic Outlook* report for 2022 also forecasting inflation of 13.5% this year.

Foundethakis acknowledged, however, that it is "not a given" that the continent's commodities exporters will benefit from booming prices. "Global conflict could lead to a moderation of global economic growth and trigger a downward correction in commodity prices globally and there are several infrastructure and social obstacles to ensuring the continent gets the most out of the top of the cycle," he wrote.

Similarly, Gabrielle Reid, associate director at global intelligence consultancy S-RM, says there has been "significant optimism around what the higher global commodity price inflation will mean for commodity exporters on the continent, but the ability to reap the longer term rewards from this boom is very much dependent on overcoming several domestic challenges".

"These could be very similar challenges across the continent, or they could be very unique to specific markets," she tells **GTR**. In practice, some of these challenges are already becoming a reality.

Gas: realising the opportunity

Africa's gas export market has been among those tipped to benefit from the combination of supply chain upheaval and high prices.

Following Russia's aggression in Ukraine, European importers dramatically reduced purchases of Russian gas, fearful of contravening sanctions or suffering reputational damage.

With Russia accounting for around a quarter of the world's proven natural gas reserves, and supplying nearly half of the EU's gas in 2021, this situation created a gap in the market.

"That's where African gas starts to come into the picture," writes NJ Ayuk, executive chairman of industry advocacy group the African Energy Chamber, in an August 2022 article. "If the EU doesn't have enough Russian gas this year, it will have to make up the deficit somewhere else in order to endure the next heating season."

Ayuk says the EU has in part turned to established producers outside Africa, such as the US and Qatar, or to smaller exporters like Peru. "But it's also reached out to gas-producing states in Africa," he says. "Italy, for instance, has negotiated the purchase of additional gas from Algeria in 2022 and is also looking to buy more gas from Egypt and Angola in the short term."

Work is also underway to boost exports from the Republic of the Congo to Italy, and from Senegal to Germany, Ayuk writes, while the EU, Israel and Egypt have signed a memorandum of understanding aimed at boosting liquefied natural gas (LNG) shipments from the Eastern Mediterranean region.

"What's more, the EU has sent Matthew Baldwin, the European Commission's deputy director-general for energy, to Nigeria to discuss the possibility of increased gas supplies," he adds.

Baldwin, who leads an EU task force set up to reduce reliance on Russian gas, told Nigerian newspaper *Premium Times* in August that "we want to build a new partnership with countries like Nigeria with whom we have an already well-established partnership to obtain more gas and LNG from you on good commercial terms".

Whether African gas can serve as a long-term substitute for Russian exports is far from certain, however. In 2020, the entire continent produced 231 billion cubic metres of natural gas, a little over a third of the quantity produced in Russia alone, according to data from energy major BP. Africa's top producing nation, Algeria, sells almost all of its exported gas to Europe already.

And expanding Africa's gas exporting capacity to the levels required to compete with Russia is not simply a case of finding willing buyers on the European market, suggests S-RM's Reid.

"There was certainly optimism and excitement around that prospect, but the countries that will be able to leverage the opportunities will be those that are ready and open for business," says Cape Town-based Reid. "That means having the infrastructure to be able to respond quickly."

A similar issue arose in South Africa's coal market, she points out. A major spike in coal prices was initially heralded as an opportunity for the country's vast mining sector, but "it quickly became apparent that the country could not rely on old rail infrastructure to act quickly enough".

"Whether importers are going to look to new markets in Africa is probably going to be decided on a case-by-case basis," Reid says.

This sense of caution has been echoed by influential market participants. South Africa-headquartered energy and chemicals giant Sasol warned in its annual report for 2021/22 that inflationary pressures could have an adverse effect on its oil and gas business, giving rise to risks around energy-related feedstock costs, supply chain disruption, price volatility and monetary policy.

Oil: high prices bring high costs

One of the concerns for Africa's oil exporting nations is that higher revenues from selling crude oil during a price boom could be offset – or even exceeded – by rising costs in other areas.

A senior banking source based in East Africa, speaking on condition of anonymity, says the region is "highly dependent on refined products on the energy side, largely from the Middle East, because there is no refining capacity here".

"There are gas reserves, for example in northern Mozambique and the south of Tanzania, and oil reserves in north Uganda and north Kenya, so of course those projects are more in the money now due to the price increases," they say.

"Often the margin is higher for imported finished goods once the value has been added, so although you might earn a little more on exports with higher oil prices, the cost of imported refined oil products is even higher."

Banking industry source

But exporting oil or gas to be refined elsewhere, then imported as fuel, generally proves more costly overall than extracting and processing raw materials domestically, the source points out.

"Often the margin is higher for imported finished goods once the value has been added, so although you might earn a little more on exports with higher oil prices, the cost of imported refined oil products is even higher," they say.

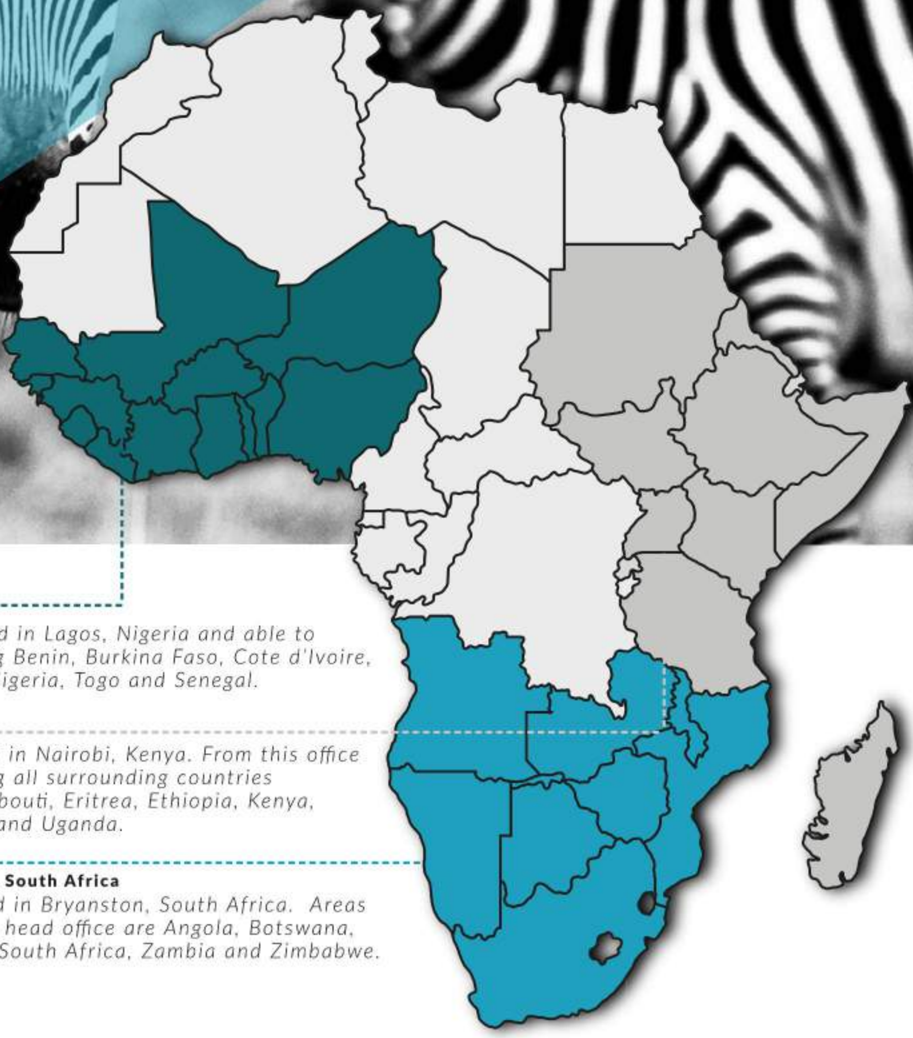
There is a similar lack of refining capacity in West Africa. In Nigeria, crude oil accounts for over 90% of outgoing goods trade per year, yet Africa's largest economy and most populous nation is wholly dependent on imported petroleum products.

A refinery in the Lekki Free Trade Zone east of Lagos – the brainchild of Aliko Dangote, Africa's richest man – is expected to process 650,000 barrels of crude per day, making it one of the largest refineries on the planet. However, the refinery's construction has encountered a series of delays, and is now not expected to become operational until mid-2023 at the earliest.

Nigeria's government also provides a petrol subsidy, which this year is expected to cost around US$9bn. In effect, higher export revenue for the state-owned Nigerian National Petroleum Company is immediately offset by an equivalent rise in subsidies on imported fuel.

Criminal activity, such as pipeline vandalism and oil theft, has also dented the country's crude oil output. In July,

YOUR PREFERRED PARTNER OF CHOICE IN *TRADE* AND *COMMODITY FINANCE*



REGIONS

WEST AFRICA

GCC's West African hub is based in Lagos, Nigeria and able to service the region encompassing Benin, Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Mali, Liberia, Nigeria, Togo and Senegal.

EAST AFRICA

GCC's East African hub is based in Nairobi, Kenya. From this office GCC is fully capable of servicing all surrounding countries including Tanzania, Burundi, Djibouti, Eritrea, Ethiopia, Kenya, North Sudan, Rwanda, Somalia and Uganda.

SOUTHERN AFRICA

Group Head Office in Johannesburg, South Africa

GCC's group head office is based in Bryanston, South Africa. Areas being serviced directly from the head office are Angola, Botswana, Malawi, Mozambique, Namibia, South Africa, Zambia and Zimbabwe.

COMMODITIES:

LEADING SERVICE PROVIDER IN:

- COLLATERAL MANAGEMENT
- VESSEL SUPERINTENDENCE
- STOCK MONITORING
- INSPECTIONS

Bryanston Place Office Park East View - First Floor
199 Bryanston Drive, Bryanston
2191, South Africa

info@gi-cc.com || +27 11 068 3000 || www.gcc-sa.com

GCC CONTROL MANAGE ASSURE

production fell to its lowest level in over 30 years. Coupled with growing civil unrest over rising food prices, the government is faced with an unstable domestic situation.

"Theoretically, Nigeria should be greatly benefiting from this boom, but the country is unable to refine its own fuel supply, so is also reliant on increasingly costly fuel imports," says S-RM's Reid.

"That's being further hampered by currency weakness, and there are also very real issues around cost of living and fuel shortages," she adds. "We have already seen protests over fuel shortages, and as the purchasing power of Nigerians is eroded further, there is potential for more unrest."

There are few clearer examples of political and civil disruption limiting the chance to benefit from rising oil prices than in Libya. Despite being a major producer of crude oil, a stalemate between rival governments in Tripoli and Sirte "has led to the inability to resolve a protracted argument around oil revenue distribution, and control of security around oil facilities across the country", Reid points out.

"Between April and July 2022 there were blockades and protests specifically targeting oil infrastructure, exports had to be paused, and that resulted in a loss of around US$3.5bn in oil revenue over that period."

Metals: a double-edged sword

Exporters involved in Africa's vast metals and mining sector face a similar conundrum to their peers in oil and gas. Though higher prices have increased revenues, and demand for commodities such as lithium is growing rapidly as the transition to renewable energy accelerates, a combination of high operating costs, infrastructure limitations and socio-political disruption has clouded the picture.

