

G T R E A S T

A F R I C A P A N E L

D I S C U S S I O N

GTR DEBATE: UNLEASHING TRADE AND ECONOMIC DEVELOPMENT IN EAST AFRICA



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Recently we attended the GTR East Africa conference in Nairobi, as always this event provided a valuable opportunity to meet with both our partners from our network of financial institutions across the region and with commodity producers, traders and manufacturers themselves to gain insight and discuss expectations for trading both within the region and across its borders in 2019.

One of the highlights of the event for me was the panel discussion led by Peter Hampson, our Associate Director for Anglophone Africa, on Identifying hotspots for trade and economic development in the region.

Peter was joined by Mark Tindle, the Managing Director of Omnia Fertilizer Zambia, Dominique Aliphon, Relationship Manager in Corporate & Institutional Banking for Mauritius Commercial Bank, Hamady Ba, Head of the Eastern & Southern Africa Region for the International Islamic Trade Finance Corporation, Philip Omondi, the Assistant General Manager for Trade Finance at NIC Bank and Nisrin Abouelezz, Executive Director and Head of the Africa Group for SMBC.

The debate reinforced how industrialisation, integration and foreign investment is helping the East African economies to evolve and to achieve revenue streams from a diverse range of industries and commodities. Three key themes came to the forefront of the conversation.



AN EVOLVING AND DIVERSIFIED ECONOMY

For many years, industrialisation was a campaign promise across Africa, a panacea that would bring prosperity, new jobs and better incomes for all, but in spite of rapid economic growth, Africa's manufacturing output has only recently come out of decline. Nisrin Abouelezz highlighted how the East African region really stands out in what it has achieved in terms of diversifying its economy and creating manufacturing hubs. The introduction of policies around exporting local produce has instilled confidence in foreign investors. Manufacturing growth rates in Ethiopia, Rwanda and Tanzania are nearing 10% with a huge rise in areas such as garment and textile exports. Auto manufacturing has seen resurgence, with VW opening an assembly plant in Rwanda. In Kenya, an ambitious 10-year plan to revive the manufacturing and industrial sector is well under way, which aims to create one million new jobs and a number of Asian firms have set up new manufacturing operations in African special economic zones such as Ethiopia. Philip Omondi drew particular attention to the opportunities for African countries in fintech and ICT and underlined how Kenya is a leading ICT player in the continent.

African economies have traditionally been dependent on the export of commodities and as a result been susceptible to economic shocks and fluctuations in currencies and commodity prices. In 2015, China's imports from Africa fell by 40% as a result of the country's slowing growth. The reduced demand for iron ore, oil and other minerals triggered a global collapse in commodity prices. In Zambia, where copper accounts for 60% of exports, the Kwacha hit an all-time low.

The investment in manufacturing and in creating greater diversification is therefore critical in ensuring sustainable economic growth. Mark Tindle also underlined the importance of privatisation. Railways and farms have been privatized in the region but much more investment is needed – and the opportunities are there.

**MANUFACTURING GROWTH
RATES IN TANZANIA, RWANDA,
AND ETHIOPIA ARE NEARING**

10%

INTEGRATION AND FREE TRADE

Integration has re-emerged as a key factor in securing Africa's prosperity. As early as 1963 amidst the independence movements, Kwame Nkrumah, Ghana's first President, pronounced that "Africa must unite or perish". The signing last year of 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. This is a massive undertaking, which could set the course of African trade for generations to come.

The panel were aligned in their enthusiasm for the free trade area. Hamady Ba said he believed that all countries would benefit in some shape or form but those with economies based on agriculture will really reap the benefits of value chains and create more local job opportunities. Mark Tindle also heralded the opportunities enabled by AfCFTA as incredibly exciting and of benefit to the entire population. However both he and Dominique Aliphon also drew attention to some of the potential challenges of the free trade area, including the risks to some companies of being driven out of business, possible protectionism on certain subsidies and industries and the need for investment in infrastructure, skills and marketing to maximise the potential for increased commerce and trade.

**AFRICA REQUIRES A
MAMMOTH INVESTMENT OF**
\$300 billion
**IN INFRASTRUCTURE IN ORDER TO
EVEN START TO COMPETE WITH
MORE DEVELOPED MARKETS**

THE ROLE OF INTERNATIONAL BANKS IN BOOSTING EAST AFRICAN ECONOMIES

The panel wrapped up the session by looking at what international banks can do to advance trade in the area and whether developmental financing support would become more critical with the growth of intra-African trade. Hamady Ba highlighted how the Islamic Trade Finance Corporation (ITFC) has facilitated \$50bn in trade finance to 57 member countries since 2008 and that its contribution to these countries would continue to grow. Both Hamady and Philip Omondi highlighted the growth opportunities for SMEs in Africa (which contribute to 80% of business in Africa) and which have been held back by the absence of SME banking products. He stressed the need for commercial banks to offer the SME community financial products to help them set up and expand their operations. Nisrin Abouelezz agreed and added that banks needed to offer more tailored products to all types of African businesses to directly respond to their individual needs.

International banks can also support trading and commerce in the region through direct lending to corporates. Dominique Aliphon underlined the opportunities to partner with local banks to provide financing in local currency and syndication loans. She highlighted how Mauritius Commercial bank is currently helping to fund companies including legal firms and private equity firms that are coming to Africa from Mauritius (\$25bn to Africa from Mauritius).

Finally, and arguably most critically, given the advances the country has made in investing in diverse industries and the potential for new opportunities afforded by the AfCFTA, is the role international banks can play in helping to fund investment infrastructure. As highlighted by Hamady Ba, Africa requires a mammoth \$300bn investment in infrastructure in order to even start to compete with more developed markets. We have seen international banks arranging long-term finance for capital and infrastructure projects, often these banks work alongside multinational and governmental organisations as well as with local banks to deliver projects that have huge positive impacts for those living in the region.

East Africa boasts some of the continent's brightest economic success stories, BACB joins the GTR panellists in sharing its enthusiasm for the region and its promising and aspiring economy. Africa needs international banking partners, but international banks also need Africa, as no market in the world has the same opportunities or potential as Africa. As the continent's economies grow the need for trade finance through discounting of receivable, and providing trade loans, as well as the need for simple guarantees and LC confirmation will continue to rise. The opportunities for international banks in East Africa particularly are huge given the regions stability and its geographical position as the gateway to major Asian economies.



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