

Economic

Thoughts

Straplan Think Tank

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Conversations in 2020:

AfCFTA

Is there a strategic trade finance framework?



Towards One African Market

The African Continental Free Trade Agreement (AfCFTA) is one of the hottest topics in the continent in 2020. Rightly so as its implementation commences in July 2020. We notice that though there has been various discussions on the topic, not much light has been shone from the trade finance perspective. This report seeks to point out to policy makers and the implementation committee the need to have a holistic and strategic trade finance framework as this is critical for the successful implementation of the AfCFTA and for Nigeria to gain competitive advantage amongst its peers.

Africa’s share of global trade is increasing, despite being relatively low at 4.4%.

Africa is still greatly dependent on the global economy. About 80-90% of trade over the last 17 years has been conducted with trade partners outside the region. Whereas industrialised countries trade more within their regions, Africa has remained much more vulnerable and has not been able to consolidate on made-in-Africa goods.

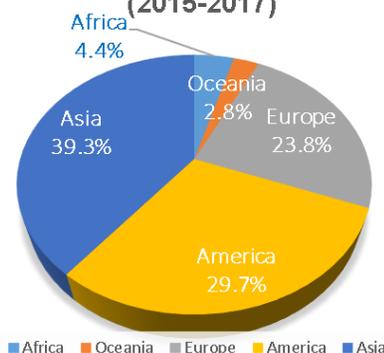
Although intra-African trade has increased during the last decade, it remains significantly low in comparison to what obtains in Asia, North America and Europe, where intra-regional trade remains at 53%, 50% and 69%, respectively as of 2017. The need for a common front to sell African products and increase Africa’s share of world trade has become even more imperative with the continued decline in global trade growth, amid geo-political tensions, nationalist and protectionist steps being taken by global leaders. It is also an opportunity for Africa to reduce its dependence on the rest of the world. Therefore, it only makes common sense for Africa to focus on Intra-regional trade as the only way to go for economic and trade development and integration of policies.

The AfCFTA promises great opportunities to increase Africa’s GDP and trade volumes but it will not be automatic. Each country must craft its own strategy.

Current statistics shows Nigeria’s exports to Africa saw a consistent increase between 2016 and 3rd Quarter 2019, consistent with the intra-African trade strategy. However, we

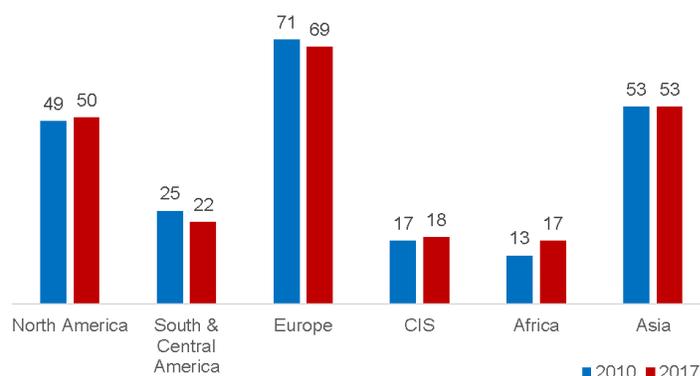
are not convinced the increase in Nigeria’s trade with Africa has really been deliberate.

Average Share of World Trade (2015-2017)



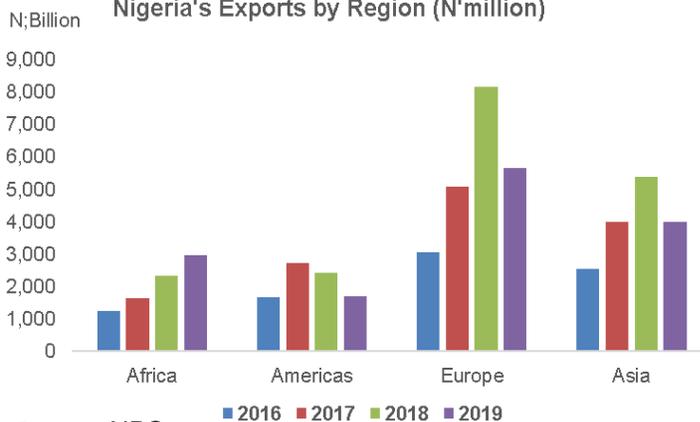
Source: UNCTAD

Share of Intra-regional trade (% of total trade)



Source: WTO

Nigeria’s Exports by Region (N'million)



Source: NBS

Our interest therefore is to see the development of a strategic financial framework that would help Nigeria strategically position to take advantage of competition within the region.

Institutions: Will Nigeria Revisit its EXIM Strategy?

Most industrialised countries have an export credit agency (ECA) and or an export-import bank (EXIM) to support their local companies and traders in gaining competitive advantage in cross border trade transactions. These entities basically provide credit, insurance and guarantee services for trade. In fact ECAs/EXIMs have lately become the advance guard for international project financing and trade as they lower the risks of private lending with export credit guarantees. Collectively, ECAs now provide more financing across the globe than other sources, including the World Bank and other regional development banks. According to ECA Watch, ECAs are estimated to have supported between \$50-70 billion annually in medium to long-term transactions and 'hold more than 24% of developing countries' total debt and 56% of debt owed to official agencies'.