As a major exporter of iron and steel, minerals and precious metals, South Africa was able to shrink its fiscal deficit as prices rose, particularly for platinum group metals. Tanzania has also been able to manage its balance of payments as a result of higher prices for gold and other minerals.

"Also, with the energy transition, demand for cobalt and copper from the Democratic Republic of Congo is really increasing," the banking industry source says. "That combination of higher prices and increased focus on renewable energy is generating more income for these countries."

However, in South Africa's case, domestic disruption has again proven a limiting factor.

"We've seen disputes with the unions, issues with ageing and vandalised port and rail infrastructure, power outages and fears over cost of living, particularly with rising fuel and food prices," Reid says. "Again this has limited the degree to which South Africa has been able to benefit from rising commodity prices."

Johannesburg-headquartered gold mining company AngloGold Ashanti said in its annual report for 2021 that inflation – along with labour shortages and lingering pandemic-related disruption – prompted a downward revision of guidance in August that year.

"Inflation, which was already a concern at the end of 2021, is forecast to increase further, posing a more material risk for the global economy and our business," said chairperson Maria Ramos in her opening statement.

The report adds that key goods and services used in production were also negatively affected by inflationary pressures.

Australian mining giant Rio Tinto, which has operations in South Africa, Mozambique, Madagascar and Guinea, says in its financial statements for the first half of 2022 that price inflation reduced its underlying EBITDA by US$595mn, in part due to higher fuel prices for trucks, trains and ships, as well as higher costs associated with site closures.

"Inflation, which was already a concern at the end of 2021, is forecast to increase further, posing a more material risk for the global economy and our business."

Maria Ramos, AngloGold Ashanti

A report published by the UN Conference on Trade and Development (UNCTAD) in July 2022 suggests that many African commodity exporting countries may be stuck in a "resource-curse trajectory", which it labels "a primary concern".

In this scenario, commodity-dependent countries increase expenditure during price booms, buoyed by soaring export revenues from the metals and energy sectors. Theoretically, gains made during positive cycles could be used to build resilience for future downturns. In reality, however, such expenditure typically causes debt to grow, creating longer-term fiscal weaknesses.

"The evidence shows that the overall economy in commodity-dependent countries is destabilised when prices drop sharply," it says. "Tax revenues fall, governments discontinue public expenditures on selected public goods, domestic economic activity shrinks, credit dries up and debt increases, along with the number of firms' non-performing loans and bankruptcies."

UNCTAD finds that 45 African economies are classed as "commodity dependent, with highly volatile revenues due to the price boom and bust nature of the market". It gives that label to any country whose primary commodity exports make up more than 60% of all goods sold internationally.

According to the report, the solution to this issue is not a short-term one. "The remedy for dealing with commodity dependence is export diversification," it says. "The central motif of this policy lies in the improvement of the country's resilience against the kind of external shocks that affect commodities prices." GTR

AFEX

Building a better way to trade with Africa

***Kamaldeen Raji,* Managing Director at AFEX Fair Trade, outlines how the company is working towards a future of inclusivity and efficiency by building a trust economy for commodities in Africa.**

Maja Sanusi, 33, manages a farm in Kaduna, Nigeria. At the crux of her farming ambitions is the growing demand for food in African countries. This demand should guarantee Maja fair returns for her production activities, but a lack of access to credit, information and support limits her productivity. She aggregates her harvest of paddy rice in large quantities with other members of her farming cooperative and attempts to access a fair market for the commodity. Yet, even at this stage, a number of issues hinder Maja and other members of her co-operative, including information asymmetry on prices, poor logistics infrastructure and eventual losses in value where their commodities are unable to meet quality standards for trade.

Trade is critical to growth in Africa. It has enormous potential to create a resilient and inclusive economy that can lift millions of Africans out of poverty while securing vital food needs and boosting productivity. However, Africa's trade potential is undermined by various well-documented barriers, including a lack of financing and infrastructure.

The landscape of intra-African trade especially is characterised as being increasingly fragmented, competitive and informal, with significant standardisation, price misalignment and counterparty risks. For producers like Maja, these conditions prevent them from taking full advantage of the opportunities created by trade and hinder them from scaling production levels on their farms.

It is estimated that 30% to 40% of Africa's regional trade is informal and that four times as many cross-border traders are likely to be operating outside the formal economy than within it.

Kamaldeen Raji, AFEX

"Through its activities, AFEX is enabling a transparent and fair market system that helps to determine the value of commodities, unlock investments and facilitate efficient trade."

Kamaldeen Raji, AFEX

Research from the United Nations Conference on Trade and Development shows that total trade between African countries was just 2% during 2015-17, compared to 67% for intra-regional trade among European countries, 61% for Asia, and 47% for the Americas. Intra-African agricultural trade as a percentage of total African agricultural trade consistently remains below 20%, one of the lowest for any region.

To boost trade among African countries, policymakers such as those involved in the African Continental Free Trade Area and the Economic Community of West African States are accelerating efforts to achieve economic integration. Additionally, African countries need to undertake bold domestic reforms in simplifying the information gap, cross-border transactions and infrastructural development to unlock cheaper, transparent and more inclusive ways to trade better with each other.

Introducing AFEX Fair Trade

As the foremost commodities market player in Nigeria, and one which has developed a commodities exchange model that works for Africa, AFEX is working to restructure the way that trade is done in, and with, the continent.

A key part of the solutions that have been executed by AFEX in this regard involves the deployment of ancillary infrastructure to support trade on the continent. To date, in Nigeria, AFEX has a total storage capacity of over 350,000 metric tonnes, the largest of any private sector player in the country, with 120 warehouses spread across 24 states.

Following AFEX's entry into Kenya in Q2 2022, the company has now set up eight new warehouses in one county.

Storage is a key component of a bundle of services that AFEX provides to farmers. AFEX offers affordable and secure storage to farmers through the provision of warehouses near farming clusters. Farmers can deposit their commodities at AFEX warehouses, making payments per bag, per month. The commodities are weighed and graded, and the depositor issued a warehouse receipt stating the quality and quantity of the commodities deposited.

Warehouse operations are managed through WorkBench, AFEX's value chain management platform, which includes the ability to profile farmers, document transactions and clear and settle physical trade, among other features.

With transaction-level data collected through WorkBench alongside price data collected from over 300 markets across Nigeria, AFEX is building a data bank for agriculture trade on the continent – starting with Nigeria. This will contribute greatly to solving the information asymmetry that persists in the sector and limits investments, measured interventions and overall growth.

Additionally, AFEX facilitates an efficient marketplace for commodities in Africa that crowds in both buyers and sellers who utilise AFEX's physical and technology infrastructure to interact and exchange value. ComX, AFEX's trading platform, also provides the ability to trade securitised agricultural assets. Commodities are securitised and made available for retail and institutional investors to trade and gain exposure to alternative assets and investments. By trading on ComX, investors can make a decent per, or above, market return while financing value chain activities necessary to bolster trade.

Through its activities, AFEX is enabling a transparent and fair market system that helps to determine the value of commodities, unlock investments and facilitate efficient trade. For commodities in Africa, the company will turn the page on a heavily physical, untraceable and informal marketplace to one that digitises the sector, making activities more transparent, traceable, and formal, benefitting both producers like Maja and buyers within and outside the continent.

A day in the life of a credit and political risk broker

Michael Creighton, WTW

Michael Creighton, team leader and executive director – financial solutions at WTW, shares his first-hand experience of a typical day working as a London-based broker dealing with African risks.

It's early evening and I settle into a seat on the train for my relatively short commute: just enough time to reflect on what has once again been a very productive and interesting day as a credit and political risk broker at WTW's London office.

First thing...

The day commenced with much anticipation of securing a new African-focused financial institution client, following many months of discussions with the organisation. The build up to this point required numerous conversations that included the client, our London-based team and our locally based colleagues, on the merits of comprehensive non-payment insurance, which the client finally accepted. These merits include Basel-compliant policy wordings that allow for capital relief, credit protection and obligor limit and country exposure management.

At WTW we are very thoughtful about how we present clients' risks into the insurance market to have the best chance of securing appropriate terms. In addition, our broker team includes former bankers and insurers, ensuring that we have a firm grasp of the transaction and the risk being presented. Furthermore, we encourage regular, direct engagement between our clients and the insurers as we see real benefits in a tripartite relationship between insurers, insured and broker.

Insurers generally kick off their analysis by learning about the insured organisation, and today started with a market presentation by this new client. A number of insurers were invited to a face-to-face presentation enabling the client to present their credentials with a strong focus on their approach to credit and risk management.

The presentation was well-received and ended with much anticipation for the first enquiries to arrive.

Notification of a potential loss

It is said that the experience of making a claim is the ultimate test of an insurance policy. At WTW we have a dedicated claims team who support clients through the process. Earlier in the week, a client had informed us of a potential claim. To progress this claim, we set up two meetings, firstly just between the WTW team and the client, followed by a call which also involved the insurers.

In the first meeting, our claims team provided their assessment of the claim, taking the time to explain the process and the likely approach to be adopted by insurers. In the follow-up call, our client explained to the insurers how the claim had arisen and how they were managing the situation. The insurers in turn acknowledged their responsibilities and confirmed they would action the claim. Our client expressed gratitude and a degree of relief for the efficiency and knowledge displayed by our claims team and the insurers.

> **"The initial responses have produced the usual mixed results: the customary NTY (no thank you) one-line emails have come in but are balanced by a number of insurers showing some interest in the various enquiries."**
>
> **Michael Creighton**, WTW

Mid-morning team meeting

Next up on the agenda was an internal team meeting to talk through the latest enquiries. We see a vast array of transactions with varying products, obligors and country risks. Today's list included:

- a renewable energy project finance enquiry in Southern Africa,
- a receivable discounting trade finance risk in East Africa,
- an infrastructure Ministry of Finance term loan in West Africa,
- and an agriculture equity political risk insurance (PRI) enquiry received from our European-based colleagues for an investment in North Africa.

The team meeting involved a discussion about the various risks to ensure the clients' requests were understood, with an agreement on who would take the lead on each enquiry, and identifying the appropriate broking strategy to adopt.

At WTW we believe that risks are best presented to the insurance market face to face; the approach adopted by Lloyd's of London for centuries. However, the pandemic has changed things: hybrid work styles, greater transaction complexity and electronic tools are contributing to a move away from the traditional approach. At WTW we seek the appropriate balance between face-to-face broking and making use of the new styles and technologies, often settling on a combination of broking techniques on each transaction.

The afternoon

By late afternoon, insurer responses to our submissions were coming back. In general, Africa has a high demand for insurance cover and suffers its fair share of claims. This, together with rising debt levels and political uncertainty in several countries, means that insurers have restricted available capacity. However, this is where a good broker can really make a difference in acting as intermediary between insureds and insurers. The credit and political risk insurance sector has evolved significantly in recent years with an increasing number of insurers, greater capacity, longer tenors and more complex structures. Brokers with a sound knowledge of the risks and structures insurers prefer can be at an advantage in efficiently sourcing insurer support.

The initial responses have produced the usual mixed results: the customary NTY (no thank you) one-line emails have come in but are balanced by a number of insurers showing some interest in the various enquiries. The renewable energy enquiry has caught the attention of some specialist project finance insurers with a strong 'green' focus, despite the long tenors (in excess of 15 years) required in the deal.

