Trade Finance: Addressing structural access issues in Africa

Mr. Yaw Adu Kuffour
Head, Trade Finance
May 2012
Presentation Outline

- An overview
- Structural access issues
- Challenges faced by SMEs in Africa
- AfDB’s intervention thus far
- Collaboration with other IFIs
- Revamped Trade Finance Strategy
- Our Aspiration
• Trade Finance demand continues to outstrip supply in Africa spurred by rapid growth in South-South trade.

• Africa trade experienced more than a 3 fold increase over the last decade to reach USD1.2B in 2010.

• This growth has not been without challenges leaving Africa with less then 3% of global trade.

• Poor access to affordable trade finance is a major drawback and is a reflection of:
  ➢ Lack of financial and technical resources of local banks
  ➢ Changing economic landscape of International banks which has led to:
    ✓ New capital and margin pressures
    ✓ Increased risk aversion to peripheral markets
    ✓ Gradual retreat to their local and familiar markets

All this has created a structural gap which requires collective intervention of DFIs.
Trade finance in Africa continues to be constrained by:

- Fragmented markets and small ticket transactions that make TF costly for banks
- Weak regulatory and institutional arrangements
- Small number of dominant players
- Small local and regional banks
  - Limited visibility outside of Africa/external ratings coverage
  - Sophistication of financial products
  - Trade finance capacity – technical/financial
Challenges faced by SMEs in Africa

Despite their vital contribution to GDP, job creation and economic growth, SMEs generally lack access to affordable financing. In SSA only 20% of SMEs have a line of credit due to:

• **Less conducive operating environment**
  - Inadequate business support services
  - Limited entrepreneurial development opportunities
  - Nascent credit bureaus and collateral registries

• **Knowledge gap**
  - Trade Finance Products
  - Risk Management

• **Inadequate skills set**

• **Weak Balance Sheets**
AfDB’s intervention thus far

• 1993 - AfDB pioneered the establishment of a dedicated Trade Finance affiliate – Afrexim Bank

• Post 2009 - The Bank established a temporary USD1bn Trade Finance Initiative in response to the global financial crisis
  ✓ USD 500m - Trade Finance Lines of Credit
  ✓ USD 500m - Global Trade Liquidity Program with IFC

• Board approved transactions totaled USD 730m.

• Counting rollovers TF facilities in which the bank has participated has supported USD 2.5bn volume of trade.

• This amount financed 190 transactions in 19 RMCs- with over 80% benefitting LICs

• In 2011, AfDB finance trade transactions amounting to USD 850m.
Collaboration with other IFIs

• Based on the achievements and limitations of programs offered by other DFIs and Africa’s specific TF needs, AfDB has opted for a model similar to that of AsDB.

• In 2011, AfDB and AsDB agreed to collaborate and share best practices in Trade Finance.

• MOU and NDA were signed in 2011 with AsDB to share proprietary trade finance information and to assist in the setting up of AfDB's program.

• A cross-functional team from AfDB visited AsDB in April 2012 to better understand their model with particular emphasis on Risk Participation Agreements.
AfDB New Trade Finance Program

**Activities**
1. New TFU set up
2. Business Plan developed
3. Operational tools
4. Deal prospecting

**Products**
1. Risk Participation Agreements
2. Revolving Credit Facility
3. Commodity Financing Facility

**Target** - USD1 Billion Exposure limits
Aspiration

To make AfDB redundant in Trade Finance in Africa!

Through:

- Seeking comprehensive Pan-African coverage with emphasis on underserved (high risk) markets.
- Improved local knowledge of International Banks
- Increased intra-African trade
- Building capacity of local banks and other economic actors
- Improved regulatory environment for SMEs