INTO AFRICA
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TRADING AFRICA’S PROSPERITY

ISSUES AND SOLUTIONS FOR AFRICAN TRADE FINANCE

TRADE FINANCE IN AFRICA: CHALLENGES, OPPORTUNITIES AND THE ROLE OF RISK

EXCLUSIVE INTERVIEWS WITH:
COBUS VISAGIE, CHIEF EXECUTIVE OFFICER, AFRICA MERCHANT CAPITAL LIMITED
GEORGE WILSON, HEAD OF TRADE, FINANCIAL INSTITUTIONS, ABSA, AFRICA
MOHAMMED KATEEB, GROUP CHAIRMAN & CEO OF PATH SOLUTIONS
ALEXANDRE MAYMAT, HEAD OF AFRICA & OVERSEAS, SOCIÉTÉ GÉNÉRALE

PROSPECTS FOR REGIONAL ECONOMIC INTEGRATION IN AFRICA

FINTECH PLATFORMS WITHIN TRADE FINANCE CONTEXT

ALTERNATIVE DISPUTE RESOLUTION: ENABLER FOR AFRICA’S GROWTH

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Welcome to the July 2019 edition of INTO AFRICA, a publication written by the professionals, for professionals, investors, policymakers … Advancing and providing fresh insight into Africa’s emerging markets through renowned thought leadership and peer-to-peer knowledge-sharing. The edition is titled: Trading Africa’s Prosperity.

Africa is fundamentally a trading continent. The socio-economic structure of most African countries hinges on trade; however, trade still accounts for 51 percent of Africa’s GDP according to World Bank data. The last few years have proved difficult economically for much of Africa. This, together with political issues and constraints on access to finance, has resulted across much of the continent in a drop off in inward investment levels. In addition, economic growth has not lived up to hope or expectation amidst resurgent nationalist movements in the US-China trade war, as well as polarisation and geopolitical turmoil around Brexit.

Integration has re-emerged as a key factor in securing Africa’s prosperity. Africa has over the years, especially since the 1960s, established continental and regional integration bodies and frameworks that have provided auspices for political and economic milestones. Amidst the independence movements, Kwame Nkrumah, Ghana’s first President, pronounced that “Africa must unite or perish”. The African Continental Free Trade Area (AfCFTA) has accelerated integration efforts with 52 African countries signed up to date, making it the largest free trade area since the creation of the WTO. At the market of over 1.2 billion people, and consumer and business spending already over US$4 trillion annually and estimated to hit US$5.6 trillion annually by 2025, has opened for economic operators to pursue.

SIMON COOK (Trade & Export Finance Partner at International Law Firm Sullivan in London) opens this edition by looking at some of the issues and how certain types of financiers may be able to help to reduce the trade finance gap in Africa. Whilst SRINATH KESHAVAN (Chief Executive, Trade Risk Consulting Pte. Ltd. Singapore) provides us with an overview of the trade finance transactions. In parallel, JOHN LENTAINIGE (Acting Chief Executive Officer, African Trade Insurance Agency) looks at the challenges and opportunities as well as risk management in reducing African trade finance gap.

FRANCIS MANGENI (Director, Trade and Customs, Common Market for Eastern and Southern Africa) talks about the prospects for regional economic integration in Africa in context of the Phoenix theory for economic integration. Moving on, ITUMENG MUKHOVHA (Corporate M&A Associate, Baker McKenzie South Africa) x-rays the new African Continental Free Trade Area (AfCFTA). She also features in “The mining industry's generation of something new”. As well, WOLA ASASE (Senior Vice President, Africa Finance Corporation Nigeria) debates on how to effectively match the trillions of private capitals available globally to finance trade in Africa. ELIZABETH OKUNDA (Head of Sales & Marketing, FACTS Kenya) writes on the attractiveness of small and medium enterprises (SMEs) in East Africa. CELESTE FAUCONNIER (Sub-Saharan Africa Economist, Rand Merchant Bank South Africa) assesses investment attractiveness across African countries.

And still more, we bring you exclusive interviews with executives. COBUS VISAGIE (Chief Executive Officer, Africa Merchant Capital Limited) views that the yield on well packaged Africa credit is attractive. GEORGE WILSON (Head of Trade: Financial Institutions, ABSA, AFRICA) opines that Africa’s trade finance gap is a systemic failure of African SMEs to obtain needed credit. The BPL GLOBAL directors, GEORGE BELLORD and SAM EVANS (Chair African Regional Committee, IFTA) feature in “Fintech platforms within trade finance context”. QUAN LE (Founder of Binkabi) writes in “Issuing, trading and financing commodities on the blockchain”. Still more, YASMIN WILSON (Associate, Norton Rose Fullbright South Africa) and RICHARD STEINBACH (Associate, Norton Rose Fullbright South Africa) add a legal viewpoint to dispute resolution in Africa. ROBERT BESSELING (Executive Director, EXX AFRICA) views that the central African regional CEMAC bloc is unlikely to fully deliver on its fiscal consolidation and debt sustainability agenda. MICHAEL ZIMMERN (Principal, Forensics, Europe and Africa, Control Risks) delves into managing corruption and fraud risks in Africa. STEPHEN DEBLANCHE (Chief Revenue Officer at TransUnion Africa) examines the impact of Fintech in African banking and financial services.

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The last few years have proved difficult economically for much of Africa. This, together with political issues (for example in Zimbabwe, South Africa and Mozambique) and constraints on access to finance, has resulted across much of the continent in a drop off in inward investment levels. In addition, economic growth has not lived up to hope or expectation. This article looks at some of the issues and how certain types of financiers may be able to help.

A key driver for growth is the ability to borrow both to maintain business and to fund expansion. It has been difficult for borrowers in certain countries to obtain sufficient funding for a number of reasons. It may be because hard currency funding is required, but the level of hard currency reserves when combined with exchange control restrictions has meant it has been difficult to ensure borrowings could be repaid offshore in hard currency. With less hard currency liquidity in these countries, hard currency loans have been hard to come by as lenders look elsewhere rather than risk, as has happened, having to convert hard currency loans into local currency loans in order to be repaid or having to wait until cash is allocated from the limited reserves available.

The lack of available funds is exacerbated by many financiers in the international bank market not being able to find borrowers with financeable deals through lack of contacts and an inability to adequately due diligence transactions on the ground following significant de-risking across the Africa markets. Even where these challenges do not apply, the extent of the regulatory framework that applies now and the need for yields to be higher, due to capital relief reductions, means that many deals can only be done on a highly structured basis or for yields which are not feasible economically for borrowers, most of whom in an Africa context are SMEs. Financeable deals are there but the obstacles appear too great for banks to put all the pieces together.

So, what can be done to try to overcome these challenges? In order to achieve an increase in financing volumes and economic growth, two things can help - firstly, finding alternative financiers that can fund those transactions that banks simply cannot finance and seek better yields through increasing the value of what is produced. For example, countries that produce large amounts of commodities such as the DRC, Cote D’Ivoire and South Africa are still only extractors. They do not possess the infrastructure to turn commodities into consumer products or products higher up the value chain which would provide them with enhanced cash flows and put them in a more advantageous position when seeking finance. This would certainly help to plug the trade financing gap.

Secondly, there needs to be a significant increase in intra-regional trade which requires major advances in transport infrastructure to allow for efficient movement of goods and the development of trade agreements between countries and regions within the continent. For this to happen, there has to be much more co-operation and there needs to be huge amounts invested into transport infrastructure projects. The continental free trade association is taking steps to try to increase intra-regional trade which is a positive step and can provide a platform to assist future growth. Transport and infrastructure options must follow, and this is where export credit agencies (ECAs) and development finance institutions (DFIs) can help.

In terms of alternative financiers, the market should be looking to attract financing from everyone from investment funds through to insurance companies and pension funds. These non-bank financial institutions (NBFIs) do not have the same restrictions as banks on capital requirements and do not have to comply with requirements relating to the whole risk asset framework. This means that NBFIs can basically fund the market through their own fund-raising activities.

One of the other areas causing banks problems revolves around on-boarding of clients. Again, NBFIs can establish their own procedures around this and do not have the same level of regulation as banks. They clearly cannot ignore regulations.
around sanctions, AML and financial crime but they have more flexibility generally and are more nimble and therefore more able to take advantage of opportunities as they arise which can often be the difference between doing and not doing a deal. Ironically though, where they raise funds from banks, NBFIs may find that bank regulatory requirements are imposed on them indirectly via those banks.

On the plus side, as banks turn away more and more from traditional structured trade products such as pre-export finance, prepayment finance, tolling finance etc, the NBFIs are stepping into this space.

Increasingly they have the expertise to structure and execute these types of transactions, even at the SME level, and can charge yields that make it economic for them and, being cheaper than local bank finance (usually the only alternative available to them), for their borrowers. However, when it comes to institutions such as pension funds that take a longer term view, the challenge is how to provide them with longer term assets. This is possible in some cases, but as most trade finance assets are (relatively) short term, these types of funds are unlikely to be significant players outside of the market for securitised trade finance assets which itself is a relatively small market. Ultimately, NBFIs can make a difference, at the SME level in particular, but they are unlikely on their own to close the trade financing gap significantly.

So, what else can help? What role can the ECAs and the DFIs play in financing African trade?

Taking ECAs first, over the last five years they have certainly become more active in Africa. They are seen by ever more cautious investors as a safer and more stable partnership option for longer term infrastructure financing than the bond market, especially in the transportation and power sectors. This period has also coincided with an uptick in revenues for governments and the private sector in Africa from increasing commodity prices allowing for increased investment in infrastructure. However, ECA finance, whilst an obvious candidate for this type of investment finance, still throws up challenges. This is particularly so in the context of IMF borrowing restrictions on many of the most debt-laden countries in Africa since ECA finance falls outside of the concessional finance criteria applicable to those countries which have reached their borrowing limits. On top of this, more generally the ECAs are increasingly looking to finance developed markets where risks are perceived to be lower and deals are easier (and more likely) to close. Africa has to be able to compete for the attention of non-African ECAs and this will continue to be critical so long as there are not significant ECA alternatives on the continent.

As regards the DFIs, institutions such as Africa Development Bank (AfDB) and African Export Import Bank (Afrexim) continue to take the lead. Both have brought new products to the market over recent years and are collaborating more with other financiers to tailor suitable financing options for African corporates. This takes the form of both structured products and programmes as well as more “basic” products such as receivables finance and forfaiting on which Afrexim, in particular, is working very hard.

International lenders like the preferred creditor status afforded by AfDB and Afrexim and their ability to bring African players together.

By doing this, they are facilitating increased levels of funding whilst at the same time having different categories of financier assisting with different areas of risk thus providing lower overall risk profiles whilst maintaining yields at appropriate levels for the risks being taken. It is up to borrowers to play their part too, though. For example, one European DFI and one European ECA have lending programmes designed for emerging market borrowers which today are largely unused. This is partly down to lack of knowledge of what is available, which means that both sides have to work harder to ensure each is aware of the other and utilise, where appropriate, facilitators such as the African DFIs to make this happen.

In conclusion, there are various initiatives outside of the bank finance market which have helped, and are continuing to help, African trade to grow and liquidity to be increased on the continent - but there is still more that can be done.

All those who wish to see African trade and trade finance prosper should keep an open mind as to the options available and work towards making trade finance in all its potential forms more easily available. This requires financiers of different types to work together, requires borrowers to play their part and also requires governments and regulators to establish an environment which encourages and incentivises trade finance on the continent. This is very achievable but only time will tell whether this is actually achieved in the short, medium or long term.
Trade Finance is typically characterised as being a form of working capital finance extended over the short term (mostly 360 days or less), secured (pledge over goods) and self-liquidating (relying on payment from the borrower’s buyer).

‘Plain Vanilla’ Trade Finance is one amongst the product suite for Corporate Banking. In many lending institutions, access to trade finance lines is determined by the borrower’s financial status and the collaterals they have to offer over and above pledge over goods. In this sense, it appears Trade Finance is treated by lenders as a standard loan product just as they would view straight loans and overdrafts. And that’s an opportunity lost!

Unlike loans and overdrafts, disbursals of trade finance are intended to be linked to specific transactions in relation to specific deliveries from the seller, therefore specific goods. That fits well with the concept of ‘pledge’ where financed goods that are subjects of a security interest in favour of the lender remain distinct and ascertainable.

As a transactional exposure, the lender can obtain a more accurate view of their exposure on an almost ‘real-time’ basis. Therefore, the lender can exercise a stronger grip on the transaction while ‘in flight’. Such transactional approach is reflected in the manner of deployment of trade finance mechanisms be it open account financing, documentary collections, letters of credit, shipping guarantees, trust receipt loans, post-import finance, receivables finance, bank guarantees, factoring, forfaiting or supply chain finance (approved payables finance).

When the lender assumes exposure on several concurrent trade finance transactions, related cash flows, collaterals and commitments of the lender and borrower are not fungible.

‘Plain Vanilla’ Trade Finance focusses on the seller-buyer transaction. An aspect distinguishing Trade Finance from other standard loan products in the corporate banking product suite is while intermediating between seller and buyer, the lender by virtue of its financial standing being superior to that of the counterparties it serves, offers those counterparties ‘credit enhancement’. For example, when a bank issues a letter of credit or guarantee at the request of their customer (the applicant/instructing party), it does so in the capacity of an independent principal therefore affording the commercial counterparties access to commitments from an entity better-rated. Moreover, lenders acting on behalf of their respective customers are viewed as independent, reliable custodians of documents and funds.

Letters of Credit and Guarantees are in essence payment commitments from a lender but those commitments are activated only upon receipt of a claim from the beneficiary. Such claim is based on an act of performance or non-performance as specified. In the interim, the lender classifies its exposure as a contingent liability, therefore ‘off-balance sheet’ for the issuer.

In this article, ‘lender’ and ‘issuer’ are to be understood as being synonymous when mentioned in relation to documentary products.

Trade Finance is a significantly less risky exposure for the lender because of the in-built risk transfer, risk mitigation practices applied.

Firstly, it is recommended the nature of commitments from the issuer be consistent with the terms of the underlying commercial contract between the seller and buyer.

Secondly, instruments issued are generally subject to a common code of conduct on the part of the issuer and its correspondent acting on behalf of counterparties (ICC rules as it may apply).

Thirdly, the payment obligation from an issuer of a letter of credit or guarantee is activated not just by receipt of a claim but subject to the claim being in a form and content as specified by the issuer.
Fourthly, it is customary for the issuer to seek documents evidencing comprehensive performance or non-performance by the seller (or beneficiary) prior enforcement of a payment commitment from the issuer.

Fifthly, the issuer shall be afforded a legal interest in the goods exchanged between the seller and buyer and such interest will often be evidenced through the presentation of a document of title by the seller (or beneficiary). Such legal interest is supported at the very least by a lien in favour of the issuer over the stipulated document of title pending settlement of the exposure by the issuer’s counterparty.

Sixthly, the underlying goods while in transit are insured to cover losses arising from theft, pilferage and damage. The issuer is typically granted first right to receive compensatory proceeds from the insurer. Trade Finance exposures may be further insulated from other eventualities through provision of Trade Credit Insurance, Political Risk Insurance, Professional Indemnity & Fidelity covers.

Seventhly, it is international practice for trade finance transactions, in particular the documents exchanged and communication between the issuer and its counterpart to be in English or French as may be stipulated.

Finally, an aspect that may be an advantage or otherwise is that commitments of the issuer and its counterpart remain separate and independent from the underlying commercial obligations as well as the changing status of the commercial counterparties (seller and/or buyer) while the issuer’s liability remains current.

Structured Commodities Trade Finance (SCTF) is tailored to meet the needs of a borrower transacting goods across a supply chain. It could begin with pre-financing the creation and/or procurement of raw materials, conversion of those raw materials to intermediate/finished goods, transit of the finished goods towards the ultimate buyer, interim warehousing and finally delivery to the buyer (off-taker) which may come attached with supplier’s credit. The borrower could be the supplier, producer, trader (most often) or buyer. To the extent possible, the lender will want to gain control over the flow of goods, shipment documents and related cash flows. At the very least, the lender desires real-time visibility over goods and documents. All cash collections will be funneled into a secure collection account enabling repayment of the lender’s current dues before the borrower gains access to their profits.

SCTF offers solutions extending from various forms of Pre-finance, Pre-shipment Finance to Inventory Finance (or Warehouse Receipts Finance) and Receivables Finance. The lender is influenced by the viability of transaction, the existence of a strong commercial rationale and the attendant performance risks. This is not to suggest that the borrower’s financial status does not matter but it may not be the primary consideration.

The second instalment of this article will delve into particular structures available in SCTF that may be deployed to address the funding requirements of commodity sector borrowers.

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Contributor’s Profile:
Srinath Keshavan is Chief Executive of Trade Risk Consulting Pte. Ltd. in Singapore. He is a seasoned trade finance trainer. His experience encompasses both commercial and financial aspects of International Trade. He worked for many years in Bills, Banking Operations and Credit & Marketing Departments of an international bank in Hong Kong. Since 1991, he has been associated with commodity-trading firms in Singapore as Head of Trade Finance and Risk Management. His expertise relates to structuring financial arrangements for international trade transactions, raising credit lines and managing banking relationships. He heads a trade finance consultancy in Singapore. His seminars provide clarity over technical concepts and offer participants the opportunity to reinforce their own understanding of the subject through practical illustrations.

Please visit his LinkedIn profile as well as www.traderiskconsulting.com.
Trade finance in Africa offers a mixture of intertwined challenges and opportunities. Take for instance the continent’s contribution to global GDP and trade, which stands at just 3 percent in contrast to its population, which accounts for 17 percent of the world’s total. Numerous factors contribute to this mismatch including, in the financing space, a lack of transparency, lack of access to adequate trade financing facilities, lack robust financial records on the part of corporates along with inadequate track records and collateral, and legal systems that fail to adequately prioritize creditor rights. It is also widely observed that there are insufficient facilities to address the needs of Small and Medium-sized enterprises (SMEs), which contribute the largest share to the GDP of most African countries.