The trade finance receivable discounting enquiry related to an obligor in East Africa is proving challenging, with most insurers declining the enquiry. However, the short-term nature of the facility and the excellent reputation of the insured has resulted in some positive responses.

The Ministry of Finance enquiry has also progressed during the day with some, although limited, success. Many insurers have capacity constraints with various sovereigns in Africa. Fortunately, a number of new insurers have entered the market with fresh capacity, which generally means we are able to source at least some capacity in Africa for most enquiries.

Despite growing economic and political uncertainty triggered by recent global events, there does appear to be sufficient capacity for our equity PRI enquiry.

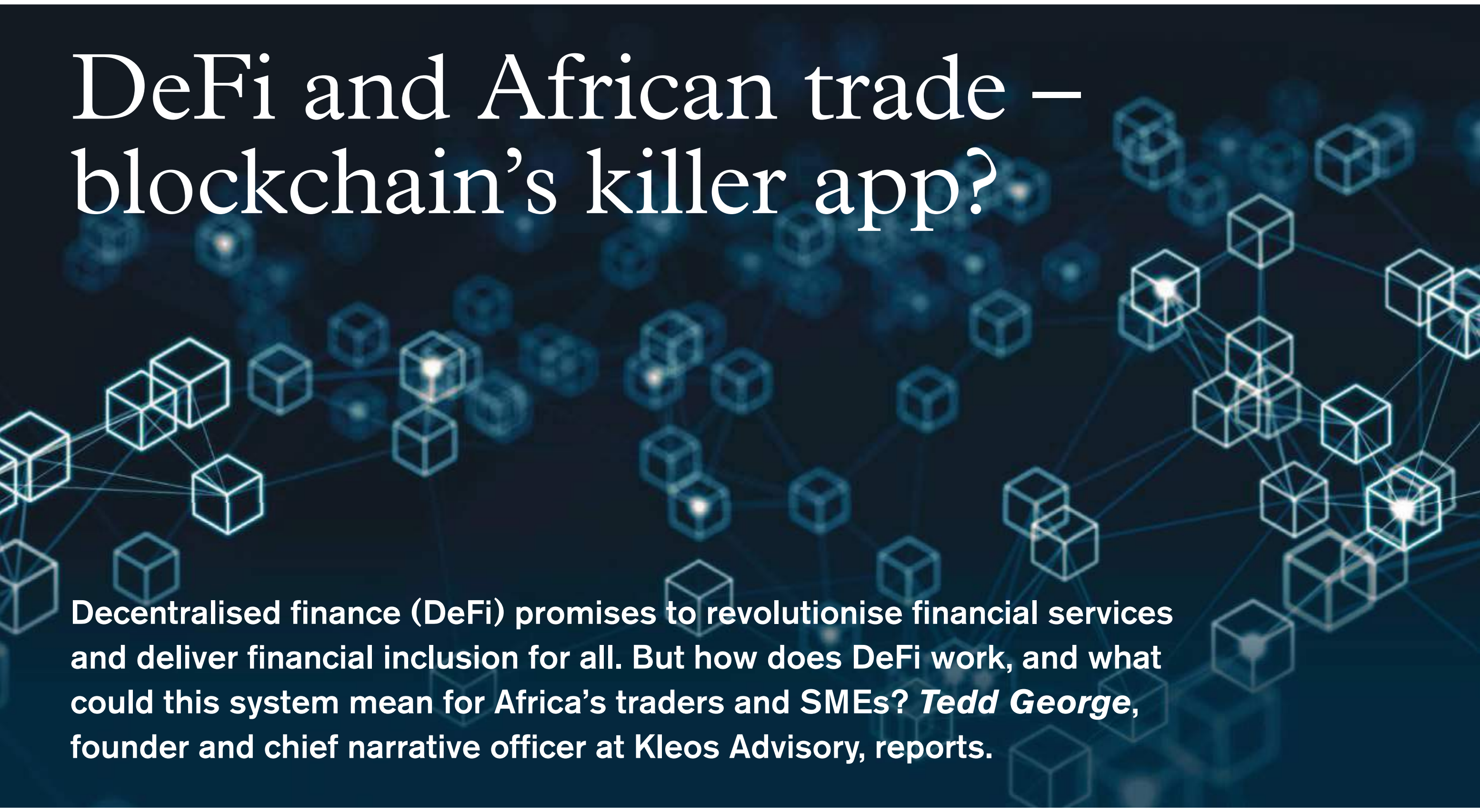
These early results are shared with clients, who will be kept regularly updated as further responses are received over the coming days.

A rush as the day ends

The day ends with us receiving a firm order to bind a policy. This was the culmination of months of negotiations with insurers to agree pricing and policy wordings.

Whilst it is late, we are likely to be able to bind the policy before the end of the day. Historically, much of the binding process required brokers to walk around the market trying to locate insurers to sign the policy, a process that could take some time. However, the pandemic triggered an immediate move to online policy acceptance. On instruction from our client, the policy is uploaded and the underwriter, working from home, accepts the policy, allowing us to confirm that cover is in place. Our client is satisfied, and we reach agreement to celebrate in the coming days.

All in all, a satisfying day with a new client, a bound deal, a successful claims outcome, and several new enquiries with reasonable market interest.



DeFi and African trade – blockchain's killer app?

Decentralised finance (DeFi) promises to revolutionise financial services and deliver financial inclusion for all. But how does DeFi work, and what could this system mean for Africa's traders and SMEs? *Tedd George*, founder and chief narrative officer at Kleos Advisory, reports.

Decentralised finance (DeFi) has become the latest buzzword in global finance. The sector has grown dramatically over the past five years, accelerated by the impact of the pandemic and the growth of digital banking services. According to Forbes, adoption rates, or the total locked value in DeFi protocols – the programmes that power DeFi – were at nearly US$43bn in April 2022. But what exactly is DeFi, and how is it different from traditional finance?

Put simply, DeFi is an ecosystem that uses cryptocurrency and distributed ledger technology (DLT) to manage financial transactions. DLT, blockchain and crypto have been around for more than a decade, attracting their share of hype and speculation. This is evidenced by the fortunes of the most popular cryptocurrency, bitcoin, which as of press time has lost over 60% of its value since peaking in November 2021. A large part of the weakness of cryptocurrencies stems from the fact that few of them are being used for their stated purpose, which is to make payments and replace existing financial services. Instead, many cryptocurrencies have become speculative assets in their own right, with investors seeking to make quick returns rather than build an alternative financial system.

But with DeFi, blockchain may have found its killer application. This is because unlike traditional lending and saving, which involve centralised financial institutions, central banks and regulators, DeFi is decentralised. There is no central authority setting the rules (or arbitrarily changing them) and there is no 'middle man', such as a bank or intermediator, taking a cut of the transaction. Instead, DeFi allows lenders and borrowers to deal directly with each other, transferring value using cryptocurrencies and managing all data processes on the blockchain. As result, DeFi represents a completely new financial rail outside the banking system which can provide the same mixture of financial services as a bank, from loans, savings and mortgages to complex contractual agreements and asset trading.

DeFi can bring several advantages to businesses and traders, especially in emerging markets. First and foremost, DeFi removes the barriers to lending. For example, an African SME processing cocoa for export currently has to jump through multiple know-your-customer (KYC), due diligence and compliance hoops to get a credit approved by a bank. Even if it is successful, this process can take months to complete, with the funds coming at a high cost. But with DeFi, all processes are automated. Once a borrower has been onboarded, a loan can be granted in a few minutes and the funds made available immediately. This means that anyone – not just a bank – can be a liquidity provider to an SME using DeFi, and borrowers need only go through the KYC process once – without having to restart it every time they approach a new lender.

Second, DeFi is much cheaper than traditional lending and can provide higher returns for investors. Most lending in Africa, especially in high-risk sectors

like agriculture trade and retail, comes with high interest rates, often to the point at which it is no longer affordable for the borrower. But with DeFi, both lender and borrower can take advantage of the lack of a middle man (and their need for a margin) to secure lower interest rates and higher rates of return. In addition, this could be done with no charge to transfer funds and no currency exchange fees, further reducing the cost.

And third, DeFi uses smart contracts. These are agreements written in computer code that are programmed to complete transactions automatically once certain conditions are met. For example, once a shipment of goods has been received by an importer with the correct documentation, a payment is automatically made to the exporter's bank at the price stipulated in the smart contract. This could be a fixed price or an agreed market rate. As the CEO and founder of blockchain-powered KYC solutions provider Tradle, Gene Vayngrib, puts it: "The smart contract is the judge and jury. There is no margin call, it just executes on its own. That's the beauty of it." By embedding complex contractual terms into the crypto code, the efficiency, transparency and speed of transactions can be greatly enhanced, benefitting both the lender and the borrower.

The application of DeFi to African markets might seem counterintuitive, given that crypto is typically associated with multinational investors rather than African SMEs. But as with all digital financial services, it is not necessary for users to know anything about the underlying technology or system – in this case, DeFi – or even that they are using crypto. DeFi can be transacted using a decentralised app (or 'dapp') or on a mobile phone's chat function, leveraging the widespread popularity of chat apps like WhatsApp, Telegram and Messenger. This opens up financial services to anyone who owns a mobile phone, which in practice means every African adult.

DeFi could transform African trade

Given DeFI's inbuilt advantages, the system has the potential to transform African trade and address the well-documented trade finance gap. Despite concerted efforts by multilateral agencies, banks and African governments, this gap has changed little over the past decade and was estimated by the African Development Bank (AfDB) to be worth US$81bn in 2019. There are multiple causes for Africa's trade finance gap, but DeFi could prove effective in removing the most persistent barriers for SMEs to access trade finance.

The first barrier is the reluctance of traditional banks to finance low-ticket deals. For most banks with appetite for African trade finance, any deal worth less than US$5mn is not worth the time and resources needed to assess the risk and structure the lending. At a single stroke this excludes most SMEs, many of which are creditworthy. According to a 2020 report by the AfDB and the African Export-Import Bank, in the period 2011-19, SME trade finance rejections averaged between 23% in East Africa and 47% in Central Africa. But if traders use DeFi, they can access loans from the micro level (for example, US$10,000 to invest in new trucks or machinery) to the medium-size (for example, US$100,000-500,000 to expand the business), filling a gap that banks cannot.

The second barrier DeFi can help lower is the high cost and complexity of trading across borders in multiple currencies and jurisdictions. Take for example a trader from Democratic Republic of the Congo (DRC) buying sugar and maize in Zambia for sale in DRC. Currently, the trader must first change local currency into US dollar cash (often at a high cost), then hide the money in their truck, drive into Zambia and buy the goods in cash, before returning to DRC to sell them. Not only is this process costly and time-consuming, but throughout the journey the trader is at risk of having the money stolen or being shaken down by corrupt border officials. In contrast, by using DeFi the trader can cross the border without any cash and do all their transactions with Zambian sellers via mobile phone, with no currency restriction.

All of these factors make DeFi a powerful tool in the roll-out of the Africa Continental Free Trade Area (AfCFTA), which aims to create a single market for goods and services across the continent. One of the obstacles to achieving this vision is the number of different currencies used in Africa. This has resulted in most cross-border trade being transacted in US dollar and euro, greatly increasing the costs and compliance hurdles for traders. DeFI could remove these hurdles, enabling African SMEs to transact with each other using their own currencies, which can be converted into crypto and instantly transferred. By linking together African traders, DeFi could help build cross-border value chains for food processing and consumer goods, reducing post-agricultural losses for crops like tomatoes, which are typically 50% in Nigeria, and decreasing dependence on costly imports of processed foods.

