Impact of the Covid-19 Crisis on the African Financial Sector

Wednesday April 15, 2020

12:00 GMT  14:00 Johannesburg  8:00 Washington DC

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Outline

HOUSEKEEPING
MFW4A PRESENTATION
INTRODUCTION
PANELISTS
• COVID-19 LEGAL IMPLICATIONS
• CAPITAL MARKETS
• TRADE FINANCE
• BANKING SECTOR
DISCUSSION
CONCLUSION

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Today’s session is scheduled to last 1 hour including Q&A.

To ensure the highest quality of experience, all participants will be muted.

QUESTIONS can be submitted via the “Chat” or “Q&A”.

For Live questions / Comments. Click on “Raise Hand” icon to speak (Lower Hand and mute after).

Slides and a recording of this presentation will be circulated after we conclude. They will also be available on MFW4A.ORG.

Message the organizers for any issues.

Don’t forget to fill out the survey that appears automatically after the session.
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- G8 initiative launched in October 2007
- Common platform for the harmonization and facilitation of financial sector development and knowledge sharing in Africa.
- Donor partners, African governments the private sector, and other financial sector with the aim of unleashing the full potential of Africa's financial sector in order to drive economic development and reduce poverty across the continent.

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Our work program encompasses three inter-linked strategic pillars:

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<thead>
<tr>
<th>Financial inclusion</th>
<th>Long-term finance</th>
<th>Financial stability and regulation</th>
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</thead>
<tbody>
<tr>
<td>• Digital finance</td>
<td>• Capital markets</td>
<td>• Community of African Banking Supervisors (CABS)</td>
</tr>
<tr>
<td>• Agriculture finance</td>
<td>• Pension systems</td>
<td></td>
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<tr>
<td>• SMEs finance</td>
<td>• Housing finance</td>
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</table>

Knowledge Management and Advocacy

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Our Members

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Hugues Kamewe,
Senior Financial Sector Advisor
MFW4A

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COVID-19 outbreak in China in late 2019 spread over the world (growing number of cases)

<table>
<thead>
<tr>
<th>Country</th>
<th>Infected cases</th>
<th>Deaths</th>
<th>Recoveries</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>82,249</td>
<td>3,341</td>
<td>77,738</td>
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<tr>
<td>Italy</td>
<td>159,516</td>
<td>20,465</td>
<td>35,435</td>
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<tr>
<td>Spain</td>
<td>170,099</td>
<td>17,756</td>
<td>64,727</td>
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<tr>
<td>France</td>
<td>136,779</td>
<td>14,967</td>
<td>27,718</td>
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<td>Germany</td>
<td>130,072</td>
<td>3,194</td>
<td>68,200</td>
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<td>U.K</td>
<td>88,621</td>
<td>11,329</td>
<td>-</td>
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<tr>
<td>USA</td>
<td>587,173</td>
<td>23,644</td>
<td>36,948</td>
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<tr>
<td>Africa</td>
<td>15,944</td>
<td>838</td>
<td>3,045</td>
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<tr>
<td>Global</td>
<td>1,929,995</td>
<td>119,789</td>
<td>433,018</td>
</tr>
</tbody>
</table>

(Figures as of 13 April 2020)

Source: WHO
Introduction

- COVID-19 In interconnected world economy

Global Health Emergency (GHE) → Impact on the world population and economy → Global recession

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- Covid-19 and Financial markets

Major financial markets indices (Source Bloomberg)

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Reduced commodity revenues for Africa

Changes in Commodity prices since January 2020 (Source World Bank)
Covid-19 and Public finances and the continent's growth

- Oil export revenues drop to around US$ 100 billion in 2020
- Public health spending to increase to US$ 11 billion in 2020
- Limited budgetary margin
- Reduced fiscal space and increase in foreign currency denominated debt
- Risk of devaluation and default for African countries
- Recession in Africa in 2020 (-2.1% and -5.1%)
Introduction

- Covid-19 and increased risk of banking and financial crisis
  - The plight of borrowers operating in directly exposed sectors
  - Reduction in the volume of world trade and trade finance with increasing risks of SME failure
  - Collapse of borrowers' repayment capacity leading to non-compliance with certain prudential ratios
  - Increase in provisions and non-performing loans leading to a reduction in the sector’s profitability
  - Drastic drop in capital flows limiting the possibilities of mobilizing additional resources for public spending and for the private sector
  - Some banking systems may require recapitalization or restructuring

