AFRICA REGIONAL TRADE FACILITATION PROJECTS: RTFP1, RTFP2

Context:

The RTFP project created an innovative scheme to facilitate trade and investment in sub-Saharan Africa by improving access to trade credit and finance through providing trade credit and political risk insurance. Trade credit and insurance is only available for a handful of companies (mining, cocoa producers, oil and gas). The penetration of trade credit insurance in Sub-Saharan Africa is close to zero.

In more advanced markets and developing countries, domestic and cross-border trade is facilitated by trade credit insurance, which supports trade flows in volumes up to 15 percent of GDP and 20 percent of exports. The trade credit insurance market globally insures trade flows estimated at $5 trillion annually. On the other hand, in Africa, the trade insurance market is very limited and operates mostly on a North-South basis. It serves firms in advanced markets (OECD and China) selling to Africa, and a few major African commodity exporters selling to richer countries. Insurance coverage for trade and investment within Africa is virtually non-existent, except for African Trade Insurance Agency (ATI). African Trade Insurance Agency facilitates trade and investment in member countries both domestically and regionally through trade and investment insurance. This stunts trade, investment and entrepreneurship, and undermines economic growth and employment creation.

ATI had demonstrated its relevance and usefulness in facilitating regional trade and investment but needed to further expand its country membership to reach a critical size and achieve efficient operations. In 2012, when RTFP2 became effective, the visible market for political and trade credit risk insurance in sub-Saharan Africa was estimated at $46 billion in cross-border transactions, but only $6 billion (13 percent) was in ATI's participating member countries.

To fulfill its mission, ATI had to incorporate new member countries in ECOWAS and other parts of Africa. Several prospective member countries requested the World Bank to support their participation by arranging technical assistance and financing.

A key focus for ATI was to maintain the "A" international credit rating it had received from Standard and Poor's in 2008 (the second highest credit rating in Africa, after the African Development Bank). This high rating was essential to maintain ATI's credibility as a creditworthy insurer among its international clients, banks, and other insurers.

In the short term, the World Bank's financing and supervision provided implicit support sufficient to maintain this rating. In the medium to long term, maintaining ATI's credit rating would depend on its underwriting discipline, financial sustainability, governance mechanisms, and enforcement of its preferred creditor status. ATI's preferred creditor status is embodied in the ATI Treaty, which allows the agency to debit the capital of a member country to offset claims incurred in that country with a capital contributed by that country.

PROGRAM:

Multi-Donor
Trust Fund for Trade and Development 2 (MDTF-TD2)

TEAM LEADER:

Arnaud D. Dornel

TIME PERIOD:

to Q1 2015

ACTIVITY:

+ Institutional capacity building
+ Policy & procedural reform

COUNTRIES:

Benin, Burundi, Democratic Republic of the Congo, Kenya, Madagascar, Malawi, Rwanda, Tanzania, Uganda, Zambia

TRADE AREA:

+ Trade facilitation
+ Regional integration

BENEFICIARIES:

Commercial firms and banks involved in trade and investment in member countries.

IMPLEMENTING PARTNERS:

African Trade Insurance Agency (ATI) and its member country governments.

WORLD BANK GROUP
Ministry of Foreign Affairs of the Netherlands
Sida
SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
Department for International Development
NORWEGIAN MINISTRY OF FOREIGN AFFAIRS
Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation
Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

Lack of trade credit and finance, arising in part from perceived credit and sovereign risk, are major obstacles to private sector development and regional integration in Africa. ATI provides credit insurance to support trade and investment flows in African member states, addressing the critical market gaps

Intervention:

The developmental of ATI was found to be instrumental. Since inception, ATI has facilitated aggregate flows of $7.8bn ($5.4bn for investment, $2.4bn for trade) from 2010-2014[1].

The project's objectives was to provide insurance coverage in Africa and to provide a framework to enable more countries to join in a streamlined manner in subsequent years. The triggers for a country wishing to join the APL were the same as the requirements for RTFP1, which involved becoming a member of the African Trade Insurance Agency (ATI), followed by a request to borrow from IDA/IBRD to fund the membership contribution to ATI. Since it was difficult to gauge in advance the commitment of governments to join the program, an estimated overall envelope of $85 million was allocated under the RTFP2-APL program.

Using timely support from the MDTF-TD2, the World Bank supervision team conducted an in-depth diagnostic, including: (i) a market assessment updating the original market survey carried out during project appraisal and (ii) an in-depth assessment of ATI's long-term sustainability, focusing on its risk management and governance arrangements.

The market-survey update involved extensive dialogue with market players in Africa and Europe:

Insured Firms | Trade Finance Banks | Brokers | Co-insurers | Re-insurers

This update confirmed the high relevance of the project's objective to facilitate regional trade through improved availability trade credit insurance and of ATI as a regional provider of trade and investment insurance. This diagnostic indicated that ATI was well suited to undertake large regional projects and transactions, but less so for smaller, short-term, day-to-day trade transactions.

The conclusions of the sustainability assessment were summarized in a detailed Aide-Memoire which was substantial. Key recommendations were discussed with ATI management, an ad hoc Board Technical Committee organized by ATI, and ATI's full Board of Directors.

In addition, the conclusions of the market and the sustainability assessments underpinned the Implementation Completion Reports for RTFP1 and RTFP2 (completed respectively in May 2014 and February 2016).

[1]Source: ICR Report of the RTFP phase I, Facilitated transaction volume data received from ATI

Key Impacts:

Trade Integration and facilitation are useful to African countries when ATI sustainability is ensured through strong governance. The World Bank prepared an Aide-Memoire and ICRs which gave rise to active discussions with ATI's management and Board of Directors provision. ATI projected to help exporters i) sell on credit rather than cash terms, facilitating regional trade and allowing local exporters to compete globally, ii) access trade finance. Furthermore, ATI concurrently catalyzes participation of the international credit insurance market for long term transactions.

Several key recommendations were implemented:

The creation of a Board Risk Committee staffed by knowledgeable risk professionals to oversee ATI's risk management framework and policies. It was essential for ATI to adopt a viable self-supervision framework given that the World Bank's project implementation and supervision would soon end.

The EIB agreed to focus its technical assistance grant to ATI on strengthening underwriting and risk management.

ATI's Board recently hired international governance consultants to periodically assess the Board's processes and performance.

Based on these improvements in governance and risk management, ATI successfully approached the AfDB to arrange financing for new member countries (including Cote d'Ivoire, Ethiopia and South Sudan). These additional financings replicated the templates previously established for RTFP1 and RTFP2.

ATI's shareholders revamped the composition of the Board, with a new chairman and vice-chairwoman joining in 2018. Terms of reference have been prepared to select a new CEO in the coming months.

Aggregate trade and investment flows facilitated by ATI totalled around $ 6.3 billion.

The annual transaction volume reached $ 2.8 billion in 2014.

Kenya was the largest recipient of the agency's coverage, followed by Zambia and Tanzania.

International, intra-regional and domestic each account for approximately one third of the transactions.

ATI also supports the development of African exports.

As illustrated in the graph on the right, ATI efficiently leverages its capital through co-insurance and re-insurance arrangements. In 2014, the volume annual trade and investment flow annually facilitated by ATI was around 18 times its member countries' aggregate capital contribution.