> **"DeFi can be transacted using a decentralised app or on a mobile phone's chat function. This opens up financial services to anyone who owns a mobile phone, which in practice means every African adult."**

In the long run, DeFi could also help resolve one of the greatest challenges in African finance – how to get funds to 'the last mile', the communities and SMEs operating in remote, peripheral and rural areas. In recent years, last-mile financial services have primarily been provided by mobile banking, either through banking apps or mobile wallets. Although mobile banking has greatly increased financial inclusion, these services have come at a high cost for low-income households. For example, Kenya's ubiquitous M-Pesa payment platform charges customers for every payment worth more than KSh100 (US$0.84) and for cross-border mobile-to-mobile transfers. In contrast, a DeFi payment between two users could be free, regardless of the size of the payment or where either party is located.

For remittances into, out of and across Africa, transaction and exchange rate fees can be exorbitant, but with DeFi cross-border payments can be made instantly, for free and with no exchange rate risk. This opens up possibilities for African micro-service providers to sell their services across borders. For example, using nothing more than WhatsApp/Messenger and DeFi, a teacher in Rwanda could help an illiterate taxi driver in Uganda fill in an online application for a new permit, and then be instantly paid US$1 for their work. Using current remittance platforms, it would cost many times more than US$1 to send this amount of money from one country to the other, making such cross-border micro-jobs unviable.

African regulators are waking up to DeFi

The rapid growth of DeFi has not gone unnoticed by Africa's regulators, who are waking up to its potential. Regulators were initially sceptical about blockchain and cryptocurrency, citing well-founded concerns over the stability of crypto, its widespread use by criminal networks, and concerns that crypto was being harnessed to subvert currency controls. For example, during Nigeria's periodic foreign exchange liquidity shortages, when exporting US dollar is tightly controlled, some Nigerians have turned to bitcoin as a means of paying tuition fees for their children studying in Europe and North America. Given regulatory concerns that crypto could negatively impact financial stability, around half of all African countries have an implicit or absolute ban on the use of bitcoin and other crypto, and it is not possible to have an account in crypto with a regulated African bank.

Nonetheless, over the past two years, African regulators have taken renewed interest in blockchain, looking beyond bitcoin and considering the technology's broader applications in the financial sector, notably DeFi. Seven African countries – Ghana, Kenya, Rwanda, Mauritius, Mozambique, Nigeria and Sierra Leone – are reported to have set up regulatory sandboxes where blockchain companies have been invited to develop DeFi solutions, under the supervision and protection of the nations' central banks.

African central banks are also considering the creation of central bank digital currencies (CBDCs). These are the same as fiat money but are issued directly by the central bank and only exist in digital form. By using the integrity of the blockchain and the credibility of the central bank, CBDCs could enable African traders to transact international business more easily, as CBDCs are exchangeable with any digital token or asset. They can also be used by central banks to target liquidity towards sectors of the economy where banks may fear to tread, for example in agriculture, sanitation and local infrastructure.

The African pioneer in this field is Nigeria, which launched the eNaira in October 2021. That the first African CBDC came out of Nigeria is not surprising, given that 42% of the country's population own or use cryptocurrencies, the highest figure in the world, according to Statista. The key objectives of the eNaira are to boost financial inclusion (enabling those without bank accounts to transact digitally with the national currency), lower the cost of remittances and encourage the formalisation of the informal sector.

Ultimately, DeFi innovators and regulators will need to work hand-in-hand to scale this technology across Africa and get the maximum benefit from it. For African traders and SMEs, DeFi could create cheap and instantly available pools of liquidity, as well as offer rapid settlement of transactions and greater security. And for the last mile, DeFi could provide blockchain-based financial services which are cheap, or even free, instant and easy to access through any mobile phone.

The positive impacts that DeFi can have on boosting financial inclusion, supporting SMEs and growing Africa's economies align the technology closely with the global sustainability agenda and the UN Sustainable Development Goals. This makes the sector an attractive investment for investors, asset managers and pension funds looking to make their portfolios more sustainable and directly address social impacts. GTR

Joining the dots on intra-African trade

The team at Finastra outline why the importance of technology to digitise trade finance – and go beyond by bringing interoperability across ecosystems – will eventually enable all players to monetise on the African Continental Free Trade Area.

Of the many impacts relating to the pandemic, one important effect has been to bring more pressure on liquidity within trade finance in Africa. Quite simply, businesses were shut down and could not carry out the volumes of trade they were undertaking before the crisis. Another has been to expose the inefficiencies of manual or semi-manual processes in trade finance, with bank and corporate employees working remotely and unable to access and share documents efficiently.

As a result, there is a realisation amongst corporate banks, driven by growing demand from customers, that digitisation is the way forward for trade finance. Digitised processes are faster, less error-prone and more cost-effective.

However, pressure on trade finance liquidity also equals pressure on the budgets available to invest in new technology. How can banks move forwards with their ambitions to provide better, digitised services to customers in an era when they also need to reduce costs?

An additional element to factor into this conundrum is the African Continental Free Trade Area (AfCFTA), which is set to introduce a tariff-free, unified market for the 55 countries of the African continent. The trade opportunities opened up for corporates and their banks by AfCFTA will be significant, with the World Bank estimating that the market will be worth almost US$450bn.

But if banks are not prepared to support their corporate customers with efficient, digitised trade finance services, they may well miss out on the benefits of what will be a truly game-changing economic event. So where do they go from here?

Today's landscape

Trade finance teams in Africa don't currently have access to certain technologies they need to get them through the pandemic and beyond.

To understand the current state of play for corporate banks and their use of technology, we surveyed over 200 trade finance professionals in partnership with banking insights and analytics firm East & Partners.

The research reaffirmed that the pandemic highlighted the lack of some technologies that would help when teams are working remotely. Notably, almost a third (32.4%) said that e-documentation was the most important digital functionality they did not have access to, but that was urgently required.

This was followed by digital signatures (26.4%) and cloud technology (11.5%). When we asked which technology banks had invested in during the pandemic, we found there was a clear gap between the ability to take the relatively simple step of using digital signatures (23.5%) and the more complex one of adopting e-documentation (14.7%).

Banks perhaps haven't invested in sophisticated digital trading platforms in the past. One of the points that has come out of our research is that 85% of respondents had developed systems in-house, for example.

The lack of engagement with fintechs or cloud vendors means that banks are often relying on a plethora of bolted together systems which don't necessarily work particularly well on an end-to-end, front-to-back basis.

There's also a lot of duplication and manual processing that's going on in that space. You have to wonder whether there's now a pivot point in terms of reaching the end of what banks can do from an in-house perspective, stepping back and having a look at working with fintechs on a more wholesale – rather than a piecemeal – basis, to digitise their trade propositions.

There's a growing argument that the more cost banks can strip out – and the more automation and integration they can create in their trade finance platforms – the better placed they will be when liquidity returns to the market, accelerated by AfCFTA.

What is the most important digital functionality you do not have access to but urgently require?

	32.4%	e-documentation
	26.5%	Digital signatures
	11.5%	Cloud technology

Priorities for corporates

Trade finance teams' priorities for digital transformation in the next five years will be front-office execution, account validation and regulatory compliance.

Our research revealed that banks are indeed gearing up for change, despite the recent unavoidable constraints on trade. Their priorities demonstrate the importance of bringing in a more integrated approach to trade finance, with an overwhelming majority (94.1%) of respondents aiming to digitise front-office execution.

Account validation is the second biggest priority for three quarters (76.5%) of trade finance professionals followed by regulatory compliance, cited by 55.9% of respondents. Their plans are most likely to be driven by the need to improve cost efficiency (70.6% of respondents), an objective to provide mass products (55.9%) and ongoing platform integration (52.9%).

The findings highlight the journey that many African corporate banks are now taking towards a more holistic approach to technology adoption, where they will increasingly embrace platform computing and collaboration with fintechs.

Of course, these intentions will require a greater investment in technology, and the majority (88%) of African banks report that they will be looking for an increase in budgets over the next five years. The percentage increase per year that they anticipate over that timeframe averages at 24.4%. A small number of banks responded that they were currently unsure about future spending on technology, but not a single bank reported that they would make zero additional investment.

While banks are looking to cut costs and by digitising their processes, there's the added benefit of going to market with automated services that will help attract SMEs and micro-SMEs as well as corporates in the new open trading environment heralded by AfCFTA. The twin drivers of the pandemic and the introduction of a single trading bloc are no doubt encouraging an acceleration in digital transformation.

A senior bank manager for trade finance, speaking at a recent Finastra roundtable event to debate the impact of AfCFTA, explained that in the current trading paradigm, exporting goods is "costly, it's time-consuming, and it takes a long period to complete".

What's needed, is a pan-African payment and settlement platform which allows banks to offer direct intra-Africa payments with same-day settlement, at a lower cost and reduced FX margin. Without technology, we cannot realise the full benefits of the AfCFTA.

What aspects of your banking processes/systems are a priority for digital transformation in the next five years?

94.1%	Front-office execution
76.5%	Account validation
55.9%	Regulatory compliance

Open technologies and collaboration

Although many of the challenges for banks in Africa are the same as they are for financial institutions the world over, it's also true that those banks face some unique characteristics that create additional hurdles to navigate.

One is that there is not yet a single trading bloc, complete with a single currency and a single set of regulations. Another is that regulators have not caught up with the modern need for cloud computing and for data processing in the public cloud. And as a result of these factors, together with the fact that only 15-16% of African commodities are traded within and between African countries, there isn't a robust trading infrastructure or network in operation as exists in Europe or the US.

As one of our participants, a senior leader at a large African banking group, said during the recent Finastra roundtable, "AfCFTA means that corporations in Africa will be in a better position to thrive and, in turn, provide better livelihood to communities". "The value that is generated in the continent is also consumed in the continent," they said.

"The buyer and the seller are within the African continent and create value instead of just exporting raw materials." Yet the true value of the changes introduced by AfCFTA will depend on interoperability between regulatory regimes as well as the different digital initiatives currently underway.

With such opportunities and prospects on the horizon, companies both small and large can look forward to a bright future. The same can be said for the banks that serve African businesses and that will provide the trade finance services they will need moving forward.

To achieve success in the years ahead, banks will need to get internal systems in shape, so they are as prepared as possible for the demands presented by a new, increasingly vibrant African economy.

FINASTRA

Visit finastra.com/working-capital-finance

Dollars run dry in East Africa

Kenyan manufacturers have been rocked by months of global economic turmoil, with many struggling to deal with a perfect storm of high import costs and dwindling US dollar liquidity. But there is hope the new continent-wide trade area and the recent admission of the Democratic Republic of the Congo into the East African Community will offer some form of relief. *Felix Thompson* reports.

In Kenya, East Africa's largest economy, there had been signs in the early months of 2022 that the manufacturing industry was ready to shake off the deleterious effects of the Covid-19 pandemic and return to growth.

The Stanbic Bank Purchasing Managers' Index (PMI), which offers an overall score on the performance of private companies in various sectors, registered a positive reading of 52.9 for Kenyan businesses in February, up from 47.6 the month before.

