



Trade Finance in MENA: Going from Strength to Strength



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Despite the ongoing political uncertainty, the future of trade finance and cash management-related services in the Middle East and North Africa (MENA) region looks bright. This is reflected in the strong growth of corporates in the Kingdom of Saudi Arabia (KSA) and United Arab Emirates and the resilience of intra-regional trade flows — not to mention the increase in trade flows between MENA and Asia. This surge in trade activity, which shows no sign of abating, is fuelling the corporate demand for sophisticated cash management and trade finance solutions to enhance supply chain efficiency.

Changing Corporate Demands

While the vast majority of global trade is conducted on open account, trade in the Middle East still relies heavily on traditional letters of credit. This does not mean, however, that the region has no place for more structured and sophisticated solutions — particularly those that could assist local corporates in reducing transaction costs and optimising working capital and risk management.

Whereas domestic corporates would have traditionally dealt with cash-flow issues through overdrafts and regular bank loans, receivables-based financing — and similar structures — are now gaining in popularity. Meanwhile, many regional manufacturers are increasingly recognising the need to assist smaller suppliers in reducing risk. As a result, it is highly likely that the growing trend toward a more

integrated approach to liquidity and risk management, with trade-based financing playing a greater role, will continue.

In accordance with this shift toward a holistic approach to liquidity and risk management, Deutsche Bank is certainly seeing an increased take-up of the sort of sophisticated end-to-end solutions that have now been popular for some time in Europe and Asia. Certainly, many of our regional client relationships that were previously predicated on lending are now extending beyond this, as corporates seek greater efficiency from their internal cash management and supply chain processes. In this respect, MENA's corporates are rapidly catching up with their international counterparts.

An Evolving Trade Finance Landscape

It would be impossible to discuss the financial evolution of the MENA region without considering Islamic banking, which continues to be a key area of growth. This growth is perhaps more visible in the debt financing market — particularly with respect to *Shariah*-compliant bonds — than other sectors, and is an area in which Deutsche Bank plays a number of pivotal functions along the Islamic finance value chain.

The Islamic trade finance sector is also rapidly evolving, with the development of increasingly advanced products encouraging the sector's growth and sophistication. Total trade finance among the 57 members of the Organization of the Islamic Conference is expected to reach US\$4tn by next year, according to the accounting and auditing organization for Islamic finance institutions.

Looking beyond Islamic finance, export credit agency (ECA) involvement in the region has increased considerably over the past few years. Deutsche Bank alone has arranged US\$7bn of export finance since the beginning of 2009, and there are some large transactions in the pipeline.

Although Middle Eastern corporates have traditionally preferred to raise funds in the private market, the global economic crisis acted as a catalyst for change, leading ECAs to become more involved. Now, however, we are seeing a greater number of large, complex project financings that even the biggest ECAs cannot cover independently. This is likely to spark a renewed growth in multi-sourced ECA transactions.

Moving Forward

The MENA region offers ample opportunity for developments in trade finance and cash management, and Deutsche Bank is well-positioned to forge ahead with our recently launched branch in Riyadh offering a full range of cash management and

trade finance services as well as our existing branch in Abu Dhabi, coupled with our onshore presence in Dubai, Doha, Bahrain and Cairo.

The expansion of the Riyadh branch is, certainly, a significant milestone for the Bank's regional franchise, and reflects our strategic focus for MENA. As the regional demand for sophisticated and solutions-driven commercial and correspondent banking partners is on the rise, Deutsche Bank continues to invest in technology and expertise to remain the partner of choice.