INTO AFRICA

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TRADE FINANCE
AFRICA'S GROWTH ENABLER

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Welcome to the June edition of INTO AFRICA, the publication with fresh insight into Africa's Emerging capital markets. This edition focuses on the trade finance sector and is titled: ***Trade Finance: Africa's Growth Enabler .***

African economies face challenges in the area of trade, both in terms of trade between African countries and trade with non-African countries. The problems are so significant that Africa's share of global trade is a miserable 2.4 percent despite having 15 percent of the world's population and a combined GDP of three trillion US Dollars. One of the major issues facing Africa is the cloak of protectionism that many Western trading partners (such as the EU and the USA) drape over their countries companies, thereby unfairly distorting competition in trade. Another major hindrance to growth of trade in Africa is poor access to affordable trade finance.

The time has come for African governments, policymakers and private sector leaders to rise to the trade challenge and drastically increase Africa's share of global trade. This will undoubtedly lead to the creation of greater prosperity for many Africans. Trade volumes need to increase significantly between Africa and the developed economies and emerging economic giants. However, the area that offers by far the greatest scope for growth and development is intra-African trade. This is a huge untapped potential that can be maximised if Africa develops appropriate sea, rail and road transportation between African countries as well as establish an enabling cooperative legislative framework (including free movement of capital, goods and people) amongst African nations.

That said, the role that trade financing techniques and solutions must play if this seismic shift in trade is to occur cannot be overemphasised. Simply put, whilst physical and legislative infrastructure may provide the fuse needed for the dramatic lift-off of Africa's economy, it is trade finance that will provide the light that sparks the fuse.

To open the discourse, **GEOFFREY WYNNE** (Partner & Head of Trade and Export Finance, Sullivan & Worcester UK LLP) provides an overview of structured trade finance and highlights some key legal and regulations considerations in *"Structured Trade Finance: Legal, Regulatory and Institutional Issues"*. This is followed by a piece by **JOHN LENTAIGNE** (Chief Underwriting Officer, African Trade Insurance Agency) who identifies risks in trade finance and how to manage these risks in *"De-risking Trade Finance: The Key To Boosting Intra-African Trade"*.

CHRIS STURGESS (Director: Commodities & Key Client Management, Johannesburg Stock Exchange, South Africa) enumerates the importance of commodity exchange and significance of inventory financing in agribusiness sector as well as the role of government in *"The Role of Commodity Exchanges and Inventory Financing in Agribusiness Sector"*.

In *"Regional Economic Integration in Africa Today"*, **FRANCIS MANGENI** (Director, Trade and Customs, Common Market for Eastern and Southern Africa) stipulates that regional economic integration in Africa is not a passing fad, but the essential DNA for social economic transformation of the continent. **IBRAHIM MALLECK** (Head of Trade Finance, SBM Group Mauritius) and **SHAILEN SREEKEESSOON** (Head of Strategy and Research, SBM Group Mauritius) explore African current and emerging macroeconomic trends and how it impacts trade finance in Africa in *"The Current Macroeconomic Trends in Africa.*

GEORGE R.R. WILSON (Head of Financial Institutions Trade, Barclays Africa Group Limited) laments that the current financial regulations are throttling social and economic development in Africa by stifling trade finance in *"Emerging Banking Regulations Impact on African Trade Finance"*. While **DEBASISH MALLICK** (Deputy Managing Director, Export-Import Bank of India) provides a write-up titled *"EXIM Bank's Financing Initiatives and Activities in Africa"*.

TSIDISO DISENYANA (Senior Economist, The Export Credit Insurance Corporation of South Africa) examines trade finance in South Africa in *"South Africa's Trade and Export Finance amid Political Turbulence"*. **EDWIN LAURENT** (Director of the Ramphal Institute, London, UK) takes a look at the UK's withdrawal from the European Union (EU) and opines that Brexit will have a considerable impact on the trade, aid and investment across African countries in *"Brexit Economic Fallout for Africa"*.

Finally, **ANDREW GRANT** (Partner and Global Head of Specialty Lines Insurance, Political Risk & Trade Credit, Clyde & Co LLP, London) explains the new UK Insurance Act and impacts on trade while **TIAGO BOSSA DIONISIO** (Chief Economist, Eaglestone Advisory, S.A) reviews Mozambique economy in "Mozambique: The New Economic Reality". While **MARK BYRON** (Co-Founder, Barton-Heyman, Limited) and **ROBERT JOSEPH AHOLA** (CEO of Galahad Films) continue their exploration in *"The Four Africas: South Africa's New Dichotomy"*.

Tunde Akodu
Editor

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STRUCTURED TRADE FINANCE: LEGAL, REGULATORY AND INSTITUTIONAL ISSUES

By **Geoffrey Wynne,** Partner & Head of Trade and Export Finance, Sullivan & Worcester UK LLP

Introduction

Providing finance using structured trade tools is a very good way of making finance available. Indeed, a well structured transaction which has been carefully analysed should get repaid. Trade finance gets paid.

Structured trade for this purpose is providing finance to a producer of commodities. For example, this could be a farmer or a mining entity. The finance is provided on the basis that the funds are used for production, processing (where necessary), transportation, storage and the sale of the finished goods. During all these stages the lender monitors what is happening and, in many cases, takes security over the raw materials and processed goods.

Most importantly the lender takes security over the sale proceeds of the goods and the cash generated from the sale. In other words: follow the cash and follow the goods. By following the goods, the cash from the loan can be turned into the cash that repays the loan.

The most common form of structure for the above is called pre-export finance or PXF. Sometimes the loan is routed through a buyer who uses the loan to prepay its purchase obligations to the producer. This gives funds to the producer and secures supply to the buyer. The lender is often asked to take the risk of the producer not performing. This is limited or 'non-recourse' lending to the buyer. The lender takes similar security to the PXF structure, but here also takes security over the prepayment in case the producer does not perform. In that case, the lender can claim repayment of the prepayment. This is called prepayment finance.

Risks in Structured Trade transactions

The main risks used to be 'performance', 'country' and 'payment' risks.

Performance risk relates to analysing and dealing with the ability of the producer to perform. Where the transaction involves processing, there is also processor risk. This also includes how to deal with the elements of processing including whether or not the raw materials and processed goods are different, and who owns them during processing. For example, does the processor get a fee (a tolling fee) or does it buy the raw material and resell the processed goods? The lender may want to reconstitute its security over the processed goods after processing.

Country risk is ensuring that the country of production will allow the goods to be exported. That means checking on licensing and other export requirements. A good way to test the resolve of a government is to see if the export of the goods is key to the country's economy.

Finally, there is the payment risk. This means analysing whether or not the buyer has the ability to pay for the goods. If there is uncertainty then credit support may be an option using letters of credit from an acceptable bank as the means of payment. Coupled with the payment risk is the need to check that the buyer is obliged to pay for the goods, so ensuring it is buying what the producer produces, is important. Having a right to take security over the purchase contract, normally by an assignment, is therefore important in this exercise.

In recent times, an extra risk exists that trumps all of the above. It can be called 'reputation risk' and it is a culmination of a number of issues that a lender may have which may stop it wanting to lend. These are considered below and encompass issues including Know Your Customer (KYC), the existence of sanctions preventing the dealing with certain individuals, countries or the goods themselves. Also issues such as money laundering and proceeds of crime risks all may prevent an otherwise well structured loan.

As well as the risks above, structures can be inhibited or even prevented by legal and regulatory issues which affect the transaction or its structuring.

Legal and Regulatory issues

Structuring involves considering the legal impact of various countries on the structure. The first place to consider is where the producer is situated. Can it carry out the commercial requirements of the transaction, namely producing exporting and selling? Here there may be legal and regulatory issues to deal with.

Can the producer borrow the loan and make payments of interest and repay the loan? There may well be Central Bank issues to deal with. Can it hold money offshore and repay the loan without the need to repatriate the sale proceeds?

Finally, can the required security be provided and, if so, at what cost? Many emerging markets in Africa have either stamp duty payable on security documents or high registration fees. These costs are a deterrent to successful financings. Lenders will not bear them so they are a cost to the borrower.

Finding out all the above involves spending time with the relevant parties and often with local lawyers. This whole exercise is the due diligence required to make the transaction work. This is the legal due diligence.

Alongside this is the financial due diligence. The lender wants to be sure that if it provides finance then that finance, plus other available funds, are sufficient to put the goods in a deliverable form at the place where the buyer will buy them. In cases where the buyer wants time to pay, the transaction may warrant an additional financing which is the financing of the receivable itself. Thus, a financer pays early to the producer and takes an assignment of the subsequent payment. The producer gets its money earlier and can pay off the PXF for example. This also requires structure and the right legal environment

The regulation of banks

Since the financial crisis of 2007/8 there has been increasing regulation of banks and restrictions on how much can be lent. Ironically, the capital requirements for bank lending do not benefit the structured trade transaction sufficiently well to justify more of it. This should be changed, with more concessions needed than those which have already been given.

In some ways of greater concern to the banks is the fact that Regulators expect the banks to police matters such as sanctions and anti money laundering and financial crime (together 'AML'). Banks have suffered very large fines for breaching sanctions or for involvement in breaches of AML requirements. Within these restrictions are matters including targeted sanctions on individuals and companies owned by those individuals. Where goods are being sold to - and to whom - can be key if there is a restriction on supporting individuals in that sanctioned country. Also, for what purpose might those goods be used? There are many restrictions on the sale of armaments. However, these extend to so called 'dual use' goods, meaning goods which can be used for illicit purposes such as explosives, as well as having a benign use. Sugar is one such example.

What is the effect of all this?

In simple terms it can make financers nervous of being involved in many trade transactions. This nervousness is well founded if there is a risk of breaching laws and regulations, or of facilitating breaches of sanctions or AML laws and regulations.

The problem is compounded by concerns to avoid being involved in transactions where there are breaches of bribery and corruption laws.

The upshot of all this is reluctance to lend to anyone except a well known customer and one which has a track record of performing, but particularly of performing as a borrower.

There are many good transactions which are missed by financiers because of these fears. This leaves the market open to less regulated entities including non banks and funds. They cannot provide enough financing so what can be done?

Pointers for the future

All the areas above can be looked at and improvements made to facilitate structured trade.

Emerging market governments should take steps to make their laws and regulations lender-friendly. That includes good security laws and means of enforcement and the removal of stamp duties and fees which prevent the easy perfection of security. Finally, greater transparency is needed so it is possible to check easily that an obligor can conduct its business and make goods for export against which it can borrow.

The regulators should take a more sympathetic view on their supervised lenders. Laws and regulations must be enforced. However, lenders that have in place good systems to detect problems should not be fined if a clever trickster breaches their systems. Indeed, lenders should be encouraged to support trade. That would also mean providing better capital treatment for structured transactions. This would encourage more lending. Indeed, it could make transactions even more profitable as these transactions attract good margins.

That leaves the lenders themselves. There has been much criticism of so called de-risking by banks. In reality, this means closing down relationships for concern at the cost of maintaining them. Even worse is the reluctance to onboard new relationships again on a cost basis. This has particularly hit emerging markets such as those in Africa. The solution here is more difficult but not impossible. Allowing lenders to use automated checking systems helps. Encouraging the producer to file the right papers (supported by its government) would again clear many hurdles.

Summary

Using structures makes financing more secure in many ways. Due diligence is a key to moving forward to avoid legal and regulatory pitfalls.

The future would be better if all parties noted what could be done.

Contributor's Profile

Geoffrey Wynne is head of Sullivan & Worcester's London office and head of the firm's Trade & Export Finance Group. He has extensive experience in banking and finance, specifically trade and structured trade and commodity finance, corporate and international finance, asset and project finance, syndicated lending, equipment leasing and financing restructuring.

Geoff has extensively advised many of the major trade finance banks, multilateral financers and international companies on trade and commodity transactions in virtually every emerging market including Africa, CIS, Asia-Pacific, India and Latin America.

DE-RISKING TRADE FINANCE: THE KEY TO BOOSTING INTRA-AFRICAN TRADE

By **John Lentaigne**, Chief Underwriting Officer, African Trade Insurance Agency

Trade finance is well-acknowledged as one of the most critical lubricants enabling broad based economic and developmental growth. Domestic corporates able to access competitive trade finance can use this to expand into new markets enabling them to increase productivity and their contribution to domestic growth. At the same time, increased volumes of imports from foreign exporters should benefit consumers by providing a broader range of lower priced goods and services while allowing domestic firms to increase productivity through access to machinery and goods.

On a macro-level, trade finance is equally important for continuing the development trajectory of sub-Saharan Africa. Akinwumi Adesina, President of the African Development Bank (AfDB), the continent's premiere development finance institution, has cited the importance of trade finance in helping the bank achieve its five strategic priorities to "power and light up Africa, feed Africa, industrialize Africa, integrate Africa and improve the quality of life of the people of Africa."[1]

To contextualize this, the AfDB estimates that if Africa were to increase its share of world trade from 2 to 3 percent, this 1 percent difference would translate into USD70 billion of additional income or three times the total amount of annual development assistance the continent receives from the rest of the world. Additionally, in order for the continent to make developmental and economic growth gains it must improve the levels of intra-African trade, as currently 65 percent of African exports go to Asia and Europe while just 19 percent of African goods are actually destined for African markets.

While both public and private sector participants can see the benefits of increasing trade finance uptake in Africa, if anything the direction of travel in recent years has been in the wrong direction. Market participants know that there is substantial demand and many commercial banks in Africa provide trade finance facilities (with the majority being off-balance sheet activity in the form of letters of credit). But on the other hand, since 2007 there has been a retreat from the trade finance space by a number of the international banks that were significant market participants, driven in particular by the tougher regulatory environment that has made such business seem less appealing. This reduced trade finance appetite from banks has been felt particularly acutely in Africa and non-bank institutions have not entirely filled the gap.

Broadly, there are three categories of trade finance risk: payment risk, resulting from credit risks such as payment defaults, bankruptcy or insolvency; country risk, such as exchange rate, political or sovereign risks associated with exposure to foreign governments; and corporate risk, related to the credit quality of the underlying company. Additionally, in recent years many banks would add a fourth category: regulatory risks (such as KYC risks). In Africa, these risks are more pronounced than in other regions of the world because the perception of risk in Africa, whether real or not, is an unavoidable factor. In addition, the instability of governments, lack of transparent regulatory frameworks and lack of sound information on the credit history of companies are challenges that are not easily resolved.

Trade risks within an African context are also somewhat unusual because the historic context is often important to understand. For instance, current trading patterns are often linked to trading routes established in the colonial era, which have often been tough to dismantle. Tied to this is a structure of cultural mores and trust that may make it more feasible for a country to import goods from a given European country versus the option of importing at cheaper cost from a neighbouring country. The addition of visa restrictions, lack of efficient transport options, occasionally byzantine bureaucracy and other factors, has made it difficult for countries, particularly countries from coast to coast, to do business with each other. This exposes companies to greater risk and increased cost because of the distance and currency exchange imbalance that is inherent for African companies doing business outside the continent. On the other hand, there have been some very positive initiatives in recent years to reduce and remove these barriers and East Africa in particular has been relatively successful at this, which is part of the backdrop behind the new 'East Africa Rising' narrative.

"Trade finance is well-acknowledged as one of the most critical lubricants enabling broad based economic and developmental growth. Domestic corporates able to access competitive trade finance can use this to expand into new markets enabling them to increase productivity and their contribution to domestic growth."

