



# The case for Intra-Regional Trade and Industrialization:

## Afreximbank a Partner of Choice

**Mrs. Kanayo Awani**  
Managing Director  
Intra-African Trade Initiative

Johannesburg, South Africa  
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African Export-Import Bank  
Banque Africaine D'Import-Export

Transforming Africa's Trade

# In this Presentation, I shall:

1. Provide Perspective to Intra-Regional Trade and Industrialization
2. Review Africa's Potential and key Lessons
3. Introduce Afreximbank
4. Highlight Instruments developed to Support Intra-African Trade and Industrialization
5. Conclude with our Proposition



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## Introductory Quote

“I said, yet again, for Germany, Europe is not only indispensable, it is part and parcel of our identity. We've always said German unity, European unity and integration, that's two parts of one and the same coin. But we want, obviously, to boost our competitiveness.”

– **Angela Merkel**

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Some Perspectives:

Intra-Regional Trade & Industrialization

# Europe

## Europe soon after Second World War (1945)

I believe Europe provides is a good case for intra-regional trade and industrialization.

- At the end of the Second World War (between 1945-1950), Europe was drained by repeated wars among neighboring countries
- There was widespread devastation, age-old trade links had either been cut off or diminished, and most heavy industries or vital manufacturing sectors that had not been destroyed by war were operating below capacity in a Europe that was ill-prepared to deal with the millions of people made economically destitute during and after the war.



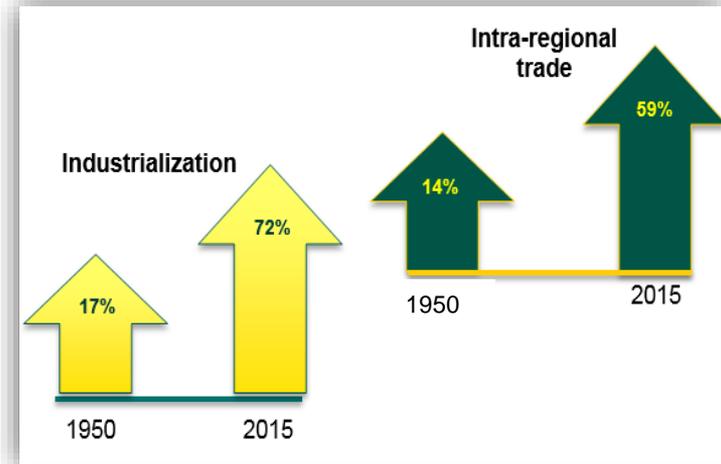
# Europe

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- In this context, a divided Western Europe quickly realized that the path to its survival lay in pooling its economic resources and establishing effective as well as common institutions.
- In seeking a lasting peace settlement, France and Germany came together in 1950 and established the European Coal and Steel Community which began to unite European countries economically and politically.
- The union was further strengthened by the joining of Belgium, Italy, Luxembourg and the Netherlands.

# Europe

- The arrangement catalyzed the birth of industries around the steel and coal value chains and growing “internationalization” of production systems which gave rise to vertical trading chains as well as intra-industry trade spanning a number of countries.
- Today, trade among the nations in Europe accounts for 59% of the total trade for the region from an estimated level of 14% in 1950s
- We also continue to see interdependency in production chains, notably with airbus, a trend that started with the French-Germany collaboration.



# Asia

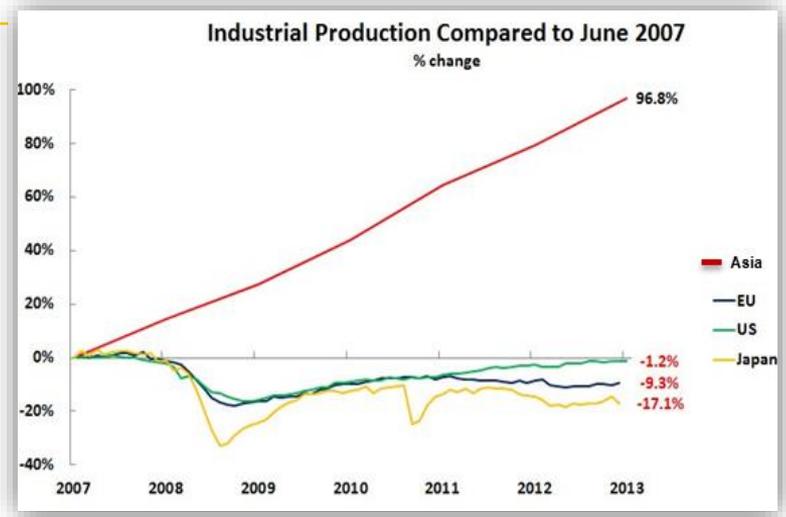
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- The volume of Asian trade gathered momentum with increased involvement of European powers in the 19<sup>th</sup> century.
- Three major historical developments are important for understanding the high level of Asian interdependence:
  - I. Development of Asian Treaty Ports in the nineteenth century which established new trade flows driven by major ports such as Singapore, Hong Kong, Manila and Shanghai
  - I. Japan's expansion later succeeded by China which created a high level of economic integration among the Asian economies
  - I. Finally, the growth of the region's economies in modern times in areas such as manufacturing led to large investments in linkages such as infrastructure that are increasing intra-regional bias

