THE AFRICAN DEVELOPMENT BANK’S TRADE FINANCE INSTRUMENT TO SUPPORT TRADE IN AFRICA

INTRODUCING THE TRADE FINANCE TRANSACTION GUARANTEE

📅 JULY 29 AT 1PM GMT

OUR WEBINAR WILL BEGIN SHORTLY
SPEAKERS

MASTER OF CEREMONIES AND MODERATOR
Abdelkader Benbrahim, Partnership Coordinator, Making Finance Work for Africa

OPENING REMARKS
Stefan Nalletamby, Director PIFD, African Development Bank (AfDB)

PRESENTATION ON TRADE FINANCE IN AFRICA
Eugene Bempong Nyantakyi, Chief Research Economist, African Development Bank (AfDB)

PRESENTATION: TRANSACTION GUARANTEE INSTRUMENT
Charles ORWOTHWUN (CDCS, CITF), Senior Investment Officer, Trade Finance, African Development Bank (AfDB)

PANELLISTS
Nathalie Louat, Director, Trade and Supply Chain - International Finance Corporation (World Bank Group)
Uju Okafor, Senior Manager, Trade Finance, Anglophone West Africa, African Export-Import Bank (Afreximbank)
Florian Witt, Managing Director, Divisional Head International and Corporate Banking, ODDO BHF Aktiengesellschaft, Germany
Avelino Jeque, Head of Treasury, Investment Banking and Financial Institutions, Moza Banco, Mozambique
Sebastian Ashong-Katai, Group Head, Financial Institutions & International Organisations, Ecobank Transitional Incorporated (ETI), Togo
Lamin Drammeh, Division Manager, Trade Finance, African Development Bank
HOUSEKEEPING

• Today’s session is scheduled to last 1.5 hours
• To ensure the highest quality of experience, attendee microphones will remain muted during the entire session
• Questions can be submitted via the Q&A. You may submit your questions at any time during the presentation
• Simultaneous translation is available in FR/EN
• Slides and a recording of this presentation will be circulated to all attendees and registrants
• Don’t forget to fill the survey that appears automatically after the webinar
OPENING REMARKS

Mr. Stefan Nalletamby
Director, Financial Sector Development Department, African Development Bank (AfDB)
Dr. Eugene Bempong Nyantakyi
Chief Research Economist
African Development Bank (AfDB)
TRADE FINANCE IN AFRICA:

July 29, 2021

Presenter: EUGENE BEMPONG NYANTAKYI
Unmet demand for trade finance

The trade finance gap in Africa averaged USD91 billion for the period 2011-19.

Unmet demand decreased at a rate of 10% from 2011-16 - falling from USD120 billion to USD70 billion in 2016.

In 2019, estimated trade finance gap was USD82 billion.

Notice that the global trade finance gap is estimated at USD1.5 trillion. Hence the gap in Africa represents 5.5% of the global total unmet demand. Total African trade is only 3% of world trade.
Reasons for the decrease in trade finance gap

• Awareness created about the gap (e.g., AfDB, ADB reports, ICC and IFC)
• Support by DFIs (60% of banks that responded to the survey receive support from DFIs for trade finance in Africa)
• Falling trade value since 2013

Reasons why the gap has started to rise since 2016

• AML/KYC regulations have created two effects on the market
  ➢ More expensive to process small transactions for SMEs
  ➢ Number of banks participating in the trade finance has fallen

• Banks are gradually scaling back activities from riskier markets particularly in Africa – as they go through “de-risking” process
Competition, correspondent banking, foreign exchange liquidity, and regulatory restrictions are the key constraints to trade finance supply in Africa.

- They have not changed significantly from what was observed in 2013-14.
- Constraints to intra-African trade follow a similar pattern.
Constraints to Trade Finance Supply for Intra-African Trade

- Constraints facing intra-African trade finance are not significantly different from those impacting trade with other regions.

- Banks ranked competition as the most significant constraint (19%), followed by foreign currency liquidity, risk capital, and correspondent banking in equal proportions (17%).

- Competition is a major challenge for local banks partly because they lack the corresponding banking connections that their foreign competitors have.
Correspondent banking relationships

Citibank, Commerzbank, Deutsche Bank, Standard Chartered Bank, and UBAF continue to top the list of correspondent banks servicing issuing banks in Africa.

All but Citibank have lower shares of bank correspondent relationship in 2015-19 compared to previous waves.

However, some new banks are joining the ranks of the top performers, including Natixis and FIMBank.
• Not only is the share of correspondent relationship falling but the share of total confirmation activities by the top 5 confirming banks is also decreasing across time.

• This confirms the general retreat of correspondent banking relationships in Africa.
Transaction guarantee has a role to play in lowering the trade finance gap in Africa

- Help crowd in correspondent banks to the region and increase headroom for African issuing banks.

- Could be used to support transactions for underserved groups and sub-regions with higher rejection rates than usual.

- Support local issuing banks that find it difficult to compete due to lack of correspondent relationships, as well as a basis for capacity building.
THANK YOU
Charles Orwuthwun
Senior Investment Officer, Trade Finance
African Development Bank (AfDB)
TRADE FINANCE TRANSACTION GUARANTEE (TG) INSTRUMENT

JULY 2021
WHAT IS TRANSACTION GUARANTEE INSTRUMENT?

DEFINITION AND KEY PARTIES

➢ A trade finance instrument through which the Bank provides up to 100% cover to confirming banks (CBs) for non-payment risk taken on trade transactions of African Issuing banks (IBs).

