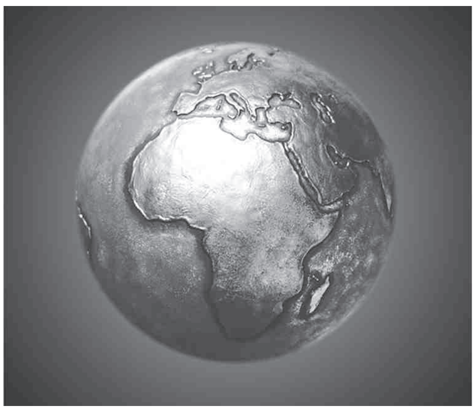
Afreximbank Distinguished Lecture Series 1 / 04

LEADING ISSUES IN AFRICAN TRADE

The Role Of The African Export-Import Bank



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...with an introduction by C.C.Edordu

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Afreximbank Distinguished Lecture Series publishes important papers that address current issues in Africa's economic and trade development. The papers are normally commissioned by Afreximbank and are usually delivered at Annual Meetings of the Bank's Advisory Group on Trade Finance and Export Development in Africa.

*Introduction and Foreword**

Advisory Group on Trade Finance And Export Development In Africa: Concept and Rationale
by
C.C. Edordu

Mr. Chairman
Honourable Ministers
Your Excellencies
President of the African Development Bank
Members of the Board of Directors of the African Export-Import Bank,
Distinguished Guests,
Ladies and Gentlemen

In a statement during my investiture as the pioneer President of AFREXIMBANK on 10th December, 1993 here in Cairo, I did point out about how great historical events had often assumed simple forms. I did emphasize in that statement that the erection of great nations, outstanding discoveries in science, medicine and technology that proved profound and influenced millions of lives in later years, seemed very simple when they occurred. The events of yesterday and the one that is about to commence today are pointers that my assessment of the event of the day under reference was right. Gradually, through simple ceremonies, the AFREXIMBANK on which so much hope is reposed for tackling the problematic external sector of the African economy is becoming a reality.

Mr. Chairman, distinguished Ladies and Gentlemen, there is no doubt that the "achilles heel" of Africa's development had essentially been the constraints posed by the external environment. Slavery and colonialism are about two well known historical examples. In more recent times, the role of external influences in shaping the Continent's development has been more profound.

**Address delivered on the occasion of the Inauguration of Afreximbank's Advisory Group on Trade Finance and Export Development in Africa on 17th November,1994. It was on that occasion that this Distinguished lecture was delivered .*

At the early years of international concern over the development of poor economies which coincided with the emergence of many African countries as nation states, two schools of thought emerged from outside the Continent. One advocated a course of exports based on comparative advantage, beginning with primary goods and moving to simple manufactures as industrialization progressed. The other took a more pessimistic view of trade recommending import substitution policies as the way forward for the Continent. Today, Africa's development or lack of it can largely be attributed to the decision taken on the above two options about two decades ago. Suffice to state, however, that Africa, like all the other economies which adopted the import-substitution strategy, are today sorry examples of the consequences of trade-pessimism. Unlike the dismal economic performance experience of Africa under a trade pessimism policy regime, those economies that had great success with exports and transformed the structure of their economies had not, in fact, pursued inward-oriented policies - or did so only momentarily.

This acknowledged failure of inward-oriented policies resulted in a loss of credence for the pessimistic view in the mid 1980s. All of a sudden, African governments began to see trade, especially exports, as a powerful engine of growth. This therefore led many of them to begin to adopt "trade liberalization" policies around that period. The establishment of AFREXIMBANK is one of the concrete evidences of this reversal in development strategy. Naturally, the urgency to catch up on lost time has meant that African policy makers would want institutions established in pursuance of this new goal to tackle the problems with utmost urgency and vigour.

As regards AFREXIMBANK, the founders have provided it a charter defining what it should do. There are, however, questions about how it should do those things in the context of the new trade optimism and the urgency to catch up on lost time. The Bank, it would seem, is caught in the twin and apparently conflicting goals of its founders which can be understood by the historical antecedents of its establishment. For example, to avoid going back to the era of controls and "big government", it is expected to operate along commercial lines. On the other hand, given the history of import substitution and the institutional and policy obstacles to achieving the goals of the Continent's current trade optimism, it is also expected to play a trade development role. These conflicting goals are expected to be achieved in a circumstance where some countries of the Continent can no longer deal in the international market place due to their poor external sector situation. Yet, the Bank is not expected to play IMF - type role as that would mean a duplication of IMF functions! Striking a balance in the midst of these conflicting goals demands difficult choices. As a consequence, any attempt by the Bank to strengthen the Continent against its historical weaknesses requires that it draws heavily from all available materials at its disposal.

