African Development Bank

African Development Bank's Initiatives for crisis response

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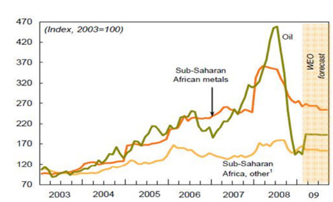
Initial hopes that Africa would be spared the impact of the global financial crisis have not materialized

The global financial crisis has worsened significantly the economic outlook for sub-Saharan Africa. Demand for African exports and commodity export prices have fallen, and remittance flows may be weakening. Tighter global credit and investor risk aversion have led to a reversal of portfolio inflows, less favorable conditions for trade finance, and could lower foreign direct investment. As a result, growth has started to slow markedly and fiscal and balance of payments pressures are mounting

International Monetary Fund April 2009

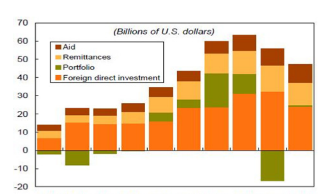
African commodity prices are falling as global demand contracts

Declining export values impacting foreign currency liquidity



All major sources of funding are slowing

Remittances may slow with weak host-country economies



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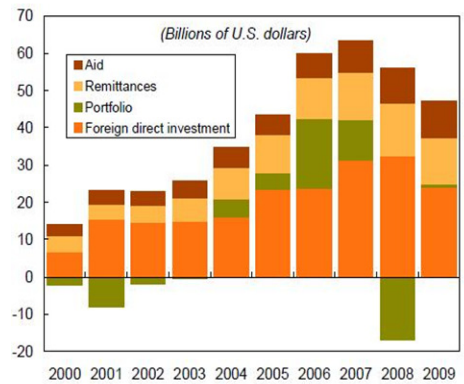
Sources of foreign exchange are under pressure, limiting funds availability for trade finance

Funds flow to Africa 2000 to 2009



"The broad retrenchment of foreign investors and banks from emerging economies and the resulting buildup in funding pressures are particularly worrisome. New securities issues have come to a virtual stop, bank-related flows have been curtailed, bond spreads have soared, equity prices have dropped, and exchange markets have come under heavy pressure"

As it became clear early 2009 that Africa's trade flows were severly hit by the crisis, the Bank launched a Trade Finance Survey to understand the issues.

Context of the Situation

- *Global financial crisis has caused a **sharp decline in world trade** volumes*
- *The OECD expects global trade to **fall by 13%** in 2009 while World Bank predicts the **largest year-on-year drop in trade volume in 80 years***
- *IMF predicts that impacts may be **more pronounced in sub Saharan Africa** as the **tightening of global credit** compounds the impact of the slowdown, **exacerbating risks for trade finance***
- ***The African Development Bank** has expressed a **strong willingness to help mitigate the impact** of the economic crisis on African trade finance*

Objectives of Trade Finance Survey

- *Necessary to develop an understanding of the **major African trade patterns** and flows*
- *Necessary to identify and understand the **key players** in African trade finance and facilitation*
- *Necessary to develop an understanding of **key tools** used in trade finance*

- *What are the **potential roles** for the African Development Bank in trade finance?*

The Bank also hosted a Trade Finance Seminar in Tunis with MDBs, DFIs and commercial bank representatives in attendance to debate potential responses.

Summary of the Findings

- Several major international players dominate the global markets for trade finance (Citibank, HSBC, Standard Chartered Bank, Deutsche Bank, etc)
- But emergence of new urope-based, African owned players (e.g. Medicapital, Ghana International Bank, First ank UK, etc)
- Use of trade instruments, esp. letters of credit, was falling
- Availability of lines was still strong, though the terms and conditions were changing: price was going up and tenor was shortening
- Availability of import finance sharply constrained by lack of liquidity and high cost of funds
- Similarly, for larger exporters, the syndicated export finance market was also constrained

The African Development Bank is responding to the impact of the global financial crisis on the financial sector through several initiatives:

- **Trade Finance Initiative**
  - Trade finance lines of credit
  - Global Trade Liquidity Program
- **Emergency Liquidity Facility**

