Overview of global cocoa, coffee and sugar markets

Dr Edward George
Head of Soft Commodities Research, Ecobank
12 November 2013, Geneva
Cocoa
Cocoa production is focused on West Africa

Cocoa production, 000s tonnes

% share of world production

- Côte d'Ivoire dominates world production, with 1.45m tonnes produced in 2012/13
- Ghana is its closest rival, with 835,000 tonnes production in 2012/13
- Overall, West Africa accounts for around 70% of world production
- Despite producing 16% of world cocoa, Indonesia & Brazil are net importers

Sources: ICCO; Ecobank Research.
World cocoa processing

Total cocoa grind (not to scale), 2011/12

Sources: ICCO, Ecobank Research.
World exports of cocoa & cocoa products

Total exports, 2011/12

Soft commodity exports (not to scale)
- Cocoa beans
- Cocoa butter
- Cocoa powder & cake
- Cocoa paste & liquor
- Chocolate

Sources: ICCO, Ecobank Research

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Agri-processing is poorly developed in West Africa

% share of West Africa’s raw & processed soft commodity exports, 2012

- Despite producing 70% of the world’s cocoa, ¾ of the region’s crop is exported raw
- 95% of raw cashews are exported raw to India, Vietnam & Brazil
- Large volumes of West African cotton are exported raw to China where it is processed into yarn and fabric and re-exported back to West Africa

Sources: ICCO, African Cashew Alliance, ICAC, Ecobank Research.

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Little value is being captured in Africa

- Share of revenue to farmers has fallen from 16% in 1980 to just 6% in 2012
- This reflects heavy investment in R&D and marketing by chocolate manufacturers
The cocoa trade is dominated by the EU

The EU & USA are major re-exporters of cocoa products

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports (US$ m)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>23,968</td>
<td>54.5%</td>
</tr>
<tr>
<td>USA</td>
<td>4,807</td>
<td>10.9%</td>
</tr>
<tr>
<td>Russia</td>
<td>1,445</td>
<td>3.3%</td>
</tr>
<tr>
<td>Canada</td>
<td>1,390</td>
<td>3.2%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,298</td>
<td>3.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>1,009</td>
<td>2.3%</td>
</tr>
<tr>
<td>Others</td>
<td>10,088</td>
<td>22.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44,006</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports (US$ m)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>21,804</td>
<td>49.3%</td>
</tr>
<tr>
<td>Côte d'Ivoire</td>
<td>4,159</td>
<td>9.4%</td>
</tr>
<tr>
<td>Ghana</td>
<td>3,468</td>
<td>7.8%</td>
</tr>
<tr>
<td>USA</td>
<td>1,592</td>
<td>3.6%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,378</td>
<td>3.1%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,345</td>
<td>3.0%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1,050</td>
<td>2.4%</td>
</tr>
<tr>
<td>Others</td>
<td>9,412</td>
<td>21.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44,208</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

- The EU accounts for over half of global cocoa imports and nearly half of exports (by value)
- This reflects the dominance of European processors & chocolate manufacturers, especially in the Netherlands, Germany, UK & Switzerland
- The USA is an also important import/export market for cocoa
- Despite being the largest cocoa producers, Côte d’Ivoire & Ghana process only around 30% of their production, missing out on value that could be extracted from the chain

Sources: Intracen/ITC, Ecobank Research.
The Big Five dominate the trade in cocoa

% of West African cocoa purchases by volume, 2011/12

- A total of 2.5m MT of cocoa was purchased in West & Central Africa in 2011/12
- Cargill & ADM dominated purchases, with a ¼ market share
- Olam, Barry Callebaut & Armajaro make up a second tier of buyers, with 550,000 tonnes
- African companies make up 37% of purchases, 1/3 of which is PBC
- But many sell their cocoa to the Big Five
- The main trading houses are heavily involved in cocoa futures and in providing trade finance to their suppliers
- The difficulty of obtaining financing is choking off the emergence of new players

Source: Ecobank Research.
Kraft, Mars & Nestlé lead the offtakers

Confectionery sales by leading chocolate manufacturers, 2011

<table>
<thead>
<tr>
<th>Company</th>
<th>HQ</th>
<th>Total sales (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kraft Foods Inc</td>
<td>USA</td>
<td>19,965</td>
</tr>
<tr>
<td>Mars Inc</td>
<td>USA</td>
<td>16,200</td>
</tr>
<tr>
<td>Nestlé SA</td>
<td>Switzerland</td>
<td>12,808</td>
</tr>
<tr>
<td>Ferrero Group</td>
<td>Italy</td>
<td>9,612</td>
</tr>
<tr>
<td>Hershey Foods Corp</td>
<td>USA</td>
<td>6,112</td>
</tr>
<tr>
<td>Lindt &amp; Sprüngli AG</td>
<td>Switzerland</td>
<td>2,796</td>
</tr>
<tr>
<td>August Storck KG</td>
<td>Germany</td>
<td>2,205</td>
</tr>
<tr>
<td>Yildiz Holding</td>
<td>Turkey</td>
<td>2,095</td>
</tr>
<tr>
<td>Meiji Co</td>
<td>Japan</td>
<td>1,791</td>
</tr>
<tr>
<td>Arcor Group</td>
<td>Argentina</td>
<td>1,716</td>
</tr>
</tbody>
</table>

