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Extractive Industries and Sustainable Job Creation

**Financing Local Participation in Africa's Extractive
Industries:
The Role of African Export-Import Bank**

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The views expressed are those of the author and do not necessarily reflect
the views of UNCTAD.



Financing Local Participation in Africa's Extractive Industries:

The Role of African Export-Import Bank

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The Trade Finance Bank for Africa



- I am grateful to UNCTAD, the Government of the Republic of Sudan and the organisers of this event, for giving me and Afreximbank the opportunity to share our thoughts on Financing Local Participation in Africa in Africa's Extractive Industries.
- The senior management of Afreximbank sends its warmest greetings to the participants of this event and best wishes in its deliberations.

Outline

- Introduction
- Extractive Industries & Development in Africa
- Role of Local Content Vehicles (LCVs)
- Financing Options for Local Entrepreneurs in the Extractive Industries
- Issues and Challenges of financing LCVs
- Afreximbank's Solution to Challenges



1. Introduction: The Bank

1. The Bank

1.1 Establishment

Afreximbank was established in October 1993 as a Pan-African Exim-Bank.

It is a global partnership with authorized share capital of USD 5 billion.



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1.2 Mission

To stimulate a consistent expansion, diversification and development of African trade while operating as a first class, profit-oriented, socially responsible financial institution and a center of excellence in African trade matters.

1.3 Mandate

The Mandate of the Bank is to finance and promote Intra- and Extra-African Trade using three broad services

- Credit (Trade and Project Financing)
- Risk Bearing (Guarantees and Credit Insurance)
- Trade Information and Advisory Services.

1.4 Objectives

Key objectives of the Bank include:

- To extend direct credit to eligible African exporters by providing pre- and post-shipment finance.
- To extend short-term credit and medium-term loans to African exporters and importers.
- To finance imports needed for export development such as imports of equipment, spare parts and raw materials.
- To promote and provide insurance and guarantee services covering commercial and non-commercial risks associated with African exports.

1.4 Objectives (Con't)

- To promote and finance South-South trade between Africa and other countries.
- To provide capital to African exporters and importers through equity investments;
- To assist African clearing houses and payment arrangements to promote intra-African trade.
- To undertake market research and advisory services aimed at expanding intra- and extra-African trade.

1.7 Presence:



- The Bank has 38 participating member countries in Africa.

Introduction

- Natural resources, particularly non-renewable natural resources abound all over the African continent;
- Of the continent's total surface area of over 30,000 square kilometers, at least two-third is covered with natural resources, made of:
 - ✓ Oil & gas - 11,537 km²
 - ✓ Minerals - 9,438 km²
- Africa is among the largest producer of most of these resources among developing regions;
- Presently, Africa's share of global gold and oil reserves lags behind the world averages.





The Challenge!

“The revenues derived from these resources have remained sub-optimal. On average, the continent accounts for a paltry 3% to 8% of all revenues accruing from the extraction of these resources.

