GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT
AFRICAN DEVELOPMENT BANK GROUP

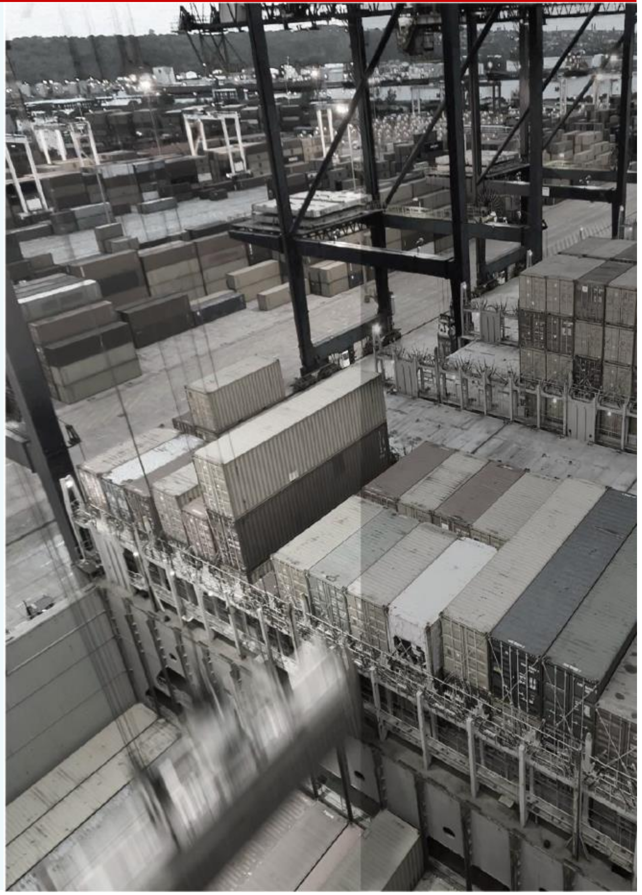
Trade Finance in Africa

Overcoming Challenges for SMEs

SME FINANCE FORUM

About the Study

- Track changes since the first survey (2013-2014)
- Updating and expanding our understanding of the key issues covered in the first report
  - Insights into TF supply in Africa
  - Size of bank-intermediated TF market
  - Financing gap
  - Characteristics of banks and challenges they face
- Introduces new dimension on SMEs that haven't been explored yet
  - Factors limiting SMEs access to bank-intermediated TF
  - The extent which new clients are able to able to gain access to TF facilities



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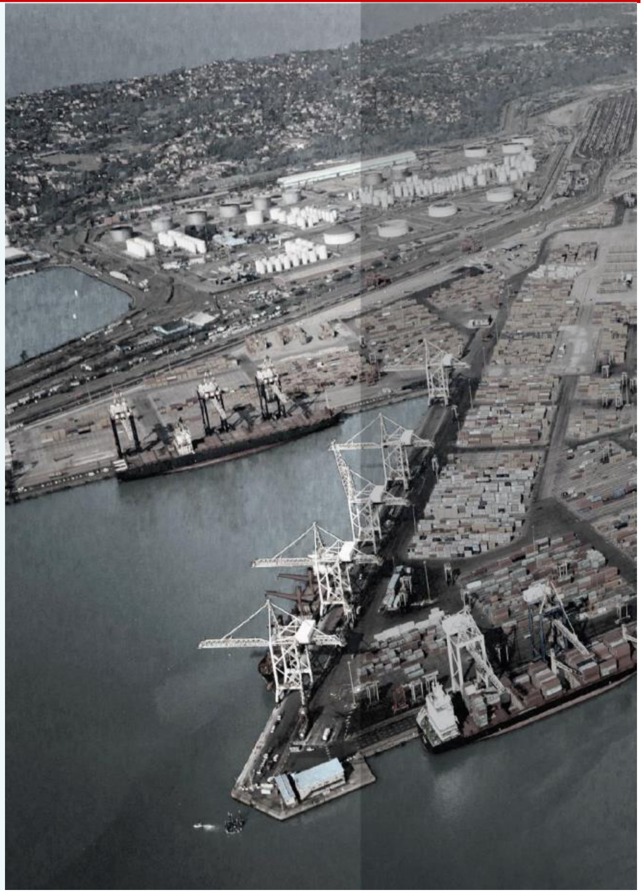
About the Survey