It is for the above reasons that the forum being inaugurated today is being created to act as an intellectual compass that will provide material that will enable us define an agenda for action. Since the external sector is a source of "good" and "bad", the agenda so identified should be capable of maximizing the positive and minimizing the negative influences of the current trade-led development strategy. The necessity for the attainment of this important objective imposes on us the need to draw from highly knowledgeable and leading thinkers from the Continent. It also imposes on the Bank the need to look for areas of emphasis and the slant the Bank's action has to acquire. This is because while our Bank's Charter is clear on the broad range of activities the Bank may engage in, giving colour and emphasis to action is to a broad extent, a matter of thought. It is for these reasons that we decided to provide at this early stage, a forum from which the management of the Bank will draw both intellectual guidance and practical insight.

Mr. Chairman, distinguished ladies and gentlemen, it is our hope that this forum will comprise of men of great intellectual bent as well as practical men of affairs and experience who will compliment the functions of the Bank's statutory organs. In this regard, the kind of direction required from this Group may not be available from the main policy organ of the Bank, the Annual General Meeting (AGM), which as a forum of shareholders is essentially a housekeeping forum. Luckily, the Group has experiences to draw from similar Groups in some countries where export credit agencies have been crucial to the overall performance of the economies.

In the U.S.A., for example, there is an advisory committee of 12 members for the EXIM Bank of U.S.A. The Export Credits Guarantee Department (ECGD) of the United Kingdom also has a similar arrangement. Although the operational modalities of some of these groups/committees differ from what we have in mind, the differences generally reflect the various developmental stages of the countries concerned.

In our case, we have taken cognizance of the Continent's trade problems, as they seem at the moment, in articulating some of the issues that the Forum might address. These include (but are not limited to);

(a) the evolution of the external sector within the African experience and an evaluation of possible financial response that would be desirable for improved development performance.

(b) an elaboration of the inter-relationships of African institutions and integration arrangements and what they may mean for an improvement of the collective lot of the Continent.

(c) the implication of the recently concluded Uruguay Round of Multilateral Trade Negotiations on the "trade liberalization" efforts of the countries of the African continent,

(d) the prospects for diversifying Africa's exports into manufactures under a regime of policy-induced biases in the direction of trade,

(e) the barriers, including the constraint of inadequate trade information system, to intra-African trade and their trade finance implications, and

(f) the reality or otherwise of the so-called "fallacy - of - composition" and its implications for intra-African trade, African trade performance and Afreximbank's operations, etcetera...

It is against this background, Ladies and Gentlemen, that our first in the series of talks has been scheduled to be delivered by Dr. S. Kiggundu who is an acknowledged banker and intellectual. Dr. Kiggundu had been a university teacher and the Governor of the Bank of Uganda and is presently, the Chief Executive Officer of Greenland Bank, a commercial Bank in Uganda. He therefore brings with him several years of experience on issues connected with trade-related problems of African development from the intellectual and practical context. His training and experience will of course be an asset to this Group and our Bank.

Let me emphasize at this point, that despite the enumeration of broad areas of possible emphasis, we have not placed a strict agenda for this Forum. This is because we believe that the generation of materials on which the Bank's future will be built requires unfettered exchange of ideas. Besides, we recognize that when these discussions are so conducted, revolutionary ideas, sometimes unanticipated, may emerge given the caliber of the participants in this Forum and their experience and knowledge of the development experience of other regions. For example, consider the case of the open economy development strategy which a number of South-East Asian economies had used as development lunch-pads. Its outcome which was most desirable would tend to recommend it for other regions. Yet, the current poor development performance of many African economies in an environment of virtual universal adoption of the strategy raises a question whether a generalized adoption can bring the type of benefit it has brought to the Asian economies. Besides, export expansion inspired by export incentives in a regime of generalized protection would yield a result different from what would happen in a regime of better competition. The implication of the above questions is that it raises certain issues on the most efficient way Afreximbank can deploy its resources. These underlying questions therefore need to be addressed in an unfettered manner so that we can avoid the illusion of attempting to apply a financial solution to a non-financial problem.

We also believe that the roles of finance and risk-bearing facilities in an environment that lacks uniformity in levels of liquidity will also raise a problem of relative geographical emphasis Afreximbank should give to its range of Services. It may, for example, mean that it should use off-balance sheet mechanisms to support trade in those regions with sufficient liquidity while it provides financing to illiquid regions, thus performing its functions most efficiently.

Mr. Chairman, Ladies and Gentlemen, it is my firm belief that the ideas that will be generated by this important Group will provide materials that will define an agenda for the Bank. Although it is conceptualized as an Advisory Group, we see its role as more pervading. We, therefore, hope that our Forum will convene as often as necessary to provide the kinds of input highlighted herein and adjourn once its work has been done. We also think that the Forum should have members who may find it impossible to be personally present but who can provide their contributions in writing to the Bank.