1. African Development Bank "Fostering Development Through Trade Finance"
https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Fostering_Development_Through_Trade_Finance_Brochure_-_Full_Version.pdf

For financiers (banks and increasingly non-bank financiers) access to risk mitigation instruments – in particular comprehensive non-payment insurance - is a critical tool to the mitigation of many of the aforementioned risks. Notwithstanding once again, there are hurdles to be overcome. Frequently there is insufficient understanding within governments as to how critical such investment insurance is to lubricating trade flows. The investment insurance industry is relatively tight-knight and underwriters have long memories, so bad experience in a country can do substantial damage to confidence. Thus in certain countries, non-payment insurance capacity is extremely constrained, whether from past bad experience, or because the insurers are carrying heavy exposure and are reluctant to increase this as an economy faces a downturn. The costs of these risk mitigating instruments, when they are available, may be difficult for African corporates to carry given already tight margins. The perceived high risk nature of African markets is one reason for these elevated costs but in the past decade institutions such as the African Trade Insurance Agency (ATI) have been innovating to create lower cost solutions.

ATI is a multilateral investment insurer that was formed by COMESA member countries with the support of the World Bank in 2001. Since then, ATI has expanded to include countries outside the COMESA region in West Africa. The company provides a range of products that mitigate risks impeding the flow of inward investments and trade to Africa, and it now provides investment insurance cover in its member countries on investments valued at approximately 0.5% to 1.4% of a member country's GDP every year. Indeed at the time of writing, five of the six fastest growing African economies are member states of ATI. ATI is also able to leverage its balance sheet by working with a range of international insurers, frequently increasing the capacity for trade finance insurance within African countries.

From the perspective of African governments, putting in place risk mitigation measures is of substantial importance. With most African countries rated below investment grade, and unfortunately more facing downgrades than upgrades to their credit ratings in recent years, governments have difficulty accessing financing at reasonable rates while the capital charges for lenders on such loans can be prohibitive. Here, too, ATI provides a solution. ATI member countries are able to substitute ATI's investment grade rating with their own, which automatically gives comfort to lenders and helps lower the cost of financing which can translate to substantial interest savings.

The current volatility and rapidly changing global environment could pose a silver lining. African sovereigns – in particular those who have been hurt by the end of the commodity super-cycle - are having to diversify their economies and increasingly understand the benefits of removing barriers to trade and investment. On the other hand, with more restrictive trade barriers being considered and possibly implemented in certain Western countries, there could be opportunities to increase intra-African trade and trade with other developing regions. Asia, for example, is close to rivalling Europe as the number one destination for African exports, while Brexit may yet have a silver lining for a number of African states. This shift could feasibly lead to a realignment of global trade in which developing regions, such as Africa could increase their share of global trade and, at the same time, increase their competitiveness. Access to competitive risk mitigation instruments will remain a critical part of the puzzle for those countries wishing to stay a step ahead.

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Contributor's Profile

John Lentaigne was appointed Chief Underwriting Officer in 2016. He brings over 13 years of experience in the credit and political risk sphere, as well as prior entrepreneurial experience.

Previously, Mr. Lentaigne was the Co-Head of Political & Credit Risks at Brit, one of the largest syndicates at Lloyds. John helped to establish Brit's presence in this area and built out Brit's team to rapidly become one of the most competitively positioned London market participants.

Under John's leadership Brit was the first syndicate at Lloyds to be approved to underwrite non-trade credit insurance business.

Prior to working at Brit, John had established a strong underwriting reputation at both AXIS and XL Catlin in London and Bermuda.

John also has a diverse range of entrepreneurial experience, for example having worked as a film producer, live events organiser and having established a record label.

John holds a Master of Modern History degree from Oxford University.

THE ROLE OF COMMODITY EXCHANGES AND INVENTORY FINANCING IN AGRIBUSINESS SECTOR

By **Chris Sturgess,** Director: Commodities & Key Client Management, JSE

Most countries on the African continent over the recent years have spent time and energy exploring the possibility of establishing a commodities exchange. This cannot be faulted as a well-established exchange can only complement the sector by improving price discovery and introducing efficiencies in the market place that should ultimately reduce costs to the key stakeholders in the sector.

Let's spend some time understanding the role of a commodity exchange and then we can also discuss some of the challenges around getting these exchanges operational on our continent.

When establishing a commodities exchange in a country, it is imperative the role of government is very clear. If government plans to use the exchange as a mechanism to collect revenue from transactions or to control prices, the commodity exchange is doomed and will fail. In my view it would be more effective for the Government to mandate trade through a single marketing channel than to disguise their intentions through a commodities exchange.

However, if the objective of the Government is to promote free trade and support a platform that will allow for price discovery and secure settlement, then here is a recipe for success in the commodities exchange space. The Government can then focus on growing the agric sector by rather offering support to extension services, providing underlying guarantees to access finance or support infrastructure development if it has the resources available, with the ultimate objective of increasing production of the commodities in focus.

The commodities exchange then has a more structured objective to bring buyer and seller together to transact on a safe and secure platform. The exchange therefore does not have the right to exist, but has to prove to the market participants of the value it brings to the total ecosystem. Once you have an exchange that is able to cost effectively facilitate buyer and seller trading and is able to ensure that the seller receives his/her money for the commodity and buyer is assured of the product, this then in my view is an exchange living up to its purpose.

It is also important to spend some time to understand that there are spot exchanges and then derivative exchanges, all focused on commodities but with a slight twist. Although the text books would always indicate a country should first develop its spot market before introducing derivative contracts, we have seen countries where there is a well-established production base of commodities move directly into a derivatives market once it was deregulated.

The country in question here was South Africa, where after 1995 when its agricultural markets were deregulated, there was support to establish a derivatives market, starting initially with futures contracts and later rolling out options as well. It worked well in South Africa as there was already a large production of grains like maize and wheat as well as secure storage infrastructure and so building a liquid derivatives market on top of this was relatively easy. It should also be noted that a solid banking sector already existed and so these banks not only formed the basis to guarantee all transactions as the clearing house, the banks also played a critical role in the settlement process not only at the expiration of the contract but also for the daily settlements which are part and parcel for a derivative markets.

There is the perception that if you have a spot commodity exchanges, it would be easy for banks to offer inventory finance. This is possible but banks would continue to heavily discount the transaction since to cover their risk in the event of a default they will still have to find a willing counterpart to take the stock they financed in the first place. This is where a commodity derivatives exchange really adds value. Banks though the use of either futures or options, can now offer clients 100% financing based on the level at which the bank secures a hedge on the derivatives market.

Let's explore this transaction a little further. A farmer produces 50 tons of commodity and takes it to a reputable warehouse operator. In many African countries there is legislation around receipts and warehousing to further strengthen the validity of warehouse receipts. The same farmer then requests a warehouse receipt to be issued and then has the choice he can take this to a financial institution or even a asset manager who is willing to accept this and will provide financing in return for interest.

The financing party will then go to the commodity derivatives exchange and sell a futures contract for a date either 3 or 6 months into the future depending on the clients term of finance. By selling a futures contract, they have managed to lock in a price for a future date and so also able to extend financing to the same client at the full hedge value. The big question is why and how can the financier do this, well if they are comfortable with the commodity exchanges agreement with the storage operators that they will honour the warehouse receipts they issued, and they comfortable with the clearing house of the exchange to guarantee the flow of funds, then in essence there is very little risk remaining for the financier since in the event their client defaults and does not settle the interest claim, they will be able to deliver their stock on the short futures position and receive the full cash value the next business day. This applied to those markets that have a T+1 settlement cycle which most derivatives markets do.

By having a liquid and robust derivatives market the financier therefore does not have to be concerned about finding counterparties for the physical stock should the client default in the spot market. In South Africa, where there is a liquid and active commodity derivatives market, access to finance particularly for grain products that have are deliverable futures contract, has stiff competition not only among local banks but also from a number of foreign institutions resulting in financing rates being extremely competitive. This works out really great not only for farmers, but for traders and millers who have access to cash instead of holding all their funds tied up in physical stock. They are then able in the same way to approach financiers to fund the grain in the warehouse.

It may sound really simple to set up a commodities exchange, however considering how many have really been successful on the continent it is clear there are a number of supporting factors. In my opinion, here are some key factors: consistent government policy supporting a free market and creating an enabling environment, sufficient underlying commodity to sustain the operations of an exchange business, secure and robust storage operators prepared to guarantee product, a banking sector willing to act as clearing members and financiers, sufficient balance between buyers and sellers with no dominance or limited number of either sellers or buyers and then finally for the derivatives exchange to add value there must be price volatility in the traded commodity.

“The objective of the Government is to promote free trade and support a platform that will allow for price discovery and secure settlement, then here is a recipe for success in the commodities exchange space. The Government can then focus on growing the agric sector by rather offering support to extension services, providing underlying guarantees to access finance or support infrastructure development.”

All this said, there remains a huge potential for the continent to see more successful commodity exchanges provided Governments take the bold step and create that enabling environment.

The JSE in South Africa has been working with ZAMACE in Zambia to extend its derivative product platform to enable Zambians to access a white maize, wheat and soya futures contract for price risk management purposes. We expect to role this out in the next month and have already listed July 2017 expiries and just waiting on clients to open up USD bank accounts for settlement. This will be another good test to see if two African countries, both committed to producing grain, can complement each other’s environments to create another liquid and secure derivatives market.

We also see great progress in Malawi through the efforts of ACE to evolve this commodities business and the same for Kenya where the NSE extend their traditional cash equities exchange into derivatives. There is also lots of energy in Nigeria considering a commodities exchange offering whilst ECX in Ethiopia continues.

It remains an exciting time to be an African, there are lots of opportunities in the commodities space and provided Governments and Private sector can find a happy balance to progress things, we should be able to look back in 5 to 10 years and see a very different market structure.

“The commodities exchange has a more structured objective to bring buyer and seller together to transact on a safe and secure platform. The exchange therefore does not have the right to exist, but has to prove to the market participants of the value it brings to the total ecosystem.”

Contributor’s Profile

Chris Sturgess is the Director of Commodities and Key Client Management at the Johannesburg Stock Exchange (JSE).

He started his career with the South African Futures Exchange shortly after the agricultural derivatives market was established. He has been in the exchange business since 1997.

Sturgess is currently also a board member for the Association of Futures Markets (AFM). He holds a B Agric Mgt (Economics) degree from the University of Natal, South Africa.

REGIONAL ECONOMIC INTEGRATION IN AFRICA TODAY – AFRICA WILL NEVER BE THE SAME AGAIN

By **Francis Mangeni,** Director, Trade and Customs, Common Market for Eastern and Southern Africa

Regional economic integration in Africa is not a passing fad, but the essential DNA for social economic transformation of the continent. Trade has provided a motherboard for engineering key integration programmes, to achieve freer movement of products, assets and people and to create sizeable markets that support critical levels of investment into industrialisation and infrastructure. Trade has thus been conceived as a development tool that works in an integral and simultaneous manner with other solid programmes particularly on industrialisation, infrastructure, agriculture, innovation and governance in order to create jobs and wealth towards inclusive human development. This developmental integration has been seen as a responsibility not just for the private sector, or government, or the academia, but a joint team effort by all these stakeholders together with people and institutions of good will the world over.

The African Economic Community is to be established progressively in six stages over a 34-year period from 1994 when the Abuja treaty entered force to 2028, using the regional economic communities as building blocs. The six stages are the establishment of regional economic communities (RECs) and strengthening them, formation of REC free trade areas and customs unions, the merger of the REC customs unions for form the continental customs union, the transformation of the continental customs union into the continental common market, then economic union. The RECs have on the whole made good progress along this trajectory, according to which the RECs are to have formed free trade areas and customs unions by 2017, in readiness for merger into a continental customs union by 2019, which is to be transformed into a continental common market by 2023.

The East African Community (EAC) has made the most progress and is already a common market since 2010, having established its customs union on schedule in 2005 and followed up with adoption of a single customs territory program to progressively allow free circulation of goods. The Economic Community of West African States (ECOWAS) is a functional customs union since 1 January 2015 after implementing a trade liberalization program, and has made significant progress on movement of persons through adoption of a common passport, which was improved into a biometric system. The Common Market for Eastern and Southern Africa (COMESA) is a functional free trade area since 2000, and launched its customs union in 2009 on a transitional basis. COMESA has implemented a visa relaxation program to facilitate movement of persons and completed negotiations to liberalise trade in the transport, communication, financial and tourism services. The Southern African Development Community (SADC) has established a free trade area since 2008 and shelved its customs union program. These RECs have made progress in other areas of integration as well, including industrial and infrastructure cooperation. The other four recognized RECs have been established, but have not achieved functional free trade areas or customs unions.

This look at the performance of the RECs deserves to be seen in the context of the Tripartite and Continental free trade areas, which are designed to expedite progress towards continental integration. The Tripartite Free Trade Area covers COMESA, EAC and SADC and was launched by an Agreement signed on 10 June 2015 after three years and a half of negotiations. Made up of 26 countries, it covers about half of the African continent. With a combined GDP of $1.3 trillion, the Tripartite would be the 11th largest economy in the world if it were a country. The Tripartite greatly inspired efforts to establish a continent-wide free trade area, and five days later, on 15 June 2015, African leaders launched negotiations for the Continental Free Trade Area, with a combined GDP of more than $2 trillion and a population of over one billion, covering 30 million square kilometers, containing about 60% of the world's arable land. The message here can hardly be missed – Africa is determined to accomplish continental economic integration. This scale of economic integration has never before been undertaken in the world, bearing in mind the geographical and demographic size of Africa.

The Tripartite and Continental FTAs provide the solution to multiple membership. Multiple and overlapping RECs have been considered a problem for a number of reasons. It costs money in terms of subscriptions or mandatory contributions to the budgets of these organisations. It takes up a lot of time attending the intergovernmental processes. Implementation of obligations can become quite a nightmare especially where the obligations arising from the various organisations conflict. Compliance with the Rules on a day to day basis, by administrations such as the customs authorities, can be a strain if the rules are contradictory. The users of the regimes, as well, particularly producers and the logistics industry, incur the costs of understanding and utilising complex rules.

The Africa-wide systemic problem has been that multiple regional economic communities run counter to the design and mapping of the continental integration process. The five regions of Africa - East, West, South, Central and North - are each supposed to have one regional economic community, which in turn are the five building blocs for the African Economic Community. Obviously then 14 regional economic communities are one too many in this context.

The African Union therefore, following a report by the African Union Commission and the 2006 Report of the Economic Commission for Africa, came up with a rationalization program to put some order into the integration process. The program was based on two principles - one country one REC, and one region one REC. In the end, the African Union Ministers responsible for economic integration at a meeting on 30-31 March 2006 agreed to put a moratorium on establishment of new RECs in Africa and to recognise eight regional economic communities as the building blocs for continental integration, namely, EAC, COMESA, IGAD and SADC in Eastern and Southern Africa and a bit of North Africa; ECCAS in central Africa; ECOWAS in West Africa; CENSAD spanning North, Central, and Eastern Africa; and the Arab Maghreb Union in North Africa.

This upshot of the continental rationalization program did not achieve the objective of one country one REC or one region one REC. The opposition was quite predictable. Countries join organisations as sovereign decisions taken on the basis on national interests.

The development effort requires not only infrastructure, or industrialization, or markets, or free movement of people and goods, but all these simultaneously and an entire gamut of complementary and mutually reinforcing programs and interventions.

The ambitious African Union Minimum Integration Program of 2009 to 2012, set out 12 priority sectors for continental integration, namely, trade, free movement, infrastructure and energy, agriculture, industry, investment, science and technology, social affairs, political affairs, statistics and capacity building. The purpose of the minimum integration program was to provide a mechanism for convergence among the RECs by setting out areas for harmonized integration while recognizing the emphases in the various RECs. The African Union continued to introspect on these priorities and by 2013 had developed a new 50-year long term vision and plan called Agenda 2063, subtitled “The Africa We Want”. This progress over the years shows the evolution from simple to more complex systems to match and address the complex and multidisciplinary nature of developmental challenges confronting the regional economic communities and Africa at large. It shows the fruition of a process of experimentation and learning.

