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On-Going Reform & Institutional Quality

The Case for Africa as an ideal
Destination for Investment & Trade

Synopsis

Africa's significant socio-economic progress since 2000 was underwritten by equally meaningful reforms throughout the continent. Aside from increased fiscal discipline and public expenditure on soft and hard infrastructure, institutional reforms and governance have propelled economic activity into formerly latent sections of the African economy.

The African Trade Insurance Agency (ATI) represents institutional reforms and corporate governance quality. As one of the world's foremost multilateral providers of trade credit and investment insurance to firms, lenders, and investors in Africa, ATI has an expansive development mandate to support trade & private sector growth in the region. With the opportunities inherent to the African Continental Free Trade Area (AfCFTA), ATI shall facilitate foreign direct investment and equitable trade balances. These form sustainable avenues for Africa to claw its way out of the current COVID-induced trough.

By Manuel Moses

Chief Executive Officer

African Trade Insurance Agency (ATI)

MANUEL MOSES' PROFILE

With over 25 years experience in finance, banking, insurance, and investment at the international level, Manuel joined ATI from the IFC where served for 15 years, culminating as Country Manager for East Africa. He was responsible for IFC's activities in the sub-region and managed a large and strong team of 150. Manuel has also held Senior-level positions at Eastern and Southern African Trade and Development Bank (TDB), the Commercial Bank of Zimbabwe, and the Zimbabwe Development Bank. He holds an MBA in Finance from the University of Leicester in the UK and a BSc in Civil Engineering from the University of Zimbabwe. He is also an associate member of the UK Chartered Institute of Management Accountants.



Before the COVID-19 pandemic forced developed and developing nations alike to shut their economies down, African Development Bank (AfDB), Brookings, World Bank, and mainstream outlets demonstrated that Africa had outperformed the rest of the world economically. Between 2010 and 2020, Africa's trade relations had grown by 300 percent, juxtaposed with global average growth of 196 percent.

With more than 17 percent of the global population, urbanization trends suggested that 17 African cities would host more than 5 million people each over the next decade or so, becoming economic powerhouses. Abidjan, Addis Ababa, Alexandria, Antananarivo, Bamako, Cairo, Dakar, Ibadan, Johannesburg, Lagos, Luanda, Kano, Khartoum, Kinshasa, Nairobi, Ouagadougou, and Yaounde shall each be home to more than 5 million inhabitants by 2030. The region had also embraced pan-African aspirations inherent to African Union's **Agenda 2063**, and to an extent, was making progress on targets set by the UN's Sustainable Development Goals (SDGs).

In 2000, when *The Economist* termed Africa 'the hopeless continent,' the region attracted about 1 percent of global foreign direct investment, relying on official development assistance (ODA) as its primary source of foreign capital.

African nations, then, recognized that any effort to bring investors and traders to African markets needed to account for the reality that the region was deemed riskier than other parts of the world.

ATI was founded to avail trade credit guarantees & political risk insurance; to mollify real & mostly perception fears of those that sold, bought, or invested in Africa.

Given that risk mitigation tools worth trillions of U.S. dollars are infused annually to lubricate global business, it is remarkable that the ‘risky’ moniker is mostly attached to Africa. However, as evidenced by ever-growing activity, a specialized vehicle like ATI is an invaluable player in providing the sort of risk mitigation tools that shall further facilitate trade and investment in Africa.

By 2021, ATI had been Africa’s premium trade and investment risk guarantor for two decades, with over US\$ 71 billion in aggregate business coverage since inception. Over the past twenty years, ATI has emulated the region’s growth trajectory. As evidence of on-going reforms, our profits, claims-made-good, recoveries, and finances are now better-aligned with global norms. ATI’s portfolio also reflects a diversity of quality products, policy holders, stakeholders, shareholders, and collaborators. With a unique vantage point of dampening the fires of risk for trade and investors entering every African country, ATI sees the region as rife with entrepreneurs and home to inelastic demand for trade and investment facilitation products and services.

Reform & Progress to a More Predictable Investment-Friendly Environment

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Since the 1960s/1970s when they pivoted to export-led growth & development, African countries have worked to reform their economies and establish a more investment friendly environment.

Recognizing that Africa’s total factor productivity lagged other developing markets, governments sought to introduce reforms to address over reliance on primary products whose prices remain unpredictable. For instance, some African nations liberalized their economies; opening themselves up in anticipation of exponential trade and foreign direct investment.

Unfortunately, Africa's debilitating challenges, including inadequate road networks and unreliable energy infrastructure, curtailed the impact of reform in terms of significant amounts of foreign capital and international trade.

