Covid-19: What lies ahead for trade finance in Africa?

ITFA board member Duarte Pedreira provides his high-level thoughts on how Covid-19 will play out in Sub-Saharan Africa in terms of the impact on trade flows and access to trade finance, and debates whether or not African financial institutions are prepared to weather the storm.

Pedreira, who leads ITFA's Emerging Leaders, is the head of emerging and frontier markets at Crown Agents Bank, which specialises in providing and delivering emerging markets foreign exchange to OECD-based clients, as well as wholesale banking services (including trade finance) to central banks and commercial banks in emerging and frontier markets.

Q: In what way do you think the current health crisis will impact trade flows with and within Africa?

Pedreira: From a trade point of view, it's still a big unknown. The big story in Africa up until recently was the African Continental Free Trade Area (AfCFTA), which is in the process of being rolled out. But the outbreak of the coronavirus has thrown a big spanner in the works. Global trade is bound to slow down, and intra-Africa trade is likely to do the same because of the various lockdowns that have been implemented across the continent. Just today Zimbabwe went on lockdown. You can imagine that for a country that is already so debilitated from the point of view of trading with outside partners, going on lockdown is a measure of last resort.

If the worst case scenarios that people are talking about do materialise in the numbers and dimension and scale that the economists are pointing to, it will be a massive lost opportunity for the continent. I think the continent stands a lot to lose given where it was prior to the pandemic, in terms of its own development, the development of trade between African countries, and various other trade-related initiatives: people were talking about a monetary union, central settlement systems, and so on. Now, in terms of the logistics and infrastructure, these initiatives all hang in the balance.

The situation with the oil prices presents the continent with a double-whammy. Prices have depreciated significantly, and oil exporting nations are probably working at a price of barrel below their budgeted levels. This too will have an impact in terms of their national budgets and the local economies and, again, trade will suffer.

The lockdowns mean that borders, ports and airports are being shut down. And every day that you bring trade to a halt has a consequence, in terms of not only the trade flows themselves, but also the people living on the back of those trade flow. If logistics are shut down, revenue shuts down as well, which means that entire regions come to a grinding halt. Africa was on the verge of something really, really big, and it will be heart-breaking to eventually see that recede because of this pandemic situation.

Q: What do you think the effect will be in terms of access to trade finance for companies across the continent?

Pedreira: Financiers are retrenching. People have learned their lessons on the back of the 2008 crisis, and capital protection seems to be the name of the game. No one really expected such a colossal crisis to be on the doorstep so quickly after 2008. But now is the time to test all those capital models that have been developed over the last 12 years. And believe me, no one wants to be on the news for failing a capital test, or not having enough capital to meet their obligations. So everybody is theoretically in a defensive stance. That involves trade both within Africa and those financing trade flows from and to Africa, but from outside the continent.

From a Crown Agents Bank point of view, we are seeing banks operating within their business continuity plans, some of them entirely remotely, and some of them on a 50/50 basis. But it doesn't strike me that this will be the time for someone to come up with a bright new idea to, for example, explore a mine somewhere in Zambia, and all of a sudden get it financed by an international syndicate. I don't think that will happen. I think people will be at best doing some “farming”, as we call it, of existing revenue and rolling over existing facilities, but always through the lens of capital preservation. Access to finance is already suffering and eventually the scale and dimension of this potential crisis will dictate for how long and how far that contraction in terms of available trade financing will go.

Q: The African Export-Import Bank (Afreximbank) – an ITFA member – has recently announced a US$3bn facility to help its member countries weather the economic and health impacts of Covid-19. Development banks around the world have made similar statements. How effective will such measures be in offering support to companies in need of trade finance?

Pedreira: I'm not at all surprised that Afreximbank has stepped up and done what they normally do, which is to act in the best interests of Africa as a continent and the African financial institutions, importers and exporters. My question mark over this initiative is whether or not it will be sufficient. Moreover, while I'm sure that the bank means for that US$3bn to be available for African economies, the devil will be in the detail in terms of how to access it, and who can access it. Is it open to smaller businesses as much as it is for larger businesses? Is it for financial institutions, and if so, what about their own credit appetite when it comes to deploying those fund? We need to dig a lot deeper into what this number actually means to see if it will have a material impact in terms of financing trade in Africa.

Q: With commercial banks retrenching, does Africa’s trading future now lie solely in the hands of development finance institutions?

Pedreira: I certainly hope not. Development finance institutions (DFIs) are very good: the likes of Afreximbank, the African Development Bank and the African Trade Insurance Agency (ATI). But Africa must move on decisively from the support of just DFIs. I think the African financial system, led by commercial banks, and many of them strong regional commercial banking groups, is solid enough to justify running the African financial sector independently. Now, will commercial banks be hit by this potential crisis? Again, it's a big unknown. From my experience in the continent, African financial institutions are much better prepared for big shocks nowadays than they were in the past. I guess now’s the time for that to be tested.

Q: What will be the focus of ITFA’s African Regional Committee during this period?

Pedreira: The African Regional Committee (ARC) has been running since 2016 – it is now chaired by Afreximbank. The ARC has grown in terms of membership, but we can still do a lot more. We are heavily invested in making sure that we become as inclusive as possible, as well as a source of information on trade finance-related matters for African financial institutions focused on trade. Now is one of the best opportunities we have to expand within the continent and to prove our worth in terms of the value we can create and add for our members.

We have a few things in the pipeline. As you will have seen, ITFA has been hosting a number of online webinars, and will continue to do so. But because we're an association that prides itself on networking opportunities and facilitating interaction amongst our members, we hope this will be a temporary situation.