# Asia

## Pre-Industrialization (1970s)

- Trade dominated by commodities
- Minimal industrialization- textiles
- Conflicts e.g. India-China

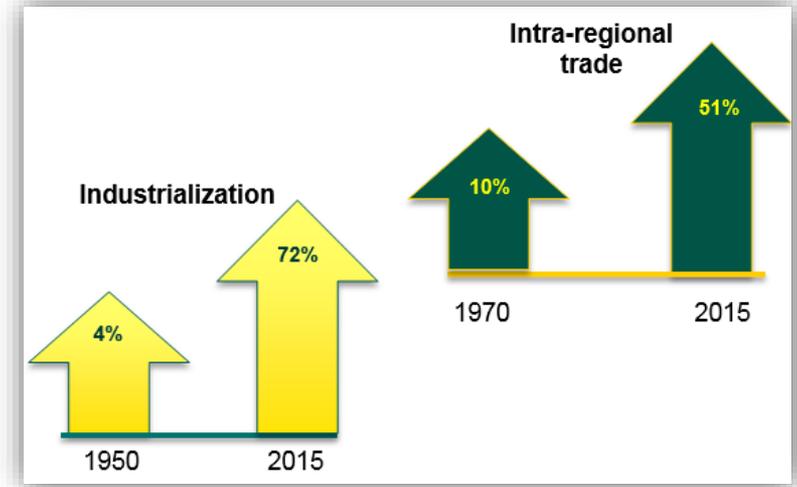


## Journey Towards Intra-Regional Trade (Post 1980s)

- Rapid industrialization in the region was accompanied by technological advancement
- The economies transitioned from low-tech manufacturing (textiles & clothing) to production of machinery, transport equipment & other high value exports
- Asian countries dominate world manufacturing today to the extent that the region's industrialization is higher than that of Europe.

## Asia

- The region also has significant intra-industry trade and internationalized value chains, case in point being a company like Toyota which has production lines spanning several countries including Japan, Thailand, Singapore, Malaysia, Philippines and Indonesia.



- These factors contributed to expansion of Asia's intra-regional trade. For instance, it doubled from US\$116 billion to US\$265 billion between 1985 and 1990 and further increased to US\$1.2 Trillion by 2005. By 2014, intra-Asian trade had grown to US\$2.5 Trillion.
- Currently, intra-Asian trade is contributing 13.5% of global trade flows.

# Africa- Key Observations

## State of Play

- Intra-regional has stagnated at around 15%
- Low industrialization levels compared to other regions
- Low share of Manufactured Value Added (MVA) in global trade

## Significance of Intra-African Trade

- Promoting shift from commodities to trade in industrials/ manufactures/ intermediates
- Catalyst of dynamic comparative advantages & technological advancement necessary for (product differentiation)

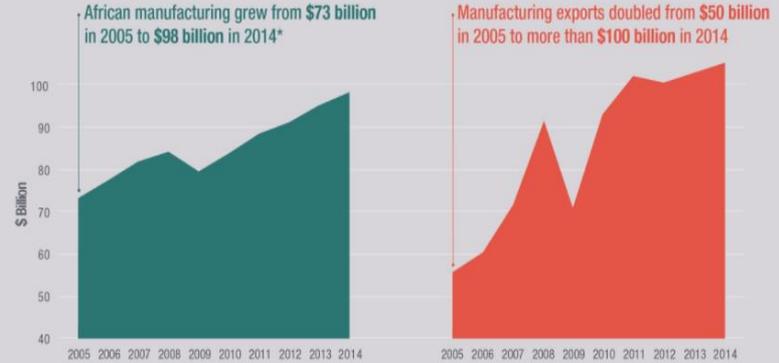
Indicator	
Intra-regional Trade	15%
Industrialization	52%
Manufactured Value Added (MVA) Share of World Total	1.5%
FDI Share of World Total	5.3%
GDP Share of World Total	2.4%

# Africa- Unlocking our Potential

## Key Ingredients

- Agenda 2063 by the African Union (consolidated political will).
- The Continental Free Trade Area (CFTA).
- Strategies for transformation developed by Regional Economic Communities (RECs).
- Country-level plans such as the Industrial Policy Action Plan – the Republic of South Africa.
- Implementation through partnerships with institutions such as Afreximbank.