Additionally, *inadequate regulatory frameworks* and corruption—exacerbated by soft and hard infrastructure issues—often mean that manufacturing in Africa, when juxtaposed with Asia or Latin America, is uncompetitive.

However, starting in the 1990s, developing countries coalesced around broad reform principles that prioritized liberal economic reforms and introduced consequential reforms.

As we elaborate in the next section, reforms included

- (i) **GDP Diversification;**
- (ii) **International Trade Diversification,** and
- (iii) **Fiscal Diversification.**

ONE: *GDP Diversification*

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According to the AfDB's *African Economic Outlook 2022*, African nations introduced a host of reconfigured global mechanisms to shore up the continent's post-COVID environment. Amongst other reforms, emphasis went to mitigating against the effects of climate change, enhancing the efficiency of debt-financed public investment, mobilization of the sort of domestic resources needed to enhance fiscal spaces for investment in poverty-reducing sectors, and in improving efficiency of debt-financed public investment.

Notably, other reports indicated that countries like Ghana, Mali, Rwanda, Tunisia, and Senegal had also introduced reforms to diversify their respective gross domestic product (GDP) and therefore expand each of their economic sectors beyond traditional ones. For instance, these nations diversified international trade away from cash crops, opened up fiscal spaces, and revenue sources.

Given that American, British, Chinese and Emirati pension/investment funds, and development financial institutions have an increased appetite for African infrastructure, Africa could benefit from infrastructure models that further diversify regional GDP, and in the same vein, propel human development and poverty reduction efforts forward. Some models include the design of (a) dynamically evolving value chains; (b) integrated regional corridors, and (c) functional urban-rural agglomerations.

ATI's Interventions

In response to demand for new infrastructure models, ATI partnered with KfW/German Government to introduce the Regional Liquidity Support Facility (RLSF), a short-term liquidity support program that gives independent power producers (IPPs) a set of risk mitigation solutions and headroom to operate African ventures for an extended period should a government off-taker default on payments.

The RLSF initiative was bolstered further when the Norwegian Agency for Development Cooperation (NORAD) availed ATI a grant to facilitate the mobilization of private investment in sustainable development goal (SDG7)-compliant renewable energy projects.

Relatively, African governments have, since the turn of the 21st century, invested in regulatory frameworks for the consumption of information technology. For instance, following the liberalization of Ethiopia's telecom sector, ATI issued the Sumitomo Corporation with a 10-year investment risk insurance cover on its capital infusion into the deal between Ethiopia Telecom and Safaricom. This was part of the on-going strategic collaboration with the Nippon Export and Investment Insurance (NEXI)– Japan's export credit agency. Here, ATI underwrote a significant investment in the region's information technology sector; one of the largest Japan has, thus far, made in Africa.

With increasing links between ICT, economic resilience and growth, more African nations shall increase ICT expenditure to reduce the number of Africans who live more than 50 kilometers from fiber networks and cable broadband, and reap from the fact that digital innovations can boost agricultural productivity.

TWO: *International Trade Diversification*

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While Africa lags other regions in export diversification—even sliding backward to traditional products between 1998 and 2009—the role that international trade diversification plays in the region’s growth and development agenda is not up for debate. With key priorities around competitiveness, productivity, value addition & beneficiation, as well as industrialization, the African Union’s *Agenda 2063* has emphasized the need for reform by championing facets such as the African Continental Free Area (AfCFTA), and the Boosting Intra-African Trade (BIAT) program.

ATI’s Interventions

ATI continues to respond to pan-African visions with innovative products. Starting in 2004, ATI’s credit insurance policies facilitated Kenyan flower growers in diversifying export markets to Europe and Australia.

By early 2019, ATI was supporting trade & investment diversification to the tune of 2 percent of annual GDP flow into member countries.

In this period, the organization’s exposure was at an estimated US\$4.7 billion, growing to over US\$ 6.6 billion in 2021. These dramatic increases are, in part, pegged to innovative and strategic diversification deals: in many cases marking a first for Africa

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Equally, African nations have continued to diversify economic relations from developed to developing nations like China and India. By 2021, the value of trade between Africa and China was over US\$ 250 billion. Then, on top of the US\$ 160 billion Chinese state financiers lent to Africa from 2000 to 2020, annual FDI flows from China to Africa surged from US\$ 75 million in 2003 to US\$ 4.2 billion in 2020; with a cumulative value of over US\$ 148 billion as at 2021.

Similarly, bilateral trade between Africa and India jumped from US\$ 5.3 billion to US\$ 70 billion between 2013 and 2020, with most Indian capital going into agriculture, healthcare, pharmaceuticals, textiles, automobiles, technology, and financial services. Demonstrably, in a bid to further facilitate the trade and investment partnership between India and Africa, India's Ministry of Finance, represented by Export Credit Guarantee Corporation of India (ECGC), took an equity stake in ATI.