- Total chocolate sales were US$105bn in 2011
- The Top Five companies – ‘Big Chocolate’ – account for >1/3 of world sales
- For the largest offtakers the key issue is securing a regular supply of beans & products

Source: Candy Industry magazine.
# Major reform of Côte d’Ivoire’s cocoa sector is under way

## Côte d’Ivoire’s cocoa marketing regime

<table>
<thead>
<tr>
<th>Previous system</th>
<th>New system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall aim to ensure Ivorian cocoa products remain competitive in Europe/USA</td>
<td>Overall aim to ensure farmers receive at least 60% of the average international price over the season</td>
</tr>
<tr>
<td>Six independent &amp; competing marketing boards</td>
<td>Single, centralised authority under the Conseil du Café-Cacao (CCC)</td>
</tr>
<tr>
<td>Indicative price, routinely flouted at the farmgate</td>
<td>Minimum reference price, enforced with prosecutions for violators</td>
</tr>
<tr>
<td>Sliding scale of export tax breaks for domestic processors</td>
<td>End of all export subsidies for processors (although rebate for mid-crop bean products introduced in 2012/13)</td>
</tr>
<tr>
<td>No forward contracts</td>
<td>Forward auction guarantees buyers for farmers’ cocoa</td>
</tr>
</tbody>
</table>

- Key focus of the cocoa marketing system has switched from the processors to the farmers
- Reform has been successful in enforcing producer price & guaranteeing market for beans
- But processors complain that the commercial viability of their operations is under threat
- Some form of subsidy for processors is inevitable, but the new pricing system should prevail
Coffee
World coffee production

Total production, 2012/13

Soft commodity exports (each bar = 10 mn bags)
- Arabica
- Robusta

Sources: ICCO, Ecobank Research

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Consumption in Latin America & Asia is growing fast

Global consumption has grown by 22.3% over the past ten seasons
The EU has historically dominated consumption, but growth is weak
Latin America & Asia are increasingly important consumers, notably in producing countries

Sources: ICO; USDA, Ecobank Research.
World coffee trade flows

Total production, 2012/13

Soft commodity exports (each bar = 10 mn bags)

- Exports
- Imports

Sources: ICCO, Ecobank Research

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Demand for certified & speciality beans is surging

Demand for certified coffee, 000s tonnes, 2011

% share of world certified coffee market

Sources: 4 Coffee Alliance, Utz, Fairtrade, Rainforest Alliance, Ecobank Research.

- Numerous coffee certification schemes are in operation, led by Utz from the Netherlands
- Demand for certified coffee trebled between 2007 and 2011, to 129,000 tonnes
- The UK experienced the strongest growth in demand over this period,
- Asia is set to become an increasingly important market for certified coffee
### Kraft, Nestlé & Neummann dominate purchases

Coffee purchases by leading offtakers, m 60-kg bags, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>HQ</th>
<th>Total bags purchased</th>
<th>% world exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kraft Foods Inc</td>
<td>USA</td>
<td>13.5</td>
<td>11.8</td>
</tr>
<tr>
<td>Nestlé SA</td>
<td>Switzerland</td>
<td>12.8</td>
<td>11.2</td>
</tr>
<tr>
<td>Sara Lee</td>
<td>USA/Netherlands</td>
<td>8.5</td>
<td>7.4</td>
</tr>
<tr>
<td>JM Smucker</td>
<td>USA</td>
<td>5.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Elite</td>
<td>UK</td>
<td>3.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Tchibo</td>
<td>UK</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Starbucks</td>
<td>USA</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Lavazza</td>
<td>Italy</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Melitta</td>
<td>Germany</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Segafredo Zanetti</td>
<td>Italy</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Aldi</td>
<td>Germany</td>
<td>1.8</td>
<td>1.6</td>
</tr>
</tbody>
</table>


- Kraft & Nestlé purchase around ¼ of the world’s traded coffee
- The top five coffee traders account for 40% of traded volumes
- For the largest offtakers the key issue is securing a regular supply of beans

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Many initiatives are under way to create commodities exchanges (CEX)

Ethiopia Commodity Exchange (ECX) opened in 2008 trading five commodities

CEXs can provide many benefits:

i. Develop domestic & regional markets
ii. Improve quality, marketing & distribution of food products
iii. Strengthen local farmer cooperatives
iv. Provide daily prices rather than static auction prices

The ECX traded around 60% of Ethiopia’s coffee production in 2010/11

A high and diversified level of production is required to set up a successful CEX

Benefits for farmers:
• Guaranteed market, accurate prices, security of payment, new financing opportunities (warehouse receipts can be used as collateral)

Benefits for buyers/traders:
• Fair prices which accurately reflect supply/demand, reduced transaction and transport costs
Sugar
World sugar production and consumption

Production and consumption of sugar, 2011/12
(each full bar = 20m tonnes)

Sources: ISO, Ecobank Research.

