FOSTERING DEVELOPMENT THROUGH TRADE FINANCE
ABOUT THE AFRICAN DEVELOPMENT BANK GROUP

History: Founded 1964

Mission: To promote sustainable economic development and social progress in its Regional Member Countries (RMCs), thus contributing to poverty reduction

Constituent Institutions:
The African Development Bank (AfDB)
- Provides commercial loans to African middle income countries and private sector projects

The African Development Fund (ADF)
- Provides concessionary loans and grants to African low income countries

The Nigeria Trust Fund (NTF)
- Provides concessionary loans and grants to African low income countries and to private sector projects

Shareholders:
- 54 African countries (Regional Member Countries)
- 24 non-African countries (non-Regional Member Countries)

Credit Rating: AAA

Authorised Capital: US$100 billion equivalent (Dec 2011)
The African Development Bank’s Trade Finance Programme (TFP) seeks to support African financial institutions to address ongoing constraints in financing international trade.

The TFP is designed to complement the activities of commercial players as well as other Multilateral Development Banks. The programme’s selected core instruments are designed to support commercial financial institutions to scale up their trade finance activities in Africa. These are:

- the Risk Participation Agreement (RPA)
- the Trade Finance Line of Credit (TFLOC)
- the Soft Commodity Finance Facility (SCFF)

**The AfDB’s comparative advantage in trade finance**

The African Development Bank has a long and successful track record in supporting trade and trade finance, beginning with the establishment of Afreximbank in 1993. As it launches its new Trade Finance Programme, the Bank has a number of comparative advantages that make it well placed to provide complementary trade finance support in Africa:

**Strong balance sheet**
The Bank is a AAA-rated international financial institution with preferred creditor status.

**Development focus**
The Bank’s vision is to contribute to the economic and social progress of Africa. It has an advocacy role in harmonising processes and removing bottlenecks to development across the continent.

**Risk-bearing capacity**
Unrivalled risk appetite for Africa and the financial strength to back it.

**Relationships**
The Bank has long and well-established relationships with government authorities, MDBs, local and international banks.

**Leverage**
The Bank’s increasing experience in trade facilitation means that it can leverage trade finance programmes for maximum impact.

**Technical assistance**
The ability to provide technical assistance where capacity gaps have been identified at the level of the local financial institution or market.

**Holistic approach**
The Bank is uniquely positioned to deploy reinforcing instruments and projects in support of trade: Infrastructure projects, advocacy and policy dialogue as well as trade finance facilities.
This is an arrangement under which a commercial bank and the African Development Bank share the default risk on a portfolio of trade finance transactions.

The Risk Participation Agreement (RPA) is designed to give regional and international commercial banks partial cover for their trade finance operations in Africa, with the AfDB typically taking a 50 per cent share of the risk.

The commercial bank performs the credit risk analysis on the issuing banks and originates, processes and monitors the transactions.

The AfDB will select its commercial partners based on the size of their African trade portfolio, the breadth of their African market coverage, support for intra-African trade and the quality of the credit approval process.

**ELIGIBILITY**

**Confirming Bank**

- Must have passed the AfDB’s due diligence process for trade finance
- Significant trade finance presence in Africa, or the potential to achieve scale in trade finance in Africa
- The strategic intent to expand its trade finance business in low income countries
- A satisfactory AfDB credit rating

**Issuing Bank**

- Must be located and registered in a Regional Member Country of the AfDB
- Have passed a confirming bank’s due diligence process and received a “no objection” approval from the AfDB
- Remain in good standing with the AfDB and the confirming bank throughout the tenor of the RPA
- Have a strong SME focus

**Tenor**

| Maximum of 3 years. Underlying transactions are limited to two years. |
| Coverage | Up to 50% of credit risk. |
| Pricing | The fees charged to issuing banks are market-based. |
| Currency | Mainly in US dollars and euros. |
ADVANTAGES

Confirming Bank
- Expands geographic coverage for servicing export clients.
- Provides coverage to leverage trade lines in new and challenging markets
- Builds new correspondent bank relationships on a low-risk basis
- Mitigates provision and Basel capital requirements

Issuing Bank
- Increases bank’s credit lines
- Offers the opportunity to build relationships with new correspondent banks
- Facilitates trade financing via a global network of confirming banks
- Enhances the ability to maintain or attract new clients, especially SMEs
This is a short-term loan, offered to African financial institutions to facilitate their trade finance operations. The AfDB seeks to support financial institutions with a strong focus on SMEs and trade finance, and that have acceptable and satisfactory corporate governance and risk management systems.

The proceeds from a Trade Finance Line of Credit (TFLOC) enable a financial institution to extend credit support to SMEs operating in either the import or export sectors of the economy. Facilities include pre- and post-shipment finance, factoring and import loans, among others.

**SUCCESS FLOWS**

1. Various importers and exporters request trade financing from RMC bank
2. RMC bank develops a pipeline of trade finance deals and requests TFLOC funding from AfDB
3. AfDB grants TFLOC and assumes RMC bank credit risk
4. Provides trade financing and assumes importers' and exporters' credit risk

**BENEFITS**

- Caters for a broad range of trade instruments
- Provides vital liquidity in the form of short-term loans to selected local banks for on-lending to SME exporters and importers
- Could be used to support value chain activities linked to the import and export sectors and as a result help RMCs move up the value chain

<table>
<thead>
<tr>
<th>Tenor:</th>
<th>Maximum of 3.5 years.</th>
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<tbody>
<tr>
<td>Pricing:</td>
<td>Risk-based. The rates can be floating or fixed. Front-end and commitment fees apply.</td>
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<tr>
<td>Repayment:</td>
<td>Bullet, balloon or straight line amortisation of principal. Interest is paid semi-annually.</td>
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<td>Currency:</td>
<td>Any of the AfDB's major lending currencies – the US dollar, euro, rand and yen.</td>
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<td>Security &amp; Collateral:</td>
<td>Unsecured, senior debt.</td>
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**ELIGIBILITY**

The financial institution must:

- Operate and be registered in a Regional Member Country of the AfDB
- Be a local bank or a subsidiary of an international bank
- Have a satisfactory AfDB internal risk rating
- Have a strong SME focus
- Have acceptable risk management and corporate governance practices that meet the AfDB's criteria
- Have an active trade finance business
- Have a strong trade finance team and operating infrastructure
The Soft Commodity Finance Facility (SCFF) is a funded trade finance product targeted at commodity aggregators and export marketing agencies for agri-based products, such as cocoa and coffee.

These organisations, which deal directly with farmers, use SCFF loans to support the agri-commodity supply chain at the grassroots level.

Tenor: Maximum of 3.5 years.
Pricing: Risk-based. The rates can be floating or fixed.
Repayment: Bullet, balloon or straight line amortisation of principal. Interest is paid semi-annually.
Currency: Any of the AfDB’s major lending currencies – the US dollar, euro, rand and yen.
Security & Collateral: Unsecured, senior debt.

ELIGIBILITY

Eligible institutions will mainly be commodity aggregators engaged in the marketing, financing and exporting of soft commodities in Africa. These institutions:

- Must be registered and be operating in a Regional Member Country of the AfDB
- Should be commercially viable on a standalone basis
- Must have an acceptable level of operational autonomy
- Must have a strong risk management culture and satisfactory corporate governance practices
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