Agenda 2063 operates on the basis of flagship programs and 10-year implementation plans, with clear milestones and targets. The 12 flagship programs included in the first implementation plan of 2014 to 2023 are the following: an integrated high speed train joining all Africa’s capital cities, a virtual and e-university, a commodities strategy, an annual Africa forum for government private sector and academia, a continental free trade area by 2017, an African passport and free movement of people, the grand Inga dam, a pan-African e-network, an African outer-space strategy, a single African air transport market, African financial institutions, and silence the guns by 2022.

Conclusion

This identification of priorities and strategic interventions at the regional and continental levels reflects the movement from chaos to order, and shows how the space for political, institutional, economic and legal experimentation and learning enabled concrete progress to be made by the regional economic communities and the African Union at large, driven by individuals that catalyzed long-term visions and provided leadership to mobilise whole populations around a story, a message, and a cause or a struggle. Africa continues to need and took forward to such leaders.

Contributor’s Profile

Francis Mangeni has been Director of Trade and Customs of the Common Market for Eastern and Southern Africa (www.comesa.int) since 14 February 2009. His work involves assisting policy formulation for and following up on implementation of regional economic integration programs. He has taught on postgraduate and under graduate courses in Uganda at the Law Development Centre, Makerere University, and Uganda Martyrs University Nkozi; and at the London School of Economics and Political Science. He has worked and consulted extensively on the multilateral trade system and African economic integration. His work has assisted Africa’s trade negotiators at the World Trade Organization and in a number of African regional integration arrangements. His work has assisted also trade and investment policy formulation and implementation at the national level. He was Advisor to the Minister of Commerce and Industry of the Government of Malawi; Senior Economist at the Permanent Delegation of the African Union to the United Nations and other International Organization based in Geneva; and Regional Trade Policy Advisor at the Commission of the African Union. He has been consultant for various international and regional organizations, such as the United Nations Economic Commission for Africa, the United Nations Conference on Trade and Development, the International Labor Organization, the Commonwealth Secretariat, the South Centre, the East African Community, and the Southern African Development Community. Dr Mangeni holds a doctorate from the London School of Economics and Political Science in International Economic Law.

Based on Francis Mangeni and Calestous Juma, Emergent Africa – The Evolution of Regional Economic Integration in Africa; London, Cambridge University press, 2018 (forthcoming)

EMERGING BANKING REGULATIONS IMPACT ON AFRICAN TRADE FINANCE

By **George R.R. Wilson,** Head of Financial Institutions Trade, Barclays Africa Group Limited

Current financial regulations are throttling social and economic development in Africa by stifling trade finance.

This is despite global politicians proclaiming their support of the development of African economies and African governmental policies and declared intentions to promote development and the growth of their economies.

Globally, there is an established commercial chain, developed over hundreds of years, that enables Emerging Markets (EM) companies to participate in international trade.

Banks play a crucial role in enabling this commerce.

Interference from exogenous regulation intended for Investment Banking endangers the free market operation of the Transactional Banking (TB) financing component of EM trade and economic growth.

Promoting trade finance ***is*** the mechanism for social and economic development on the African Continent and swathes of well intentioned banking regulations are disqualifying African Small Medium Enterprises (SMEs) from the trade and working capital facilities needed for the development of their economies.

Policy changes or innovation are the only hope for African trade and economic development.

Trade Not Aid: Africa's Economic Development

The life-blood of growth in developing economies ***is*** the trading activities of SMEs which account for 95% of all firms, 60% of all jobs and are a key component in today's supply chains; providing the goods for consumption, employment, currency and output growth that is economic and social development.

According to the World Trade Organisation (WTO), 'Finance is the lubricant of commerce'. This is particularly apposite for African corporates and SMEs who can only function with access to hard currency (usually US dollars) to fund their cash conversion cycle.

Even intra-African trade is largely denominated in dollars and despite the $50 trillion washing around the planet from years of quantitative easing (QE), significant liquidity crises and African country and counterparty credit qualities make these dollars very expensive and scarce.

African central bank interventions and currency controls have exacerbated the ensuing USD liquidity problems.

African Banks

Only the local African banks can navigate their jurisdictional legal processes, financial regulations and market practices, and have the infrastructure, branches and resources to originate African corporate and SME trade assets. They are the only institutions capable of managing the risk and relationships of the local SMEs and corporates.

Their treasuries' source of dollars tends to come from long tenor syndicated loans or eurobonds – in most African countries there is no USD repo market and regulation often forbids short term currency swaps so, funding their SMEs' short term, US dollar denominated trade liabilities is expensive, tenor and currency mismatched, causing capital, leverage and liquidity headaches.

African banks depend on international banks for their letters of credit (LC) confirmations, trade guarantees and funding their dollar trade loans.

International Banks

This is where regulation starts to exhibit unpleasant, unintended baleful effects on trade. It comes in two broad forms:

1. Anti-Money Laundering (AML) and Know Your Client (KYC) regulations; and
2. Regulatory capital, leverage and liquidity prudential regulations.

These vital, well intentioned controls unintentionally divert international banks away from financing African trade through cost aversion.

African Correspondent Bank Derisking

AML and KYC regulations have caused a round of "derisking" by international banks. In an attempt to avoid the increasing cost of compliance of Swift Relationship Management Agreements (RMAs), KYC, Know Your Client's Client (KYCC), particularly in far flung, 'developing' markets, prone to corruption and catastrophic fines of billions of euros or dollars, US and European banks are simply shutting down relationships with African banks.

It is undeniably not worth the risk and each correspondent relationship can cost between $10,000 and $30,000 per year. Some prominent international banks, previously heavily invested in African trade, have halved their RMAs, many of them African, and effectively exited African trade.

Inappropriately Exaggerated Regulatory Capital Costs

The Basel Committee on Banking Supervision (BCBS) have, as their sole intent, the implementation of prudential controls, to limit risk taking by banks to prevent a global systemic financial collapse caused by a banking failure.

However, the rules are inappropriately punishing for trade finance. The risks of trade are very well understood in the data in the ICC Trade Register – the actual, empirical product Default Rates are fantastically lower than the counterparty probabilities of default (PDs) that International Banks are forced to use in calculating their regulatory capital drag.

Low Product Risk of Trade

The low risk, short-term, self liquidating nature of trade is apparent in the price discovery of the trade assets secondary market – unfunded bank trade risk prices at less than half of the exactly equivalent Credit Default Swap (CDS): the market price discovery recognizes trade's inherent low risk nature.

However, the regulations demand that the same Risk Weighted Assets (RWAs) are held against a 100 day trade asset compared with a 1 year Working Capital loan asset which pays twice as much. Therefore, the returns for trade are worse than half for other debt assets. As an executive of an international bank looking to maximise Return on Equity (RoE) for shareholders, the only rational policy is to divert finite, scarce and costly capital away from the international trade business to other assets with better returns.

Loss Given Default

Even where the rules do have scope for appropriate RWA attenuation, through adjusting the Loss Given Default (LGD) factors in Advanced Internal Ratings Based (AIRB) risk calculus, many banks just wont endanger their relationships with their local regulators. Many regulators don't understand technically abstruse transactional banking methodologies and may reject LGD proxy sophistry arguments and lift the lid on other delicate permissions.

Empirically, it is Product Probability of Default (PPD) which is much lower than Counterparty PD (CPD) banks are forced by regulation to use – banks could vary LGD as a proxy multiplicand to compensate for the PD differential but the empirical LGD data doesn't support this degree of LGD relief.

Credit Conversion Factor (CCF)

Again the regulations' empirical overstatement of key contingent financing tools used by consumers and businesses is hampering banks' financing of projects, trade and STCF. The Credit Conversion Factor (CCF) of these off-balance sheet exposures is just too conservative – as default instruments, there must be a chain of defaults before the products have to be brought onto the balance sheet and the historical data simply doesn't justify the current or promulgated regulations.

Expected Loss (EL)

The two overwhelmingly important factors in pricing hurdle calculations are the RWA regulatory capital costs and the transaction's Expected Loss (EL) which shows up on the bank's income statement as a real, 'Unidentified Impairment' (UI) cost. Mathematically, this EL is the product of the same exaggerated PD, EL and CCF and with the imposition of the IFRS 9 accounting standards in 2018, they will be exactly the same values as used in RWA calculations: for some African trade deals these are so overstated that, at market clearing prices, the transaction returns become negative as the UI cost exceeds the charged margin.

African Punishment

Aversive capital costs are compounded further when Emerging Market Credit, African Credit quality is computed through the Basel II Standardised and Advanced methodologies. Africa contains some of the worst Country and counterparty credit on the planet and both methodologies generate enormous regulatory capital costs: Advanced is essentially exponential across the Credit spectrum and Standarised renders a riskweight of 100% or 150% against African banks and corporations credit ratings instead of the more appropriate, much lower rates.

Basel did consult on trade but aside from some very limited provisions for 90 day or less LCs, no material safe harbour was created to protect trade – it was not their locus and there was a concern that naughty bankers would falsely structure non-trade deals to bring them within any safe harbours to get pricing advantages and make themselves more money.

"Interference from exogenous regulation intended for Investment Banking endangers the free market operation of the Transactional Banking (TB) financing component of EM trade and economic growth."

US$120 billion shortfall of African, bank intermediated trade finance

The African Development Bank (AfDB) calculated that of the $1.2 Trillion of annual African trade, there was (according to the 2016 ICC Global Trade and Finance Survey) a $120 billion bank intermediated Trade financing gap particularly impinging on African SMEs.

At the ICC conference in Johannesburg in 2015, there was much ringing of hands over why Africa contained 15% of the World's population and only scored 3% of the World's trade finance – The answer to the question and the cause of the $120 billion financing gap, is largely due to the disincentivising of banks from critically important but delicate African Transactional Banking through imposition of blunt, general purpose Global regulation intended for runaway Investment Banks.

Basel III Leverage Ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
Basel III leverage and liquidity regulations will also impinge on African trade finance as off-balance-sheet trade assets count equally with much riskier, off-balance-sheet assets that contributed to the Global Financial Crisis in newly imposed leverage ratios. LCR and NSFR regulations will effectively force bank Treasurers to increase the funding costs of short term trade assets as they spread these new Basel III costs of all banks' tendencies of funding short and lending long to the tighter, shorter tenor assets like trade.

Regulatory Forshadowing
There is a concern that, far from heading warnings from the industry about these errors existing regulations, consultations on future Basel 3.5 and IV have adumbrated even worse and more inappropriate regulation in the future: the imposition of 300% riskweights, floors for CCFs, removing the 'internal' discretion for regulatory capital calculation and steadfast refusal to regulate Transactional Banking more appropriately will only harm African trade and development.

"According to the World Trade Organisation (WTO), 'Finance is the lubricant of commerce:. This is particularly apposite for African corporates and SMEs who can only function with access to hard currency (usually US dollars) to fund their cash conversion cycle."

Alternative Solutions and a brighter future
The clear solution for Global policymakers is to realise their unforeseen role in developing economies, make good on their podium promises and prioritize more appropriate Transactional Banking regulation.

Already banks from Asia and the Middle East, with their less zealous regulatory enforcement, are replacing the Western banks which have been forced out of Africa.

There is feverish innovation at work in regional African banks to navigate the rules and provide their clients with appropriate trade solutions at appropriate prices, if regulatory lobying is unsuccessful.

Disruption through alternative non-bank funds, secuiritization, collateralization, digitization, multilateral agencies (MLAs) and Developmental Financial Institutions (DFIs) is imminent. If the US dollar hegemony of trade is hindering EM growth, why not shift the settlement currency to euros, renminbi or Bitcoin? Trade Portfolio Refinancing products, born in Latin America and South East Asia may be the innovation that African trade needs.

Increasingly regional African banks headquartered in Johannesburg and Mauritius are establishing themselves as intermediaries between international banks, their trader clients and the African banks and companies, acting as a pivot using Financial Institution (FI) credit differentials and regulatory alchemy to solve some of these liquidity and regulatory problems.

International FIs, then only have to KYC the South African 'portal' bank to reach the continent and African SMEs and banks can use the credit and liquidity gearing mechanisms supplied by these regional banks.

In the endless search for yield, EM trade assets could or should become a new asset class for Hedge Funds and real money investors. Shifting African trade finance away from bank regulations into non-bank asset managers could diversify their investments from traditional asset classes, deliver enhanced, solid yield with observable low risk and promote African trade and development.

"Promoting trade finance is the mechanism for social and economic development on the African Continent and swathes of well-intentioned banking regulations are disqualifying African Small Medium Enterprises (SMEs) from the trade and working capital facilities needed for the development of their economies."

Contributor's Profile
George R.R. Wilson qualified and practiced as a Barrister in London for 4 years before moving to in-house Legal and Compliance in CSFB and BarCap.

In 2005 George started focusing on Emerging Markets Banking in South Africa before moving to Hong Kong and transferring to the Asian Credit Trading and Structuring in UBS, Lehmans and Nomura.

Back in South Africa in 2010, he transitioned from Absa Capital FX Sales to Transactional Banking Product and Trade Finance Sales to become Head of Barclays Africa FI Trade.

EXIM BANK'S FINANCING INITIATIVES AND ACTIVITIES IN AFRICA

By **Debasish Mallick,** Deputy Managing Director, Export-Import Bank of India

Africa is positioning itself as a key partner in the global arena, with a collective GDP of around USD 2 trillion and a population base of more than 1 billion, offering a great market potential. Africa is estimated to present business opportunities worth USD 2.6 trillion per year by 2020 and consumer spending amounting to USD 1.4 trillion.

While Africa witnessed an annual GDP growth rates in excess of 5% over the last decade, economic growth of the region, however, has not been fully translated into shared prosperity and better livelihoods for the majority.

India-Africa trade has grown by almost 1.6 times in the last 10 years. India's exports have grown from USD 146 bn in 2007 to USD 260 bn in 2016. Imports on the other hand has increased from USD 218 bn to USD 356 bn during the same period.

Exim Bank's financing initiatives and activities in Africa

Countries in the African region constitute as a focus region for Exim Bank and are a critical component of the Bank's strategy is to promote and support two-way trade and investment flows. Exim Bank has representative offices in Johannesburg (South Africa), Addis Ababa (Ethiopia) and Abidjan (Cote d'Ivoire), which play an important role in facilitating economic cooperation with the African region. The representative offices interface with various institutions, as well as Indian missions in the region. Exim Bank plays the role of coordinator and facilitator for the promotion of Project Exports covering overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy service contracts. Exim Bank through its number of financing, advisory and support programmes has been striving to facilitate and promote India's trade and investment relations with the African region, in line with Government of India's (GOI) initiatives.

Lines of Credit (LOCs) to Africa

Exim Bank's LOCs extended to Africa supplement the "Focus Africa" programme of the GOI that focus on priority sectors, helps in building mutual cooperation and benefit. Besides these operating LOC extended at the behest of Government of India, Exim Bank also extends its own commercial Lines of Credits to various financial institutions and other entities in Africa. As on March 31, 2017, the total number of operative LOCs to Africa stood at 153 extended to 44 countries and amounting to USD 7.63 billion. These LOCs have been utilized for priority sectors in Africa, such as railway rehabilitation, setting up of industrial & IT parks, cement factories, vocational training centres, irrigation projects, cotton processing plants, sugarcane crushing plants, fertilizer plants, rural electrification projects, hydro-power projects, exports of tractors and agricultural equipment, and power transmission. Institutions in Africa benefitting from Exim Bank's LOCs include Afrexim Bank, ECOWAS Bank for Investment & Development (EBID), PTA Bank, West African Development Bank (BOAD), Nigerian Export Import Bank and Indo-Zambia Bank.

