

Making Continental Trade and Digital Connectivity work: The Role of Banks and Allied Financial Institutions

Uganda
(29th JULY 2022)



Introduction



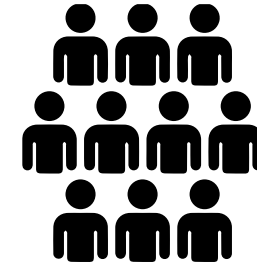
Making Continental Trade and Digital Connectivity work



Africa has a large domestic market that possesses both important challenges and opportunities. With a total population of about **1.3 billion**



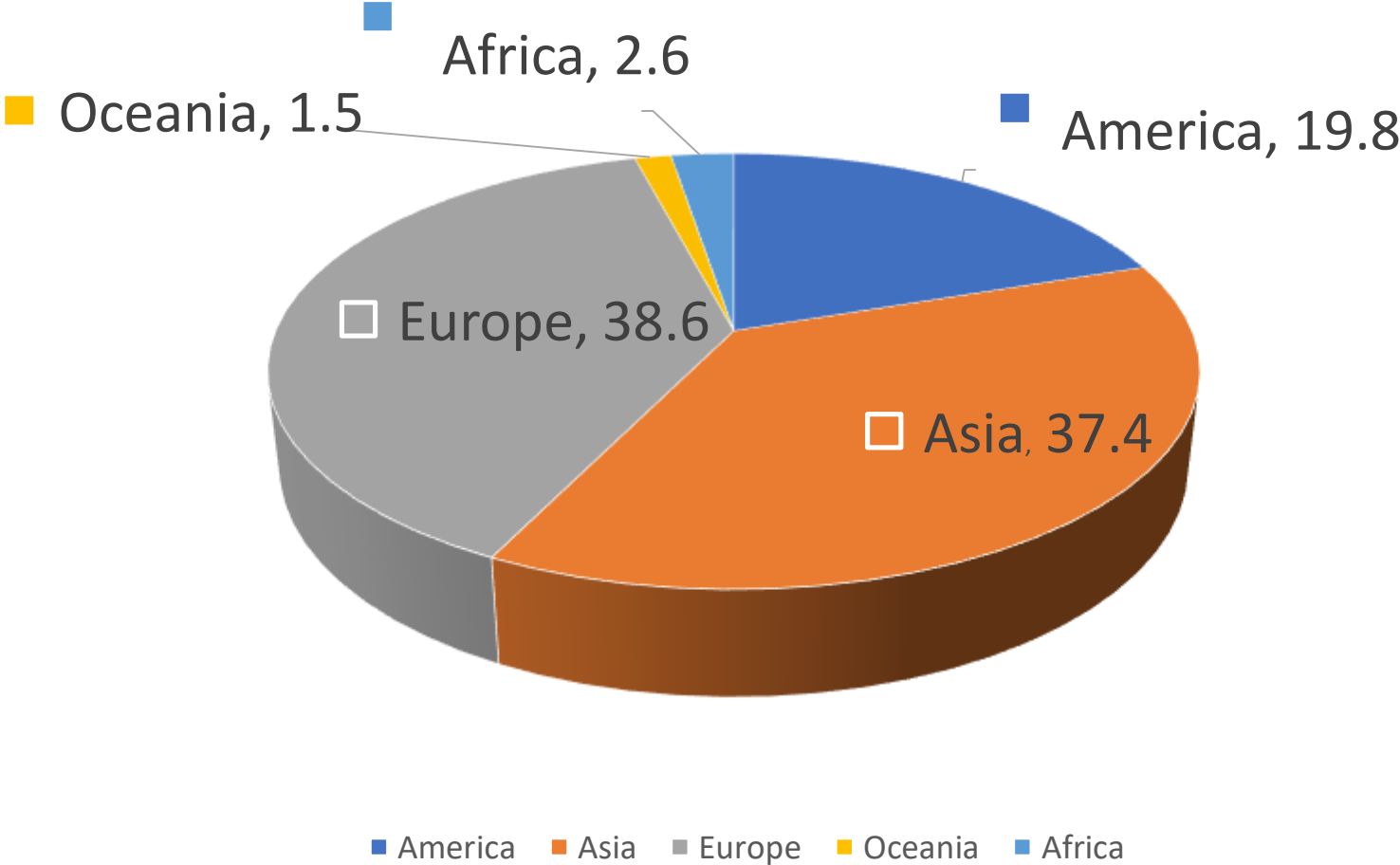
A combined GDP valued at **\$3.4 trillion** in 2020