Think African manufacturing is in decline? Think again.

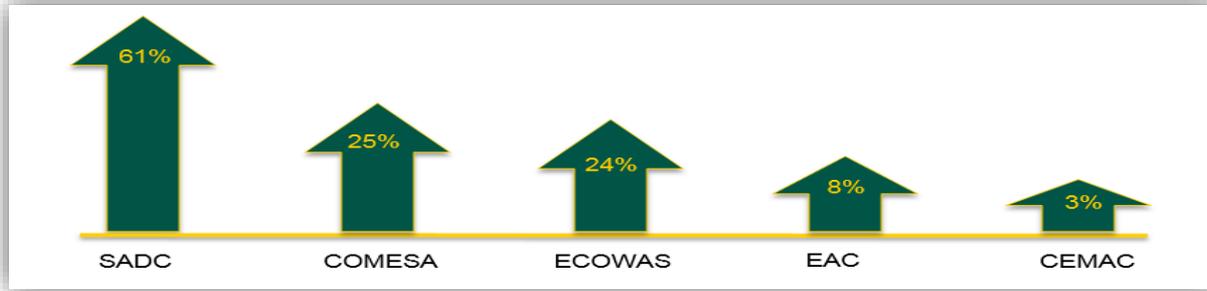


Manufacturing in sub-Saharan Africa has increased in real terms by 3.5% a year – faster than the global average.



## Key Lessons from SADC

SADC has the highest level of intra-regional trade in Africa and as at 2014, it was 61% as seen below:



Some of the anchors of the high intra-regional trade in SADC include;

- The SADC Industrialization Strategy which sets out a clear road map on developmental priorities for the region and how best countries could complement each other along regional value chains
- Southern African Regional Power Pool created to facilitate efficient, reliable and interconnected electricity system in the southern African region.
- Regional Infrastructure Development Programme that is facilitating development of trade carrying infrastructure
- SADC Integrated Regional Settlement System (SIRESS) that is easing settlements for intra-regional trade and also reducing transaction costs
- SADC Accreditation Services (SADCAS) that is assisting SADC exports to meet international standards

## Significance of Intra-Regional Trade

As was the case in Europe, regional markets are important for the development of Africa's manufacturing industry.

- The share of manufactured exports is higher in regional markets (intra-African trade) compared to Africa's exports to the rest of the world which are heavily skewed towards commodities.
- Between 2007 and 2011, manufactured products accounted for an average of 43 per cent of intra-African exports compared to 14 per cent to the rest of the world (UNCTAD, 2013).

## Afreximbank- Why we are a Partner of Choice



# Partnership Proposition

## Who we are

We are a pan-African multilateral trade finance institution created in 1993 and currently has 46 African Member Countries.

## Mandate

Our mandate is to finance and promote **Intra-and Extra-African Trade**.

We execute our mandate using three broad services:

- Credit (Trade & Project Financing)
- Risk Bearing (Guarantees & Credit Insurance)
- Trade Information & Advisory Services

# Afreximbank's Medium Term Strategy: Impact 2021 Africa Transformed



### Intra-African Trade

- **Create:** Facilitate capacity for expansion of production and processing capabilities
- **Connect:** Identify key institutions and agents to "connect the dots" in the intra-trade value chain.
- **Deliver:** Deliver efficient and cost effective distribution channels within the continent
- **Measure:** monitoring and measurement mechanisms

### Industrialization & Export Development

- **Catalyse:** promote "soft" and "hard" infrastructure developments
- **Produce:** finance and support activities that improve efficiency and quality in production of goods and services
- **Trade:** facilitate trading through financing and supporting to institutions that provide market access