Buyer's Credit under National Export Insurance Account (BC-NEIA) to Africa

To boost large scale project exports from India viz. turnkey, construction & consultancy projects, sovereign governments and government-owned overseas entities can avail the Buyer's Credit facility for financing import of projects from India on deferred payment terms. Under the BC-NEIA programme, till May 15, 2017, Exim Bank has sanctioned loans aggregating USD 2.84 bn for 23 projects valued at USD 3.07 bn. Out of the above, loans aggregating USD 1.80 bn for 15 projects valued at USD 1.90 bn have been sanctioned to African countries with projects including power transmission and distribution network in Cameroon, Ethiopia, Senegal and Zambia; integrated LPG facility at bitumen storage facility in Mozambique; supply of vehicles and spares to Cote d'Ivoire, Senegal, Tanzania and Zimbabwe; construction of railway line in Ghana; supply of blast hole drill and mining equipment to Zimbabwe and city de-congestion project in Zambia. The Bank has also given in-principle commitments for supporting 31 projects aggregating USD 4 bn under BC-NEIA to African nations.

Buyer's Credit-Commercial

Exim Bank also extends Buyer's Credit-Commercial to overseas Borrowers, under which Exim Bank facilitates Indian exports by way of extending credit facility to the overseas buyers (other than sovereign government and parastatal entities) for financing their imports from India, based on available securities. The facilities are generally extended for long term. As on May 15, 2017, the Bank has sanctioned loans for an aggregate amount of USD 310 mn for 10 projects, in sectors including oil & gas, fertilizer, cement, steel, hydro, wind and peat-based power. Out of the above, loans aggregating USD 216 mn for 5 projects have been sanctioned to African countries, with projects including petrochemical and fertilizer complex in Nigeria, cement plants in Ghana and Cote d'Ivoire, wind power in Mauritius and peat-based power in Rwanda.

Non-funded facilities

Exim Bank further provides assistance by way of non-funded facilities including Bank guarantees such as

Bid Bond Guarantee (BBG), Advance Payment Guarantee (APG), Performance Guarantee (PG) and Retention Money Guarantee (RMG) to Indian project exporters to secure and facilitate execution of export contracts or deemed export contracts. As on May 15, 2017, out of the total guarantee facilities of USD 1,236 mn, Exim Bank has provided guarantees to the tune of USD 231 mn for project exports in Africa.

Finance for Joint Ventures Overseas

Exim Bank supports Indian companies in their endeavour to globalise their operations, through joint ventures (JVs) and wholly owned subsidiaries (WOS). Such support includes loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoter to set up such ventures overseas. In the African region, the Bank has supported several such ventures in countries such as South Africa, Kenya, Mauritius, Nigeria, Zambia, Morocco, Uganda and Tanzania, in areas such as pharmaceuticals, chemicals, fertilizers, textiles, agro-based products, plastics & rubber products, electronics, engineering goods, cycles and telecom systems. These ventures serves to promote value addition, as also contribute to capacity building and capacity creation in host countries.

Program for Financing Creative Industry

India is the 8th largest exporter of creative goods in the world and the growth rate in 2010 was the highest among the top 10 exporters. However, India's share in export of creative goods was USD 13.8 billion as against China's exports of USD 97.8 billion. Creative industries include Arts, Crafts, Design, Film & Video, Music, Publishing, Interactive leisure software, Architectural services, Advertising, Video games, Animation, etc. Nigerian Export-Import Bank (NEXIM Bank) had commissioned Exim Bank to undertake an assignment to design, develop, and implement a programme on Film Financing for expanding its exposure in financing films, especially those having potential to earn foreign exchange. Exim Bank has also facilitated capacity building training programmes for select officials of NEXIM Bank, and organized study visits to major film production house/facilities/ studios in India. NEXIM Bank has launched a film financing programme based on Exim Bank's consultancy.

Association with African Development Bank (AfDB)

India is a member of the African Development Bank (AfDB) Group. Exim Bank works very closely with AfDB and has an active programme which offers a range of information, advisory and support services to Indian companies to enable more effective participation in projects funded by multilateral funding agencies, including AfDB. Exim Bank assists Indian companies in projects supported by AfDB by not only fund and non-fund based assistance, but also by providing advance alerts on upcoming opportunities. With support from Exim Bank, Indian project exporters have secured a number of overseas contracts in Africa in sectors such as power, telecommunications, transport, water supply & sanitation. Exim Bank and AfDB have also signed an agreement for co-financing projects in Africa. The agreement envisages joint financing of projects (priority being given to support projects of small and medium enterprises) in regional member countries of AfDB. Exim Bank also organizes Business Opportunities seminars in Projects funded by AfDB across various centres in India.

Kukuza Project Development Company (KPDC) in Africa

Africa is a region of opportunities, as the continent is receiving plenty of investments in the infrastructure space. The PPP structure is slowly getting popularised by the national governments, increasing the interest of the private sector in infrastructure development. Exim Bank has been playing a pivotal role in various initiatives in Africa such as KPDC, which will encourage in building Indian project exports while simultaneously aiding the furtherance of economic and political ties between India and Africa. 'Kukuza' has been incorporated in Mauritius in July 2015. 'Kukuza' in Swahili means 'a cause to growth'. Reflecting the name, KPDC is expected to provide specialist project development expertise to take the infrastructure project from concept to commissioning in the African Continent.

Exim Bank's Engagements in ITC's 'Supporting India's Trade and Investment Preferences for Africa' (SITA) Project

On March 09, 2014, Department for International Development (DFID) mandated the International Trade Centre (ITC), United Kingdom, to design and implement a project, called 'Supporting India's Trade Preferences for Africa' now called 'Supporting Indian Trade and Investment for Africa' (SITA). SITA is a six-year (2014-2020) project that aims at promoting exports from five East African countries – Ethiopia, Kenya, Rwanda, the United Republic of Tanzania and Uganda – to India through investment and skills transfer from the Indian side. Exim India had entered into an MOU with ITC in Geneva on March 26, 2014, under which it was associated with ITC's SITA initiative.

In Sum, the various financing mechanisms and advisory and consultancy services that Exim Bank extends serve to promote value addition, technology transfer, generate local employment as also contribute to capacity building and capacity creation in host countries.

Contributor's Profile

Mr. Debasish Mallick was appointed by the Government of India as Deputy Managing Director of Export-Import Bank of India on 21st July 2014. Prior to this appointment, Mr. Mallick was the Managing Director and CEO of IDBI Asset Management Company Ltd., where he had intensive and extensive experience in dealing in the Equity and Debt Capital markets in India. He had a post graduate in Economics and a Certified Associate of Indian Institute of Bankers.

SOUTH AFRICA'S TRADE & EXPORT FINANCE AMID POLITICAL TURBULENCE

By **Tsidiso Disenyana,** Senior Economist, The Export Credit Insurance Corporation of South Africa

Trade finance is considered as the true lifeline on which most world trade operates today as it can provide fluidity and security to the movement of goods and services. With around 80 percent of most of world trade financed by open accounts and 20 percent by way of documentary credits, such as letters of credit (LCs), trade finance is critical to sustaining global trade.

Its availability, particularly in developing and least-developed countries, plays a crucial role in facilitating international trade. Exporters with limited access to working capital often require financing to process or manufacture products before receiving payments. Conversely, importers often need credit to buy raw materials, goods and equipment from overseas. The need for trade finance is underlined by the fact that competition for export contracts is often based on the attractiveness of the payment terms offered, with financially stronger importers preferring to buy on an open account basis with extended terms as compared to financially stronger exporters who prefer to sell on a cash basis, or secured basis if extended terms are needed.

Though not quantifiable, the bulk of SA's trade-finance requirements are met through traditional products such as working capital loans or overdrafts, opening, confirming and discounting LCs, guarantees and bills of exchange. Other methods of financing include buyer's and supplier's credit. Most of the facilities for trade financing are usually denominated in Rands and Dollars (hard currency), apart from the working capital loans or overdrafts. The market is increasingly demanding structured trade finance to accommodate larger loans featuring longer tenures and higher risk-multiples.

In South Africa, trade finance has now become vulnerable due to the recent downgrading of the country's foreign currency ratings, driven by political and policy uncertainty. Although several reports have shown that while the domestic bank's cost of trade finance will increase in the foreseeable future, these institutions will be able to manage the headwinds from the downgrades. Local banks are viewed as being extremely well capitalized and very liquid. Furthermore, lending rates between banks have remained stable, indicating that local banks are not faced with either a liquidity or confidence crisis. In addition, foreign funding for most banks represent a small proportion of the banks' overall funding sources and is held in the form of additional liquidity buffers.

Risk aversion, Basell III capital requirements and the endeavour to limit losses – rather than the downgrades – could be the trigger behind the withdrawal of capital and the cut in credit lines. Banks become unwilling to allocate capital to trade financing and are very cautious about the possibility of defaults by other banks that write LCs or by the importers and exporters themselves. Furthermore, shareholders mount considerable pressure on bank and portfolio managers to channel resources into other areas that might have a big payoff. Many bank and portfolio managers make little difference between trade finance and other forms of short, medium and long term credit when reducing country exposure. The concern of most banks has been to limit the overall exposure, rather than to maintain a selective presence based on true risk profiles of their clients. Thus, even the provision of trade finance stopped.

South Africa's recent banks' annual reports indicate that the financial companies were already prepared for the downgrades and have largely managed to strengthen their capital positions. However, there is a market consensus that access to trade finance and its cost will marginally rise in the medium term. Given the high import content of South Africa's exports (especially in the manufacturing sector), the country's export growth could be seriously affected by the difficulty of financing inputs, components and other capital equipment used in its export sectors.

While not the main cause of the slowdown in South Africa's trade, if trade finance is not tackled, the country run the risk of further exacerbating this downward spiral. The less willing banks are to provide access to trade finance, the more manufacturing output decreases and the less the country exports.

Contributor's Profile

Tsidiso Disenyana is Senior Economist at the Export Credit Insurance Corporation of South Africa. His prior work experience includes Research Manager, Department of Trade and Industry; Deputy Head, South African Institute of International Affairs; and Head of Policy Development at the South African Maritime Safety Authority.

Mr. Disenyana has also undertaken consultancies for various multilateral institutions including, inter alia, the WTO, ICTSD, UNCTAD and the World Bank.

He holds a Master's Degree in Economics from Georgia State University, USA

BREXIT'S ECONOMIC FALLOUT FOR AFRICA

By **Edwin Laurent,** Director of the Ramphal Institute, London, UK

The UK's withdrawal from the European Union (EU) at the end of March 2019, Brexit, will have consequences way beyond its shores, with considerable impact on the trade, aid and investment of countries across Africa.

To safeguard their interests and avoid becoming victims of Brexit, these countries need to make well informed policy choices and pursue effective strategies as they organise and prepare for a new forward looking and beneficial relationship with the UK.

What does Brexit Change?

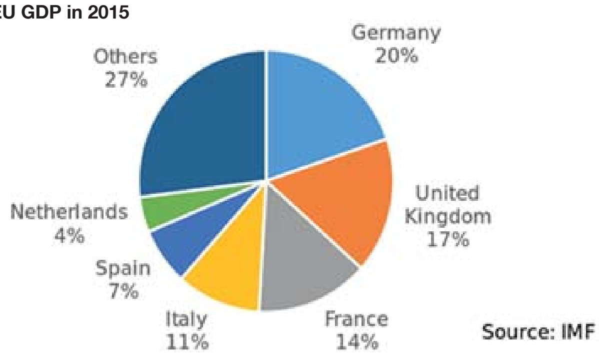
For over forty years a substantial portion of the development assistance provided to Africa by the UK has been via the EU. Even more importantly, during that period, Africa's preferential trade with the UK has been conducted within the regulatory and institutional framework of the EU.

Immediately upon leaving, all those EU economic arrangements and treaties will automatically cease to apply to, or be applied by the UK. Hence unless replacement aid and preferential trade measures can be brought in right after Brexit, Africa's exports and development aid will suffer.

True, Brexit will enable the UK to negotiate its own arrangements with African and other countries, which could well be more favourable. However, the UK cannot start talks until it leaves the EU in 2019, which doubtlessly will be preoccupied with securing trade deals with the EU, the USA, India, China, and other principal trading partners. Then African countries will struggle to secure attention from a hard-pressed Government and its trade negotiators.

Brexit will also impact the EU itself, since losing its second largest economy or 17% of its GDP, will shrink its stature as a global economic power.

EU GDP in 2015



Current Trading arrangements

The UK currently imports from African countries under a variety of preferential arrangements. These include the Economic Partnership Agreements (EPAs); the Generalised System of Preferences (GSP); the Everything but Arms (EBA) and Association agreements with Algeria, Morocco and Tunisia under the EuroMediterranean Partnership[1]. The rest of the imports pay full MFN duties[2].

The Problem for EPA Signatories

The EPAs provide African partners with duty-free quota free market access to the EU and financing for development.

The worry facing African exporters who rely on the preferences is that, once the UK ceases to be a party, unless and until some replacement arrangement is in place, their products would have to pay full duties, just as their lowest cost competitors. This could price some exporters out of the UK market. Then, even if substitute arrangements with adequate preferences are eventually introduced, having lost the foothold on the market some might have gone out of business altogether and others might not be able to re-enter and re-establish themselves after their period of absence.

Other trading arrangements

EBA grants LDCs full duty free-quota free access to the entire EU market, for all products except arms and ammunitions. (It should be noted that many LDCs are also parties to the reciprocal EPAs).

GSP. The GSP provides tariff reductions to beneficiary developing countries, involving the partial or entire removal of tariffs on a substantial portion of their products. Currently few African countries trade with the UK under the GSP; just Congo Brazzaville, Gabon and potentially Nigeria.

MFN. African exports to the UK that do not qualify under a preferential arrangement are subject to full MFN tariffs. Brexit will give the UK the ability to set its own rates. The levels will be crucial, not just in terms of providing protection for domestic producers, but also preferential margins for imports from Africa under the GSP, EBA or any UK successor to the EPA. For instance, permitting duty free entry of sugar from Swaziland or Mauritius, or bananas from Cote d'Ivoire or Cameroon would not do much to safeguard their exports to the UK if the MFN tariffs on Brazil's sugar or Ecuador's bananas are eliminated or overly reduced.

1. The key objective of the trade partnership is removing barriers to trade and investment between the EU and Southern Mediterranean countries and the creation of a Euro-Mediterranean Free Trade Area http://euro-mediterranean-partnership

2. Most Favoured Nation – MFN. These Tariffs notified to the WTO and applied on all non-preferential imports.

Importance of the UK market to African exporters.
The value of exports to the UK as a share of the overall exports to the EU varies widely among African countries. Trade data for 2015[3] shows that, amongst the countries most dependent on the UK, the share of their EU exports destined for the UK are; for the Seychelles 34.3%; Gambia, 30%, Kenya, 27.8%; Mauritius 26.9%; South Africa, 26.7%; Rwanda 17%; Ghana 11.6%; and Nigeria 10.8%.

These global figures, do not tell the whole story, since the dependence on the UK market can be exceptionally high in particular sectors. For instance, Kenya's exports to the UK of cabbages, cauliflower etc. (0704), was 85% of total sales to the EU and for other fresh or chilled vegetables (0709) 79%. Those exports of vegetables were worth over €100 million to Kenya in 2015.

