Danske Bank

Newsletter

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TRADE FINANCE

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Dear customer,

Welcome to this first issue of the Trade Finance Newsletter 2017. We at Danske Bank have enjoyed collaborating with you during 2016 and thank you for giving us the opportunity to support you in doing business internationally. We are honored that you have just voted us the number one bank for customer satisfaction across the Nordics.

In this edition of the newsletter, we take a closer look at Africa, represented by many very diverse states in terms of social, economic and political circumstances. A few years ago, Africa was dubbed 'the Next Asia' due to its – at the time – rapid economic growth. Since then, a decline in global commodity demand has resulted in more subdued expectations, however with GPD rates still above the average global growth rate, Africa remains a promising long-term growth market.

For decades, Danske Bank has helped customers manage risk and payment flows on trade and investments on the African continent. We understand the banking climate, and we are in this continent for the long term, as also touched upon in the article by Torgny Krook.

Torgny shares his first hand experiences from travelling to a variety of African countries, focusing in particular on the Sub Saharan Region and why this area remains a growth case. Chief Analyst Jakob Ekholt Christensen, moreover, explains a 'Risk and Opportunity Scorecard' related to different nations in Africa as well as the main drivers behind this.

For case inspiration, we have interviewed John Duus Andresen from the international dairy company Arla to provide some insights into how Arla enhances its African footprint. As a Nordic company with roots in the cooperative farming industry, Arla has succeeded in developing its business from a Northern Africa stronghold and across the continent, starting to diversify its product portfolio from traditional milk powder to other products popular to the growing middle class.

Collaboration is a key element in assisting customers such as Arla to grow their business abroad. Beyond that is the understanding of and response to today's and tomorrow's customer requirements. In our technology article, Kasper Selch Larsen will share some of his thoughts on just that, with co-creation as the key word across the wider Transaction Banking universe.

This newsletter will be placed on our website [newsletter library] where you can look up also previous articles of interest.

I hope you will enjoy reading and look forward to receiving your feedback.

Søren Haugaard

Africa – a Continent of opportunities or?

TORGNY KROOK
Head of Financial Institutions – Non OECD

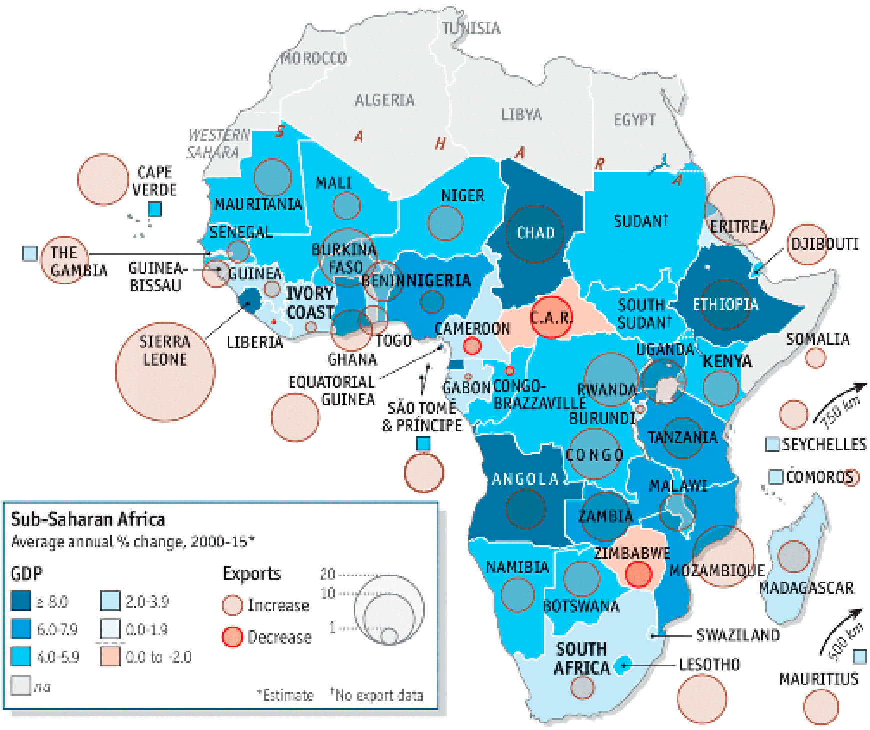
Torgny Krook, Head of Danske Bank Financial Institutions, non-OECD countries, has worked with Africa for many years both as a banker and as an advisor. He has also travelled the continent extensively over the years. He here shares some of his insights on why Sub-Saharan Africa remains a growth case.

