AFRICAN DEVELOPMENT BANK

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PROJECT SUMMARY NOTE

CENTRAL AFRICA BUILDING SOCIETY (CABS)

USD 25 MILLION TRADE FINANCE LINE OF CREDIT (TFLOC)

ZIMBABWE

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SUMMARY- CABS Trade Finance Line of Credit	
Description of the proposed Facility:	A medium-term Trade Finance (TF) facility to Central Africa Building Society (CABS) to support the expansion of its operations as a provider of trade finance to indigenous firms and SMEs in the tradable sector in Zimbabwe.
Client:	CABS was established as a building society in 1954. In 2011 it was given the green light by the Reserve Bank of Zimbabwe (RBZ) to fully engage in commercial banking operations pending conversion of its building license. Subsequently, product offerings such as trade finance, asset management and asset finance were introduced to the banking public since then. CABS has 73 branches and over 100 agency outlets nationwide in addition to mobile banking units. It is Zimbabwe's largest building society and ranks amongst the nation's top 3 banks in terms of Total Assets, Profitability and Shareholder's funds. The institution is majority owned by Old Mutual Limited, an organization with an established and strong brand name in the long-term savings and investment market. Old Mutual was founded in 1845, is a FTSE 100 company and controls more than GBP300 billion funds under management.
Financing Plan:	Over the next 3 years, CABS intends to grow its annual trade finance volumes from its current level of about USD 500 million to USD 1.2 billion per annum with a view to becoming a prominent provider of trade finance to SME's in Zimbabwe. The proposed USD 25 million TFLOC will be complemented by internally generated funds as well as trade lines extended to it by DFIs such as PTA Bank in a syndicate lending arrangement
Bank's Role:	Provision of a 3.5 year TF line of credit (TFLOC) to CABS of up to USD 25 million.
Implementation Arrangements:	The TFLOC will be disbursed to CABS in one tranche for use on a revolving basis to finance an evolving pipeline of trade transactions. The facility agreement will govern the use of proceeds, reporting requirements as well as environmental and social compliance.
Market:	As a result of the difficult economic environment affecting Zimbabwe, coupled with an almost total absence of credit limits to Zimbabwean domiciled financial institutions by international confirming Banks, the use of the traditional trade finance instruments such as LCs has been completely subdued. On average, more that 95% of the country's external payments (over US$7.5 billion, annually) has been in the form of advance (direct) transfers to foreign suppliers through intermediary international Banks. In a nutshell, the traditional trade finance products no longer exist in the industry, as economic players (both within and outside of Zimbabwe) have progressively gravitated towards using cash as the preferred medium of transacting. The country is heavily dependent on commodity exports and is integrated in a number of global value chains (GVCs) in agriculture and mining. However, among other factors, lowered export earnings and depressed government revenue from taxation have led to liquidity shortages, leading to exorbitant cost of capital which has negatively affected the competitiveness of local industry. The bulk of banking sector deposits are short tenured, high yield demand deposits hence unsuitable for longer term funding, compelling banks to focus heavily on short term consumption lending at the expense of productive sectors of the economy.
Justifications for the Bank's Involvement	
Strategic Alignment:	This proposal responds well to priorities set out in the Bank's Ten Year Strategy 2013-2022. In line with the High-5 strategic priorities, the proposed facility will support cross cutting and multi-sectoral transactions that impact on agribusiness, infrastructure delivery, electricity generation, telecommunications and manufacturing (which by extension promotes industrialization). The facility also fully aligns with pillars (I) increased access to financial services and (II) deepening of indigenous financial systems of the Financial Sector Development Strategy (2014-2019). It also aligns with the Zimbabwe Country Brief Update (2014-2016), which emphasizes supporting the country's PSD through financial intermediation.
Commercial Viability:	CABS is well capitalized and is one of the few banking institutions in Zimbabwe to have almost fully complied with the new minimum capital requirements of USD 100 million set by the RBZ and which should be achieved by December 2020. As at the 31st December 2014, its tier 1 capital was at USD92.8 million. CABS has been consistently profitable over the past 5 years. The audited financial statements for the year ended 31st December 2014 show a PBT of USD 24 million, reflecting a 41% growth over the previous year. Over the same period, its CAR stood at 22%, against a statutory requirement of 12%, whilst its asset quality outperformed its peers (NPL of 7.6% against a national sector average of around 15.5%).
Development Outcomes:	The proposed facility will provide TF support to SMEs in sectors such as agriculture, light manufacturing and industry. It will foster financial sector development and generate more tax revenue through import duties and higher corporate profits. Including roll-overs the facility would finance approximately USD 200 million of trade in the 3.5 year period.
Additionality and Complementarity:	Given the economic situation of Zimbabwe, banks find it difficult to mobilize long term stable deposits and have limited access to FDI and medium to long term funding. This facility will provide CABS with a stable source of funds to strengthen its trade finance capabilities. This is also expected to provide comfort to international banks to avail greater support. The Bank's support is also complementary at a time when traditional sources of trade liquidity are constrained by imminent effects of Basel 3.
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