MENA trade shows innovation

The Middle East is often seen as being a sweet spot for trade, thanks to its abundant commodity flows and re-export potential to some of the world's most rapidly expanding markets. Kimberley Long examines how the region's trade profile is growing.

Syed Imran Rizvi at NBAD in Abu Dhabi

Paul Boots at Tradeflow, DMCC in Dubai

Dilip Hiremath at Mashreq Bank in Dubai

Business as usual is not what makes the Middle East one of the most dynamic trade finance markets. The region is instead looking to find ways of advancing trade, pushing local banks to the fore that are driving innovation.

The expansion of trade

Dubai's Sheikh Mohammed Bin Rashid Al Maktoum, United Arab Emirates (UAE) vice president and prime minister, has made strong statements about turning Dubai into a global centre of excellence for trade, and his calls have been met with a strong response. Dubai saw its non-oil foreign trade rise by 13% in 2012, reaching a value of AED1.235 trillion ($336 billion), with exports rocketing by an impressive 47%. For those looking for a stable and profitable option, attention is being turned towards trade.

Syed Imran Rizvi, global transaction banking senior manager, National Bank of Abu Dhabi (NBAD), says: "Trade finance is becoming more popular due to the risk appetite in the market. It is becoming a popular tool for use in energy and gas projects, where the instruments of trade finance are being increasingly employed. There have been a lot of larger and fantastic transactions but people want to see the outcome of what is happening across the whole region."

The Dubai Multi Commodities Centre (DMCC) sees the expansion of trade from a different angle, seeing the flow of commodities that pass through the region changing. While oil and agricultural products remain vital, DMCC has expanded its involvement in gold bullion, and most recently the trade in diamonds out of Africa has become a notable sector of growth. And the group is seeing players in the market expanding rapidly, as new companies emerge seeking to take advantage of the opportunities available.

Paul Boots, director, Tradeflow, DMCC, comments: "There's a renewed focus here from the local and the international banks for the SME sector. There's such growth in Dubai for up and coming companies that are using the region as fuel for growth. The banks are recognising this and are bringing in the support when the companies are still at the size where they need support for growth, which is establishing long-term relationships with the banks."

Mashreq Bank has typified this spirit of working with SMEs from their early days with its release of an updated trade and working capital offering to provide additional support for small businesses. The system can be tailor-made to meet a client's needs and does not have limits on its size.

But of course the Middle East expands far out from the trading centres of Dubai and Abu Dhabi, as Dilip Hiremath, head of factoring at Mashreq, highlights, with the significant flows of oil and gas heading from Qatar to Asia, and the intra-regional trade that reaches Jordan, Lebanon and Turkey, boosted by the flows of agri products, coupled with the growth in development of the light machinery sector from Saudi Arabia.

Asif Raza, head of treasury services in the Middle East and North Africa, JP Morgan, says: "Regional trade activity in Middle East North Africa has continued to grow at a much faster rate than in some other parts of the world. The relatively high level of trade in the region is being driven by increased expenditure to drive growth in the region, including significant investment projects in some countries, and the continued strong price of oil.

"Banks have become a bit more active in trade finance in general in the region. Because of the short term nature of debt you find, there is more capacity in the market for trade finance from both international and local and regional banks. These banks have started focusing more on the trade finance business with the clients with whom they've historically had a lending relationship."

Development of Islamic financing

With the growth of trade in the region, banks have looked to stimulate and support its expansion. As part of this, Islamic financing has emerged as a significant method of funding trade, and steps have been taken to follow the demands of corporates for Shariah-compliant solutions.

The DMCC Tradeflow established its commodity Murabaha facility as its first Sharia-compliant mechanism to be backed by commodities that are physically held in its approved warehouses in the UAE. Noor Islamic Bank and Commercial Bank of Abu Dhabi completed the first transaction valued at AED50 million, using assets held by Ducab and ENOC.

The commodity Murabaha allows Islamic banks to manage their liquidity by selling the physical commodities at a pre-determined profit and over a deferred payment period. Once the bank has received the title and possession of the commodities, its customers can sell the commodities in the open market and realise their full monetary value.

Considering the DMCC's landmark move into this territory, Boots explains: "For Islamic financing what we are looking at in Dubai is the DMCC Tradeflow initiative that contributes to the industry with the creation of a platform for the trade of commodities. The commodities being traded are not just anywhere in the world, they are located in Dubai and the UAE. There's a growth of non-physical infrastructure to ➤

Asif Raza at JP Morgan in Dubai

Kamel Alzarka at Falcon Group in Dubai

➤support trade with the introduction of electronic trading systems. We have the physical ports and airports, but now we are expanding, and we are creating infrastructure to support trade and attract more businesses."