To most of us, Africa is still an enigma: So much of the world´s resources and arable land, and yet so much bad news coming out of that continent. For instance, we have for years seen politicians who tended to have more focus on re-elections and personal wealth creation than on establishing a sound economic base of their countries, including functioning infrastructure, strong rule of law, a good education system, a solid tax base, etc.

While North Africa has had their own issues to deal with since the Arab spring with poor economic performance, Sub-Saharan Africa (SSA) has in general experienced almost a decade of strong growth (around 6%). This is also illustrated in the figure below.

I will here try and explain some of the reasons why and what we believe will be the future of African growth as well as where some opportunities might be found. I will also talk about banking in SSA.

Sub-Saharan Economic growth and trade export growth 2000 - 2015



Source: International Monetary Fund, World Economic Outlook Database, October 2015
Economist.com

THE CURSE OF OIL AND COMMODITIES

Some countries like Ethiopia and Rwanda have experienced growth close to 8% p. a. over the last 15 years. Other countries did experience high growth until oil prices started to fall (e.g. Angola, Nigeria) and the same happened to commodity exporting countries like Zambia and Sierra Leone. This has also coincided with Chinese imports falling, as China goes through a structural rebalancing toward more consumption and service driven growth.

Most of the countries that have experienced the curse of oil and commodities like Nigeria (oil), Ghana (gold), Zambia (copper) and Angola (oil) are consequently experiencing a severe shortage of foreign currency, and as a result severe restrictions on government spending and imports and eventually, substantial devaluation of their currencies by 30-45%. Inflation has also risen as a result of higher import prices. All this affects Nordic exporters to those countries who find it increasingly difficult for their clients to obtain import licences and access to foreign currency.

On the other hand, for those considering direct investments for local production and possibly exports from these countries there has probably not been a better time in the last 20 years. There are also in all these countries real measures taken to improve diversification of the economies, to grow exports and to simplify administration for corporates.

DEMOCRACY, PEACE AND TRANSPARENCY

An observation we make is that, although the country may go through a difficult period, and some banks with large exposures to the government and state sector also feel the pain, most banks that we operate with are doing fine. The main reason is that they have concentrated on the private sector, which in many oil and commodities export dependent countries continues to perform well, although at lower volumes.

Over 75% of African countries are now functioning democracies. This is up from 12% in late 1980s. Nigeria is one of the latest examples of peaceful democratic transition. Political awareness and involvement is rising as a result. At the same time, many African countries are suffering from populism.

Another positive factor is that Sub-Saharan Africa is increasingly peaceful. It is in general relatively safe to travel in Sub-Saharan Africa, with the exception of Somalia and South Sudan (armed conflict), the Sahel region (terrorist activities) and certain crime-ridden areas in South Africa.

The smart phone has made Sub-Saharan Africa transparent and this will continue to drive reforms, business, improve financial transparency, financial inclusion and more. Just consider a country like Rwanda where there are now only 50.000 fixed telephone lines, mostly at government institutions and larger corporates. Today there are more than 8 million mobile phones in this country.

All this is also driving regional trade and integration. Good examples of this are the Southern Africa Development Community - SADC (www.sadc.intl) and the two trade and currency unions (fixed rate towards the EURO) in Western and Central Africa.

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WHERE ARE THE OPPORTUNITIES AHEAD?

Africa is large. Distances are considerable and although transportation has improved, it takes time to travel within Africa. This is also illustrated in the chart from the World Bank below (2008) which shows that in terms of size, the US, China, Europe and India may all well fit the continent.

Sub-Saharan countries are also very different in terms of history, culture, food and legal systems, something that becomes obvious when you spend time there. So being rather selective will help and therefore we do believe that focussing on a region like West Africa, East Africa, Southern Africa, would make sense, also because of the Free Trade Areas/Customs Unions in some of these regions.

Sub-Saharan oil-importing countries (excluding South Africa) are projected to represent one of the two fastest growing groups of countries in the world in the years to come. And even oil exporting countries are expected to experience higher growth than other oil dependent regions such as LATAM and the CIS countries.

