



The African Export-Import Bank's Response to the COVID-19 Pandemic

Benedict Oramah, Richman Dzene and Ekene Uzor

IfTI Working Paper 1(2020)

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Abstract and Policy Implications

Africa was the last region to witness significant spread of the COVID-19. Nonetheless, it was expected that the continent would be hardest hit due to the fragility of its health and social infrastructure as well as the vulnerability of its economies. While the rates of infection and death were initially relatively low and contained economically, the continent was hard hit early on. Cuts in credit and trade services by international banks, along with a decline in export earnings, tourism receipts, and inward remittances, have severely constrained the ability of African countries to finance imports of essential goods and to service maturing debt obligations.

However, Africa has over time created mechanisms and institutions to help cushion its economies from the adverse consequences of global shocks. Among these institutions is Afreximbank, which emerged out of the debt crisis of the 1980s. This paper presents an overview of the Bank's support to African countries in dealing with two major derivatives of the COVID-19 pandemic: the trade finance challenges resulting from cuts in international financial flows to the continent, and the health consequences of the pandemic.

1. Introduction: Navigating Global Shocks

Africa has been on the receiving end of most global shocks since the early 1900s, the frequency and magnitude of which have increased by several multiples as the world has become more interconnected. In the mid- to late-1980s, the continent experienced its worst recession since many countries gained political independence in the 1960s on account of the debt crisis that originated in Latin America.¹ The magnitude of the crisis was such that it eroded progress that Africa had made since independence. Since then, Africa has had to deal with other global shocks²—none of which originated on the continent—including the Asian financial crisis of 1997/8, the dot-com bubble of 2000/01, the global financial crisis and euro area sovereign debt crisis of 2008/10, and the commodity price shock of 2015/16.

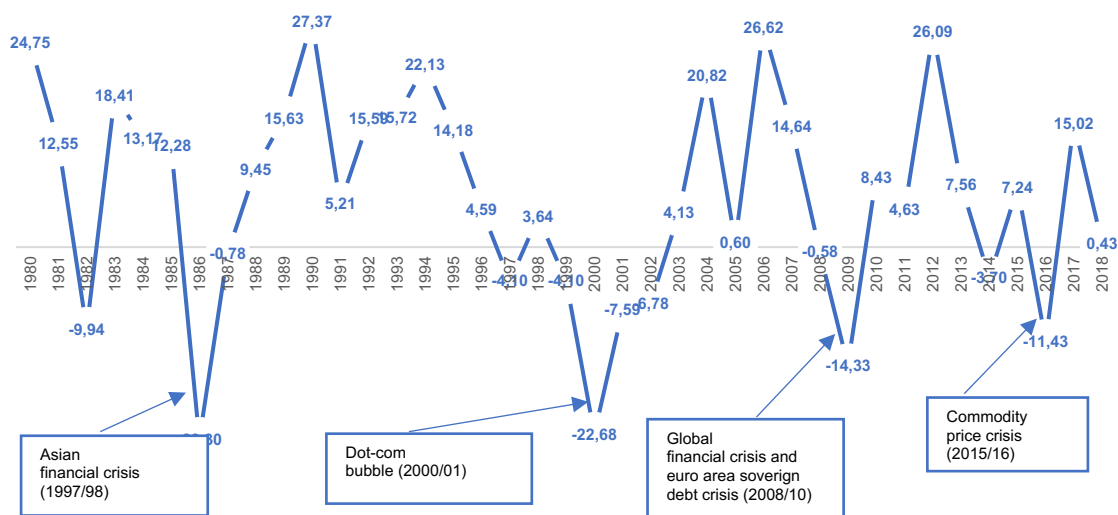
A signature response of international banks to these episodic shocks has been cuts in trade and project finance from Africa. Consider the case of the Global Financial Crisis of 2008/9, the African Development Bank noted that 'paradoxically, although African commercial banks were ready to provide financing for trade operations, they were unable to do so because the global credit crisis had caused many international confirming banks to be forced to temporarily withdraw their credit support from the market. This had led to a growing gap between supply

¹ See *Afreximbank Ten-Year Story* for the brief history of the Bank (available on request from the Afreximbank).

