MOBILISING RESOURCES FOR FINANCING INVESTMENT & TRADE FLOWS BETWEEN AFRICAN AND ARAB COUNTRIES

By
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Executive Summary

- This study on the mobilization of resources for financing investment and trade between Arab countries and Africa will evaluate the current state of funding sources for investment and trade between the two regions as well as the constraints and obstacles which hamper their advancement and development. The study takes into account the risks and guarantees linked to these flows, in addition to the role of the existing institutional framework in their growth.

- Funding investments in the two regions is characterized by an asymmetry: an excess of resources in Arab countries and a growing need for funds in African countries. Current financing systems in both regions (banking system, financial system, sovereign wealth funds, foreign direct investments, official development assistance) are characterized by numerous constraints related to their size, performance, instruments and their relative risk aversion.

- Concerning trade and financing, the following was observed: the dependency of the African continent and the Arab countries towards global markets, the concentration of their production and exports on a limited number of products and the need for diversification in order to increase the resilience of these economies to external shocks. Moreover, trade between both regions suffers from low exchange volumes and lack of diversification of products and partners.

- The world economic and financial crisis has only escalated this situation, leading to a reduction of the volume of trade and generated revenues. These went side by side with the decrease of liquidity of the financial institutions and specialized agencies involved in financing and guaranteeing trade. In addition, the growing risks and uncertainties strongly influenced the capacity and coverage of credit institutions present in both regions. In parallel, the sharp slowdown of documentary trade finance has affected negatively the real economies of both regions, particularly in Africa.
To face the effects of the global financial crisis, especially those impacting Arab and African less affluent countries, the increase of investments and trade is essential. This requires undertaking measures, both globally and regionally, to restore the flow of trade and finance. By providing resources and guarantees, this will also secure loans offered by commercial banks, (to reduce their aversion to commercial financial risk, which remains very low compared to other types of risks). States’ intervention is necessary. It might take place in the context of a dialogue involving simultaneously private operators, bilateral and regional trade finance and investment institutions.

Recommendations concerning trade, investment and institutional aspects are proposed to boost Afro-Arab economic relations and integrate them in a sustainable and interdependent development mechanism, breaking with the conceptual approach of the assistance for development.
Introduction

Investment and trade strategies have become nowadays at the heart of the issue of stimulating growth and creating a sustainable exit from the financial and economic crisis. Following the example of other regions in the world sharing the same historical bonds, common interests, complementarities existing between some of their economic segments as well as their similar positioning in the global economy, Arab and African countries should create synergy between their future strategies. This should take place according to an initiative that should emphasis on partnership and development of solidarity. It should also be based on the assimilation of particular interests of partners and other stakeholders invited to become involved.

The current context in the world is favorable to such an initiative, with the appearance of new economic forces looking at diversifying their partnerships and moving towards new axis for development and regional trade targeting mainly Southern countries. In fact, the appearance of new axis South-South can be highlighted. Some of these axes are characterized by a dynamic flow of trade and FDI between the concerned countries. Although still low, only 6% of the total worldwide circulation of goods and 10% of the flow of services, trade increases rapidly at a rate of 11% per year. 27% of African exports in 2009 target Asia against 29% to USA and 40% to the European Union, considered yet as traditional partners. Today, almost 50% of the trade in Asian developing countries takes place among them\(^1\). Another significant point to be highlighted is the flow of investments either relating to direct investments or portfolios. The examples of new investment contracts concluded between multinationals, banks or Southern governments are increasing significantly. All sectors are concerned. In the first place come infrastructure and mining as well as industrial transformation, agriculture production and financial sector. These exchanges are primarily motivated by business relations and a concern for efficiency and profitability. They are also dictated by political choices founded on a common historical heritage. These choices will create at their turn the necessary conditions for reinforcing the flow of trade and investments.

The Arab and African countries could be part of these dynamics and become a major player, due to their traditional bonds, their potential for growth, wealth, human and financial resources. The more affluent Arab countries are now looking to diversify their portfolios by moving towards regions with promising potential such as Africa. The Continent is becoming more attractive, thanks to the remarkable progress in upgrading the legal and regulatory frameworks, governance, economic liberalization and fiscal and

\(^1\) Source: UNCTAD
financial management modernization. In parallel, it offers real opportunities for growth and guaranteed profits for investment in strategic sectors such as telecommunications, infrastructure, energy, financial markets, tourism and real estate. Other sectors exist and are still under-explored, especially commercial services for business support, micro and mesofinance. An increasing number of African countries try to attract capitals and technology in order to enhance their natural and human resources and to gradually develop their growth poles following the example of the Asian emerging economies.

The objective of this paper is to introduce the elements of strategic reflexion on the opportunities and constraints for promoting development based on solidarity between Arab and African countries and their mutual interests, by intensifying trade flows of goods and services as well as the exchange of capitals. This work, however, is to be considered as an overall framework, as it refers very partially to the undeniable diversity of social and economic realities of countries in both regions. Taking this point into consideration at a later stage is essential in order to better integrate in the process the development levels of countries, their needs, their potentials and stage of growth as well as the type of partnership they offer.

Following this introduction, the paper presents, in broad lines\(^2\), the status of investment finance and its sources in the two regions. The third section of this paper tackles the trade and its sources of funding. On this basis, a synthesis will illustrate the constraints that must be considered by both partners. The final section is devoted to the conclusions and recommendations aiming at boosting trade between the two regions and joining them in a proactive strategy of sustainable and interdependent development.

\(^2\) This is a documentary work, with several limitations; the first one is related to the un-proportionate quality of data and poor analysis of this topic in particular. Available statistics take into account only very partially investment flows between countries in both regions.
II. Financing investments

Financing investments in the two regions is characterized by a certain asymmetry. The Arab countries have a surplus of resources coming mainly from developed economies and at a lesser extent from emerging economies. African countries have an increasing need for capitals. These needs have become more pressing with the global economic and financial crisis, whereby investment projects finance is required to be able to boost countries’ sustainable growth. The needs are more urgent in fragile countries emerging from conflict or facing natural disasters such as Niger, with the risk of increased poverty, which could handicap sustainably the economy of the concerned countries and furthermore negatively impact the regional economic group to which they belong.

Since 2006, there is a positive evolution of the financial flows from Arab countries to Africa. These flows, however, remain concentrated on a limited number of countries. The bulk comes from the three largest economies of the GCC (Saudi Arabia, UAE and Kuwait) and is directed to only ten African countries (Maghreb, South Africa, Angola, Mozambique, Nigeria, Tanzania and Kenya).

The United Arab Emirates (UAE), Saudi Arabia and to a lesser degree Kuwait, remain the main donors of Arab financial resources to the African sectors of infrastructure, tourism, telecommunications, financial services and marginally agriculture and mines. Saudi Arabia has established solely in 2007 partnerships with 9 African countries for a total of 2.15 billion dollars in favor of 31 projects. In exchange, African countries' direct investment in the kingdom represented only 1.2% of 24.3 billion dollars of FDI that has flowed into this country in 2007. Almost 84% of African FDI was invested in services and utilities. The potential remains great in terms of high growth rates (above 5%) recorded between 2005 and 2008 in both regions. This evolution is even more likely foreseen due to the fact that 80% of global growth is expected in the years to come from emerging countries, including African and Arab countries.

Economic growth in the Arab and African countries was strongly impacted by the global financial and economic crisis. The Arab countries have suffered financial losses mainly by their financial markets, relatively well integrated into the global markets, and the declining of the global demand for their exports, essentially energy products and derivatives. Africa, where the growth rate fell below 3 percent in 2009, suffered from the drop of exports and FDI as well as the decrease of migrants’ transfers. This situation

3 South Africa has benefited from the third.
applies on both middle-income and low income countries. The situation was even more serious for some African economies (Egypt, South Africa) who suffered from losses in their financial markets.

2.1 Savings

2.1.1 Public savings

The main bulk of public savings comes from the Arab oil countries. They have important financial surpluses "budgetary" that are mainly placed in sovereign funds (more than 1.5 trillion dollars in 2009) or in sovereign bonds on the international capital markets. These countries also have huge foreign exchange reserves controlled by their respective central banks. In 2008, these reserves have reached around 600 billion dollars (including the reserves of the Maghreb countries).

Concerning internal balances as the primary source of public savings, most Arab countries (14) showed in 2009 budget deficits. Only 5 have recorded surpluses: Kuwait with a surplus of 27% of GDP, Qatar (12.9%), Libya (10.7%), Oman (3%) and UAE (0.4%), which should limit the increase of the resources of their sovereign wealth funds. In terms of external balances, most Arab countries have experienced in 2009, current account deficits. Due to the crisis and fall of prices and volumes of their main exports, the eight countries that have recorded surpluses, saw the balance of their current accounts decline substantially in comparison with 2008. The most significant decreases concerned UAE (decrease by 72.8% of its surplus), Libya (22.6%), Saudi Arabia (22.3%) and Algeria (19.9%).

With few exceptions (the oil and mining countries), the African continent is characterized by inadequate public savings due to global development and objectives issues that its countries are trying to reach (whether regarding the objectives of the Millennium for development or the improvement of the infrastructure to make their economies more attractive). This inadequacy is in place although African countries have large potentials of natural resources that could play a major role in boosting growth and its pursuit. The Continent’s reserves of foreign exchange reached 560 billion dollars in 2008. They are largely dominated by the reserves of North Africa countries (300 billion dollars), Nigeria (72 billion), South Africa (33 billion) and Angola (25 billion).