The use of Islamic financing offers enhanced support backed by physical assets, and it is expanding outside of the Middle East as demand grows across the Islamic world for compatible facilities – with Malaysia in particular becoming a significant market and providing stronger links within Asia.

Rizvi says: "The growth in Islamic finance has been tremendous here and Sheikh Mohammed is on record saying recently he wants to see Dubai as the hub of Islamic finance. There are now more tendencies for institutions to look at Islamic finance positively, with both local and international banks offering support for these transactions. Its importance has been growing rapidly in the past five to ten years, coming forward to fill the space left with the withdrawal of conventional banks. Because of the tangible assets underlying the transactions banks feel more comfortable."

Islamic banking is one sector where local banks have been able to make their mark, being able to focus on expanding their network of products and utilise their inherent strength of regional knowledge through investing time and resources that overseas institutions may not have readily available to them.

Hiremath notes: "Islamic banking is growing almost twice as fast as conventional banking in the region. This growth is giving the banks greater reach, and higher liquidity. I'm very please we are one of the few banks that offers Islamic factoring."

Local banks stake their claim

Increased activity by local banks has not been solely led by the rise in Islamic financing, but it has helped to build on solid foundations. Strong levels of liquidity mean they are recognised as a formidable presence both regionally and internationally.

Raza says: "You will find the local banks are becoming strong competitors when it comes to trade finance because of excess liquidity. But there is still enough business for everyone as the market is growing, and there are new opportunities in the market. It's still key though to differentiate yourself, innovate your products and maintain commitment to the clients and the region."

The SME sector is proving to be lucrative for the regional players, as the smaller market space is providing plenty of room for those with a strong local presence to make themselves known.

Kamel Alzarka, chairman of Falcon Group, says: "We don't seek to be involved with the mega projects as there's a lot of big boys doing the larger ones. Looking at the smaller transactions in the market still presents a lot of decent opportunities to work on where there is less competition, but greater need for people like us. The international banks haven't disappeared entirely; they're still taking part in the mega deals and on plain vanilla transactions. But anything that is smaller or less plain vanilla I think we can provide a better understanding, a better approach, and a more entrepreneurial direction to transactions."

NBAD is another institution that has taken a lead in working within the region, becoming involved in providing financing for syndicated loan facilities supporting numerous players, for example, First Gulf Bank, and Turkey's Akbank and Isbank. NBAD may be a local bank in its home region, but it is also making strong steps towards increasing its international presence, with the hire of Angela Martins as senior representative and country manager for Latin America, showing it sees the importance of capturing the emerging trade flows of South America.

New ways of working

Although there is plenty of liquidity to be found in the region and the increasing level of business is providing ample opportunities, there is still the growing recognition that finding alternative sources of funding is a necessity to ensure projects and trade can still find the requisite financing, especially if another global banking crisis hits or the eurozone faces further setbacks

Alzarka says: "Trade financiers and alternative financiers have definitely been a very important source of capital for this market for companies to do their business where they can't find the money in the banking industry. Corporates have to turn more to other sources of funding and the regional banks are one of them. Capital markets are another part of it.

"Alternative financiers are here to stay and for a very long time. There's not a week when I do not hear of a new fund being raised or a new company being set up for alternative lending for different types of industries."

As well as looking for different sources of funding, the ways in which transactions are being completed is also seeing a change in focus. The letter of credit (LC) still remains an important way of financing trade, but there are changes developing that are revolutionising the process.

Hiremath points to how the UAE has taken the lead on reducing the amount of documentation that is used, completing deals with just four documents compared with the global average of seven. He sees the use of open account as a growing trend in the region, and Mashreq have moved to accommodate this in both the factoring and the supply chain finance spaces. And although noting that some players are adopting more of a wait and see approach, Hiremath also highlights the rise of Swift's Bank Payment Obligation (BPO) as a potential alternative to using standard LCs going forward to make transactions more efficient, both in terms of labour and costs.

But not everyone remains convinced that the BPO is a method to replace traditional trade, as Raza notes: "There's a lot of discussion over BPO in the market and at this stage corporates are keen to learn more about it. They do see the value of the BPO, but it should not be seen as a substitute to LCs but complementary to LCs and open account transactions, as it is another way to facilitate commerce. Everyone is waiting to see how the development shapes out."

The willingness to try new methods and adapt to change is something that is setting the Middle East apart. The entrepreneurial spirit is driving innovation. ■