BANKING IN SUB-SAHARAN AFRICA AND DANSKE BANK AMBITIONS

Most SSA countries will have a combination of local banks sometimes with some kind of 1) state ownership, 2) regional banks and perhaps 3) one or two international banks. The regional banks like Ecobank, United Bank of Africa and Standard Bank are growing their network and importance while the international banks like Barclay´s, Standard Chartered or Citibank are refocussing on a more limited client base or leaving certain markets.

At Danske Bank we aim to have all the above categories of banks included in our relationship strategy but would naturally focus on the larger banks in each respective country. Some countries for different reasons like US sanctions (Sudan), extreme debt levels (Mozambique) do continue to be difficult to bank. It is important to remember that banks in SSA do have limited balance sheets so larger clients tend to work with several banks.

Having said that, the banks are in many cases in better shape than their host country. We are presently reviewing our banking relations in SSA with the ambition to have a stronger and even more relevant network going forward. This means we have allocated more and senior resources to SSA and do travel the region frequently. Our Trade Finance and Export Finance capabilities in SSA are stronger than ever and it is our intention to continue to support our clients going forward in Sub-Saharan Africa.

Some ideas on how to get a piece of the pie

- You have to go there. A desktop analysis will help but presence means everything.
- Pick a country, perhaps one which could work as a spring board into the region (East Africa, Southern Africa/SADC, West Africa etc.).
- You need a local partner, or? Which are the leading families/conglomerates? Meet with them and ask straight questions. Remember, there is no "free lunch" - not even in Africa. However, people are generally interested and helpful.
- Women consumers are often overlooked as a primary target group but they also represent an interesting market.
- In SSA there is a need for robust products that do last. Brand awareness is less of an issue, with some exceptions of course, for instance fresh food.
- Leasing and small packages make your products available for a larger audience.
- You have to travel there, often. Show loyalty and you will be rewarded.
- Establish contacts with several banks, including regional banks. A good banking contact will also have a good overview of the local business community.
- Talk to other Nordic companies in the country.

How can Danske Bank support you?

Danske Bank can back your business efforts in SSA in different ways:

- Introduction to a local bank.
- Arrange Trade Finance and Export Finance solutions.
- Support you with guarantees, bid bonds etc.
- Advise on which banks to work with and which ones not to work with.
- Provide general advice on selective countries.

SUMMARY

Danske Bank remains optimistic about the growth and prospects of Sub-Saharan Africa. We believe SSA remains an untapped opportunity for many Nordic corporates and we are in it for the long term, realising it will be a bit of a roller coaster in some countries. However, there are few areas of the world where Nordic countries and companies are in such high regard, not least as our Governments have for many years provided support and aid to countries in the region, and supported the democratic development in many SSA countries.

Arla in Africa – a growth story

Africa represents a growing market for dairy manufacturer, Arla, who has been active in North Africa for some 50 years and is growing its base in the Sub Saharan region at present.

Arla is in Africa for the long term. Years earlier, the dairy cooperative entered the Northern part of the continent and more recently, activities have been expanded to also include West African countries such as Nigeria and Senegal.

John Duus Andresen, Vice President in Arla, explains:

"West Africa is a strategic priority for us for a number of reasons. Whereas our home turf, Europe, is becoming somewhat saturated when it comes to overall consumption, demand for dairy is on the rise in West Africa. The area is characterised by population growth and rising income, albeit the latter starting from a low level. With rising income comes higher focus on offering your kids better nutrition, including milk, and hence is an attractive business opportunity," he says.

Milk powder brand 'Arla Dano' is sold from various types of outlets, such as this grocery store. (photo courtesy of Arla)

It is Arla's current ambition to increase its annual Sub Saharan revenue from DKK 670m in 2015 to DKK 3.5bn by 2020. In this context, particularly Nigeria is a key market, due to the fact that one out of five Africans is Nigerian or of Nigerian descent. Today the population of Nigeria alone is 187.5m people.

MILK POWDER IS THE CENTRAL PRODUCT

With market operations in approximately 120 countries worldwide, Arla is a true global giant in its industry. The knowledge gained from being a mature company – Arla was founded in the 1880s – and being present in so many markets has proved very useful also in Africa, for example in terms of product portfolio, sales and distribution.