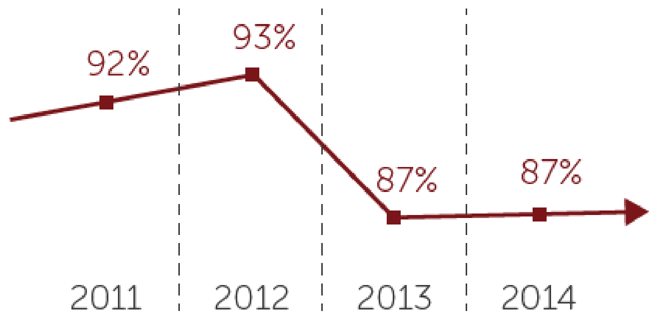
- Focus - bank-intermediated trade finance.
- More than **900** commercial banks contacted.
- Combining data from two surveys during the periods **2011-2012** and **2013-2014**
- **High response rate**: 272 banks in the 1st survey and 246 banks in the 2nd survey
- Cover 49 countries in Africa:
  - 36.9% in West Africa
  - 21.1% in East Africa
  - 25.5% in Southern Africa
  - 9.3% in North Africa
  - 7.2% in Central Africa



Trade Finance Landscape

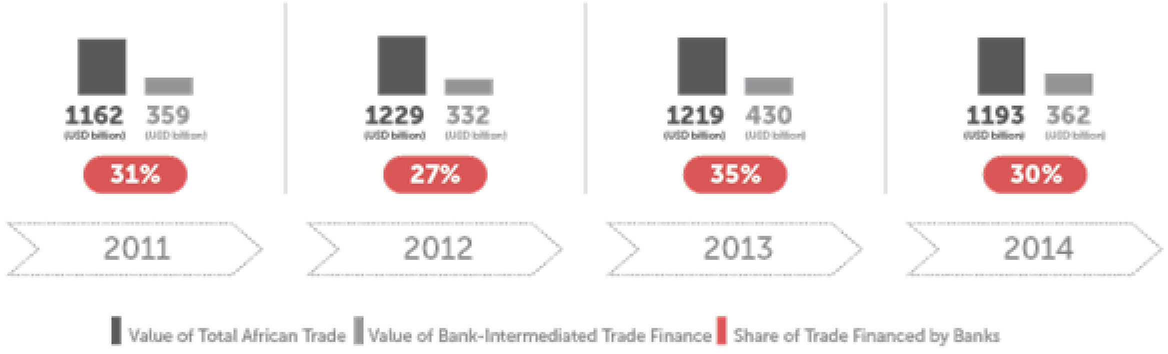
- High engagement of commercial banks in trade finance in Africa

Share of Commercial Banks Engaged in Trade Finance Activities by Year



- A sizeable bank-intermediated trade finance market

Bank-Intermediated Trade Finance and Total African Trade Volume by Year



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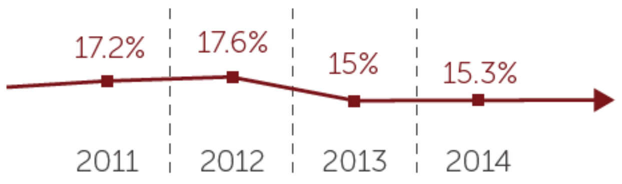
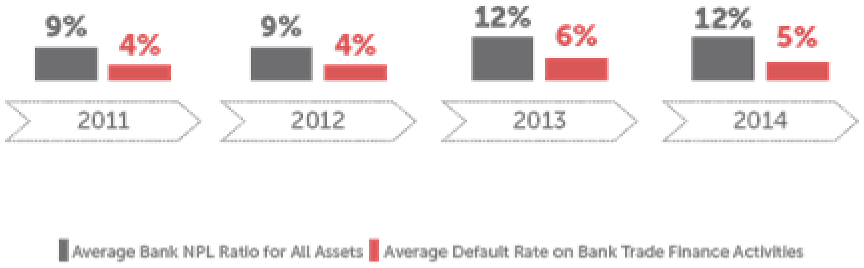
Trade Finance Landscape