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4 Source: UNDP
5 Source: UNDP
2.1.2 Resident Private Savings

Same as the Arab public savings, the private (households and enterprises) remain important and generate excess liquidity in banking markets. This surplus of private savings has three main sources: (i) the generally high level of GDP per capita and the low or even absent tax burden on household incomes and enterprises’ revenues, (ii) large public surpluses that predispose these countries towards often expansionary government policies and (iii) the relative weak adaptation capacity of the financial and productive systems in these countries. Private savings in Africa are not to be overlooked. They still remain undefined due to the low level of banked population. The importance of these savings can be measured during the issuance of treasury bonds. Thus, in Cape Verde, the government has issued treasury bonds to encourage private savings to remain within the financial system. The Kenyan government has issued bonds for infrastructure projects amounting to 232.6 million dollars. The demand for subscription has exceeded by far the offer, which proves the existence of idle savings, often little or not at all banked.

2.1.3 Non-resident Private Savings

Non-resident private savings are the financial balances owned by Arab and African citizens residing outside these two regions. Even if these citizens’ normal destinations remains their home countries to where they repatriate their savings, it is possible, if the conditions of attractiveness, safety and profitability are met, that these holders place important sums in the financing of investments in both regions and especially in the African continent. Thus, formal transfers made by Africans living abroad reached nearly 60 billion dollars in 2009. The non-African Arab countries are rather exporters of funds, except for Lebanon (5.7 billion dollars), Jordan (3.4 billion), Yemen (1.3 billion) and Syria (0.8 billion) that are recipients, similarly to North African Arab countries who receive important funds transferred by their emigrants (21 billion dollars in 2009). Instruments such as bonds for diasporas that India and Indonesia have successfully tested or mutual funds (UCITS)\(^6\) could be implemented in Africa.

This could enable Africa, having great financing needs, to position itself in the international money markets as an alternative placement location for the surplus savings coming from Arab countries. This is subject to the Continent’s improvement and/or implementation of favorable conditions of attractiveness and profitability. Some African

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\(^6\) Collective investment securities UCITS
countries have funded successful counter-cyclical spending by issuing treasury bills and short term bonds (less than 5 years).

2.2 The banking market

Overall, the banking market is more developed in the Arab countries in comparison to Africa (with the noticeable exception of South Africa and to a lesser degree Egypt). Banks play a much more active and effective role in financing agents in need of funding, especially enterprises. In 2009, the financial crisis has reduced banks’ liquidity and credit capacity as well as those of financial institutions. This situation has prompted Arab governments to adopt expansionary monetary policies in order to restore banks’ credit portfolio and boost investments’ growth, reducing considerably the basic interest rate, ceiling and ratios of obligatory reserves.

In Africa, with the exception of few countries (South Africa, Mauritius, Tunisia and Morocco) banks are far less dynamic and suffer from the lack of long-term resources, low savings rate as well as small percentage of banking services penetration, sometimes exacerbated by outdated equipment and cumbersome banking procedures. Moreover, the crisis and its impact on liquidity have leaded to the drastic reduction of banks’ resources, threatening their ability to finance investments and provide consumer loans.

In South Africa, where the banking sector is more developed and has the highest capitals in the continent, the financial crisis has driven down the prices of financial assets and considerably reduced banking liquidity. This has led to a reduction in lending to enterprises and households, and a rise in the cost of investment. From May 2008 to March 2009, the Rand depreciated by 23% against the U.S. dollar. Combined with lower global demand for commodities, the impact on financing of household consumption, retail and foreign trade has been extremely negative.

2.3 The financial market

African financial markets are still mostly small markets and poorly developed. Market capitalization and new IPOs remain low with the exception of Johannesburg and Cairo Stock Exchange, and to a lesser degree Casablanca Stock Exchange. Most non-African Arab Stock Exchanges are modernized, as proven by the partnerships between Abu Dhabi and Doha’s baskets and NYSE Euronext or the alliance between Dubai stock exchange and Nasdaq OMX. However, they remain limited with a relatively low cumulative number of listed companies compared with Asian or Latin American stock exchanges. In addition, more than half of market capitalization concern companies operating in the field of real estate and finance and a quarter in the telecommunication
sector. Although being extremely dynamic, the Arab stock exchanges, especially in Saudi Arabia, Dubai, Qatar and Kuwait remain exposed to the fluctuation of rates. This is due to the listing of important number of foreign firms, including banks and financial institutions, leading to the phenomenon of hot money which is quite common, especially in real estate sector, and also due to the role of private investment funds and secondarily SWFs. All these factors exacerbate the volatility of financial markets.

2.3.1 The stock market

The Arab stock markets have made significant losses in 2008 and were the main channels of transmission of the global financial crisis to the region. These losses have considerably reduced the operators’ ability to interfere on these stock exchanges, and on external financial markets, particularly in Africa. The composite index of the Arab Monetary Fund, which measures the stock performance of 15 Arab financial markets has declined in 2008 by almost 50% to reach 166.2 points. The index, however, has recorded an increase of 18.1% in 2009 to reach 196.3 points despite the crisis of Dubai’s sovereign debt that has weighed heavily on the performance of the GCC stock exchanges. In this regard, the overall capitalization of Arab Stock Exchanges reached 903 billion dollars in 2009 against only 769 billion at end of 2008. The number of companies listed on the 15 stock exchanges has declined in 2009 from 1542 to 1495 in 2009. The African stock markets did not bear the effects of the crisis, both because of their small size, low capitalization and their disconnection from the global financial markets. The most affected stock exchanges were those in Johannesburg, Lagos and Cairo, because of their openness.

The private equity funds are the first non-public investors in Africa. Africa attracts these funds as much as Latin America (7% and 8% respectively), but much less than Southern and Eastern Asia (58%). The private equity funds focused in Africa during 2009 on the sectors of banks, telecommunications, energy, infrastructure, agriculture and ICT. It should be noted that West and Central Africa are less attractive to funds mainly due to legislative constraints relatively than to the attractiveness of their markets. There is one example that deserves partners’ attention: the U.S. Emerging Capital Partners (ECP) holds a consolidated portfolio of securities of 1.7 billion dollars (2009) on the whole level of the continent. Operations such as the acquisition in 2009 by ECP of sovereign shares in two companies working in the field of building materials in North Africa (12.4 million dollars in Morocco and 13.8 million dollars in Algeria) opens the way for African or Arab originated funds, as long as incentive frameworks and accompanying measures are implemented by the concerned authorities. The South African market remains the most dynamic in this type of fund and does not seem to have suffered from the financial crisis.

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7 Source: DHAMAN
Among the most prominent operations in 2010, the Agri-Life Fund which targets the agriculture sectors. This fund has raised 100 million dollars to finance its operations. Among these, can be mentioned the investment of nearly 7 million dollars in an African company with a regional presence, New Forests Company, operating in Uganda, Tanzania, Rwanda and Mozambique.

Concerning the operations of Arab Private Equity funds in the African continent, they are still timid and mainly focus on some North African stock exchanges. An example worth underlining is Egypt's Citadel organizing a round table to raise 400 million dollars to invest in Kenya, Uganda and Tanzania. This follows the establishment of the fund of 500 million dollars by Citadel in 2009 and which mainly targeted North Africa and Middle East. Kingdom Zephyr Fund, set up jointly by the New York-based capital investment Zephyr Management and Saudi Prince Al Waleed Bin Talal, has raised 500 million dollars to finance the fund Pan-African Investment Partners II, whose business plan comprises ten investment projects in various sectors and that primarily targets African regional enterprises. The fund complements the Pan-African Investment Partners I, launched in 2003 with 123 million dollars. The latter have about five investments, out of which two have already generated a profit equal to three times the invested capital. These results are a convincing indicator of the potential profitability of investment projects in Africa. Such operations reveal the great potential that it could generate with the proper incentives in place.

2.3.2 The bonds market

In Africa, the bonds market is still embryonic. With the exception of South Africa and Egypt, the bonds market remains in the rest of the countries, when it exists, of primary type (very few titles are renegotiated on the secondary market). It is essentially a market of subscribers, primarily open for institutional investors and on a limited scale to the general public. As for the Arab countries, the bonds market is a dynamic segment of the financial markets there.

However, the shortage of liquidity in the international financial markets has affected both corporate and government bonds. For the latter, issuance was met in many African countries with investors’ disaffection. Bonds issued by the South African government have resulted in a big slump. Others have been entirely canceled, such as the case of Ghana Telecom bonds amounting to 300 million U.S. dollars. Other bonds have been deferred such as those concerning the issuance of Eurobonds by Kenya, Nigeria, Uganda and Tanzania. These difficulties in mobilizing long-term resources have caused costly delays in the implementation of the planned public infrastructure programs. Thus,
establishing cooperation frameworks and privileged partnership between African and Arab countries would be of great benefit for both parties.

The development of this segment dictates, as a first action on the two markets, the release of quotes of sovereign bonds issued by governments and corporate bonds issued by major public enterprises (Sonatrach in Algeria or Cherifian Office for Phosphates in Morocco) and/or private companies on regional and international levels (SABMiller in South Africa or Orascom in Egypt). The respective legislations to control exchange, the nationality of shareholders and the transfer of generated revenues should be revised accordingly.

2.4 Foreign direct investments (FDI)

Foreign Direct Investments (FDIs) are in particular generated by private companies. They generally operate under four formulas: new investments, mergers and acquisitions, partial or total acquisition of privatized companies and majority or minority partnerships.

Regional or international companies originated from the South have become today a tangible reality in the context of international economic relations. If the number of these Southern multinationals were only 19 in 1990, it has reached sixty in 2006. Not less than 80% of these multinationals are Asian or Latin American, mainly coming from the diasporas. For the time being, their scope of work is mainly limited to their regions of origin, but many of them tend to successfully expand their scope of activities.

The African continent has today fifty companies that are global or aspire to reach this dimension. In Arab countries, 2008 figures indicate the existence of 486 companies and subsidiaries of companies that could be considered as multinationals.

