

Harnessing regional strengths to boost trade and export growth

Crédit Agricole CIB has recently reinforced its long-standing presence across the Middle East and North Africa with the establishment of new offices in Qatar and Saudi Arabia, further demonstrating its continued strong commitment to the region. **Simon Lee**, Managing Director, and **Mohit Daswani**, Executive Director, International Trade and Transaction Banking for MENA, outline ways in which the bank is channelling its recognised leadership to support the region's considerable trade and export finance opportunities.



Simon Lee, Crédit Agricole CIB



Mohit Daswani, Crédit Agricole CIB



Q: What has been the impact of the pandemic on MENA's trade and export finance flows, and what is the outlook now during the ongoing geopolitical uncertainty?

Daswani: The gradual recovery we saw last year in trade flows intensified in the first quarter of 2022. Much of this has been driven by higher oil prices. At the same time, high vaccination rates across the GCC are underpinning economic recovery.

The World Trade Organization (WTO) is predicting¹ 2022 export and import volume growth for the Middle East of 11% and 11.7% respectively, which is above average compared to other regions in the world. The WTO has recently revised all of its 2023 forecasts downwards, except for the Middle East. Nevertheless, these are times of great uncertainty, and this recovery is likely to be uneven across net oil importers and exporters.

Lee: Over the last few years, throughout Covid, there has been a continuation of government-led infrastructure investment

and strong capital expenditure on the part of borrowers, combined with the ongoing support of export credit agencies (ECAs). This has created a strong pipeline of export finance business and hence we remain optimistic in terms of our outlook for the region.

Of course, looking ahead, it's evident there will be some impact as a result of the Ukraine conflict and rising commodity prices. But the region continues to offer some of the best growth prospects globally and we believe this will continue.

Q: Can you provide some details about your business pipeline in both export and trade finance?

Lee: While our export finance pipeline spans the entire GCC region as well Egypt, we're currently seeing the most opportunities in two countries: Saudi Arabia, which is in the midst of developing its so-called giga-projects and where we have had a presence since 1948 through Banque de l'Indochine, and now with our recently opened new subsidiary Credit Agricole CIB Arabia Financial Company;

and Egypt, home to the region's largest population and where we have a very substantial existing presence through our local entity Crédit Agricole Egypt. Both of these countries are making substantial investments in infrastructure, which is driving significant financing opportunities – particularly those that can be backed by ECAs – and which we are well placed to support as a market leader in this business.

Daswani: We're expecting our trade finance business to grow, predominantly across a number of countries, including the UAE, where we are headquartered and believe there are many opportunities; Saudi Arabia, the growth engine of the GCC; Qatar, where we have had good momentum since we obtained our banking license in 2020; and Egypt, where our strengths can complement that of our local subsidiary to attract new clients.

Q: Which trade and export finance solutions are most in demand, and are those needs being met? What are some of the recent transactions of note that Crédit Agricole CIB has led in the region?

Lee: The classic export finance product, that of tied ECA support, which is linked to a specific contract or project, continues to be in demand, and the bank has shown a strong commitment to supporting those requirements. A recent example of this was our leading role earlier this year as sole structuring, coordinating and documentation bank in the US\$1.5bn SACE-backed financing of Egypt's Assiut oil refinery expansion project. It was a very complicated and challenging structure, which included a number of market firsts, as well as a rare local bank onlending tranche. We see the potential for similar such structures in future.

There is also strong interest across the region in untied ECA support, which offers potentially very large volumes and greater flexibility in comparison to tied facilities. One such example in 2020 was the landmark US\$3bn untied financing facility, backed by the Korean ECA K-Sure, to strengthen the economic cooperation between the Ministry of Finance of Saudi Arabia and the Republic of Korea. We led the deal as sole ECA coordinator, structuring and documentation bank. It was only the second ever ECA-supported financing at the sovereign level in the kingdom. The first such deal, a US\$258mn financing, which, again, we led as sole structuring and documentation bank, closed earlier that year, was also the first green ECA financing in the region. This was backed by German ECA Euler Hermes and was in respect of the financing of buses destined for Riyadh's public transport system. We expect to lead more of these deals going forward.

Daswani: In trade finance, there is still demand for the traditional products, such as letters of credit and guarantees, but we're also seeing more interest in supplier and receivables financing solutions. Whereas in the past, companies operating in the region may have been more focused on long-term financing, today they're increasingly prioritising their working capital optimisation strategies. The Covid crisis has demonstrated the need for companies to improve cash conversion cycle and focus on balance sheet management.

We have the capacity and liquidity to provide these solutions, and so are

supporting a number of new and existing clients across sectors, such as metals and energy – including oil majors – who are actively seeking these products from us. A lot of this activity is being driven by higher oil prices, with buyers requesting extended payment terms – sometimes up to 120 days on a crude oil sale.

Q: Across MENA, nations are diversifying their economies as they look to decarbonise in line with specific targets. What is the bank doing to support this shift?

Lee: As a bank, we have always been particularly focused on environmental and social due diligence in our export finance business, and that approach has been reinforced by the adoption of the Equator Principles 4 in 2020.



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Several ECAs have announced plans to reduce support for fossil fuels and incentivise the energy transition. Crédit Agricole CIB was one of the first banks in the world to begin phasing out coal financing.

The transportation sector is one area where the bank can harness a number of new opportunities in the export finance space. Across the region, there has been considerable investment in transportation projects that provide sustainable public transport and ultimately reduce greenhouse gas emissions, from the cross-border GCC railway network to Egypt, which is upgrading and electrifying its railway lines. Consequently, these countries have a significant need for green investment to fund their new, more energy-efficient transportation sectors.

Daswani: The bank has a strong ESG focus. Green finance, including green and sustainability-linked bonds and loans, are key to our strategy. We're a market leader in this space globally, and we're looking to leverage this strength in MENA.

We're making good progress and have identified clients in various sectors, including the renewable energy space, who we plan to support with our wide range of green trade finance solutions.

Q: The range of key infrastructure projects across the region has highlighted the vital role of ECA-supported funding. How has the landscape evolved in terms of the growth of local ECAs and what are the potential areas for improvement?

Lee: The main rationale as to why many borrowers use ECA financing – for its long tenor, funding diversification and competitive all-in pricing – remains unchanged. ECA financing also offers more stability in comparison to bond markets, which, particularly at the moment, can be more volatile.

We expect local ECAs will have an increasing role to play in this environment. So far, they have tended to support large trade volumes, but we see opportunities to become more involved in working alongside some of the OECD ECAs in supporting large-scale infrastructure projects. For example, we see local ECAs adding value in some markets where credit is more challenging, where they can step in to support a transaction that might not otherwise be able to take place.

Another area where local ECAs can add value is in providing reinsurance to the OECD ECAs on transactions where there may be capacity constraints on the part of the OECD agencies, but where there is sufficient local content to justify local involvement. We see that trend continuing.

The UAE's Etihad Credit Insurance is one of the highest-profile ECAs in the region. But we expect others, including Saudi Exim, which is more recently established, to play an increasingly important role given the size of the Saudi economy.

As ever, MENA is an exciting and dynamic region where ECA financing opportunities constantly develop and as a market leader in this business we look forward to continuing to work with our clients to support them here.

Reference

1. https://www.wto.org/english/news_e/pres22_e/pr9022_e.pdf