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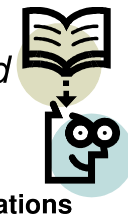
The Trade Finance Initiative was launched March 2009



- **Although it has supported specialized trade organizations such as Afreximbank and ATI, traditionally the AfDB has focused on long-term project and corporate finance.**
- **However, the global financial crisis and its adverse impact on Africa's trade prompted the Bank to develop mitigating responses.**
- **The Trade Finance Initiative is implemented in 2 phases:**
  - **Short-term initiatives (Trade Finance Lines of Credit)**
  - **Medium-term initiatives (Partnership Programs)**
    - **GTLP**

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TRADE FINANCE LINES OF CREDIT (TF LOC)

DESCRIPTION	LOCs to FIs for on-lending to long-term operations such as corporate and project finance
CHARACTERISTICS	➢**Eligibility:** African financial institutions (commercial banks and DFIs) engaged in trade finance. ➢**Total volume of TF LOCs:** USD 500million ➢**Pricing:** Up-front fees up to 1% + margin over Libor ➢**Maximum Tenor:** up to 3.5 years ➢**Proceeds of the TF LOC can be "re-used"** or "revolved" until the contractual repayment dates of the facility
DEMAND	To date, requests exceed total volume, USD 500 million

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Example: AfDB loan of USD150 million to UBA to Facilitate African Trade Finance

- Regional commercial banks such as the United Bank for Africa have an important role to play in accelerating Africa's economic growth, social development and economic integration of our nations

- These transactions are consistent with the AfDB's initiatives formulated in response to the Global Financial Crisis, its Country Strategy Paper for Nigeria as well as the Nigerian Government's millennium development agenda.

- This financial assistance to UBA also fits with the AfDB's Private Sector strategy to support sound and capable financial institutions during the financial crisis.

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The AfDB is looking for partnership opportunities to leverage its resources

Medium-Term Initiatives

- **Survey of Trade Finance Constraints and Needs**
- **GTLP – considering an additional USD 500 million through the Global Trade Liquidity Program**
  - Critical Issue – respecting the Bank's regional mandate
- **GTFP – considering opportunity to scale up the IFC's unfunded trade facilitation program**
- **Would consider opportunities to scale up the trade finance programs of other development partners.**

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Global Trade Liquidity program

GTLP aims to revitalize trade finance by addressing increased risk and liquidity constraints with a funded trade program via collaboration among Development Financial Institutions, International Financial Institutions and Governments

GTLP Characteristics

- Mobilize $5 billion with ***potential leverage impact of $50 billion*** over 3 year program life
- Rapid Response: global-local impact, ***cross leveraging limited resources*** and leverage IFC's dedicated trade infrastructure
- Collaboration of ***global and regional banks to channel liquidity*** to emerging markets
- Designed to ***fund new trades***: maximum tenor of 270 days and self liquidating transactions

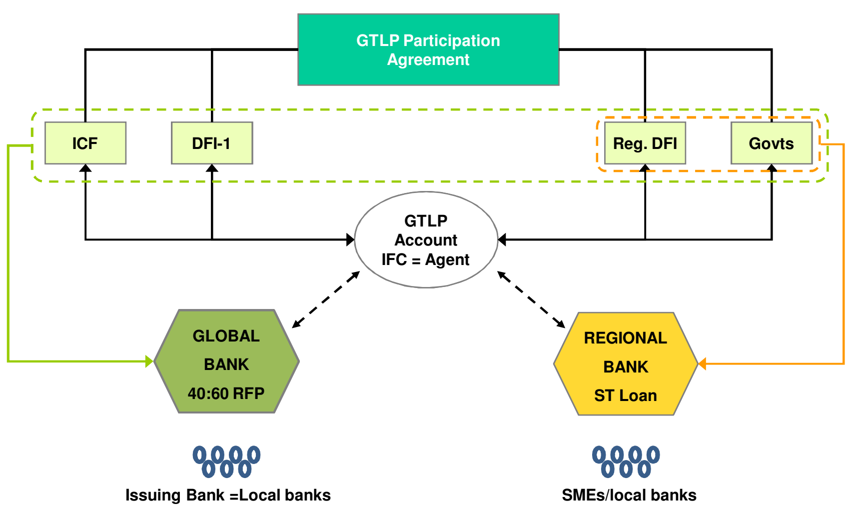
Coordinated effort to address trade finance liquidity

