Presentation Outline

- Motivation for the AfDB's study on the trade finance market in Africa
- Scope of the study
- Key findings
- Summary

Motivation for the Study

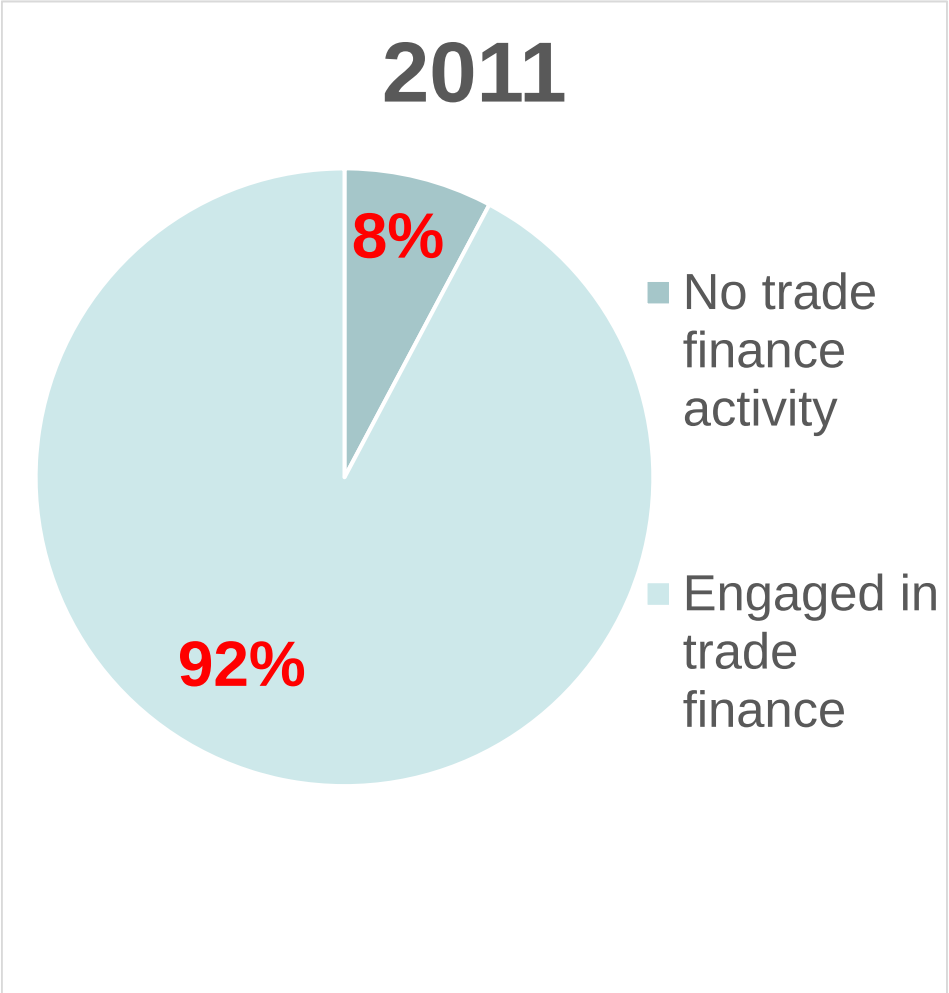
- Paucity of information on trade finance in Africa
  - Recent surveys had limited coverage of the African market
- Establishment of AfDB Trade Finance Program in 2013
- Policy consideration: More up to date information makes it easier to design interventions to address constraints in the market.

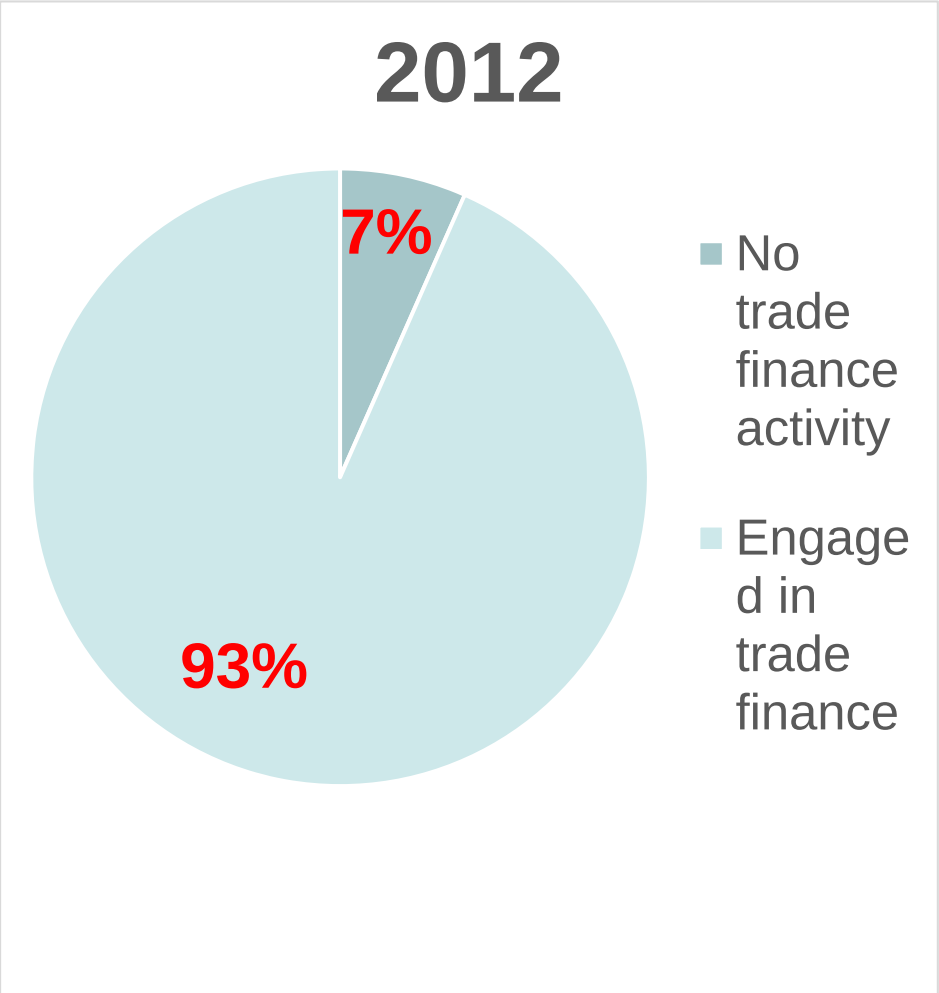
Design & Scope

- Focus - bank-intermediated trade finance.
- More than **900** commercial banks contacted.
- Period covered: **2011** and **2012**
- High response rate: **276** banks in **45** countries.
- Many aspects of trade finance in Africa are covered for the first time in this survey.