I would therefore like to welcome our distinguished guests many of whom personally bore the cost of their participation in this Forum. I will like to assure them that the Bank recognizes their contribution in the task of getting our Bank and Continent moving. There are times when such sacrifices are called for, and it is only patriots that respond to such clarion calls. Distinguished Ladies and Gentlemen, may I suggest that our keynote speaker addresses us and we receive contributions on the Agenda he may propose to guide us at this stage of building a foundation for our beloved Bank. This is because the Bank may well be the last hope of the Continent in its bid to re-enter the international market place with pride and respect.

Thank you and may the Lord bless you.

LEADING ISSUES IN AFRICAN TRADE: THE ROLE OF THE AFRICAN EXPORT-IMPORT BANK

by
Dr. Suleiman Kiggundu

LEADING ISSUES IN AFRICAN TRADE: THE ROLE OF THE AFRICAN EXPORT-IMPORT BANK

by
Dr. Suleiman Kiggundu[1]

The resolution of the Board of Governors of the African Development Bank ("ADB") of June 11, 1987 calling for the establishment of the African Export-Import Bank (Afreximbank) which seems to be rooted in African nationalism, seeks to promote Africa's development through increased trade. The main motivation for the establishment of the Bank was not that it is a good and profitable business, but that it will facilitate the realization of the objectives of trade-led development strategy currently being pursued by Africans.

This concern of the ADB's Board of Governors was indeed well placed because Africa's production and trade levels were, and still are, depressingly too low. Whereas Africa accounted for 12 per cent of the global population in 1992 (650 million out of 5.5 billion), it only produced 1 per cent of the world's Gross Domestic Product (GDP) ($310 billion out of $22.0 trillion) and its share of total global trade (exports plus imports) was less than 1 per cent ($53 billion out of $6.8 trillion) (World Bank, 1996). This low level of production and trade renders the level of income and consumption of other basic necessities, not to speak of elementary luxuries, so low thus making the quality of life of the average African incomparable with international standards.

The Afreximbank, like similar institutions in the USA, the UK and India, has been established to extend trade finance to support intra-and extra-African trade. This paper explores some of the leading issues in African trade and discusses the potential role of Afreximbank in addressing the well known inhibitions to intra- and extra-African trade.

[1] *Former Managing Director and Chief Executive Officer, Greenland Bank Ltd, Kampala, Uganda. Dr. Kiggundu, who currently lives in Kampala, delivered this Lecture in Cairo on November 17th, 1994.*

This paper examines the nature and potential of African exports, which the Bank seeks to promote and the likely market focus for these exports. A cursory look at Africa's export trade performance shows a high degree of dependence on a few primary agricultural or mineral exports. Africa's relatively vast arable land and mineral resource endowment partially explains the dominance of agricultural and mineral exports in total exports. About 27 per cent of African exports are food and agricultural raw materials while unprocessed commodities, including minerals and energy, make up around 80 per cent of African exports. Agriculture also employs from 65 to 80 per cent of African workforce and accounted for 20 per cent of its GDP in 1992. Despite agriculture's immense contribution to GDP and exports, international trade policies frustrate the sector's development (Wood and Mayer, 2001).

Table 1 highlights the structure of Africa's exports during 1965, 1980 and 1987. During these three years, fuels, minerals and other primary exports on average, accounted for about 90 per cent of Sub-Saharan, Africa's total exports. Manufactured exports including textiles, machinery and transport equipment accounted for less than 10 per cent.

Developed countries agricultural trade barriers are a major constraint to African producers' market access, and along with subsidies, have been depressing global agricultural commodity prices, on the average, by approximately 12 per cent per annum. The problem with primary commodity exports is that they have since 1950s, been exhibiting volatile and weak international prices, which give rise to poor and fluctuating national export earnings. For example, in 1980 Africa's exports including those of North Africa were valued at US$94.7 billion. The value in 1987 dropped to only US$53.2 billion largely on account of commodity price weaknesses.

The sudden fall in petroleum prices in the 1980s further reduced export revenues in a number of African economies which, in turn, reduced Africa's capacity to import. Drought, wars, high debt service burden also tend to adversely affect much needed rehabilitation and expansion of capacity to raise export production and also reduce export earnings.

Experience has shown that export receipts had fallen at a time of significant growth in export volume due largely to sharp downturn in commodity prices. Uganda's example is quite revealing in this context. Global prices of coffee, the country's major export commodity fell from US$2.05 per kg during 1987/88 to US$0.82 per kg during 1992/93 resulting in about 59 per cent fall in Uganda's export earnings from $384 million in 1986/87 to $157 million in 1992/93 .