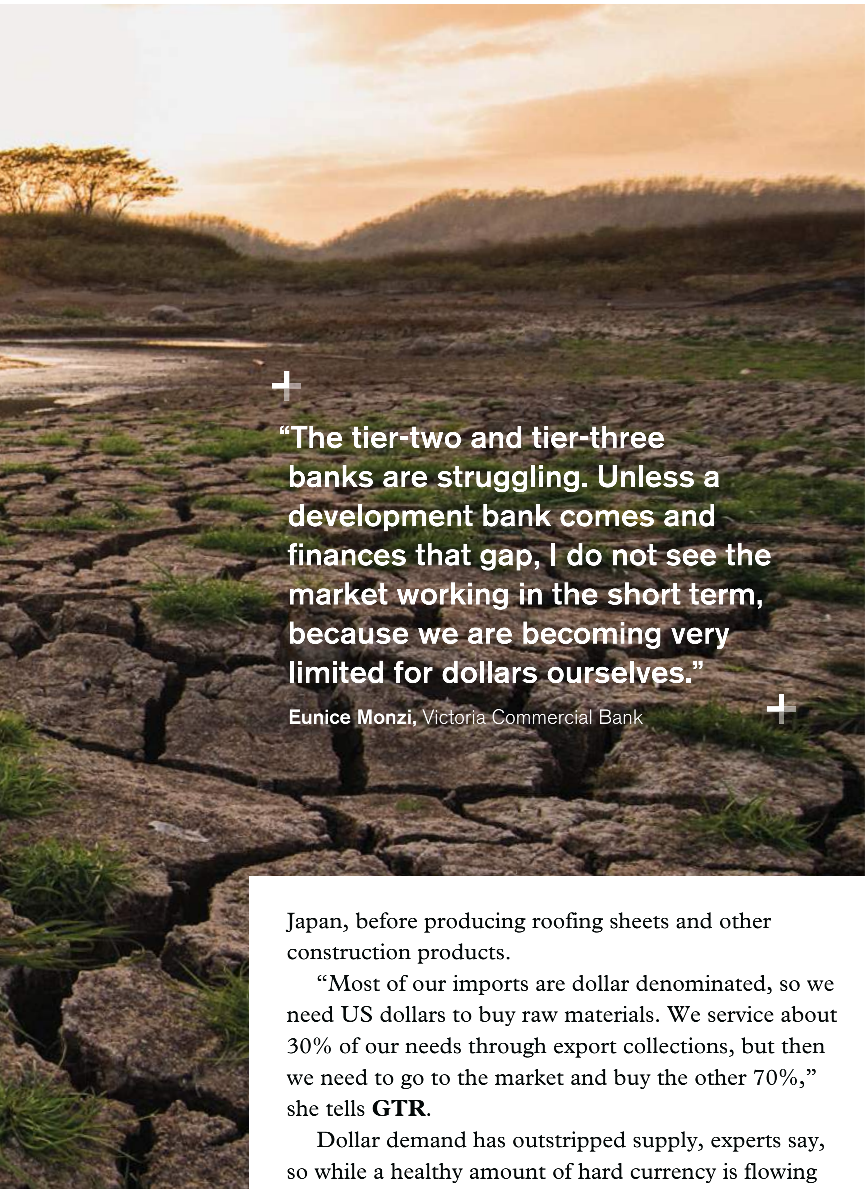
The PMI figure, which came in above the 50 threshold that signals expansion, was driven by a resurgence in consumer demand and a strengthening in new orders, with manufacturing and agriculture seeing the strongest output increase.

Any optimism was soon extinguished, however, by the economic blow dealt by the Ukraine war. Companies in the East African nation are now facing a range of problems, including disruption to the trade of key commodities, soaring import costs and dwindling access to finance.

The Kenya Association of Manufacturers (KAM) warned in May that its members were unable to obtain sufficient US dollars to buy raw materials from abroad, with a commodity price spike prompting a scramble for foreign currency.

By June, local media reported that a Kenyan producer of edible oils, Pwani Oil, had shut down a processing plant in the town of Kilifi, citing difficulties sourcing US dollars, which it needs to buy raw materials from suppliers overseas. That same month, Bloomberg reported that dollar issues were also hampering the operations of a competitor edible oils company, Kapa Oil.

"Dollar liquidity is strained," says Mariam Shikanda, a treasury executive at Mabati Rolling Mills, a Kenya-based producer which buys steel from abroad, mostly



Japan, before producing roofing sheets and other construction products.

"Most of our imports are dollar denominated, so we need US dollars to buy raw materials. We service about 30% of our needs through export collections, but then we need to go to the market and buy the other 70%," she tells **GTR**.

Dollar demand has outstripped supply, experts say, so while a healthy amount of hard currency is flowing into the country via exports of tea, coffee and other goods, or through tourism and remittances, constraints are still being felt.

In the meantime, larger corporates are proving able to service their dollar requirements, at least partly, but the cost of doing so has shot up. Importers have been forced to pay well over KSh120 to the dollar, far above officially quoted rates.

"It is expensive getting dollars from banks," says Shikanda. "You get different costs from different lenders, ranging from KSh121.60 [to the dollar], up to KSh124. With the lower end, the lender will provide about US$15,000 maximum, while KSh124 will get you around US$500,000."

Financial institutions are working to help import clients secure the dollars they require, but multiple banks have told **GTR** the Kenyan market is overstretched and they are having to think carefully about who they lend to.

"The escalation of commodities prices has really impacted our trade business, particularly oil, wheat and palm oil, and steel as well," says Timothy Mulongo, senior business development manager at KCB Bank Group.

"We do not have enough foreign currency to meet demand from our customers, so we have to prioritise and allocate what is available. We are trying our level best just to ensure that we have sufficient foreign currency to take care of our clients – particularly, clients that we have funded, or provided trade solutions to," he tells **GTR**.

New bank solutions

In the wake of these problems, international lenders operating in Kenya say they are evaluating new solutions to help domestic importers – as well as the wider trade finance market – manage booming costs and currency issues.

"From a US dollar requirement perspective, what we're trying to do is just look at off-balance sheet solutions or things like letter of credit (LC) issuances," says Carol Kihuna, vice-president, treasury and trade solutions at Citi in Nairobi.

"For someone who is looking at trade loans, rather than make that advance payment right out the gate, we look to offer an off-balance sheet item. Then we are able to bring in the goods, but with no cash outlay at the very beginning."

She tells **GTR** that Citi is using swap instruments to boost foreign currency, but the "forwards market is not what it used to be" and is "quite tight". She says the bank is also looking to boost liquidity through structured LCs.

Nonetheless, local Kenyan banks that serve smaller corporates and small and medium-sized enterprises (SMEs), warn they are being shunned by larger financial institutions that in the past funnelled hard currency down the chain.

"The big banks have kept their dollars for their customers, and they are the main suppliers of foreign currency in this market," says Eunice Monzi, a trade finance specialist at Victoria Commercial Bank.

"The tier-two and tier-three banks are struggling. Unless a development bank comes and finances that gap, I do not see the market working in the short term, because we are becoming very limited for dollars ourselves," she tells **GTR**.

Manufacturers make up a large chunk of Victoria Commercial Bank's business, with the lender helping firms finance the import of raw materials and inputs from major markets, such as India, China or Europe.

"We tend to find our correspondent banks, even the local financial institutions we relate with, have caps on how much they can give us," Monzi says, adding the amounts are generally very small. "We cannot even service our clients."

Even before the start of Russia's war in Ukraine, local trade finance lenders across East Africa were struggling, with a May report from the African Development Bank (AfDB) showing the trade finance gap in Kenya and Tanzania stands at about US$3bn and US$1.3bn respectively.

The analysis was based on data collected from over 800 companies and nearly 60 banks in both East African countries between 2012 and 2020, and reveals that trade finance application rejection rates remain troublingly high.

On average, 17% of applications in Tanzania and 20% in Kenya were turned down by financial institutions between 2018 and 2020, for reasons including insufficient collateral, weak creditworthiness and hard currency shortages.

About a quarter of exporters in Kenya and 20% in Tanzania fail to meet some export sales due to a lack of access to trade finance each year, it says. "We estimate the average value of lost trade due to unmet trade finance demand at US$80,107 and US$24,966 a year per firm in Kenya and Tanzania, respectively," the report reads.

No supply crunch, yet

While companies are clamouring for US dollars to manage surging import costs, the Central Bank of Kenya and the National Treasury have dismissed concerns, arguing there is sufficient foreign currency.

As reported by Bloomberg, central bank governor Patrick Njoroge said in May that Kenya's foreign exchange market generates and distributes about US$2bn a month, which is enough to meet all demand in the economy.

"For manufacturers in those countries, it's always difficult to count on those trade routes. As recently as July, a key route connecting DRC to Uganda and Kenya got shut for a week because a lot of armed banditry was taking place."

Daniel van Dalen, Signal Risk

According to the same news agency, National Treasury permanent secretary Julius Muia said in June that some manufacturers were buying more dollars than they need and therefore creating an "artificial shortage".

Experts say Kenya's neighbours are also feeling the crunch – much of which has been driven by Russia's war in Ukraine.

Daniel van Dalen, a senior country risk analyst at advisory firm Signal Risk, tells **GTR** that Burundi is "really battling" higher commodity prices, given it has lacked foreign currency reserves for years. "They are having supply chain issues for fuel and importers cannot buy food. You are seeing country-wide shortages that have persisted since March."

Malawi, too, faces similar problems.

"There is a possibility for dollar shortages for them in the medium term if they don't get their ducks in a row and make sure they can afford fuel imports. They are trying to navigate an IMF deal, but a lot of it comes down to structural reforms."

Signal Risk's van Dalen believes Kenya and Tanzania are unlikely to face major supply issues in the next few months, given that while current account pressures are growing, their economies are "more resilient" and there are sufficient forex reserves for fuel and food.

Kenya is sitting on forex reserves of around US$7.95bn and Tanzania's stand at around US$5.1bn, he notes, adding that both countries have nearly five months' worth of import cover, which is the threshold set by the East African Community (EAC).

But he says input prices are "going to rack up", and Kenyan manufacturers and consumers will "feel the crunch" from bumper energy and commodity costs this year.

Building on regional opportunities

In the longer term, there are hopes regional and continent-wide trade agreements will help kick-start growth in manufacturing across East Africa's largest economies, including Kenya, despite more immediate headwinds.

The African Continental Free Trade Area (AfCFTA), which came into force in early 2021, aims to significantly boost intra-regional trade levels, which to date remain dismally low. Investors are increasingly eyeing up the benefits of an agreement that seeks to cut tariffs on up to 90% of goods produced on the continent.

As reported by Nikkei Asia in July, Japanese auto company Mitsubishi said it would begin producing vehicles in Africa after a 10-year hiatus, selecting Kenya as the location for its renewed manufacturing push.

The Associated Vehicle Assemblers (AVA), a Kenya-based manufacturing entity which produces vehicles on behalf of other automakers, has won the contract to assemble the new cars and will use knocked-down parts imported from Mitsubishi's plant in Thailand.