² For a list of major global financial shocks, see Srinivas V (2018) "Major Financial Crisis From Great Depression to Great Recession" World Economic History, Special Lecture Series (https://taxboard.rajasthan.gov.in/images/MAJOR_FINANCIAL_CRISIS_20TH_CENTURY.pdf).

and demand for trade financing' (AfDB 2009). To illustrate, using the level of outstanding short-term credit flows to Africa in US dollars as a proxy for trade finance (following Ronci 2005), rapid swings in short-term finance flows to African countries are evident during global financial/economic crises, with the highest declines observed around 1997, early 2001, 2009, and 2016 (Figure 1).

Figure 1. Africa's Short-Term External Debt (percent change)

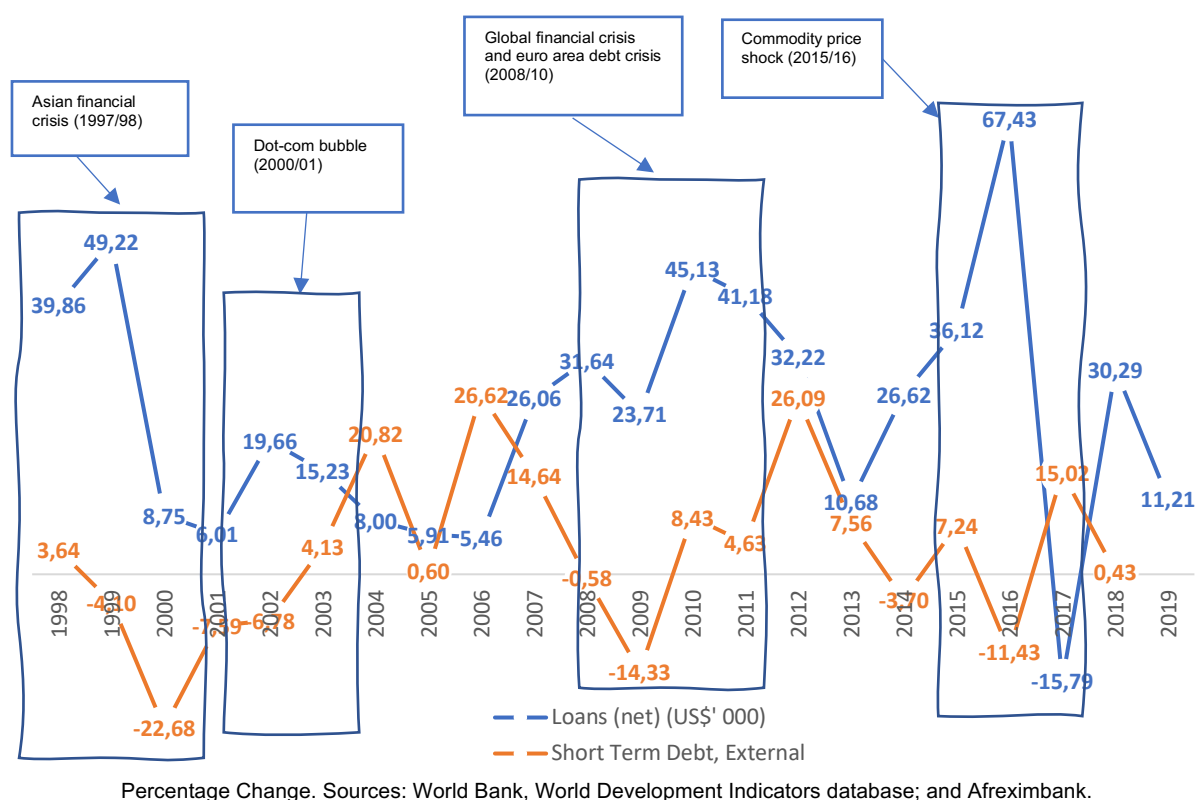


Source: World Bank, World Development Indicators database.