"We cannot take a one-size fits all approach, however, as regional differences do apply."

Thus, the consumer patterns of the Northern part of Africa are rather similar to those of the Middle East, which Arla entered a number of years back. Consequently, North Africa was the first venture for Arla on the continent. Now West Africa and East Africa require more focus.

"Some characteristics of Sub Saharan Africa is that consumers continue to not have access to conveniences such as refrigerators and other cooling appliances, and usage is different, too. The urban population is not used to drinking fresh milk the way we do. Hence, our milk powder brand 'Arla Dano' constitutes a cornerstone in our product strategy."

The consumer will typically purchase 'Arla Dano' in small quanta, down to 7 gram bags, which makes sense with relatively low levels of purchasing power and cash available. The milk powder is most commonly mixed with hot or cold water for drinking or used as a cooking ingredient. Milk powder is also marketed towards the local food sector.

Other relevant products are butter, yoghurt and cheese, the latter to be used for pizzas, amongst others, which are becoming increasingly popular amongst middle class Africans.

GAINING A FOOTHOLD

When asking what is important if you want to enter e.g. Sub Saharan Africa, John Duus Andresen stresses that this will depend on your line of business.

"For Arla, I would say that it is one of our strengths that we are present in the long term. This shows commitment. Being present long-term means that we have set up our own dairy and packaging facilities in a number of places. We have also set up a regional office which has the mandate to make decisions without having to consult with the Danish headquarters on a daily basis."

"Another stronghold in being present locally is that of being closer to the market. This helps us work around red tape."

Local presence, furthermore, means on-boarding local employees who understand local customs and languages.

DEALING WITH LOCAL CIRCUMSTANCE

Strict legislation such as import restrictions apply on the African continent overall. For instance in Nigeria, products need to be registered and approved by local government, and registry requires presence in the country.

So how does Arla cope?

"In Nigeria, we have established our own packaging facility. We bring in milk powder in containers and package it in our facility for further local distribution. Nigeria also serves as a hub towards other countries in the region."

"In terms of branding, it would be wrong to assume that this is less relevant on the African continent given a lower disposable income. Quite the contrary, as generally speaking, food security in Africa is not at level with that of the EU, and parents are obviously concerned about the diet of their children. People want reassurance that their food is safe – that they continually receive the same high product standard. This is what our brand stands for."

PARTNERSHIPS KEY

In Nigeria, besides shops and supermarkets, there is an estimated number of around 200,000 open markets, where the locals shop to fill their everyday needs. So getting out where the people are present requires a fine-meshed sales and distribution effort.

"We do have our own distribution companies in some African countries, but as a rule of thumb, we rely on strong local partners when it comes to distribution and sales. The important thing is that we find someone who fits our needs and who already has a well-established network in place."

Considerations include those of size, values and marketing approach.

"We want to contribute to developing and growing with the markets as they gradually mature. To do this, we take an agile approach to developing our set up. For instance, we started by bringing in test packaging facilities in Nigeria prior to deciding on establishing a large-scale, partnership driven packaging facility."

In Nigeria, Arla makes use of outdoor posters, amongst others, to market its milk powder brand (photo courtesy of Arla).

THE BANKING CHALLENGE

Given the fact that in many African countries, the banking sector is under development and even the large international banks do not have a strong local presence everywhere, doing business locally is associated with more financial risk than in most other geographical markets. Generally, for instance, taking out credit insurance is not an option.

"It is absolutely crucial that we are supported by strong banking partners in Africa. Such partners should have the appropriate trade finance products on their shelves; this is a basic requirement to counter risk."

"Strong banking partners also means broad reach. If only one relationship bank in place, they should have a sufficient network of correspondent banks, as not all local or regional banks will be able to help you with letters of credit, for example. And – needless to say, yet extremely important – we need our financial partners to commit to being present in Africa for a long while," John Duus Andresen finalises.