ECAs have different financing strategies which may focus on 1. **local companies**, in form of pre- & post shipment credit, supplier credit, project finance, equipment finance, insurance and credit guarantee facilities, research, etc; 2. **commercial banks**: in form of rediscounting facility and refinancing of supplier credits etc; and 3, **foreign entities** in form of buyer credit and lines of credit. These strategies help to ensure continuous supply of local products that are competitive while creating or increasing demand from trade partner countries.

Nigeria also has an EX-IM, the Nigerian Export Import Bank (NEXIM), established by Decree 38 of 1991 as an export credit agency (ECA) set-up essentially as an instrument of economic recovery and diversification. It is the only ECA

in West Africa and Nigeria's main export financing institution by mandate.

Nigeria's implementation plan should consider using NEXIM or another organization of ECA status (perhaps the Development Bank) and orientation as forerunner in the operationalization of the AfCTA trade financing framework. Many countries have more than one ECA. to cover key export financing product offerings, particularly insurance. For example, China has *the China - Export-Import Bank of China (Exim)*, *China Export & Credit Insurance Corporation (Sinosure)*, and *People's Insurance Company of China (PICC)*. Brazil has *Brazilian Guarantees Agency (ABGF)* and *Brazilian Development Bank (BNDES)*, South Korea -*Korea Trade Insurance Corporation (K-SURE)*, *The Export-Import Bank of Korea (KEXIM)*. United States - *Export-Import Bank of the United States (Ex-Im Bank)*, *CoBank*. India - *Export-Import Bank of India*, *Export Credit Guarantee Corporation of India (ECG)*.

Importantly there is need to be practical about the size of capital required for a trade finance framework that would support Nigeria's manufacturers, exporters, importers, commercial banks and foreign entities to give Nigeria competitive advantage in the over 1.3 billion market. It is our opinion that NEXIM has not been positioned well enough to act as an EXIM that can stimulate demand for local firms and support the scale of transactions, in volume and value, that the AfCTA operationalization is expected to stir up. There may be need to review its capitalization, scope and product offering. NEXIM's impact has remained limited over the years. Particularly with an authorized share capitalization of N50 billion (\$138m), compared with the likes of EXIM Bank of India which doubled its authorised share capital to Rs 20,000 crore (\$2.8 billion) in January 2019 and Afrexim with \$5 billion.

Products:

It is also important to be deliberate about the products that will serve the market beyond vanilla short and mid-term loans. Essentially, Nigeria must consider using buyer credit and lines of credit in specific countries in the region to strategically stimulate demand for local products from Nigeria. The dearth of trade insurance and guarantee products in the Nigerian financial market requires attention. The insurance component of the credit architecture remains alarmingly weak, with less than 2% of the adult population in Nigeria using insurance products and services. A functioning Insurance and guarantees sub-sector is a critical component of an efficient trade finance framework. Similarly, factoring and warehouse receipts are products essential to de-risking and formalising cross-border trade transactions.

Legislative Reforms

The implementation committee must seek to achieve a speedy passage of trade finance-related bills at the National Assembly and get the President's assent. In particular, the Factoring Assignments Bill and the Warehouse Receipts Bill would need to be passed into law speedily to broaden financial product offering. Factoring and forfaiting, warehouse receipts are part of financial services that are critical to the efficiency of trade transactions and financial inclusion. They will diversify the financial products available to MSMEs and help formalise the significant number of women and youths involved in the informal cross-border trade market.

Trade information and cross border credit bureau system

Cross-border trade credit information sharing will become important to fast-track credit processes in regional trade. Enhanced by the Credit Bureau Act 2017, credit bureau coverage in Nigeria in-

creased to 14% of the adult population in 2019, including thousands of enterprises. With the expected explosion in the volume of cross border transactions there is need to plan to collaborate with other trade partners to exchange trade and credit information for transparency, efficiency and risk management.

Establishment of joint credit reporting systems (CRS): UEMOA has set a precedent. The first cross-border credit bureau was established by the UEMOA counties (Bénin, Burkina Faso, Côte d'Ivoire, Guinée Bissau, Mali, Niger, Senegal, Togo) in 2017. According to the World Bank, the credit bureau has 'covered over 6 million individuals and over 117,000 enterprises by July 2019'.

What about shared technology platform for trade finance

The role of emerging technologies particularly block-chain must be explored and considered to create trade finance platforms for efficient, transparent and secure cross-border trade transactions. An example of a block-chain enabled trading network is **we.trade or Digital Trade Chain**, an innovative digital platform set up by nine of Europe's biggest banks in 2018 to promote an increase in trade across Europe, involving a network of stakeholders across the entire trade value-chain. These include, banks, traders/MSMEs and payment channels.

It is a capital mistake to theorize before one has data, insensibly one begins to twist facts to fit theories, instead of theories to fit facts— Sherlock Holmes.

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