While Africa accounts for **16.72%** of the world population, its share in the world economy amounts to **3%**

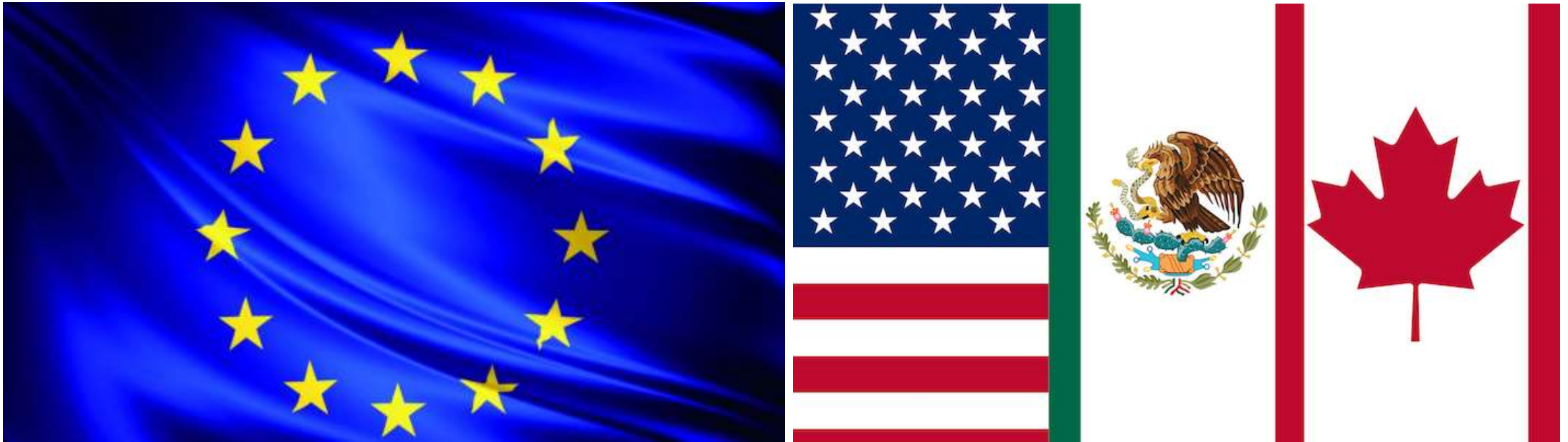
Distribution of world goods and services by Continent (2020)