CHRISTINA FRIS BJØRLING
Senior Communications Consultant in Danske Bank

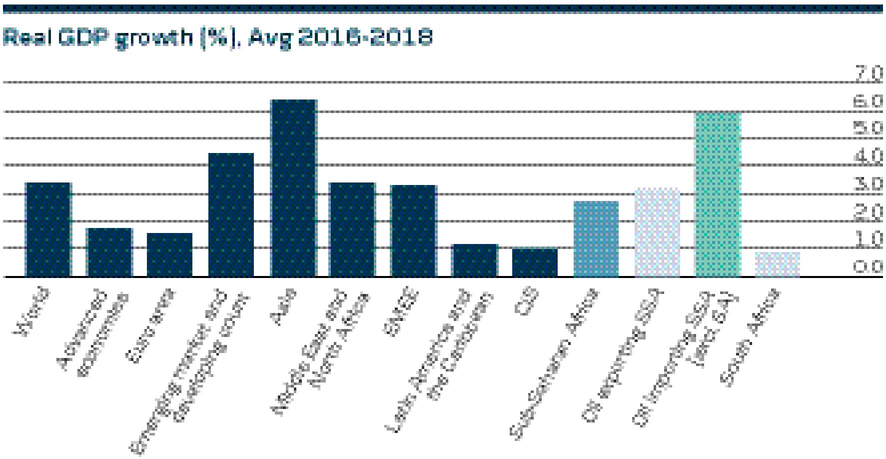
The Interview was conducted by Christina Fris Bjørling, Senior Communications Consultant in Danske Bank

Africa for investors - riding the tides of change

JAKOB EKHOLT CHRISTENSEN
Chief Analyst, Global Research

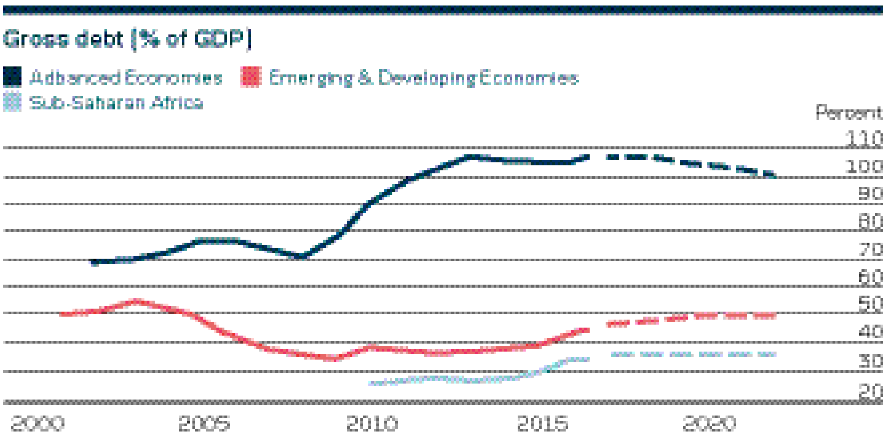
While many other emerging and developed markets regions are struggling to overcome the aftermath of the commodity and debt fuelled economic boom and slowing growth in China, most Sub-Saharan African (SSA) countries boast growth rates above 5% per year. Yes, there are troubles in the "big 3s", Nigeria, Angola and South Africa as they are adjusting to the new realities of lower commodity prices. But oil-importing SSA countries, excluding South Africa, are expected by the IMF to be the second fastest growing region in the world over the next two years only surpassed by the Asian tigers.

Oil importing SSA to have highest GPD growth in Africa 2016-2018 (Source: IMF World Economic Outlook, 2016)



What is supporting growth in these 'African Leopards'? Many are benefiting from increasing economic integration, improving political stability and business environments as well as a growing middle class. In addition, they are not burdened by the same level of indebtedness as the rest of the world is struggling with, partly as they have not had the same access to international debt markets in the boom years and also thanks to the debt relief provided more than a decade ago trough the heavily indebted poor country initiative.