Between 2001 and 2008, 30% of cross-border mergers and acquisitions by Southern multinationals in Africa have affected South Africa, 28% Egypt and 11% Nigeria, which represent the three largest recipients of these flows. China (33%), UAE (21%) and Kuwait (10%) were the major investors during the same period.

The below charts provide an overview of the evolution of FDIs (net flows) received over the past decade by the Arab and African countries.

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8 FDIs are generally defined as the contribution of a foreign resident enterprise in the capital of a local enterprise by 10% or more of its capital, or the acquisition of the voting rights if it concerns a stock company.

9 Source: UNCTAD
FDIs received by Arab countries (net flows) in billions of current dollars

FDIs received by African countries (net flows) in billions of current dollars

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10 Elaborated on the basis of data from the World Bank – World Development Indicators (WIB) & Global Development Finance. Arab countries considered in this graph are 12 and don’t include countries belonging to the African continent (Saudi Arabia, Bahrain, UAE, Irak, Jordan, Koweit, Lebanon, Oman, Qatar, Syria, Gaza, West bank, Yemen).

11 Source: idem
Similarly to Arab countries, the relative weight of African countries remains marginal in global flows. Although growing, it does not exceed 3% of worldwide flows recorded in 2008 (less than 2% in 2008 in Arab countries).

Arab countries, especially those of the Gulf Cooperation Council (GCC), aspire to a larger economic integration firstly between themselves, then with the States of the Arab League and on a larger scale with the members of the Organization of the Islamic Conference (OIC). This desire for more integration has forged the way for the conclusion of many free trade agreements (such as the Arab Free Trade-AFTA) aiming to facilitate the movement of capitals and goods between these regions. African OIC members could further benefit from the investments and trade conducted within the organization.

**The most active Southern enterprises in mergers and acquisitions by country and by source**\(^{12}\)\(^{13}\)(1990-2007)

<table>
<thead>
<tr>
<th>Country of Origine</th>
<th>Contracts’ amounts (in billion of US dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapour</td>
<td>35.8</td>
</tr>
<tr>
<td>China</td>
<td>18.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>12.7</td>
</tr>
<tr>
<td>South Africa</td>
<td>11.6</td>
</tr>
<tr>
<td>United Arab Emirats</td>
<td>7.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.7</td>
</tr>
<tr>
<td>Chili</td>
<td>6.1</td>
</tr>
<tr>
<td>India</td>
<td>4.7</td>
</tr>
<tr>
<td>Qatar</td>
<td>4.7</td>
</tr>
</tbody>
</table>

The crisis has reduced the Arab FDIs\(^{13}\), both between themselves and to the rest of the world. Intra-Arab FDIs decreased by 7% in 2009 (19.2 billion dollars against 20.7 billion in 2008). FDIs in the region decreased by 15.1% (from 95 billion dollars in 2008 to 80.7 billion in 2009). In 2008, Arab FDIs targeting the rest of the world dropped by 23.3%, thus reaching 39.7 billion dollars against 51.8 billion in 2007. The main Arab

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\(^{12}\) Source : OECD

\(^{13}\) In this paragraph, Arab African countries have been included in the calculations.
countries investing abroad are the UAE with 15.8 billion dollars in FDI (40% of total Arab FDIs), Kuwait with 8.5 billion, Libya with 5.9 billion and Qatar with 2.4 billion\(^{14}\).

In infrastructure, DP World of UAE has invested 709 million dollars in the renovation of Dakar Port (Senegal) and the construction of a terminal for containers. In 2007, in the tourism sector, Istithmar (UAE) has acquired the management and exploitation rights of the waterfront of Cape Town in South Africa for 1 billion dollars and 8 resorts in Rwanda for an amount of 230 million dollars, a business center in Tanzania and real estate and touristic projects in Maghreb. In the mining sector, Dubai has acquired the exploitation rights of an alumina factory in Guinea for 200 million dollars; and ALBA in Bahrain has invested in bauxite mines. In the telecommunications sector, Kuwait has re-bought the African Celtel, which operates in 16 African countries. It has developed it under the brand of Zein and plans to resell it to the Indian Bharti for 8.4 billion dollars. Consequently, the infrastructure that the new buyer plans to expand with additional investments will continue to bring benefits to the continent. Moubadala (Kuwait) took over Zanzibar Telecom and Etisalat (UAE) has invested 2.8 billion dollars to acquire the third Egyptian mobile phone license and also launched in 2006 the second fixed telephone network in Sudan. In the agriculture and food sector, the GCC countries will import over 60% of their needs in 2010; other GCC countries follow Saudi Arabia and Kuwait that had bought large areas in Sudan and Egypt seeking to invest in the purchase or concession of lands in the continent. Thus, the UAE intends to acquire around 30,000 acres in Sudan to grow crops to improve their food security. Qatar is considering the establishment of a dairy complex of 4,000 cows in Algeria; and the Abu Dhabi Development Fund is looking forward to acquire over 420,000 hectares all over the continent for the same strategic reasons. Saudi Arabia would consider to heavily invest in Ethiopia where 56% of the land is arable and only 15% is cultivated. To attract more investors in the sector, Ethiopia has decided to abolish all custom duties and taxes on inputs imported by these investors. The Arab countries can also be present to a greater extent, following the example of Taqa Arabia in financing Transgreen, solar highway project to transport electricity from solar sources from the north of the continent to Europe. With the expected Arab economic recovery of 4.5% in 2010, Arab investments in Africa should be consolidated in various sectors.

2.5 Investment Funds

2.5.1 Sovereign wealth funds (SWF)

Total Sovereign Wealth Funds reach today a worldwide stock of financial

\(^{14}\) Source: Dhamana
resources of around 3,000 billion dollars, more than half of which comes from Arab funds. The SWFs are expected to quintuple by 2025. Their cumulated investments increased between 2000 and 2008 from 4 to 130 billion dollars, of which 40% were designated for emerging countries.

Among the most important Arab funds is the Abu Dhabi Investment Authority (UAE), which manages government financial surplus of 875 billion dollars; the Reserve Fund for Future Generation (Kuwait), which manages a portfolio of 213 billion dollars and the Qatar Investment Authority, which owns around 60 billion dollars of financial resources.

In Africa, Libya, Nigeria and Botswana have SWFs of respectively 65, 42 and 5 billion dollars. They are increasingly active in projects in the whole Continent. As for the Algeria fund, reaching 60 billion dollars, it serves only for the moment domestic purposes. Morocco is looking to establish a sovereign fund whose resources will be financed mostly through loans.

The SWFs often invest in mutual funds and sovereign bonds. However, an increasing portion of these funds starts to be invested in the capital of enterprises considered strategic, mainly through the mechanism of cross-border acquisitions. This could represent a significant potential for funding investment projects in Africa. Despite the global crisis, Arab sovereign funds have increased their investments by 16% in 2008 in such operations, reaching an annual total of over 20 billion dollars. This could demonstrate the strategic interest of Arab funds, both to ensure greater profitability and reduce risk of loss, in comparison with riskier investment portfolios that have proven through the crisis their high tendency for loss. These strategic interests can easily go in parallel with those of African countries wishing to emerge as regional economic power.

it is clear that a strategic shift appears to be taking place even though the financial crisis has generated losses for the Arab SWFs between 450 and 600 billion dollars and forced them to reconsider their role in their traditional markets (USA, Europe and Asia), due to the housing crisis, the credit crunch and lack of interest of Western investors for real estate in the Gulf. This shift is geared towards limiting investments to infrastructure projects on the long term in the Arab world and Africa, whose primary beneficiaries are mainly the Maghreb, Egypt and Sudan. The targeted sectors and subsidiaries are diversified: real estate, tourism, finance (banking and insurance), ICT, agriculture, infrastructure and health (hospital infrastructure and pharmaceutical industry). These funds seem to limit their interests in areas with strong potential for growth, out of which Africa. Countries in the two regions could play a major role and serve as bridge. This could be the case of the 2 billion dollars fund for the promotion of Arab small and
medium enterprises (including Arab countries in Africa) whose establishment was decided by the First Economic and Social Summit of the Arab League held in Kuwait in January 2009.

2.5.2 Mutual and Pension Funds

Mutual and pension funds are defined as common funds grouping private funds looking for lucrative opportunities on the short and medium terms. Unlike most of the SWFs belonging to emerging or transitory countries, they mainly come from OECD countries. Regarding the geographical distribution of investment activities, these funds are poorly present in Africa. The share of their total investments in the Continent was only 1% in 2008. As for the Arab and African Mutual funds, they are small and focused on their domestic markets or on their region. This does not allow us now to consider them as viable sources for financing investments in the Continent. However, there are some funds, mainly South Africans that are trying to expand their activities beyond the region.

2.6 The Official Development Assistance (ODA)

Globally, the estimated deficit of the ODA funding is at much higher levels compared to the sums that were promised by the Gleneagles Summit in 2005, during which the developed countries promised to increase their aid to Africa by 25 billion dollars per year until 2010. The Continent needs at least the double of this amount to be hopefully able to maintain the economic growth rates at their levels before the crisis. In this context, new initiatives of official assistance are necessary in order to mobilize additional resources and help the continent to face the deficit of resources generated by the crisis.

**Share of donations in gross aid disbursed to Africa in 2000 and 2008 (percentage per donor)**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAC countries</td>
<td>91.4</td>
<td>91.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>20.0</td>
<td>68.6</td>
</tr>
<tr>
<td>Arab countries</td>
<td>43.9</td>
<td>5.10</td>
</tr>
</tbody>
</table>

Various programs for funding development are in place in Africa and the Arab region under the auspices of bilateral and multilateral financial institutions such as the
African Development Bank or Arab Bank for Economic Development in Africa (BADEA) for the African continent and Arab Fund for Economic and Social Development (AFESD) and the Kuwaiti Fund for Arab countries. Many initiatives and technical support facilities are also promised, following the model of the Partnership for funding in Africa, in which are involved bilateral and multilateral development finance institutions (DFIs).