Source:UNCTAD



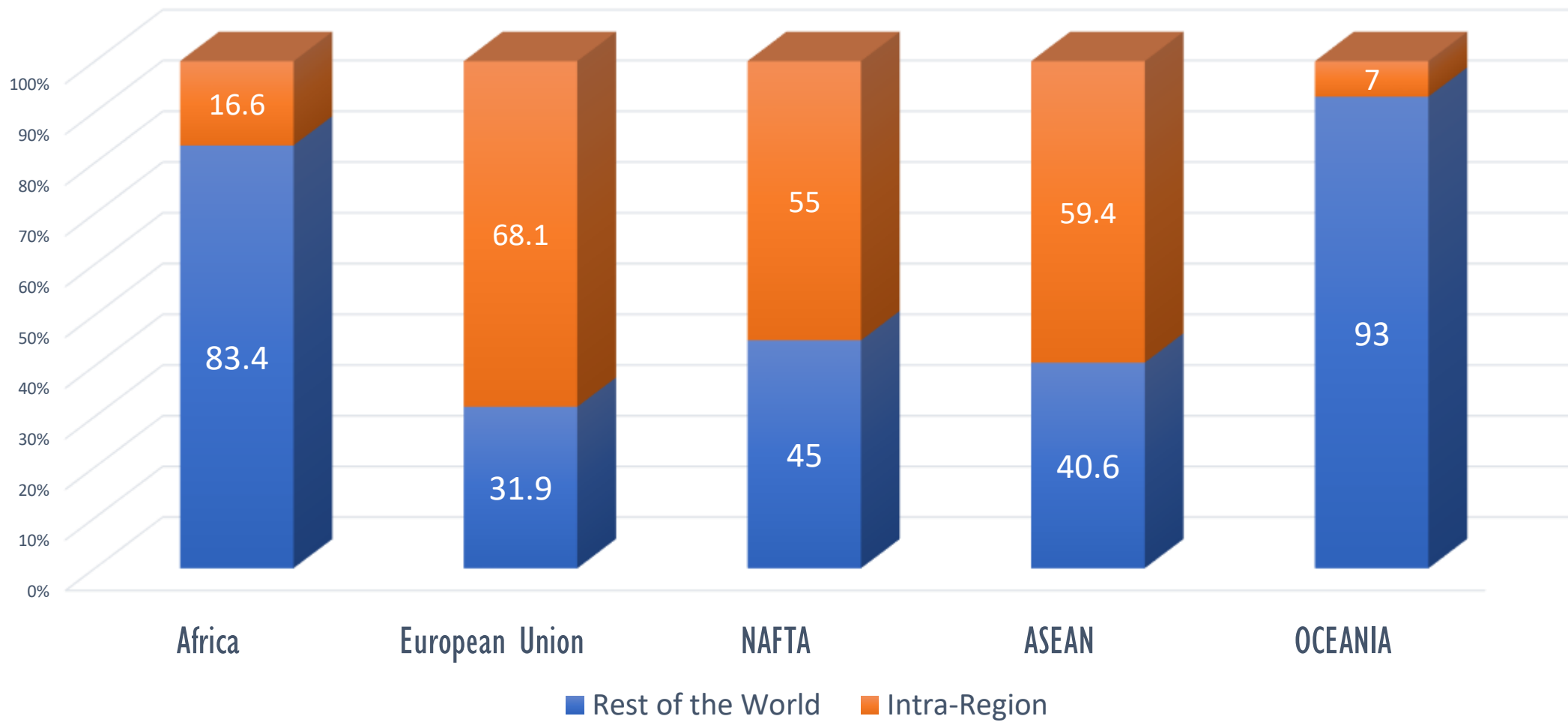
The Role of Banks and Allied Financial Institution

- Intra-African trade of \$129 billion accounts for about 15.4% of the Africa's total goods trade (exports plus imports).
- The intra-regional trade with Africa share is small when compared with European Union and North American Free Trade Agreement (NAFTA) but still higher than that of some other regional trade agreements such as Oceania.
- Over time, intra-Africa trade has improved, Nevertheless, Asia and Europe remain the main trade partners of the continent.



Africa and various Regional Economic Communities (RECs): *Share of intra-REC trade in total (per cent)*

Share of Intra-REC trade in total: Africa and Various RECs.



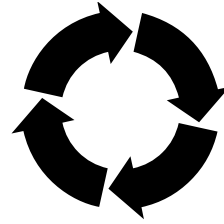
Major participants in Trade



Major Participants in Trade



**Commodity
Producers and
Consumers**



**Commodity
Processors**



**Commodity
Traders**



Logistics Providers
(Customs, Clearing
agents, Transporters)



**Financial
institution**



Investors

Improvements Required Across the African Trade Ecosystem

- Customs and border control reforms/digitization
- Transport Infrastructure improvements
- Financial intermediaries' infrastructure reforms/digitization
 - *Full integration of digital infrastructure across the trade ecosystem*
 - *Risk and exception-based processes, accompanied using process automation, the internet of things (IoT) and artificial intelligence (AI), which will allow trade to shift from being reactive to proactive, delivering the best of both worlds: low cost and speed*

**Interventions by the
African Continental Free Trade Area
(AFCTA) and Pan African Payments and
Settlement (PAPPS)**



What is the role of AfCFTA and PAPSS

The AfCFTA aims at accelerating intra-African trade and boosting Africa's trading position in the global market by strengthening Africa's common voice and policy space in global trade negotiations. It is estimated that the agreement will increase Africa's exports by \$560 billion, mostly in manufacturing. Intra-continental exports would also increase by 81%, while the increase to non-African countries would be 19%.