Trade Finance in Africa

Most Banks in Africa Provide some form of Trade Finance





Size of Bank-intermediated Trade Finance

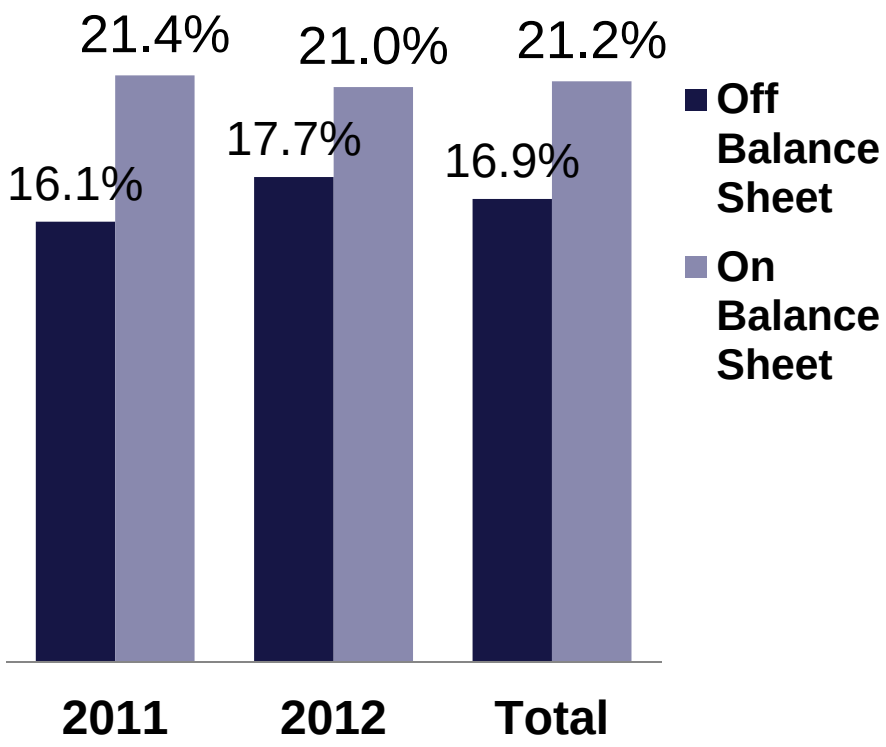
- USD **350 billion** in **2011**
- USD **320 billion** in **2012**

- Banks financed about **1/3** of Africa's total trade
- 68% were <u>off-balance sheet</u> transactions (e.g. letters of credit)
- 32% were <u>on-balance sheet</u> transactions (e.g. short-term loans).