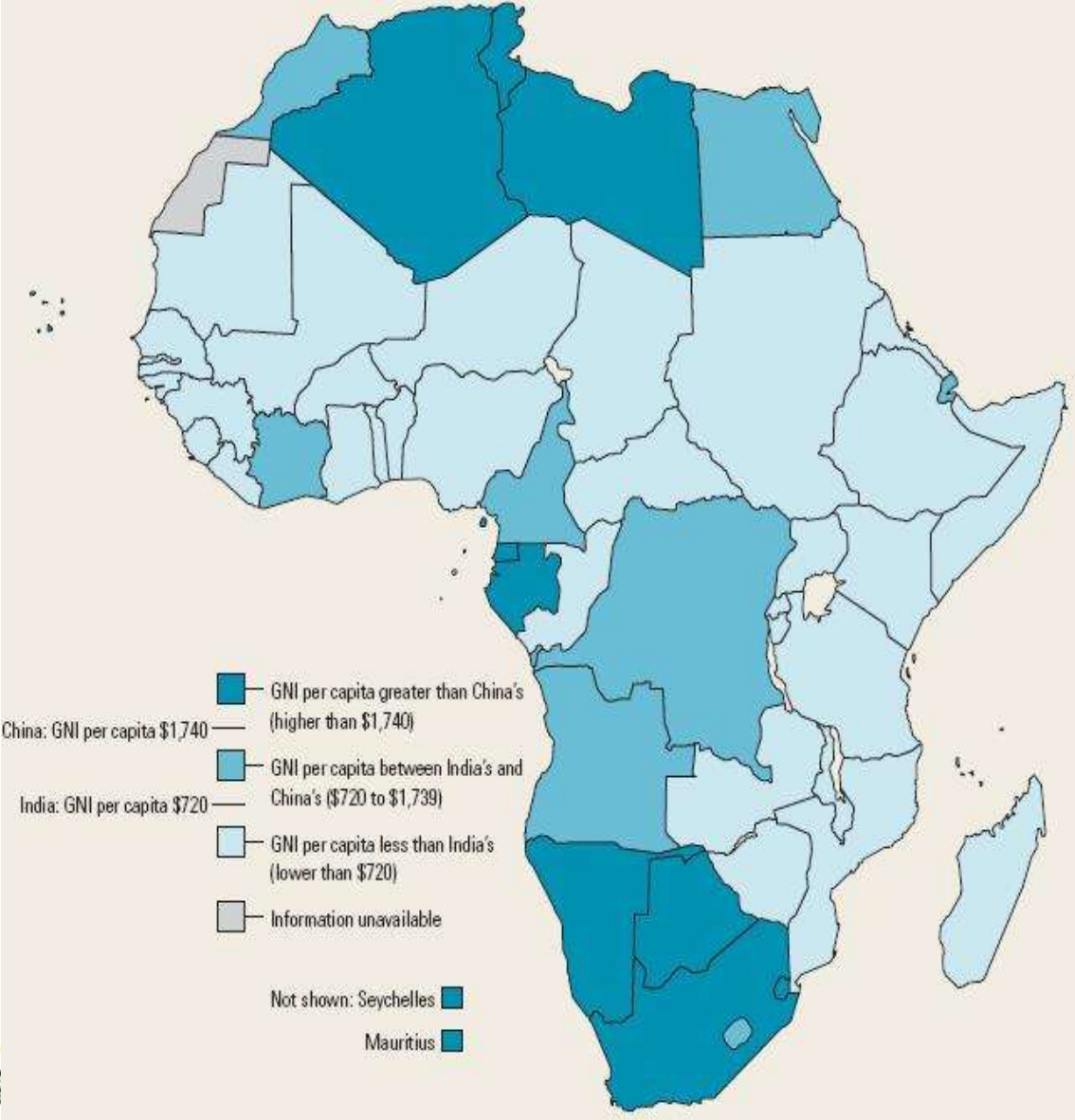
Ironically, the mining sector is among the least employers of Africa’s labour force and is not at all integrated into many economies in the continent.

It is therefore imperative to indicate that, the development of industries in this sector, especially in Africa, is the most reliable path towards structural transformation with the ultimate goal of creating wealth, reducing poverty, and improving living standards.”

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- Despite abundance of these resources, the resources have not translated into any meaningful socio-economic development in Africa compared to other regions;
- One possible explanation is the over dominance of multinationals and seemingly isolated millions of local players from the extractive industries in the continent.





- For instance of the over **500** companies operating in the oil and gas industries across Africa, only **6** domestic (African owned) companies. Domestic companies are disadvantaged in the competitive space;
- Almost all the resources extracted are exported in raw form - there is little or no value addition through processing of these natural resources extracted;
- A good portion of revenue accruing from the extractive sectors is repatriated by multinationals;
- Environmental degradation disrupts productive activities in host communities and costs money to address; and
- Direction of government expenditure from extractive industry revenues has little impact on economic well being of citizens;



Other explanations have been:

- quest for control over minerals from extractive industries have caused bloody conflicts in parts of Africa;
- Currently, there is lack of transparency about the revenues that accrue to national governments from Extractive Industries and how these are applied;
- Communities where minerals are mined hardly benefit from the revenues that accrue from sale of these minerals;

Role of Local Content Initiatives in Africa

- Almost all the resource endowed African countries have either developed local content policies/laws that guides the participation of nationals in the extractive sectors.
- In some countries, for instance, the governments are taking such steps through the:
 - ✓ Setting up of internal policy and domiciliation guidelines through the establishment of corporations to guide the process;
 - ✓ Enactment of the requisite local content guidelines; and
 - ✓ Enactment of the laws to manage the implementation of local content in the oil and gas and mining sectors.

Some benefits expected to be derived from local content policies Include:

- Lots of savings in foreign exchange;
- Retention of reasonable quantum of industry spending;
- Growth in Gross Domestic Product;
- Creation of several job opportunities across the extractive sector value chains;
- Creation of millions of direct employment and training opportunities; and
- Integration of indigenes and ownership of businesses residing in communities with these natural resources.



Financing Options for Local Entrepreneurs in the Extractive Industries

- Asset Finance: Long and short term financing for acquisition of rigs, marine vessels, mining equipments, etc;
- Project Finance: long term financing for capital intensive projects with long completion periods e.g. gas to power projects etc;
- Working capital finance: Short term financing available to support operational needs;
- Specialized /Structured finance: Long term finance to facilitate pooling of economic assets and to give liquidity to already highly leveraged LCV/SMEs;
- Leasing: Short and long term financing to acquire assets. This may be structured as a finance or operating lease.