This latter point about SMEs is critical because the continent’s development progress hinges on its ability to address the trade financing gaps in this important sector. If these companies, which typically tend to be small and sometimes family-owned, are not able to access financing needed to grow, to employ more people, provide greater contribution to their country’s economy, Africa’s development will be stunted.

Perhaps one of the biggest underlying obstacles to progressing trade finance in Africa is perceived risks. For too long Africa has been seen as the mysterious continent, rife with mis-governance, war and disorder. Although today, Africa boasts six of the 10 fastest growing economies in the world and it has produced tremendous innovations such as mobile money applications, and has greater stability and trade opportunities than ever before, the risk perception remains. The fact is most African countries have poor sovereign credit ratings, which in turn negatively impact on the borrowing power of corporates based within their borders. This is because international lenders assign prudential limits to countries based on their sovereign ratings, resulting in low lending limits for sub-investment grade countries and a higher cost of borrowing.

Poor sovereign credit ratings also lead to a lack of adequate levels of credit and investment insurance capacity, particularly in certain larger economies. In such countries, a high risk profile coupled with low credit ratings mean that credit and investment risk insurance is a critical tool to unlocking financing, as the vast majority of financiers require this insurance cover (the Basel regulations alone make sub-investment grade lending prohibitively expensive). Thus credit and investment insurers have increasingly become a critical investor group for African governments. Historically though, this type of insurance was a behind-the-scenes element with emerging market focused banks taking the lead in structuring and distributing such transactions.

Successfully de-risking corporates and sovereigns will take some doing but it is not impossible. The African Trade Insurance Agency (ATI), for instance, launched an initiative about five years ago to support local banks’ lending to SMEs by substituting the required collateral that most SMEs do not have, with ATI’s own credit risk insurance product. This provided a guarantee to the lending banks that, if the SME defaulted, ATI’s credit insurance would cover the non-payment risk. The African Guarantee Facility is another institution addressing the issue by providing insurance guarantees to banks with the objective of covering SME risks on banks’ balance sheets.

In addition to SME support, lenders also require structural support to enhance their capacity and competitiveness, which will help them to be able to support more African corporates, and specifically SMEs. One contributing factor preventing domestic African banks from doing more for corporates is a lack of capital relief when using such insurance. By contrast, lending institutions in developed markets such as Europe and North America benefit from capital relief when their transactions are backed by Basel approved insurance, often provided by export credit agencies and other established entities.
To address this challenge, ATI has been working diligently for the past five years to convince Central Banks in Africa to grant this relief. To date, the governments of DR Congo and Malawi have agreed to provide relief to banks using ATI’s credit risk insurance. More recently, the Central Banks governing 8 West African countries of the BCEAO block (comprising Benin, Burkina Faso, Côte d’Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo) approved a capital relief measure that now enables banks in these countries to only set aside 20% of their capital on transactions with tenures of 3 months or less and 50% for longer tenures when using ATI insurance.

While there aren’t any simple solutions, there are some green shoots that point the way to opportunities for those willing to take the leap. African Development Finance Institutions, for one, have been able to shore up some of the trade finance gaps by responding to the need for more trade finance options and mitigating the risks behind the shortfall, which accounts for an estimated US$ 90 billion annual financing gap.

The African Development Bank, for instance, launched its first Trade Finance Initiative (TFI) in 2009 with a size of US$1 billion to cushion the region against the financial crisis, and more specifically, the flight of foreign banks from Africa at that time. Since then the Initiative has been mainstreamed into the bank’s operations due to demand. Other institutions such as Trade Development Bank, AFC and Afrexim bank are also doing their part to address the trade financing gap.

With Africa’s growing middle class, fast-paced economic growth, a focus on infrastructure development and vast untapped potential, African financial institutions, notably those from Mauritius, South Africa and Morocco, have stepped up in a significant way to fill the gaps in the cross border lending arena. Here too, supported by insurance protection, these banks are able to safely venture out in order to capitalise on the opportunities that are present in Africa.

International banks such as MUFG, Japan’s largest bank, have also been making steady inroads with an eye on supporting African governments’ development agendas. For instance, MUFG recently supported two West African countries attract US$ 0.5 billion in financing that will benefit infrastructure and social development initiatives. The loans also helped to crowd in institutional investors from Asia and Europe, who had never previously been exposed to African debt.

Initiatives like these are, to some extent, helping to create greater transparency and an enabling environment to allow international capital market investors to invest in Africa. The knock-on effect will positively impact trade in the form of access to more financing, whilst the introduction and adoption of international standards will lead to greater transparency and influence the way corporates do business. Gradually these efforts should begin to ease some of the challenges and in turn this should ignite more trade.

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**Contributor’s Profile**

**John Lentaigne** was appointed Acting CEO at the African Trade Insurance Agency (ATI) in June, 2019. Prior to this appointment, he was the Chief Underwriting Officer of ATI, a position he assumed in late 2016. John has over 14 years of experience in the credit and political risk sphere, as well as prior entrepreneurial experience.

In 2018, ATI underwrote some US$4.8 billion of exposure and registered a 48% increase in Gross Written Premium.
Introduction
Africa has over the years, especially since the 1960s, established continental and regional integration bodies and frameworks, that have provided auspices for political and economic milestones. For instance, political decolonisation was achieved in 1994 under the Organisation for African Unity, the African Union was put in place in 2002 and a continental peace and security architecture established 2003, eight regional economic communities were formally recognised in 2006, the COMESA-EAC-SADC Tripartite Arrangement was agreed in 2008, and the African Continental Free Trade Area has just entered into force on 30 May 2019.

The entry into force of the African Continental Free Trade Area is a turning point in African history. At the market of over 1.2 billion people, and consumer and business spending already over US$4 trillion annually and estimated to hit US$5.6 trillion annually by 2025, has opened up for economic operators to pursue.

The private sector is awake to these prospects and is mobilising. 125 companies already have a multinational presence across Africa and a number of developed countries. The Afrochampions club of leading companies has been formed. Over 400 African companies have revenues of over US $1 billion. Foreign investors such as Volkswagen and Toyota are planning heavy investments in the automobile sector across Africa.

An introspection at this point in time could assist to internalise and maintain this trajectory in African continental economic integration and inspire better quality in progress into the future.

Strategy
In order to deal with public policy challenges of peace and prosperity, through ensuring better security and creating decent jobs and wealth, Africa has adopted the overarching strategy of developmental integration that is progressive, as a process rather than an event, written out into a long term vision that is mapped out and codified. Such a feat is feasible but requires political leadership and the inter-governmental social-political processes for norm-setting.

The Treaty for establishing the African Economic Community, which was adopted in 1991 and entered force in 1994, sets out the long term vision of establishing the African Economic and Monetary Union by 2028, over six successive stages that are mapped out and codified in the Treaty. In practice, though, elements from the various stages are implemented concurrently.

The Treaty has informed the constitutive instruments and integration programs of the various African regional economic communities such as the East African Community and the Economic Community of West African States; eight of them now formally recognised, as building blocs for continental integration. The African Union in 2006 imposed a moratorium on the formation of any new ones.

The COMESA Treaty, for instance, states in its Article 178 that its ultimate goal is to support continental integration and become an organic entity of the African Economic Community. The other regional economic communities make reference in their preambles to being building blocs for Continental integration.

The Theory
The Phoenix Theory for economic integration is that order emerges out of chaos and disequilibrium, through complex adaptive systems. A rude awakening follows mayhem and conditions alien to normalcy. Colonisation and widespread grinding poverty have catalyzed political and economic panafrikanism, seeking structural transformation through collective inter-governmental efforts.

The Sublimity Theory of economic integration is that good practices in the parts get harnessed into and inform a common order. What is best in the countries should provoke emulation in the neighbourhood, organically increasing in geographical coverage as pathways to shared norms for trade and economic governance.

I will eschew what is commonly advanced as theories that explain economic integration, particularly the customs union theory and all that presupposes and seek efficient use of deployed resources. In Africa, a more fundamental issue has been to equally industrialise and build infrastructure, in many cases from scratch, while opening up markets.

Developmental Integration
Developmental economic integration is the
approach that Africa takes and it equally priorities as complementary programs, at least the following: large markets achieved through effective and modern Free Trade Areas underpinned by robust trade facilitation and digitisation interventions; industrialisation that covers both manufacturing and services; infrastructure that includes surface and air transportation, energy, information and communication technologies, and rural and agricultural facilities; innovation for development; as well as political and macroeconomic stability.

African integration doesn’t take the Bela Balassa linear approach, of sequentially doing free trade areas, customs union, common markets, and economic unions. Rather, instead of compartmentalisation, African integration proceeds on all relevant fronts simultaneously. For the free movement of goods and services, is done together with sector cooperation across all enabling sectors including innovation, agriculture, gender, industrialisation, and infrastructure.

In this sense then, African economic integration should never be equated to the sort of free trade agreements that anti-globalisationists around the world fight tooth and nail.

**Entry Points**

Rather than theoretical constructs, the actual entry points for African economic integration have been the current existential issues the regions faced: drought and desertification for IGAD, peace, and security for ECOWAS, infrastructure and industrialisation for SADC, trade and financial facilitation for COMESA; and nostalgia over a beloved economic community that collapsed in 1977 in EAC.

It should be expected that regional integration in Africa will continue to sprout in various manifestations in tackling actual existential threats on the ground; and will, therefore, will remain to be of critical relevance as a solution system.

**Trade and Investment as Motherboards**

Trade and Investment, and the concomitant movement of Persons and Capital are the faces and practical value propositions for regional economic integration in Africa. But enabler programs are necessary, such as Innovation, Statistics, and Evidence-based Policy, Agriculture, Infrastructure, Industrialisation, and Political and Macroeconomic stability.

Critical, though, is that Trade and Investment Support institutions have an important role, in supporting the private sector to better utilise the opportunities.

COMESA, for instance, established the Business Council for advocacy, the Federation of Women in Business (FEMCOM) to mobilise and empower women, the African Leather Institute (ALLPI) to grow leather value chains, the Africa Trade Insurance Agency (ATI) to assist de-risk the region, the Clearing House and the Regional Payment and Settlement System (CH/REPSS) to facilitate regional payments, the Re-Insurance Company (ZEP-Re) to provide reinsurance and retrocession, the Trade and Development Bank to finance regional development through loans to government and the private sector, the Regional Investment Agency to attract investment, the Regional Competition Commission to underpin a fair market, and the Regional Court for the rule of law.

A number of these COMESA institutions have gone continental in scope in terms of operations and membership.

COMESA Secretariat has Memoranda of Understanding with various private and public sector institutions around the world. For instance, the Secretariat concluded an MoU with FIATA, under which FIATA has attended COMESA Meetings of Member States to provide input into the decision-making processes.

Large markets are created for the private sector to take up. It should be a no brainer then that appropriate institutions should be in place to galvanise and support the private sector.

**Political leadership**

Deeper and broader integration requires political ownership and leadership, based on long-term social-political impetus, beyond the technical level bean-counting and negotiation or haggling processes. It is all about how much and soon the leaders want it to happen. The leadership should mobilise all relevant key players and stakeholders in the public and private sectors, and in the academia and civil society.

Driven and demanded by clear and determined political leadership, the African Continental Free Trade Area was negotiated in just over two years and entered force in just over a year; an astounding record for Trade Negotiations and Agreements in history.

The eternal lesson is that with political leadership and clarity, mobilised at the highest level around specific objectives and programs, the unthinkable can be rapidly achieved.
Secretariat Management
To complement political leadership and ownership by various stakeholders and users, the Secretariats as the administrative arms of the regional organisations, should be well-managed, well-resourced, and fit for purpose. Secretariat management should not squander or steal funds, should not abuse their office, and should motivate and mobilise staff into joyful service.

The Rest of the World
African economic integration still takes place in a global political and economic order. Supportive partnerships with traditional and emerging powers remain quite valuable.

The African Union and the Regional Economic Communities maintain active trade and economic relations with key partners, including, the European Union, China, the Gulf countries, USA, and Japan.

Financing
Africa must secure its financial autonomy and progressively eliminate over-dependence on some partners.

ECOWAS has been able to mobilise US$ 356 million annually from its community levy system on imports from the rest of the world, while ECCAS collects US$133.2 million annually. The African Union levy of 0.2 percent on imports is meant to achieve financial autonomy, and 24 Member States are implementing it. 50 Member States have contributed US$114.7 million for the Peace Fund. Donor funding in the meantime continues to fill in existing gaps in other regional bodies. The EAC has mobilised over US$500 million in project financing mainly for trade facilitation.

Capabilities
Long term sustainable building of capabilities is a critical success factor. The capabilities are entrepreneurial, leadership, intellectual, diplomatic and negotiational, mobilisational, managerial, and preparation of negotiation proposals and final texts.

The COMESA Virtual University and the Pan African University are poised to play critically influential roles in cutting out the next generation of Panafrocanist leaders in all fields.

As a general thrust, though, massive training, of a long term and executive nature, will assist to catalyse a critical mass of pertinent skills for economic integration in government, private sector, academia and grassroots organisations.

Innovation
Without innovation, which continuously brings new goods, services, assets, and business processes onto the market, an economy stagnates and even regresses. Innovation programs must, therefore, be at the heart of regional economic integration, to assist deliver the benefits of larger markets and inter-governmental cooperation frameworks in all relevant sectors.

COMESA has established an Innovation Council and a Ministerial Committee on Science Technology and Innovation; as well as Annual Innovation Awards in various categories: youth, women, and institutions.

Dynamic Rapid Response Systems
The world ever becomes vulnerable and susceptible to new threats. Economic and religious related disaffection brews extremism, with dire unexpected consequences for human life, property, and sanity. Environmental stress has contributed to recurring disasters. Diseases hit now and then: mad cow disease, avian flu, Ebola for instance.

The African Union was pleasantly surprised to mobilise 900 doctors and nurses from various African countries, to raise US$15 million from the private sector at their own initiative, and US$34 million through SMS-based crowdfunding, for the Ebola crisis in West Africa in 2014.

The private sector has formed the Afrochampions Initiative (http://afrochampions.com) to proactively support the growth of African multinational companies to utilise trade and investment opportunities under the African Continental Free Trade Area and enhance their regional and global operations.

150 African companies already have a multinational scope in Africa, 75 of them with registered offices and subsidiaries and undertaking substantial operations outside Africa.

Conclusion
Regional economic integration in Africa has matured and taken off. Best practices and progress at the regional level is being consolidated at the continental, in a pragmatic manner that doesn’t roll back whatever has been achieved. This maturity and political ownership should not be squandered. What is therefore required are mechanisms to sustain the momentum through documentation and continuous building of capabilities as a collaborative effort led by Africa but equally supported by all institutions and people of goodwill the world over.

The good of Africa, as a geographically large and populous continent, with resources to drive the global economy, will be good for the whole world.
In March 2018, member countries of the African Union took a significant step to boost regional trade and economic integration by establishing the African Continental Free Trade Area (AfCFTA). As of 29 April 2019, 22 countries have deposited their instruments of ratification of the AfCFTA agreement with the African Union, meeting the threshold for the agreement to come into effect. Accordingly, the AfCFTA came into force on 30 May 2019, although negotiations on specific features of the agreement are ongoing.

With palpable excitement that the dream of creating a continental single trade market has edged reality, we interviewed Itumeleng Mukhovha to assess what this really means in practical terms.

1. Why is the AfCFTA being talked about as a game changer?
   Expanded international and regional trade flows have played a significant role in Africa’s rapid growth in recent years. The AfCFTA marks another milestone toward deeper regional integration, sustainable economic growth and structural transformation. If all 55 countries join the AfCFTA, it will be the world’s largest free trade area covering 1.2 billion people with a collective GDP of USD 2.5 trillion. By way of comparison, the Northern American Free Trade Agreement and EU-Japan Economic Partnership Agreement each cover a collective GDP of USD 22 trillion. However, when added together, they do not cover as many people as the AfCFTA will cover if every African country joins. As a matter of fact, the success of the AfCFTA will make it the world’s largest free trade area since the establishment of the World Trade Organisation in 1995.

   In addition, the United Nations Economic Commission for Africa predicts that the AfCFTA will surge intra-African trade from 15 to 25 percent, or USD 50 billion to USD 70 billion, by 2040. Similarly, the International Monetary Fund projects that the AfCFTA will significantly increase the continent’s overall ranking on the Global Competitiveness Index.
   To this end, the significance of the AfCFTA cannot be overstated.

2. This is not the first initiative of this nature. What is different about it this time?
   Notwithstanding the many efforts that have been made by African leaders between 1980 and 1990, the process of African integration through various Regional Economic Communities has been slow and uneven across the continent due to the many challenges of low growth, high levels of debt, political instability and overlapping regional arrangements. An important feature of the AfCFTA is that, it is expected to build on rather than replace the continent’s existing free trade areas. For instance, where sub-regional free trade areas offer more liberal trade terms than the AfCFTA, the former will apply.

   Additionally, there is hope that the continent-wide hype, enthusiasm for change and positive projections for AfCFTA will carry it through to completion.
3. Is there any update on Nigeria becoming a signatory of the AfCFTA?

Policymakers are always concerned that integrating their economies with those of other countries may benefit some industries and hurt others; negatively affect earnings and employment opportunities in certain sectors and for certain skill levels; and reduce fiscal revenues. Similarly, the Nigerian government was initially concerned that opening up its borders to goods from other countries without tariffs would be detrimental to the growth of its local production and manufacturing, turning the country into a receptacle for finished goods. Nigeria seems to have changed its initial position and the Minister of Industry, Trade and Investment, Okechukwu Enelamah, recently confirmed that Nigeria will sign the AfCFTA as soon as President Muhammadu Buhari approves the impact assessment report.

4. How can AfCFTA avoid EU mistakes?

One of the key lessons from the Brexit is that, political and economic integration on the continent will only last if it is built on the consent and will of the people. As such, the heads of state and political leaders will need to constantly engage ordinary people on the nuts and bolts of social cohesion and economic development.

In addition, to mitigate against the risks of trade openness, participating countries should build institutional architecture and identify policies that will address, among other things, productivity, competition, income distribution, diversification and economic complexities.