In response to this pattern, African governments, over the years, have built mechanisms, institutions, and policies to mitigate the negative impact of exogenous shocks on economic growth. The African Export–Import Bank (hereafter the 'Bank' or 'Afreximbank') is one such institution, conceived in the late 1980s and established in 1993 and mandated to provide trade and project financing, even in difficult times. Given that the impact on Africa of that crisis manifested itself through the trade channel, the mandate of the Afreximbank—a pan-African multilateral trade finance institution—is to finance and promote intra- and extra-African trade.

In response to tightened lending conditions in international markets stemming from crises, the Bank has historically bridged the resultant financing gap by providing an alternate and reliable source of short-term liquidity to African governments, financial institutions and corporates. In fact, as shown in Figure 2, during the past two decades, the largest growth in the Bank's loan portfolio coincided with the peaks of crises. For example, when the commodity price shock of 2015/16 led to an 11.43 percent (US\$7.6 billion) cut in short term credit lines to African countries, the Bank launched the Countercyclical Trade Liquidity Facility (COTRALF), disbursing about US\$10 billion in 2 years to alleviate the liquidity shortages. As a result, the Bank's loan book grew by 67 percent, up from 36 percent in the previous year. This new facility enabled countries and their commercial banks to make an orderly adjustment to the commodity shock and honour trade debt payment obligations. It also allowed financial institutions to maintain their trade finance operations.

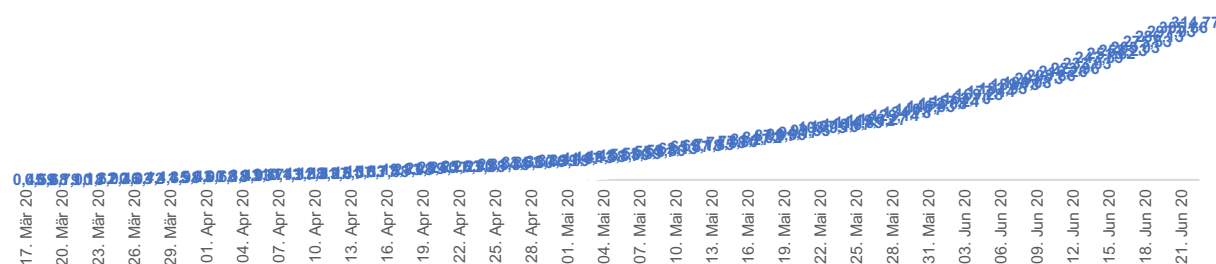
Figure 2. Afreximbank Financing versus Short-Term External Debt Flows into Africa



2. Assessing the Immediate Impact of COVID-19 Pandemic

The recent global crisis—the COVID-19 pandemic, which represents the most severe shock to the global economy since the global financial crisis of 2008—broke out in Wuhan, China, in December 2019, and rapidly spread to other major cities in China and neighbouring countries. By the end of January 2020, it had spread to Europe and the United States, becoming a global epidemic. On 14 February 2020 the first case of the COVID-19 pandemic in Africa was recorded in Cairo, Egypt, after several thousands of cases had been reported in China, Europe, and the United States. By 11 March 2020, when the World Health Organization (WHO) declared COVID-19 a pandemic, the number of infections across Africa was less than 400, spread across very few countries, with high concentrations in the open markets of Algeria, Egypt, Morocco, Senegal, and South Africa. Since then, however, the infection curve has become steeper, with daily infections accelerating very rapidly and reaching more than 314,000 cases by 22 June 2020 (Figure 3).

Figure 3. Number of COVID-19 Infections in Africa



Global economic shocks are transmitted through a number of channels, most notably lower commodity prices, which result in lower export earnings, and cuts in financial flows, such as inward remittances, foreign direct investment, and trade finance (Ronci 2005, and Auboin 2009). And shocks from pandemics, such as COVID-19, pose particularly significant threats to developing countries, especially in Africa, both in terms of the impact on human life³ and the economy, on account of their limited health care infrastructure and pharmaceutical industry as well as shallow financial systems and high debt levels, which constrain the capacity of governments and corporates to access international finance.