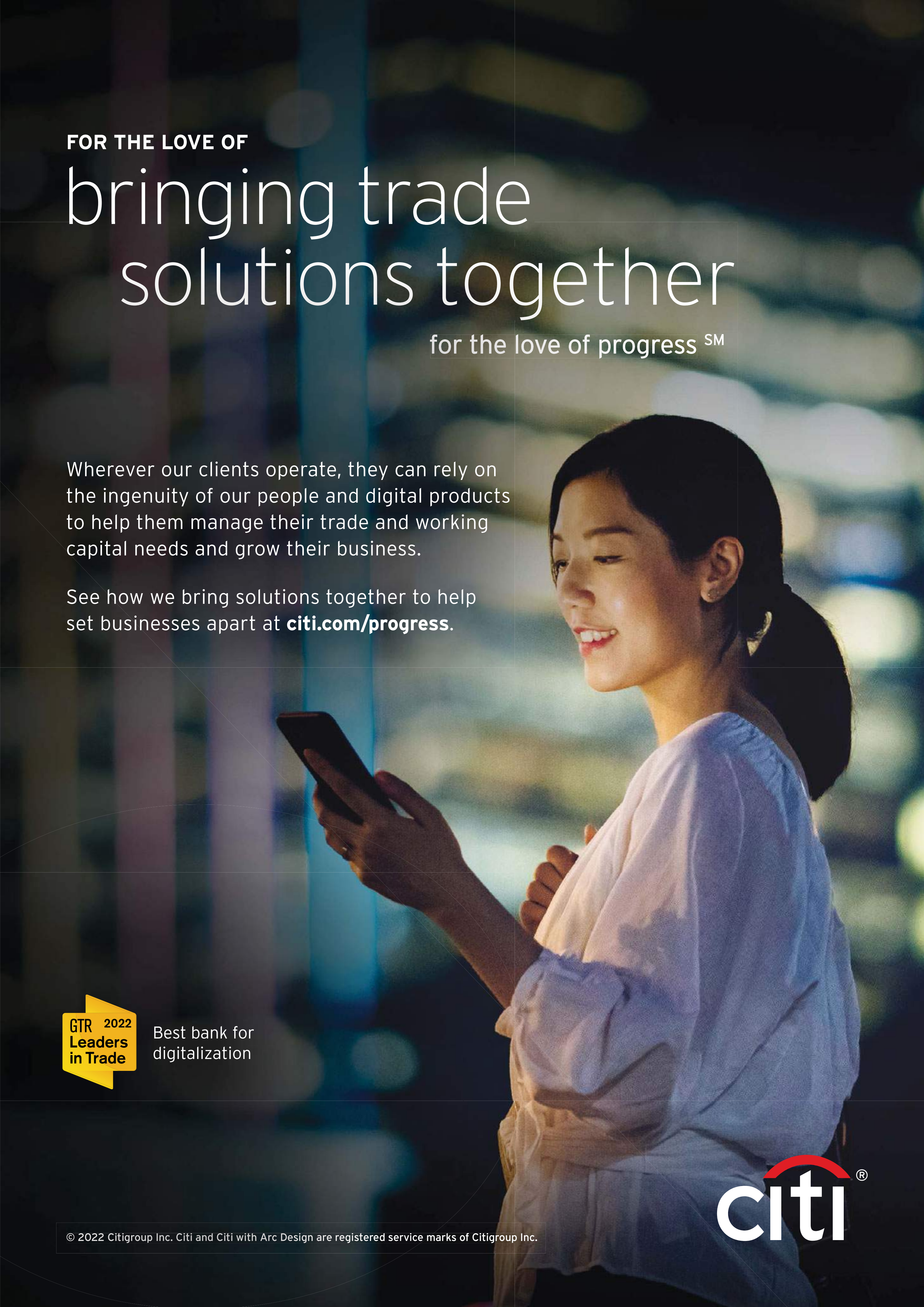
According to the Nikkei report, the Japanese firm's decision was partly driven by a desire to capitalise on the AfCFTA and, while the initial plan is to sell to the Kenyan market, the ultimate goal is to export to buyers elsewhere in Africa.

Banks and companies are also contemplating opportunities related to Democratic Republic of the Congo joining the EAC, with the country having been ratified as the seventh member of the regional intergovernmental organisation in July.

The agreement brings a wealth of benefits to DRC's population of roughly 90 million people, who will now be able to enter visa-free when travelling to fellow EAC countries: Kenya, Tanzania, Uganda, Burundi, South Sudan and Rwanda.

Import taxes on DRC-made goods will also be slashed or removed, while Congolese companies should eventually face fewer administrative barriers when exporting into other EAC countries, meaning faster clearance of goods.

The deal offers DRC better access to the Indian Ocean ports of Dar es Salaam and Mombasa, and theoretically will allow EAC countries to move goods cheaply


FOR THE LOVE OF
bringing trade solutions together
for the love of progress SM
Wherever our clients operate, they can rely on the ingenuity of our people and digital products to help them manage their trade and working capital needs and grow their business.
See how we bring solutions together to help set businesses apart at citi.com/progress.
GTR 2022 Leaders in Trade
Best bank for digitalization
© 2022 Citigroup Inc. Citi and Citi with Arc Design are registered service marks of Citigroup Inc.

across the breadth of Africa and ship from the Atlantic coast. Earlier this year, DRC started construction of a US$1.2bn deep-water port that is slated to be completed by 2025.

"In the longer term, it's a very interesting move, because it effectively connects one side of Africa to the other," says Signal Risk's van Dalen. "You are seeing Uganda going in and saying we need to build roads; Tanzania has a lot of port infrastructure development… There are plans to link Mozambique, Tanzania, DRC and Angola."

Mulongo at KCB says the bank has seen "a lot of interest" from Kenyan investors and customers in the manufacturing and extractive industries looking to establish themselves in the DRC. "In the next couple of years, we should see a flurry of activity," he adds.

But security risks remain a major factor in the Central African country and could hinder attempts to bolster trade between the DRC and its EAC neighbours. Many of the roads used to ferry goods into the DRC run through areas rife with violence.

"For manufacturers in those countries, it's always difficult to count on those trade routes. As recently as July, a key route connecting DRC to Uganda and Kenya got shut for a week because a lot of armed banditry was taking place in DRC," says van Dalen.

Broadly, there is a general lack of trade infrastructure in DRC, such as roads or rail routes, which Kenyan manufacturers fear could ultimately stymie efforts to capitalise on both the newly expanded EAC, as well as the AfCFTA.

Tobias Alando, KAM's acting chief executive, said during a webinar in August that the AfCFTA could well help Kenyan manufacturers diversify into non-traditional export markets, such as West and North Africa – and grow jobs in the country.

But he flagged various challenges both within, and outside of, Kenya. He urged the Kenyan government to create a conducive business environment, citing currently high taxes, regulatory overreach, logistics costs and trade barriers.

"The transport and logistics system is undeveloped across the continent, with some countries having almost no roads, air or rail systems," he said, specifically pointing to DRC. "Accessing that market, in terms of infrastructure, is a challenge." GTR

In numbers: Kenya's manufacturing woes

The Kenyan government had high hopes for its manufacturing sector in 2016 when it launched its 'Big Four' agenda, a blueprint which laid out plans for strengthening the country's economy, food security, housing and healthcare sectors.

Key to this plan was a target to boost the manufacturing industry's contribution to GDP from around 9% to 15% by the year 2022. But with the deadline having now passed, the East African nation has fallen well short of the mark.

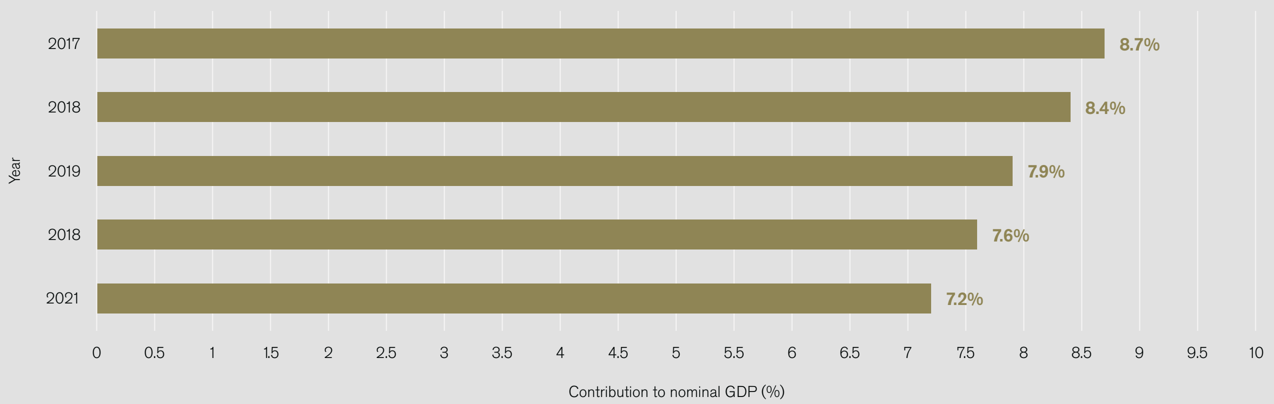
Even before the Covid-19 pandemic battered African manufacturers and forced many to shutter factories and slash jobs, the Kenyan government's lofty goal had already been slipping ever further out of reach.

As detailed in an April report from Deloitte, the sector's share of GDP has progressively declined in recent years and fell to 7.6% in 2020, a plunge that can be attributed to a drop in the number of food products being produced locally and competition from cheap imports.

Covid-19 worsened the situation, with the pandemic and related restrictions leading to a significant contraction of the manufacturing sector's output by 3.9% in the second quarter and 3.2% in the third quarter of 2020, Deloitte says.

According to World Bank data, the manufacturing sector's contribution to GDP in Kenya has since dropped further, to 7.2% in 2021.

Kenyan manufacturing: overall contribution to national GDP



Source: Economic Survey 2022, the Kenya National Bureau of Statistics

African FI trade finance – probably the best alternative investment product in the world

Investec

George Wilson, Investec Bank

Derryn Faure, Investec Bank

***George Wilson*, head of institutional trade finance, and *Derryn Faure*, institutional trade finance, at Investec Bank Limited, call for a greater understanding of the mechanics of trade finance in the context of African trade, and outline why it should be considered sustainable by definition.**

Every day, micro, small and medium-sized enterprises in the emerging world continue producing, buying and selling the goods and services their markets need, employing people but still barely keeping their economies ticking over. If only there was an efficient, low-risk way to assist this sector to unleash its potential? There is… through financial institution (FI) trade finance.

The excellent credit profile of trade finance products has been publicised annually in the ICC Trade Register – it just hasn't been broadcast much outside of transactional banking. Despite all the empirical data, global regulators appear to ignore this evidence and treat emerging market Main Street trade finance as if it were Wall Street investment banking, and in so doing have created the commercial ingredients for the trade finance gap and all its suffering.

Without a radical shift in mindset, the coming global recession, rising interest rates and inflation could easily push African frontier economies further into collapse. Perhaps all that is needed is greater understanding of the mechanics of trade finance and African economies, and recognition of the environmental, social and governance (ESG) beneficence of the FI trade asset class that can shape it into a manageably investable product.

Even before Covid-19, the depredations of war in Ukraine and high global inflation, at least US$120bn of the global trade finance gap could be attributed to Africa alone. The well-understood, primary cause of this has been the inability of SMEs to obtain trade credit and foreign exchange from their financial institutions. In turn, the root cause of their African banks' forsaken trade facilities is the imposition of global banking regulation, making it deeply unprofitable for them to provide these trade facilities to their SME clients. Bankers could either use their precious capital and liquidity, at a loss, to finance SME trade, or they could take the same capital and liquidity to buy government bonds and lock in double-digit returns, risk-free – hence the missing SME trade facilities and the resultant trade finance gap.