- Trade finance is an important source of income for banks operating in Africa

Share of Income from Trade Finance Activities in Banks' Total Income by Year



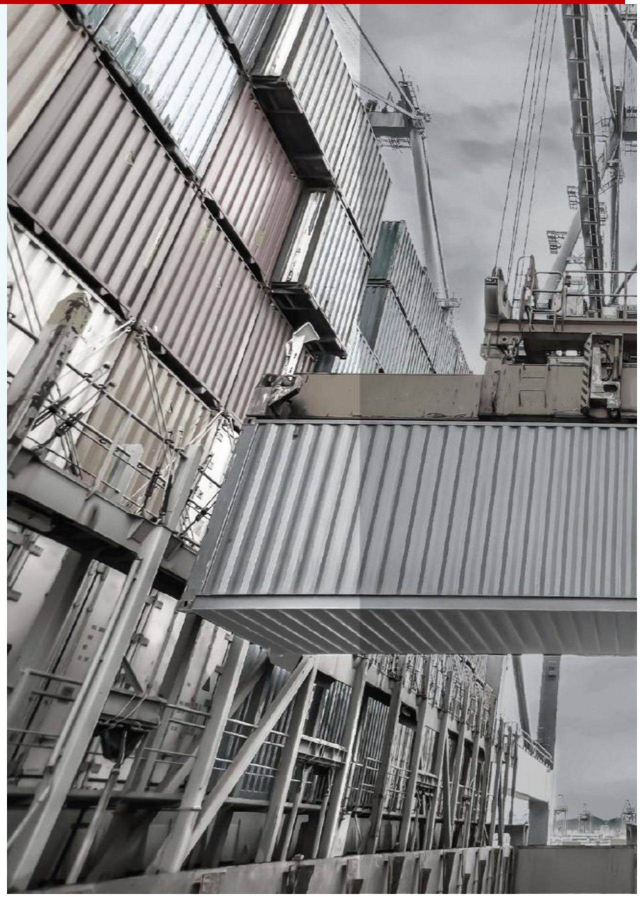
- Trade finance appear to be less risky compared to other bank activities
- Default rates on TF activities are significantly lower than average NPL ratios across all assets



Trade Finance Gap in Africa

- **USD 91 billion** - Gap estimated in 2014
- **6.1 %** - Average rejection rate for letters of credit applications reported by banks
- **Weak credit history & insufficient collateral** – Main reasons why banks reject TF requests by clients

Most Frequently Reported Reasons for Banks' Rejection of Trade Finance Facilities Applications, 2013-2014



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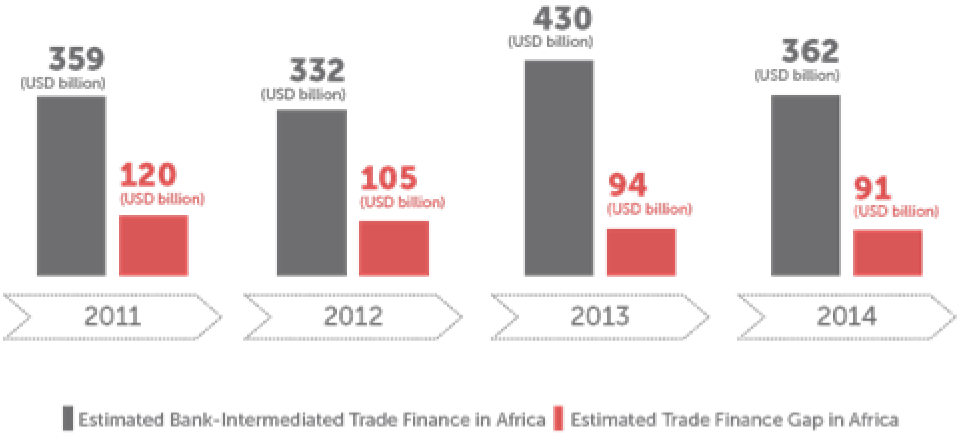
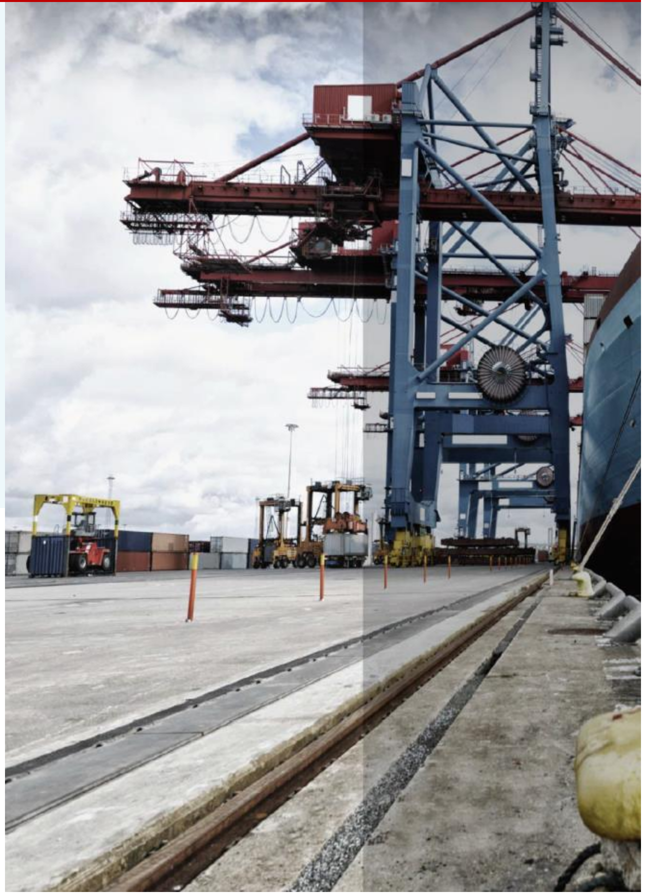
Trade Finance Gap in Africa