5. How will consumers and businesses benefit?

The scope of the AfCFTA will have widespread changes - businesses, traders and consumers in Africa will no longer be constrained by tariffs; and mechanisms will be put in place to assist traders that are burdened by non-tariff barriers. In addition, the increased market access is expected to enhance the competitiveness of industries and enterprises, the exploitation of economies of scale and the efficacy of resource allocation.

6. Which countries are more likely to benefit from the free trade zone?

Several studies based on Computable General Equilibrium models reveal that the ability of African countries to benefit from the AfCFTA will depend on their economic structures. More diversified and manufacturing-oriented economies and small economies with an existing openness to international competition are likely to benefit more from the AfCFTA than agriculture-oriented and natural-resource intensive economies. Reason being, intra-Africa trade differs from Africa’s trade with the rest of the world. A key feature of intra-Africa trade is that it is more diversified and includes high-value-added products, with manufactured goods accounting for 40 percent of intra-Africa trade, agricultural products accounting for 16 percent and minerals accounting for the remaining 44 percent. In contrast, minerals account for 75 percent of Africa’s trade with the rest of the world.

7. Is there any update on Nigeria becoming a signatory of the AfCFTA?

Policymakers are always concerned that integrating their economies with those of other countries may benefit some industries and destroy others; negatively affect earnings and employment opportunities in certain sectors and for certain skill levels; and reduce fiscal revenues. Similarly, the Nigerian government was initially concerned that opening up its borders to goods from other countries without tariffs would be detrimental to the growth of its local production and manufacturing, turning the country into a receptacle for finished goods. Nigeria seems to have changed its initial position after extensive domestic consultations and impact assessments. On Tuesday, 02 July 2019, the Nigerian Presidency confirmed that President Muhammadu Buhari will sign the AfCFTA at the upcoming Extraordinary Summit of the African Union in the Nigerien capital city, Niamey.

Contributor’s Profile

Itumeleng Mukhovha is a Corporate M&A Attorney at Baker McKenzie, Johannesburg, a Global Shaper of the World Economic Forum, a writer and a philanthropist who is making positive contributions in disadvantaged communities in South Africa. She was listed as one of the Top 200 Outstanding Young South Africans in 2018 by Mail and Guardian; and was included on Avance Media’s list of the Top 100 Most Influential Young South Africans, also in 2018.
Thanks for granting this interview. Please tell our readers more about your background and what motivated the choice of your career path?

I was born, raised and educated in the beautiful town of Stellenbosch, and although the town was then mostly known for its vineyards and wine estates, today it is home to the HQs of many leading companies in Africa, including Remgro, Medi Clinic, Distell, Zeder, BAT, Capitec, PSG and many others. After completing a B.Comm (Hons) degree at the University of Stellenbosch, I started my career at Coopers & Lybrand in Stellenbosch (auditing among others the companies mentioned earlier) and qualified as a Chartered Accountant by the time PricewaterhouseCoopers was formed in 1998. I spent 7 years with PwC, whilst I also managed to pursue a successful international and professional rugby career, firstly in South Africa and when I left SA and PwC in 2003, I joined Saracens Rugby Club in London.

After retiring from rugby, I was introduced to the concepts and principles of investment and merchant banking in my role as Principal for Africa at Templewood Merchant Bank, a London-based private merchant bank, leading origination and distribution of transactions across Sub-Sahara Africa. I came to the realisation that a partnership driven and risk sharing investment model, basically the way banks financed businesses 50 years ago, is the right model for where Africa is in its growth cycle and I left with another colleague, Jan Louis van den Berg, to start Africa Merchant Capital, with a vision to build a private merchant bank with an exclusive focus on the Sub-Sahara Africa mid-market.

CAPMARKETS AFRICA: Africa’s trade finance gap is estimated to be in the region of US$120bn. How can investors find value in Africa’s credit markets to meet some of this unmet financing demand for small businesses? What are the biggest barriers to entry? And what needs to be done in order to open up this asset class for financing African trade?

In 2015 the Africa trade gap was estimated at more than $600bn by the IFC and AfDB research study. The key to engaging with international finance is to consolidate the current credit opportunities and demand in the African markets to represent a quantum that is of interest and attractive to the globally focused banks and investment firms. The consolidation is, however, a long process and is not easily scalable due to the very high due diligence expectations from the international market. The yield on well packaged Africa credit opportunities is however attractive and hence there is a demand for the product.

CAPMARKETS AFRICA: What do you say about Africa’s push for a free trade area at a time when some countries in the West are becoming increasingly protectionist? And what is your thought about the Continental Free Trade Area (CFTA) in terms of challenges and suggestions, please?

COBUS VISAGIE: In 2015 the Africa trade gap was estimated at more than $600bn by the IFC and AfDB research study. The key to engaging with international finance is to consolidate the current credit opportunities and demand in the African markets to represent a quantum that is of interest and attractive to the globally focused banks and investment firms. The consolidation is, however, a long process and is not easily scalable due to the very high due diligence expectations from the international market. The yield on well packaged Africa credit opportunities is however attractive and hence there is a demand for the product.

COBUS VISAGIE: What do you say about Africa’s push for a free trade area at a time when some countries in the West are becoming increasingly protectionist? And what is your thought about the Continental Free Trade Area (CFTA) in terms of challenges and suggestions, please?
COBUS VISAGIE: I am very supportive of global free trade. The fundamentals of free trade are very similar to the foundations of capitalism and although we all want free trade and unbridled capitalism, the detrimental impact on specific groups should not be overlooked. To be honest, the Africa markets are in many ways even more protectionist if you consider the import restrictions and duties in Nigeria for example.

I am skeptical about the impact that the CFTA will have in the short to medium term. There are still many physical and procedural barriers to overcome.

CAPMARKETSAFRICA: Despite improved political governance and macroeconomic conditions, Africa’s share of global private investment for infrastructure projects remain very low. What do you think are the key challenges for investors looking to invest in Africa?

COBUS VISAGIE: I would say the lack of local currency debt funding from the banks and financial institutions in Africa. The considerable deficit and infancy of the pension and insurance industries in most countries outside South Africa is also a factor. The equity is readily available from development finance institutions and infrastructure funds, but to structure a 20-30-year USD loan for an infrastructure project in a country with high inflation and a continuously depreciating currency is problematic. Combined with the cost of local financial institution debt finance makes it a very difficult equation to solve.

CAPMARKETSAFRICA: Oil price seems to have strengthened and stabilised somewhat more recently; how closely linked is oil price to the short-, medium- and long-term prospects of the larger oil exporters such as Nigeria, Angola, Algeria, and Egypt?

COBUS VISAGIE: Unfortunately, the fortunes of the larger oil exporters remain closely linked to the oil price. We are mostly exposed to this in Nigeria and to a lesser extent in Ghana.

However, my view is that it does not need to be the case and the drop in oil prices during 2014 to 2016 was another wake-up call to the oil exporters, but unfortunately, there is a lack of leadership to develop the other industries to equalise the sector dependency. My message to these governments would be the same as what Thomas Jefferson wrote in a letter to George Washington, “Agriculture is our wisest pursuit because it will, in the end, contribute most to real wealth, good morals and happiness.”

CAPMARKETSAFRICA: How do you feel the commodity finance market has changed and evolved in the last decade and what can we expect in the next 5 years?

COBUS VISAGIE: Over the course of the last 5 years, a significant dichotomy has developed in the trade finance market where the availability of commodity finance for SME’s (enterprises with balance sheets under $100m and transaction sizes under $20m have been sidelined in the mainstream banking market. Alternative trade finance solutions via trade finance funds and alternative trade finance providers have grown significantly, but from a very small base and the result has been an increase of the cost of finance for these working capital facilities to SMEs.

I am sure that blockchain technology will have a major impact on the growth of commodity finance in Africa, but probably in about 5 years’ time if we are lucky, as it requires universal adoption by all parties involved in the trade.

“The fundamentals of free trade are very similar to the foundations of capitalism and although we all want free trade and unbridled capitalism, the detrimental impact on specific groups should not be overlooked.”

CAPMARKETSAFRICA: On a final note, what do you do in your spare time (when not busy managing the Africa Merchant Capital Limited)?

COBUS VISAGIE: To be honest, I do not have spare time, I spend most of my free time with my family and I am sharing my love for diving, flying, fishing, hunting, mountain biking with my wife and children and take them along whenever I can.

CAPMARKETSAFRICA: Thank you very much for granting this interview!
The advent of increased regulation, following the financial crisis in 2008, we have witnessed the retrenchment of global capital providers who historically financed project, trade and Export finance transactions in Africa. The challenge still remains, and the debate continues on how to effectively match the trillions of private capital available globally to finance these transactions which are a key driving force in Africa’s economic transformation and rapid growth. It is on the back of this reality that homegrown African institutions like the Africa Finance Corporation (“AFC”) have been set up to play a catalytic role in structuring bankable transactions with the view to crowd-in the pent-up private capital chasing well-structured and bankable transactions in Africa.

In August 2017, AFC was mandated by Société Ivoirienne de Raffinage (“SIR”) and representatives of the Government of Cote d’Ivoire (“GoCIV”) to act as the Mandated Lead Arranger to structure and arrange a long-term debt facility to refinance SIR’s existing liabilities owed to banks and oil suppliers. AFC won the mandate largely on account of its ability to lend, structure and arrange long-term financing which other commercial banks are unable to provide, in part, due to the stringent capital requirements imposed by the regulatory and operating environments.

The successful financial restructuring of this strategic national asset was a critical part of the country’s debt sustainability strategy which was recommended by the International Monetary Fund (“IMF”) with the aim of smoothing out and extending the debt maturity profile SIR and is expected to deliver improved financial and operational performance for SIR while ensuring its long-term viability and developmental impact for the overall economy of the country.

Transaction Highlights
The Eur 578 million long term debt facility was structured as a dual currency (Euro and XOF) and dual tenor (Nine year and seven year), with about 85 per cent of the total amount falling into the nine year tranche, helping the company to lengthen its liability profile.

The proceeds of the facility were used to refinance SIR’s existing short-term liabilities owed to banks and other suppliers to allow SIR to financially restructure its balance sheet by uniformly extending the tenor of existing stock of debt and dues and reducing their cost of borrowing.

Facility repayment was structured based on a Levy proceeds securitization as the primary source of repayment allowing a protection from operating and availability risk of SIR.

AFC’s catalytic role
As the sole Mandated Lead Arranger, AFC acted as a lender of record for Eur 192 million both from its own balance sheet and through attracting capital from other Institutional investors. AFC also successfully syndicated the facility to a number of international and local financing partners including Deutsche Bank, ICBC, UBA, NSIA Bank, Bridge Bank.

It is also noteworthy that using its Preferred Creditor Status and its syndication structures, AFC has also successfully been able to bridge the loan markets with capital markets liquidity by issuing notes via SPV established by LEAP. AFC also coordinated and arranged, along with Texel Finance as an insurance broker and ATI an insurance wrap for the Euro lenders.

Contributor’s Profile
Wola Asase is the Senior Vice President for Financial Institutions & Syndications at the Africa Finance Corporation (“AFC”). Wola is an Investment and Development Finance professional with a wealth of experience in project and corporate finance syndications, business development, deal structuring, client relationship management, financial and valuation analysis, etc., garnered across roles in North America, Latin America, Eastern Europe, Middle East and Sub-Sahara Africa.

Wola holds a Bachelor of Arts degree in Management Information Systems and Business from Cardinal Stritch University, US. He also holds an MBA from Booths School of Business, University of Chicago, US.
**FEATURED ARTICLE**

**ALTERNATIVE FINANCING FOR SMEs THAT IS TECH-BASED**

By Elizabeth Okunda, Head of Sales & Marketing, FACTS Kenya

Small and Medium Enterprises (SMEs) are very important to the economies of East Africa due to their immense contribution to the Gross Domestic Products (GDPs) of these countries as well as creation of employment. In Kenya, SMEs are estimated to constitute over 90% of all businesses and they create 30% of the jobs annually. This scenario is replicated across Uganda and Tanzania and many other African countries. However, access to finance features at the top of the list of challenges that inhibit SME growth, with commercial banks not being very willing to finance the SMEs sighting high costs and high risk as their major drawbacks.

Commercial banks prefer to lend to businesses with proper financial statements or records as well as sufficient collateral in form of tangible assets, which are difficult for SMEs to obtain due to their nature, size and age among other reasons. SMEs also suffer financing shortage due to information asymmetry and their inaccessibility to debt finance forces SMEs to use internal capital, which may be insufficient for expansion.

One of the ways SMEs financial challenges have been amplified in literature is by the postulation of the SME financing gap theory. The theory presents a case whereby, when businesses are grouped into three tiers that is large corporates, SMEs and Micro-Enterprises, it has been observed that large corporates’ financial needs are well served by established banks and the needs for micro enterprises are mostly served by micro finance institutions, leaving SMEs with no financial institution that will address their unique needs hence the SME financing gap. This gap is complicated by the legal, institutional and regulatory frameworks critical in determining SMEs access to finance. In addition, SMEs also have challenges in information and skills required to access finance.

According to a report by the Financial Sector Deepening, lack of cost-effective ways of credit risk quantification is one of the major reasons to why many lenders are reluctant to lend to SMEs. This is because, SMEs across East Africa do not have standardized procedures and the available data may be of unreliable quality and accuracy. Supply Chain Financing and Factoring therefore become a good approach to adopt in this case to provide financing to SMEs. Supply Chain Financing (Reverse Factoring) and Factoring, which make use of technology to enhance efficiency, allow the lender to consider transaction history and existing relationships between Buyers and Sellers when determining credit worthiness of an SME.

Existing reports indicate that one of the major problems affecting SMEs growth is delayed payments yet on their procurement side they need to pay cash or near cash for their supplies resulting in a cashflow constraint due to mismatched payables and receivables. This together with the SME financing gap present an opportunity to alternative financial institutions like FACTS (Financial Access Commerce & Trade Services) to provide innovative finance solutions that make use of Supply Chain Financing (Reverse Factoring) and Factoring principles coupled up with a technological platform to provide short-term working capital solutions that make use of receivables as collateral, thereby addressing the SME finance needs.

**Contributor’s Profile**

Elizabeth Okunda is a seasoned marketer (with a finance hat) with over 15 years work experience most of it being in the banking and finance sector. Before joining Financial Access Commerce & Trade Services (FACTS), Elizabeth worked with Commercial Bank of Africa (CBA) and was part of the team that launched M-Shwari, a mobile-banking solution that revolutionized banking and enhanced financial inclusion in Kenya. Prior to working at CBA, she served as the Marketing Manager of Equity Bank Limited, supporting its subsidiaries in the various countries of operation.
Africa’s growth momentum has slowed over the past few years, especially due to escalating trade tensions, fairly lacklustre commodities price growth and continued policy normalisation across the developed world aggravating domestic woes – particularly in countries plagued by high levels of political risk. And there remain significant risks in the African environment that prevents the continent from reaching its full economic potential, including challenging business environments, high debt levels and a slowdown in credit growth.

However, Africa remains a continent with abundant opportunities for investment. Resources will continue to play a leading role when it comes to attracting funds – particularly in the hydrocarbon, base and precious metals spheres. We also believe that the agricultural sector will become a more enticing investment target as agro-processing increases and global food demand spikes. And, don’t forget the all-important demographic dividend – especially the strong growth in population, urbanisation and GDP per capita. Furthermore, we are seeing a slow but steady improvement in business conditions across the continent.

Other growth opportunities await. From a fiscal perspective, Africa has low levels of revenue collection – the IMF estimates that SSA could potentially collect an extra 3% to 5% of GDP in tax revenues by improving collection systems and broadening the tax net. Furthermore, private-sector investment has been lacking. This could change through more business-environment reforms, increased infrastructure and financial-market development and trade openness.

Seeing that the African environment is still ripe for investment, we assess each African economy’s investment potential. RMB’s Investment Attractiveness Index does this by overlaying macroeconomic fundamentals with the practicalities of doing business on the continent.

Our methodology is straightforward, but it encapsulates what we perceive to be the most important conditions for viable investment in Africa. These are:

• **Economic activity**, expressed as a weighted average of market size and forecasted levels of GDP growth.

• **The operating environment**, depicted as a weighted average of four international surveys measuring the ease of doing business.

Once the most attractive countries have been identified according to their economic potential as well as ease of practically doing business in these environments, companies overlay these findings with their own investment and business needs. Naturally indices like this one, and others across the board, do not encompass every aspect an investor wants to assess. Some companies must look at different criteria than the ones we look at. A good example here is the investment priorities of companies in the mining sector – they will specifically look for mineable mineral deposits, as well as the country’s tax regime and regulatory environments.

By unpacking our methodology for the continent in general, both the economic activity and operating environment components differs significantly across the 54 countries we analyse. On growth, the majority of countries are forecasted to grow above the region’s 3.8% average between 2018 and 2023. Ethiopia is set to be the fastest-growing economy in Africa over that period, averaging 8.2% for the next six years. Other outperformers are Rwanda and Côte d’Ivoire.

A country that has experienced a significant shift in its growth outlook is Mozambique. In 2016, it was forecast to be one of Africa’s fastest-growing economies over the next decade. However, the tide turned abruptly that same year when a large amount of undisclosed debt came to light, prompting the IMF and donors to cut funding. And now, after the devastation of the cyclones, the economy is expected to grow below 3% over the forecast period, until the oil and gas production windfall, expected in 2023/24, kicks in. On market size in dollar terms, Nigeria, South Africa and Egypt remain the three largest in Africa. They are also expected to maintain these coveted positions for many years to come. Together, these three mar-
kets make up almost 50% of Africa’s almost US$7trn market size. On a regional basis, North Africa’s five markets dominate, contributing 37% to Africa’s overall GDP. Supported by strong growth rates, Ethiopia has overtaken Angola as the sixth largest economy on the continent in 2018, while Tanzania has passed Kenya as the ninth largest.