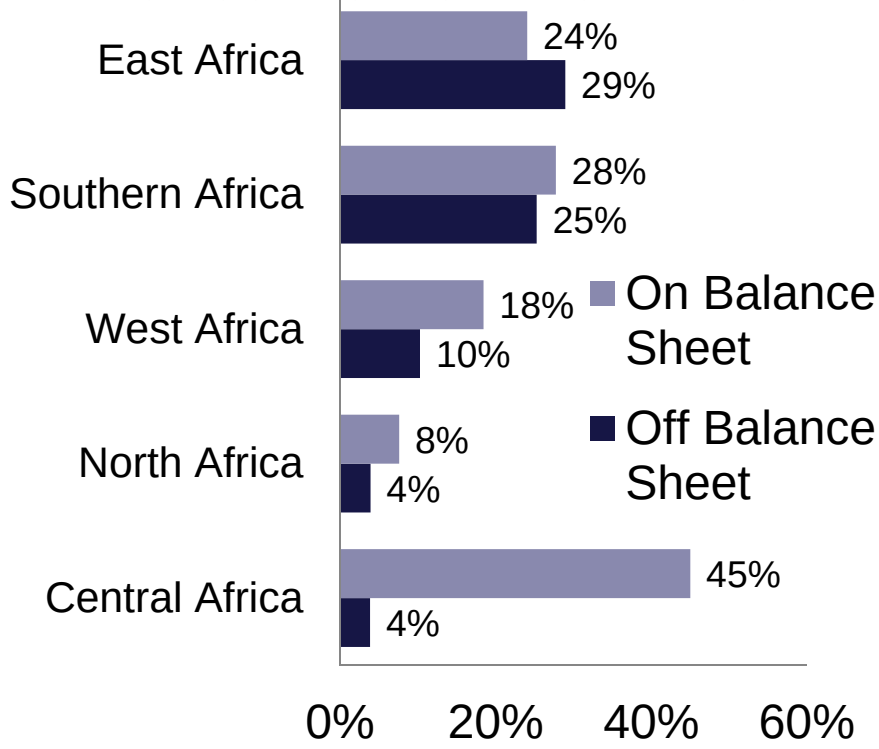
Trade Finance in Africa

Bank-intermediated trade finance for intra-African trade

% of bank trade finance for intra-African trade



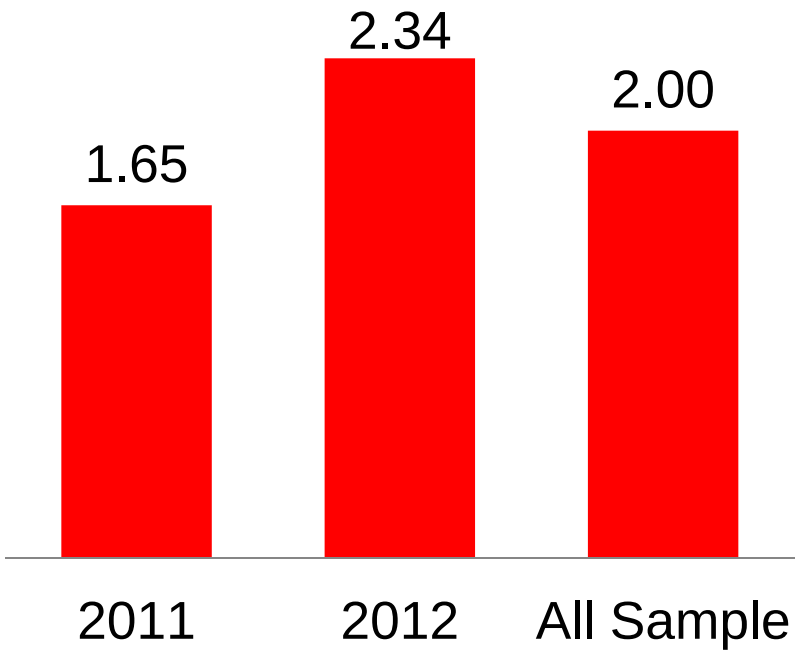
By sub-region, the % of bank-intermediated trade finance that is intra-African



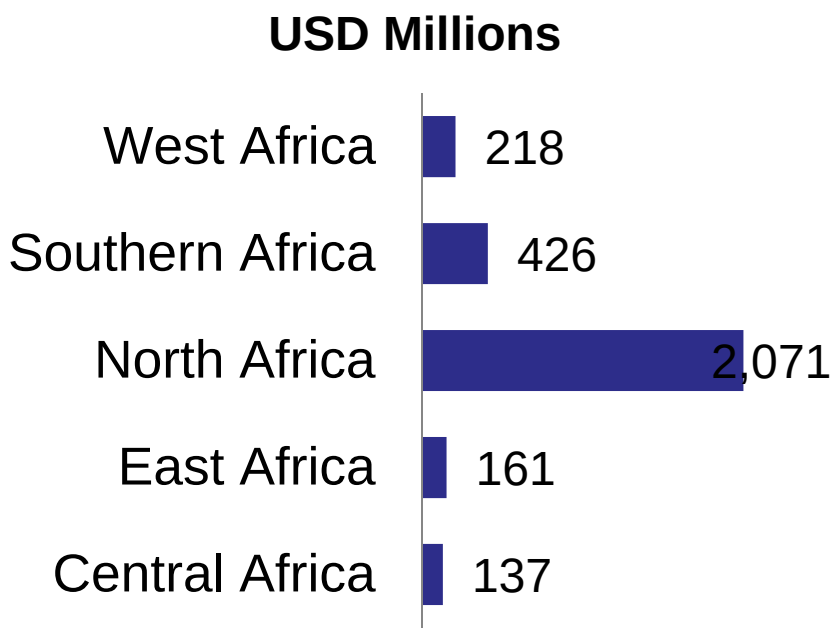
Trade Finance in Africa

Letters of Credit (LCs) still the most important instrument in bank-intermediated TF

Median value of LC increasing over time (USD million)



Average annual values of LC issued by banks in 2011 & 2012



Size of unmet Demand

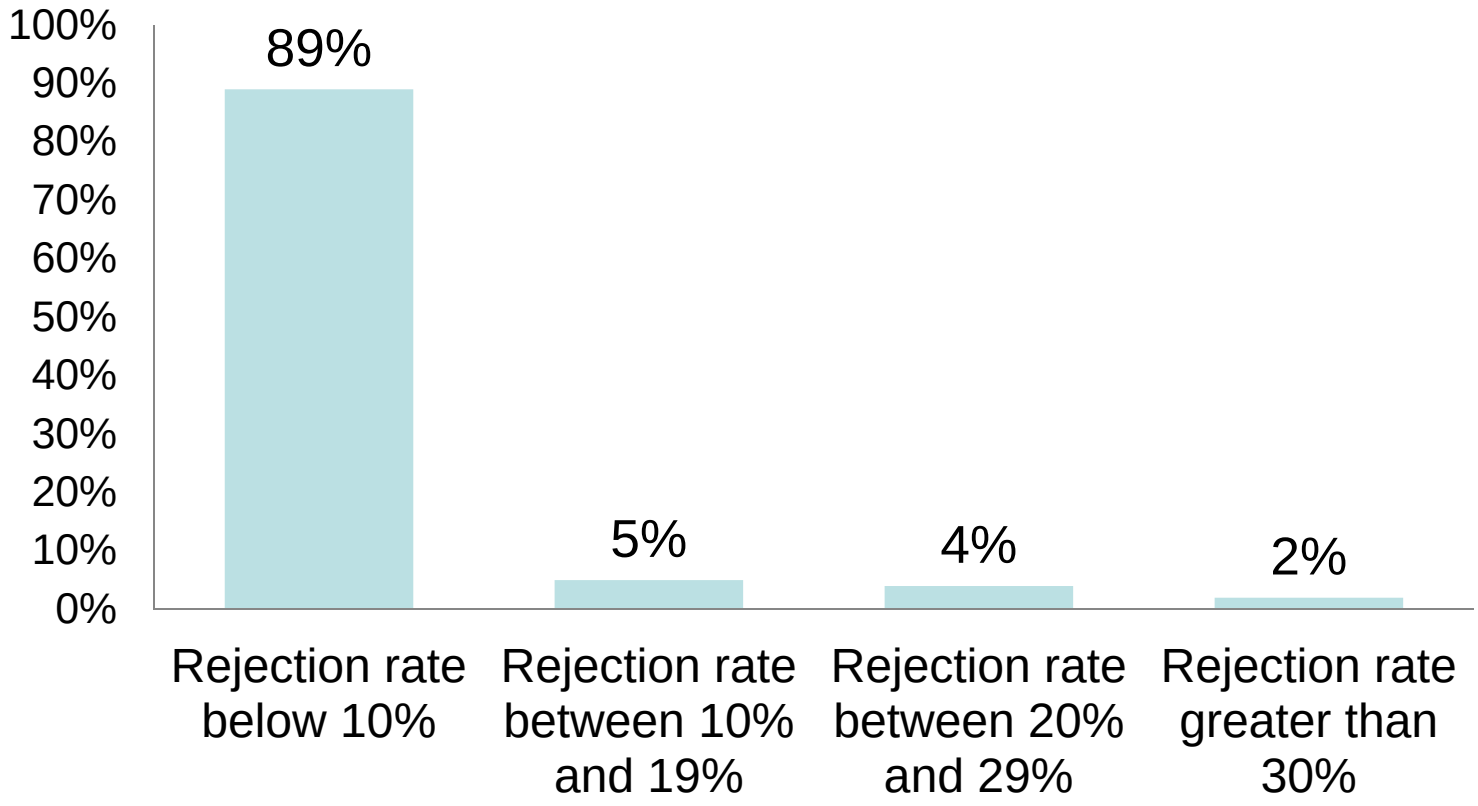
- Unmet demand is estimated at USD 110 billion compared to earlier estimates of USD 25 billion.