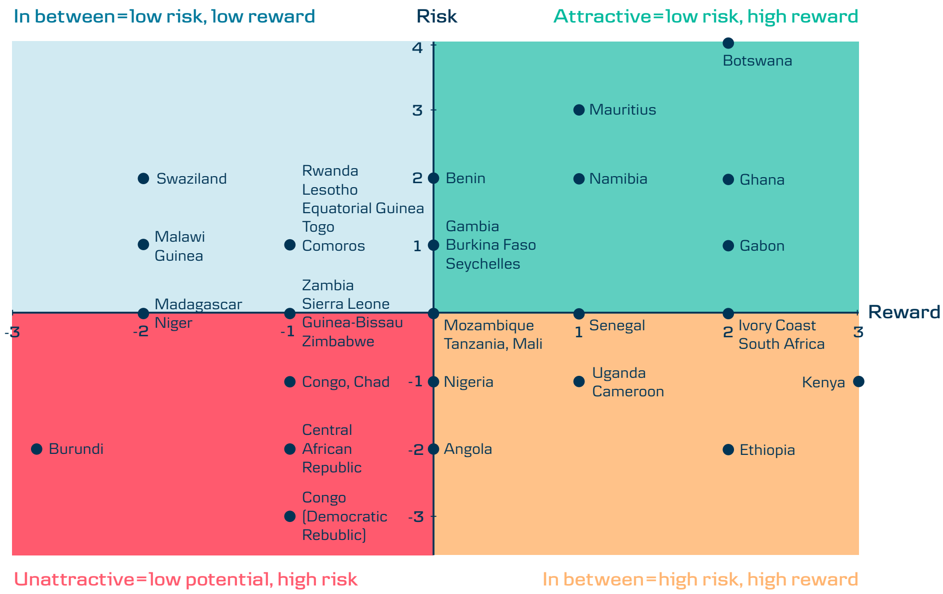
The debt burden is under control. (Source: IMF, 2015)



Furthermore, African populations are growing in size and the continent will be populated by 1bn in 2018. By 2050, Nigeria is forecast to be the world's third most populated country.

RISK AND OPPORTUNITY SCORECARD

SSA countries offer a highly different mix of opportunities and risks to investors. To better guide investment decisions, Danske Bank has developed a scorecard index that allows investors to rank the different SSA countries on their market potentials and possible risks factors.



The market potential measure is not only made up by future economic growth but also the size of the middle class which represents the strongest and most reliable consumers, the size of the GDP (as a measure of the market size) and the UN Human Development Index (measuring broader welfare levels in the countries).

On the risk side, four factors are taken into consideration: (1) macro-economic related risks (measured macro risks, growth volatility and commodity dependency), (2) political risks (such as degree of democratic institutions and civil wars), (3) business environment (risk of appropriation of investment and corruption) and (4) risk of terrorism. Most of these indicators rely on different variables. A high positive score for either the market potential or risk variable indicates a more attractive market.

Which countries are the most attractive to invest in in terms of market potential and low risk? According to our scorecard index, the answer is Botswana, Ghana, Gabon, Namibia, and Mauritius. With a slightly higher risk profile, we see Ethiopia, Ivory Coast, South Africa, Kenya, Senegal, Uganda, Cameroon and Nigeria. The 13 countries mentioned have a total population of half a billion and an expected average growth of just slight of 5% over the next 4 years.

If you want to receive Danske Bank's insights on Africa, please contact your sales person at Danske or send an email to Jakob at jakc@danskebank.dk.

From the past into the future: Towards more integrated banking services

KASPER SELCH LARSEN
Head of Innovation & Solutions
Liquidity& Trade

Head of Innovation & Solutions, Liquidity & Trade in Danske Bank, Kasper Selch Larsen, shares some of his thoughts on how banks and their customers will become closer going forward.

During the long cold months of winter, it is nice to think back on the previous summer. I had the pleasure of visiting friends in Saskatchewan, which is a province in Canada. We paid a visit to "Western Development Museum" in Saskatoon and a bit unexpectedly, the visit reminded me about the essence of banking.

On the “main street”, dating back to the early 1900s, you could find everything you needed: A barber, a butcher, a bakery, a clothing store, a bar – and of course a bank. The bank had two counters labelled Ledger and Discounts. In addition, there was a bank manager’s office.

So there we have it. The role of the bank is to help depositors keep their cash safe, help the community by lending that money out again, and help facilitate trade as well as mitigate financial risk by e.g. discounting invoices.

TOMORROW IS CO-CREATED

Although time has passed by since the 1900s, not much has changed in terms of the basic banking needs. They are still the same as 100 years ago: Risk mitigation, financing, deposits. What has changed and continues to change at unprecedented speed, however, is the way we approach banking and the world around us.

The world has become increasingly technological. Cash as a payment method is taking a downfall, and so is the cheque. Correspondingly, banking products have developed into a multitude of solutions, including new payment methods, risk mitigation and financing products. Most recently, digital disruption has come to trade finance, and new digital channels are replacing the branch office.