But even for countries where overall, the UK market is not relatively important, specific sectors can have exceptionally high dependence on it. A good case is Namibia; 5% of total exports to the EU go to the UK, but 29.5% of its table grapes' sales to the EU are to the UK and 65.1% of its fresh and chilled beef.

Can Brexit Improve Trading Conditions for Africa?
The answer to this question will depend on the particular import regime adopted by the UK.

For LDCs exporting under EBA provisions, conditions cannot improve further since they already enjoy full duty and quota free access to the UK market, which is expected to continue after Brexit.

GSP can improve since the UK can unilaterally devise new WTO consistent arrangements with different product coverage and greater or smaller tariff reductions than at present. The outcomes for African countries would therefore depend on what the Government decides.

After Brexit, the UK will be free to negotiate and implement alternative regimes that could well improve current EPAs and association agreements. The problem however is that they have to be negotiated after Brexit.

It is important to note that the outcomes for Africa's exports will also be affected by changes to the terms of access of competing exporters to the UK market.

Development cooperation
The UK's voluntary contribution to the European Development Fund (EDF) has been considerable. And Brexit will result in the loss of its third largest contributor that is putting in nearly €4.5 billion to the 11th EDF and is also a major contributor to the EU Development Budget. Brexit will mean that the UK's contribution is no longer available, so the EDF will be cut back; unless, as is most unlikely, the remaining 27 agree to make up the shortfall. However, the UK can continue providing the same volume of aid resources, enabling it to engage more directly and constructively with partners in Africa to provide financial support that makes a fuller contribution to sustainable development and transformation.

Investment
Several African countries have investment agreements with the UK and other European countries, but these are bilateral not EU-wide. Their key elements are dispute settlement and definition of investor rights and obligations and the rights of establishment. Brexit is not expected to have any discernible direct impact on these agreements.

Brexit though can be expected to have indirect but potentially very major consequences for actual investment in African production; particularly in export sectors targeting the UK market.

New trade arrangements post-Brexit would affect demand for imports from Africa, if for instance it changes (or ends) the preferences enjoyed under EPAs or the Association Agreements or it reduces MFN tariffs on the products of export interest to Africa. If UK demand for African products strengthens or weakens post Brexit, investment levels, both domestic and foreign, would be impacted.

Similarly, reciprocal EPA style deals can enable cheaper access of UK products to Africa. This could increase competition with local production, possibility reducing demand for the domestic product.

Whilst none of these concerns might materialise, the danger is that the uncertainly and lack of assurance of ongoing satisfactory market access to the UK post-Brexit can affect confidence and dampen the enthusiasm of investors.

Aims for Africa Post Brexit
A priority for African countries is to ensure that Brexit does not reduce financial support for their development. In the area of trade, the immediate concern is for the smooth continuation of exporting to the UK. For that, arrangements are needed that come into force immediately upon Brexit, enabling Africa's exports to continue to enjoy the preferential access and the margins that currently support and enable their trade.

To avoid any hiatus in its trade with Africa, the UK will need to recommit to EBA and GSP and apply MFN tariffs at current rates on third country imports of products of export interest to Africa. More difficult but vitally important, would be the continued duty free-quota free entry for current EPA imports.

Finding a Winning Strategy
Securing the required commitments on trade and on development cooperation will not be easy. Various parties, both domestic and international will be seeking to influence UK policy, sometimes in ways that can harm African countries. But that danger can be countered if

3. Source Eurostat.

they vigorously campaign with allies to pursue and protect their shared interests.

A recent publication by the Ramphal Institute, recommends developing a common position and strategy with the Africa, Caribbean and Pacific (ACP) group, to which all sub-Saharan African countries belong.

The study[4] sees this 79-member tri-continental group as a credible international partner and ally with considerable potential international political authority and influence. It recommends that the ACP group harnesses and channel its collective strength into a well-coordinated lobbying and promotional campaign to safeguard and enhance the economic prospects for Africa and its members.

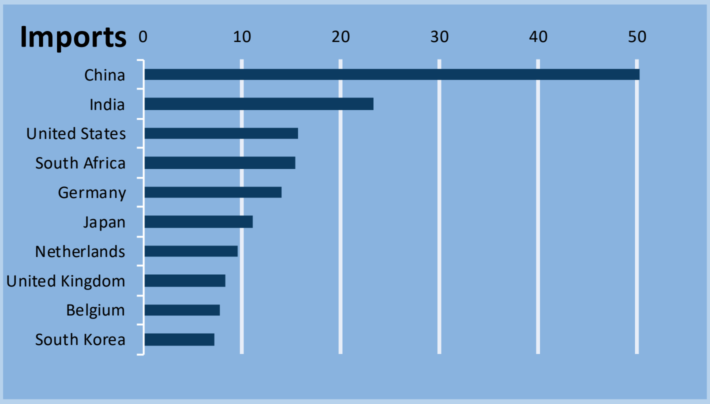
Contributor's Profile

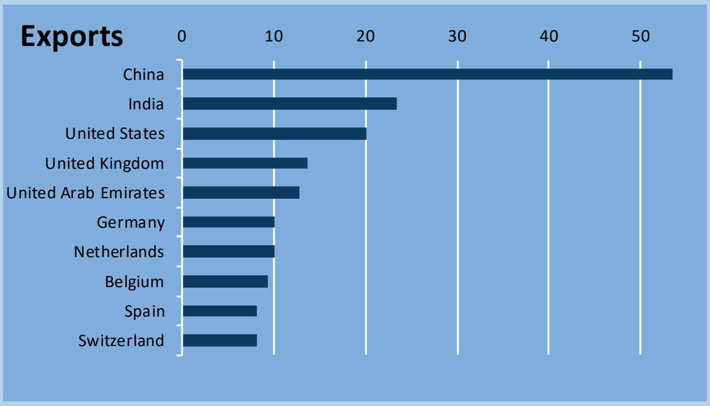
Edwin Laurent is Director of the Ramphal Institute and Senior Visiting Research Fellow, King's College London. Prior to that he was Senior Advisor to UNEP's Green Economy initiative for the Caribbean and before that Head of the International Trade and Regional Co-operation at the Commonwealth Secretariat. He has held several Ambassadorial postings including to the EU, WTO, France, Belgium and Germany. He has lectured in West and Central Africa and written extensively on international development issues.

4. After Brexit … Securing ACP Economic Interests. Rila Publications ltd 2017

AFRICA'S TRADE IN NUMBERS

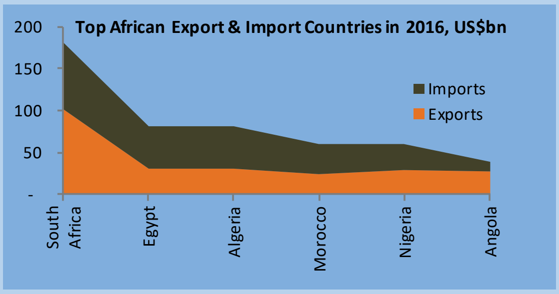
Sub-Saharan Africa's biggest trading partners in 2016, US$bn





Africa's Trade Flows Trends, US$mn

Year	North Africa		Sub-Saharan Africa	
	Export	Import	Export	Import
2000	59,097	46,754	1,03,297	78,194
2001	56,881	47,676	1,02,626	80,777
2002	56,393	50,518	1,02,764	84,646
2003	71,458	55,978	1,26,553	1,07,334
2004	93,326	71,602	1,62,866	1,33,940
2005	1,25,249	83,486	1,98,900	1,55,802
2006	1,55,296	92,602	2,43,729	1,88,466
2007	1,75,537	1,19,325	2,88,992	2,38,145
2008	2,33,870	1,75,023	3,77,530	2,94,440
2009	1,47,151	1,57,415	2,61,380	2,54,652
2010	1,80,971	1,77,236	3,43,670	2,95,709
2011	1,80,800	1,89,524	4,63,407	3,65,184
2012	2,12,349	2,06,227	4,84,500	3,77,459
2013	1,87,536	2,12,889	4,76,942	3,99,280
2014	1,59,825	2,18,337	4,66,281	3,98,847
2015	1,15,731	1,95,288	3,19,544	3,43,335
2016	1,05,563	1,74,760	2,89,029	2,94,905



Source from The Direction of Trade Statistics (DOTS), IMF & Compiled by Capital Markets in Africa

THE CURRENT MACROECONOMIC TRENDS IN AFRICA

By **Ibrahim Malleck,** Head of Trade Finance, SBM Group Mauritius
Shailen Sreekeessoon, Head of Strategy and Research, SBM Group Mauritius

Africa is going through a very interesting period of its history. Favorable economic and demographic trends, market size and abundant natural resources have transformed the continent into a very attractive business destination. Today, all major global firms are present on the African continent in some way or the other.

This recognition was long overdue. Indeed, African economies have been growing at a faster pace than the global world average and business prospects are bright. Economic diversification is occurring throughout the continent, albeit at different pace. The reason for this is the varied fundamentals driving each individual economy. In fact, the continent can be broken down into two groups: commodity exporting and non-commodity exporting. The countries making up the first group have been under severe strain in recent years owing to a sharp decline in commodity prices while on the other hand, non-commodity exporting countries have been fairly resilient. As a result, growth paths have diverged.

With commodity prices rising again, it is expected that growth will return to the commodity exporting countries in Africa. To lessen their dependence on commodities, countries should use this as an opportunity to structurally reform their economies to build a more robust and resilient socio-economic base. The current reforms in a number of OPEC countries in the Arabian Gulf, forced on them by the fall of oil prices, could provide useful learnings to a number of African economies. The Mauritian case can also be used.

Indeed, Mauritius has experienced such a transition: the sugar sector contributed 28% to GDP at independence in 1968. However, over time and owing to diversification, this has fallen to 1% in 2017, with sectors such as financial services contributing around 12% and manufacturing sector contributing around 13%. This was driven by a conscious decision to move away from agriculture and was sponsored by a free access to education.

Drying up of Liquidity

According to the International Trade Centre, intra-Africa trade currently amounts to around USD 175 billion while trade between Asia and Africa is estimated at USD 427 billion and dealings between Africa and Europe amount to USD 434 billion.

While intra-Africa trade is still small in comparison, it is expected that the growth in African consumer markets, coupled with natural trade routes that link landlocked countries to trading ports, should foster rapid expansion in this area. Nonetheless, challenges remain, as implied by a huge trade financing gap, estimated at some USD 120 billion annually.

Many western banks have exited from Africa amidst increasingly stringent compliance rules and the negative impact of risk weighted assets on their return on investments and assets. It is no longer feasible for them to be present on the continent. Indeed, in the struggle between risk and returns, the scales have tipped in favor of the former.

This had numerous effects. A liquidity crunch occurred as access to financing dried up, entailing a rise both in the cost of funding and the financing of trade flows.

Nevertheless, a perception gap also exists with respect to Africa. Africa is usually thought of as a single country instead of 54 diverse economies. Therefore, any incident occurring in a particular area in Africa is thought to affect the whole continent whereas this is not the case. This perception gap hinders investment and progress on the continent.

Conditions for Success

There is a need to take charge to ensure success. The continent currently contains around 60 percent of the world's unutilized but potentially available cropland, as well as the world's largest reserves of vanadium, diamonds, manganese, phosphate, platinum-group metals, cobalt, aluminum, chromium, and gold.

Similarly, several African countries are leaders in the cultivation of certain crops and the production of certain commodities. Nevertheless, firms and countries suffer from a lack of physical and market infrastructure, as well as barriers to trade. Demand for trade financing is unmet among SMES in Africa.

In the light of these events, it is fundamental that African banks and other institutions step up their efforts and take the destiny of their continent in their own hands. Taking ownership of this trade financing gap would mean more prosperity for their nations, their populations and also, African institutions. Increasing volumes and value of trade on the continent could ensure that more people have access to affordable food and other basic amenities, and is the path to wealth and prosperity. Indeed the positive social impact of any increase in intra-African funding for trade should be obvious to all.

The regulatory environment should not be a deterrent for African institutions. Cultural and historical ties remain important. As African banks, we understand Africa better than most. Keeping in mind Africa's big business potential and the fact that competition is lessening, it is the best time to increase business in Africa. Nearly all African banks provide some form of Trade Finance. It is now time to step up our game. The opportunity is here. The market is estimated at around USD 500 billion. African institutions have to grab it.

At SBM as well, we are playing our part and lending a hand in developing and facilitating trade on the continent. The bank currently proposes a number of solutions to facilitate trade on the continent. On top of the traditional plain vanilla instruments, our arsenal for trade facilitation products includes on balance sheet items products such as refinancing of import requirements, structured trade facilities and collateral management structures as well as off balance sheet items such as LCs and forfeiting. Similarly, numerous FX and hedging products are offered to distribute and mitigate risks.

Other Challenges

Alongside access to liquidity, numerous issues need to be tackled to allow the smooth entry and exit of goods in Africa. Inadequate transport, communication, water and power infrastructure hamper economic growth. People and firms eager to do business with Africa find it difficult to access African markets, especially in the interior, due to poor infrastructure and security. The low level of infrastructure is also an obstacle to intra-Africa trade.

The dire state of infrastructure on the continent is an impediment that should be swiftly addressed. Indeed, better quality of infrastructure can directly raise the productivity and influence growth. Better roads, ports and airports would facilitate access to new markets, vastly increase wealth for farmers and traders, cut costs, facilitate investment and improve income levels.

Better infrastructure and reliable power generation systems would go a long way towards lowering costs of production. In turn, African economies would be more competitive and efficient. Firms will be able to export and import goods easily which will lead to an increase in trade, most notably intra-Africa trade. Rapid population growth and rising GDP levels are other pressing reasons to invest and develop infrastructure.

At SBM, our non-banking cluster has set up an African Infrastructure Fund to invest in Africa. We also have private equity funds to invest on the continent which should lead to better physical infrastructure and lower inherent funding risks.

There is also the need to adopt a collaborative approach to increase intra-Africa trade. Instead of each country acting on its own, African trading blocs and supranational organizations can facilitate partnerships between member countries while encouraging non-member countries to join the bandwagon. This would entail a rise in trade across the continent, generate income and hence combat poverty. This also applies to banks and NBFIs, who by sharing risks through syndications and clubs, can go a low way in filling-up our continent's existing trade funding gap.

Another important barrier to trade is Africa's shallow capital markets. Outside South Africa and a few other countries, there is a need to deepen the financial services sector to facilitate easy flow of funds such that the huge demand for finance is met with adequate supply in the market. Deepening financial markets through appropriate infrastructure and regulations would attract different types of investors in Africa. This would boost flows of capital and encourage investment and trade. Access to funding through capital markets would not only boost liquidity for Trade, but also provide a platform which would benefit all areas of the continent's economies.

"Africa is going through a very interesting period of its history. Favorable economic and demographic trends, market size and abundant natural resources have transformed the continent into a very attractive business destination. Today, all major global firms are present on the African continent in some way or the other."

Contributors' Profiles

Ibrahim Malleck holds a MSc in International Trade and Finance from Lancaster University and has over 15 years of banking experience within Corporate Banking in Mauritius and the Middle East. He is currently heading the Structured Trade team at SBM and is closely involved in building a MENA-Africa proposition for Commodity players.

Shailen Sreekeessoon holds a BSc in Economics and an MSc in Finance and Economics from the London School of Economics and Political Science. He is also a Fellow of the Association of Chartered Certified Accountants and a member of the Mauritius Institute of Professional Accountants. Shailen has more than 15 years' experience in the banking sector, mainly in the areas of business strategy and economic research. He is the Chief Editor of SBM Insights, an economic publication of the SBM Group.