➢ The parties to a Transaction Guarantee include Confirming Bank, Issuing Bank and guarantor (AfDB).

CONFIRMING BANK

• The bank that assumes responsibility to the seller/exporter for payment from the issuing bank (Buyer’s bank) subject to terms and conditions of the LC. CB assumes the Issuing Bank Risk, Country risk, payment risk

• International banks or regional DFIs in whose favor an AfDB Guarantee may be issued under the Transaction Guarantee instrument.

ISSUING BANK

• A bank that issues a letter of credit/guarantee at the request of an applicant/importer/buyer and undertakes to pay the beneficiary/seller (Ultimate payer). The IB is taking the risk of the importer.

• A bank located in a Regional Member Country with approved TG limits on which AfDB takes risk under TG transactions.
The TG provides 100% for TF transactions on case-by-case basis. However, for trade loans, the CB will retain up to 25% risk share.

**Currency**
TGs may be denominated in any of the Bank’s major lending currencies such as USD, EUR, JPY and ZAR.

**Security/Collateral**
TGs are by nature unsecured.

**Tenor**
The maximum tenor of a Transaction Guarantee is three (3) years.

**Pricing/fee**
There is no upfront fees and commitment fees, except for a nominal appraisal fees. The fee charged per individual transactions are market-driven.

**Cover**
The TG provides 100% for TF transactions on case-by-case basis. However, for trade loans, the CB will retain up to 25% risk share.
ELIGIBLE INSTRUMENTS

All guarantees must relate to an eligible Instrument such as:

• Letter of Credit
• Counter-Guarantee
• Avalised Bill
• Trade Loan from CB to IB (AfDB covers only non-payment risk)

NB. All underlying transactions are subject to the Bank’s exclusion list
The TG instrument is a more flexible and targeted development intervention tool.

Ensures greater visibility for the Bank and acknowledgement by local banks and RMCs of the Bank’s support to trade in their markets.

The (TG) instrument is a response to trade finance market demand and addresses the increased demand for TGs in RMCs.

Support African FIs in addressing ongoing constraints to trade financing.

Enables the identification of many local banks for capacity building.

It will enable the Bank to complement the activities of commercial players, regional DFIs & other MDBs through crowding in private sector resources for the development of Africa.

Introduction of TGs expands AfDB’s trade finance product suite and increase the Bank’s range of unfunded instruments, and brings the Bank in line with other MDBs.
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<tr>
<th><strong>Confirming Banks</strong></th>
<th><strong>Issuing Banks</strong></th>
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<tr>
<td>CBs can be located and registered in any country.</td>
<td>The IBs must be located and registered in AfDB regional Member country.</td>
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<td>CBs may be regional DFIs, international or regional banks that have:</td>
<td>Must satisfactorily passed AfDB’s onboarding due diligence process.</td>
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<td>Interest to expand their trade finance presence in Africa.</td>
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<td>Must have strategic intent to undertake trade financing in low-income countries.</td>
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After appraisal and due diligence, Board approves limits for IBs as projects.

1. CB or IB requests AfDB 100% payment risk guarantee for IB.
2. Requests IB to issue Letter of Credit in favour of Exporter.
3. Requests CB to confirm (guarantee) Letter of Credit in favour of Exporter.
4. AfDB issues TG.
5. AfDB issues TG.
6. Confirms (guarantees) Letter of Credit on behalf of IB.

Exporter

Commercial contract

Importer

Confirming Bank (CB)

Issuing Bank (IB)

AfDB

TRANSACTION GUARANTEE

PROCESS FLOW
**ONBOARDING PROCESS**

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<th>CONFIRMING BANKS (CBS)</th>
<th>ISSUING BANKS (IBS)</th>
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<tr>
<td><strong>Request from CB:</strong> The CB makes a formal Application to join the program.</td>
<td><strong>Request from IB:</strong> The IB makes a formal Application to join the TG program</td>
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<td><strong>Due Diligence:</strong> AfDB subjects the CB to internal evaluation.</td>
<td><strong>Due Diligence:</strong> IB undergoes AfDB Due Diligence Process, including on-site review</td>
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<td><strong>Exceptional Due Diligence:</strong> AfDB may undertake on-site review, if it is deemed necessary.</td>
<td><strong>Approval:</strong> A limit is approved for IB. The limit is uncommitted and unadvised</td>
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<tr>
<td><strong>Approval:</strong> CB note is then prepared for internal approval</td>
<td><strong>Execution of IB Agreement:</strong> Negotiation and Execution of an IB agreement</td>
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<tr>
<td><strong>Execution of CB Agreement:</strong> Negotiation and execution of CB agreement.</td>
<td><strong>Operations:</strong> IB commences origination/referral of eligible trade finance transactions to AfDB</td>
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<td><strong>Operations:</strong> CB commences referral of trade finance transactions from eligible IBs to AfDB</td>
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PANEL DISCUSSION

**Abdelkader Benbrahim**
Partnership Coordinator, Making Finance Work for Africa

**Nathalie Louat**
Director, Trade and Supply Chain, IFC (World Bank Group)

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Division Manager, Trade Finance, African Development Bank
Q&A

Send us your questions using the Q&A feature
CLOSING REMARKS

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Director, Financial Sector Development
Department, African Development Bank (AfDB)
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THANK YOU FOR ATTENDING THE SESSION

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