The development finance institutions (DFIs) and multilaterals have long understood the problem and are desperate to do something about it. They just can't reach the SMEs or their lower-tier banks, they have a crippling substantiation problem, and western ESG perspectives increasingly disqualify investment in African trade finance. These institutions have become fixated on supplier finance facilities in their flagship SME trade programmes because the global corporate buyer fits the western ESG stipulations and does the due diligence and reporting on all the SME suppliers for them. Unfortunately, that approach doesn't work for the overwhelming majority of SME trade on the continent.

The US Federal Reserve's rate hikes have spelt the end of the emerging market (EM) carry trade, with the biggest risk-off from EM bonds for 18 years, forcing fragile economies to import inflation. The flood of global investors' dollars from African bonds and some unfortunately timed elections has seen some z-spreads blow out to more than 25%. African currencies have devalued substantially, and their foreign import cover is under increasing pressure as the US dollar prices of cargoes have tripled. This has started a spiral of economic decline and, unless the International Monetary Fund steps in, this could lead to devaluation, default, essential shortages, suffering, 'Spring' uprisings, and regime collapse.

It doesn't have to be like this. If global investors could only appreciate:

- the truly astounding empirical default characteristics of FI trade finance;
- that traditional Basel credit analysis is harmfully wrong for trade product risk assessment;
- how valuable and rewarding African trade is as an asset class; and
- that their investment mandates need to be updated to unlock the intrinsic ESG value of such sustainable African trade finance assets.

Inappropriate regulation

Since 2007, the ICC Trade Register has curated the data of over 38 million global trade transactions amounting to over US$19tn. It examines all the credit dimensions of the different products, supplying extensive analytical commentary that clearly demonstrates the incredibly low-risk true nature of FI trade finance through the cycle of global financial crises, recessions and pandemics.

The 2021 ICC Trade Register records a 0.01% default rate for export letters of credit (LCs), which maps to better than AAA rating. Unfortunately, under Basel, banks must use theoretical obligor ratings which are capped at the sovereign grade. So, although the actual product's risk of default is better than AAA, a US$10mn LC issued by, for example, a Ghanaian bank will be deemed CCC with a probability of default of 14.48%, and a confirming bank would need to hold more than US$26mn of capital costs under Basel rules.

The pricing of this type of EM FI trade finance completes the picture: the market price discovery of the assets reflects the true nature of the product's risk characteristics. 'Markets are never wrong', and when African banks' and government bonds blew out over a thousand basis points recently, the market-clearing price for African FI trade actually tightened in the same jurisdictions that government bonds quadrupled.

This inappropriate Basel regulation and low trade pricing are the reasons why banks that originate trade assets cannot hold them on their balance sheets. Increasingly, banks are abandoning the very lifeblood of fragile African economies due to the enormous capital costs required against low-risk revenues, making them unprofitable. This is also one of the reasons why international investors aren't interested when they really should be: because everyone abandoned rational empiricism where the assets were originated, so their investment mandates forbid buying them. Even the EM and alternative funds don't want them because they 'need' much higher returns for such perceived 'risky' assets – they naturally pay between 2% to 4% over SOFR and asset managers want 6% plus, while hedge funds won't get out of bed for less than 10%.

"African trade finance has its own independent, regulated and audited governance naturally embedded in the form of the African FIs, which can crucially deliver the 'G' without recourse to expensive western ESG 'experts'."

What's crazy is that EM FI trade finance could form an ideal alternative asset class for those very investors as their performance is diversified away from herd market reactions in equities, bonds and commodities. EM institutional trade finance continues to perform beautifully when other asset classes cycle through ups and downs. The ICC Trade Register proves that African trade finance doesn't default, performing counter-cyclically even when the world economy goes to hell in a handbasket. This is enlightened self-interest: trade dollars are prioritised because emerging market central banks won't allow their trade payments to default since they know it will lead to their collapse into failed states. It is underwritten by DFIs and multilaterals for the same reason.

Sustainable by definition

What's even crazier is that such an obviously sustainable asset class is not top of the list for ESG investors and is in danger of being disqualified by developed market taxonomies because of the evidence required to prove environmental benefits, regardless of its social and sustainable impact on African economies. Western policy makers either don't understand or simply choose to ignore how trade finance as a product set is different from debt, and that developing economies are the precise target of the 12 non-environmental UN Sustainable Development Goals (SDGs). Their reductive interpretations of the UN SDGs over-emphasise proof of environmental goals because they are the most relevant to western economies. This solipsism is big business: in June we were treated to the unprepossessing but revealing spectacle of the audit firms scrabbling to protect their US$8bn sustainability audit pot from EU lawmakers who think it may lead to conflicts of interest.

To the uninitiated, FI trade may seem to be an abstruse, technical classification. But it must be understood that:

- the only entities that can touch, understand and grant credit to African SMEs are African FIs;
- only these African FIs can be used as aggregators for international investors and DFIs of otherwise impossibly granular portfolios of real SME trade; and
- these banks' treasuries are the engine room of their countries' foreign exchange and liquidity functioning, as is the case with Nigeria's Form M, NAFX and RT200 trade mechanisms.

It then becomes clear that, unlike ESG bonds, African trade finance has its own independent, regulated and audited governance naturally embedded in the form of the African FIs, which can crucially deliver the 'G' without recourse to expensive western ESG 'experts'.

In the original spirit of 'trade not aid', we can cut the Gordian Knot and understand directly from the UN SDGs that African trade finance should be sustainable by its definition, unlock the asset class's true investor value, and promote it to its proper place as the best alternative asset class in the world.

UBA
United Bank for Africa

UBA: Blazing the trail in regional African trade

United Bank for Africa (UBA) intends to harness the power of its strong presence across the continent, as well as its trade finance solutions, to help drive intra-African trade, writes the bank's group deputy managing director, *Muyiwa Akinyemi*.

Muyiwa Akinyemi, UBA

The importance of globalisation cannot be overemphasised. No economy can exist successfully on its own without interacting with other countries. To this end, global trade, the vehicle by which different countries can procure or sell products and services via a system of often complex supply chains, is a key driver of the world's economy.

The products that are bought and sold in global trade cut across all sectors, including oil and gas, agriculture, processed goods, fashion items, electronics, equipment, machinery, fast moving consumer goods (FMCG), etc.

The African continent, made up of 55 countries with a population in excess of 1.2 billion people, plays a key role in global trade. It is the largest trade market in the world, a status it attained following the signing of the African Continental Free Trade Area (AfCFTA).

As at the end of 2020, total trade imports into Africa were worth around U$$500bn while total exports stood at about US$375bn.

Across Africa, the top three items of import were mineral fuels, nuclear reactors and vehicles, while those of export were mineral fuels, solid minerals and ships/boats.

The continent's top three import partners were China, India and the US, and its top export partners were China, India and Spain.

As at 2019, intra-African trade imports stood at US$70.4bn, comprising approximately 13% of total import trade, while intra-African exports amassed to US$91.8bn, approximately 19% of total exports from the continent. In comparison, intra-regional trade in Europe was 69%, Asia 59% and Latin America 21%, which suggests a significant scope for growth in intra-Africa trade.

The African trade finance gap as of Q1 2020 was estimated to be around US$87bn.

It was in recognition of this gap that the AfCFTA was conceptualised, primarily to create a single continental market for goods and services, characterised by the seamless movement of people, businesses, products, services and investments between African countries via the use of digital technology platforms, systems, regulation, procedures and policies. The expectation is that this will lead to increased development of the African continent and an exponential increase in trade between African nations in the medium to long term.

Of the 55 countries in Africa, all have signed the AfCFTA with the exception of Eritrea.

Driving regional trade

One of the major banks positioned to enable the achievement of the objectives of the AfCFTA and drive regional trade across the continent is the United Bank for Africa (UBA) Plc.

Aptly known as Africa's global bank, UBA is a leading financial institution on the African continent and beyond, with presence in 20 countries spanning Central, Eastern, Southern and Western Africa. The bank also has a presence in the US, UK, France and, more recently, Dubai, UAE.

In Africa, the bank's activities are segmented into three regions: Central African Economic and Monetary Community (CEMAC), East and Southern Africa (ESA) and West Africa (WA).

The bank's trade customer segments in Africa are characterised as follows:

- Corporates (large multinationals, FMCG, energy industry, top commodity traders): 61%
- Commercial (manufacturers, mid-market companies, suppliers): 28%
- Retail (MSMEs and others): 11%

UBA's rich history spans over seven decades, providing products and services to its 27 million+ corporate, commercial, SME, consumer and personal (retail) banking services customers across the African continent through diverse channels: over 1,000 business offices and customer touch points with 2,600+ ATMs, 87,000+ point-of-sale machines and robust online banking services. Additionally, UBA offers pension custody and related services.

Over the years, the bank has proven its expertise and capacity in key sectors of economies across Africa, especially in oil and gas, infrastructure, agriculture, and commodities. This has positioned UBA as the preferred partner for structured solutions to African governments and corporates.

The bank has developed a robust array of trade offerings that leverage technology to drive import and export trade across Africa.

A more recent focus of the bank has been in the area of non-oil export, where UBA Nigeria has led the way in terms of market share of trade business processed through the bank from 2019 to 2021.

UBA's footprint

In the CEMAC countries, UBA currently has operating offices in Chad, Cameroon, Congo Brazzaville, the Democratic Republic of the Congo and Gabon, where it processed in excess of US$16bn in trade volumes in 2021 alone.

The bulk of the trade in this region is focused on the following commodities:

- Export trade: mineral fuels, wood, cocoa, extracted mineral ores, ship boats and slag
- Import trade: meat and edible meat offal, mineral fuels, vehicles, nuclear reactors, edible fruits and nuts, electrical machinery and equipment, ships and boats

As at 2020, the total volume of export and import business in the countries in this region where UBA has presence was 6.3% and 3.1% of total African trade respectively.

UBA has also led the way in invisible trade, processing over 25,000+ trade transactions between January and April 2022. The services covered here are school fees, medical fees and living expenses.

Across West Africa, UBA currently has operating offices in Benin, Burkina Faso, Côte d'Ivoire, Ghana, Guinea, Liberia, Mali, Nigeria, Senegal and Sierra Leone.

> **"Aptly known as Africa's global bank, UBA is a leading financial institution on the African continent and beyond, with presence in 20 countries spanning Central, Eastern, Southern and Western Africa."**
>
> **Muyiwa Akinyemi**, UBA

The major export and import commodities in these regions are as follows:

- Export trade: cotton, cocoa, rubber, edible fruits, oil seeds, solid minerals, mineral fuels, ships and boats, animal and vegetable fat, nuclear reactors, fish
- Import trade: cereals, mineral fuels, vehicles, nuclear reactors, edible fruits and nuts, electrical machinery and equipment, ships and boats

As at 2020, the total volume of export and import business in the West African countries where UBA has presence was 8.8% and 19.8% of total African trade respectively.

In East and Southern Africa, UBA has operating offices in Kenya, Mozambique, Tanzania, Uganda and Zambia.