- **The gap remains significant despite a gradual reduction over time**
- **Some factors that might have contributed to the reduction of the gap over time (2011-2014):**
  - Accommodative monetary policies resulting in increase in foreign currency liquidity and decrease in funding costs in general
  - Decline in African trade due to depressed commodity prices may have contributed to a decrease in demand for letters





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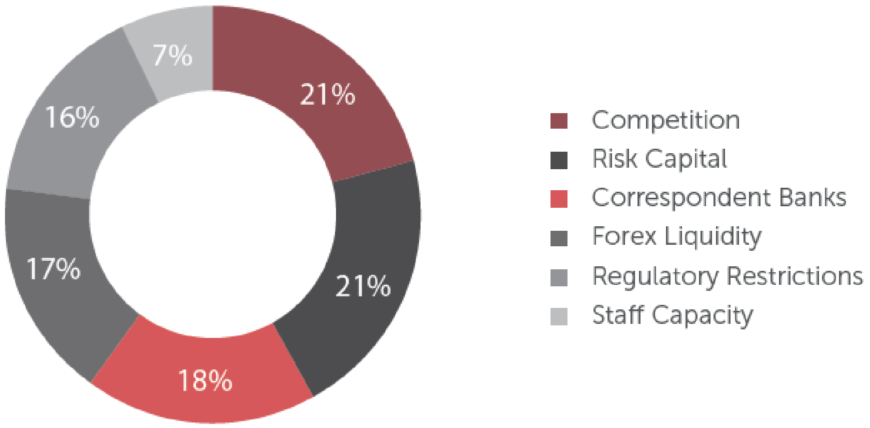
Constraints to Trade Finance Growth

- **Various constraints hamper the growth of the bank’s trade finance portfolios**
- **Competition is a major constraint.**
- **Regulatory requirement could reflect concerns related with compliance with the international standards (i.e. Basel II, III)**



Trade Finance for Intra-African Trade

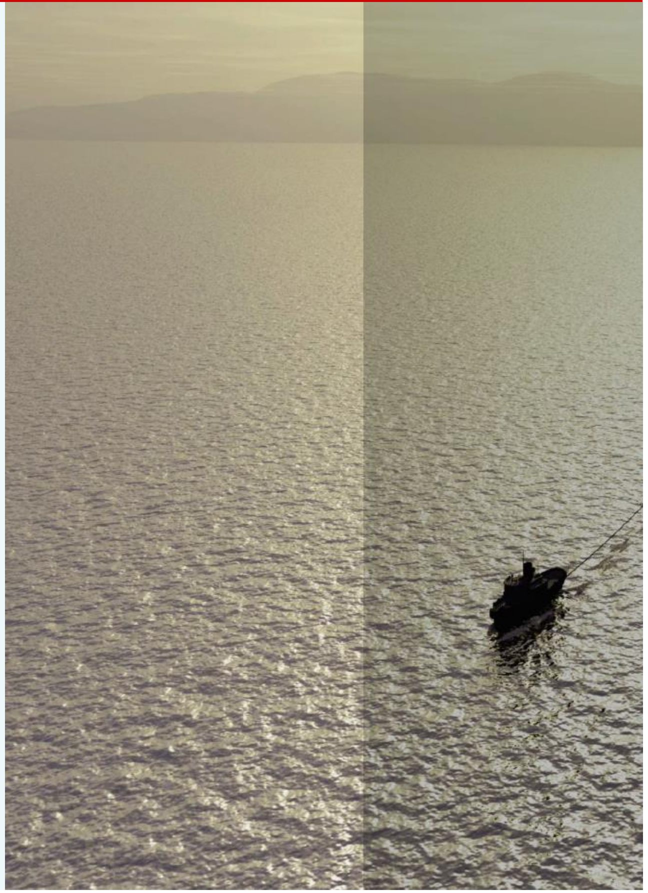
- Intra-African trade is still limited
  - Intra-regional trade accounted for only 15% of total trade in Africa; compared to 63% in EU, 50% in North America and 52% in Asia.
- The share of intra-Africa trade is not uniformly distributed across Africa's sub-regions