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African Central banks have often taken bold measures to support the financial sector and the private sector:

- Provision of additional liquidity to banks and extension of maturities for liquidity facilities
- Setting up of frameworks for the banking system to support firms with repayment difficulties
- Special program for refinancing bank credits granted to small and medium-size enterprises
- Payment due-date extensions for governments loans and securities held by credit institutions
- Exemption on adoption of new minimum capital requirements, and flexibility in restructuring nonperforming loans
- Exemption on mandatory reserve requirements on demand deposits in local currency and lowering the capital conservation buffer
- Revision of provisioning and classification rules for specific loan categories
- Encourage banks to offer extension of repayment terms or payment deferral to clients
- Adapting contingency plans to the Covid-19 context in order to ensure operational resilience
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Panelists

- **Speakers**
  
  **Wildu du Plessis**
  Partner, Head of Banking & Finance / Africa
  *Baker McKenzie*

  **Ruurd Brouwer**
  CEO
  *TCX Fund*

  **Intong Eric Monchu**
  Senior Manager, Trade Finance
  *Afreximbank*

  **Kevin Holmes**
  Head, Trade, Product Management, Transactional Products and Services
  *Standard Bank*

- **Guest speaker**
  
  **Robin Bairstow**
  Chairman of *Rwanda Bankers Association*,
  Managing Director of *I&M Bank Rwanda*

- **Moderator**
  
  **David Ashiagbor**
  Coordinator
  *Making Finance Work for Africa*

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COVID-19 – Legal issues and potential pitfalls

Wildu du Plessis
Partner, Head of Banking & Finance / Africa
Baker McKenzie
Johannesburg

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COVID-19 – Legal issues and potential pitfalls

Legal implications/challenges of current health crisis for the African FS sector
An unfolding health and economic crisis that demands bold action

1. **Commercial contracts**
   - Force majeure and other concepts that may be used to avoid performance
   - Material Adverse Effect
   - Supply chain continuity issues
   - Business interruption insurance

2. **Financial hygiene**
   - Cash flow preservation and mitigation
   - Liquidity, financial distress and trading recklessly
   - Credit ratings

3. **Corporate**
   - Execution issues regarding documentation - use of e-signatures
   - Listed companies - abolition of physical AGMs and use of virtual meetings

> $90 billion potential loss to Africa’s GDP (McKinsey)
Impact of Covid-19 on the African financial sector

Planning for the medium/long-term is key...

1. COVID-19 Has Already Irrevocably Changed the Global Economic Landscape
2. Global Supply Chain Disruption Highlights Importance of Risk Management
3. Building the New Normal

Resilience
Manage immediate COVID-19 crisis
Management of legal and regulatory changes, risk mitigation and other immediate issues

Recovery
Navigate counter-cyclical activities
Remediate medium-term impacts of COVID-19 and global market slowdown

Renewal
Strategize for business transformation
Plan and execute long-term business transformations and forge a path forward
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In terms of economic dislocation, various sectors are significantly affected during the COVID-19 pandemic:

- Economic activities across regional and global sectors - including travel and tourism, automobile, commodities, manufacturing, and financial markets – bear the brunt of the impact.
- Sharp decline in commodity prices, sudden significant drop in tourism earnings, disruptions in supply chains and export manufacturing facilities...

Many African economies are therefore exposed to serious vulnerabilities and governments have to face financial difficulties

- Potential cost on the global economy up to US$1 trillion: a significant decline of 0.4% in global GDP growth, from 2.9% in 2019 to 2.5% in 2020.
- Adverse impact on major world economies, with China, Europe and the USA, being particularly hard hit....
From a trade perspective, we see the following difficulties emerging:

- Current account pressure on many economies (mainly exports-led performers and tourism-based economies in the region).
- Risk of trade payment defaults by financial institutions.
- De-risking and gradual cut in credit lines by international banks.
- Fiscal challenges arising from sharp drops in fiscal revenues for governments dependent on mineral royalties and/or tariff revenues.
- Sharp decline in migrant remittance inflows.
- Cuts in Foreign Direct Investments (FDI), long-term financing and portfolio flows.
Some Mitigation Measures

**Governments**

- Ad hoc initiatives promoted by DFIs and Multilateral FIs to support countries whose fiscal revenues are tied to specific export revenues and better manage the sudden fiscal revenue declines.