Concerning the Arab ODA, it is channeled to Africa via various institutions such as the Islamic Development Bank (IDB), the Arab Fund for Economic Development in Africa, the Kuwaiti Fund for Arab Economic Development, the OPEC Fund, the Saudi Fund; and on a limited scale via institutions like the ADB. The IDB has recently launched a 10 billion dollars fund, with donations of 1 billion dollars from Saudi Arabia and 300 million dollars from Kuwait to help reduce poverty in 25 African Muslim countries. However, these resources are not part of the approach for strengthening trade flows between the two regions, unlike the aid frequently linked with partners such as India, China, Turkey and South Korea.

The ODA to Africa provided by Arab countries is estimated at 500 million dollars per year during the period 2001-2007. Most of this assistance went to finance infrastructure in sub-Saharan Africa, out of which 50% for transport, 30% for electricity and 15% for water and sanitation. In 2008, Arab aid represented 11% of the total ODA received by the Continent. However, the major beneficiaries remain the Arab African countries: Egypt, Sudan, Morocco and Mauritania (almost 90%).

The Financing Partnership that was launched by the ADB is a good example to follow. Even more, Arab countries could foresee a participation in this partnership, in order to benefit by promoting financial and commercial relations between the two regions. This Partnership is intended to be a collaborative initiative between multilateral institutions interested in the African development, particularly in projects executed by the private sector in the Continent. The Partnership aims to coordinate the interventions of various finance institutions (FDIs) operating in the continent for greater efficiency, to reduce costs and to implement the best practices in managing development projects.

The protocol establishing the Partnership has been signed in 2008 by eight African and non-African FDIs, among them the International Finance Corporation (World Bank Group), DEG (Germany), the European Investment Bank, FMO (Netherlands) and PROPARCO (France) to jointly develop structures for projects’ co-financing and syndication of financial commitments. The two main areas of interest for the Partnership are the harmonization of best practices and the utilization of financial resources pooled by the FDIs in order to raise the necessary private funding for
development projects in Africa. The main targeted sectors are the infrastructure (ICT, transports, electricity, drinking water and sanitation etc.), industrial projects requiring large financing (mining, agribusiness, health and medicine etc.), as well as African financial institutions engaged in financing development, trade, micro-finance and guarantees.

For example, the Partnership has actively collaborated in 2009 in the development of an action plan that has raised around 15 billion dollars to face the impact of the global crisis on African economies. Key initiatives undertaken in the framework of this action plan focused on various instruments such as the Capitalization Fund (BCF), the Global Trade Liquidity Program (GTLP), the Microfinance Fund (MEF), the Guarantee Fund for SMEs in Africa (ASGF), the Emergency Liquidity Facility (ELF), the Consortium for the promotion of investments in infrastructure (ICF), the Euro-African Trust Fund for Infrastructure and the African agriculture fund.

The integration or establishment of similar mechanisms between Arab and African partners would be of great benefit. They would largely contribute in the mobilization of necessary resources to increase investments and trade between the two regions.

2.7 Conclusion

The current status of the resources for financing investments between Africa and the Arab countries is very controversial. Opportunities exist for boosting investments on both public and private levels, but are penalized by the existence of structural constraints affecting the configuration of sources and financial flows that are largely oriented towards developed countries. They also suffer from the lack or even the inadequacy of institutional frameworks for the promotion of cooperation between the two regions aiming at boosting investments.

The rapid and sustainable return on growth in Africa requires a modernization of the financial sectors, a diversification of their instruments and greater openness. Drastic reforms should be undertaken, particularly in Africa, in order to bring these sectors to the level of the approved standards and make them attractive for private savings (resident, non-resident and international) and public savings (sovereign funds and pension funds) by implementing motivating measures regarding profitability and risk coverage. Incentive mechanisms should target financial institutions to move forward in this direction. Successful models can be copied in the two regions, following the example of South African banks such as Standard Bank and Moroccan banks like Attijariwafa and BMCE. The latter has just raised its stake to over 50% in Bank of Africa (BoA) operating in
dozen African countries. Although having fewer resources than large Arab banks, these banks were useful to the countries where they operate, by bringing very successful financial and technical synergies. Their return on investment seems to cover quite well their commitments.

Another example of what can be achieved between the two regions is provided by the private fund Qatari Hassad Food Company. This fund will invest between 500 and 700 million dollars in 2010 in projects to ensure food security in its country. The covered sectors range from the production of grains and red meat in Australia, to sugar and white meat in Brazil, passing by the production of cereals, sugar and livestock feed in Sudan. All these goods can be produced in Africa.

In order to extend this kind of operations in the continent, it is essential to reform the current legal and regulatory frameworks, especially those related to land tenure, and to improve the investment climate by simplifying the codes and procedures to ensure better visibility for potential investors. On multilateral level, Facility Service Investment (ICF) is already helping to create such a climate in Africa, providing support through a public-private partnership, open to both local and foreign operators. ICF acts as a framework for coordination and unique support, comprising multilateral institutions like the ADB and the WB, bilateral structures such as DFID and KFW, multinational corporations (including Southern corporations as SAB Miller) and banks (such as Standard Chartered Bank). This facility deserves the attention of Arab partners.
III Financing trade flows

3.1 Current flows

Overall, the coverage rate of imports by exports in African countries has remained positive until 2008. In 2009, the deficit of the revenue of African’s export reached 250 billion dollars. It is foreseen to reach 277 billion dollars in 2010. The African countries exporting oil have been the most hit, bearing losses amounting to 200 billion dollars in 2009 and 220 billion dollars in 2010. Africa recorded a decrease in its export revenues by nearly 40% in 2009, bringing down the Continent from a global surplus of its current account of 2.7% of the GDP in 2008 to an overall deficit of 4.3% in 2009.

Coverage rate of imports in African countries (in %)\(^{15}\)

The global trade of Arab countries (whose economy only grew by 2.4% in 2009) has suffered similarly from the crisis. The countries exporting commodities saw their revenues from exports dropping by an average exceeding 40%. The almost stagnation of their imports, often un-shrinkable (manufacturing products and food), have severely affected their balance of payments.

\(^{15}\) Source : elaborated on the basis of data extracted from the World Development Indicators (WIB) & Global Development Finance, World Bank.
Thus, the crisis has proved the very strong dependence of African and Arab countries on the worldwide markets, the concentration of their productions and exports on a limited number of goods, and the necessity of diversification in order to increase the resilience of their economies to external shocks. In the same time, the available data underlines the marginal importance of African and Arab countries within the context of the world economy.

**Africa in the world economy** (in %)

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16 Source: idem
17 Source: idem
Arab countries in the world trade\textsuperscript{18} (in %)

African trade in comparison with China\textsuperscript{19}

\textsuperscript{18} Source : idem
\textsuperscript{19} Source : idem
Arab countries trade in comparison with China\textsuperscript{20}

\textsuperscript{20} Source: idem
Similarly to the investments flow, trade flows between African and Arab countries are dominated by few countries only. On the Arab side, the United Arab Emirates (UAE) and Saudi Arabia are well on the top.

On the African side, trade flows are dominated by ten countries. The volume of trade between the GCC and Africa is growing on yearly basis: 0.4 billion dollars in 2000 to 2.1 billion dollars in 2006. The Arab countries, however, continue to record a trade surplus with Africa as well as with the rest of the world.

The UAE and Saudi Arabia, illustrate the nature of trade between Arab and African countries and remain limited on both sides to few countries and products. The volume of trade between UAE and Africa has reached 8.4 billion dollars in 2008 (increase of 120% from 2006), which represents 3.6% of their total trade. Of this amount, less than 1 billion dollars went for non-petroleum products. In 2007, re-exports to the Continent had reached 2.6 billion dollars, representing 7.4 of total re-exports of the UAE. In parallel, their imports from Africa has increased to reach 2.4 billion dollars during the same period (increase of 100% compared to 2006) and represented 2.3% of Emirates total imports. UAE exports are dominated by plastics and derivatives, petroleum products and bitumen. Their re-exports focus mainly on vehicles and spare parts, electrical and telecommunications equipments as well as machinery and mechanical equipments. Their imports from the Continent are essentially minerals, precious stones and fruits. From total exports to Africa (including re-exports) only five countries (Tanzania, Kenya, Nigeria, Angola and Ethiopia) consumed as much as 62%; while 80% of their imports came during the same period from five countries (South Africa, Angola, Tanzania, Ethiopia and Kenya). This demonstrates the need for geographical diversification of trade in both directions.

In second place comes Saudi Arabia that has traded relatively less with Africa. The Kingdom’s trade with the Continent, which amounted in 2008 to over 22 billion dollars, represents only 1.7% of total Saudi trade with the rest of the world. Its exports to the Continent (17.7 billion dollars) represent 2% of its total exports and its imports 0.76% (4.5 billion dollars). 87% of Saudi exports are directed to South Africa and Kenya (respectively 77% and 10%). The kingdom’s imports from Zambia and South Africa are at the same proportion (87%). Saudi trade reaches 75% with SADC and 22% with COMESA.

### 3.2 Commercial Banks

The crisis has rocked the trade finance markets in 2008. The worldwide credit crunch has slowed the trade finance. International banks, suffering from a shortage of
liquidity, reduced commercial credit lines. In addition, the number of commercial banks involved in business financing and refinancing has sharply decreased. Other available instruments of trade finance (confirmed letters of credit ...) remained unutilized because of the increased interest rates and premiums related to credit risk. This shortage has caused the deterioration of international trade finance capacity of some countries, particularly low-income African countries whose exports’ structure is not diversified.