- Unmet demand is slightly higher for fragile and low-income countries relative to middle-income countries

Trade Finance in Africa

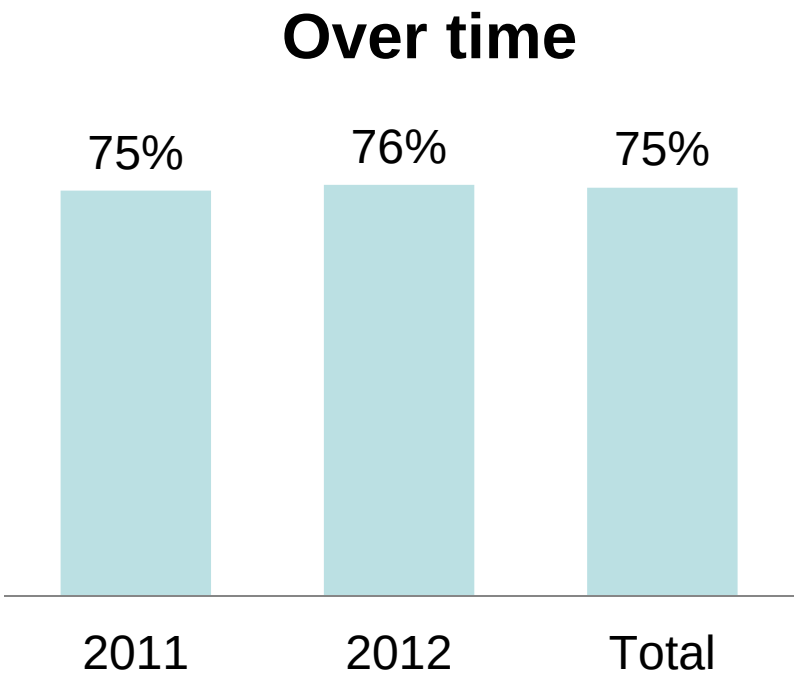
High Unmet Demand :

