

# Survey of Impact of COVID-19 on African Trade Finance



Transforming Africa's Trade

African Export-Import Bank  
Banque Africaine d'Import-Export





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## Foreword

At a time when significant progress is being made in understanding the dynamics of the coronavirus and in mitigating the pandemic's downside risks, we can easily become complacent and overlook the worsening of challenges to global trade and economic growth. One of the most important issues that deserve attention is trade finance, a market that has proven especially vulnerable to economic and financial shocks.

The supply of trade finance, which supports more than 80% of global trade flows annually, has been one of the key constraints to the growth of African trade. Although it has proven to be a low-risk asset class, trade finance's short-term and transactional nature has emerged as an important risk multiplier, with business cycle 'credit crunches' adversely affecting import and exports.

These risks were magnified by the COVID-19-induced downturn, which heightened global volatility and exacerbated risk perception in the face of increasing balance of payments pressures and widening trade deficits. Sharp falls in the economic activity triggered by lockdowns and border closures were accompanied by dramatic increases in health expenditures.

Tighter global financing conditions triggered massive capital outflows from Africa and resulted in a sharp widening of interest rate spreads, while temporarily shutting out sub-investment grade borrowers from international capital markets.

The pandemic may be brought under control, but it is already clear that the consequences of this crisis for African trade finance will be significant and lasting. In the short term, the limited supply of trade finance could inhibit the potential for trade to act as a vector of economic recovery in a region

where trade financing gaps were already sizeable. These gaps have been magnified by the withdrawal of major international banks from the African trade finance landscape, owing to increased compliance and regulatory costs. Similarly noteworthy are the risks associated with commodity price cycles, as the exit of major banks from the commodities trade finance market in the third quarter of 2020 illustrated.

This report – the product of a collaboration between the African Export-Import Bank (Afreximbank), the Making Finance Work for Africa Partnership (MFW4A), hosted by the African Development Bank and the United Nations Economic Commission for Africa (UNECA) – offers a ground-breaking, first-ever assessment of the potential impact of the COVID-19 pandemic on trade finance activities of commercial banks across Africa. Drawing on primary data collected from banks and financial institutions accounting for about 58% of total Africa banking assets across all subregions of the continent, the report covers not only the degree to which the pandemic undermined the supply of trade finance, but also the extent to which geography and ownership structures of banks affected access to trade financing.

The period covered by the survey, January to April 2020, including the initial lockdown period – in March, capital outflows from developing economies exceeded US\$80 billion; in April, month-on-month global trade in goods contracted by 12.1% – points to the crisis's potentially significant adverse impact on African trade finance.

These massive outflows strained banks, most of which recorded sharp drops in net foreign assets, and exacerbated liquidity constraints, with significant implications for trade financing. The survey results reveal that letters-of-credit business and correspondent banking operations slumped

substantially across the continent. Over the same period, major international banks and financiers cancelled and/or reduced their lines of credit limits for African banks.

The report highlights key policy responses and measures undertaken by governments and development finance institutions (DFIs) to mitigate the risk of widening trade financing gaps in the wake of COVID-19. It underlines several bold and swift interventions undertaken by DFIs to support the financing of African trade for a speedy post-pandemic recovery, including the Afreximbank's Pandemic Trade Impact Mitigation Facility (PATIMFA) and the AfDB's COVID-19 Rapid Response Facility (CRF). The report also outlines a set of policy measures undertaken by African governments to ease regulatory burdens. These include increasing reliance on public risk guarantee schemes to underwrite new trade exposures and a shift towards greater reliance on digital documents in the processing of trade transactions.

We hope the insights from this continent-wide survey will inform ongoing efforts to boost African trade, and in the process sow the seeds for a healthier, stronger, and synchronised economic recovery across the continent. At the time the report was going to press, there were growing hopes that remarkable progress on COVID-19 vaccines will lift the cloud of uncertainty and unlock the African and global economy in 2021. However, enhanced global co-operation with a view to ensuring safe, equitable and effective access to vaccinations for all will be key to the synchronised global recovery needed to address the widening trade finance gap triggered by the COVID-19 crisis. At the same time, sustaining the growth of trade finance over time will remain critical not only for a strong and robust economic growth in the post-pandemic world, but also for the successful implementation of the African Continental Free Trade Agreement (AfCFTA).

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