Thus, the crisis has reduced trade as well as funds and trade finance instruments in addition to the decrease of FDI and the drop down of transfers from migrants. Also, international and local commercial banks have become more reluctant in granting or confirming credit lines to finance trade. Commercial risk has increased consequently. In this concern, the sharp slowdown of documentary-based trade finance has negatively affected the real economies of developing countries. Its global deficit is estimated at around 100 to 300 billion dollars per year, out of which 90 billion dollars in Africa only.

### 3.3 Foreign trade finance institutions

World trade finance markets are largely dominated by multinational banks such as Citibank, HSBC and Standard Chartered Bank which are global correspondents for documentary-based trade. In trade between African and Arab countries, the scene is characterized by the dynamism of Bank of Beirut, certainly due to the strong presence in Africa of citizens and enterprises originated from Syria and Lebanon; the Emirati Mashreq bank having strong regional franchises. Finally, new players based in Europe and controlled by Africans such as Medicapital Bank, Ghana International Bank, First Bank and Trust Bank UK have recently emerged. These banks play an increasingly significant role in financing foreign trade operations from and to the continent.

As the crisis was increasing and revenues of commodity-exporting countries was dropping as well as the capitals repatriated by emigrants, commercial banks have recorded a decline in demand for trade finance instruments, particularly the letters credit perceived by operators as expensive and complicated. In this regard, even if the lines of credit remained available in quantity, granting conditions have significantly tightened due to the uncertainties and risks related to the customers’ creditworthiness. Thus, in Kenya the costs of these lines have nearly doubled in 2008 while in Ghana and Senegal they increased by almost 50%. In addition, the deadlines for reimbursement have been greatly shortened from an average of 300 days to 180 days, forcing beneficiary banks to mobilize short working capitals and harden the conditions for granting commercial loans to their customers, while increasing the default risk premiums on certain major markets such as...
Nigeria where the country's banking sector could be facing an increased risk of failure of its customers operating in foreign trade.

The lines of credit opened by the IFC to commercial banks in Africa remain inaccessible to public enterprises, which reduces the overall business activity. In addition, small and young banks are excluded due to the eligibility criteria that naturally look at their balances. To face this difficulty, African financial institutions should create facilities of guarantees or partner with IFC to be able to benefit of its credit lines with less stringent conditions.

The increase of interest rates on the available resources for trade finance and risk premium also excludes a large number of operators from other trade finance instruments because of their small size and fragmentation. From their side, major operators are suffering from scarcity of syndicated financing instruments for exports which they had used before the crisis. This is mainly due to the diminution of available liquidity and the decrease of the number of banks participating in loan syndications. Moreover, the number of non-African banks operating in trade finance has decreased considerably since 2008.

The fall down of the prices of exported commodities by African countries has also led to the decrease of the refinancing option secured by warehouse receipts. Consequently, these assets become less easily fundable due to the increase of required collaterals and risk premiums.

3.4 Trading Partners

If the main part of the trade between Africa and Arab countries still takes place with the developed countries, the share of emerging or developing countries is growing steadily. The volume and value of trade between countries in the same region and between the two regions is increasing. Trade between Africa and developed countries have been multiplied by more than four times during the period from 1995 to 2008, reaching from 138 to 588 billion dollars in 2008. They have also increased by more than eight times with the developing countries, reaching 283 billion dollars in 2008 against only 34 billion in 1995. As for trade between African countries, they went up from 46 billion dollars in 1995 to 115 billion in 2008, thus scoring more than the double over this period. Therefore, the total share of developing countries in global trade in Africa increased from 19.6% to 32.5%. Over the same period, trade with the European Union, for example, (the first trading partner of the continent) has fallen from 55% in the mid 1980s to less than 40% in 2008\textsuperscript{21}.

Among developing countries is China, and on a larger scale the South-east Asian

\textsuperscript{21} Source : UNCTAD
countries which come in the first place, due to the facilities implemented in these countries and the aggressive policy applied by their governments. Thus, trade with China has been multiplied by ten between 2000 and 2008, reaching 93 billion dollars and representing 11% of total African trade with the rest of the world. Other countries such as Brazil (2.6% of the total), Saudi Arabia (2.4%), Turkey (1.9%) and UAE (1.4%) increased their share in trade with Africa and are now considered among the top twenty trading partners with the Continent.

If Africa enjoys a trade surplus with the developed countries, the trade deficit is widening with developing countries, going up from 1 billion dollars in 2000 to 37.2 billion dollars in 2008. This is mainly due to the growth of African imports over its exports, particularly with South Korea, Saudi Arabia and the UAE. Its overall trade, however, still generates positive values, as the realized trade surplus with developed countries in 2008 positively compensates the deficit with the developing countries. With the increased interest in African trade and wealth expressed by the emerging economies, particularly the BRICs, Turkey, Arab countries and those of Latin America, this positive values may deteriorate in the near future. Moreover, the competition, which is already very aggressive between emerging countries regarding raw materials, minerals, agriculture products and African markets, will certainly enhance the usage of trade finance instruments that were becoming unsuccessful with partners in developed countries due to the shortage of liquidity and cheap funding sources eroded by the crisis.

African exports to developing countries remain confined to few countries only. So the top 5 African exporters have achieved 67.5% of the Continent’s total exports in 2010. This proportion climbs up to 89.2% of the total trade volume when we consider the 10 largest African exporters. This proportion remains almost similar to the figures of African exports to developed countries. So even if the overall volume of African exports tends to rise because of the global demand, particularly coming from emerging countries, more efforts are still needed in order to avoid reproducing the same current scenario with developing countries where trade is based almost exclusively on exported commodities and imported manufactured goods. If diversification of products and export destinations cannot be implemented, exports volumes will remain for long monopolized by some major African exporters despite the numerous and diverse opportunities offered by the global trade markets to all countries in the Continent.

The flow of African imports from developing countries is also limited to few countries. In 2008, South Africa represented nearly one quarter (23%) of total African imports from developing countries, while 5 countries (Algeria, Nigeria, Morocco, Egypt and South Africa) occupy 57% of these imports.
Africa’s place in trade with some Arab countries in 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>% of total</th>
<th>% of exports</th>
<th>% of imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Syria</td>
<td>9.10</td>
<td>12.0</td>
<td>6.80</td>
</tr>
<tr>
<td>Lebanon</td>
<td>6.30</td>
<td>15.36</td>
<td>4.34</td>
</tr>
<tr>
<td>Jordan</td>
<td>5.77</td>
<td>6.88</td>
<td>5.25</td>
</tr>
</tbody>
</table>

3.5 The public and parastatal institutions to promote exports

Public and parastatal institutions in emerging countries are often limited to exports promotion agencies and cooperation agencies in countries whose exports represent an increasing share of their GDP. They are sometimes set up to better monitor and execute exporting, following the model of Morocco, South Africa and the Gulf Cooperation Council. They can also take the form of promotional agencies and/or exports guarantee as it is the case in Algeria and Senegal. It is rare nowadays to find a country where such institutions are absent, especially that trade and particularly exports play an increasingly important role in the economic growth.

Governments hold certainly the responsibility of defining the regulatory framework of international trade. But the economic operators, especially those of the private sector, are the one to perform commercial transactions and remain the primary beneficiaries of trade facilitation. Consultations between foreign trade public and private contractors is therefore essential for the analysis of needs and priorities as well as for the development of operational solutions. Also, collaboration between African and Arab foreign trade institutions and operators, currently almost inexistent, can lead to a significant growth of trade flows between the two regions, provided that suitable logistics and facilities are in place.

3.6 Trade promotion programs

Specialized programs and institutions in trade facilitation within and between the two regions are limited. Those existing have been established by states or multilateral

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22 Source : idem
FDIs, rarely by commercial banks or credit institutions. Below is a non-exhaustive presentation of what appears to be the most important and active institutions.

1. Created in 1989 by the Arab Monetary Fund, the Arab Trade Financing Program (ATFP) has funded institutions in charge of trade finance in the Arab countries in order to promote exports and imports between Arab and non-Arab states. With 500 million dollars, the program could have its capital increased to enable it not only to revive the resources dried up by the crisis but also to take this opportunity to increase the trade flows between Arab countries and Africa. Moreover since 2004, the eligibility criteria for the credit lines granted by the ATFP were revised to allow the import of equipments from non-Arab countries. Such a facility could be specifically enhanced in favor of importing more equipments from Africa.

2. The Arab Investment and Export Credit Guarantee Corporation (DHAMAN). Established in 1974, this institution is present in 18 Arab countries. Rated AA by Standard & Poor's for the quality and performance of its portfolio, it aims to encourage and guarantee investment flows intra-Arab and promote exports between member countries and to the rest of the world, by providing operators with mechanisms and instruments to guarantee investments and trade. The corporation provides the necessary protection and liquidity. According to the corporation’s 2009 annual report, the total value of insurance policies on trade and investment conducted by agencies of credit guarantee for Arab and Islamic exports and investments reached 13 billion dollars in 2008. DHAMAN contributed in these transactions by 1.1 billion dollars. The share of guarantees in transactions involving non-Arab African countries has not exceeded 4%. The corporation continues its efforts to create export guarantee agencies in member countries where it does not exist. Particular attention should be given by this institution to Afro-Arab partnership.

3. The Islamic Corporation for the Insurance of Investments and Export Credits (ICIEC), part of the IDB Group. The corporation relies on Islamic finance to promote and offer insurance services to export credits and direct investments conducted by companies, banks and investors, as well as reinsurance services to Export Credit Insurance Company in Dubai (ECIE). The scope of activity the ICIEC covers member countries of IDB. The amounts of its operations with Africa remain marginal and involve only on a very limited scale African non-Arab countries. Its activities are also essentially oriented towards the short-term (75% of its liabilities). This institution could strongly contribute to boosting the financial and trade flows between Arab and African countries, especially African Muslim countries or with important Muslim community. This will probably necessitate the enlargement of its capital and the establishment of a better coordination with the
activities of the Investment Promotion and Technical Assistance Programme (IPTA) of the IDB.