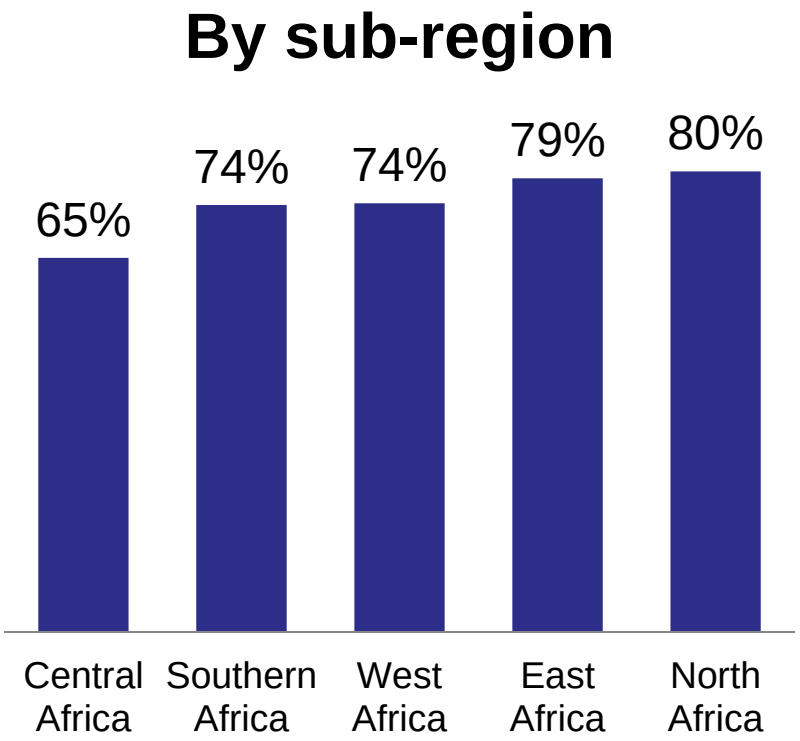
Bank rejection rates for issuing L/Cs



Trade Finance in Africa

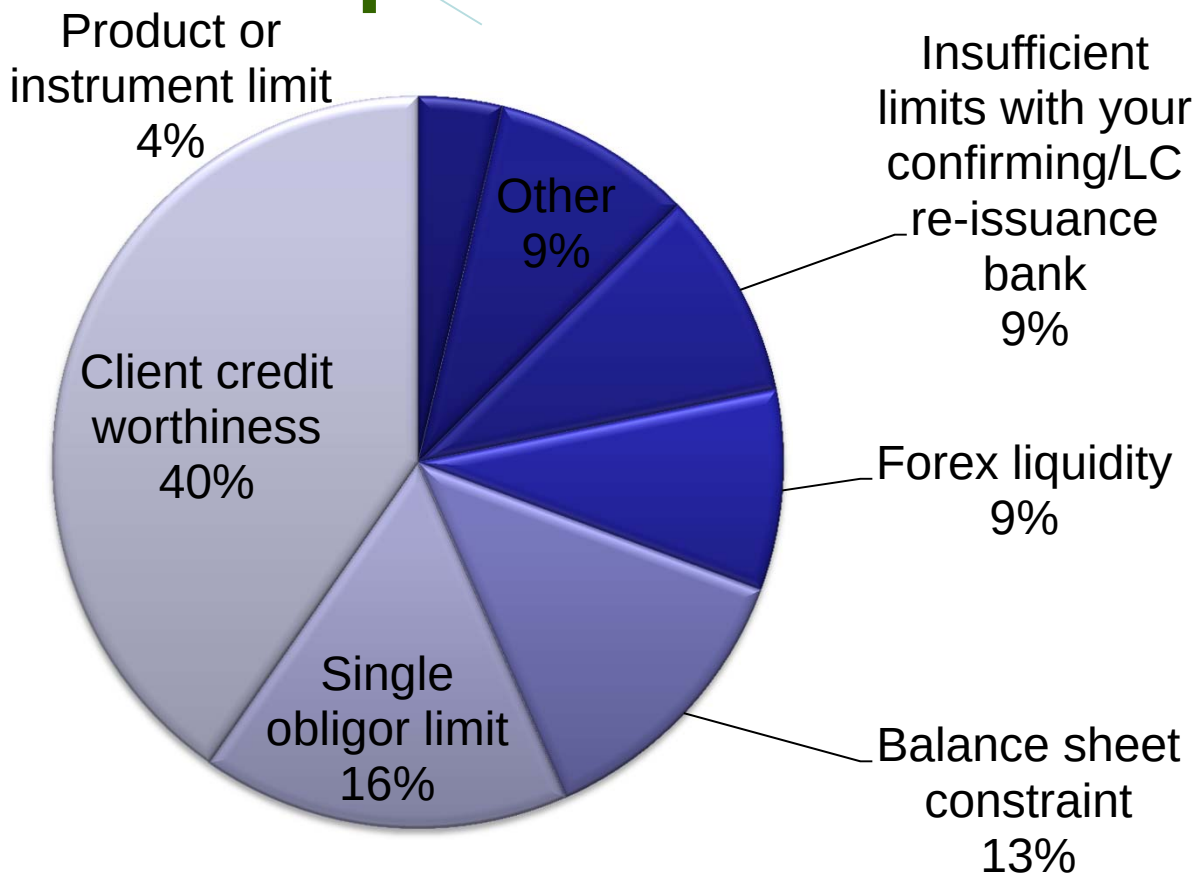
On Balance sheet Trade Finance (e.g. short-term pre-export & post-import loans): Approval Rates