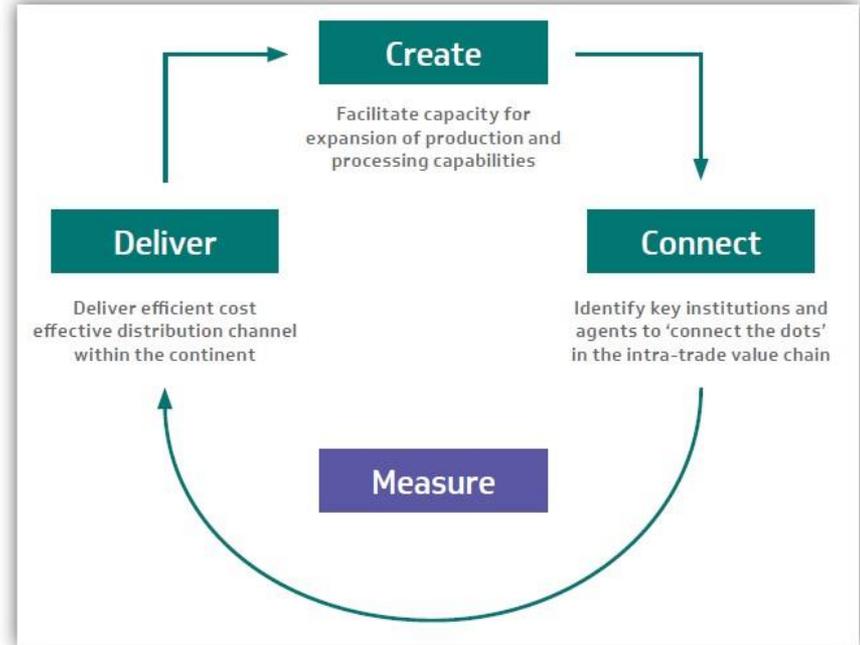
### Trade Finance Leadership

- Strategic focus on financial and non-financial areas of intervention in the trade and trade finance market
- Expand existing trade finance products as well as introducing new innovative products and initiatives
- Fill the voids in trade services created by reduced activities of international banks in Africa resulting from high compliance costs and economic uncertainty



# Afreximbank's Intra-African Trade Strategy

- The Bank defines intra-African trade as the trade in goods and services between or among African countries and the flow of goods and services between Africa and Africans in the Diaspora.
- The Intra-African Trade Strategy is conceived and conceptualized around three main pillars, namely; **CREATE**, **CONNECT** and **DELIVER** with an ancillary pillar known as **measure**.



## CCDm Explained

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- Under the **CREATE Pillar**, the Bank aims to build capacity for the expansion of production and processing capabilities, with focus on agricultural production, agro-processing, manufacturing and services. Through this Pillar, the Bank is facilitating capacity for expansion of tradable goods and services that can enter the trade.
- Under the **CONNECT Pillar**, the Bank aims to provide a facilitative environment for the flow of goods by creating robust in-country and intra-regional supply chains in Africa. Through this Pillar, the Bank will identify and support key institutions that connect producers and buyers along the intra-African value chain.

## CCDm Explained

- Under the **DELIVER Pillar**, the Bank aims to provide efficient and cost effective distribution channels for the delivery of goods and services to buyers within the continent and support the emergence of facilitative infrastructure, including transportation and logistics as well as introducing an intra-African trade payment platform; and
- Under the ancillary pillar, *measure*, the Bank will continuously assess impact of its interventions under the Intra-African Trade Strategy to ensure that the objective of increasing intra-African trade is being met.

## Afreximbank's Instruments for supporting Intra- African Trade and Industrialization

# Instruments of Intervention (continued)

## Global Facility

The Bank has developed a **Global Facility** for African Multinational Corporations who we branded Intra-African Trade Champions or **“INTRA-CHAMPS”** which aims at identifying the main players in intra-African trade and supporting their operations through financing, enabling market access and other forms of technical assistance.

## Franchise Financing Facility

The Bank will support the expansion into other African countries by well established businesses through franchising models. It will also support the acquisition of eligible franchises, that is, African franchises in trade and trade-related activities and services; as well as franchises that support the growth of SMEs;

## Country Risk and Investment Guarantee Facilities

Country Risk Guarantees will be offered to African businesses to cover the risks posed to their contracted rights created through exports of goods or services into a destination country within Africa.

Investment guarantees shall ring-fence rights of African investors against government or any other action that may impair the contracted rights that motivated the investment.

# Instruments of Intervention

## Equipment Financing, Corporate and Project Financing Programmes

Under these programmes, Afreximbank seeks to provide **Debt Financing** required to support the importation of equipment including **Forfaiting** solutions and **Project Finance** for the establishment of export manufacturing and agro-processing factories.

