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.
Most Banks in Africa Provide some form of Trade Finance

2011
- 8% No trade finance activity
- 92% Engaged in trade finance

2012
- 7% No trade finance activity
- 93% Engaged in 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 off-balance sheet transactions (e.g. letters of credit)
- 32% were on-balance sheet transactions (e.g. short-term loans).
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

- **East Africa**
  - Off Balance Sheet: 24%
  - On Balance Sheet: 29%

- **Southern Africa**
  - Off Balance Sheet: 28%
  - On Balance Sheet: 25%

- **West Africa**
  - Off Balance Sheet: 18%
  - On Balance Sheet: 10%

- **North Africa**
  - Off Balance Sheet: 8%
  - On Balance Sheet: 4%

- **Central Africa**
  - Off Balance Sheet: 4%
  - On Balance Sheet: 45%
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

USD Millions

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
<th>All Sample</th>
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<tbody>
<tr>
<td>West Africa</td>
<td>1.65</td>
<td>2.34</td>
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<tr>
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<td>Central Africa</td>
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<td>1.37</td>
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</tbody>
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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.
High Unmet Demand:
Bank rejection rates for issuing L/Cs

- Rejection rate below 10%: 89%
- Rejection rate between 10% and 19%: 5%
- Rejection rate between 20% and 29%: 4%
- Rejection rate greater than 30%: 2%
On Balance sheet Trade Finance (e.g. short-term pre-export & post-import loans): Approval Rates

**Over time**
- 2011: 75%
- 2012: 76%
- Total: 75%

**By sub-region**
- Central Africa: 65%
- Southern Africa: 74%
- West Africa: 74%
- East Africa: 79%
- North Africa: 80%
Reasons for denying L/C requests

- Client credit worthiness: 40%
- Single obligor limit: 16%
- Forex liquidity: 9%
- Balance sheet constraint: 13%
- Insufficient limits with your confirming/LC re-issuance bank: 9%
- Other: 9%
- Product or instrument limit: 4%
Trade Finance in Africa

Rejection of Trade Finance loan applications

- Client credit worthiness: 42%
- Single obligor limit: 16%
- Product or instrument limit: 6%
- Other: 12%
- Forex liquidity: 9%
- Balance sheet constraint: 15%
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 L/Cs issued in other regions do not always require confirmation.
Trade Finance in Africa

Major Confirming Banks in Africa

- Standard Chartered Bank, 9%
- Citibank, 9%
- Deutsche Bank, 7%
- Commerzbank, 7%
- Standard Bank, 5%
- UBAF, 5%
- HSBC, 4%
- BNP Paribas, 3%
- Banque BIA, 2%
- Société Générale, 3%
- Other, 48%
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

2011: 4%
2012: 4%
Total: 4%

By sub-region

Southern Africa: 1.1%
East Africa: 2.6%
North Africa: 3.6%
Central Africa: 3.9%
West Africa: 6.3%
Default Rates are much **Lower** compared to other Lending Activities

- **Trade finance assets**
  - Eastern Africa: 2.6%
  - Central Africa: 3.9%
  - Western Africa: 6.3%
  - Northern Africa: 3.6%
  - Southern Africa: 1.1%

- **All assets**
  - Eastern Africa: 6.0%
  - Central Africa: 7.0%
  - Western Africa: 12.0%
  - Northern Africa: 10.0%
  - Southern Africa: 4.0%
Banks have positive outlook

All banks

- Yes: 72%
- No: 15%
- No Answer: 13%

By sub-region

- Central Africa: 50%
- East Africa: 83%
- North Africa: 50%
- Southern Africa: 68%
- West Africa: 74%
“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
Trade Finance in Africa

Thank you