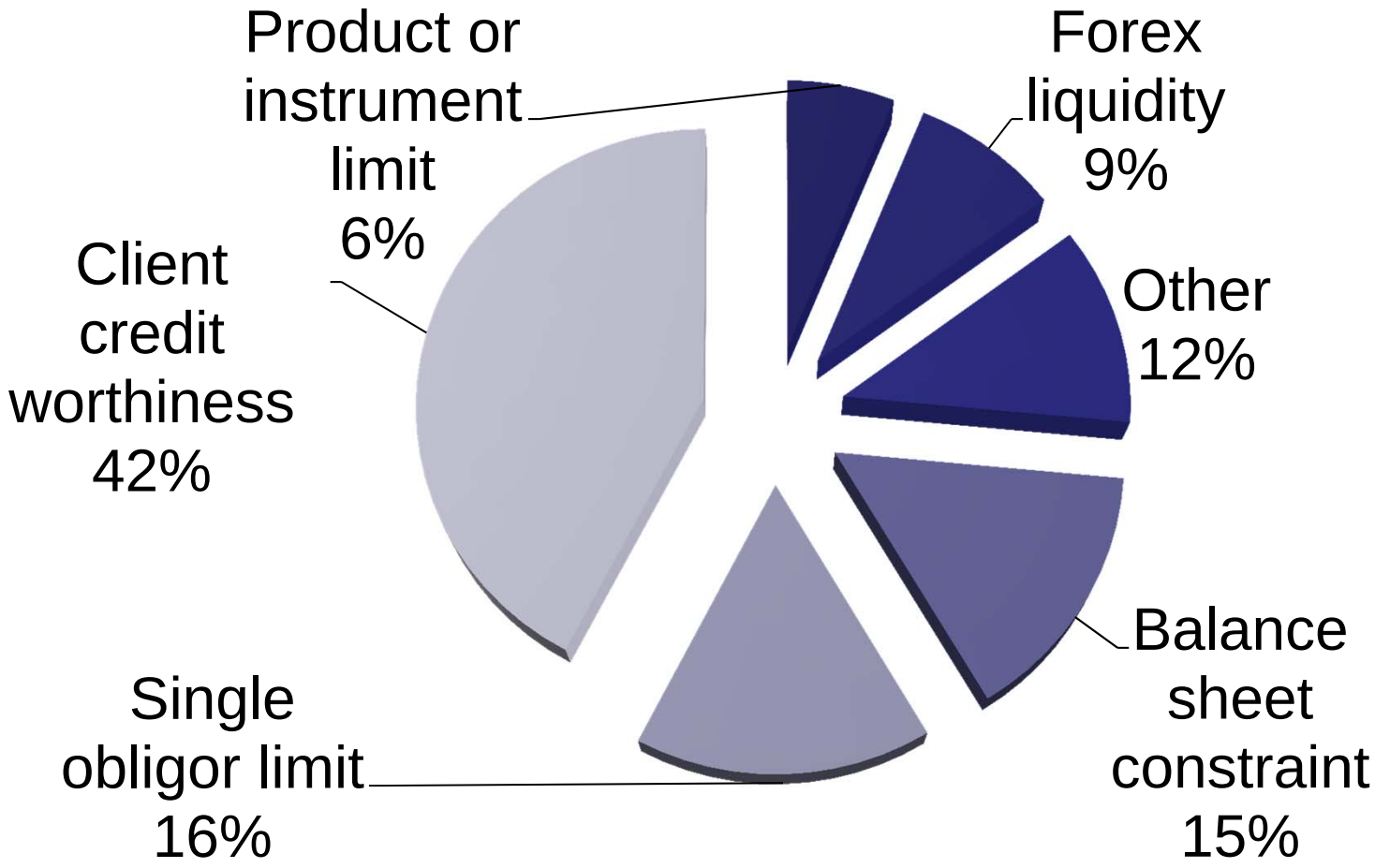
Trade Finance in Africa

Reasons for denying L/C requests



Trade Finance in Africa

Rejection of Trade Finance loan applications

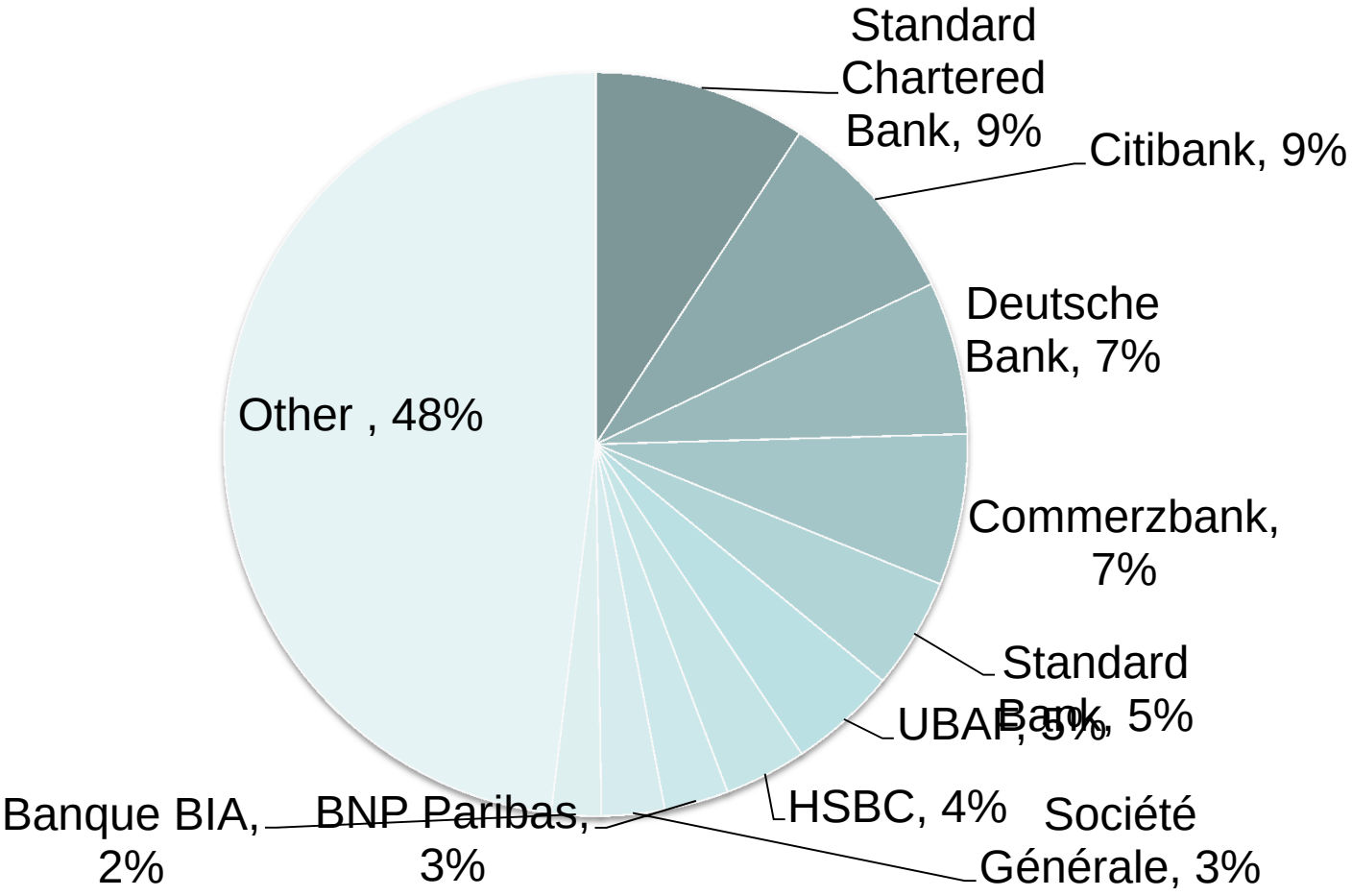


Confirmation of L/Cs is a major constraint

- Virtually all L/Cs issued by African commercial banks require third party confirmation/guarantee
- Global confirming banks have limited risk appetite for African banks
- Sometimes cash collateral is required of African banks while LCs issued in other regions do not always require confirmation.

Trade Finance in Africa

Major Confirming Banks in Africa

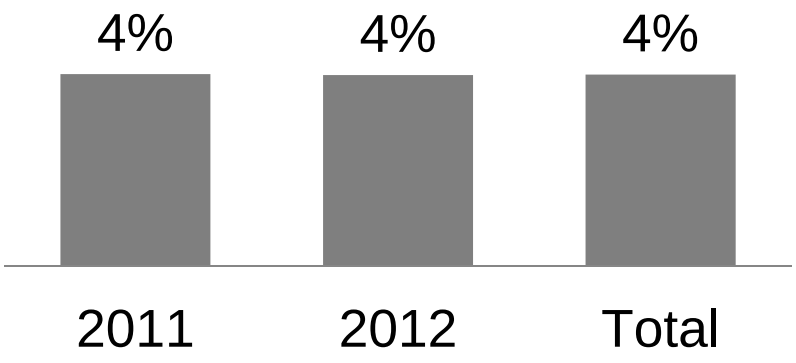


Risk Profile of Trade Finance

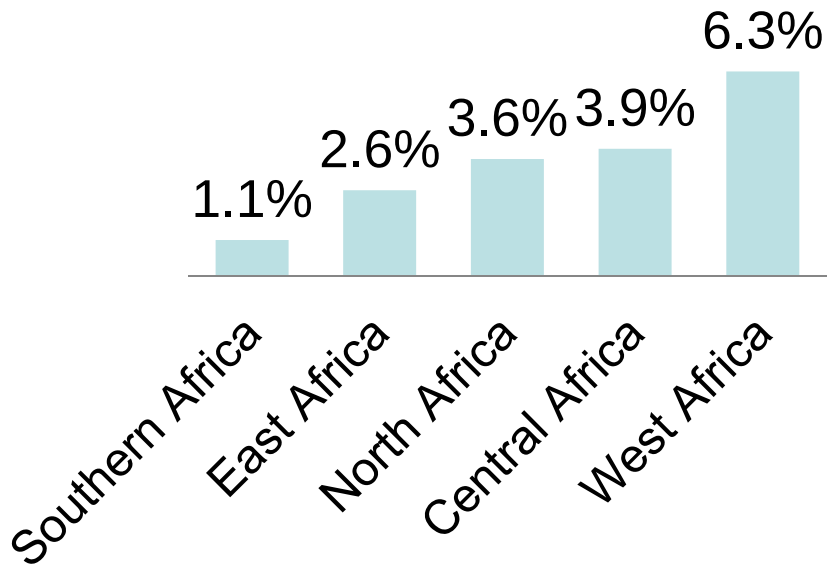
- Trade Finance is low-risk in general
- Average NPL in Africa is 4%
- This is much lower than the average NPL of all assets of banks.
- But higher than other regions of the world (<1%)