In fact, on the economic front, at the onset of the COVID-19 pandemic across Africa, while the continent was working to battle the deleterious impact on health, economic consequences had already taken hold. International banks, anticipating that the pandemic would have a devastating impact on African countries with ill-equipped health infrastructure and weak financial systems, began to exit from trade finance activities in Africa and cut letter of credit confirmation lines to many African corporates. Credit rating agencies worsened matters by unleashing a series of downgrades that further unnerved the markets.

In terms of health care infrastructure, according to the WHO, 41 African countries have a combined total of fewer than 2,000 working ventilators compared to more than 170,000 in the United States with a population of 331 million. As at the end of January 2020 only two African countries (Senegal and South Africa) had laboratories equipped to perform COVID-19 testing; this number has risen to 40 following the supply of testing equipment from the WHO.⁴

The economic consequences of COVID-19 have been dire on the continent. Countries and their banks were, as at April/May struggling to meet debt payment obligations as financial flows were cut, supply chains disrupted, and lockdowns took their toll. Backlog of Letters of Credit were accumulating, and non-payment threatened to cut off entire countries from access to the international markets.

The health and economic costs of the COVID-19 pandemic are still to be assessed, but they are likely to be heavy, especially in developing countries, including African countries. One study (Fan, Jamison, and Summers 2018) estimates the potential annual losses from pandemics at US\$500 billion a year. A report by the Global Preparedness Monitoring Board⁵ (GPMB 2019) estimates that a pandemic could cost the global economy 2.2–4.8 percent of GDP (US\$3 trillion), disproportionately affecting least-developed countries, with the impacts on Africa and South Asia estimated at 1.7 percent (US\$28 billion) and 2 percent (US\$53 billion), respectively. Berman and Martin (2011) point out that the overdependence of developing countries on external sources of major supplies, including financial resources and global manufactures and services, makes them more susceptible to global disturbances. Indeed, the United Nations Economic Commission for Africa (UNECA) and the World Bank estimate that Africa would suffer its first recession in 25 years in 2020.

³ The United Nations has warned that Africa could lose as many as 300,000 people to COVID-19, and the WHO has warned that Africa could become an epicenter of the disease (see <https://www.bbc.com/news/world-africa-52323375>).

⁴ <https://www.afro.who.int/news/covid-19-pandemic-expands-reach-africa>.

⁵ GPMB was co-founded by the WHO and the World Bank as an independent monitoring and advocacy body to, among other things (1) assess the world's ability to protect itself from health emergencies, (2) identify critical gaps to preparedness across multiple perspectives, and (3) advocate for preparedness activities with national and international leaders and decision-makers. (see https://apps.who.int/gpmb/thematic_report.html).

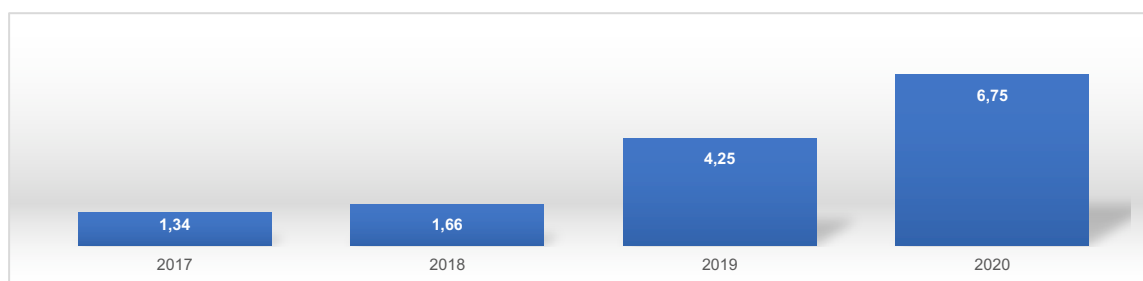
3. Afreximbank's Response to the COVID-19 Pandemic

The Bank has helped steer many African countries out of major global crises during the past two-and-a-half decades, as discussed above, and is now leading the charge in Africa's response to the COVID-19 pandemic.