As analysts who travel extensively across the continent, we have observed that Africa’s operating environments continue to lag those of other parts of the world. And the overall operating environment has improved only marginally since our 2018 assessment. Furthermore, access to financing, corruption, inadequate infrastructure and weak governance remain the most problematic factors for doing business in Africa.

The top five performers from a business environment perspective are Mauritius, Rwanda, Botswana, South Africa and the Seychelles. Mauritius is now in its 11th year of being the easiest business environment in Africa, which is not surprising as it boasts well-developed infrastructure, the continent’s healthiest and well-educated workforce, the most efficient goods market and strong institutions. And it keeps on improving; in fact, it is one of the best performers since our previous edition.

In general, only 31 countries have improved their operating environments. This is less than the 38 in 2017. The biggest reformer since 2017 is Nigeria, due mainly to the improvement in FX liquidity conditions. There is no more waiting in queues for dollars as Nigeria’s FX reserve position has improved significantly on the back of rising oil prices.

At the other end of the spectrum, South Sudan has deteriorated the most, as the civil war prevents the economy from developing. Opposing parties have signed a peace deal granting rebels key positions in a transitional government in the latest bid to end the almost-five-year-long conflict. If this deal is successful, we expect an improvement in its rankings.

As growth momentum in Africa slows, improving individual operating environments is key to attracting foreign interest. And investors being even more discerning about which emerging and developing markets to invest in exposes the urgent need for governments to prioritise competitiveness-enhancing business-environment reforms.

The rankings
South Africa did not win back its coveted top spot from Egypt in our latest rankings – for the very same reasons the southern African giant lost its number one position for the first time in 2017. Egypt’s economic activity scoring continues to dominate that of South Africa’s. It’s growth forecasts specifically is inferior to Egypt’s; this has weighed down its investment scoring. On the flip side, South Africa’s operating environment remains leagues ahead of Egypt’s, and the recent stability in the political environment has set investor minds at ease. It is no wonder that South Africa is still one of the largest recipients of foreign direct investment (FDI) on the continent and continues to be considered the investor gateway into the rest of Africa. Watch this space as South Africa could reclaim its pole position in next year’s rankings.

To highlight the rest of the Top 10, we explain the reasoning behind these economies being some of the most attractive investment destinations in Africa.

3. Morocco: Africa’s fifth-largest market, with an expected growth rate of 4% over the medium term. A greatly enhanced operating environment since the “Arab Spring”. Enhanced investment appeal through reintegration into the AU and accession to the Economic Community of West African States (ECOWAS). However, the country is heavily dependent on European tourism, FDI and remittance inflows.

4. Ethiopia: Africa’s fastest-growing economy and one of its six largest. Successful in nurturing comparative advantage, especially in agriculture and manufacturing. With almost 100 million people, the demand for goods and services are rising significantly. However, the moderate debt-distress rating from the IMF has deteriorated to high risk. This was the tipping point for the Ethiopian government to open its doors to more FDI.

5. Kenya: Expected GDP growth of above 5%, helped by favourable weather and political reconciliation after 2017’s disputed elections. Diverse economy compared to rest of SSA. Sustained expansion in consumer demand, urbanisation, EAC integration, structural reforms and infrastructure investment (including an oil pipeline, railways, ports and power generation).

6. Rwanda: One of Africa’s five fastest-growing economies. Second-best business environment on
the continent – more than doubled the efficiency of its business environment in less than a decade. Government investing heavily into its domestic industries, while FDI has increased over the past decade. However, the market remains very small. With only ten million people, there are fewer opportunities for business expansion than in larger markets.

7. Tanzania: Expected growth of above 6.5% over the next five years, supported by public - infrastructure investment and the services sector. Resource-based manufacturing to register steady growth, buoyed by tax breaks and the development of special economic zones. However, income levels remain low, while the business environment has deteriorated. Recent and abrupt tax increases, erratic regulatory changes and lack of transparency deterring current and potential investment.

8. Nigeria: Improved macroeconomics, supported by recovering oil prices and production. Largest market in Africa in GDP terms. Resources and favourable demographics attracting strong flow of FDI. Liquidity crunch has subsided since 2017 on the back of a recovery in commodity prices and changes in FX regulations. With the largest population in Africa, domestic demand continues to rise. However, growth constrained by weak policy environment and dire infrastructure.

9. Ghana: Strong growth outlook concentrated around the oil and gas sector. Non-oil growth to pick up, supported by pro-business reforms and steady improvement in power supply. Political stability underpinned by strong democracy. Remains one of the easier business environments in Africa. Large public-debt burden (and public arrears in the local power sector) requires considerable fiscal consolidation. Commodity dependency leaves Ghana heavily exposed to international price trends. Its main exports are oil, gold and cocoa.

10. Côte d’Ivoire: One of Francophone Africa’s more diversified economies. Strong growth rates supported by government’s pro-business reforms, and a relatively stable political context. Large infrastructure projects – particularly in transport and energy (financed by FDI, aid inflows and the government). However, the business environment remains relatively challenging.

RMB’s Investment Attractiveness Index

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Note: The score of each country is out of 10, where 10 is the most attractive, and 0 the least attractive.
balance sheets are also throttling the delicate nexus between the banks in Africa and the ephemeral and granular nature of the assets makes them very difficult to access, bundle and curate into an investable format.

The KYC, Compliance and operational risks and costs are just too much for any but the most committed Emerging Market banks to entertain - as is borne out by the African correspondent bank de-risking pandemic.

Basel III and IVs disastrously disproportional effect on short term liquidity and capital drag means that although only African banks have the reach and relationships to access these SME trade assets, it is just not commercially responsible for them to squander precious resources on lending that yields less than the cost of capital.

Conventional risk distribution and trade refinancing doesn’t work on these assets as they are too small, fast-moving and operationally diverse for global banks, insurers, multilaterals, funds or any investor to apprehend.

The answer is for regional banks to bundle up these SME assets into trade portfolios by using the local African banks as accumulators, converting them from hundreds of thousands of SME payments and receivables into thousands of funded bank trade risk assets and then selling these portfolios off their balance sheets to the investors who want them, simultaneously solving
the regulatory capital, returns and liquidity problems.

This is easier said than done: a few global banks have successfully run Trade Receivables Securitisation platforms but some of the securitisation technology and regulation is hampered by the dynamic and granular nature of the underlying assets: they can be very small and short-lived, constantly maturing, revolving and being replaced in a very random and uncorrelated way. This is what makes up the operational problems of ‘feeding the beast’ – maintaining a constant origination flow of assets to replace the constantly, randomly maturing horde of assets. While it has been done for portfolios of static underlying, no platform endures beyond proving the concept as a viable conduit for all these real dynamic assets, hence the enduring and widening gap.

The ballistics of the underlying assets are very different from other collateralised loans or cash flows, unlike previous CLO securitizations there is a lack of contract standardization in the underlying and although the primary trade market recognises and prices in the assets’ low default rate, most investors would require the vehicle and its tranches to be rated, Hedge Funds require a yield north of 10% when the assets naturally pay around 2% so beyond overcollateralization leveraging technology needs to be embedded as well. Along with all the SPV setup costs, documentation, legal and accounting balance sheet remoteness opinions and structuring towards target investors can be expensive. The types of African banks who can reach through to these SME assets are not the types to have in-house securitization teams and they already have huge cost and operational overheads in maintaining this reach.

We are currently caught in a loop of attracting the interest of commercial structuring houses, who although initially very excited about the investment class prospects, require a functioning model using real portfolios which proves their investment of resources is worth it before they will make the resource investment to progress beyond the conceptual and prove it is worth it.

Developmental agencies could play a crucial role here in sponsoring the development of such programmes and provide critical credit enhancement of whole portfolios. This could directly address their developmental mandate, break the investment loop and potentially profoundly simplify and cheapen the structures: Investors could risk participating in A rated DFIs’ underwriting of portfolios of billions of dollars of SME trade risk, injecting billions of dollars to close Africa’s trade finance gap.

CAPMARKETSAFRICA: What do you say about Africa’s push for a free trade area at a time when some countries in the West are becoming increasingly protectionist? And what is your thought about the Continental Free Trade Area (CFTA) in terms of challenges and suggestions, please?

GEORGE WILSON: An African free trade area can only be a good thing for Africa: with only 15% of African exports going to other African countries, tariffs and colonial-era infrastructure is what seems to be keeping the continent behind Asia and Europe’s 60% plus internal economic community trading.

It is not that it either internal or external trade should be promoted at the expense of the other, it is just that internal trade has lagged badly through not having such an enabling community and the continent’s consumer middle class has only just started to emerge. 1.2 billion people, $3 trillion harmonized market place with 90% tariff cuts have got to be a good thing irrespective of what protectionist policies are being followed elsewhere.

To date, more than 75% of Africa’s exports are extractive oil and minerals to the nations which are now contemplating protectionist tariffs and the commodity price volatility this exposed African economies too, was not beneficial. A shift to agricultural, industrial and manufactured exports unencumbered by anticompetitive tariffs on the continent and beyond may ignite a virtuous cycle of economic development.

The conspicuous absence of Nigeria, the largest economy and most populous country in Africa, pursuing a manufacturing protectionist course and African governments’ reluctance to forgo tariffs as a major source of easy hard currency revenue will force the continent’s governors to progress uncomfortably beyond their post-colonial natural resource exploitation but it’s a step in the right direction.

CAPMARKETSAFRICA: As a follow-up, does economic nationalism pose a threat or opportunity to the region’s agricultural trade and value addition, please?

GEORGE WILSON: The old adage that when
elephants fight the grass suffers is the refrain that is supposed to capture the baleful effects of the trade war between China and the US and it certainly seems that a resultant slowdown in China’s economy will harm Africa’s major exporters to China. The AfDB has warned that these trade tensions may reduce extractive African GDPs by 2.5% by 2021.

However, there may be double-edged opportunities: when China raised a 25% tariff on soya beans from the US, a number of African countries like Ethiopia, DRC, and Uganda have taken over this supply, the price has risen 25% and while great new revenue for the feed producers in these countries, it is causing internal supply problems in these countries.

**CAPMARKETS AFRICA:** How is the commodity finance market reacting to regulatory constraints, commodity price fluctuation, and demand from African countries?

**GEORGE WILSON:** Our commodity finance teams have already begun deploying tried and tested risk mitigation techniques in their expansion across Africa. Where there are exchange contracts, prices can be hedged and the commodities themselves can be successfully collateralized to finance the traders through collateral managers. However, hedging on exchanges or OTC is expensive, many commodities don’t offer an acceptable exchange traded basis risk hedge and finding bankably reliable collateral managers in Africa can be challenging.

The African fuel imports, particularly into East Africa Tanzanian Bulk Procurement System (BPS) and Kenyan Oil Tender System (OTS) domestically and for transit have become so competitive that pricing of financing the cargoes is no longer rational considering the default payment risks and capital costs of the Oil Marketing Companies (OMCs) and countries involved. Even when Collateral Management Agreement (CMA) structures are used it’s impossible to square the circle of the African banks ultimately providing all the 90 day dollar buyers’ credit through CMA in tank down to the retailers and forecourts beyond the cash conversion cycle of being sold in shillings and burnt into CO2 and water in 30 days.

The commodity traders are increasingly banking African buyers through open account facilities with their clients (funded by banks’ Borrowing Base Facilities and Revolving Credit Facilities) which and in countries like Zambia bank payment guarantees or insurance is becoming impossibly scarce with the capacity in the insurance market making up a small fraction of the outstanding receivables.

**CAPMARKETS AFRICA:** Basel III to Basel IV: What progress is being made and how will it impact commodity and trade finance?

**GEORGE WILSON:** This, I’m afraid, is one of the sad stories of African trade disruption by global regulation: Basel III’s liquidity provisions are extremely damaging to financing Emerging Market trade and the Basel 3.5 or IV standardization through capital floors is set to undermine the critical risk mitigation techniques.

Emerging Market, African Trade is typically funded: The international exporter wants an immediate payment on their performance of delivery of the cargo and the African buyer always needs at least 90 days payment terms to receive the goods, process and distribute them. African banks need short term, tenor matched dollars at the right price to finance this time differential and they will necessarily have very limited natural dollar sources.

Basel III’s Net Stable Financing Ratio (NSFR) and Liquidity Coverage Ratio (LCR) add extra costs to borrowing the dollars in the interbank market for precisely the short tenor – less than 1 year – loans that match real trade assets. The result of this is simply that African banks who are compliant with Basel III are forced to endure regulatory driven margin compression of their funded book and even higher RWAs, resulting in negative returns far lower than their cost of capital and equity: its intuitively obvious that this is unsustainable.

IFRS 9 is another new, well intentioned and sensibly conservative global accounting standard ‘regulation’ but imposes real impairment charges on the income statement of African banks’ contingent trade portfolios, that did not exist before January 2018 and has not been reflected in the clients market pricing. This simply serves to reduce the returns for these products deeper into unprofitability. A contingent exposure of over one year on typical African obligor credit rating qualifies, under IFRS 9, automatically as a Stage 2 impairment although there has been no default or delay in any payments of interest or capital.

Basel III is the right direction for guiding US Investment Banks away from Lehman’s nightmare scenarios but fatal to African Trade Finance – one size does not fit all.
**EXCLUSIVE INTERVIEW**

**CAPMARKETSAFRICA**: Evaluating the growing insurance market: What are the benefits of insurance to structured deals and how will it improve risk appetite?

**GEORGE WILSON**: Credit Risk, Political Risk, and Non-Payment Insurance are now crucial tools of risk mitigation and distribution in trade finance facilities that can transfer risk away from very low-quality African SMEs and corporates and banks to investment grade global insurers.

Since they are not banks bound by Basel capital costs, they can usually underwrite up to 90% of a receivable for 70% of the market clearing price, which makes it worthwhile for banks to originate and structure solutions to transfer the African obligor risk to an investment grade insurer enabling viable returns on what would otherwise be impossibly underwater if they tried to hold all the risk on their Basel driven balance sheets.

The insurance contract has to be in the right shape to attain risk transfer as a ‘guarantee’ rather than just small Loss Given Default improvements (which is set fair to be undermined by a Basel VI floor) and in the African countries you really need it, capacity is far outstripped by demand but it can convert the impossible to the possible if everything lines up.

Although Lloyds started its existence insuring trade and the Secondary trade syndicate investor market is now probably made up of 80% insurance participants and the dominant distribution channel, insurance suffers same indigestion as other investors when trying to deal with thousands of dynamically churning, small, very short term trade assets. So, it’s a critical tool for risk distribution and structural mitigation but not yet as useful as it could be for large portfolios of African SME trade assets that are the major factor in the Trade Gap.

**CAPMARKETSAFRICA**: On a final note, China’s investment into Africa has seen a rapid increase over the past years. However, some African government are backing out of Chinese projects. Is China’s hefty investment the way forward for infrastructure projects across Africa? Does Chinese investment create unsustainable debt for African countries, please?

**GEORGE WILSON**: China’s investment in African infrastructure has been the dominant practical force in African Infrastructural development over the last couple of decades and its true that there has latterly been some greater involvement of non-Chinese projects with some mumblings of perceived construction quality and concerns over the long term political and real costs of the Chinese generosity: I’ve just returned from West Africa and driven on excellent highways in Senegal built by a Turkish construction company.

The eight trillion dollars One Belt, One Road initiative (OBOR) and Maritime Silk Road, which ends up in East Africa are, however, clear commitments to future Chinese infrastructure development on the continent and all the investments, in all the different countries cannot be construed in the same way: it is likely that both the African and the Chinese strategy, intentions, financing, modus operandi, and rewards are different across different countries, projects and time.

In the past, much of the Chinese investment for these projects was on a Government to Government level, with some coming from the state-owned big five Chinese banks. If it were not so how would such hugely important programmes have been bootstrapped in some of the poorest economies in the planet?

On some moral level, it is probably right that China derives some quid pro quo for its enormous investments on a totally different continent, benefiting foreign peoples under their own government when its own advance is so resource hungry. Some debt has been forgiven, some exchanged for land and access to the natural resources which were some African countries only tradable assets.

I’m sure that this tried and tested mode of investment will continue but in a recent trip to China for a joint Absa, Soc Gen African Conference it is becoming clear that on the trade level, there is a perceptible shift to private commercial banks involvement in financing the associated trade programmes. Interestingly, the Chinese Corporates we spoke to were entirely focussed on how they can assess the Credit of their African Corporate and SME buyers to offer them payment terms: this is precisely where the African local and regional banks, like Absa, come in as transforming, aggregating and financing these flows outside long term, government level debt. If this transition to commercial trade finance is successful, then the African governments should not be lumbered with generational debt and trade finance should self-liquidate these flows financing, in the way it’s supposed to.

**CAPMARKETSAFRICA**: Thank you very much for granting this interview!
Disruption – which disruption?
Much has been said about the upcoming “fintech disruption”. About 4 years ago, emerging technology companies identified as “fintechs” were mostly finger-pointed as attempting to create the next wave of competition against established financial institutions (FI’s). At that time, most bankers viewed fintechs as new entrants trying to enter the financial services industry using advanced technologies and innovative business models. Fintechs were perceived as attempting to grab market share from the trusted incumbents. 2017 and 2018 have shown that the tide has turned.

The last 18 months have proven indeed that this new fintech competition made a U-turn as it gradually transformed into a strategic opportunity for FI’s. If any disruption, it is now generally accepted it won’t be driven by those highly specialised technologists. On the contrary, the recent fintech news are reporting various “bank – fintech” adoption contracts. In many cases, banks become clients of fintechs as they recognize the important value brought by those innovators.

Disruption in some areas of the financial services industry such as consumer payments may be expected though. But it will most probably find its roots with dominant platforms such as the so-called GAFAs (Google, Apple, Facebook, Amazon) as recently reported on finextra.

Fintechs as new partners of trusted incumbents
In addition to the growing adoption of fintechs by banks, we can also witness new partnerships being sealed between banks and fintechs as the former engage as long-term fintech investors. Examples includes SC Ventures (by Standard Chartered Bank) as well as InnoVentures (by Santander) and ING Ventures.