What used to be a bank domain is now becoming a commodity offered by various vendors in the market place. In Danske Bank, we have learned that in order to stay relevant, we must meticulously scrutinise the needs that our products are set out to solve – and we need to understand the context: systems, processes, regulation, culture etc., which our products form part of.

This also implies a different – and more holistic - approach to product development: we are moving towards customer co-creation.

FROM INSIGHTS TO SOLUTIONS

It is difficult to describe a one-size-fits-all recipe on great customer inspired or even co-created product development. My take is that an open and curious dialogue is absolutely key, and specifically on our part: we must understand the customers’ individual pain points whilst also being able to identify patterns across customer concerns to see what holds true business potential.

Our job is then to be skilled at looking towards what is technologically possible, and reach out to competent partners when they can add further value, such as SWIFT for cross border payments or R3 on distributed ledgers. We must also possess detailed knowledge of the world in which our customers operate, in order to be able to challenge and push the boundaries for new kinds of answers.

It is in the aftermath of such considerations that a number of new solutions has seen the light of the day. These include Danske Inhouse Bank, which is real time cash pooling combined with automated internal FX trading so that subsidiaries will only need one account in their base currency, Multicurrency Cash Pooling: real time multicurrency account structure allowing for a net position across currencies, without currency exchange, STP Reverse Factoring and MT798, allowing for digital creation of Guarantees and Letters of Credit. Each of those has been developed with the aim of helping our customers optimise their processes – and their finances.

RETHINKING FINANCING WITH DYNAMICPAY

In Danske Bank, thinking differently challenges our skills set and has at times made us go beyond what may be characterised as the traditional banking offerings. One example of this is our decision to expand our service palette to also include dynamic discounting when launching DynamicPay.

The story behind DynamicPay was a concern by particularly smaller vendors supplying goods and services to large customers, who generally have long invoice settlement dates of 30-60 days or more. This might cause liquidity issues for the small suppliers, who find it difficult and are potentially uncomfortable asking for early payment, or who will otherwise have to turn to a more expensive overdraft facility. The buyer, on the other hand, might have excess cash at their disposal and not getting much in return on it.

DynamicPay seeks to bridge this gap, functioning as an online bank independent interface. Through the interface, the buyer lends out money to their suppliers by offering early settlement of an invoice in return of a discount. The supplier does not need to contact the buyer directly and decides when to receive payment. If the supplier utilises an overdraft facility, the discount merely needs to be lower than the overdraft interest rate to be attractive. In this way, DynamicPay serves as a technology platform solving well-known customer requirements in a new and efficient way.

WHAT IS NEXT IN LINE?

Going forward we will continue to work on improving our offering. Currently we are enabling the Bank Payment Obligation (BPO) under SWIFT and ICC. The BPO is a neutral industrywide practice, allowing customers to pay a specified amount on an agreed date under the condition of successful electronic matching of data. It therefore yields many of the same advantages of a Letter of Credit – but as it is digital, it comes with faster processing time and competitive pricing.

We are also looking at electronic bills of lading and future electronic equivalents, upgrading our factoring offering and together with other banks exploring the potential of Block Chain – just to mention a few things.

The world is changing, technology and globalisation drive our society and businesses. At Danske Bank, we will stick to our customers – strive to understand them, their needs and preferences – and do our outmost to provide relevant products and services. Like in the old days, we help with safekeeping of cash, financing and risk mitigation – but the way we help will continue to evolve over time.

If you are curious to learn more about any of the solutions mentioned above, please reach out to your bank advisor. To learn more about DynamicPay, please visit www.dynamicpay.com

140 years of partnership with the best Corporates and Institutions in the world has paid off

Best Supply Chain Finance provider in the Nordic Region 2017

GLOBAL FINANCE

Best Trade Finance provider in Denmark 2017

GLOBAL FINANCE

#1 Overall Performance Trade Finance Nordics 2017

KANTAR SIFO

#1 Trade Finance in Denmark, Sweden, Norway and Finland 2017

KANTAR SIFO

Contact us

We welcome your feedback and suggestions to our Newsletter as we strive to publish relevant and valuable information for existing as well as potential customers. If you have any comments or suggestions, please feel free to contact us at trade@danskebank.dk or +45 45 14 35 60.