African Development Bank's new agreement that's set to reduce Africa's trade finance gap

The board of directors of the African Development Bank Group has approved a $175m trade finance funded risk participation agreement facility between the African Development Bank and Trade & Development Bank (TDB).

Source: Pixabay

The agreement is expected to boost intra-Africa trade, promote regional integration, and contribute to the reduction of the trade finance gap in Africa.

The Bank will provide liquidity of up to 50% (the other 50% to be matched by TDB), to issuing banks on a risk share basis, to support trade activities of local corporates and SMEs in member countries of the Common Market for Eastern and Southern Africa (Comesa).

Together, the two institutions will provide a ticket size of $350m to support trade transactions.

This is a strategic effort by the African Development Bank to support the Africa Continental Free Trade Area's agenda of reshaping markets and economies across the region by helping to boost output in the services, trade, manufacturing, and natural resources sectors.

Speaking soon after the board approval, the Bank's director for financial sector development, Stefan Nalletamby, stated:

“We are excited about finalising this facility with TDB which will aid TDB in scaling-up its trade finance offerings across the Comesa region and help meet the ever-increasing trade finance gap.

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"Specifically, it will allow TDB to play a significant role in providing funding necessary for the post Covid-19 economic recovery of its member countries.

"This partnership is expected to catalyse more than $2.1bn in value of trade finance transactions across multi-sectors such as agriculture, manufacturing and energy over the next three years."

The African Development Bank estimates the annual trade finance gap for Africa to be around $81bn. Compared to multinational corporates and large local corporates, SMEs and other domestic firms have greater difficulty in accessing trade finance.

The director general of the bank’s Eastern Africa region, Nwabufo Nnenna said: “The advent of Covid-19 coupled with stringent regulatory and capital requirements and Know Your Client (KYC) compliance enforcement, has seen many global banks reduce their correspondent banking relationships in Africa, while some are exiting the market altogether.

"There is, therefore, an urgent need for focused financing to re-energise Africa’s trade, particularly in low-income countries and transition states, which require more participation of institutions like the African Development Bank."