Fintechs bring new propositions that differentiate drastically in approach vs. traditional software development. Here are key characteristics:

1. Fintechs are laser focused on delivering specific value propositions; they often become the best at it
2. Fintechs are very agile and will consider their early adopters as partners in their product development roadmap; co-design becomes the norm
3. Fintechs are best positioned to take advantage of very recent technologies whilst caring about the need to integrate seamlessly with banks’ legacy systems; co-existence with banks’ internal systems is a no-brainer
4. Fintechs sometimes operate common communications or trading platforms and are therefore creating new eco-systems, also called market networks, for financial institutions, their clients and/or suppliers; platforms often become new sales / distribution channels for banks
5. Fintechs are not biased by legacy revenues (e.g., software license fees) and technology models (e.g., messaging vs. APIs) – they want to demonstrate their value add in the fastest and most cost efficient way.
6. Fintechs want to prove themselves by facilitating adoption without forcing their clients to take a CapEx decision (e.g., software license acquisition); this drastically reduces risks for early adopters.

As a consequence, partnering with fintechs bring many benefits to transaction banks, their clients and their investors:

- Short time to market thanks to use of cloud-based platforms
- Non-intrusive technologies ensuring seamless integration with existing systems
- Low set-up cost and usage-based running cost
- Optimal user experience
- Continuously and fast evolving products
- Strategic enablers for banks to innovate as a community (multi-bank infrastructure)
- Best at combining legal and business expertise with latest technologies.
This can be summarized as follows:

- **#fintech**
  - **Laser focused**
  - **Extremely agile**
  - **Local technologies**
  - **New core systems**
  - **Pay-as-you-go**

- **Short time to market**
  - Non-intrusive implementation
  - Low set-up cost
  - Optimal user experience

- **Strategic innovation partners**
  - Enabling the unthinkable
  - Open to banks’ equity investments
  - Best at combining legal and business expertise with latest technologies.

**Chairing the ITFA Fintech Committee since Q4 2017**

In order to offer a neutral space to debate those many opportunities, the ITFA Board set up the ITFA Fintech Committee in Q1 2018. The committee acts as a forum for the ITFA membership to keep abreast of the fintech innovations in trade finance, focusing on both primary and secondary spaces. The Committee produces educational opportunities on technology innovations aiming at automating trade finance and establishing trade finance as an investable asset class. The Committee is organised around four key themes as depicted below. As shown, the use of data technologies as well as trading platforms is high on our agenda:

A total of 18 fintechs joined ITFA following the set-up of the Fintech Committee in early 2018 as depicted below:

The Committee covers both tactical and strategic objectives. The educational effort got much priority so far. By doing so, ITFA helps its core member-ship – the incumbent financial institutions (FI’s) - to discover recent technology-based value propositions and assess opportunities to improve efficiency and to the digital experience for their clients. Our attention is now expanding to strategic initiatives by helping the market as a whole to address critical transformations through multi-banking initiatives.

**The Fintech delivery types**

Fintechs roll out technology in various ways. We distinguish two main categories: software solutions vs. trading platforms as depicted below.

**Focus on Africa**

Africa’s trade finance gap, the unmet demand for bank-intermediated trade finance on the continent, is estimated to be in the region of US$120bn. Evaluating solutions for reducing this gap forms an integral part of ITFA’s Africa Regional Committee (ARC), chaired by ITFA board member Duarte Pedreira of Crown Agents Bank.

The ITFA ARC is made up of a diverse array of institutions involved in different areas of trade finance in Africa, including one multilateral bank (Afreximbank), two commercial banks (Crown Agents Bank and Rand Merchant Bank), one insurance broker (JLT), one fund (GIB UK), one trading company (Wilben), one law firm (Sullivan Law) and one advisory company (Africa Trade Finance). As such, it provides the ideal ecosystem to undertake an agenda focused on empowering African trade financiers through knowledge sharing, lobbying and networking.

The ITFA ARC recently undertook a joint session with the ITFA Fintech committee and members from both committees shared their thoughts on how the fintech conversation is developing in Africa. The punchline was that Fintech should be seen as a conduit to a good solution and not necessarily the wholly grail in solving all the funding problems in the continent. Much like the wider internet, one can see Fintech as providers of...
infrastructure that still depends on African-specific problems being resolved – eg. client onboarding issues, and client credit assessment issues, to be effective. Otherwise, the technological innovations will only serve the existing borrowers and lenders in the market and will not represent a shift towards more and better funding sources.

Some of the other conclusions were:

1. **Tech solutions are helping, but are currently too fragmented** in Africa, where too many different individual entities (mostly banks) are pushing their own individual fintech agendas. Coordination is important to ensure that the solutions are created to benefit the trade finance user community rather than just individual providers’ agendas.

2. **New guidance for correspondent banking services is a positive step** in insuring the de-risking phenomena is effectively countered, especially through the adoption of compliance repositories made available by trusted and reliable sources. Again, the quality and acceptability of the information gathered will be the critical point to enable this type of initiative.

3. **Supply chain finance and factoring solutions could be part of the answer, but face numerous challenges** precisely due to the fact that so far there hasn’t been a shift in terms of solving the more fundamental issues which underpin the lack of willingness that funders have to support small and medium sized entities, which represent the vast majority of the African economy.

4. **New digital banks have a role to play, but only once they start lending.** Africa has been leading the way on the World stage in terms of revolutionizing the way in which technology is used to bank the unbanked, and to enable transactional banking in a way that is accessible to everyone. But that doesn’t solve the funding gap, so the problem is only half solved. Lending needs to become a priority too.

5. **There is no silver bullet**

The discussion will undoubtedly continue and ITFA will continue to lead the way in creating the conditions for solutions to overtake the problems and challenges at the forefront of the Fintech agenda.

**Contributors’ Profiles:**

**Andre Casterman** is an independent consultant, advising financial institutions and fintechs on data management, trade finance, and capital markets innovations. André spent 20+ years at SWIFT, leading various innovations in the inter-bank payments, corporate treasury, and trade finance markets. During that time, he established an institutional partnership between SWIFT and the International Chamber of Commerce (ICC) and created the first digital trade settlement instrument.

André serves as CMO at INTIX, a data management fintech as well as Advisor to Tradeeq, Mitigram and Traydstream which are three trade-focused fintechs. André chairs the Fintech Committee of the International Trade and Forfaiting Association (ITFA) with a focus on helping banks take advantage of fintech innovations to automate trade finance operations and establish the business as an investable asset class through use of data analytics and machine learning.

André holds a master’s degree in Applied Economics from ICHEC Brussels Management School and two master’s degrees in Computer Sciences and in Management from the Vrije Universiteit Brussel (VUB).

**Duarte Pedreira** is an experienced trade financier, with ample exposure to trade, commodity and working capital finance in a multitude of different jurisdictions, with an emphasis in emerging markets. He is currently the head of trade finance for the UK-based Crown Agents Bank, specialising in providing trade finance services within a correspondent banking environment to financial institutions located mostly in Sub-Saharan Africa.

His previous experience includes senior trade finance roles with the Standard Bank Group, where he was Head of Trade Finance Sales at the bank’s head office in South Africa, and Head of Transactional Banking at Standard Bank’s Angolan operation. Subsequently, and prior to joining Crown Agents Bank, he was also Head of Structured Finance Advisory for Caspian Sea Capital and a Credit Insurance Underwriting Manager for AIG. Duarte has a MSc in International Securities, Investment and Banking from the International Capital Markets Association (ICMA) Centre, part of Henley Business School, and originally got involved with ITFA by becoming a member of the ITFA Insurance Committee.
In an exclusive interview with INTO AFRICA, Mohammed Kateeb, Path Solutions’ Group Chairman & CEO shares that, “As pioneers and experts in Islamic banking software solutions and services, we often lead our clients by advising them on what world-class solutions look like. Our vision is to empower our clients with a powerful and innovative software platform to run their business efficiently and successfully”.

CAPMARKETSAFRICA: What are the major verticals for which you are offering software solutions?

MOHAMMED KATEEB: We have deep expertise in the development, consulting, and implementation of software solutions for the financial industry. More specifically, we offer software solutions for the banking, investment, financing and microfinance institutions. Our software platform is dynamic and flexible and can be easily configured for the different markets we serve.

CAPMARKETSAFRICA: Path Solutions has been expanding in the past couple of years with new product launches. We are interested to know more about Artificial Intelligence solution.

MOHAMMED KATEEB: The technological revolution created choices and low switching cost to demanding customers, and banks realised that they need to understand their customers like never before. Failure to communicate with these customers at the right time, through the right channel, with the right offer will slowly wear away their customer base.

Analytics can hold the key to personalized experience and optimised performance, and thus allows informed decisions, actionable insights and trusted information. Our AI analytics solution is a key enabler to staying customer-relevant, by bringing together all pertinent information, predictive analytics to help banks with customer retention, detect fraudulent activities, and identify future events based on past happenings.

AI-powered analytics and deep learning procedures are an integral part of our platform and an essential component in creating the intelligent bank of the future. We want to make AI capability accessible to all banks regardless of their type and size to improve their efficiency, automate processes, and crucially provide personalized customer engagements.

CAPMARKETSAFRICA: What is the major unique selling point that sets you apart from your competition?

MOHAMMED KATEEB: We know that our success is dependent on ensuring that our clients are successful, and we are privileged to help some of the world’s most innovative Islamic financial institutions deliver outstanding service to millions of customers every day. We have earned this honour by helping our clients transform their transaction banking business dramatically, lowering their total cost of ownership, radically improving their time-to-market with innovative Islamic banking products and delivering a secure, scalable and highly available platform to underpin their business.

Today, our clients in 39 countries are leveraging our strategic vision and deep industry commitment to drive their business forward and keep their competitive edge. We believe that our specialisa-
tion and focus on Islamic banking when combined with our business and technical know-how is the foundation of our success. However, what truly sets us apart is our values-based approach focused on long-term partnership with our clients.

**CAPMARKETS AF RICA**: Are there any problems with technology that your clients can avoid by choosing you as a partner?

**MOHAMMED KATEEB**: The Islamic banking landscape is complex and fast moving. Delivering the products and services customers expect demands a breadth and depth of functional coverage from the basic conditions and requirements of the Ijarah contract to multi-layered deals such as diminishing joint ownership or Musharaka, and parallel and mixed leasing agreements. Our set of Islamic banking solutions addresses accurately all clients’ needs.

But it is more than that; the pace of change of technology, the rise of fast-changing ecosystems and the regulators are all putting pressure on banks. Legacy systems simply cannot cope anymore. They are difficult to upgrade and comply costly to maintain and expand, and hard to integrate. We eliminate these problems while also preparing our clients for the digital era by offering them an open platform that is easily configurable to their needs and doesn’t lock them into legacy technology.

**CAPMARKETS AF RICA**: What has been your long-term strategy to win clients?

**MOHAMMED KATEEB**: In addition to being served anytime, anywhere using the channel of their choice, today’s customers also expect banks to understand their needs and deliver a personalised experience without being overly intrusive. To meet these expectations and to become their bank-of-choice, financial institutions need to transform their services. They need to understand their customers better, and anticipate and offer exactly what they want.

Banks need to carefully choose the right technology partner that can understand their segment of business and offer them new capabilities to help them attain their goals. Our long-term strategy is based on helping our clients transform their businesses in pursuit of customer service excellence.

**CAPMARKETS AF RICA**: Are you strategically focusing on a particular region this year?

**MOHAMMED KATEEB**: We are a global company servicing clients worldwide. We serve more than 140 Islamic financial institutions across the globe. Last year, we have seen significant traction in Iraq where we have sealed a good number of deals. The level of engagement from potential clients continues to increase and we have seen some great opportunities coming in, building of course on our global footprint.

We will continue to focus on emerging markets such as Africa, as well as our growing markets in the Middle East and Gulf. We are also looking at CIS countries as we believe our solutions can help banks in that region capitalise on the opportunities created by the new financial and legislative frameworks for Islamic banking.

**CAPMARKETS AF RICA**: Which emerging technologies do you see as game-changers and will have the greatest impact on banking?

**MOHAMMED KATEEB**: AI will without a doubt have the largest impact on our lives regardless which industry we are talking about and I see this applying to the banking industry. It is the game-changer for humankind.

In addition, blockchain will have tremendous impact on specific segments of the banking sector. Of course, there are six or seven technology advancements, which are called the Fourth Industrial Revolution technology (4IR for short), which will contribute to revolutionize this industry pushing open banking to its ultimate levels. The payments industry is just an example of the possibilities.

Of course, these technologies are empowering newcomers, such as Fintechs and major technology companies such as Apple, Facebook, Amazon, etc. to push with force into this segment and they will be the true game-changers.

**CAPMARKETS AF RICA**: Are banks sufficiently prepared for the digital future and what should be top of their agenda?

**MOHAMMED KATEEB**: The level of readiness in the banking sector for the digital future differs based on what bank and what geography. The size of the bank, and the level of investment in digitalization plays a role in this determination; in addition, different markets are moving at different speeds due to legislation, regulations, culture, legacy system complexities, and cost. The biggest concern for banks is the long costly process of the digital transformation.
While some banks are taking a comprehensive approach to digitalization, many banks are taking more of an incremental approach by gradually re-engineering their processes, replacing legacy infrastructure with digital technology based on bank core capabilities. In addition to the digital revolution speed and exerted pressure, the banking sector is under tremendous burden by the many regulations to adhere to such as capital ratios, FATCA, IFRS 9, anti-money laundering regulations, transaction monitoring and compliance.

We at Path Solutions, are currently working with both types of banks and we are assisting them with their digitalization.

CAPMARKETSAFRICA: Are there any major technology trends coming down the line that you can help your clients deal with in the coming period?
MOHAMMED KATEEB: In this transition period, financial institutions should focus on their customers, as they need to retain them by reaching and understanding them like never before! Replacing legacy technology with an advanced open platform that allows the digitalization of their processes and supports all e-channels is of critical importance.

CAPMARKETSAFRICA: How technology can help?
MOHAMMED KATEEB: Technology is just an enabler. So first, financial institutions need to decide on their strategy moving forward in the midst of this digital revolution focusing on customer retention by far reaching and understanding the needs of their customers.

Digitally-enabled financial services are dramatically expanding the ways in which people transact beyond traditional banking. Innovations like social, mobile, AI and cloud-based systems offer promises of automation, cost-saving and security. Banks need to utilize these technologies to provide a completely differentiated experience for their customers by combining algorithm-based banking with the human touch.

CAPMARKETSAFRICA: As a follow-up, how has Path Solutions established its reputation as a global leading Islamic financial technology provider in a competitive environment? And what are some of the challenges your organization has encountered?
MOHAMMED KATEEB: Path Solutions is a pure play Islamic core banking platform specialist serving more than 140 Islamic banks in multi-language across 39 countries. We offer the widest range of Sharia-compliant software solutions and technology-based services for the fast-growing Islamic financial services industry.

Since its inception, Path Solutions enjoys an unmatched success in terms of service excellence. We have world-class solutions built upon 27 years’ experience that have been endorsed both by AAOIFI and Deloitte, and we have successful projects delivered on-time and on-budget even in remote regions. This reputation is the cornerstone of Path Solutions’ success and fast growth.

Path Solutions is growing rapidly to establish itself as a significant Fintech disrupter with a fantastic reputation and credibility in the segment. For the tenth year, Path Solutions has topped the prestigious IBSI Islamic Banking Sales League Table. This triumph is yet another milestone in the company’s drive to be recognised as the undisputed leader and pre-eminent player in the Islamic financial services industry.

As to the challenges we face, because the world has changed, the business context also changed, so things are happening fast. Which means, you always have to innovate to remain relevant by doing things differently. Nonetheless, we always were very strong on client focus.

CAPMARKETSAFRICA: Looking ahead, what strategic plans do you have in place and where do you see Path Solutions in five years from now?
MOHAMMED KATEEB: We are experiencing an unstoppable momentum among our clients with a new set of solutions and services, and we are making a strategic shift to providing cloud-based innovative technologies.

In five years from now, the creation of the new ecosystem in the Islamic financial industry would have advanced, and new business models for the financial services industry in partnership with Fintechs will be the norm. We see ourselves as a key contributor to the creation of this ecosystem.

CAPMARKETSAFRICA: There is a myth that the Islamic banking sector typically lags behind in terms of adopting new technology innovations. In your view, is this a reality or perception? And how is Islamic banking catching up with the sheer need for digitization in banking?
MOHAMMED KATEEB: I believe this is a myth as it is not the difference between Islamic and conventional banking segments, but as I said
before, it is the strategy, the size and the geography of the institution. As an example, some of our Islamic banking clients in Kuwait and Iraq lead their markets in offering digital services. They have invested heavily in the transformation and have achieved amazing results.

**CAPMARKETSAFRICA:** Standardisation is regularly touted as a key driver for tech adoption. As a solution provider, how does Path Solutions respond in terms of technology innovation and ensure its software platform is Sharia-compliant?

**MOHAMMED KATEEB:** On the Sharia compliance, Path Solutions was the first to attain a certification of its Islamic core banking platform by AAOIFI in 2008. This certification covered the full set of services, business processes, contracts, Islamic accounting treatments, implications and behavior of the system. In 2014, we assigned Deloitte to complete the AAOIFI compliance review of our platform who confirmed that it is an industry-proven and trusted Islamic core banking system specifically built from the ground up to support Sharia banking operations. Again, in December 2018, we signed a new agreement with AAOIFI for the renewal of certification of the new Java open platform to comply with the standard setting body’s relevant standards. In addition, we work closely with all industry standard bodies, attend key conferences and play a thought leader role in this segment.

On the Innovation side, realizing the importance of innovation, we continuously invest over 30% of our revenues in R&D year after year. We have tremendous advancements added to our platform in key areas such e-channels, analytics, AI, cloud, blockchain, social banking and many other 4IR technologies.

**CAPMARKETSAFRICA:** In your view, what impact are regulations having on Sharia-based technologies? And how does technology help Islamic banks meet international regulations and compliance?

**MOHAMMED KATEEB:** The increased integration of the Islamic financial system into the global financial system makes it necessary for Sharia-compliant banks to ensure that their regulatory frameworks remain relevant in line with the changes in the global financial environment.