THE UK INSURANCE ACT 2015: OVERVIEW AND IMPACT ON TRADE

By **Andrew Grant,** Partner, Clyde & Co LLP, London

The UK and London is the largest commercial insurance market in the World. According to a recent survey by the International Underwriting Association, London's gross premium income is US$80 billion per year. The insurance sector is also a key exporter for the UK economy and represents a very large part of the financial services sector that is so important to the UK's GDP.

Perhaps the most well-known image of the London insurance market is the Lloyd's of London Building that stands on Leadenall Street, now overshadowed by the tall high-rise buildings of the "Cheesegrater", which houses the global brokers, AON, and soon to be dwarfed by the "Scalpel", WR Berkley's new building. As many readers may know, Lloyd's of London started in the 18th Century in a coffee shop where merchants gathered together to share the risk of marine ventures. How the world has turned since then. As with the gleaming new high rise buildings in EC3, the postal district of the City of London in which Lloyd's and the insurance market is located, so the system of law that governs insurance needs to modernise to be fit for purpose in the 21st century.

The English legal system is a common law system, so both statutes passed by Parliament and case law decisions of Judges are binding. Case law is adaptable: Judges can make decisions so that the law keeps up with the commercial world that needs to use it. However, in certain circumstances Parliament needs to step in to refresh and update areas of the law that need to be modernised. English commercial insurance law was, until 12 August 2016 when the Insurance Act 2015 came into force, largely governed by the Marine Insurance Act 1906. This was an act that codified some 200 years of prior English case law and is, in my humble opinion, a fantastic piece of legislation. Case law for the last 100 years has updated and adapted its provisions to keep it fit for purpose. Nonetheless, there were certain elements of it that were considered to be too pro-Insurer: these sections related to what and how information needs to be provided to an insurer before they agree to cover a risk and to specific important terms of the insurance contract, known as warranties.

The Law Commission, which is the UK body that considers all aspects of English law as to whether it needs modification or modernisation, started looking at English insurance law back in the 1980's. It had three attempts to recommend change, culminating in the recent Insurance Act 2015 and most recently a provision in the Enterprise Act 2016 that introduces consequential losses for the breach of an insurance contract.

> *"English commercial insurance law was, until 12 August 2016 when the Insurance Act 2015 came into force, largely governed by the Marine Insurance Act 1906. This was an act that codified some 200 years of prior English case law and is, in my humble opinion, a fantastic piece of legislation."*

To understand English insurance law, one needs to start with the concept that an insurance contract is a contract of utmost good faith. That differs significantly from other contracts, where the general principle is buyer beware. Arising out of the concept of utmost good faith, is the duty on a potential insured to voluntarily disclose information to an insurer about the risk, in the period before the Insurance Act 2015, even if the insurer didn't ask any questions about the risk. This duty of disclosure, as it was known, was considered to be too pro-insurer. So the Insurance Act 2015 has introduced a new concept of the duty of fair presentation. There remains an obligation on the insured to volunteer information, but the onus is now very much on an insurer to ask questions about risks, even to the extent that under the Insurance Act an insured can fall short of its duty, but still make a fair presentation if it gave sufficient information to an insurer to put it on notice that he should ask questions to discover if there was material information to the risk he is insuring.

The Insurance Act also introduces provisions about who at an insured has the relevant knowledge of information about a risk for the purpose of making disclosure to insurers and also deals with the legal remedies now available to an insurer should the insured not make a fair presentation. Before moving on, there are also provisions that allow parties to insurance contracts to change, alter or contract out of altogether pretty much all of the Insurance Act's provisions. We will return to this later in this article.

The other very significant change is to terms known as warranties. An insurance warranty is a term that is fundamental to the risk that is being written. So in trade credit insurance, it is absolutely fundamental that the financial instrument that is being insured is legally enforceable in the country in which it is to be enforced.

Prior to the Insurance Act, if there was even the slightest breach of a warranty, however immaterial to any subsequent loss and claim, insurers could say they were discharged from any liability and not pay a claim. This was considered to be far too draconian, and so the Insurance Act now makes insurance warranties suspensory conditions. While the insured is in breach, the cover is suspended until such time as the breach is remedied, when the cover is reinstated. This remedying provision will likely need testing in the Courts and is a very new concept to English insurance law. There will be questions as to how something can be remedied: so, if there is a warranty that fine wine be kept at a certain temperature and it is not and the wine spoils, arguably the warranty is remedied when the temperature is put back to what it should be. But the wine is lost.

"The UK and London is the largest commercial insurance market in the World. According to a recent survey by the International Underwriting Association, London's gross premium income is US$80 billion per year. The insurance sector is also a key exporter for the UK economy and represents a very large part of the financial services sector that is so important to the UK's GDP."

Turning now to trade, what impact will the new Insurance Act have on trade and trade finance? Insurance represents a key component in the movement of goods and services around the world, with cargoes and vessels all insured, and the credit, trade credit and political risks insurance markets all buoyant at the moment. If anything, the provisions of the new Insurance Act are more favourable to Insureds, so this should make insurance as a product under English law more attractive to purchasers. This should help with trade. That said, the insurance market worldwide is suffering its softest market that most can remember. This means that a lot of the bargaining power is in the hands of purchasers, and with that the ability to dictate terms to insurers.

Looked at as a whole, the Insurance Act and its provisions .is a fairly balanced piece of legislation favouring in part insureds and in others insurers. However, traders, bankers, and exporters are all stripping out the provisions of the new Insurance Act that are not favourable to them, making the whole thing unbalanced. In the short term, this may lead to more claims being paid to insureds, which might be considered a good thing. But the checks and balances of the Insurance Act are there for a reason. Without adequate protections, fraudulent claims will almost certainly rise – a major insurer already estimates £1.6 billion annually to be the cost to the UK insurance market of fraudulent claims. Inevitably, this will feed into the cost of insurance and that is counterproductive to trade.

In all, left alone and without change the Insurance Act is to be welcomed and updates certain provisions of the old Marine Insurance Act 1906 to be fir for the 21st century. But if the provisions are removed and it becomes unbalanced, then that may have unforeseen consequences for the very people and institutions that rely upon insurance for the heart of their business.

Insurance represents a key component in the movement of goods and services around the world, with cargoes and vessels all insured, and the credit, trade credit and political risks insurance markets all buoyant at the moment. If anything, the provisions of the new Insurance Act are more favourable to Insureds, so this should make insurance as a product under English law more attractive to purchasers. This should help with trade.

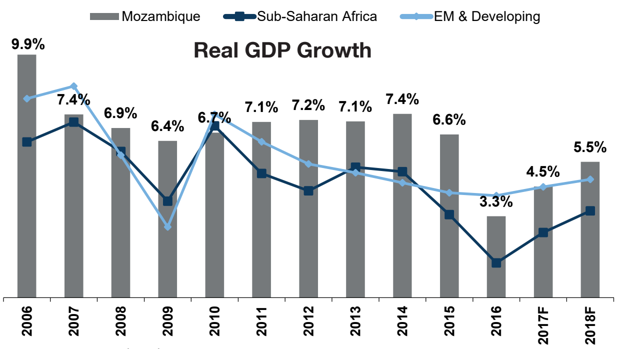
Contributor's Profile

Andrew Grant is a Partner at Clyde & Co LLP, an international law firm based in the City of London and is the Global Head of Specialty Lines Insurance, Political Risk and Trade Credit. Andrew has worked for these markets for his entire career. He is well recognised by the legal directories including Chambers UK 2015 that notes he is considered a "specialist in political risk insurance."

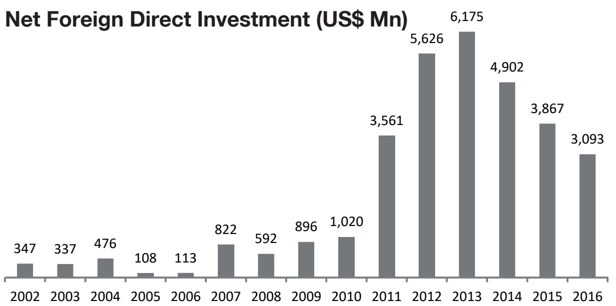
MOZAMBIQUE: THE NEW ECONOMIC REALITY

By **Tiago Bossa Dionisio,** Chief Economist, Eaglestone Advisory, S.A.

Mozambique's international reputation suffered a serious blow after the revelation that the country had contracted previously undisclosed public debts worth nearly 10% of its GDP in April 2016. This news had not only an impact on public debt levels (gross debt rose to nearly 115% of GDP last year from 88% in 2015), but also led to the interruption of international aid flows, a sharp 20% YoY drop in foreign direct investment levels and a marked deceleration in economic activity in the country in 2016. Specifically, real GDP growth slowed to 3.3% from 6.6% in 2015 (and an annual average of 7.4% recorded in 2005-15). Although this is still above the average of 1.4% in Sub-Saharan Africa in 2016, this growth performance is a 15-year low for Mozambique. The hidden debt revelation also contributed to a sharp depreciation of the metical (the local currency), further accelerating inflation levels to multi-year highs above 26% in November 2016.

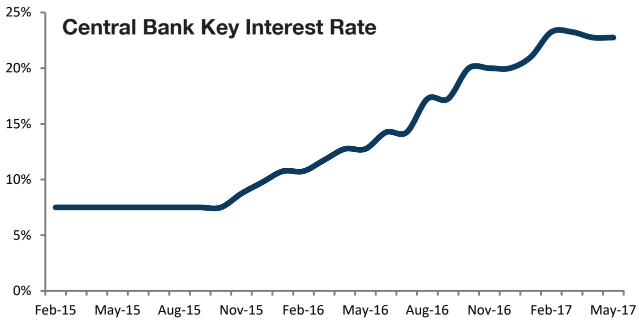


Sources: IMF and Eaglestone Securities.



Source: Banco de Moçambique

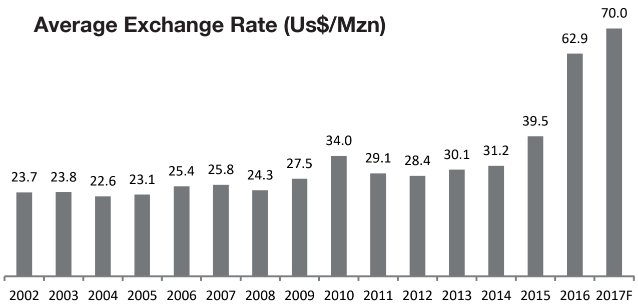
Against this backdrop, the Mozambican authorities have been faced with the herculean challenge of restoring macroeconomic stability in the country during the last year. In the second half of 2016, the government announced a revised 2016 budget, lowering revenue projections and adjusting spending plans. Later in the year, the local authorities alleged to creditors that they could not meet repayment obligations, saying that this would only be feasible when revenues from the gas sector begin to flow into public coffers. This was confirmed in early 2017 when Mozambique missed two loan payments contracted by two state-owned companies, with a third one just missed last month. Meanwhile, at the same time, the central bank aggressively raised its key interest rate by 1,050 basis points in the last year to 23.25% (from only 7.5% in mid-2015) in order to tackle the rising inflationary pressures, only lowering the rate to 22.75% in the last April meeting. The Banco de Moçambique also increased the mandatory reserve requirement for local and foreign currency holdings by unifying both rates at 15.5%.



Source: Banco de Moçambique

Economic activity is only expected to recover slightly to 4.5% in 2017, with growth likely to be almost entirely driven by the minerals sector, and 5.5% next year (the IMF's latest forecasts). Mozambique is likely to continue to face economic headwinds arising from the need for fiscal austerity, but also still unresolved issues related to foreign-exchange shortages and multi-year high inflation. Foreign reserves at the central bank have recently increased to more comfortable levels, approaching four months of imports, and the metical has appreciated nearly 20% against the USD and 15% against the ZAR in the first months of 2017 on the back of higher export earnings and monetary tightening. This is helping to gradually rebalance the foreign-exchange market and ease inflationary pressures. It is unlikely that the local currency will continue to appreciate significantly throughout the year though, as weak capital inflows and sizeable fiscal and external account deficits could exert downward pressure on the metical. Still, higher global coal prices and the improvement in foreign reserves will help the central bank to support the metical in the foreseeable future.

Meanwhile, attentions in the near term should remain on the outcome of the international audit on the country's debt accounts (expected to be published shortly) and whether Mozambique is able to normalise its relations with the IMF. The government is likely to attempt to secure a new economic program from the Fund, but



Sources: Banco de Moçambique and Eaglestone Securities.

discussions will be difficult for the local authorities, as they will depend on the debt audit results and the progress made in the negotiations with private creditors on a proposed debt restructuring scheme. If successful, this should lead to the resumption of international aid flows that will help to further stabilize the local economy as well as support development projects.

Mozambique is one of the most promising countries in Sub-Saharan Africa with a successful track-record in implementing large-scale projects (most of which financed by multilateral institutions and international banks) and a friendly legal framework, namely for foreign investors. Mining has been responsible for a significant part of the foreign direct investment that has entered the country in recent years. Large investments have initially been made in the coal sector, but more recently attentions have turned to the vast natural gas reserves in the Rovuma basin, in the north of the country. This has boosted other sectors such as construction, utilities and real estate.

The natural gas sector will make a substantial contribution to economic growth and exports as well as bring in significant fiscal receipts in the long-term. Both Italy's Eni and Anadarko from the US currently have plans to develop liquefied natural gas (LNG) export facilities in the country. These are not expected to come on stream before 2022, but development work will support growth from 2018. A crucial step in this direction was taken in May when the government approved the project financing arrangements for the LNG offshore project in the Rovuma Basin. This puts Eni, the project developer, on course to reach a final investment decision by the end of 2017.

Although the LNG sector is not expected to transform Mozambique's finances any time soon, it will relieve some of the short-term pressure. Earlier this year, Eni sold a 25% stake in one of its gas fields in the country to ExxonMobil for US$2.8 billion. The transaction is expected to translate into US$350 million (or roughly 3% of GDP) in capital gains tax for the public coffers and is likely to be reflected in the 2018 fiscal accounts.

Mozambique's future fortunes will also depend on its political outlook. The country is currently living a period of truce between the ruling party (Frelimo) and the main opposition party (Renamo) after both recently agreed to a cease fire. The latest news suggests that this cease fire could become permanent, as Frelimo could agree to Renamo's demands for greater regional autonomy. The other issue raised by the opposition has to do with military matters such as the reintegration of Renamo armed forces into Mozambican troops and the separation between political parties and the armed forces. We believe the permanent end to political hostilities between Frelimo and Renamo would be very positive for the country, as it would help improve donor relations and reignite much needed foreign investment inflows.

The next presidential, legislative and provincial elections are scheduled for 2019 while the next municipal elections are due in 2018. Frelimo is likely to continue to dominate the presidential and legislative polls, namely due to its stronghold at the central level. However, provincial and municipal elections could be more contested considering Renamo's intentions to increase its presence at the local level.

All in all, Mozambique's new economic reality presents several challenges for the local authorities, especially in the aftermath of the hidden debt scandal. The policy measures implemented over the last 12 months have had some positive results, as these helped to stabilise the local currency, lower inflation and improve foreign reserve levels. The government's re-commitment to the peace process with Renamo is also a step in the right direction that could help improve donor relations and bring back to the country much needed international aid. However, the task of restoring confidence levels, both domestically and overseas, is not over yet. A lot seems to depend on the outcome of the debt audit and on whether Mozambique will be able to come to an agreement with bondholders about a restructuring scheme.

"Mozambique is one of the most promising countries in Sub-Saharan Africa with a successful track-record in implementing large-scale projects most of which financed by multilateral institutions and international banks) and a friendly legal framework, namely for foreign investors.