Africa enjoyed an upturn in its terms of trade during the commodity price booms of the 1970s, but trends from the early 1980s have been fluctuating. Table 2 shows the terms of trade for African countries. For most Africa countries, the terms of trade deteriorated at an average rate of 2 per cent in 1983, 25.2 per cent in 1986, and 5.2 per cent in 1988. While the overall trend after the early 1980s has been downward, there were short-lived improvement in African commodity prices and terms of trade. In most cases, the prices have declined by big margins and, for five of the major export products; they have declined by more than 50 per cent in 1980. The income lost by developing countries as a result of trade shocks and trade restrictions had been estimated by UNCTAD to average US $500 billion per annum.

Table 1: Structure of Africa's Exports (%share)									
Countries	Fuels, Minerals and Metals			Other Primary Products			Manufactures		
	1965	1980	1987	1965	1980	1987	1965	1980	1987
Algeria	n/a	99	n/a	n/a	1	n/a	n/a	35	n/a
Angola	n/a	78	n/a	n/a	9	n/a	n/a	36	n/a
Benin	1	5	42	94	87	38	5	4	21
Botswana	18	n/a	20	78	n/a	17	4	70	64
Burkina Faso	1	n/a	n/a	94	n/a	98	7	11	2
Burundi	1	5	1	94	92	85	6	7	15
Cameroon	17	33	51	77	64	40	5	5	5
Cape Verde	n/a	n/a	n/a	88	n/a	60	n/a	n/a	n/a
Central African Republic	1	n/a	n/a	45	23	66	54	26	33
Chad	4	1	n/a	93	71	n/a	4	n/a	n/a
Comoros	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Congo, People's Republic	5	90	67	32	4	17	63	6	16
Cote d' Ivoire	2	1	4	93	n/a	86	6	10	10
Egypt	n/a	67	n/a	n/a	22	n/a	n/a	n/a	n/a
Equatorial Guinea	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ethiopia	1	8	3	98	92	96	1	n/a	1
Eritrea	36	n/a	33	60	n/a	52	8	11	16
Gabon	50	100	63	39	n/a	26	11	1	10
Ghana	13	17	37	85	82	60	3	2	2
Guinea	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Guinea Bissau	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Kenya	13	36	21	81	52	62	6	16	17
Lesotho	n/a	n/a	n/a	91	n/a	64	9	24	36
Libya	n/a	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Liberia	72	n/a	57	25	n/a	41	4	3	1
Madagascar	4	9	10	90	84	78	6	8	14
Malawi	n/a	n/a	n/a	99	93	84	1	16	16
Mali	1	n/a	n/a	96	91	71	4	17	29
Mauritania	94	78	31	5	20	66	1	2	2
Mauritius	n/a	n/a	n/a	100	73	59	n/a	48	40
Mozambique	14	11		83	87	n/a	3	n/a	n/a
Namibia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Niger	n/a	4	86	95	12	13	6	4	1
Nigeria	32	86	91	65	2	8	2	n/a	1
Rwanda	40	9	9	60	90	90	1	1	1
Sao Tome and Principe	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0
Senegal	9	39	25	40	46	43	4	16	15
Seychelles	12	n/a	80	85	n/a	16	3	4	5
Sierra Leone	25	35	22	14	25	19	60	56	59
Somalia	6	n/a	1	80	n/a	98	14	1	1
Sudan	1	2	14	98	98	79	1	4	1
Swaziland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0
Tanzania	4	10	7	83	76	75	13	23	18
The Gambia	n/a	n/a	1	100	90	92	n/a	11	7
Togo	49	66	66	48	23	26	4	8	8
Uganda	14	1	4	86	97	96	1	n/a	0
Zaire	72	56	63	20	14	31	8	7	6
Zambia	97	n/a	93	3	n/a	4	n/a	1	3
Zimbabwe	45	23	17	n/a	39	n/a	22	28	40