4. The Arab Bank for Economic Development in Africa (BADEA) has established a program to support export and trade promotion in African countries eligible for its operations. It was able, through the African Export-Import Bank (AFREXIMBANK), to establish a funding of 10 million dollars of which 4 have been released. It has also launched a program to finance Arab exports to African member countries amounting to 100 million dollars, of which 75 were given in 1998 to the International Islamic Institute for Financing Foreign Trade (IIIFCE) part of the Islamic Development Bank Group, the rest being used in direct operations. Overall, thanks to its involvement with the IIIFCE and its own operations, BADEA has provided funding for 27 operations in 10 countries for an amount exceeding 148 million dollars, primarily on petroleum and chemical products, including fertilizers. The review of these operations indicates that two countries (Mauritius and Senegal) exploit almost half (48%) of the amounts granted. Available data also show a recent increase in the number and volume of operations, which reveals the catalytic role of the BADEA.

5. The Trade Finance Initiative, with a total of 1 billion dollars, launched by the African Development Bank (ADB) in March 2009 to provide, in a first phase, lines of credit of 500 million dollars to African commercial banks and Development Finance Institutions (DFIs) to enable them to support trade finance operations. These credit lines of 3 to 5 years, called LC-FC will allow the beneficiary institutions to finance operations out of which ordinary operations of import and export, including pre and post shipment financing. Given that the trade finance is effected on the short term (90% of transactions durations are for less than one year), the financing institution will be allowed to "re-use" or "renew" the product according to the dates of credit reimbursement as stipulated by the contract. In addition to these, ADB has launched a "multiple objectives" line of credit that allows borrowers to use the product of this instrument to finance trade as well as long-term projects.

6. The Global Trade Liquidity Program (GTLP) is an initiative launched by the IFC in 2005. It operates as a global platform for trade finance through lines of credit in favor of developing countries. GTLP is one of the suitable solutions for the crisis. It helps to offset some effects of the shortage of funds, by injecting liquidity and sharing risk with commercial banks engaged in the field of trade finance. The ADB has joined hands with these banks in this program as a regional institution. The program aims to mobilize, on behalf of commercial banks, financial resources amounting to 50 billion dollars which will be revolving to finance trade operations over a period of three years. A total of 15

23 Ivory Coast, Gambia, Guinea, Kenya, Mauritius, Senegal, Seychelles, Tanzania, Zambia and Zimbabwe.
billion will go to Africa. The ABD intends to make the second payment of its Trade Finance Initiative (500 million dollars) in addition to the 5 billion dollars promised by the participants in the GTLP and thus become the largest contributor in trade finance in Africa. The Bank’s participation in this instrument will help in increasing the share of GTLP resources in favor of Africa. An equivalent structure or a similar participation of Arab institutions could help provide the necessary comfort to operators and enable them to better exploit business opportunities between the two regions.

7. The Global Trade Finance Program initiated by the IFC provides guarantees to commercial banks in developing countries in order to promote trade. Under this program, which currently includes 30 African countries, IFC is striving to improve credit conditions in order to offer more confirmed lines of credit to African commercial banks which issue instruments for trade finance.

8. The African Trade Insurance Agency (ATI) aims to increase the quantity and quality of its affiliate members, African and non-African. Its objective is to put in place the necessary economies of scale for good coverage of commercial risks. Founded in 2001, ATI is a multilateral financial institution that offers several insurance products to reduce risks and costs associated with doing business in Africa. Its products include insurance of export credits, insurance against political risk and insurance against investment risks. Its capital base and its geographical coverage remains limited. Its cooperation with Arab institutions would allow it to serve as a lever in boosting trade with member countries.

9. The African Export-Import Bank (AFREXIMBANK) is created based on the initiative of the ADB in order to foster a public-private partnership. The objective of AFREXIMBANK is to promote and facilitate commercial transactions and trade between African countries and boost their exports. Its operations are still limited, both in terms of volume and number of covered countries. It provides a potential and promising framework for a public-private partnership. Re-organizing this structure and resolving its governance problems may greatly contribute to strengthening trade flows between the two regions.
3.7 Aid for trade

Launched by the WTO during the Hong Kong Conference in 2005, the initiative did not take long to face its first big test which is the world financial crisis. The initiative aims to assist developing countries, especially LDCs, to build the necessary infrastructure, expertise and engineering to conduct trade negotiations in good conditions, implement the WTO agreements and thus increase their trade. A consensus has emerged since the launch of the initiative. It stipulates the integration of the aid for trade as a fundamental component of the development assistance. Two mechanisms, actually in place, allow putting into operation the aid for trade: The EIF which is the principal mechanism for developing countries to access aid for trade, and the Fund for application of global standards and trade development which completes the initiative through projects and monitoring of aid flows in the beneficiary sectors. The initiative's ultimate goal is to help developing countries increase their exports of goods and services, integrate them into the mainstream of trade and profit from the recent liberalization and markets opening.

Africa is the second largest recipient of aid for trade with a total volume of 9.5 billion dollars in 2007, most of which is allocated to infrastructure projects in sub-Saharan Africa. Flows to Asia are more substantial (10.7 billion dollars). Those toward the Middle East, including Arab countries, were only 1.5 billion dollars. Essential part of these capitals is allocated for the reinforcement of capacity building and technical assistance related to trade.

One of Africa’s major weaknesses lies in the quality and inadequacy of its infrastructures. It is one of the main obstacles to its growth, the increase of its exports and its overall competitiveness. Thus, the main bulk of the aid for trade is directed to the infrastructure sectors. The landlocked countries, for example, where can be found 25% of the population in the Continent, suffer from a competitive disadvantage induced by 50% higher transport cost and 50% less volume than coastal countries positioned at similar level of development. It is therefore vital to direct the aid primarily towards the improvement of road and power networks, ICT platforms and commercial real estate.

Among the 20 largest recipients of aid for trade, there are nine African countries, out of which are Egypt and Morocco and one Middle Eastern Arab country which is Iraq. Donors are mainly from the more developed areas. The main providers of ODA (World Bank, United States, Japan and European Union) in 2007 were the same first four contributors in the initiative. Among the 20 largest donors, there is no Arab countries. In
2008, commitments for the Aid for trade reached 41.7 billion dollars. The review of the initiative showed, among other things, that the implemented funding programs have had a positive impact on trade performance of beneficiary countries. The involvement of Arab countries with higher income in innovative and dedicated mechanisms of this type could help increase the volume and quality of exchanges between the two regions.

3.8 Conclusion

Similarly to the financial flows, trade flows between the two regions are suffering from weak structures of foreign trade. The insufficiency of institutions for promotion and guarantee, instruments and mechanisms of trade finance is an obstacle to their dynamism. Moreover the weight of the two regions in the global trade remains marginal.

To avoid the deterioration of the effects of the global financial crisis on fragile economies, especially those of poor African countries, it appears necessary to undertake global and regional measures to restore the flows of trade finance and secure loans for this purpose by commercial banks. To this end, granting currently additional resources and guaranties is necessary, particularly that the trade finance is considered one of the least risky assets with historical loss rate of less than 0.1% (IFC does not register any loss in trade finance). In this context, the launch of an initiative for dialogue and cooperation between African and Arab institutions, may serve as a catalyst.
IV. Constraints to the development of trade and capital flows

The previous developments made it possible to assess the status of the two partners, Arab and African countries. They highlight their respective positioning in the global economy, their strengths and weaknesses. However, it should be taken into account the flagrant diversity of countries composing these two sets. For instance the Comoros and Niger are not at all in the same situation as Mauritius or South Africa. Yemen can hardly be treated as one of its neighbors, Oman, Saudi Arabia or UAE. Also, this work does not take into consideration informal flows, which cannot certainly be overlooked, particularly in traditionally close areas in the two regions: countries of the Horn of Africa with those of the Arab Red Sea, the Maghreb with West Africa, Egypt or Sudan, with some countries of the COMESA. Little information is available on all these aspects. Yet they can contribute to the strengthening of local flows and hence help reduce poverty, creating a more favorable climate for business.

The primary interest of the exercise conducted so far was to highlight the relative importance of potential business and development in terms of formal flows of capital, goods and services offered by Arab countries and Africa. This exercise has identified a series of structural constraints whose abolishment would help boost trade flows and combine them in a structure of interdependent development.

4.1 Structural constraints

The main constraints, among which some have been previously identified, can be summarized as follows:

- High concentration of trade and capital flows on a limited number of African and Arab countries.
- Strong focus on business segments and sectors with ripple effects considered minor or nil.
- Strong dependence of the majority of African and Arab countries in their export income on primary products or minimally processed.
- Inadequate structures to promote and support investment and trade potentials (equity, coverage, diversity of instruments ...) in the two regions.
- Despite the growing importance of South-South transactions, including Afro-Arab operations, the main flow continues to take place with countries of the North.
- Lack of dynamism in the banking system in Africa reinforced by the absence of long term resources and low levels of banked population.
- Low capitalization of African capital markets and volatility of Arab financial markets.
- High level of informality of African enterprises and SMEs small size which make them ineligible for conventional instruments and mechanisms facilitating investment and trade.
- Low capitalization of African economies, particularly because of their limited entrepreneurial base and the restricted nature of the SME sector. This leads to a low capacity of absorption of new investments outside the heavy sectors (infrastructure, energy, etc.), in which can only intervene large companies.

Due to the weak diversity of their economies, more particularly in the case of African countries, all the factors impacting their costs must be considered in an approach reinforcing sustainable partnership, above all the quality of infrastructure and efficient structures in charge of control and guidance of the production and marketing.