Prior to the first reported case, signs of potential economic distress associated with the pandemic began to surface. By early February 2020 many African commercial banks, corporates and governments were beginning to face stricter credit terms in international financial markets and, by March, credit lines were no longer available to many countries in Africa. Cuts in credit lines, coupled with a sharp decline in export earnings and inward remittances, which represent a significant source of foreign exchange inflows, constricted the debt service capacities of most African governments, financial institutions, and private corporates. Further, public and private sector investments were halted as a consequence. As the rate of infections began to rise, the limits and fragility of Africa's health infrastructure became evident. With the number of hospital beds at 26 per 1,000 persons, the health care sector could not contain rapidly expanding demands, and the prospect of Africa being an epicentre of COVID-19 became a major concern. An immediate response was required to contain the spread of the disease and deal with the economic fallout.

In response, the Bank, in March 2020, with the approval of its Board of Directors, announced a commitment of US\$3 billion (net disbursements) under a Pandemic Trade Impact Mitigation Facility (PATIMFA) to minimise the health and economic impact of the pandemic on African countries and to contribute to an expeditious economic recovery. PATIMFA is targeted at supporting the procurement of critical COVID-19 supplies; supporting imports of essential food, agriculture, and manufacturing inputs; assisting central and commercial banks to meet trade debt payments falling due; and supporting countries dependent on mining royalties and import tariffs as sources of fiscal revenue with short-term foreign currency liquidity. Figure 4 compares the Bank's loan disbursements during the first five months of 2020 with the same period over the past three years; disbursements in 2020 are 50 percent higher than in 2019, with PATIMFA disbursements, including refinancing, amounting to US\$4.38 billion. Additional key elements of the Bank's intervention are described below.

**Figure 4: Afreximbank Loan Disbursements, 2017–20
(first five months of the year, US\$ billions)**



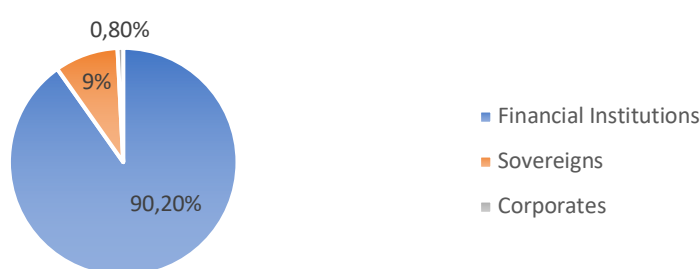
Source: Afreximbank.

Supporting African Financial Institutions

African financial institutions have been among the most impacted by COVID-19. Cuts in credit and trade services to African commercial banks, coupled with mass credit rating downgrades

by international credit rating agencies,⁶ have had two major consequences: an immediate breach of covenants and potential defaults on international loans, and a weakening of their ability to support their clients in the trade sector. To avert financial sector crisis, the Bank created a working group of African commercial banks as a platform for a unified response to the crisis. Many required refinancing of some international debts, new credit lines, and restoration of letter of credit confirmation lines to enable them to meet the financing needs of their clients. The sector was thus the largest recipient of the Bank's PATIMFA financing. At the end of May 2020, PATIMFA approvals in favour of African financial institutions was 90.2% compared to a combined share of under 10% for corporates and sovereigns (Figure 5).

Figure 5: PATIMFA Approvals by Category of Beneficiary



Source: Afreximbank.

In addition, the Bank introduced two new products aimed to support central banks and financial institutions, with the objective of bolstering trade finance liquidity in member states:

(1) Afreximbank–Central Banks Foreign Exchange Swap for Local Currency Financing to support central banks and financial institutions and corporates in affected Afreximbank member states to be able to meet local currency financing needs as well as use foreign currency provided by the Bank in meeting trade debt payments falling due and avert trade payment defaults. The facility may also be able to support/stabilise foreign exchange reserves of member state central banks, enabling them to support trade under emergency conditions; and

(2) Afreximbank Trade Debt-Backed Securities in Support of African Financial Institutions, structured as a collateral swap, whereby the Bank will issue own name securities in exchange for eligible collaterals/securities presented by participating banks (beneficiaries), and intended to facilitate financial flows in support of trade finance. The key objective of the short-term liquidity solution is to unlock access to liquidity from international banks, asset managers, insurance companies, and other investors, thereby improving liquidity flow in support of trade financing.