There are two main regulatory bodies in Islamic finance whose mission is to put in place a sound and effective framework of supervisory policies, standards, controls and instruments that conform to international best practices and comply with Islamic banking applicable laws and regulations.

But, with the wave of new regulations and reporting requirements, achieving compliance and exceptional risk management is now more difficult than ever. We, at Path Solutions are investing more heavily in compliance and risk management enabling Islamic banks to navigate the complex regulatory landscape in order to remain focused on serving their customers.

Our objective is to ensure that all of our clients receive the highest level of value from the compliance suite we offer, and which includes iSHARIAHAUDIT, FATCA, IFRS 9, iSCORE and others.

**CAPMARKETSAFRICA:** New technology could disrupt the industry; it also has the potential to spur growth, strengthen mechanisms for Sharia compliance, and increase the traceability of transactions through blockchain. What is your view on blockchain as a technology? Is that something you are looking at?

**MOHAMMED KATEEB:** Blockchain has the potential to create a major shift in the way business is conducted over the next five years in some segments of the banking sector, especially where third parties are involved causing high cost transactions. I am disappointed with the pace of innovation in this area as it has been slow and fragmented, but I am encouraged by the entrance into this space of some large Infrastructure companies such as Microsoft and Oracle which will speed adoption. Path Solutions has some key initiatives in this area, and we expect to introduce key services empowered by blockchain to the market in the near future.

For Islamic banking, blockchain is a perfect match because Islamic banking is an asset-based and blockchain tracks assets in an accurate, uncorruptible ledgers of transactions by removing the risk of having a third party administrator involved. So, it is a tool for building trust and traceability in an age of greater transparency. Using blockchain, smart contracts are capable of essentially automating the whole contractual process for Islamic banks, including enforcing the terms of the contract. By demonstrating its ability to comply with Sharia-based regulations, blockchain is earning legitimacy, besides being an ideal solution to reduce costs involved in transactions and processes.

**CAPMARKETSAFRICA:** Thank you very much for granting this interview!
Ever wonder where the coffee you drink in the morning, the rice at lunch or the cashew in your favourite snack come from? Chances are they were produced by one of the 500 million farmers in developing countries and got to you through a long and complex supply chain. Whether the farmer comes from Vietnam (coffee), Côte d’Ivoire (cashew) or Thailand (rice) they are likely to share one thing in common: an unfair share of profits generated from over a trillion dollars in global trade of agricultural commodities.

Why?

Nature and structure of competition in commodity supply chain

The answer lies in the nature of competition along the commodity supply chain. The further downstream (closer to consumers) a player is the greater the bargaining power. So the retailer has more bargaining power than the wholesaler/distributor who in turn has more power than the importer, exporter, processor, aggregator and so on. The smallholder farmer, being at the most upstream position in the supply chain, often is the most vulnerable to any commodity price shock.

Power in the international agriculture supply chain also correlates to the size of the players. A quarter global agrifood trading is handled by the ABCD (ADM, Bunge, Cargill, Louis Dreyfus). These groups, together with smaller Asian cousins NOW (Noble, Olam and Wilmar) and national giants such as Cofco (China) and BRF (Brazil), control hard-to-replicate networks of silos, ports, ships and trucks to buy in surplus and sell to customers worldwide. These groups, many of them are family or state-owned, also have information power to their advantage: supply disruptions (due to weather etc.), shipping data, demand changes. In recent years many have diversified from downstream trading to more upstream activities such as processing or even farming.

Farmers’ funding cycle

There is another little-known but profound reason to a smallholder farmer’s vulnerability. It is his cash flow cycle. Being typically poor, farmers have to borrow, in one form or another, to buy inputs like

Box 1: Coffee farmers receive less than 10% of what consumers pay

Coffee is one of the most important internationally traded agricultural commodities. It has a significant social and economic impact for 25 million families - mostly small farmers - that live in more than 50 producing countries.

Everyday, the world consumes about 3 billion cups of coffee ...in a 200 billion dollar industry

<table>
<thead>
<tr>
<th>Price of a cup of latte</th>
<th>Consumer pays</th>
<th>Value kept by coffee exporting countries</th>
<th>How much coffee farmers get paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4.00</td>
<td>$0.40</td>
<td>$0.20</td>
<td></td>
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</table>

The commodity supply chain as a whole has been on a downturn since 2011. The Bloomberg Commodity Index has dropped from 176 in April 2011 to less than half at 77 in June 2019. Whilst all in the supply chain have suffered to varying degrees, farmers, especially those in developing countries, have borne the brunt of the downturn. When coffee commodity price falls, consumers don’t pay less for their coffee drinks but farmers receive less for their beans. So at present, the system discriminates against farmers, the very actor who makes it possible in the first place.
seeds, fertiliser, crop chemicals at the beginning of their cropping cycle. At harvest, they immediately have to sell their crops to repay the loan. With everyone selling to a few buyers, the price is often depressed at harvest unless of course it is a poor harvest and there isn’t much to sell. In either case, smallholder farmers don’t gain much from their labour and the vicious circle of borrowing at growing and selling at harvest perpetuates.

**Supply chain frictions**

Commodities are by their nature volatile but the current frictions in the supply chain contribute to even lower profits ultimately available for smallholder farmers.

- **Middlemen:** Due to lack of trust, most international trade is conducted through intermediaries who typically charge between 10 - 30%, depending on the degree of supply chain integration. Some intermediaries simply do back-to-back trades and earn 10-15%. Others, with their own storage facilities and distribution network, can also earn 15-30%. For example, the billion dollar bilateral trade flows between Vietnam and Africa in rice, fish, cotton, cashew nuts etc. are mainly done through intermediaries.

- **Financing availability and costs:** Only players with large assets base and establish relationship with banks can obtain finance. Other smaller players such as aggregators and farmers are cut off from funding or have to borrow at extortionately high rates. Supply chain assets are often illiquid and banks lack visibility and information to be able to assess supply chain credit risk properly. Many banks just simply consider farmers being not worth their efforts.

- **Paper-based processes that are prone to errors and fraud:** Not much has changed for centuries - international trade is surprisingly paper-based. Errors and fraud are common (e.g. counterfeiting bills of lading to take delivery of goods or receiving payment without sending the goods). The Qingdao port incident is a case in point.

**USD**

75% of world trade is settled in either USD or Euro. Collectively the US and EU economies account for 40% of world trade meaning 35%, or $6 trillion, of trade being settled in these two currencies that have nothing to do with either economies. The dominance of USD was an intended consequence in the world financial architecture after the Second World War but it has become a burden for developing economies where most of the USD revenue is dependent upon exporting one or two highly volatile commodities. Think of oil for Nigeria or Angola and copper for Zambia or the DRC. When commodities prices are low (as they are now), countries simply don’t have USD to trade. But even when there is enough USD in the system, settlement in USD represent significant extra costs of converting local currencies to USD then transferring through the banking system. Again, these are costs that players in the supply chain may ultimately pass on to farmers through offering low prices for their produce.

**Binkabi is a platform for issuing, trading and financing commodities on the blockchain.**

Binkabi is creating a vibrant network of marketplaces of commodities and supply chain finance consisting of banks, commodity exchanges, warehouse providers, transporters, farmers, aggregators and processors.

Binkabi platform uses smart contracts on the blockchain (refer to computational logic in the box above) to secure and automate commodity trading and financing. Upon depositing commodities for sale at one of accredited warehouses, the seller will receive a warehouse receipt representing ownership of the commodity. Meanwhile, the buyer needs to send the required payment to a partner bank. Binkabi platform, which connects with both accredited warehouses and banks, swap the warehouse receipt with the payment in one single atomic transaction. The buyer ends up with warehouse receipt and the seller the cash. The buyer can then redeem the receipt for physical commodity or sell on to another user.

With Binkabi’s smart contracts the transaction is 100% secured. If either party fails to perform then the transaction is cancelled and the digital asset
returns to the original sender. The transaction is also very fast: an entire trade cycle from posting an order to agreeing a contract to settlement typically takes less than 5 mins. For sellers it means a near instant receipt of cash in their bank accounts, instead of days or weeks.

In a lending transaction, a borrower would ‘lock’ warehouse receipts in a smart contract ‘vault’ giving the bank the confidence to lend. The entire process of securing warehouse receipts, disbursing funds, monitoring performance and managing repayments is automated through the Binkabi platform. At present, when banks lend to agriculture supply chain, only the creditworthiness (read collateral) of the borrower is assessed, or balance sheet based-lending, in a time consuming process. This has prevented farmers and SMEs to access bank finance given their lack of collateral. With Binkabi’s blockchain-based, highly automated lending technology, banks can lend against highly liquid warehouse receipts, or asset-based lending. This helps banks to dramatically reduce operational costs and credit risk which, in turn, translates into lower borrowing costs for farmers and SMEs and overall a much faster service.

The platform has been launched in Nigeria with 3 banks and two commodity exchanges and hundreds of SMEs and soon thousands of farmers. Specifically, one bank has committed to lend $30m on the Binkabi platform. This marks the first time a blockchain-based lending technology has been deployed at scale against real-world assets like commodities.

The Binkabi technology has a wide range of use cases. Farmers at harvest can choose to store commodities in warehouses, borrow against them whilst waiting for better prices to sell. A commodity aggregator could conveniently borrow from a bank on Binkabi platform to supply to a large processor under a long term contract, enabling all actors in the supply chain to achieve more efficient working capital management. Ultimately, it is about helping farmers and SMEs in emerging markets to benefit more from their production through a fairer allocation of profits along the agriculture supply chain.

**Contributor’s Profile**

*Quan Le* has over 20-year experience in high finance, technology and commodities. He grew up in Vietnam and was educated in Vietnam and Australia. Quan spent over 10 years in Hanoi, Sydney and London, advising global financial services groups in complex financial products and strategy. In 2011, Quan founded growmoreX, an agriculture technology firm bringing proven crop know-how from Asia to Africa. Binkabi was born out of this unique confluence of real-life experiences and the need of commodity supply chain players in emerging markets. Quan is the mastermind behind Binkabi’s decentralised commodity exchange and Barter Block platform, based on its tokenisation protocol. Quan holds master’s degree in applied finance and still walks the fields of Africa and Asia.

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**Box 2: How Blockchain Works (Source: Harvard Business Review)**

Here are five basic principles underlying the technology.

1. **Distributed Database**
   Each party on a blockchain has access to the entire database and its complete history. No single party controls the data or the information. Every party can verify the records of its transaction partners directly, without an intermediary.

2. **Peer-to-Peer Transmission**
   Communication occurs directly between peers instead of through a central node. Each node stores and forwards information to all other nodes.

3. **Transparency with Pseudonymity**
   Every transaction and its associated value are visible to anyone with access to the system. Each node, or user, on a blockchain has a unique 30-plus-character alphanumeric address that identifies it. Users can choose to remain anonymous or provide proof of their identity to others. Transactions occur between blockchain addresses.

4. **Irreversibility of Records**
   Once a transaction is entered in the database and the accounts are updated, the records cannot be altered, because they’re linked to every transaction record that came before them (hence the term “chain”). Various computational algorithms and approaches are deployed to ensure that the recording on the database is permanent, chronologically ordered, and available to all others on the network.

5. **Computational Logic**
   The digital nature of the ledger means that blockchain transactions can be tied to computational logic and in essence programmed. So users can set up algorithms and rules that automatically trigger transactions between nodes.
If the African Continental Free Trade Area Agreement (AfCFTA) enters into force later this year, it will give member states a mechanism to promote trade and resolve disputes.

AfCFTA received the 22 ratifications required for it to enter into force in April 2019. Although the AfCFTA has come into force, it has not automatically replaced the other regional trade agreements in place across the continent. The levels of regional integration between member states facilitated and codified by Africa’s many other regional trade agreements will remain.

AfCFTA has established a Dispute Settlement Body (DSB) to facilitate disputes between African states who seldom sue each other and are, thus, in need of alternative dispute resolution mechanisms to quickly and simply dispense with disputes. AfCFTA has introduced these alternative dispute resolution processes and mechanisms to facilitate the resolution of trade disputes between African states, rather than states having to run their disputes through strictly judicial procedures and remedies.

If a dispute arises, the states involved are mandated to first hold consultations between themselves to try and reach an amicable resolution. Any requests for a consultation should be channelled to the other state through the DSB. These consultations will be confidential and without prejudice to the rights of the involved states. The intention behind first having to hold consultations is to ensure that the relationships between African states which AfCFTA seeks to strengthen and unite are not harmed by disputes which could otherwise drive deep fractures between African states who need to work together to harness the continents’ unified trade potential. The confidentiality of the consultations ensures that the sovereignty of the states involved is not compromised by publicised finger-pointing.

Where consultations fail, the DSB will establish a Dispute Settlement Panel for formal resolution. The DSB (through the Panel) will then make a binding decision. Should the states involved not agree with the Panel’s findings, the decision can be appealed to the Appellate Body (to be established by the DSB).

Interestingly, states which are a party to a dispute may mutually and voluntarily agree to refer the matter forconciliation, mediation or arbitration as alternatives to referring the dispute to the DSB. If the parties agree on arbitration, they will need to agree on the arbitration procedures. It is likely that the Model Law of the United Nations Commission on International Trade Law will feature in many of these arbitrations.

The DSB will also monitor the state parties’ implementation of the DSB’s or the Appellate Body’s rulings and recommendations. If the state parties fail to comply with the rulings and recommendations, the DSB may impose temporary measures including compensation being paid by the defaulting party to the other party, as well as the suspen-
sion of trade concessions against the defaulting party. Article 25 provides that compensation is voluntary and, if granted, must be consistent with the AfCFTA.

It appears that states are the only parties with legal standing to make use of the dispute settlement mechanism under AfCFTA. It is unclear whether a dispute can be referred by a non-State entity (or by any other interested party). By comparison, the SADC tribunal does not allow private parties to approach the tribunal with disputes, only state entities are allowed to do so. Although the position under AfCFTA is unclear, the new alternative dispute resolution mechanisms that have been introduced to settle inter-state disputes is welcomed as these new mechanisms will facilitate trade between member states by dispensing with inter-state disputes confidentially and without the need to resort to courts. This helps achieve the overarching goal of AfCFTA: to facilitate and support a continental free trade area through amicable and unified inter-state relationships.

A unified continent has far-reaching benefits for Africa continentally and in the global market. A continent-wide free trade area will give African countries specialising in particular goods a comparative advantage. It will improve the efficient use of productive resources and increase output. Removing trade barriers on imports will reduce import costs, in turn lowering consumer prices and giving consumers a larger variety of African products in a unified market.

Downstream manufacturers also stand to benefit by reduced production costs by lowering the costs of importing raw materials. This is likely to place competitive pressure on domestic producers who will be required to improve their resource allocation and innovate to compete meaningfully in the liberalised trade environment. The increased competitiveness of domestic producers is, in turn, likely to improve. This will position African economies to integrate into global value chains, an area in which African trade has played a minor role.

Individual African country’s concerns over state sovereignty have always resulted in constrained access to neighbouring markets, which has hindered domestic growth. AfCFTA seeks to ensure that state relationships are maintained and strengthened through minimal-impact alternative dispute resolution mechanisms. An integrated African market supported by strong inter-state relationships will give domestic firms the opportunity to be liberated from local market constraints created by intra-regional trade barriers. This will improve growth prospects and allow domestic firms and their wider economies to access finance and technology in the global economy.

The alternative dispute resolution mechanisms introduced by AfCFTA present a positive move towards a unified continent that is able to contribute to and benefit from the global trade market. Having such wide-ranging discretion for states to settle disputes through alternative dispute resolution procedures, and not simply a strict judicial process, AfCFTA’s alternative dispute resolution mechanisms are likely to facilitate and encourage strong inter-state relationships and pave the way for powerful trade partnerships between African states.

“The alternative dispute resolution mechanisms introduced by AfCFTA present a positive move towards a unified continent that is able to contribute to and benefit from the global trade market.”

Contributors’ Profiles:

Yasmine Wilson is an associate at Norton Rose Fulbright based in Durban. She specialises in shipping and logistics law, with a focus on international trade, admiralty litigation, customs and excise, charter parties and bulk cargo purchase and sale agreements.

Richard Steinbach is an associate at Norton Rose Fulbright based in Cape Town. He specialises in dispute resolution for commercial, insurance and transport related matters.
We have also announced at the beginning of this year the signing of a partnership with Absa to expand our activities through the development of a pan-African wholesale banking offering.

The challenge for foreign banks in Africa is to be able to have sustainable profitable activities, while falling under increasing compliance constraints. We believe that Societe Generale can take up this challenge for several reasons.

First, Africa is more important for us than for a number of other actors. It represents 5% of the Group net banking income and 8% of the Group net income. Unlike many foreign institutions, we have consistently pursued a strategy of development and diversification on a broad regional basis. This puts us in a position to better sustain our growth as we can absorb the crisis of a country or a sector without affecting the global profitability of our franchise.

We have also demonstrated our ability to operate in Africa applying all of the Group’s compliance mechanisms and processes. It’s a day-to-day challenge, and we have very strict programs in place to meet our regulatory obligations with respect to KYC, or corruption. Today, this is a must.

In the field of wholesale banking where we service corporate clients, we have created systematic cooperation between our African network and our worldwide franchises of trade finance, cash management, structured finance, market activity, or private bank. In 2016, we have created a trading room in Abidjan, which covers West Africa, in the form of a JV between our African activities and the Group Markets activities. We have also created structured finance platforms in Casablanca and in Abidjan, which are JV between our African subsidiaries and the group’s structured finance business lines.

Another competitive advantage coming from our position of international bank in Africa: we have...
strengthened the cooperation between the African network and the different geographies in which Societe Generale Group operates. We launched a China-Africa initiative, with SG China our subsidiary company in China which covers major clients from the telecom, infrastructure & construction sectors that are well present in Africa. Specific desks in all of our African subsidiaries support these clients in their projects in Africa with credit lines, bank counter-guarantees and daily flow processing. This set up has proved very successful notably because it is driven in Paris and in Africa by Chinese staff who speak the same language as our customers and were able to bring advisory & value added very quickly into communities in Africa.

