DRUM commodities

11th May 2016

DRUM COMMODITIES LIMITED – IVORY COAST

AFREXIMBANK CONFERENCE

"INTRA-AFRICAN TRADE FINANCE AND PAYMENT SYSTEMS CONFERENCE"

ABIDJAN

2ND – 3RD MAY 2016

1. INTRODUCTION

1.1 The Intra-African Trade Finance Conference was held in Abidjan on the 2nd and 3rd May 2016. Drum Commodities Limited was represented at the conference by Andrew Barr-Sim, Managing Director; Marmaduke Hatfield, Operations and Reporting Manager; and Denis Chabassier, Country Manager for the Ivory Coast.

1.2 The aim of the conference was to discuss the current limitations and barriers surrounding intra-African trade and to outline Afreximbank's agenda for promoting growth in this area.

1.3 At present, only 17% of total African trade is deemed 'intra-African'. This sits in stark contrast to the 67% of European trade which stays within EU borders and the 35% of Asian trade remaining within its continent.

1.4 Afreximbank ('African Export–Import Bank') is an international financial institution whose headquarters are located in Cairo, Egypt. As an intra-African bank, Afreximbank's primary objective is to promote and finance trade within the African continent. It is therefore well placed to lead the revolution towards stable intracontinental relationships fostering increased trade, prosperity and economic growth amongst African nations.

1.5 The African Union (AU) is an intergovernmental organization established in 2002 (formerly Organization of African Unity from 1963) to promote unity and solidarity of African states, to spur economic development and to promote international cooperation. The AU was represented at this conference by H.E. Mrs Fatima Haram Acyl, AU Commissioner for Trade and Industry.

1.6 Mrs Acyl laid out an impassioned vision for Africa's future, culminating in 'Agenda 2063' - an approach to how the continent should learn from the lessons of the past, build on the progress now underway and strategically exploit all possible opportunities available in the short, medium and long term, so as to ensure positive socioeconomic transformation within the next 50 years.

2. PRINCIPAL OBSERVATIONS

2.1 50% of SME financing in Africa is rejected compared to 7% in the rest of the world. This heavily favours multinational corporations and lends a bias towards the export of raw materials to Europe and the rest of the world. The African continent has the potential to feed itself, but at present does not. For example, only 5% of Africa's imported cereals come from other African countries.

2.2 Financing the purchase of commodities alone is no longer enough. Instead, the finance should be aimed at the entire value chain including transportation, building of factories, employment of labour force, etc. It is now the time for value addition to become a major focus in African economic development.

2.3 With the current international perception of African risk, the mitigation of risk where possible is crucial in promoting the development of the intra-African supply chain. Collateral Management

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Agreements (CMAs) are one way of providing financial bodies with the assurance they need to invest in such projects.

2.4 US Dollar liquidity is a constraint on intra-African trade and with the retreat of multiple international financing bodies from the African market, it is more important than ever that the largest African banks work together to plug the gap.

2.5 The use of capital markets to fund capital development should be explored. Pension funds or insurance companies could provide valuable liquidity but they must be given an incentive to do this.

2.6 The variance of currency across Africa is a major constraint to intra-African trade. The complexities of cross border transfers and exchange rates could be eradicated by introducing a single monetary platform complemented by electronic systems to facilitate the seamless movement of money throughout Africa.

2.7 A subsistence strategy must be explored and implemented where possible. The need for imports should be reduced and the export of raw materials outside of Africa should be minimised. There is currently a significant loss (to Africa) along the value chain concerning the export of raw materials and the subsequent import of the finished product from Europe and elsewhere.

2.8 Infrastructure needs and requirements must be re-addressed in order to promote trade between African nations. Current infrastructure is geared towards international export channels rather than intra-African movements. There must be committed investment to construct intra-African rail links and to address the shortage of freighting capabilities across Africa.

2.9 Border restrictions and visa requirements seriously slow and often impair trade. This issue must be addressed if progress is to be made across the continent. Simplifying customs procedures, improving their speed and efficiency, and lowering costs of trade are vital to allow African countries to integrate more closely in regional markets. An 'African passport' is just one practical example suggested by the African Union to help work towards achieving greater levels of intra-African capital movement and is currently being implemented by Rwanda and Mauritius.

2.10 Information flows must be improved. The technology exists but is not always used to promote the free flow of information between African nations. Once this is addressed, issues such as KYC will no longer represent a barrier to cross border trading. Businesses in neighbouring countries will be more connected thereby facilitating an increase in commerce.

2.11 Some cross-border trade takes place between African countries on a very small scale but is not measured in official statistics. Allowing these traders, many of whom are women, to flourish and gradually integrate into the formal economy would boost trade allowing for future growth and development with a swift impact on reducing poverty.

2.12 Progress must be managed and recorded to ensure that development is moving in the right direction. This will require a body such as Afreximbank to lead a process currently in its infancy.

3. CONCLUSIONS

3.1 It is clear that intra-African trade is viewed as a major catalyst for economic growth in Africa and that finding new solutions to trade finance is paramount. Furthermore, governmental involvement will inevitably be required to achieve the necessary progress towards a more self-sustaining and economically powerful Africa.

3.2 Policies related to human and physical capital, access to finance and macroeconomic stability are all key areas that must be taken into consideration. This will require deeper cooperation across sectors and better coordination across government ministries and agencies.

3.3 With its supranational status, Afreximbank is ideally placed to act as an intermediary between governments, banks and international institutions to achieve the desired goals. From improved infrastructure and lifting border restrictions to a common currency and cross border payment systems, it is clear what could be done to reduce the continent's dependence on external markets. The gauntlet has very much been thrown down to achieve much of this over the coming years.

1. Distinguished speakers of note including the President of Afreximbank, Dr Benedict O. Oramah (third from right) and H.E. Mrs Fatima Haram Acyl, AU Commissioner for Trade & Industry (centre).

2. Andrew Barr-Sim, Managing Director of Drum Commodities Limited (left) discussing the opportunities and challenges for intra-African trade finance on a panel chaired by the former President of Afreximbank, Mr Christopher Edordu (right).

3. Drum Commodities Limited represented by Andrew Barr-Sim, Marmaduke Hatfield and Denis Chabassier.

4. The conference was well attended by delegates from every sector and every corner of Africa.