Upscaling Local Production of Medical Supplies

The crisis has exposed the limits of Africa's health care infrastructure and paucity of medical personnel and supplies. With the shortage of medical supplies and equipment, and the inability of traditional suppliers in advanced and some developing countries, equally ravaged by the

⁶ By the end of May 2020, Fitch Rating had downgraded some banks in South African Banks, Nigerian Banks, Ghana, Cameroon, Senegal, Morocco. Similar actions have been taken by Moody's and S&P (<https://www.fitchratings.com/search?expanded=racs&filter.language=English&filter.reportType=Rating Action Commentary>).

pandemic, to create additional capacity to produce for export, a quick and innovative response was required within Africa.

The Bank and UNECA, in collaboration with the Africa CDC, launched emergency interventions to provide a rapid response to create the needed capacities within Africa to produce critical medical supplies needed to combat COVID-19. Through this initiative, the Bank identifies and supports African manufacturers, suppliers, and importers that can produce and supply foodstuff and priority health care needs, including pharmaceuticals and medical supplies, such as face masks, personal protective equipment, test kits, and ventilators.

The Bank has committed US\$200 million in support of this initiative, with the aim of ensuring that the products manufactured by African suppliers are competitive. To qualify for support under the initiative, companies must be registered in Africa, and production must meet a minimum of 35 percent African content. Companies owned by women were actively encouraged to participate. As at the end of May 2020 the Bank received 600 applications and offers were made to 48 entities.

Deploying Digital Technology to Improve Access to Medical Supplies

As the number of COVID-19 cases has increased globally, the demand for such medical supplies as masks and ventilators has increased. With demand outstripping supply, prices have increased, with the grave implication that countries with relatively limited financial resources have less access to these critical supplies. This problem is further exacerbated by the disruption of global supply chains on account of the pandemic. In Africa, several governments have highlighted limited access to critical medical supplies and heightened logistical hindrances as prime challenges in battling the pandemic.

In direct response to this, the Bank, UNECA and the Africa CDC joined forces with a consortium led by Econet Group to develop and deploy an electronic platform operated under the auspices of the Africa CDC. The Bank plays the critical role of providing payment services on the platform, which serves as an interface for countries to access supplies from pre-certified global and African suppliers. In addition to ensuring access to critical medical supplies, the platform uses the principle of pooled procurement to ensure that all African countries, irrespective of size, pay reasonable prices for the supplies. To support the African suppliers, some products on the platform can only be listed by suppliers based in Africa.

Supporting the Implementation of other Continental Initiatives

The Bank is also supporting other continental initiatives on COVID-19 pandemic. In particular, the Bank's president chairs the Board of Trustees of the Africa Union COVID-19 Response Fund (Special Fund). The Special Fund was created by the African Union to mobilise financing to assist the continent in dealing with the crisis.

Supporting Countries through Grant Financing

In April 2020, Afreximbank approved a grant of US\$3 million to complement continental and national efforts to address the immediate and short-term needs to stem the rise of infections and minimise the spread and socioeconomic impact of the pandemic. In response to the call

from African leaders, the Bank committed US\$1.3 million of the grant to ongoing efforts to combat the pandemic by the African Union and Africa CDC.

With the experience gained from the current crisis, the Bank is championing efforts to create a standing grant financing framework for Africa with the objective of catalysing continental and global support in the form of grants—both in-kind and cash—for effective emergency relief assistance to African Union member states and help them deal with the social and economic fallout from future crises that may impact specific countries or, if not contained, could spill over onto other countries, including those related to climate change and natural disasters, infectious diseases (HIV/AIDS, Ebola, COVID-19, and other epidemics/pandemics), and human-made disasters (post-conflict reconstruction and rehabilitation).

Assessing the Impact of COVID-19 on Trade Finance and Letters of Credit in Africa

The Bank, working with the African Development Bank and UNECA, is conducting a survey to assess the impact of COVID-19 on trade finance and letter of credit utilisation in Africa, targeting banks across the continent. The survey aims to ascertain the extent to which the pandemic has constrained African banks from providing trade finance as well as provide an opportunity to examine the challenges that traders are facing in accessing letters of credit during the pandemic. The survey results are due in June 2020 and will assist development finance institutions on the continent to design effective instruments of intervention to address the issues raised.

