Annex 2

SUMMARY OF AfDB'S AFRICAN TRADE FINANCE SURVEY

1 As part of its trade finance initiative, the Bank engaged a consultant to undertake a field survey on the state of Africa's trade finance markets. From January to April 2009, 74 commercial banks and specialized financial institutions were contacted by the AfDB to discuss constraints to trade finance availability in the continent. Financial institutions along the different stages of the import and export financing value chains were interviewed, including global commercial banks, growing regional banks, large, medium and small local commercial banks, as well as specialized trade-focused intermediaries.

2 Several major international players dominate global markets for trade finance: Citibank, HSBC, Standard Chartered Bank, and Deutsche Bank were cited as important correspondents in all the markets surveyed. In addition, banks like the Bank of Beirut, Mashreq Bank, Standard Bank, Unicredito and BNP Paribas have strong regional franchises. Finally, commercial bankers note the emergence of new European-based, African-owned players like Medicapital, Ghana International Bank, First Bank UK, and Trust Bank UK.

3 Across the continent, bankers commented on the global financial crisis: Although the current impact was not yet significant at the time of the survey, the high levels of uncertainty were constraining trade. Many bankers noted that demand for exports was falling as were commodity prices, that government spending was slowing, and remittance flows were expected to fall as unemployment in advanced countries increased.

4 Commercial banks generally reported that the use of trade instruments, particularly letters of credit, was falling along with global trade volumes. In addition, letters of credit are seen as expensive and complicated to use. Commercial banks of all sizes reported that line availability remains strong but terms and conditions were changing. For example, banks in Kenya indicated that prices had increased by 100% over the previous 12 months while banks in Ghana and Senegal reported a 50% increase. Banks in all markets reported tenor shortening, with most indicating that lines were no longer available for more than 180 days, compared to maximum tenors of 270-360 days in 2007.

5 Many commercial banks, particularly large and medium commercial banks, reported working with the IFC on their Global Trade Finance Program. In this program, which is currently available in over 30 countries in Africa, IFC provides credit enhancement to allow greater confirmation line availability to issuing African commercial banks.

6 Commercial banks found IFC useful, although somewhat expensive and slow to respond. Commercial banks indicated that IFC's inability to finance public sector transactions was a constraint to business growth. Smaller and newer banks indicated they had neither the track record nor the balance sheet size to work with IFC. In addition, bankers indicated there is client interest for certain markets in which IFC does not operate, like Zimbabwe and Sudan.

7 Availability of import finance facilities is being sharply constrained by a lack of liquidity in international markets. According to the IMF[23], 90% of banks report that the cost of trade lending has increased primarily due to their own increased cost of funds. Commercial banks reported that a combination of asset arbitrage (funding less liquid assets versus the short term and self liquidating trade assets), fewer participants in the market, and regulatory changes had increased their cost of funding. In addition, these banks also indicated that local market considerations for certain large African markets had resulted in increased risk premiums for these facilities.

8 Increased cost of funds and increased risk perception have resulted in decreased liquidity to fund trade transactions across the continent. Commercial banks reported that funded facilities are less available, and then only at significantly higher prices at shorter tenors. International banks reported a decreased appetite for funded transactions. Some regional banks expressed a desire to expand their servicing of other African commercial banks but indicated that access to US Dollar liquidity constrains their ability to do so.

9 Bankers noted that exporters are typically very small, fragmented, and frequently unstructured. Large, medium and small commercial banks in all the markets indicated they were seeking to expand the SME banking business and were investing heavily in branches and technology to do so. Bankers noted further that the small size of African exporters was leading them to sell to small traders/aggregators, whose creditworthiness is difficult to assess. This constrains their ability to further finance exporters.

10 Larger exporters have, in the past, been able to access the syndicated export finance markets. However, similar to the funded import finance market, the syndicated export finance market is currently constrained by lack of liquidity, fewer participants, and credit concerns. Commercial banks indicated that there are fewer lenders participating in this market. According to Standard Chartered Bank, there has been a significant decline in the number of non-African banks participating in African deals since late 2007. Furthermore, as commodity prices are falling, warehouse and asset-backed deals are less financeable due to increased collateral requirements and higher risk perceptions. Finally, as in the import markets, regulatory change and the impact of write-downs of other assets are increasing the cost of funding and constraining its overall availability.

[23] IMF-BAFT study. *Survey of Private Sector Trade Credit Developments*, February 27, 2009.