n/a not available

Source: World Bank, 1989

Table 2: Terms of Trade Index of African Countries (1985=100)								
Country	1970	1975	1980	1988	1989	1990	1991	1992
Ethiopia	159	126	122	94	81	64	62	53
Chad	68	91	88	108	111	106	106	99
Zaire	202	108	111	105	107	96	90	104
Guinea Bissau	n/a	n/a	n/a	51	48	46	45	47
Malawi	132	127	96	97	102	107	113	95
Mozambique	117	121	106	97	107	105	102	96
Tanzania	108	113	112	85	82	73	75	75
Burkina Faso	124	108	98	107	111	110	90	89
Madagascar	94	91	97	79	67	61	66	67
Mali	101	92	91	108	111	108	109	105
The Gambia	126	115	88	73	60	86	9	75
Burundi	n/a	n/a	n/a	78	63	37	37	37
Zambia	306	140	130	135	145	117	107	92
Niger	194	156	124	115	114	115	131	122
Uganda	95	73	106	74	57	45	50	44
Sao Tome and Principe	n/a	n/a	n/a	77	63	69	52	47
Somalia	136	100	93	94	87	85	83	82
Togo	75	248	114	77	76	71	76	76
Rwanda	108	81	141	75	62	65	62	62
Sierra Leone	133	107	103	93	85	85	82	78
Benin	160	123	97	107	103	86	85	83
Central African Republic	86	76	106	94	90	88	86	96
Kenya	85	85	110	79	74	72	70	72
Sudan	105	125	109	93	104	102	107	107
Comoros	n/a	n/a	n/a	98	96	85	89	93
Lesotho	n/a	n/a	n/a	124	124	124	124	123
Nigeria	21	59	108	49	57	69	61	60
Ghana	150	136	170	108	87	80	68	57
Mauritania	179	130	104	86	92	109	106	118
Liberia	164	123	99	97	97	103	104	101
Equatorial Guinea	n/a	n/a	n/a	76	69	72	66	71
Guinea	n/a	n/a	n/a	68	75	77	75	65
Cape Verde	n/a	n/a	n/a	79	92	79	78	77
Senegal	87	150	98	101	99	102	106	103
Zimbabwe	n/a	n/a	n/a	96	86	76	80	80
Swaziland	n/a	n/a	n/a	1115	121	111	93	91
Cote d'Ivoire	96	89	117	87	78	74	73	71
Congo, People's Republic	16	59	95	56	62	73	66	61
Cameroon	119	95	129	92	79	75	71	71
Botswana	n/a	n/a	n/a	90	88	85	82	79
Mauritius	110	232	105	138	134	144	154	140
Gabon	16	60	98	53	65	78	72	70
Seychelles	n/a	n/a	n/a	111	119	124	126	126
Angola	42	62	98	58	59	66	62	n/a
Djibouti	n/a	n/a	n/a	64	65	64	61	61
Namibia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
North Africa								
Algeria	19	52	99	45	52	62	57	50
Egypt	86	100	97	61	67	78	72	67
Libya	17	57	165	44	51	63	56	n/a
Morocco	82	165	97	105	107	115	114	117
Tunisia	38	83	105	74	78	85	82	83

n/a not available

Source: World Bank (1993), African Development Report.

The problem of inadequate capital accumulation necessary for increased production of goods and services is further aggravated by the adverse terms of trade movements that the Continent has been suffering during the last two decades. Declining real commodity prices particularly for agricultural commodities and high taxes on exports not only siphon off the resources needed for investment and economic growth, but also constitute disincentives for private capital accumulation. Under such conditions, attaining rapid and sustained growth would depend on the provision of external financing, not only to compensate for the resource drain through terms of trade losses but also to supplement domestic savings in financing of additional capital investments needed for increased production. Given that private capital flows, including Foreign Direct Investment lag rather than lead economic growth, such financing would have to be secured from official sources. Experience from reliance on this source of financing has not been very encouraging. Not only has the region been unable to benefit from the recovery in private capital flows to developing countries that began in the early 1990s, but have had to grapple with falling official financing. In fact, the secular decline in Africa's terms of trade is an important reason for the marginalization of the region in world trade.

The share of manufactures in Africa's total exports is still very low as shown in Table 1. Whereas, total African exports fell by about 44 per cent, during 1980/87, manufactured exports rose from US$4.3 billion to US$7.7 billion over the same period, representing a cumulative rise of 79 per cent during the period. North Africa accounted for most of this rise. The sub-region experienced an acceleration in manufactured exports of about 120 per cent from US$1.8 billion to US$4 billion between 1980 and 1987 while the rest of Africa saw a rise of 44 per cent from US$ 2.5 million to US$ 3.6 billion during the same period. Among the sub-Saharan African countries recording most appreciable growth in manufactured exports were Botswana, Zimbabwe and Mauritius as shown in Table 3.

Table 3: Export growth in manufactures for selected countries in Sub—Saharan Africa (*US $ million*)

Country	1965	1980	1987
Botswana	1	353	641
Mauritius	0	125	486
Zimbabwe	61	405	550
Cote D'Ivoire	15	295	283
Kenya	14	210	164
Cameroon	6	50	152
Congo	24	64	137
Gabon	10	26	135
Nigeria	17	130	120
Senegal	4	72	108

Source: World Bank, 1989

Given the characteristics of African's external sector as discussed above, one can then make certain propositions regarding the slant Afreximbank's operations should take if it is to make a significant impact in resolving some of the problems affecting the growth of African exports. Discussed below are strategies that could be pursued in resolving the problems facing Africa's export sector.

Production Strategy

Since primary commodity exports to the developed countries face both income-inelastic demand and highly volatile international prices, African Export-Import Bank should focus more on promoting manufactured exports and non-traditional exports like vanilla, vegetables, flowers and other horticultural products. Whether or not Africa has comparative advantage in the production and export of any commodity is no longer an issue in international trade. In his evaluation of the "availability theory", a leading trade economist argues that imports of a country will be concentrated in commodities which are not available at home either in the absolute sense or in the sense that they attract a very high price. In other words, technology and high degree of mobility of factors of production have rendered, more or less irrelevant, the classical static theory of comparative advantage. In a dynamic context, any country can produce more or less anything except a few items which are strictly resource-based, and goods which are absolutely immobile or too costly to move. Indeed, many products in the world market, which are almost identical, are selling at different prices. The success of each seller depends on the market share he enjoys, the historical links, the geographical advantage, the business contacts and aggressiveness of his marketing strategy.