Working with Global Partners

Global policy and programme coordination have been at the heart of Afreximbank's response to the COVID-19 pandemic. Through the platforms created by the Bank, several international institutions have contributed to Africa's successful response to the pandemic. For instance, in the midst of tightening credit conditions and cuts in credit lines, the Bank successfully raised about US\$1 billion from the syndicated loan market with the participation of partner international banks. Further, the Bank's partner export credit agencies and development finance institutions from Europe (Germany, France), Asia (China, India and Korea Republic), Middle East (Islamic Trade Finance Corporation) and the Arab Bank for Economic Development in Africa (BADEA)) opened credit lines with favourable terms that have helped support imports of essential medical materials into the continent. And, in collaboration with Middle East development finance institutions, namely BADEA, ITFC and OFID, the Bank is working to establish a US\$1.5 billion Collaborative COVID-19 Pandemic Response Facility to help boost trade finance liquidity across the continent. Afreximbank has also partnered with global and regional industry groups, including those in the airline and hospitality industries to build a comprehensive support schemes for the most vulnerable entities.

4. Risk Considerations in Afreximbank's COVID-19 Response

During a global crisis of this nature, robust risk management systems are essential for the effective delivery of a strong response while maintaining institutional stability. The Bank's unique structure, privileges, experience gained from previous shocks, and knowledge and presence in Africa has allowed it to structure its response to the crisis in a risk-efficient manner. A number of key considerations are worth noting:

Strengthening and Expanding Internal Risk Management Structures

At the outset of the pandemic, the Bank activated a number of workstreams to focus on its operations through which the crisis was likely to transmit negative shocks to the Bank: liquidity, loan quality, business operations, budget, and human resources. Through daily monitoring of these key matrices, the Bank has been able to effectively deflect any adverse shock to its operations. The Liquidity Management Workstream ensured that the Bank's liquidity remained sound, the Loan Quality workstream identified vulnerabilities in loan portfolio and instituted immediate remedial measures where necessary, and the Business Response workstream enabled the Bank to undertake an orderly implementation of PATIMFA.

Strengthening the Capital Base

In view of the anticipated expansion in the balance sheet, Afreximbank pursued the mobilization of additional capital to meet the estimated capital needs to support the growth.

Using Deal Structures

The Bank retained its traditional deal structuring techniques, which allowed it to transfer risks from countries less able to bear them to those with greater capacity to carry such risks. Appropriate collaterals are also being used where necessary to secure the facilities. These techniques, backed by the Bank's tested preferred creditor treatment, assures the market of the robustness of its operations in the current risk-sensitive environment.

Coordinating with the Private Sector

The Private Sector Working Group, created by the Bank in collaboration with UNECA, has been an important source of first-hand information about the challenges confronting the private sector. Through this group, the Bank has been able to gauge potential payment difficulties, challenges, and opportunities across sectors and industries in most urgent need of financial support and has, accordingly, calibrated its policy and risk management responses to the pandemic.

5. Summary and Conclusion

African countries have endured many external shocks over the past few decades. Most recently, in face of the COVID-19 pandemic, on the economic front, the slowdown in global economic activity and mounting uncertainty on global markets is affecting Africa in two interrelated ways. First, the economic shock arising from cuts in financial flows, disruptions in supply chains due to lockdowns, sharp declines in commodity prices, etc. have had serious impact on economies in Africa with a recession forecast for 2020, the first in 25 years.

Second, the crisis remains primarily a public health challenge for Africa, the poor state of the health care sector and the shortage of medical supplies—both across Africa and the rest of world—hampers the continent's capacity to deal with the pandemic. And without containing the pandemic, the economic crisis will remain. In this context, the Bank has launched a number of initiatives to assist African countries to access finance and to provide ancillary supports to build local capacity to produce and distribute the medical supplies required to care for COVID-

19 patients and help contain the pandemic. In parallel, the Bank is providing the necessary interventions to keep the African economies running while the struggle against the pandemic subsides.

Author Information

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