The major export and import commodities in these regions are as follows:

- Export trade: coffee, tea, cocoa, spices, live trees, plants, mineral fuels, solid minerals, edible fruit, nuts, aluminium ores, copper, slags
- Import trade: mineral fuels, nuclear reactors, electrical machinery and equipment

As at 2020, the total volume of export and import business in the countries where UBA has presence in East and Southern Africa stood at 5.6% and 8.1% of total African trade respectively.

Promoting regional trade

UBA promotes intra-African trade, leveraging a suite of offerings such as import and export finance, letters of credit, bills for collection, import interventions, trade advisory services, documentary collections, post-import financing and pre-export financing. These are all processed by means of platforms built using the latest technologies and processes.

To further improve the volume of intra-African trade, UBA is playing a leading role and is one of the major banks driving the pilot of the Pan-African Payment and Settlement System (PAPSS) launched by the African Export-Import Bank (Afreximbank). The system aims to facilitate the settlement of payments for goods and services in local African currencies to African trading nations under the AfCFTA.

Some of the benefits of PAPSS are:

- Instant confirmation and settlement of transactions
- Increased turnaround time
- Competitive transaction fees
- Reduction in FX exchange rate losses
- Person-to-person settlement of transactions

Moreover, the system involves a low-cost, low-risk controlled payment clearing and settlement system via Mansa, a repository platform for due diligence.

The pilot countries selected to drive PAPSS are:

- Ghana
- Liberia
- Nigeria
- Sierra Leone
- Cameroon
- Gambia
- Guinea

UBA is present in five of these countries and to date PAPSS is live in three: Sierra Leone, Liberia and Guinea. Ghana and Nigeria are scheduled to go live in Q3 2022.

One of UBA's key mandates is to facilitate the resolution of the trade finance gap, using its export and import trade vehicle.

While this is the near-term plan, the longer-term plan is to enable businesses to build capacity and ramp up local production, manufacturing and processing to improve earnings from export trade. The overriding objective is to increase gross domestic product, reduce employment rate and increase per capita income across the African continent.

African gold producers grapple with illicit pre-financing networks

Small-scale gold producers in East Africa are dependent on informal or criminal pre-financing structures, with illicit gold likely ending up in international trading markets, researchers warn.

An estimated 20% of the world's gold in circulation is derived from artisanal and small-scale gold mining (ASGM), but much of this trade has its roots in networks linked to organised crime and political corruption, according to research by Themis, a financial crime intelligence provider.

With legitimate importers and financial institutions often unwilling or unable to provide financial support to ASGM operations, miners are increasingly turning to illicit networks to provide pre-financing to cover machinery and other costs.

As a result, gold linked to armed groups, exploitation, corruption or financial crime is likely being refined and re-sold on the international market, with its origins impossible to trace.

"International sourcing of artisanal mining is currently stuck in a complex catch-22 situation, which arguably is undermining any real, scalable licit alternatives to the illicit gold trade," Themis says in a research paper. "In short, in order to escape from dependency on illicit channels, informal artisanal miners must have the resources to do so, but at this point they depend upon these very illicit channels for such resources. In order to dismantle this system, the broader international market must find a way to directly purchase ASGM gold."

Elizabeth Humphrey, a research analyst at Themis, says illicit or informal networks are becoming increasingly verticalised, meaning they are able to provide smaller mining operations with an established and predictable pre-financing mechanism.

"These structures vary, but a miner might have a relationship with a local trader, who will then have their own relationships with larger traders," she tells **GTR**.

"It moves up the ladder to bigger players until the top rung, where you may have highly politically connected individuals, for example in Kampala, Kigali or parts of Democratic Republic of the Congo (DRC). Financing tends to trickle down from those top rungs, and that enables those players to keep control of more of the supply chain."

Gold and armed groups

Despite DRC's efforts to formalise the gold sector, its eastern provinces of Ituri, South Kivu and North Kivu are "notorious" for producing minerals, including gold, that is linked to the financing of armed groups, Themis says.

"Armed groups, including the Armed Forces of DRC, provide illegal protection rackets around mine sites or impose illegal taxation at source or via roadblocks," Humphrey says.

"Meanwhile, business and political actors embedded in the gold supply chain provide pre-financing and in return purchase and control the price of gold at mine sites."

Despite providing a source of funding to armed groups, that system brings relative stability and predictability to supply chains and pre-financing arrangements, Humphreys says, increasing the likelihood that there will be a buyer and a steady work flow for small-scale miners.

Themis cites an unnamed source familiar with such networks who says: "Miners don't really care who their boss is as long as they come with money and fund the pits."

However, ASGM producers – known in DRC as creuseurs – typically have disadvantageous relationships with illicit or informal networks. This results in low pay, external control and even risk of violence.

Though formal channels exist in some markets, including DRC, Humphrey says they are typically fragmented and costly, passing through several points of taxation.

"Essentially, you have lots of different people trying to get a slice of the pie, so it becomes expensive and difficult for miners to use formal routes," she says.

At the same time, cumulative tax rates through formal channels are high, leaving "little incentive to declare and every reason to smuggle", for instance into markets with lower tax rates such as Uganda, Rwanda, Tanzania and Kenya, she explains.

International exposure

One reason legitimate financiers and buyers are reluctant to enter Africa's ASGM market is the regulatory or reputational risk of exposure to illicit activities.

Authorities, including the US government and the European Commission, have sought to crack down on gold with potential links to illicit activity, including armed conflict. Similar risks have been identified for buyers of other critical minerals, including copper, nickel and palladium.

However, Themis warns that illicit gold is likely still ending up on legitimate trading markets.

"My sense from talking to formal gold buyers on the international market is there is a lot of hesitancy on the part of bigger players, industrial gold buyers, to touch this market at all, and I don't think big buyers are happily buying gold without vetting it at all," Humphrey says.

"But it is an issue that illicit gold is filtered into the global economy. Once it has been refined and mixed with other gold, it becomes impossible to trace it back to its original source.

"Artisanal gold makes up around 20% of all gold globally, approximately, so we can be confident that a lot of it is ending up in global supply chains via artisanal gold trading hubs like Dubai."

Authorities in Dubai have long faced criticism for sourcing gold from relatively high-risk markets, despite concerns over governance, risk assessment, customer onboarding and ongoing due diligence in the sector, though have since tabled legislative reforms aimed at improving such practices.

Global gold flows are notoriously opaque, with investigative campaign group Global Witness warning last year that many countries' gold exports exceed their reported domestic production, and there is a multi-billion-dollar gap between official gold imports and recorded exports from sourcing countries.


SOUTH AFRICAN
EXPORTS TO AFRICA

Afreximbank sets sights on Caribbean export-import bank with US$700mn investment

The African Export-Import Bank (Afreximbank) has announced plans to establish an export-import bank in the Caribbean, as it looks to boost trade and trade finance between the two regions.

Benedict Oramah, Afreximbank's president and chairman of the board, said at the inaugural AfriCaribbean Trade and Investment Forum in Barbados in September that efforts are underway to open a Caribbean office.

He called for governments across the Caribbean Community (Caricom), an alliance of 15 member states, to sign a participation agreement enabling the multilateral financing institution to operate in the region, providing the basis for launching a local subsidiary or affiliate.

Oramah said Afreximbank envisages a potential initial investment of US$700mn if the project can be realised.

"We will want to leave here with actionable proposals on how to open air and sea links between the Caribbean and Africa," he told event attendees, which included heads of state and government ministers from countries in both regions.

"We would like to leave here with concrete plans to open banking and payment rails, to see joint ventures for industrial projects, to deepen our commercial collaboration in the creative and commercial space, to collectively protect our intellectual properties to share knowledge and invest in climate adaptation projects."

The forum's stated aims include boosting trade finance and private investment in Africa and the Caribbean, including by "leveraging the power of the African Continental Free Trade Area (AfCFTA)", as well as by strengthening agricultural productivity, food security and value chains.

Speaking at the event, Caricom secretary-general Carla Barnett said political cooperation between Africa and the Caribbean "has laid a foundation on which we can and must build a new trade and economic partnership that promotes mutual development and prosperity".

AfCFTA is expected to help create a market worth US$6.7tn by 2035, while merchandise trade within the Caricom single market totalled US$2.2bn in 2018, Barnett said. Efforts are also ongoing to reduce non-tariff barriers across the Caribbean, particularly in agriculture, that are projected to drive further growth.

Yet of the US$18.6bn in exports from Caricom countries in 2018, just US$815mn was to markets in Africa – less than 5% of the total. Just 2% of goods by value are imported from Africa.

> **"Caricom and Africa's trade and investment relationships are slowly emerging from the patterns that were embedded in our colonial arrangements."**
>
> **Carla Barnett**, Caricorn

"The task is not an easy one; Caricom and Africa's trade and investment relationships are slowly emerging from the patterns that were embedded in our colonial arrangements which have carried over into our post-colonial economic realities," Barnett said.

"We must reset these systems and foster real south-south cooperation."

Côte d'Ivoire agrees €200mn deal for ECA-backed clean water project

Authorities in Côte d'Ivoire have agreed a €200mn transaction with KfW Ipex-Bank, Swedish Export Credit Corporation (SEK) and Bluebird Finance & Projects to install clean water systems across more than a thousand villages.

Signed in early August, the transaction is backed by Swedish export credit agency EKN, with reinsurance by the Netherlands' Atradius, carrying a tenor of 16 years, according to people familiar with the deal.

Frankfurt-headquartered KfW Ipex-Bank is providing financing for 55% of the project and acts as mandated lead arranger and facility agent, while Swedish state-owned SEK is providing the remaining 45%. Israel-based Bluebird, which says it has now closed financing deals worth US$1.7bn for African projects over the last six years, acts as financial advisor.

Construction is expected to take four years. Once complete, the network of pipes, boreholes and pumps – as well as solar panels in smaller villages – will bring clean water to around a tenth of Côte d'Ivoire's population.

"This landmark deal is the pure essence of our work: an export finance deal which will enable clean and accessible drinking water for 3 million people," says Ram Shalita, chief executive and partner at Bluebird, speaking to **GTR**. "We thank our great partners at EKN, SEK, KfW Ipex, Atradius and Baran for this great achievement."

Baran International, a subsidiary of Israel-based contractor Baran Group, is the main engineering and construction firm, as well as the exporter.

The borrower is Côte d'Ivoire's Ministry of Finance, while the buyer is the country's Ministry of Hydraulics, via its water utility.

The project is part of the government's 'Water For All' initiative, a multi-year plan to improve water supply in rural areas – particularly in villages where residents must walk several kilometres to reach a well.

The effort to bring water to such communities is "a fantastic project" and the first such transaction in Côte d'Ivoire, says Per Edlundh, director, export and project finance at SEK.

"In order to get the project fully financed, a commercial down payment facility is provided by the lenders and SEK will for the first time take on Ivory Coast risk," he tells **GTR**. "I believe this structure may successfully be used in future deals in the region."

UK Export Finance

WE CAN HELP YOUR BUSINESS GROW OVERSEAS

WITH GOVERNMENT-BACKED TRADE FINANCE

Hitesh Patel
London (Central and West)
Export Finance Manager

If you've got a viable export opportunity, we can help you win export contracts, fulfil orders and get paid. Speak to one of our Export Finance Managers and find out how you can get the Exporters' Edge:
GREAT.GOV.UK/TRADE-FINANCE

LEVELLING UP