The Importance of Intra-African Trade

African entrepreneurs should therefore focus on the manufacturing sector and should be supported by adequate financial resources and the enabling macroeconomic environment. Expanding manufactured exports to the developed economies (the "North") may not be easy, notwithstanding the encouragement from some quarters, like the European Union under the Lome Convention. Thus, emphasis should be in the promotion of South-South trade. *Chenery (1970) argued that the demand for industrial product depends on the domestic market and net exports* $E_i - M_i$. *This could be expressed algebraically as:*

$$X_i = D_i + (E_i - M_i) + \sum_j ij$$

In other words, Chenery points out that industrialization can be supported by domestic demand noting that demand for industrial products depends on the domestic market, net exports or export expansion and intermediate demand for certain products (Hollis Chenery, 1979).

The domestic market, in this case the African market, should be harnessed to absorb the manufacturing output during the initial stage of industrialization up to a point where demand from outside Africa would be limited and isolated if correct policies, adequate finance and the correct business acumen are in place. In this regard, Africa should be more or less self-sufficient in clothing, shoes, other textiles, leather, wood products and related items. These items do not necessarily require sophisticated technology in production.

Significant in-roads into the secondary stage of industrialization, producing intermediate goods then heavy industrial goods could easily have been made on the basis of a wider African market. A market of 650 million people with a total GDP of US$310 billion could go a long way to support basic industrial production. Even the sub-Saharan African market with a population of 500 million people and a total GDP of US$173 billion could still provide a sizeable market for African manufacturers. One could even talk of the Preferential Trade Area (PTA) market with a population of 150 million people and a total of GDP of US$ 50 billion or for that matter the ECOWAS Market, the Central African Common Market or the Maghreb Union Market as potential markets for manufactures originating from the African continent.

Constraints to Intra-African Trade Promotion and African Economic Integration

Unfortunately, Africa has so far failed to integrate its markets at the continental or the sub-regional levels and make them accessible to African producers with regard to tariff and non-tariff barriers. The share of intra-African trade in Africa's total international trade is estimated to be 5 per cent or between 10- 12 per cent if unrecorded trade is taken into account.

Although the Treaty for the African Common Market was signed by the African Heads of State and Governments in Abuja, Nigeria, in June 1991, progress towards the achievement of its goal has not been as fast as one would wish. The Treaty requires ratification by two-thirds of the member States before it comes into force. In addition, its implementation is envisaged over a thirty-four year period. Given Africa's circumstances and the pace of global economic development, this time frame is far too long and it conveys an impression of lack of seriousness. Provisional application of the Treaty, for example, ought to have commenced upon signature and definitive application should have been allowed on ratification by only one-third of the member States. Unfortunately, this has not been achieved.

At the sub-regional levels, economic integration efforts also leave a lot to be desired. There is more rhetoric than performance. It also seems that the leadership is yet to appreciate the strategy of integration as a basis for Africa's economic emancipation. This is because the leaders seem to be more concerned with their unique domestic political difficulties than the vision of regional or continental integration. For example, the leaders of the Preferential Trade Area for Eastern and Southern Africa (PTA) met and signed a treaty in Kampala in 1993 setting up a Common Market for Eastern and Southern Africa (COMESA). This was after failing to set up a free trade area since 1980. Shortly after this, three East African leaders met in Arusha and agreed to revive the East African Common Market. Another example is the Southern African Development Co-ordination Conference (PTA-SADCC) circus, where the same leaders approved a merger in one forum and reversed it in another. These developments convey an absolute lack of commitment or political will on the part of the leaders. What purpose would the East African Common Market serve if there was no intention to implement the COMESA Treaty?

The system of payments for goods and services poses a major constraint to intra-African trade promotion and economic integration efforts. The experience of the PTA Payments and Clearing House, (PTAPCH) shows that with determination a number of progressive steps can be taken. In attempting to issue PTA travellers' cheques, it was suggested that PTA payment and Clearing House would require over US$50 million to back up the travellers' cheques. As central banks, PTAPCH resolved to back up the issues authorized by each bank without necessarily putting up any deposits upfront and proceeded to issue the PTA traveler's cheques within six months. For over six years, the issue has been on the table without implementation.

Another programme which PTAPCH did not succeed in implementing was getting each country to remove intra-PTA trade tariffs at once to facilitate the creation of a free trade area.