Average default rates

Trend

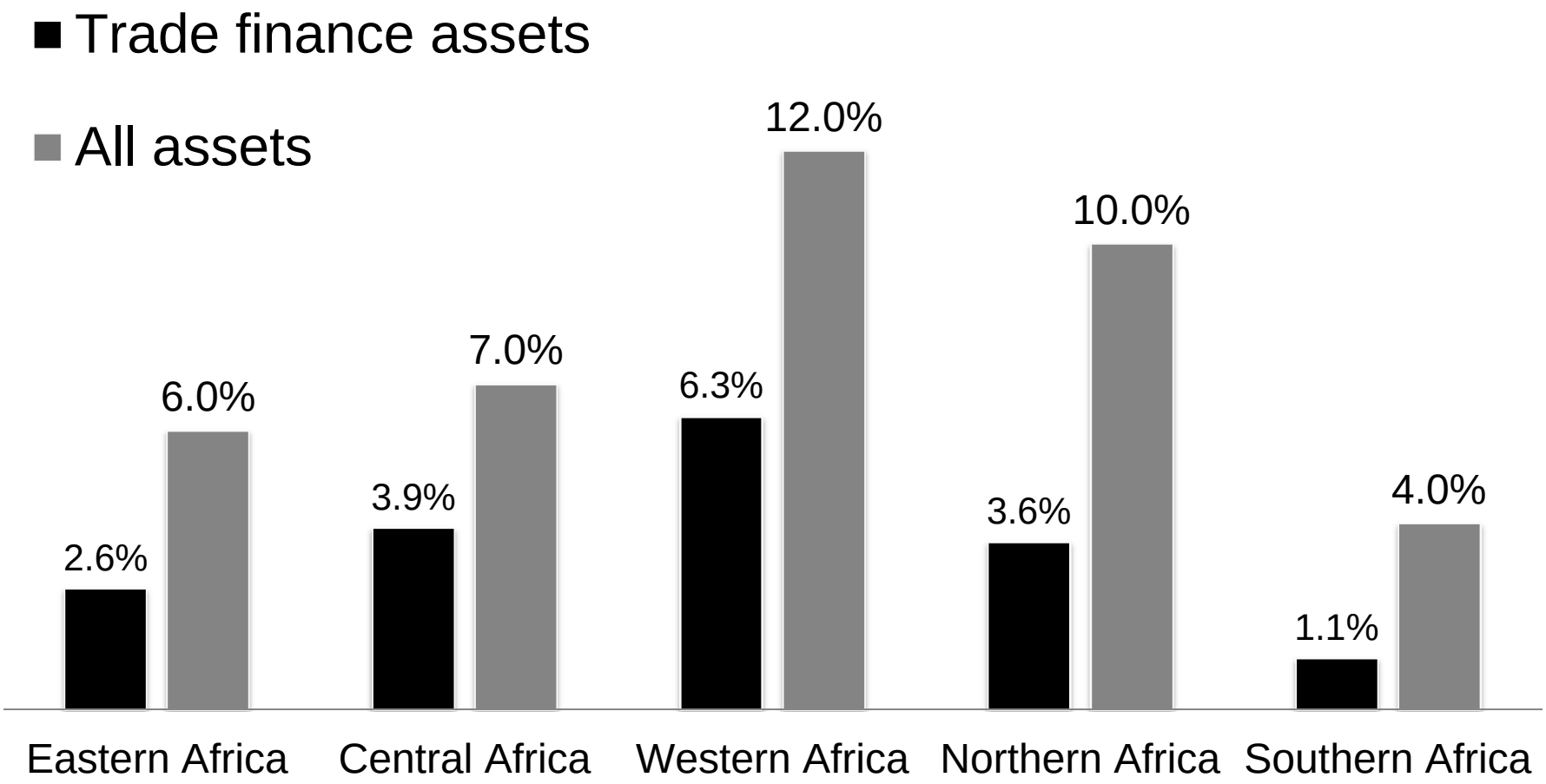


By sub-region



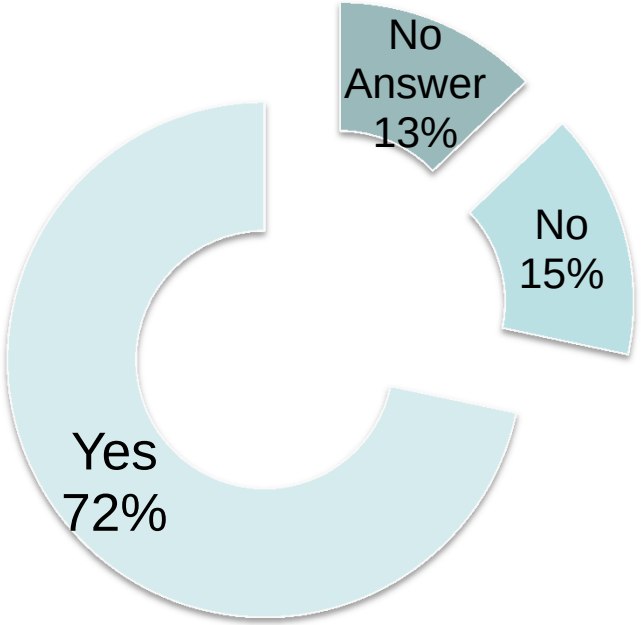
Trade Finance in Africa

Default Rates are much Lower compared to other Lending Activities

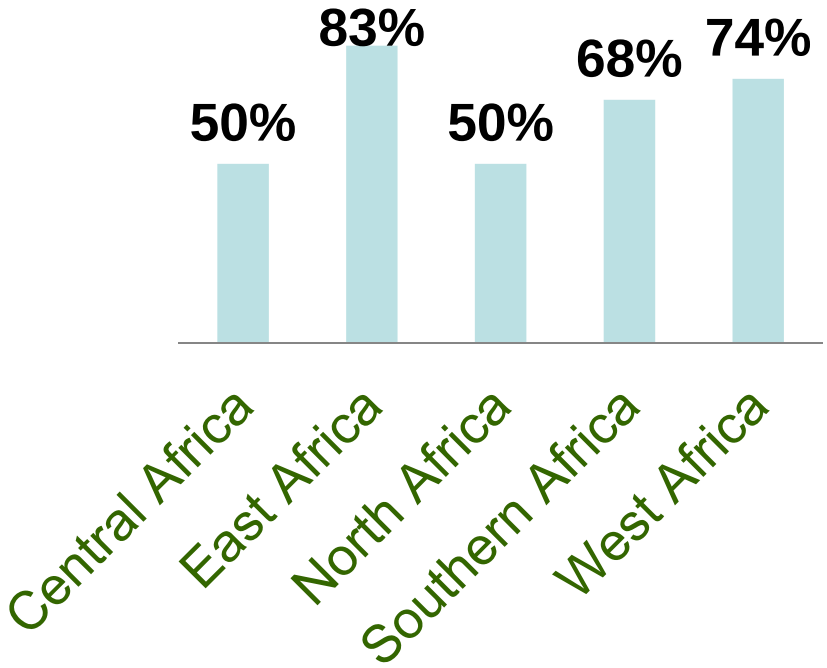


Banks have positive outlook

All banks



By sub-region

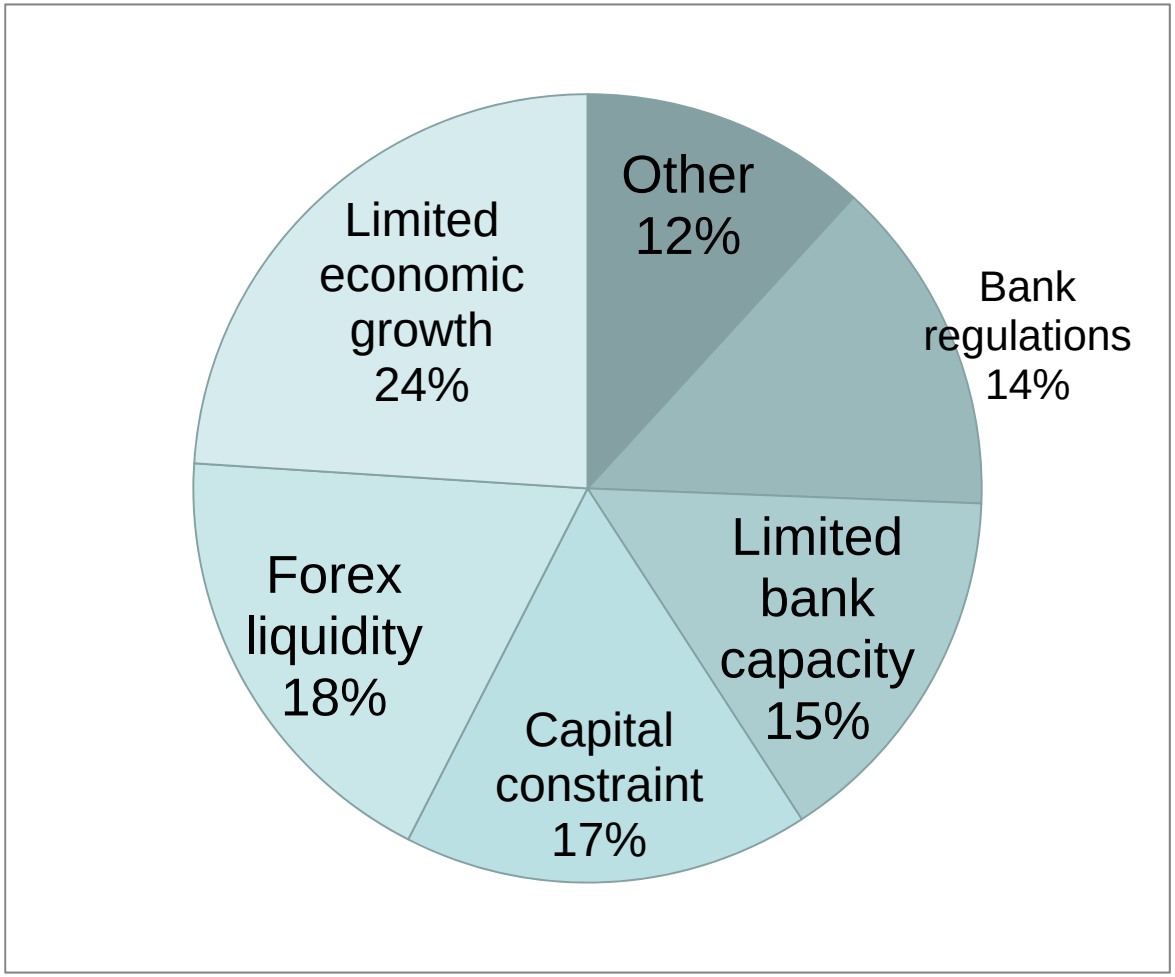


Trade Finance in Africa

Constraints to Trade Finance Growth Perceived by Banks

"**Other**" factors listed by banks include:

- Lack of centralized credit information in the economy.
- Higher competition.



Summary

- African banks finance at least 30% of Africa's total trade
- Trade finance gap remains significant – USD 110 billion
- Trade finance is relatively low risk and consumes less capital
- African banks face numerous constraints in meeting the demand for trade finance
- DFIs like the Bank can help to alleviate these constraints
- The Bank's Trade Finance Program is very relevant and well positioned to address some of these constraints

Thank you