## Industrial Parks and Export processing Zones

This initiative is focusing on promoting and supporting agro-processing industries and light manufactures that are aimed at:

- (i). capturing the de-localized jobs from China and in Africa, Mauritius; and
- (ii). stimulating industrialization in African countries;

## Fleet Financing Facility

The Programme is designed to strengthen delivery channels necessary for supporting intra-African trade.

The Bank is supporting acquisition of fleet such as trucks, rolling stocks, marine vessels and aircraft which are necessary for growth of trade in goods and services.

# Instruments of Intervention (continued)

## Contract Farming and Export Agriculture

Through this Programme, the Bank is supporting emergence and expansion of smallholder farmer schemes including contract farming by leveraging on offtake agreements with established entities.

The Programme is thus predicated on demand driven agricultural initiatives which ensure sustainability.

## Export Trading Companies (ETCs)

The Bank is developing a model legal and regulatory framework for ETCs that will bring produce from farm gate to factory and processed goods from factories to market within the continent and providing a suite of trade finance products such as packing credits, domestic letters of credit and factoring (supply chain finance).

## Continental Trade Fairs

The Bank will also organize and hold biennial **Intra-African Trade Fairs starting from 2018** that will connect African buyers and sellers, provide trade and market information and also facilitate B2B exchanges.

## Instruments of Intervention (continued)

### Advisory Services

Afreximbank provides Advisory Services including **Trade Information**. It also undertakes Twinning Initiatives to foster alliances between producers and buyers as well as introduce established African businesses to African Governments to facilitate business relations and award of contracts.

### Diaspora Initiative

The Bank's Diaspora Initiative will allow for the application of African capital, knowledge and skills of Diaspora towards the promotion of intra-African trade. The initiative includes supporting franchise businesses; application of Diaspora savings/remittances; financing pre-certified produce and collection centres; and advocacy.

### Intra-African Trade Platform

The Bank will provide African businesses access to the Platform, which is being put in place to achieve the following key goals: (i) an online market place, (ii) facilitation of cross-border payments, and (iii) trade information and advisory services.

# Instruments of Intervention (continued)

## Fund for Africa's Export Development (FUNFED)

FUNFED is a key instrument through which the Bank will intervene in the form of **Equity** or **Quasi equity**. Afreximbank will support connectors such as ETCs and will also focus on export-oriented start-ups and early stage enterprises involved in intra-African trade.

## Supply Chain Finance Guarantee

The guarantee programme is provided to support supply chains, providing guarantees to suppliers against risks of not being paid by the buyer on agreed maturity date in relation to open account trade.

## Inter-State Transit Guarantee

This guarantee will aim to facilitate ease of flow of goods and services across borders and also reduce transit time and costs, especially for Africa's landlocked countries.

# Instruments of Intervention (continued)

Guarantee Programme in Support of African Government Commitments to Projects Promoters	Export Contract Availability Guarantee	Access to Trade Finance
<p>In Support of <b>African Government Commitments to Projects Promoters</b> to provide investors further assurance that African governments will meet their commitments to projects.</p>	<p>To enable African exporters (goods and services) secure long-term export contracts with bank financing. The <b>Guarantee</b> will cover the risk associated with situations where the <b>Contract</b> against which financing has been provided becomes unavailable before an agreed period.</p>	<p>Financing towards African Companies through:</p> <ul style="list-style-type: none"> <li>• <b>Letters of Credit (LC) confirmations and Correspondent Banking Services;</b></li> <li>• <b>Pre-export finance;</b></li> <li>• <b>Payment guarantees;</b></li> <li>• <b>Factoring solutions;</b></li> <li>• <b>Stocking/Inventory Financing Facility;</b></li> <li>• <b>Export credit insurance; and</b></li> <li>• <b>Packing Credit Facilities.</b></li> </ul>

## Conclusion and Way Forward

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## Our Partnership proposition

We recognize that over the years, South African companies have led the way in building successful and robust businesses on the continent but we still have a long way to go.

Our proposal therefore is two-fold:

- Develop partnerships with you including financial institutions to enhance intra-regional trade within the SADC region.
- Work with you and expand your businesses into other parts of the African continent and therefore boost intra-African trade.

Our team is therefore looking forward to engaging with participants in discussions on how best the Bank can provide such support.

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“Sometimes, it falls upon a generation to be great. You can be that great generation. Let your greatness blossom.” – **Nelson Mandela**



Profound appreciations for the warm welcome to the “*Rainbow Nation*”



**Thank You for Your  
Attention**