**CAPMARKETS AFRICA:** How serious a threat does you consider money-laundering to be within Africa’s banking sector? And what specific measures does SOCIETE GENERALE have in place to combat it?

**ALEXANDRE MAYMAT:** As mentioned, topics around compliance, fight against corruption and money laundering are crucial. Societe Generale is often precursor on these subjects in the African countries in which it operates but it is mandatory for an international bank and one important element of the security we offer to our clients. The challenges of training our staff and the understanding & appropriation by our clients of these new constraints are a top priority.

**CAPMARKETS AFRICA:** Sustainable development, Impact investing and ESG investment are becoming popular globally. Do you feel that your bank is currently doing enough in the space?

**ALEXANDRE MAYMAT:** Societe Generale’s roots in the financing of the real economy in Africa and its loyalty to the continent have encouraged the Bank to take a responsible look at the development of the African continent. This commitment was reaffirmed in the bank strategic plan: it makes the African activities one of the pillars of the Group’s growth, and at the same time builds on a CSR ambition that lays the “Contribution to the sustainable development of Africa” as a major axis.

In 2018, with the launch of the “Grow with Africa” programme conceived in collaboration with several local and international partners, Societe Generale has identified four areas of development to foster sustainable development in Africa:

- **Multi-dimensional support for African SMEs:** In order to support SMEs, which are the cornerstone of African economies, Societe Generale is currently creating “SME Centers” in each of its subsidiaries, bringing together under one roof the different organisations that work together to promote business development. This initiative will go hand in hand with the Bank’s plan to substantially increase the amount of loans granted to African SMEs.

- **Infrastructure financing:** Infrastructure is a key aspect of development in Africa, especially in energy, transport, water and waste management, and even the development of sustainable cities. Societe Generale is deeply involved in infrastructure financing in Africa and intends to further increase its contribution. The Bank plans to double its African workforce dedicated to structured finance by 2019 and increase its financial commitments related to structured finance in Africa by 20% over the next three years.

- **Developing innovative financing solutions:** Societe Generale is dedicated to improving its support of agricultural industries, by working alongside all of the sector’s stakeholders, including farmers, cooperatives and SMEs. As such, Societe Generale is committed to providing access to a range of banking and non-banking services (healthcare, education, advisory) to one million farmers over the next five years, thanks to its YUP platform. The Bank is also focused on supporting energy inclusion, promoting renewable energy sources in areas that are not connected to the electricity network and supporting connections for households located close to existing networks.

- **Promoting development through financial inclusion:** For several decades, Societe Generale has been a key player in local economies, with the aim of improving financial inclusion among local populations. The Bank will continue in this direction by pursuing the roll out of YUP, our mobile payment solution which offers simple, accessible, bank-like products to a broad population, the majority of whom does not currently have access to banking services.
“Societe Generale has been anchored in the African territories for a very long time. We have been in Morocco for over 100 years, in Senegal, Ivory Coast and Cameroon for 55 years. We have established in 9 new countries over the last 15 years.”

ALEXANDRE MAYMAT: For several years now, we have changed our Human Resources habits to expose our local managers to positions of responsibility historically reserved to French expatriates. There are several reasons that motivate and explain these changes:

- Africa is reinventing banking models and our African staff are the best placed to realize this transformation;
- There are now generations of Top-class managers in Africa.
- Our local managers are well connected to the local business community
- In a competitive environment, employees looking for personal development can easily change and leave a company if they are not satisfied.

This strategy has already started to bear fruit: in 5 years, we have changed over 70% of the executive management of our subsidiaries, 4 out of 5 of our regional managers are African. We have also increased the share of African staff in our expatriates. Today, they represent 35% of them with a target of 40% by 2020.

At the same time, we have created the Pan-African Valley Community, which brings together nearly 200 African top managers to facilitate the sharing of good practices. This network also contributes to the definition of the major strategic projects. At the training level, we created a Pan-African university in Abidjan, in which we design both technical and managerial training. We finally rely on an interactive platform opened to our 11,500 employees to bring ideas, test proposals and develop dialogue internally.

CAPMARKETSAFRICA: Thank you very much for granting this interview!
The central African regional CEMAC bloc is unlikely to fully deliver on its fiscal consolidation and debt sustainability agenda, as its respective national governments prioritise political patronage and regime survival over fiscal and monetary prudence. Specialist intelligence firm EXX Africa assesses that failure to successfully implement IMF-mandated reforms is likely to trigger a devaluation of the CEMAC currency, which would in turn sharply increase non-payment risks across key sectors.

In May 2019, the Congolese senate voted to approve the restructuring of USD 2.5 billion of loans from China’s Import-Export Bank, which includes eight credit agreements between Congo Republic and China. The restructuring is a key condition for the unlocking of a three-year lending programme with the International Monetary Fund (IMF). The Fund’s Executive Board is now due to approve, or not, a three-year Extended Credit Facility (ECF).

If approved, Congo Republic will become the fifth country in the central African regional bloc, the Communauté économique et monétaire de l’Afrique centrale (CEMAC), to join the IMF programme, leaving out only Equatorial Guinea. A slump in global oil prices between 2014 and 2016 saw the foreign reserves at the Bank of Central African States (BEAC) drop by 68 percent from USD 15.5 billion in 2014 to USD 4.8 billion in December 2016. Reserves dropped further to USD 4.5 billion in April 2017, which amounted to less than two months of import cover. The slump also led to a combined loss of almost one percent of GDP in the CEMAC region. This fiscal and monetary crisis led to the holding of an extraordinary meeting in Cameroon, where all constituent countries agreed to undertake painful reform.

The successful completion of an IMF programme by all CEMAC countries will be critical to ensure economic recovery, as well as to stave off a devaluation of its currency by France. On the back of dwindling foreign reserves at BEAC, the French Treasury in June 2017 called for a 50 percent devaluation of the CEMAC currency, which has a fixed parity with the euro. The last time France devalued the currency by 50 percent without warning was in 1994 following a dramatic collapse in global oil prices.

The role of the IMF in CEMAC
Negotiations between the Congolese government and the IMF have been ongoing since January 2017. The main sticking point in the negotiations has been the runaway public debts of Congo owed to China and other investors, especially oil exporters. As a precondition set by the IMF, Congo should secure debt restructuring from both China and the oil exporters. Following its May vote, the Congolese parliament has finally ratified the agreement with Export-Import Bank of China that will see 33 percent of Congo’s entire debt paid in the first three years, while the remaining 67 percent paid over 15 years.

Moreover, the IMF is also demanding enhanced transparency in the oil sector, calling for state oil firm Société nationale des pétroles du Congo (SNPC) to submit to parliament a report of all pre-export financing contracts. This must be done before the meeting of the IMF’s Executive Board later in June. Although the debt restructuring agreement with China has the potential of facilitating the approval of the ECF, there is risk of a further delay to the process in the event the government fails to declare all pre-export finance contracts and demonstrate new resolve to renegotiate these contracts.

At present, CEMAC constituents Central African Republic (CAR) and Chad have secured a three-year ECF with the IMF amounting to USD 132 million and USD 312 million respectively, while Cameroon and Gabon secured USD 666 million and USD 642 million dollars, respectively. The amount approved reflects the size of the economy of each country, with CAR having the weakest economy, while Cameroon holds the largest economy in the CEMAC region. This means that the amount to be approved for Congo Republic will be between USD 500 and 600 million. However, for most of these countries, the amount
of the IMF loan is not of great importance. What is more important for some of the CEMAC countries is the fact that securing an IMF programme would legitimise contract renegotiations with commercial investors and facilitate the release of financial support from other partners in the name of debt relief or restructuring.

**Political reality**

In times of economic hardship, CEMAC governments are more likely to pile pressures on foreign investors to extract more money. This is done mainly through arbitrary demands for backdated tax, demands for new investment, reduction of equity participations, and other unilateral demands to sponsor local projects or some government programmes.

In 2018, the government of Gabon seized the assets of the national power and water supplier, SEEG, a 51 percent subsidiary of French utility firm Veolia, before annulling its contract. This was partly due to Veolia’s refusal to bring down its equity share. Veolia took the matter to the International Centre for the Settlement of Investment Disputes (ICSID), an offshoot of the World Bank for international conciliation. The government’s action against Veolia, a French company was meant to send a strong message to other investors and concession holders to support its agenda or face serious consequences on contract stability.

Similarly, Congolese oil companies Total E&P, Eni, Perenco, Congorep, and Wing Wah E&P have received a letter in April 2019 from the authorities requesting a joint contribution towards the payment of EUR 1.7 million directly to the Organization of the Petroleum Exporting Countries (OPEC) to cover Congo’s 2018-2019 statutory contributions. Furthermore, the Congolese authorities have threatened to cancel Eni’s offtake agreement of 171,000 barrels per month, stating that the company’s contract with the government to finance infrastructural project in exchange for oil export has come to an end.

In Cameroon, businesses are also facing a number of challenges including increasingly high operating cost, the ongoing security crisis in vast swathes of the country, and difficulty in accessing foreign currencies to pay for imports, according to the employers’ union (GICAM). The government has imposed price controls on essential commodities, such as frozen fish and rice, which together require over half a billion dollars annually for importation. Moreover, the IMF is concerned with the ailing health of some the country’s local banks as some struggling companies like PAMOL and CDC, are fast losing revenue and are struggling to honour some of their financial obligations.

In Equatorial Guinea, in September 2018, the government threatened oil companies with a licence extension refusal if they failed to invest collectively at least USD 2 billion in new oil wells. As part of its strategy, the government has launched an audit exercise to determine firms that are not complying with the National Content Regulation of 2014. The first company to fall foul of the audit has been US-based oil services company Subsea 7. The government has now ordered all energy firms in the country to cancel their contracts with the company.

Finally, in Chad, the government with the assistance of IMF is working to improve the ailing health of the country’s two largest public banks in a bid to mitigate the risk of banking collapse. The only bright spot so far for the CEMAC banking sector is in CAR, where the government has managed to pay back commercial arrears, thereby decreasing the share of the sector's non-performing loans.

**Contributor’s Profile**

Robert Besseling founded EXX AFRICA in 2015, after pursuing a decade-long career in political risk forecasting at industry-leading companies such as London-based Exclusive Analysis and NYSE-listed IHS Global. At EXX AFRICA, Robert leads a team of partners and contributing analysts to produce commercially relevant and actionable analysis on African political, security, and economic risk. Robert also retains the lead on many consulting projects for blue chip corporations in a wide variety of sectors.

Robert is an expert in forecasting political, security, and economic risk to African natural resources and associated infrastructure development. He has travelled extensively on the continent and calls Africa his ‘home’. He is regularly invited to speak at major international conferences on topics such as metals and mining, trade and export finance, and global security matters. He makes frequent appearances on televised media, as well as contributions to international print media.

Robert holds an MA (Hons.) in History from the University of St. Andrews in Scotland. He also has an MBA and a PhD in African political and economic history. He is fluent in English, French, and Dutch.
A few years after this century’s commodity boom, which was primarily driven by China’s resource-intensive manufacturing and infrastructure sectors, many segments within the global mining industry are facing challenges that have caused severe price declines, increased volatility and lowered utilization levels. To add to this, the current value-chain is being challenged by macroeconomic conditions and increasingly pervasive new technology. As a matter of fact, the digital transformation of mining companies is expected to persist indefinitely and as a result, define the mining industry’s new normal.

Conventional mining requires extortionate fixed-asset operations and machinery, the maintenance and depreciable life of which can substantially impact production output, operating costs and ongoing capital expenditure. In order to move beyond stagnant growth and deliver exceptional shareholder, customer and safety value, mining companies are increasing the utilization of automation, robots and operational software.

Previously, automated hardware was restricted to carrying out specific tasks it had been programmed to do. In recent years, robots and machinery have been modified to perform tasks with a high degree of autonomy, working for extended periods without human intervention. According to a recent report by Markets and Markets Research Private Ltd, the technology trends in autonomous operations and robotics technology are expected to provide substantial value to the mining industry and its stakeholders, and ultimately, create a mining automation market worth over USD 3.29 billion by 2023. In addition, the adoption of mining automation in various mineral ore sites has increased the number of strategic partnerships between mining automation equipment vendors and other communication system providers. For instance, in June 2016, BHP Billiton Ltd awarded a contract to Atlas Copco AB (Sweden) for the autonomous upgrade of 18 drill rigs. Similarly, Calibre Group has completed the first autonomous train deliveries across Rio Tinto’s Pilbara mining operations, establishing the world’s first automated heavy locomotives that haul ore hundred of miles to port terminals. Rio Tinto’s automated operations in Australia are reportedly intended to preview a more efficient future for all its mining operations and reduce the need for human miners. Meanwhile in Africa, joint venture partners Rand Resources and AngloGold Resources have automated the Kibali operations in the Democratic Republic of Congo to the extent that remote operators function underground from safe air-conditioned cubicles, while managing the loaders on the open stopes of the underground operation that descends close to 800 meters below surface into a massive orebody.

Moreover, there is increased use of 3D viewing which creates a life-like impression of whatever is being viewed with depth perception. 3D viewing allows the human brain to understand and relate complex interrelated issues. More recently, a number of mining companies have been exploring the use of virtual reality tools and analysing overlaid information through augmented reality without having to trawl through siloed databases, both of which are an evolution of 3D viewing. Although 3D viewing is far from the top of the agenda for digitalising the mining industry, 27% of companies that responded the WWDX in Mining Maturity Scope Benchmark Survey noted that they had invested in 3D viewing.

Additional operational software that has gained traction in the mining industry is smart sensors. Smart sensors are combined with human geospatial tracking to turn on and off the lights when people are not in a particular area of the mine. Goldcorp’s deployment of smart 2 sensors at its Éléonore mine is a case in point. The single multi-service IP network provides secure wireless communications to reduce maintenance and operating costs and improve the safety and efficiency of the workforce. By using the tracking system, Goldcorp can ensure that workers are clear of planned blasting work and manage the mine’s air filtration system by sending fresh air to areas that need it the most. Meanwhile, Freeport-McMoRan has
modified military-grade drones to monitor and evaluate rock-face in real time. These drones are used to instantaneously survey high walls, blasting operations, tailings, large mill buildings, and power lines.

Although the digital technologies discussed above are at varying stages of maturity and usefulness, the value-at-stake analysis and assessments reveal that mining companies that are digital first movers have benefited real value from new technologies and such companies’ pro-forma projections have shown a substantial increase in the EBITDA margins. According to a report prepared by the World Economic Forum’s Mining and Metal’s DTI Advisory Group, the digital transformation initiatives in the mining and metals industry could generate USD 425 billion value for the industry, customers, society and the environment over the next 10 years. This translates to 3-4% of industry revenue over the same period.

In addition, the quantifiable value of the different digital initiatives and projects could result in an improvement in safety and the reduction of 610 million tonnes of CO2 emissions, with an estimated value to society and the environment of USD 30 billion. For example, Vale International’s implementation of a digital transformation programme, which includes a number of technological innovations such as the internet of things, advanced analytics, robotics, automation, machine learning, artificial intelligence, and mobile applications, has yielded a number of great benefits. According to Vale International’s digital transformation director, Afzal Jessa, the mining company’s considerable investment in new technology has, among other things, integrated its mining operations spanning several countries, achieved sustainable health and safety value, improved the maintenance of its assets, expanded production capacity and ultimately, generated more than USD 20 million in savings.

Although new technological trends in the mining industry offer the promise of nimble and profitable businesses, improved decision-making, increased employee empowerment, improved health, safety, and environmental impact and the creation of an estimated USD 56 billion of additional value for the mining industry, there are a number of challenges that need to be overcome. As new technology empowers some workers and creates new jobs, it could also threaten traditional roles such as the workforce of a typical open-cut, iron-ore mine and operators in open-pit mines, especially in developing countries. According to a study published by the International Institute for Sustainable Development, new technologies in the mining industry will have a tremendous impact on low-middle income host countries and host communities. The productivity gains from new technologies will reduce the amounts that mining companies contribute to government revenues in low-middle income host countries by USD 284 million, and ultimately, the host countries’ gross domestic product.

Additional impacts of adopting new technologies on low-middle income countries will be in terms of the displacement of approximately 330,000 job opportunities that require unskilled and semi-skilled personnel and a reduction in employment-related local procurement, over the next 10 years. The World Economic Forum has noted that overcoming these challenges will require collaboration amongst industry leaders, communities and policymakers. To this end, mining companies are encouraged to invest in alternative ways to work with and compensate local stakeholders and communities for the responsible use of their resources.

“the digital transformation of mining companies is expected to persist indefinitely and as a result, define the mining industry's new normal.”

Contributor’s Profile:
Itumeleng Mukhovha is a Corporate M&A Attorney at Baker McKenzie, Johannesburg, a Global Shaper of the World Economic Forum, a writer and a philanthropist who is making positive contributions in disadvantaged communities in South Africa. She was listed as one of the Top 200 Outstanding Young South Africans in 2018 by Mail and Guardian; and was included on Avance Media’s list of the Top 100 Most Influential Young South Africans, also in 2018.
Managing Fraud and Corruption Risk in Africa
By Michael Zimmern, Principal, Forensics, Europe and Africa, Control Risks

Fraud, bribery and corruption risks are fundamental challenges to doing business in Africa. This is unlikely to be a contentious statement, indeed the 2018 Transparency International Corruption Perceptions Index reported that “Sub-Saharan Africa is the lowest scoring region on the index”. However, this general perception can sometimes become so dominant that it either discourages companies from operating in the region at all or creates a degree of resignation to the realities of conducting business that can be very damaging.

In the rest of the article we consider why these issues continue to challenge companies operating in Africa, and describe what companies are doing to ensure they are conducting business ethically and to protect against the risk of financial loss.

1. Common challenges
When doing business in Africa, organisations often confront conditions that support misconduct. Circumstances are always case specific, but we have highlighted three common challenges that our clients frequently experience.