In terms of infrastructure, delays and needs are enormous. Thus, for a sector as sensitive as energy, the ADB estimated the investment needs of more than 29 billion dollars over the next ten years, which exceeds by far the capacity of African countries. This is probably an area where Afro-Arab partnership would be fruitful. As noted earlier, many African countries lack the financial institutions and instruments able to boost and support the development of the sector of small and medium enterprises such as the guarantee institutions, dedicated investment funds, etc… The enterprises support services are insufficient, or even if existing are unable to operate according to market conditions, mainly due to the limited demand. All these elements should be taken into account in a strategy for sustainable development of trade and investment.

4.2 Constraints related to the environment

In addition to the above mentioned elements, three other important constraints, not yet discussed, should be mentioned. They control the flows of investments and their purpose as well as those of goods and services that they might generate. These constraints relate to the general business environment in its economic, social, cultural and political dimension, the image and perception of risk faced by operators as well as regional and international economic relations of the African and Arab countries.

4.2.1 The business environment

Regarding the business environment, we will only study the socio-economic aspect, knowing that the other axes are also of major importance. On the socio-economic level, the work conducted by experts of the World Economic Forum is an interesting reference to be taken into consideration, being based on the notion of competition, and
global competitiveness. Those of the World Bank Group represent also a second reference for comparison, particularly in relation with the conditions and constraints faced by economic operators in their investment projects and their current activities. In fact, they can be expanded beyond the registering procedures of a new company, the conditions for repatriation of profits of foreign companies, participation in the equity capital of a company, to include the procedures and conditions imposed by customs and tax systems. Also, we will use the work often conducted by these institutions in partnership with regional bodies such as the African Development Bank.

In general, as proved by numerous reports and studies, the past decade has made significant progress in establishing a more favorable investment and business environment, in both Africa and Arab countries. This has led to an overall improvement of their economic competitiveness. However, despite the recorded progress, these countries remain by far less competitive.

Concerning Africa, the work undertaken by the Forum in partnership with the ADB shows that the level of development of almost all African countries still depend on basic variables such as the quality of institutions, the level of development of basic infrastructure, macroeconomic stability and the level of health care and primary education. It is interesting to note that only four African countries (including one Arab country, Tunisia) belong to the group of economies that have passed the first stage\textsuperscript{24}; some are in transition between the first and second stages\textsuperscript{25}.

The work of the World Bank confirms this analysis. According to the report "Doing Business 2010", African countries, particularly the Sub-Saharan, are mostly countries where high-impact reforms on growth are still slow or absent. However, countries such as Rwanda, Liberia, Egypt, Mauritius, Botswana, Tunisia and Malawi are now among the most active reformers in the world. Still more efforts remain to be done. Most African countries have limited resources to finance the heavy investments as for example in infrastructure. Such reforms can help them to attract more external resources, particularly from Arab countries seeking new business opportunities.

There is no doubt in the progress realized in Africa over the past two decades

\textsuperscript{24} This means where growth depends on higher level of efficiency and where it is more related to the enhancement of the superior education system, to the efficiency of the goods market and the flexibility of the employment market, the development rate of financial market and the absorption capacity of innovative technologies.

\textsuperscript{25} Like all classifications, the one proposed by the reports on the competitiveness by the World Economic Forum may be debated. However, its primary interest lies in the fact that it demonstrates that efficiency and consequently productivity (which is at the heart of the economic progress and sustainable development) remain a major challenge for almost all African economies.
(which offers many examples of relative success in terms of mobilized resources and objectives achieved, particularly in terms of structural reforms to improve the general efficiency and make their economies more attractive). There is also a convergence of views to highlight the need to further these reforms and in general improve governance, both politically and economically, in order to maintain or realize one more time high growth rates for several decades and to be able to establish a sustainable development without the risk of serious regression that threatens every time the poorest countries in the Continent. The best example is the Arab African country, Tunisia. Enjoying a top ranking among African countries, this is largely due, not to the size or strength of its domestic market which is too narrow, but to the quality and relative effectiveness of its institutional structures, transparency, consistency and clarity of its economic and financial policies and more generally to the overall quality of its economic governance. This is probably the area where the most significant progress should be made by the majority of African countries to lay the basis for a sustainable economic growth. It should be noted that if treated individually, the economies of these countries do not have the necessary resources to establish a sustainable growth and move beyond the stage of extensive dependence on their wealth.

Regarding the Arab countries, the work of the Forum states that they are generally more advanced. The majority is classified in stage 2, some of them are either in transition (such as Oman) or already in the third stage (particularly UAE), which corresponds to the group of countries whose growth depends almost exclusively on innovation and the capacity of the business environment to adjust to changes introduced by the global economy.

The work of the World Bank Group confirms the Arab countries’ top ranking. Overall, the MENA region ranks 92nd in average including countries such as the UAE and Egypt. These two occupied respectively in 2009 the fifth and ninth position among the top ten reforming countries in the world. The MENA region has witnessed reforms related to improving the business-friendly regulations that should accelerate in 2010. Although the region is implementing today reforms at the same rhythm as Eastern Europe and Central Asia, great efforts are still required to generalize, for example, the single counters in all member countries and reduce entry costs for firms, which remain relatively high.

For the 18 Arab members of DHAMAN, the composite index of investment

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Footnote 26: Tunisia probably offers the best success example, that also highlights the challenges to face in order to get over the economic fragility which characterizes countries that are not yet able to diversify their productive base and their partnership and in the same time are unable to rely on a too limited local market.
climate established by this institution\textsuperscript{27} has significantly deteriorated in 2009, going down to 0.70 points against 1.05 points in 2008. This is mainly because of the degradation of internal and external equilibrium of the majority of member countries, due in particular to government counter-cyclical policies (expansionary budgets and pursuit of imports). This decrease goes in parallel with the decline of foreign direct investments to the region (80.7 billion dollars in 2009 against 95 billion in 2008).

Viewed in the international context, in comparison with other developing regions of the world or with the BRIC group (Brazil, Russia, India and China), the majority of African and Arab countries would benefit from improving their regulatory and institutional framework and making the business environment more attractive. Thus, in the case of Arab countries, the four best performing states, UAE, Qatar, Kuwait and Bahrain are ranked at the bottom of their group in terms of competitiveness. This is due to the insufficiency of innovation and sophistication of business, despite the undeniable progress and gains realized in the institutional and infrastructural areas or on the macro-economic level. This also applies on African countries where the most advanced (South Africa, Botswana, Mauritius, Namibia as well as Tunisia) were similar in their overall ranking to the BRICs, without being able to match them.

Various studies and surveys show the importance of the regulatory and institutional framework in promoting an attractive business environment to investors. An incentive framework, stable and predictable, allowing economic traders to invest safely and record their activities is more likely to attract and retain investment, whether from local or foreign sources.

Thus, in both Arab and African countries, as they are recent and not yet fully developed culturally and socially to produce standards of conduct and anchored values paving the way to a new social ethos, the generated revenues remain fragile and even reversible in some cases. Thus, appears the need for consolidation, especially that other emerging economies, particularly those in the South-East of Asia are better positioned to take advantage of the international context. This is because of their structural bonds with the developed economies (North America and Europe) and their internal characteristics (domestic market size and regional depth, structure of their production, innovation capacity and adaptation, etc.) and their positioning in both Arab and Africans economies with strong growth potential (including the Group of SANE\textsuperscript{28}).

\textsuperscript{27} The index is based on the GDP growth rate, inflation rate, budget balance in % of the GDP (internal equilibrium) and current account balance in % of the GDP (external equilibrium).
\textsuperscript{28} South Africa, Algeria, Nigeria and Egypt. These four countries represent 47% of Africa’s GDP and 32% of its population. According to the analysis made by the BAD, they are considered as the potential departure point for the restructuring of the other African economies.
A large number of African countries stand out in this overview. Indeed, because of their limited economic base and the relative fragility of their institutions, these countries may easily attract foreign investors reluctant to respect the basic principles of good corporate governance, particularly regarding local stakeholders’ interests and respect of the environment. This is already a reality in the mining sectors in countries emerging from conflict or whose governments are fragile.

It is likely that the latter are more victims than others in the risk assessment which take into account all the operators and their activities, particularly internationally.

The evolution of the regulatory and institutional framework on the basis of experience and know-how accumulated by Arab countries and their openness to investment opportunities in specific sectors could significantly reduce the fragility of these countries and their exposure. Still, the regulatory and institutional constraints remain to be a major part of any partnership that seeks to be sustainable and to create a zone of co-prosperity for traders and investors involved. This would enable African countries to develop and expand their productive base, and to better position themselves in the global economy. It would also allow Arab investors to set the foundations for the transformation of their own economies to become based on the renewed knowledge, innovation and technological advancement. However, in order to achieve this objective, it is necessary to change the image of countries and sectors, not only through bold reforms, but also by adapting a proactive attitude by financial institutions in both regions, since this has a direct impact on the perception of risk.

4.2.2 Risk Assessment

Among the assessed risks in global trade and investment, country risk is generally the one that concerns mostly operators, investors and institutions providing them with necessary loans, insurance and guarantees. This is because they don’t have any control over it. The quantitative evaluation of this type of risk includes in the first place the analysis of the three groups of indicators: the country's experience in payments, its financial and economic situations. Other risks political, institutional, security or social are then taken into consideration in a qualitative analysis of country risk. The data governing the assessment and classification of countries and companies operating there remain confidential; only is published the ranking elaborated by experts in risk countries assessment from export credit agencies. The classification will determine, in addition to interest rates, the level of risk premium for non-reimbursement to be performed by the borrowing party, sufficient to cover operating costs and lenders’ losses on long-term. This shows the importance of this variable in an approach to promote trade and investment.
The country risk classification elaborated by the OECD in 2010 shows that on a risk scale of 0 to 7, the sub-Saharan Africa, excluding South Africa, Mauritius, Botswana and Namibia (at level 3), and the rest of the countries are at very low levels of 6 and 7. This further increases the risk premium and cost of export credits. In North Africa, with the exception of Mauritania, Sudan (Level 7) and Libya (Level 6), other countries in the sub-region stand at more satisfactory levels, 3 and 4. This classification, as those proposed by other structures, do not always reflect the reality and real risks. It is also necessary that the specialized agencies in facilitating trade in Africa and Arab countries establish a system to assess country risk specific to the two regions, which will take into account more objectively their economic, political, institutional and social data. As every rating system is relative, the risk assessment will be different if countries such as the OECD for example would not be included.