The argument was that removal of tariffs on food imports from another PTA country constitutes no loss to the country and no gain to the exporting PTA country. Such a move represented only an income transfer from government to businessmen or consumers and therefore should not cause undue concern to the countries. Governments, if they so wished, could impose other taxes like sales taxes to recoup the revenue lost by the removal of intra-PTA trade tariffs. In any event, the argument suggested that because of low level of intra-PTA trade (about 5 per cent of total trade), the potential loss to each country was minimal. This was estimated to be no more than 3 per cent of total recurrent revenue for each of the countries involved. But because of lack of resolve on the part of the national governments, tariffs on intra-PTA trade were not removed.

In the same vein, one can argue for the immediate removal of intra-African trade tariff barriers as a first step in the creation of an African common market. Subsequently, additional measures to eliminate other constraints to intra-African trade could be implemented. Among these is the improvement in flow of trade information, easing payments difficulties and making trade finance more readily available for utilization by viable African businesses,which is the mandate of Afreximbank.

In this case, Africa must then squarely face the policy conflict between sub-regional economic integration, which seeks to give preferences to union members, and universal trade and foreign exchange liberalization across the Continent. Indeed this is the challenge economic integration promoters cannot ignore.

Furthermore, to build trade capacity, there are also a number of tasks that countries must focus on. These include eliminating roadblocks to investment; familiarizing exporters with the rules of the multilateral trading system; implementing export strategies that reflect business imperatives; building competitiveness of firms through quality-control methods, better marketing skills and packaging techniques, export finance and appropriate use of new information technologies, among others.

Looking closely at the agenda or the program of action for the Afreximbank as it commences its lending operations consistent with its mission and mandate, attention needs to be drawn to its resource availability, its objectives as well as the nature of the trade financing gaps which African countries and business communities are facing. In this regard, it is important to note at the outset that international commercial banks virtually stopped lending to Africa following the failure of many Latin American countries to meet their debt obligations in the early 1980s. The fear was that because of deteriorating terms of trade, huge and increasing external debt service burden and foreign exchange constraints the repayment promises of African institutions could not be trusted.

Many international commercial banks at that time could not accept the sovereign risk of any African country, let alone the payment risk of African commercial banks and/or private businesses. Most exporters to Africa demanded confirmed and irrevocable Letters of Credit (L/Cs) and banks demanded upfront, full cash collateral before they could add their confirmation to L/Cs opened by African banks. They also took 100 per cent cash collateral from African commercial banks or central banks to have their payment guarantees confirmed by prime banks. And because intra-African trade is conducted through the same channels, this requirement applies to it a fortiori, except when the business is transacted through the regional Clearing Houses.

Furthermore, the charges imposed in the few instances when financing is provided are often on the high side and sometimes prohibitive. Suppliers have to accept high financial charges in order to compensate for the perceived high risks in the transaction.

The implications of the above facts are somewhat, disturbing. As professional central and commercial bankers, one would like to enjoy some degree of operational trust in Africa. Despite difficulties, African central banks hold substantial foreign exchange reserves deposited with foreign banks.

African commercial banks also conduct sizeable businesses with international banks. This should be good reason for them to enjoy some degree of trust. Table 4 gives the gross international reserves of sub-Saharan Africa during 1975 and 1991. With a total deposit of US$16.7 billion in an institution, sub-Saharan African countries should be in position to finance a significant amount of investment activities in Africa. Unfortunately, the Continent lacks the institutional arrangements through which these reserves could be consolidated and used in a manner that would be supportive of its economic transformation. It is hoped that the countries concerned would begin to look at the Afreximbank as the answer to making African money useful to Africans.

Afreximbank's Lending Programmes

The above review points at serious problems confronting intra-African trade. The first agenda for the Afreximbank, which seems to have taken off very well, is the mobilization of the initial share capital. The Bank also expects to raise further funds from the international capital markets. This should enable it to finance a reasonable number of viable activities. The diverse number of shareholders, however, should not force the Bank to deviate from its core objective of promoting African exports in favour of other more profitable lending windows. The overwhelming demand for trade finance should also not force it to overtrade and neglect its other non-financial commitments in the area of trade facilitation, for example collection of trade data for the purpose of planning to assist in policy formulation.

The second agenda is to carefully define and implement its trading (lending) activities to avoid losses. But it should not be so risk-averse as to sit on sizeable loanable funds amidst overwhelming financing demands from the constituencies it has been created to provide trade finance support for.

The Bank had already identified the following programmes in its initial operational phase: pre-shipment credit; post-shipment credit; guarantee facilities including export performance guarantees, bid bonds and advance payment guarantees; import credit for the purchase of inputs for production of exports. These are facilities which, if well utilized, will begin to address some of the problems identified above.

The Bank should endeavour to cultivate a wide spectrum of customer relationship. This should include: private African exporters and importers sourcing goods from Africa, overseas importers sourcing goods from Africa, commercial banks acting on behalf of their customers, and sometimes African government export credit agencies as well as similar organizations and institutions.