THREE: *Fiscal Diversification*

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Because hydrocarbons/minerals are subject to severe fluctuations, Africa's mostly-commodity-dependent countries have no choice but to aim for fiscal stability and additional revenue. But without fiscal diversification, African countries may continue to face the severe and debilitating challenges of budgetary and balance-of-payment deficits.

Therefore, Africa must make even further progress and go beyond short-term interventions such as withdrawing resources from sovereign wealth funds, seeking other external sources from whom to borrow, and scaling up domestic resource mobilization.

Alongside local savings and FDI, the most viable and most sustainable avenues to diversify long-term tax and foreign exchange sources rests in capitalizing on public-private partnerships.

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Here, ATI further facilitated fiscal diversification in member countries like Benin, Burundi, Democratic Republic of Congo, Malawi, Togo, Uganda, and Zambia by deploying de-risking and co-guarantee programs. Demonstrating its suitability as a partner for long-term funding, ATI availed the Central Bank of the Democratic Republic of Congo with tools to deploy a credit risk guarantee facility. This product—the first of its kind in Africa—allowed the country’s commercial banks receive upwards of 50 percent in capital relief and more liquidity to lend if they leveraged the credit risk guarantee facility for their transactions.

More recently, ATI promoted reforms around the re-profiling of African debt to reduce the negative impact of COVID-19.

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Seminally, Africa’s reforms have, ostensibly, had a direct impact on the start-up scene for global private capital, specifically venture capital. Resources in Africa’s venture capital sector exploded from US\$ 400 million in 2014 to almost US\$ 2 billion in 2020. Most money flowed into fintech, utilities, logistics & transportation alongside e-commerce, agribusiness, and healthcare. Indications are that by 2025, venture capital and private equity slated for Africa shall exceed US\$ 10 billion. Venture capital firms like TLcom Capital and Autocheck Africa are doing brisk business in Africa, with private equity firms like Opay and Sequoia from China playing prominent roles.

Thus far, the simple message is that while the floodgates in private equity and venture capital are yet to open, they have more-than-cracked open for African nations.

Illustrations of ATI's Mandate in Action.

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Given that poor quality institutions reduce Africa's chances of hosting FDI by a factor of 70 percent, ATI has leveraged its institutional membership in bodies like the Berne Union to promote FDI by mitigating risk along international principles of export credit financing, and financial structures. After all, if China could attract copious amounts of FDI by relying on up to 10 percent of the world's political risk insurance policies, then Africa can rely on its own institutions to do the same thing.

ATI supplements national institutional capacity-building efforts by directing resources into projects around energy independence, environment, sustainability, and governance (ESG). Some of our timely and innovative interventions in support of economic growth and development include assessing Kenya's **Lake Turkana Wind Project** and infusing strategic resources and financial tools to help turn the project into **Africa's largest single wind farm**. Note that ATI was also at the heart of launching the **100MW Kipeto Wind Power Project**, Kenya's second largest wind project.



ATI is also proud to have supported Ethiopian Airlines' transformation into Africa's most profitable airline. Ethiopian Airlines is also proof that African entities can be just as agile and even more resilient than global competitors in the face of a pandemic that punitively affected global supply chains and distribution networks.



Another shining example of successful intervention is our partnership with Lloyd's of London, and the Eastern & Southern African Trade and Development Bank (TDB) to underwrite the deal to modernize the **Brarudi Bottling Plant** in Burundi. Almost twenty years later, this manufacturer remains one of the country's most prominent companies.



The African Continental Free Trade Area (AfCFTA)

A Brief Comment

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Perhaps, the best way to describe the African Continental Free Trade Area (AfCFTA) is to assuredly say that Africa has triumphed against the odds and emerged as the world's largest free trade area by Member States. Officially launched on January 1, 2021, a fully functional AfCFTA will integrate 1.3 billion people into a trading platform with a gross domestic product of US\$ 3.4 trillion.

Whereas the 2021 iteration of the AfCFTA was only Phase I—prioritizing tariff reduction in goods amongst Member Countries—Phase II will comprehensively cover trade in services, investment, intellectual property rights, and additional components of technical and non-tariff barriers to trade.

Ultimately, AfCFTA facilitates African nations in strengthening & diversifying import + export relationships with each other and allow global investors to infuse resources into supply chains that provide Africa-produced products to the continent's growing population.