Local Content Vehicles – Non Bank

- Equity Finance: Available from a variety of sources including individuals, institutions and markets;
- Grants: Usually targeted at businesses in sectors that governments want to promote or attract more domestic participants to.
- Venture Capital Funding: Seed stage mid to long term funding that is usually available as hybrid of equity and debt. This usually comes in form of operational and technical support;
- Strategic Investor Option: Provides long term investment capital to target sectors or companies in an economy.

Issues and Challenges of financing LCV

- Lack of competitive credit information system in many countries to supplement that of individual banks;
- Absence or inadequacy of collateral to secure loans;
- Absence of long term funding sources in individual economies;
- Opaque business records of some SMEs which banks are unable to decipher;
- Perceived skills deficiency in management and staff of LCV/SMEs;
- Poor corporate governance in the LCV/SMEs;
- High burn-out rate of available SME resources deployed to provide alternate power and other infrastructures that should have been provided by governments.

Solutions to Challenges of financing LCV

- Banks should explore alternative lending models to address issue of lack of collateral;
- Development of credible credit information management systems;
- Government should introduce tax incentives and concessionary signature bonuses;
- Massive development of infrastructure so that players will not deplete scarce resources providing alternatives;
- Entrepreneurs should improve technical competence and governance structures;



- Explore joint venture arrangements with local and foreign companies and share the finance burden;
- Explore pooling of funds from multiple sources as demonstrated in Nigeria;
- Continuous capacity building in the industry.



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Role of Afreximbank in Supporting Local Content in Extractive Industries



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Role of Afreximbank in Supporting Local Content in Extractive Industries

1. African Content Support Programme (ACSP)

- ❖ This programme is designed to increase the capture of value accruing to African countries from their extractive sectors;
- ❖ It seeks to increase value addition in the extractive industries by increasing the participation of African entities in these sectors;
- ❖ Through this programme, the Bank will provide financing and advisory services to entrepreneurs who provide or seek to provide support services in the extractive industries in such a way that value -added in Africa is increased.
- ❖ The ACSP includes the following facilities:
 - i. Mining Services/Oil Services Facility;
 - ii. Facility for the Discount and/or Purchase of Receivables; and
 - iii. Asset-Based Lending Facility.



The Trade Finance Bank for Africa



The Bank, under its African Content Support Programme (ACSP), is also providing financial and technical support to African entrepreneurs to increase their participation in the continent's extractive industries. This is designed with the view to increasing the capture of value accruing to the continent from its extractive sector. For instance, the Bank has raised a US\$50 million syndicated loan in favour of Zambia Mining Company to enable it bid for and execute mining services contracts in Zambia. Similar facilities have been provided to entities in Nigeria and Ghana.



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2. *Project-Related Financing Programme*

❖ Through this programme, the Bank provides limited recourse project financing in support of export projects, including mining, manufacturing and other trade related infrastructure projects.



3. *Guarantee Programmes Related to Obtaining Large Contracts*

This programme is designed to create or

improve the capacity of African entrepreneurs to bid for large businesses/contracts in Africa. In this regard, the Bank provides the following guarantee facilities:

- a. Bid Bonds;
- b. Advance payment guarantees; and
- c. Performance guarantees



4. *Country Programme*

This programme is designed to assist the Bank's member countries in peculiar difficulties not amenable to solutions offered individually by the Bank's menu of products. This programme has been used to assist several countries in some difficulties, including Zimbabwe, Sudan, Cote d'Ivoire and Sierra Leone.

5. *ECA Loan Facilitation Programme*

- ❖ Through this programme, the Bank works with other ECAs to promote the acquisition of essential goods, especially capital goods by African Institutions.
- ❖ Using this programme, the Bank provides guarantees to enable ECAs finance eligible imports of Africa.
- ❖ The Bank may also take Line of Credit for direct disbursement to its clients for importation of goods from the country of origin of the creditor ECA.



6. *Advisory Services*

- ✦ Advisory services to governments, corporates, banks and other institutions especially in the area of export development, export sector reforms, privatization, equity acquisitions, mergers, project promotion, etcetera;
- ✦ Provide underwriting services for debt and equity backed by export-secured debt;
- ✦ Valuation of companies and preparing start-up companies for Initial Public Offerings;
- ✦ Securitization of both local and/or foreign currency receivable;
- ✦ Arrangement of Acquisition Financing for African entrepreneurs to enable them participate in the privatization exercise especially for export-oriented companies. The Bank may fund and/or guarantee third party lenders to the African entrepreneurs provided that there is assurance of re-financing such loans or its repayment through credible identified sources.



Thank you for your kind attention



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