The facilities required by African private exporters and importers buying goods from Africa include opening of L/Cs, guarantees and pre-shipment and post shipment/production credits. These are in conformity with existing Afreximbank facilities. Regarding delivery of these facilities, the Afreximbank may handle financing requests directly or through local commercial and export credit agencies or through African central banks. This is because it will be easier and more cost effective to offer lines of credit to accredited institutions in order to avoid having to appraise individual projects. The requirements of African and non-African commercial banks may be to support their customers for numerous relatively small financing requests. It would be better for Afreximbank to handle these requests through lines of credit given to the banks directly. The requests by African governments and large corporations may be sizeable enough to warrant Afreximbank's direct appraisal and financing.

Although it is not included in its initial lending menu, it may be necessary for Afreximbank to provide commodity price stabilization financing. The lending could be provided to the borrowing country or export agency to sustain production during the period when stocks are being accumulated.

TABLE 4: GROSS INTERNATIONAL RESERVES OF AFRICA (US$ MILLION)			
Countries	GROSS INTERNATIONAL RESERVES		MONTHS OF IMPORTS COVER
	1975	1991	1991
1 Ethiopia	166	54.46	1.0
2 Chad	1.47	119.79	2.6
3 Zaire	172.79	182.85	1.0
4 Guinea-Bissau	n/a	14.57	1.0
5 Malawi	66.64	153.20	2.5
6 Mozambique	n/a	207.48	2.3
7 Tanzania	65	204	1.4
8 Burkina Faso	36	350	4.8
9 Madagascar	37	89	1.2
10 Mali	1	326	4.5
11 Burundi	15	147	5.0
12 Zambia	515	186	1.4
13 Niger	19	207	5.3
14 Uganda	57	59	1.0
15 Sao Tome and Principe	0	0	0
16 Somalia	21	n/a	0
17 Togo	n/a	n/a	5.0
18 Rwanda	n/a	n/a	4.0
19 Sierra Leone	39	10	0.2
20 Benin	16	196	3.6
21 Central African Republic	1	107	4.4
22 Kenya	220	145	0.6
23 Sudan	22	8	0.0
24 Lesotho	n/a	115	1.3
25 Nigeria	223	4,678	4.4
26 Ghana	43	644	4.4
27 Mauritania	3	72	1.2
28 Liberia	n/a	n/a	0.0
29 Equatorial Guinea	n/a	n/a	1.0
30 Guinea	n/a	n/a	1.0
31 Senegal	n/a	n/a	0.0
32 Zimbabwe	59	295	1.4
33 Swaziland	n/a	n/a	2.0
34 Cote d'Ivoire	119	29	0.1
35 Congo, Peoples Republic	9	9	0.1
36 Cameroon	81	43	0.2
37 Botswana	0	3,772	17.6
38 Mauritius	46	915	5.5
39 Gabon	15	332	1.6
40 Angola	n/a	n/a	0.0
41 Djibouti	n/a	n/a	3.0
42 Namibia	n/a	n/a	0.0
43 South Africa	1057	3,187	1.5
Sub-Saharan Total	3,041	16,886	
World	99,147	1,179,130	

Source: World Tables, 1994

This could be a strategic move aimed at forcing world market prices upwards for particular commodities. This lending would be somewhat speculative and would require firm guarantees from the countries or the exporters’ commercial banks.

Afreximbank may also be faced with requests from regional Clearing Houses to provide credit facility to support debtor countries in the Clearing House for specific time period in order not to disrupt the clearing arrangements. These requests may be limited under circumstances of foreign exchange liberalization. Without such credit facility for Clearing Houses, a debtor country may be required to rely on external donor funds, which, importers' experiences have shown is likely to force imports mainly from donor countries thereby rendering irrelevant regional clearing arrangements.

In its subsequent phases of operation, Afreximbank’s activities could be expanded to include long-term investment financing for export projects especially in manufacturing and other non-traditional exports. However at this stage, Afreximbank would need to be more scrupulous in its project evaluation and monitoring techniques with a view to ensuring that all project risks are correctly identified and properly mitigated. Other activities should include financing of export product development, export marketing, export bills rediscounting and forfaiting.

The initial lending approval of the Bank should be cautious especially with regard to selection of local banks through which to deliver its services. This is because in most African countries, foreign exchange liberalization as a reform strategy is currently being embraced. Therefore, emphasis should be placed on transactions in countries where reforms have taken root and the rules of commercial operations are clear.

In conclusion, the founding fathers of Afreximbank should be commended for this initiative. It is hoped that African leaders will move decisively to make African economic integration a reality. Given the financing arrangements discussed with regards to urgent removal of obstacles to intra-African trade, it could be argued that the level of production and intra/extra- African trade would increase for the good of our people, if Afreximbank is given the necessary financial, political and moral support.

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