	2000	2011-2012	2013-2014
Central	1.2	2.5	2.1
East	17.7	20.1	18.1
North	2.5	3.7	5.3
Southern	11.7	17.1	18.9
West	8.9	7.2	9.4
Africa	9.2	13.1	15.3

- Banks devoted only 20% of their TF portfolios to intra-African trade

Trade Finance for SMEs and New Market Entrants

- SMEs' access to trade finance **is relatively low**
- In Africa, banks dedicate **28% of their TF portfolios to SMEs** and **15% to new customers**.
- Trade finance assets highly concentrated on large corporates and limited exposure to new market entrants
- This could be partly explained by :
  - Higher risk perception associated with funding SMEs
  - High costs (administrative, due diligence etc.) that comes from making multiple smaller transactions vs one big transaction
  - No trade finance track record for new entrants
  - new entrants not yet considered as reliable counterparts by banks and require more due diligence



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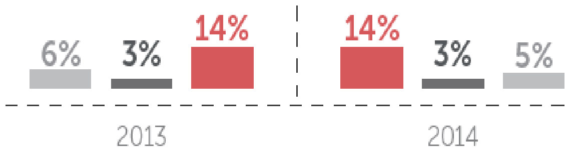
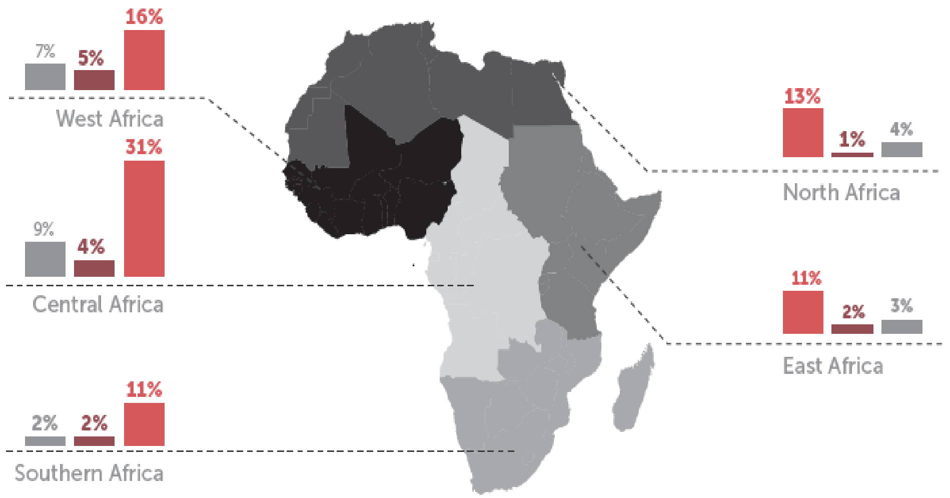
Trade Finance for SMEs and New Market Entrants

- SMEs have a relatively higher default rate compared to large enterprises
- It is apparently not the case for new market entrants, which display a relatively low default rate



All Trade Finance Activities | New Trade Finance Customers | SME Trade Finance Customers

Average Default Rate on Banks' Trade Finance Activities across Customer Groups by sub-Region



All Trade Finance Activities | New Trade Finance Customers | SME Trade Finance Customers

Conclusion and Outlook

- Outlook in medium to long term is improving given the decrease in the estimated TF gap
- In the short-term, the challenges arising from the fall of commodity prices and weak growth in many of Africa's key external markets suggests a strong collaboration among various actors in the TF market is needed.
- DFIs has a critical role to play in addressing the TF gap in Africa
- Possible policy options:
  - Explore other financing vehicles
  - Restore correspondent banking lines
  - Strengthen the capacity of local banks
  - Enhance ecosystem collaboration
- Next wave of the AfDB TF survey to be rolled out this year