Diversity
Africa is an incredibly diverse place, and this diversity is not just represented in languages, culture and history, but also, from a business perspective, in the diversity of systems and ways of doing business. This diversity in capacity and organisation creates opportunities for misconduct and challenges for compliance.

As an example, think about how financial data is recorded. It is common for large businesses to operate market-leading ERP and accounting systems, but these often operate alongside stand-alone electronic files and extensive handwritten records, stored in different locations and with different levels of supervision and control. In such an environment, the range of data sources can make it more challenging to gain an understanding of business conduct and monitor corporate behaviour. We often see fraudsters take advantage of process gaps, missing information and lack of clarity over responsibilities as processes fail to keep pace with business activities.

Another illustration of the challenge of dealing with diversity is in interactions with third parties. International companies are now encouraged to apply their own standards to their local partners. However, some local entities, particularly smaller entities, can struggle to meet these expectations, for example they may not have policies and procedures or produce invoices that appear credible. These differences can create compliance challenges and, more importantly, they can make it harder to distinguish potentially unethical conduct from situations that are simply reflect local standards of documentation.

Another common challenge for companies is in identifying the ultimate beneficiary of payments. While banking infrastructure allows for the majority of payments to be made by bank transfer, local conditions sometimes require payments to be made via intermediaries (for example in some countries only a locally registered entity can operate a bank account) or made in cash. In such circumstances the beneficiary of the payment may not be captured or recorded in a systematic way, increasing the risk that fraudulent or corrupt payments will not be identified.

Working with third parties
While working with third parties is an inevitable part of doing business anywhere, companies operating in new or emerging markets often place more reliance on agents, representatives and local partners to conduct business on their behalf. In some cases, companies are obliged to comply with local partner requirements or are faced with a limited number of qualified partners to select from. In other cases, a local partner has the infrastructure or network required for the business to distribute their product or reach their chosen markets. However, these relationships can be very high risk, third parties regularly feature in cases of procurement fraud, stock loss and conflict of interest that we investigate, and the history of recent bribery

and corruption cases shows how often third parties have been used as a conduit to pay bribes.

As we have already noted, companies can find it difficult to assess whether local partners share their values. The limited availability and reliability of public record information in some markets can make it difficult to assess the conduct and potential of potential partners. Later, once relationships are established, companies sometimes struggle to maintain the level of oversight and engagement required to monitor conduct.

**Interactions with government**

Another key facet of doing business in Africa is interacting with government, both as a customer or business partner, as well as in relation to broader legal and regulatory requirements.

In some sectors it is impossible to avoid having business dealings with government. Such relationships can be high risk, not only in relation to fraud, bribery and corruption, but also from a business continuity perspective. Whether government organisations feature as customers or business partners, companies often fall foul of complex contractual arrangements, changes to contracts, compliance with local content rules or community funding initiatives.

Away from interactions with government as a customer or business partner, obstacles to doing business can create an environment where shortcuts appear attractive. With Sub-Saharan Africa containing 24 countries ranked 150th or worse in The World Bank Ease of Doing Business report, this has been a challenge for many organisations, although the report also noted recent improvements.2

2. Company response

Navigating fraud, bribery and corruption risks in Africa can seem daunting. However, our experience is that some companies have operated with integrity in these markets. Three common features that we observe in these companies are set out below:

- It begins with controls. It is important that processes are appropriate, address the key risks in the business and are clearly understood by the staff. Effective processes must also enable the business to effectively identify, escalate and resolve matters of concern.

- Information is critical. At a basic level all companies must know who they are paying and what they are paying for. In this era of ever-increasing data volumes it is important to make use of all the available information to manage the business. The development of data analytics and predictive modelling has created exciting opportunities for better compliance information. We find that mature businesses build effective networks and use industry groups jointly address industry or market issues.

- Frequent and consistent communication is essential. Successful companies ensure that the values of the business are clear, that incentives and rewards are aligned to these key principles and that conduct is at the core of the business. Performance is often measured with reference to outcomes, and it is important for staff to understand that the way they conduct business can be more important to the company than the short-term result. These values are communicated by local leadership, successes are shared, misconduct is seen to be investigated and staff are encouraged to raise concerns.

Where companies put in place these fundamental building blocks, our experience is that many have been able to operate successfully and with integrity across Africa.

**Contributor’s Profile**

**Michael Zimmern** leads the investigations practice for Control Risks in Europe and Africa. With 15 years’ experience in investigations and compliance engagements, Michael advises clients on regulatory, reputational and financial challenges, working alongside regulators and enforcement agencies to help clients manage and respond to risk. Over the last decade Michael has worked on forensic engagements across Sub-Saharan Africa including South Africa, Nigeria, Kenya, Ivory Coast, Ghana, Tanzania, Ethiopia, Angola, Cameroon and DRC.

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2. [http://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2019/SSA.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2019/SSA.pdf) Djibouti, Togo, Kenya, Côte d’Ivoire and Rwanda were all named in the top 10 economies showing the most improvement in this report
Spare a thought for financial services executives. The traditional financial services industry is facing immense pressure from consumers with elevated expectations of customer experience, a continuous stream of new regulations, intense competition from agile and innovative fintech upstarts - all on legacy systems, with processes and cultures that lack a high degree of agility.

The financial services sector today has to navigate a complex regulatory environment while making sure they tick all the necessary boxes for compliance. Customer expectations driven by exposure to hugely successful disruptors such as Amazon and Uber is putting massive pressure on the industry to improve the customer experience and increase the convenience of using their products and services. In response, banks and lenders are investing time and resources into understanding how they should re-architect their services to meet the growing customer and regulatory demands.

They are trying to do all of this using outdated systems, processes and cultures that make it immensely difficult to bring about rapid change. Even when banks do manage to initiate multiple projects that could help them meet their strategic objectives, a single disruptor could introduce a new product or service that negates their efforts overnight.

No stranger to disruption

South African banks - the so-called Big Four - had initially felt disruption from the likes of Capitec, who challenged local perceptions of cost-effective banking. Capitec posed the question: why invest in fancy branches and ATMs when 90% of the population just wants access to cost-effective banking services?

Recently, the emergence of digital solutions is putting further pressure on incumbent banks to innovate. The likes of Tyme Bank, Discovery Bank and Bank Zero have no cumbersome legacy systems and can build agility and adaptability into the DNA of their organisational cultures from Day One. They’re not fintechs in the traditional sense - I’d simply call them disruptors - but they are taking bold steps to re-envision how banking services are provided. The lead they build now may be very difficult - if not impossible - for traditional banks to catch up to.

Fintechs, who I’d define as organisations or teams that develop technology-led solutions that disrupt specific parts of the financial services landscape, are challenging banks’ dominance in very specific, niche areas. It’s unthinkable at this stage to posit that fintechs would replace the big banks - they’re simply too big and too well-established to fail outright - but make no mistake: every new fintech innovation that finds a foothold in the market erodes a specific revenue stream or profit margin for the incumbent banks.

Growing fintech sector

Within the next three years, the fintech industry is projected to increase its contribution to sub-Saharan Africa’s economic output by $40-billion to reach $150-billion. The continent is a great testing ground for new financial services innovation. Most African countries still struggle with a lack of access to formal financial services, leaving the majority of sub-Saharan African citizens largely unbanked.

Recent World Bank research suggests that two-thirds of adults living in the region are listed as unbanked.

This legacy of underdeveloped financial services infrastructure has given rise to a number of innovations that have sought to bring more people into the formal economic fold. Kenya’s M-Pesa is undoubtedly the most famous example: according to the Central Bank of Kenya, mobile payments amounted to $39-billion in 2018, with over 80% of the mobile money market controlled by M-Pesa. In total, about 21% of adults in sub-Saharan Africa have a mobile money account, more than any other region in the world.

Payments are not the only frontier of fintech innovation, though. The continent is home to a growing ecosystem of established fintech businesses that drive financial inclusion. It’s catching the eye of international investors, notably demonstrated with Sir Richard Branson’s investment into South African mobile transacting provider wiGroup in 2018, to create the Virgin Money Spot app and Goldman Sachs’ $52-million investment into Jumo.

As pressure on the traditional banking sector mounts, expect more investments into fintechs that can capitalise on market opportunities more quickly than their traditional peers.
**Fintechs not without own challenges**
The traditional financial services sector is not the only one facing challenges. The fintech sector is characterised by a massive pool of start-ups and a far smaller pool of successful and sustainable businesses. They face four common growth challenges, namely:

- **A need to test and validate their value propositions while dealing with severe resource, capital and time constraints.** Due to high levels of competition, fintechs need to take a minimum viable product (MVP) to market to test their value proposition, but their shoestring budgets limit their scope.

- **Small teams with a small set of highly specialised skills.** This enables them to develop great MVPs but leaves them without a full spectrum of skills needed to take that MVP to market and drive adoption. Established financial services companies have teams of people looking after risk, compliance, marketing, sales, operations, IT, finance and more. Successful businesses have all these capabilities in-house. Fintechs mostly lack these skills, which forces the question: do they recruit for these skills and carry the overheads; do they develop those skills internally using existing resources; or do they partner with larger incumbents for mutual benefit?

- **A highly complex and dynamic regulatory environment.** Compliance requires specialist skills and constant effort, which most fintechs lack and simply can’t afford.

- **Access to funding, which is often cited as the number one obstacle to business growth.** It is encouraging to see banks getting more involved with funding fintechs, either through incubation programmes, internal innovation efforts, acquisitions or through specialised lending facilities aimed specifically at fintech businesses. Banks have a lot to gain from this: they’re feeling pressure from heightened customer expectations and can’t always develop and implement new offerings internally. Incubators have emerged as a great vehicle for driving product and service innovation internally, and enables banks to fund promising concepts and teams, test the MVP, and internalise the product or service based on initial results. Fintechs often struggle with monetising their ideas, and pressure from investors to show profit can hamper innovation and limit their access to further funding.

Added to this is the fact that the fintech sector is hugely competitive. The 2017 Finnovating for Africa report, for example, listed 18 InsurTech startups; today, that figure is over 50. No matter how clever or innovative your fintech idea is, chances are there are several other innovators with the same idea. Getting your idea to market first, and ensuring you quickly capture a dominant share of the market, is essential to success.

**Data rules supreme across fintech lifecycle**
To mitigate some of these risks, fintechs should seek to partner with existing knowledge and information sources that can accelerate and de-risk their go-to-market efforts throughout the fintech lifecycle.

During the assessment phase, fintechs need to assess the opportunity and narrow down how and where they should start. Key questions during this phase include: what market am I trying to access? How big is this market? And what are best routes to access it? Fintechs could do this incrementally, but the time and effort required may severely impact the speed at which this is done. Having access to an existing pool of trusted data could drastically shorten timelines in this phase and enable the fintech to quickly take advantage of market opportunities.

Phase two focuses on understanding and managing the risk inherent to their value proposition. Fintechs need to understand the types of activities that will create risk within the business and develop ways to mitigate that risk. In this phase, TransUnion could provide access to an immense pool of data that can help fintechs develop a better understanding of the risks, the factors that increase or diminish that risk, and the actions that they need to take to limit risk.

Once fintechs have a clear view of their market and how they can limit risk, they’ll want to build their offering. Here, having access to a range of tools and widgets that can interface with the fintech’s offering helps to dramatically reduce development time and cost and ultimately enhances the customer experience. For example, drawing from its consumer database, TransUnion’s prefill solution reduces the amount of input required from a customer auto-populating certain data fields based on the customer’s ID number. TransUnion also offers a range of plug-and-play solutions to help with the management of digital fraud risk.

Digital and data go hand-in-hand. Many digital solutions - especially in fintech - fail simply because they use the wrong data. But fintechs don’t need to build that data themselves. There is a vast universe of traditional and non-traditional data that they can access to reduce time-to-market, increase the accuracy of their product development and marketing efforts, and enhance the customer experience.
EXCLUSIVE INTERVIEW WITH
BPL GLOBAL DIRECTORS GEORGE BELLORD AND SAM EVANS

George Bellord, Director, BPL Global
George Bellord has 25 years’ experience as an insurance broker, having joined BPL Global in 1994. He was appointed as a Director in 2006, before becoming a member of the group board in 2010. In his role as a Director, George manages a team of six London-based brokers from BPL Global’s office in Paris, focusing on the provision of comprehensive non-payment insurance to major financial institutions and commodity traders. He is recognised as a leading figure in the development of financial institutions’ use of the CPRI product, having placed one of BPL Global’s earliest policies for a bank client in 1996 and expanding the broker’s banking client base since.

George works across a broad range of industry sectors and, as part of this, is a member of the International Energy Credit Association (IECA), as well as the International Trade and Forfaiting Association (ITFA) and is a regular speaker at industry events. He graduated from the European Business School in London and is a fluent French and Spanish speaker.

Sam Evans, Director, BPL Global
Sam Evans joined BPL Global in 2004 and was appointed Director in 2018. He is currently based in London and works predominantly with BPL Global’s French banking clients and commodity traders, with a strong focus on the African market. He works alongside George Bellord in managing a team of six brokers, which counts one of the world’s largest commodity traders based in Geneva among its client base, as well as one of South Africa’s most important financial institutions.

A regular on the conference circuit, Sam often represents BPL Global at key industry events both in the UK and overseas, sharing his expertise by giving talks and partaking in panel discussions. Sam is a graduate of Oxford Brookes University and is fluent in both French and Spanish.

CAPMARKETS AFRICA: How is the current global political and economic climate impacting demand for trade credit insurance?

GEORGE BELLORD: Geopolitically speaking, the general perception is that we are living in increasingly uncertain times. Whether it be the escalation of tensions in the Middle East to the US’ trade war with China and continued political interference from Russia, businesses are seeking further ways to mitigate increased levels of risk with their trading partners as uncertainty grows. A key tool for risk mitigation for many businesses, trade credit insurance has seen year-on-year growth across the market in terms of existing suppliers of capacity and increased demand from users.

CAPMARKETS AFRICA: What are the regions and industries which are seeing the most rapid growth?

SAM EVANS: Africa is one of the regions with the largest exposure for our clients – accounting for over US$9.5 billion of exposure in our portfolio. The high growth rates of many countries across Africa, such as Ethiopia and Cote D’Ivoire, have meant increased levels of trade, as well as infrastructure projects, ranging from energy to roadway construction. Green energy initiatives are also taking off, with solar and other projects underway across the continent. As a result, financiers are using credit insurance to leverage their positions in such projects and to mitigate the commercial and political risks that can accompany undertaking business in emerging markets.

“Geopolitically speaking, the general perception is that we are living in increasingly uncertain times.”
CAPMARKETSAFRICA: Please can you outline recent developments that have been seen in terms of product development to meet new needs?

SAM EVANS: The credit and political risk insurance (CPRI) market is well known for its adaptability and being quick off the mark in order to seize new opportunities. In response to recent demand, insurers are now able to offer cover for non-trade financing, project financing, aviation and real estate. That said, with regards to Africa, this is still seen as an area where the obligors are located. In the future, however, it will also be where the new insured parties are.

CAPMARKETSAFRICA: What impact will potential trade wars between the US and China as well as the UK’s exit from the EEA have on demand for trade credit products, please?

GEORGE BELLORD: These factors all contribute to a worsening or perceived worsening of the global geopolitical picture. In times of such uncertainty, businesses buy more insurance, which means the market for trade credit insurance is thriving. But demand is outstripping supply: while new entrants are joining the CPRI market each year, the increase in demand has led to a lack of capacity to support risks in several key countries (most notably in Africa, and specifically Nigeria, Ghana and Angola).

As in other industries, the UK’s exit from the EEA is having implications for the insurance market from a regulatory stand point. In order to continue to service clients in the EEA, Lloyd’s of London has set up its Brussels-based platform, Lloyd’s Insurance Company SA. Similarly, many UK insurance companies have relocated their headquarters to the EEA in response to Brexit. So far, these measures look to minimise the impact of Brexit on London as the centre of the worldwide insurance industry and demand, therefore, is set to continue.

CAPMARKETSAFRICA: Do you see the demand for trade credit products as underpinnings for financings likely to continue, please?

GEORGE BELLORD: In short, yes. Although it already had a good track record, the CPRI product really proved its effectiveness after the global financial crisis in 2008 in terms of paying claims. At BPL Global, we are very proud of our claims track record, having collected US$2.5 billion for our clients since we started 36 years ago. Fundamentally, whether it be a bank, commodity trader, exporter or investor, an insured party must have confidence that a policy will respond when a loss is suffered. Our track record proves that and supports continued demand.

CAPMARKETSAFRICA: Given the prominence of counterparty credit risk in trade finance deals, to what extent can this risk be mitigated as well as managed in Africa, please?

SAM EVANS: One of the difficulties on the African continent is the sometimes lack of up-to-date and transparent financial information on obligors, which makes counterparty credit assessment rather complicated for insurers. However, our claims statistics show that African payment risks are not any worse than any other region in the world and, in fact, when analysed in depth, our experience with counterparty credit risk has actually been comparatively very good over the last 36 years.

CAPMARKETSAFRICA: What do you say about Africa’s push for a free trade area at a time when some countries in the West are becoming increasingly protectionist? And what is your thought about the Continental Free Trade Area (CFTA) in terms of challenges and suggestions, please?

GEORGE BELLORD & SAM EVANS: Tariff-free trade has been the cornerstone and the driver for economic prosperity in the West, and it is a good thing that African nations are pushing for this for the continent. The rise of populism and protectionism leads to an inward focus and disconnection from neighbours and global trading partners and the ratcheting up of tensions and tit-for-tat policies. But what Africa is missing, however, is access to the CPRI market or a network of Export Credit Agencies which could assist African exporters to increase their sales abroad and the generation of FX for their countries. The credit insurance product is regulated at a national level, but for most of the countries there is no national credit insurance industry, meaning insured parties are prevented from purchasing cover due to their national regulatory environment.

“The high growth rates of many countries across Africa, such as Ethiopia and Cote D’Ivoire, have meant increased levels of trade, as well as infrastructure projects, ranging from energy to roadway construction.”

CAPMARKETSAFRICA: Thank you very much for granting this interview!
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