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AfCFTA also bequeaths Africa with more ways to collaborate on best practices to increase their share of global business. The ideal scenario is that when the AfCFTA is going at full steam, China and the European Union shall increasingly supply Africa with chemical, rubber, and plastic inputs into the manufacturing sector and with processed foods and textiles for consumption.

European and other advanced regions should benefit from exporting business services, while the African nations will share health, education, air, road, and rail transport services.

ATI is excited about AfCFTA's inherent promise that by 2035, a well-implemented program could allow at least 68 million Africans to step out of poverty and earn more than US\$ 5.50 per day

By then, the projection is that even if agriculture remains the continent's most prominent employer at 25 percent, sectors like wholesale and retail sectors shall employ 21 percent of the continent's population, with public sector services—education, health, utilities, and administration—taking 15 percent.

Relatively, by 2035, Africa's service sectors should generate an additional US\$ 147 billion, while manufacturing and natural resources expect to gain US\$ 56 billion and US\$ 17 billion, respectively.

Intra-African imports will increase by 102 percent, over four times as much as non-AfCFTA imports, to a value of up to US\$ 627 billion in 2035.

Conclusion

Between now and then, ATI's most significant contribution to Africa and AfCFTA shall stem from the reality that the world's financial markets are getting more familiar and more comfortable with their African portfolio. Given that some of our clients already do business with markets that were previously perceived as too risky to do business in, AfCFTA can only escalate and hasten the incremental flows in global capital; allowing ATI to fulfill its mandate by reducing the cost of trade and investment across Africa's borders.

Secondly, in a post-COVID 19 period rife with a significant rise in the cost of debt, an A-rated agency like ATI can have a positive impact in supporting counter-cyclical fiscal and monetary policies to support intra-African trade. As we have effectively done in the immediate past, ATI continues to support member countries in increased government spending on social + economic public goods, tax relief, interest rate cuts and job protection measures.

We also bring down the cost of external borrowing to a minimum via debt consolidation and renegotiation.

Today, ATI no longer focuses on global investors keen to hedge the risk of potential government action or inaction. Instead, opportunity lies in resolving the challenges around the cost of funds and the volume of alternative private capital waiting to do business on the continent. As a result, the pan-African multilateral insurer continues to bridge the gap in proposals between sovereigns + investors and creditors + suppliers.

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Thirdly, as we have done in the past, we shall continue to support efforts to improve national legal and regulatory frameworks. A fully functional AfCFTA shall rely on legislation and regulation that enables the free flow of factors of production.

Lastly, we shall also channel resources into clean energy and ESG related functions. As observed in the information technology space, a competitive regional business environment that can effectively boost the AfCFTA's productivity requires regional players with developmental mandates.

From this perspective, we have demonstrated our capacity to promote equitable foreign direct investment, inculcate institutional quality, and boost intra-African trade. Our subsequent efforts shall support governments in their efforts to energize their respective demographic dividend and vulnerable populations.

About ATI

ATI is a pan-African institution that provides political risk insurance to companies, investors, and lenders interested in doing business in Africa. With deep roots in Africa, we are best positioned to understand and assess the risks here – and to help mitigate them. As a result, we offer robust risk solutions to our clients. Our financial partners have come to rely on our assessments because of our credibility, financial strength, and underwriting capacity.

Our Story

In 2000, a group of African countries, under the leadership of COMESA, commissioned a World Bank-funded study to look into why the region wasn't attracting more Foreign Direct Investments. The results showed political risks to be the main concern of investors. ATI launched one year later to provide risk solutions for investors. We added credit insurance to our product menu in 2006 when member countries identified trade as another important pillar of growth. With additional funding and technical support from the World Bank and later, the African Development Bank, ATI has grown into a market leader for risk mitigation in Africa.

Our Vision

To transform Africa into a prime trade and investment destination.

Our Mission

To turn African Risk into opportunity by providing Insurance and Financial products, in partnership with the private and public sector.

Our Mandate

To facilitate, encourage and develop the provision of, or the support for insurance, including coinsurance and reinsurance, guarantees and other financial instruments and services for the purposes of promoting trade, investment and other productive activities in Africa in supplement to those which may be offered by the private sector, or in cooperation with the private sector.

Our Values

We strive to carry out our business with a customer-first approach combined with integrity, creativity, unity of purpose and an attitude of getting it right the first time.

Contributors: Benjamin Mugisha, Gladys Karuri, Linda Bwakira, Kefa Muga & Dr. Dennis Matanda

Sources: African Development Bank, African Union, Brookings Institution, CIA World Factbook, Heritage Foundation, United Nations Economic Commission for Africa, World Bank Group, and ATI-curated material.

Other Sources: School of Advanced International Studies, Johns Hopkins University, EU, and OPEC.

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