Contributor's Profile

Tiago Bossa Dionisio joined EAGLESTONE in 2013. He has over 15 years' experience in investment banking, namely at Banco Português de Investimento (BPI) and later at Espírito Santo Investment Bank (ESIB).

Before joining EAGLESTONE, Tiago was part of ESIB's Project Finance team for two years. Prior to that, Tiago was a sell-side analyst covering the main listed Iberian banks for eight years both at ESIB and BPI. Before that, he was a macro research analyst at BPI for three years responsible for covering Portugal, Spain and several Latin America countries, including Brazil and Argentina.

THE FOUR AFRICAS: SOUTH AFRICA'S NEW DICHOTOMY

By **Mark Byron,** Co-Founder of Barton-Heyman, Ltd.
Robert Joseph Ahola, CEO of Galahad Films

Even though downgraded to a BB+ rating for the rand, South Africa is still a Standard &Poor's buy and hold—with a stable if perhaps stagnant future. Part of the reason is the fact that South Africa remains an economic Leviathan that cannot be denied. And despite the persistent allegation that Zuma has been "stealing the future of the country," there is something of an Africapitalist revolution in the works where businesses are recapturing the initiative through massive economic initiatives and building the economy through FDI capital.

Until 2013 South Africa was the largest African economy in terms of GDP. 2015 figures show that at $314.59 Billion (USD) it has fallen far behind that of Nigeria and was recently passed by Egypt at $326 Billion, not as much due to slow growth as the fact that countries like Nigeria and Angola have catapulted into economic prominence especially since the global economic meltdown of 2008.

Just behind Egypt and far ahead of both Tunisia and Morocco, South Africa is the #2 nation on the entire African Continent for what are referred to as *foreign arrivals.** Much of that is due to global commerce and business travelers. But South Africa—because of its ethnic balance, it's generally temperate climate and especially its residual colonial connections with the British Empire—is still the African hotspot, despite the additional 3,000 travel miles often required to get "down under."

To further fuel the paradox, although its health care system is fairly good, recent surges of cases of HIV (a national pandemic) place its life expectancy rate at 62.1 years of age, ranking it 148th in the world, quite a fall from earlier rankings. And yet South Africa still has the 7th highest per capita income to GDP ratio in Africa with $13,165 per annum. (Per capita income Indexes are averaged out, relative to population. So single economy oil rich countries with smaller populations such as Libya, Algeria and Gabon will indicate a higher standard of living than actually exists).

The South African Economy - A Delicate Balance

Any discussions of South Africa must first be examined in terms of its preemptive status in three distinct areas:
1) The good vs. evil mosaic of its complex political history;
2) Its access to critical natural resources;
3) The status of its currency (the rand) in world financial markets.

South Africa's rand is the sole African currency that represents some stability to the rest of the world. It remains among the 20 most traded currencies on international markets. So it still offers something of a safe-haven for financial institutions and investors looking for a bullion-based currency as a solid financial anchor.

In the purest sense, it is one of the youngest republics on the continent. As such, South Africa has had to deal with the hangover of a full century of apartheid, two decades of global economic sanctions, and finally some well-intended, occasionally naïve and frequently inept attempts to right the wrongs of the past. And at this point, it is essential to revisit that "twice-told tale" because there is so much political and economic subtext that escapes one's notice, even among people who have been exposed to it a dozen times.

Officially a "Republic" since 1961, South Africa maintained a strictly enforced regime of apartheid through to 1989. The implication for the establishment of apartheid was "separate but equal facilities, education and social programs for all." And of course, nothing of the sort was allowed to take place. In fact, the South African independence that occurred in 1961 was a release from British Colonial rule quickly followed by a political lock on the government by the deeply entrenched Afrikaans community, virtually all of whom were politically committed to the separation of the races that they believed was essential to the survival of the culture.

Numbering about 22% of the racial balance in the early 1960s, South Africa saw more than half its Caucasian population vacate in the 1970s—mostly expatriate Brits who fostered a white diaspora back to their native homelands in other commonwealth countries. They knew that the corruption of apartheid and the continued disenfranchisement of the 78% black majority could not hold, and they suspected that a civil war would result between the emerging black population (and ANC) and the Afrikaans who all agreed, "would fight to the death" to defend their birthright. They also felt the mounting pressure of world opinion as it hardened toward the Balkanization of the black and colored races in their country.

In the 1980s all but a handful of nations placed economic sanctions against South Africa, and only its vast reservoir of coveted natural resources and precious metals enabled it to hold together. Ultimately the "national

* As recently as 2015, tourist friendly nations such as Kenya, Tanzania and Nigeria have not kept specific data on foreign arrivals into their countries. These records are now being reviewed and updated as the nations form new economic coalitions.

paranoia" gave way to world pressure and stifling economic boycotts in 1989—enough to allow F.W. de Klerk broker a transition to open elections and release of Nelson Mandela from prison. Nelson Mandela proved his greatness and the depth of his conversion during his 23 years in prison. And yet one cannot discount the politically savvy and well-navigated transition FW de Klerk created during the three years of his "transitional" government (with Thabo Mbeki as South Africa's first ever black Vice President).

"In the purest sense, it is one of the youngest republics on the continent. As such, South Africa has had to deal with the hangover of a full century of apartheid, two decades of global economic sanctions, and finally some well-intended, occasionally naïve and frequently inept attempts to right the wrongs of the past."

The Mandela Legacy

There are truly times in history when one man is destined to lead a nation…often out of darkness. Nelson Mandela was the right man for his time. And no one could have done what he was able to accomplish with quite as much skill, timing, compassion, humanity and *savoir faire*. Inheriting a great deal of paranoia from the disenfranchised Afrikaans and a potential political power struggle between the ANC and the (Zulu) Inkatha Party, Mandela immediately set forth the *Truth and Reconciliation Act*, forgiving all crimes committed on both sides of the previous regimes, both government atrocities and any acts of rebellion or retribution.

In the short term, the act and the National Reconciliation Commission set up to oversee it quelled animosity, inevitable political party conflicts and any immediate inclination toward mass reprisals. The (white) Afrikaans population felt somewhat secure. The 78% black majority and "coloured" races (9%) seemed sufficiently mollified and trustful of the process. And most important, the anticipated civil war that the whole world dreaded never took place.

In the first place, Mandela was smart enough to allow all privately held corporations and family industries not only to continue but also to thrive. Although presented with petitions to do so, he demurred on any recommendations to nationalize South Africa's vast natural resources or mining industries. In fact, in view of the corruption that accompanies most nationalized energy companies, privatization in South Africa has remained a standard. What's more, his reassurances to groups like the World Trade Organization and the IMF of South Africa's continuance of financial integrity kept its powerful financial backbone intact and lifted the value of the rand to its highest level in years.

The immediate result for South African businesses was an assurance to the world financial communities that its government would allow business and investment to flow as usual, and with minimal government impediment. In view of this yielding to private enterprise, Mandela nonetheless saw to it that South Africa provided social services in ways that worked, including free health care for the aged and for all children under 7 years of age (the sectors that needed it most).

When Nelson Mandela retired from public office in 1998, his longtime No. 2 (and one of the architects of the 1989 transition) Thabo Mbeki won a free election to replace him as South Africa's President. In its way, South Africa's growth into the Sub-Sahara's pre-eminent economic power took place on Mbeki's watch. From 1999 to 2008, South Africa opened extensive trade and exportation to China, Japan, Germany and the United States, and vaulted into a number 1 position in terms of national GDP.

Perhaps one of the most underrated political administrators in African history, Mbeki continued to keep South Africa on an even keel until he tendered his resignation in the face of corruption charges in 2008. Completely vindicated in 2010, Mbeki was nevertheless replaced by current President Jacob Zuma who has overseen something of an unraveling of South Africa's cachet in world markets, especially in the last four years.

2010 to 2015 – The Bubble

Since the changeover and especially in the last two years, the political and economic climate in South Africa has come onto shaky ground. The Jacob Zuma presidency has been replete with financial corruption and scandal. The General Assembly walked out en masse in November of 2015, and the World Bank momentarily considered dropping its Bond Ratings to junk. Foreign investors, cautious about ventures into South Africa in the best of times, have backed off in even far greater numbers than usual. Despite some of the richest mineral deposits in the world, South Africa's annual growth rate has slowed to about 1.3%. And, in relation to the GDP, the Human Quality of Life Index (much higher under Mbeki and Mandela) has fallen severely to one of great disparity.

So much malfeasance has been sniffed out in Jacob Zuma's administration that he recently went through three financial ministers in one week. And the emerging survivor Patrick Gordhan formed an uneasy alliance with South Africa's CEO by insisting on a laundry list of economic reforms. Working with the Economic

** It has become a truism that, "One man's terrorist is another man's freedom fighter." This has held true historically for centuries. Most recently, two Israeli Prime Ministers David Ben-Gurion and Menachem Begin ("The mad bomber of the Irgun.") were both "freedom fighters" in that nation's struggle for independence. So was Ireland's first president Eamon DeValera. And Jomo Kenyatta, "The George Washington of Kenya," was a de facto leader of its bloody Mau Mau rebellion in the 1950s.

Transformation Committee (ETC) on resolutions to build back the South African financial franchise by dealing with critical issues such as water shortages, diminished electrical energy grids and improving labor relations with strained unions. This initiative as part of the overall ANC National Development Plan is designed not only to restore outside investor confidence in South Africa but also to save the reputation and perhaps survival of the oldest surviving political party in South Africa.

"South Africa's eGovernment!"

Just when one decides to write off the troubled presidency of Jacob Zuma and look upon his removal from office as a *fait accompli*, he not only survived a 2016 impeachment investigation on corruption charges but also emerged unscathed. Not one to waste an opportunity, Zuma took to the airwaves three days later to announce that South Africa is now the first government in Africa to be virtually 100% accessible as a smart phone app. Even though only 54% of South Africans own a computer, nearly 70% have smart phones (especially Millennials).

Ever aware of this, South Africa just became the first African government to have a live eGovernment Website nicknamed IMBIZO. On IMBIZO (A Zulu word meaning "gathering" or "political discussion") everyone with a smart phone can access daily updates, broadcasts and immediately apply for and receive their government ID cards, social services and benefits. The result has been the elimination of very long lines at government offices almost overnight, along with restoring the image of the Zuma regime as being ahead of the curve (even of most G7 nations) on this particular aspect of technology. And yes! As it turns out, perception is reality: Access creates transparency. And transparency spawns support.

As part of that "credibility" campaign, the South African NEC has implemented a program called *Invest-SA*, a robust program of financial incentives to attract foreign investment and reignite acquisitions from major financial institutions and venture capital.

South Africa's sphere of influence

Despite the ongoing drama South Africa is still the "S" in the aggregate of shakers and movers called the BRICS nations. And yet again South Africa (at 48 in the world) was still rated Number 2, behind Mauritius (at 30) among all African nations on the 2016 Legatum Prosperity Index. So, one might observe that, "Rumors of its demise are greatly exaggerated." Despite the ostensible problems South Africa is having in terms of government stability "the fundamentals are sound." Flagging global confidence and its financial integrity notwithstanding, South Africa has enough insiders and credible powerbrokers who believe the ship is currently being righted. And to those willing to be patient the rewards, both tangible and perennial, will be forthcoming.

One aspect of South Africa that is proving more significant than any other is the fact that it virtually "anchors" down Southern Africa. Its trading relationships and business influences in "satellite economies" such as Zambia, Namibia, Botswana and Mozambique have been both stabilizing and reassuring. It is, in every sense of the word, the banker of southern Africa—the one other nations look to for stability, trust, and (that hidden dragon of African growth) accessible credit.

"South Africa has enough insiders and credible powerbrokers who believe the ship is currently being righted. And to those willing to be patient the rewards, both tangible and perennial, will be forthcoming."

Contributors' Profiles

Mark Byron is a successful startup entrepreneur and investment director in the complicated world of finance who has mastered a unique ability to leverage current market trends and meld them into emerging markets.As Co-Founder of Barton-Heyman, Ltd. A company with business partnership in the U.K. and Sub-Sahara Africa of London and Lagos, Nigeria,, Mark heads a group of experienced professionals who have come together to form a financial vanguard in African markets. For that reason he has developed a unique strategy and laid it all out in this groundbreaking book, Africa Arrives! as an exceptional guide for both experienced entrepreneurs and savvy investors looking for leverage in new markets. In it, you'll learn how to navigate the intricate currents of the 54 nations in what every financial expert has predicted will be the world's hottest market for the next 50 years. If you are looking to Africa to invest, start up a new business, co-venture or make connections Africa Arrives! is a great place to start.

Robert Joseph Ahola is an author, playwright, producer and director who lives in Malibu, California. As CEO of Galahad Films, Robert has authored 14 published and/or produced plays, including *Pavlov's Cats, Judas Agonistes, The Ghost and Josh Gibson, and NARCISSUS: The Last Days of Lord Byron.* An environmental activist and world traveler, Robert is the author of twenty-two published books including *The Silent Healer, The Return of the Hummingbird Wizard, and I, Dragon. Africa Arrives,* co-authored with Mark Byron, is his tenth work of non-fiction.



PROFITING FROM "THE FINANCIAL SINGULARITY"

In the relatively short time humans have been on earth, there have been five great ages of progress. What most people don't realise is that the time it takes for these revolutions to come about is accelerating at a shocking rate.

As inventor and futurist Ray Kurzweil notes: "Because of the explosive nature of exponential growth, the 21st Century will be equivalent to twenty thousand years of progress at today's rate of progress; about one thousand times greater than the 20th Century."

What that means is that you are going to see things you thought you'd never live to see. The next great age is upon us. Most people don't understand the rapid change technology has on their lives, the speed at which change occurs, or why it could make them more money than they've made in their entire lives.

Grand disruptions create millionaires

At the start of the Industrial Revolution nearly 200 years ago; the big money was to be found in Western Europe – particularly in Britain.

Britain dominated invention, science and manufacturing. It built factories, developed mass labour and invested capital into revolutionary ideas.

Naturally, the money flowed. And the great investors of the time made their millions. Charles Algernon Parsons and Henry Bessemer were two such men – engineering titans who embodied the entrepreneurial spirit of the age.
Then, around 1909 something extraordinary happened. With the invention of the motor car, made using a new technique called mass production and consuming vast amounts of oil, a new wave of progress began. This time America was its epicenter.

Those three ideas – mass production, oil consumption, and cheap, efficient motorised travel – changed the way people lived, worked and communicated forever. Of course, the money followed.

America became the richest nation on the planet. And the early backers of these endeavours – the investors – got rich beyond their wildest dreams. You've heard of them, I'm sure. Legendary money-men, such as Benjamin Graham, JD Rockefeller, JP Morgan and Jesse Livermore, to name a few, pulled in gigantic fortunes from these ripe market conditions.

Eighty years on, even more money was made – this time by early investors smart enough to pounce on the leaders of the information revolution. Companies including Microsoft and Amazon earned investors £50,000 for every £1,000 they put in, in a span of just a decade.

The pace of change is becoming more rapid. And the speed at which money is made is accelerating too. What comes next is what I'm calling "the financial singularity". Because the point at which companies and investors can generate immense wealth is hitting an exponential curve.

The financial singularity has arrived

For any company, growing from zero to $1bn is a tough task. If you've ever started your own company you'll know this already. Most companies never manage it. Most never even get close. When you're at zero, growing to a ten or even a $1m valuation feels like a lifetime of work.

So making it to a billion is a distant goal. It's a dream. It's like boarding a flight to Paris and hoping you'll end up in Neverland. So for those companies that do manage it, it takes a long time. My colleagues at Bonner & Partners did some research into this subject. They found that the typical Fortune 500 company takes just under 20 years to reach $1bn. I'd say that's pretty good going.