Creating One African Market



PAPSS
Pan-African Payment
& Settlement System

Objectives of the African Continental Free Trade Area (AFCTA)

- **Create a single market for goods, services, facilitated by movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan African Vision of “An integrated, prosperous and peaceful Africa” enshrined in Agenda 2063;**
- **Create a liberalized market for goods and services through successive rounds of negotiations;**
- **Contribute to the movement of capital and natural resources and facilitate investments building on the initiatives and developments being undertaken by the State Parties and RECs;**
- **Lay the foundation for the establishment of a Continental Customs Union at a later stage;**

Objectives of the African Continental Free Trade Area (AFCTA)

- Promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of the State Parties;
- Enhance the competitiveness of the economies of State Parties within the continent and the global market;
- Promote industrial development through diversification and regional value chain development, agricultural development, and food security;
- Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

Objectives Pan-African Payment and Settlement System (PAPSS)

- The Pan-African Payment and Settlement System (PAPSS) is a real time infrastructure platform that enables the efficient flow of money securely across African borders, minimizing risk and contributing to financial integration across the regions.
- At a time when cross-border trading is high on the Africa Trade agenda, PAPSS is primed to facilitate the expected increased trade volumes in cross-border payments.
- PAPSS works in collaboration with Africa's central banks to provide a payment and settlement service to which commercial banks, payment service providers and FinTechs across the region can connect as 'Participants'.

The Role of Banks and Allied Financial Institutions



Role of Banks and Allied Financial Institutions

- Improve/digitize their internal trade facilitation systems
- Finance, support or facilitate similar infrastructure digitization/improvement projects across the trade value chain
- Facilitate integration of the trade architecture of all players within the trade value chain i.e. importers, exporters, customs control and clearing agencies, transporters.
- I'll go further to say banks should work more closely with Fintech's, including funding some of them to drive innovation in the sector.
- Ensure that the necessary data protection and IT infrastructure security structures around those systems are put in place

Role of Banks and Allied Financial Institutions

- The multilateral funding agents at both global and regional levels have a significant to play in ensuring Africa's success at unlocking its untapped trade and development potential
 - *De-risking the financing of such digitization projects*
 - *Provide funding guarantees to commercial*
 - *Provide long-term funds to commercial banks to enable them on-lend for such projects*
- Tapping into financial services beyond borders;
e.g. what if Africans are now able to tap into credit and other financial services from countries other than the one they live in? This way people have more options beyond where they live and smaller financial services providers can attract pan-African customers without in-country operation.

Single Customs Territory (SCT) by the East African Community(EAC)

(Case in point)



Role of Banks and Allied Financial Institutions

With the establishment of the Single Customs Territory (SCT) there has been a significant increase in efficiency in the clearance and movement of cargo. Some of the benefits that have been derived from the Single Customs Territory (SCT) include:

- All intraregional traded goods among Kenya, Uganda, Rwanda, and Tanzania are cleared under the Single Customs Territory (SCT) scheme.
- Customs officers from one country can be deployed to work in other countries. This flexibility has further eased the clearance of goods, allowing them to move directly from points of dispatch in one partner state to the owner's premises in another partner state without going through further customs checks.
- A single electronic declaration before shipping of goods has been implemented. This has reduced the documentation currently used to release goods to their destination by **80%**.
- Real-time sharing of customs information upon arrival of goods has been implemented

Single Customs Territory (SCT) by the East African Community (EAC)

The role of banks and allied institutions as proposed can go so far and the push for digital connectivity may be our best foot forward. As we try to achieve that, let us not lose sight of the following;



Trade infrastructure investments, especially along major routes



Intra-African trade facilitation and trade corridors



Customs and border management



Logistics and transport services enhancement



Transit and multimodal transport



Port efficiency

THANK YOU