**Financial Institutions**

- Central Banks and DFIs support to commercial banks and other financial institutions in order to be able to meet trade debt payments falling due and avert trade payment defaults.

- New mechanisms - involving multilateral FIs and bilateral agencies - to support / stabilize Forex reserves, enabling central banks to support international flows and trade under emergency conditions.
Some Mitigation Measures

**Corporates**

- Emergency trade finance facilities for import of urgent needs to combat the pandemic, e.g. medicine, medical equipment, hospital refittings, testing and diagnostics capacities etc.

- New liquidity tools for eligible corporates whose exports, planned investments and supply chains may be disrupted at domestic level
An Example of Pandemic Mitigation Facility: PATIMFA

The Pandemic Trade Impact Mitigation Facility (PATIMFA) - a $3-billion facility - is designed to assist Afreximbank member countries in managing the adverse impact of financial, economic and health shocks caused by epidemics/pandemics, in the nature of COVID-19.

- PATIMFA will be available in multiple currencies, including US Dollar, Euro, Yuan and African local currencies.
- Eligible Beneficiaries include Governments, Central Banks, Commercial Banks, National and Sub-Regional Development Banks and Corporates.
- The Facility will also be available by way of:
  - Direct cash advances, term loans and lines of Credit;
  - Confirmation and refinancing of documentary credits;
  - Guarantees; and
  - Cross-currency/interest rate swaps
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Robin Bairstow
Chairman of Rwanda Bankers Association, Managing Director of I&M Bank Rwanda
Robin Bairstow  
Chairman of Rwanda Bankers Association,  
Managing Director of I&M Bank Rwanda
Banking sector

CURRENT STATUS OF COVID-19 IN RWANDA

- First case identified on March 14th
- Arriving and departing commercial flights halted on March 20th
- Full lockdown imposed on March 21st
- No travel permitted between cities and districts
- No public transportation
- No large public gatherings—schools, church, conferences, etc.
- Only essential services permitted e.g. healthcare, supermarkets, banking, etc.
- Lockdown is due to end April 19th but could be extended.
- 134 cases in total, 49 have recovered, and zero deaths as of April 14th
CURRENT STATE OF RWANDA’S BANKING SECTOR

- Bank staff/Branches were reduced to almost 40% operating capacity on average
- Mobile money transactions had a significant increase while internet banking is still at a low rate.
- Specific sectors are deeply challenged by COVID-19: Tourism, Transport & MICE
- High demand for moratorium & restructuring of loans from Clients
- Creation of recovery fund by the Ministry of Finance & Economic Planning
- Reduction of loan interest rate from some banks to support Clients
SPECIFIC MEASURES TAKEN BY THE BANKING SECTOR

- In compliance with Rwanda Government directive on the management and mitigation of COVID-19, the Bankers Association took preventive measures to guarantee business continuity and to reduce potential cross infections in banking halls and other public places:
- Zero charges on all transfers between bank account and mobile wallet.
- Zero merchant fees on payments for all contactless point of sale transaction.
SPECIFIC MEASURES TAKEN BY THE CENTRAL BANK

- Advised banks to ease loan repayment conditions to borrowers affected by the COVID-19 pandemic.
- Extended lending facility to Banks.
- Reviewed the existing treasury bonds rediscounting window.
- Reduced the reserve requirement ratio.
- Encouraged use of digital channels and contactless mobile payments.
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END OF PRESENTATIONS

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Send us your questions using the chat and / or question and answer features. If you want to ask your question directly, please click on the “Raise Hand” button or send a message to the organizers.
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<table>
<thead>
<tr>
<th>Organisation</th>
<th>Amount</th>
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<tbody>
<tr>
<td>African Development Bank</td>
<td>US $10 billion</td>
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<tr>
<td>Afreximbank</td>
<td>US $3 billion</td>
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<tr>
<td>The World Bank</td>
<td>US $14 billion</td>
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<td>AFD</td>
<td>EUR 1.15 billion</td>
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<td>European Union</td>
<td>EUR 15 billion</td>
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<tr>
<td>International Monetary Fund</td>
<td>US $100 billion</td>
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