But one thing that's certainly always been true of tech companies – and in particular, software companies who don't have to manufacture tons of hardware and other expensive stuff – is that they grow much quicker than "typical" companies. Google took less than ten years to reach $1bn. Facebook took just over five.

Tech companies might grow faster than typical companies; that's obvious. But the interesting thing is that this trend is accelerating over time. More and more companies are shooting from zero to $1bn at an ever faster rate.

Like many, the information revolution probably took you by surprise. It's very likely you didn't make 1,000% on Amazon, Google or Microsoft because you couldn't anticipate that their technology would have such a deep impact on the world around us.

The world is speeding up. Tech companies are riding this wave to grow faster than ever before. And high growth correlates with high return on capital.

Follow this trend to its logical conclusion and not only do you see a world where social, technological and medical advancements sweep the planet at a rate that will shock people, it'll also be possible to make more money, more quickly, than at any other point in investment history.

In fact, it has already begun. We're starting to see the early movers of this next great age of progress bolt up in price: Rock Tech Lithium (up 1,515%), Tobira Thera- peutics (gains 272%) and Colucid Pharmaceuticals (up 853%) in just 12 months. And this is just the beginning.

This is a rare and powerful convergence of financial and technological exponentially. And you are in the perfect moment to take advantage of it.

The real money isn't made by jumping in and out of hot stocks. It's made by backing the companies at the very forefront of the revolution and hanging on to them as they multiply in value five, ten, even 20 times over.

AFRICA'S MONETARY POLICY RATE: HAWKISH NORTH AFRICA & DOVISH EAST, WEST, SOUTHERN AFRICA

Mauritius' central bank held its repo rate at 4.0 percent on Friday 5th May 2017 and stuck to its 2017 growth forecast, but Governor Ramesh Basant Roi said the government must push ahead with infrastructure projects to ensure the island does not underperform economically. Roi told a news conference that the bank projects headline inflation at around 2.0 percent in 2017 down from a previous forecast of 2.5 percent.

The central bank of the six-nation Central African monetary union (CEMAC) held the region's main interest rate unchanged at 2.45 percent, a spokesman said after the quarterly meeting on Tuesday 9th May 2017. Economic growth in the CEMAC zone, which includes Cameroon, Central African Republic, Chad, Republic of Congo, Gabon and Equatorial Guinea, is expected to be 1.6 percent in 2017, the bank said, a rate slower than elsewhere on the continent.

The Democratic Republic of Congo's central bank remained its key interest rate unchanged at 14 percent on Friday May 12th 2017, in an attempt to curb rising inflation. Annual inflation rate was last recorded at 36.3 percent in March, well above the central bank's target of 4.2 percent.

Zambia's central bank cut its policy rate for the second time in a row by 150 basis points to 12.5 percent on Wednesday 17th May 2017, saying inflation is forecast to remain within the bank's target range over the medium term and prospects for economic growth are expected to improve despite subdued economic activity in the first quarter. In addition, the central bank narrowed its policy rate corridor to +/- 1 percentage point from +/- 2 percentage point.

Egypt's central bank raised its key interest rates by 200 basis points on Sunday May 21st 2017, citing stronger economic growth and falling unemployment. At a meeting of its Monetary Policy Committee, the bank hiked its overnight deposit rate to 16.75 percent from 14.75 percent and its overnight lending rate to 17.75 from 15.75 percent, it announced in a statement. This was the bank's first increase in rates since an aggressive hiked of 300 basis points in November.

Ghana's central bank lowered its benchmark interest rate on Monday 22nd May 2017 by 100 basis points to 22.5 percent, citing a downward trend in inflation towards medium term targets of 8 percent plus or minus 2 percentage points, Governor Ernest Addison said. The cut reflected lower risks to inflation despite a rise in the figure to 13.0 percent in April due to higher petroleum prices.

Nigeria's central bank kept its benchmark interest rate at 14 percent on Tuesday 23rd May 2017, Governor Godwin Emefiele stated, hours after the statistics office reported Nigerian economy contracted in Q117. In consideration of the challenges weighing down the domestic economy and the uncertainties in the global environment, the committee decided by a unanimous vote of eight members in attendance to retain the Monetary Policy Rate at 14 percent, he said.

Tunisia's central bank raised its key interest rate by a further 25 basis points to 5.0 percent on Tuesday 23rd May 2017, in order to limit the impact on the economy from rising inflationary pressure and a growing current account deficit. The Central Bank of Tunisia has now raised its rate by a total of 75 basis points in 2017 following a 50 basis points hike in April at an extraordinary meeting of its board as a result of a sharp fall in the dinar's exchange rate.

South Africa's central bank kept interest rates steady at 7 percent on Thursday 25th May 2017, playing down prospects of cheaper borrowing costs as it weighed price pressures against expectations that the struggling economy will recover more slowly than hoped. The key rate hasn't changed for 14 months after the central bank raised it by two percentage points since 2014.

Swaziland's central bank retained the discount rate at 7.25 per cent on Friday 26th May 2017. The Bank reassures the public that the Bank's monetary policy stance shall remain supportive to economic growth and employment.

Kenya's central bank kept its Central Bank Rate (CBR) at 10.0 percent on Monday 29th May 2017, saying its current policy stance had reduced the threat of demand-driven inflation, which is still expected to remain above the government's target in the near term due to higher prices of some food items. The Central Bank of Kenya, added recent rains and intervention by the government are expected to provide some relief to the recent rise in food prices.

AFRICAN INFLATION RATES IN APRIL: SLOW, STEADY, SURGE

Angola's inflation slowed to 34.8 percent year-on-year in April from 36.52 percent in March, National Statistics Agency's reported. On a month-on-month basis price slowed to 1.8 percent in April compared to a 1.91 percent previously.

Algeria's consumer price inflation stood at 7 percent year-on-year in April. The gross index of consumer prices in the city of Algiers rose by almost 0.4% compared with March.

Botswana's consumer inflation slowed to 3.4 percent year-on-year in April from 3.5 percent in March, the statistics office reported. Prices rose 0.7 percent month-on-month compared to 0.5 percent previously.

Burundi's year-on-year inflation eased to 19.4 percent in April, down from 21.1 percent in March, following a slowing in food price growth on local markets, the Institute of Economic Studies and Statistics.

Egypt's annual urban inflation rose in April to 31.5 percent from 30.9 percent in March, CAPMAS reported. The figures are the highest since June 30, 1986, when it reached 35.1 percent.

Ethiopia's year-on-year inflation rose to 8.6 percent in April from 8.5 percent in March, the Central Statistics Agency reported. Food inflation increased to 12.2 percent from 9.6 percent in the previous month.

Ghana's annual inflation rate higher to 13.0 percent in April from 12.8 percent the previous month, the statistics office reported. Food inflation fell to 6.7 percent in April from 7.3 percent a month earlier.

Ivory Coast consumer price inflation fell to 0.1 percent year-on-year in April from 0.4 percent in March, data from the National Statistics Institute showed. Food and soft drink prices fell 1.7 percent year-on-year.

Kenya's inflation rose to 11.48 percent in April from 10.28 percent last month, the statistics office reported. On a month-on-month inflation increased to 1.79 percent from 1.67 percent previously.

Malawi's consumer inflation slowed to 14.6 percent year-on-year in April from 15.8 percent in March, official data from the National Statistical Office showed.

Mauritius year-on-year inflation rose to 2.9 percent in April compared with 1.3 percent the previous month, the statistics office reported.

Morocco's inflation was 0.3 percent in April up slightly from 0.1 percent in March due to a rise in food prices, the planning agency reported.

Mozambique annual consumer inflation eased to 21.27 percent in April from 21.57 percent in March, the statistics agency reported.

Nigeria annual inflation eased in April, inching down to 17.24 percent from 17.26 percent in March, the National Bureau of Statistics stated. Food price index rose to 19.30 percent from 18.44 percent previously. This is the third consecutive month of a decline in the headline CPI rate, exhibiting effects of some easing in already high food and non-food prices, as well as favourable base effects over 2016 prices.

Rwanda's inflation eased to 7.3 percent year-on-year in April from 7.7 percent in March, the National Bureau of Statistics stated.

Seychelles year-on-year inflation stood at -0.78 percent in April from -1.15 percent the previous month, the statistics office reported.

South Africa's consumer inflation eased to 5.3 percent year-on-year in April from 6.1 percent in March. On a month-on-month basis, inflation fell to 0.6 percent from 1.1 percent, Statistics South Africa reported. Food and non-alcoholic beverages decreased from 1.5 percentage points in March to 1.1 percentage points in April.

Sudan's annual rate of inflation rose to 34.81 percent in April from 34.68 percent in March, the Central Statistics Office reported.

Tanzania's inflation was unchanged at 6.4 percent year-on-year in April from a month earlier, the statistics office reported.

Tunisia's annual inflation rose to 5 percent in April this year from 4.8 percent in March, the National Institute of Statistics (INS) reported.

Uganda's inflation accelerated to 6.8 percent year-on-year in April from 6.4 percent a month earlier, fuelled by a surge in vegetable prices, the Uganda Bureau of Statistics reported.

Zambia's inflation slowed to 6.7 percent year-on-year in March from 6.8 percent in February, the statistics office reported. The monthly inflation slowed to 0.3 percent from 1.0 percent previously.

Zambia's inflation slowed to 21.8 percent in April from 22.2 percent year-on-year in March, the central statistical office (CSO) stated. The monthly inflation rate decreased to 0.3 percent from 0.5 percent in March.

Zimbabwe's consumer prices rose to 0.48 percent year-on-year in April from a 0.21 percent increase in March, the national statistics agency reported. On a month on month the inflation rate rose to 0.05 percent against 0.03 percent in March.

AFRICAN EQUITY MARKET INDICATORS AS AT 31-MAY-2017								
Country Name	Index Name	Index at 31-May	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	9,349	0.11	-0.55	-8.30	9,006	10,196	1.479
BRVM	IC Comp	271	-0.96	-7.11	-11.81	261	313	23.218
Egypt	EGX 30	13,415	7.90	8.67	77.16	6,832	13,544	16.345
Ghana	GSE ALSI	1,920	1.24	13.65	9.60	1,508	1,925	5.151
Kenya	FTSE NSE15	148	11.34	11.29	3.34	120	148	13.236
Malawi	MSE ALSI	15,574	2.43	16.92	21.53	12,800	15,610	6.152
Mauritius	SEMDEX	2,081	3.19	15.09	18.83	1,738	2,081	4.838
Morocco	MORALSI	11,578	-0.52	-0.57	18.34	9,427	12,951	8.574
Namibia	Local	1,047	-3.35	-2.01	7.43	925	1,144	12.415
Nigeria	NIG ALSI	29,498	14.48	9.76	9.62	24,547	31,073	17.674
Rwanda	RSEASI	127	-0.59	-0.35	-2.63	127	130	1.123
South Africa	JSE ALSI	53,183	-1.18	4.99	-0.63	48,936	54,717	8.375
Swaziland	SSX ALSI	386	0.07	1.51	0.08	358	386	0.209
Tanzania	DAR ALSI	2,172	-2.20	-1.19	-11.98	1,979	2,830	33.441
Tunisia	TUNIS	5,707	1.04	3.97	3.73	5,277	5,774	4.735
Uganda	USE ALSI	1,664	5.76	12.63	-5.90	1,331	1,782	12.796
Zambia	LuSE ALSI	4,718	3.24	12.45	-4.96	4,010	5,721	7.090
Zimbabwe	IDX (USD)	162.34	13.37	12.32	54.99	93	162	8.494

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 31-MAY-2017								
Country Name	Currency Name	Index at 31-May	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	108.41	0.80	1.83	1.99	107.80	112.17	3.543
Angola	Kwanza	167.99	-0.53	0.17	0.73	163.78	169.65	8.042
Botswana	Pula	0.10	1.36	3.85	8.60	0.09	0.10	7.708
CFA Franc	CFA Franc	587.81	2.69	7.17	1.15	577.20	636.39	7.646
Egypt	Pounds	18.13	-0.08	0.04	-51.30	8.77	19.67	5.161
Ethiopia	Birr	23.20	-0.39	-3.51	-6.59	21.64	23.23	11.510
Ghana	Cedi	4.29	-1.52	-1.28	-10.61	3.78	4.82	9.729
Kenya	Shillings	103.42	-0.31	-0.88	-2.49	100.60	104.18	1.075
Malawi	Kwacha	726.09	0.03	0.19	-2.34	704.48	730.00	1.862
Mauritius	Rupee	34.81	-0.06	3.33	1.69	34.06	36.50	10.943
Morocco	Dirham	9.74	1.84	3.99	0.24	9.23	10.32	4.894
Mozambique	Metical	59.59	9.08	19.79	-2.13	55.55	79.38	13.853
Nigeria	Naira	318.50	-2.51	-1.00	-37.50	197.00	350.25	19.861
Rwanda	Franc	827.97	-0.24	-0.72	-4.19	777.53	842.33	10.049
South Africa	Rand	13.15	1.97	4.47	19.43	12.31	15.74	16.010
Tanzania	Shilling	2,236.00	0.00	-2.46	-2.01	2,170.05	2,272.50	1.650
Tunisia	Dinar	2.47	-0.06	-6.33	-14.15	2.09	2.58	20.248
Uganda	Shilling	3,600.00	0.90	-0.10	-6.53	3,340.00	3,655.41	3.359
Zambia	Kwacha	9,273	0.5662	7.17	12.27	9,123	11,265	7.590

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 31-MAY-2017								
Country Name	Maturity	Price at 31-May	Mid-Yield at 31-May	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US$ M)
Angola	12-Nov-25	107.548	8.240	-0.401	10.559	86.206	107.748	USD
Cameroon	19-Nov-25	119.110	6.523	-0.709	10.299	98.278	119.174	USD
Congo	30-Jun-29	80.708	8.575	-0.719	25.747	63.766	80.726	USD
Cameroon	19-Nov-25	119.110	6.523	-0.709	10.299	98.278	119.174	USD
Egypt	30-Apr-40	95.219	7.307	0.002	8.731	82.391	100.290	USD
Ethiopia	11-Dec-24	100.851	6.480	-0.292	8.926	87.394	101.633	USD
Gabon	16-Jun-25	101.895	6.641	-0.406	8.113	81.889	102.405	USD
Ghana	14-Oct-30	124.932	7.724	-0.435	5.110	100.184	125.197	USD
Kenya	24-Jun-22	103.067	6.329	-0.278	8.538	90.961	103.239	USD
Ivory Coast	31-Dec-32	96.930	6.233	-0.115	4.295	88.498	101.499	USD
Morocco	11-Dec-42	111.386	4.727	-0.154	9.049	100.880	118.426	USD
Namibia	29-Oct-25	102.690	4.856	-0.147	4.343	97.946	108.052	USD
Nigeria	12-Jul-23	104.711	5.457	-0.267	7.831	89.886	104.857	USD
Rwanda	02-May-23	103.590	5.896	-0.325	3.949	93.652	103.622	USD
Senegal	30-Jul-24	106.021	5.230	-0.538	5.836	92.173	106.652	USD
South Africa	24-Jul-44	101.130	5.296	-0.061	2.540	91.188	116.008	USD
Tanzania	09-Mar-20	106.087	5.075	-0.059	0.768	101.770	106.272	USD
Tunisia	19-Sep-27	109.816	6.900	0.005	3.353	101.624	110.396	USD
Zambia	30-Jul-27	108.263	7.775	-0.176	9.162	81.373	108.510	USD

Compiled by Capital Markets in Africa