

EXPLANATORY MEMORANDUM

SUBMISSION TO PARLIAMENT OF THE AFREXIMBANK ESTABLISHMENT AGREEMENT FOR ACCESSION APPROVAL

1. BACKGROUND

The Africa Export-Import Bank (AFREXIMBANK) is a multilateral financial institution, headquartered in Cairo, Egypt. It was established in 1993 to facilitate, promote and expand intra- and extra-African trade. The Bank officially commenced operations in 1994, and currently has 52 African states as members.

South Africa is not a sovereign member, but holds shareholding through the Export Credit Insurance Corporation of South Africa (ECIC) and the Public Investment Corporation (PIC) in the form of Class B shares. The absence of a Sovereign membership has restricted the Bank's ability to extend support to South African projects. An exceptional approval from the Bank's Board had previously enabled a pipeline of projects valued at US\$1.042 billion, but this approval has since expired mainly due to, among other, South Africa not being a Sovereign member.

2. OBJECTIVES AND IMPLICATIONS

Acceding to the Establishment Agreement aligns with South Africa's strategic goals as outlined in the National Development Plan (NDP) and Medium-Term Development Plan (MTDP). This will enable South Africa to become a sovereign member of the Bank, thereby unlocking a full suite of trade and investment instruments, financing facilities, and strategic partnerships.

The accession is expected to directly contribute to:

- **Driving Inclusive Growth and Job Creation:** By providing access to additional funding and greater decision-making rights.
- **Increasing Exports and Investment:** Facilitating financial assistance for South African companies, commercial banks, and State-Owned Enterprises (SOEs) to expand into the rest of Africa.
- **Strengthening Economic Linkages:** Deepening integration with key African partners and strengthening South Africa's role in the African Continental Free Trade Agreement (AfCFTA).

As a sovereign member, South Africa will gain access to a full array of funding, including project finance, trade finance, guarantees, and lines of credit. This will help address funding challenges currently faced by South African commercial banks and provide support for key sectors such as manufacturing, industrial development, energy, and mineral beneficiation. The transition of the ECIC's shareholding from Class B to Class A will also grant South Africa special rights and elevate its role in the Bank's governance.

3. NATIONAL EXECUTIVE APPROVAL

The Cabinet has been consulted on this matter and has endorsed that the accession to the Afreximbank Establishment Agreement be pursued. This Agreement falls within the ambit of Section 231 (2) of the Constitution of the Republic of South Africa and will therefore require parliamentary approval prior to implementation.

4. LEGAL IMPLICATIONS

Legal opinions have been obtained from the State Law Advisers at the Department of Justice and Constitutional Development and the Office of the Chief State Law Adviser (International Law) at the Department of International Relations and Cooperation. These opinions confirm that the Agreement is consistent with both domestic and international law and that the process for accession is correct.

The legal opinions are attached as **Annex A** and **Annex B**, respectively.

5. FINANCIAL IMPLICATIONS

Acceding to the Establishment Agreement will not impose any additional costs on the fiscus. The conversion of the ECIC's shareholding from Class B to Class A does not require any additional capital contributions, and the existing obligations remain the same. The ECIC's conversion will comply with Section 54(2) of the PFMA, which requires prior written approval from its executive authority.

6. CONSULTATIONS

Extensive consultations were conducted with key stakeholders, including the National Treasury, the ECIC, the PIC, and four major commercial banks (Standard Bank, Absa,

Nedbank, and FNB). All parties consulted are supportive of South Africa's accession and the subsequent conversion of shares.

7. RECOMMENDATIONS

It is recommended Parliament in line with Cabinet and in terms of section 231(2) of the Constitution, approve the accession of the Government of the Republic of South Africa to the Agreement for the Establishment of the Africa Export-Import Bank (AFREXIMBANK).