- **Availability of trade finance declining**
  - Growing shortfall in trade financing constrains global trade
  - Capital scarcity, increased costs and liquidity premiums
- **Address decline through aggregating resources**
  - Simple and efficient structures
  - Economies of scale
  - Timeliness and flexibility

GTLP Structure

- ***GTLP Master Participation Agreement***: Governs partnership policies/procedures, sets capital contribution, pari-passu distribution of income and losses, NPL management, legal terms, representations, reporting requirements, etc.
  - Sets criteria for i) selection of global/ regional banks receiving a Trade Facility and ii) regional diversification meeting Partners' goals
  - Sets the role of IFC as the Partners' Agent
- ***Escrow account***
  - IFC will call funds from Partners. Any temporary idle funds invested overnight by bank according to Partners' pre-agreed criteria. In its role as Agent, IFC will ensure all Partners' money are treated with the same care and duty as IFC's money
- ***Trade Facility*** will be created with each global or regional banks. One Facility for each bank. Global banks signed by all Participants. Regional banks signed by sub-set of Participants.

GTLP Transaction Structure



- **Risk <u>Funded</u> Participation:** Partners 40%; Banks 60%
- Short term loan directed to trade

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Example: GTLP Standard Bank of South Africa

- **First transaction under GTLP**
- **The proposed loan consists of AfDB along with other development finance institutions and governments providing short-term funding of up to USD 400 million to the Standard Bank of South Africa Limited**
- **AfDB contributing up to USD 100 million from its own account, to support the Bank's trade finance activities.**

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GTLP Standard Bank of South Africa

- **The key strengths of the GTLP – Standard bank include:**
  - High development impact across a number of African countries, many of which are LICs.
  - An efficient vehicle to rapidly deploy aggregated amounts of funding in support of private sector enterprises across Africa
  - Leveraging the trade platform of one of the leading African bank with a wide network of banking operations across the continent and strong commitment to trade finance.

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EMERGENCY FINANCING

The Emergency Liquidity Facility (ELF)

Rationale and Objective:

To allow eligible beneficiaries, in a fast turnaround time, to meet short term, urgent and unexpected funding requirements resulting from the global credit crunch.

Eligibility Criteria :

- Middle Income Countries, Central Banks (as an APEX line of credit for on-lending to public or private financial institutions)
- Public and Private Financial Institutions and Corporations
- Non-Bank clients with existing relationship with other IFIs whose due diligence is similar to that of the Bank

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Financial terms of the ELF

	Sovereign Guaranteed Loans	Non-Sovereign Loans
Interest Rate	6m Libor/Euribor	6m Libor/Euribor
Liquidity Premium	250 bp	Project Specific + Risk Premium
Final Maturity	Up to 5 years	Up to 5 years
Grace Period	Up to 3 years	Up to 3 years
Front end fee	0.5% flat	1% flat
Disbursement	Single or multiple drawdown	
Repayment	Semi-annual after grace period or faster	
Prepayment	Encouraged-No prepayment penalty charged	

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To summarize...

- **Although trade has not been a focal area for the AfDB, the magnitude of the crisis has compelled the Bank to respond.**
- **The participation of the Bank in TF is temporary as it has been encouraged by the G20 to play a coutercyclical role**
- **The AfDB has set up funded short-term revolving lines of credit for trade finance to creditworthy banks. Up to USD 500 million has been allocated for this product.**
- **The AFDB is keen to leverage the trade finance programs of partner institutions. We are working on the implementation of the GTLP.**

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Challenges and opportunities for the development of operational trade finance platforms, in the context of post-financial crisis

- **The Bank will do a careful monitoring of its TFI and will provide regular reports on the impact of its proceeds**
- **Working in close partnership with the IFC and other key development partners, pool financial resources to get the maximum outreach and scale, broad risk diversification, and leverage the processing economies of scale of partners still actively involved in the business.**
- **Post-financial crisis initiative is under review**

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