In the non-African Arab countries, only Iraq, Yemen and Lebanon (Level 7), Syria (level 6) and Jordan (level 5) show higher levels than the average. Other Arab countries show moderate levels (2 or 3). As for the investment risks in Arab countries, the index of the International Country Risk Guide measures the degree of country risk faced by investments. This index is based on three types of risk: sovereign risk, economic risk and financial risk. Calculated for 18 Arab countries, it ranks them in categories "very low risk" and "moderate risk".

The role of specialized multilateral institutions described above, commercial banks and the national agencies for trade guarantee and promotion, is crucial. In order to develop trade between the two regions, institutions should be able to provide facilitation instruments that take into account the nature of their economies. The use of existing rating systems may have negative repercussions on the conduct and promotion of trade between the two regions. The Arab countries being more attractive in this regard, this could be at the expense of the African continent in terms of inflation trade finance as well as of investment. Thus, specific instruments and mechanisms should be developed by specialized agencies.

4.2.3 The regional and international economic environment

The other major constraint to be considered is the regional and international economic relations, in which are tied Arab and African countries. They largely control their economic, financial and commercial policies. Similarly to the rest of the world, these countries are linked, on the regional and international levels, by bilateral and multilateral agreements on trade and investment going from preferential tariffs on imports to 50% decrease of taxation on investments. In fact, investments are diverse and
their number continues to grow, making more complex both the conclusion and implementation of new agreements, while at the same time they provide additional opportunities through existing frameworks. African countries in general are members of at least one and usually several regional economic communities (REC) as well as custom and currency unions. They are also engaged in privileged partnerships with EU and some of them with the U.S.

In addition to the ancient relations with these partners, increasing number of agreements is taking place with other Southern countries. All these agreements impose specific rules and standards for trade of goods and services, taxation and movement of capitals. The majority of these countries have also joined the WTO which promotes and monitors the respect of the principle of non-discrimination between its members. They are also bound by bilateral agreements, sometimes global, sectorial, or with a growing number of emerging economics, especially China, India, Brazil, South Korea and Turkey. Arab countries are also engaged in similar agreements. This makes the definition of specific frameworks a complex matter.

The Afro-Arab cooperation, although dated from the ancient times, was until recently essentially political, mainly dominated on the operational level by the organization of regular Afro-Arab fairs, by the ODA through institutions like the BADEA and ADB, or on a bilateral level through specific funds. In 2009, the first major initiative involving policy makers, researchers and operators from the private sector has been organized by the Gulf countries in South Africa in order to assess the situation of the Afro-Arab cooperation and make recommendations for its improvement. Such initiatives should be encouraged. It is worth mentioning the efforts deployed since a decade by Tunisia to establish trade agreements, including tariff reductions with some regional economic communities. The first agreement was concluded with the Economic and Monetary Union of West Africa (UEMOA).

4.3 Conclusion

The review of constraints shows their interdependent character and the need to apply a holistic approach that does not neglect or overestimate any element. Although the primary interest of the South-South cooperation and partnership is being based on some fundamental principles, especially those of non-interference and mutual respect for national sovereignty, because of the nature of their economies and the similarity of the institutional frameworks in which they operate, any long term Afro-Arab strategy should take into account the weight of the identified constraints. One of the recent contributions of the partnership between African and Southern countries is the establishment of

29 The next meeting should take place in December 2010 in Saudi Arabia.
30 However, goods are still traded under the same scheme: commodities from one side (cotton, coffee, cacao, wood) and industrialized products from Tunisia (textile, clothing and other industrial products including the agri-business).
frameworks for dialogue on different levels. The example provided by China and India in particular deserves special attention. However, due to their historical, geographical and cultural proximity, the most efficient structure that should be taken as a reference is the NEPAD and its system of peer review. A similar mechanism focusing exclusively on capital and trade flows would be extremely beneficial in this context.
V. Conclusions and Recommendations

5.1 Conclusions

The first conclusion that comes out from the previous treatments is that the level of development of countries in both regions, their geographical continuity and historical bonds make their cooperation and partnership a strategic matter. In a global context where international economic relations are fundamentally driven by the interests of the involved partners and their economic and financial power, the Arab and African countries’ ability to maneuver remains limited and furthermore marginal, unless an active solidarity is implemented. The South-South partnership has demonstrated its interest and effectiveness repeatedly, especially during the last negotiations as was the case on several occasions, in the context of the WTO and the Kyoto Protocol. Arab and African countries would extremely benefit from these lessons.

The second conclusion concerns the nature of their future partnership. Given the present economic structure in the concerned countries, trade between the two regions should not be fundamentally different from their exchanges with the rest of the world, provided that an affirmative action and a common strategy is in place. This also applies on the investment flows. In fact, to be able to move towards a partnership based on a mutually beneficial interdependent development on the long term, an alternative cooperation should be set up. It must take into account both the potentials and constraints of both parties based on their diversity. It should exploit the offered opportunities, to complement and not to compete with the already involved partners. Three reasons dictate such a strategic direction. The first is the ability of African countries to manage the growing number of agreements binding them with their partners. This constraint cannot be neglected, knowing its repercussions on African states as well as on operators and foreign investors. The second is the nature of the relations of these countries with their partners and their limited ability to modify their terms. The third is the search for greater efficiency, far from wasting resources, although important, still remain limited. However, in this context, the Afro-Arab partnership should aim to take advantage of the nature of cooperation with other countries, particularly emerging economies of the South. The concentration on a limited number of countries and products, mainly commodities (fruits, wood, oil, minerals, etc.) renders mandatory the geographical diversification and the search for additional resources. It is also necessary to use the existing regional frameworks, including regional economic communities and regional financial institutions such as BADEA, ADB, the West African Development Bank, the Development Bank of East Africa and the Development Bank of Southern African States.

In general, the Arab and African countries need each other to bolster their position in a global process that tends to keep them marginalized. Africa offers opportunities for

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31 Thus, the number of bilateral investment agreements with other Southern countries has increased from 133 in 1998 to 335 in 2008. It is worth mentioning that these agreements do not concern all countries on equal level. Egypt, for example, is by far on the top of these countries.
investment in sectors that has been so far neglected or underused, particularly the SME whose development may satisfy the needs of the local markets. To realize this project, the Continent needs not only financial resources but also technical expertise in many sectors ranging from education, health to finance. In the context of traditional solidarity and geographical continuity with the Continent, Arab countries are an ideal partner through their know-how, their resources and current positioning of their majority in the group of countries in transition towards economies based on innovation. In the same time, Africa’s financial and technical needs represent an opportunity for Arab countries to lead this transition with a lower cost and in the best conditions. The solidarity between Arab and African countries on the international scene\textsuperscript{32}, will contribute to improve their negotiation power.

5.2 Recommendations

These recommendations are part of an approach aiming to evolve from an Afro-Arab partnership primarily based on development assistance to a partnership based on an interdependent development including all stakeholders. These recommendations are the result of the assessment of the current status of investment and trade flows between the two regions and the analysis of their constraints and opportunities. These recommendations relate to the institutional, financial and trade areas. They are based on the principle of positive discrimination in favor of operators in both regions, without overlooking the consultation with other partners. They include, without going into their details, some recommendations explained above in the analysis.

5.2.1 On the level of institutions

- Set up an Afro-Arab mechanism for consultation and evaluation, inspired from the review mechanism installed by our peers, the NEPAD, which is particularly dedicated to promoting investment and trade between the two regions.

- Establish within BADEA a structure dedicated to strengthening the mechanisms for facilitating investment and trade, through the promotion of public-private partnership. In addition, this structure should serve as a monitoring tool to this area.

- Strengthen the role of institutions for improving the investment environment.

- Strengthen the institutions responsible for promoting trade, investment and international negotiations in this field, and encourage consultation and constant dialogue between them.

\textsuperscript{32} Through the exchange of information, constant consultations and sharing of their expertise.
• Reinforce the participation of Arab funding resources in the regional development banks as well as in the specialized African institutions and initiatives.

• Encourage banking and financial regulators to release quotes, apply the regulations concerning foreign exchange control and transfer of revenues.

• Encourage the establishment of Afro-Arab agencies for assessment and risk rating.

• Exploit the potentials offered by the Organization of Islamic Conference in the promotion of cooperation in the area of investment and trade.

5.2.2 On the level of investments

• Accompany and reinforce cross-border mergers and acquisitions by creating specific mechanisms and institutions, particularly through the involvement of Arab sovereign and private funds in African enterprises.

• Support the development of African and Arab multinationals and enterprises from the diaspora in order to create winners and champions in both regions.

• Establish innovative mechanisms to encourage partnerships between Arab and African SMEs, particularly though the mechanisms for guarantee.

• Develop and efficiently participate in mechanisms encouraging investments following the model of the Partnership for funding in Africa.

• Simplify the procedures and regulatory and legal frameworks relating to cross-investments, especially those regarding the establishment, registration and taxation of businesses.

5.2.3 On the level of trade

• Encourage the coordination and consultation between different structures in charge of promoting exports.

• Promote the rationalization of structures and resources to boost exports and encourage them to introduce target figures in their programs.
• Encourage dialogue and cooperation between the chambers of commerce and industry and financial institutions of trade in both regions.
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