- Production
- Consumption

Sources: ISO, Ecobank Research

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India, EU & China dominate consumption

Sugar consumption, 000s tonnes

- Global consumption has grown by 6.6% over the past five years
- India is the largest consumer, at 25.5m MT in 2012/13, 16% of the world total
- The EU, China, Brazil & the USA are major consumers, growing by 6-9% over same period

Sources: USDA; Ecobank Research.
World sugar trade flows

Total exports & imports, 2012/13

Sugar trade flows
(each full bar = 5mn tonnes)

- Exports
- Imports

Sources: USDA, Ecobank Research
The key sugar traders are the same faces
A handful of multinationals dominate

Leading sugar traders, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armajaro</td>
<td>UK</td>
</tr>
<tr>
<td>Cargill</td>
<td>USA</td>
</tr>
<tr>
<td>Czarnikow</td>
<td>UK</td>
</tr>
<tr>
<td>ED&amp;F Man</td>
<td>UK</td>
</tr>
<tr>
<td>Louis Dreyfus</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Novel</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Olam</td>
<td>Singapore</td>
</tr>
<tr>
<td>Sucden</td>
<td>France</td>
</tr>
</tbody>
</table>

- Cargill and Louis Dreyfus have long competed to be the world’s No. 1 trader
- Czarnikow, ED&F Man, Olam, Novel, & Sucden are also important
- It is impossible to track the exact volumes traded by these companies, but their dominance of trade activity is apparent
- Most trade sugar with each other, further cementing their grip on the trade
- The dominance of the major trading houses is discouraging new entrants

Source: Ecobank Research.
Nigeria’s sugar imports are changing structurally

The proportion of refined sugar imports has fallen from 90% in 2000 to 3.3% in 2012.

Import licences are only being granted to companies with sugarcane plantations in Nigeria.

Sources: Intracen; Ecobank Research.
Diversification of sugar projects is gathering pace

Selection of products made from sugar cane

<table>
<thead>
<tr>
<th>Products</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refined white sugar</td>
<td>Domestic, retail, food &amp; confectionary</td>
</tr>
<tr>
<td>Caster &amp; icing sugar</td>
<td>Cakes &amp; confectionary</td>
</tr>
<tr>
<td>Mill white sugar</td>
<td>Domestic consumption</td>
</tr>
<tr>
<td>Brown sugar (Demerara Sugar)</td>
<td>Food preparation</td>
</tr>
<tr>
<td>Sugar cubes</td>
<td>Household &amp; consumers</td>
</tr>
<tr>
<td>Specialist sugars (e.g. isoglucose)</td>
<td>Food &amp; cosmetics industry</td>
</tr>
<tr>
<td>Molasses</td>
<td>Food &amp; confectionary industry; animal feed</td>
</tr>
<tr>
<td>Cane juice</td>
<td>Drink, alcohol (ethanol, rum &amp; cachaca)</td>
</tr>
<tr>
<td>Bio-ethanol</td>
<td>Industrial use, heating &amp; cooking and blending with petrol</td>
</tr>
<tr>
<td>Bagasse (waste material)</td>
<td>Fertiliser, fuel for co-generation</td>
</tr>
<tr>
<td>Co-generated electricity</td>
<td>Powering sugar mills and for sale to local communities and the domestic grid</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>Aviation industry</td>
</tr>
<tr>
<td>Plastics</td>
<td>Disposable FMCG (e.g. Cups, plates)</td>
</tr>
</tbody>
</table>

Source: Ecobank Research.

• Numerous varieties of sugar can be produced, some of them for specialist sectors
• Use of bagasse (waste material) to generate power is growing fast
• Numerous projects are under way to develop bio-ethanol & co-generation
• Many countries are implementing mandatory mixes of bio-ethanol with petrol
Overview of cocoa, coffee & sugar prices
Agricultural raw materials have declined steadily

Global oversupply is key driver of price weakness

Commodity price index, US$, Jan 2007 = 100

- Cotton, NR & sugar were stable prior to 2008 crisis, but were volatile in 2009-11
- Since late 2011 all three commodities have lost ground in response to strong growth in global supplies and successive annual surpluses
- Nonetheless, cotton & sugar prices remain >50% above their level in 2007

Sources: IMF, Ecobank Research.
Beverages have shed most of their gains since 2007

Arabica & Robusta have developed different trajectories

Commodity price index, US$, Jan 2007 = 100

- Cocoa, coffee & tea prices have slid since 2011 as global consumption levels have waned during the global economic crisis
- Arabica prices have suffered the sharpest fall, and continue to slide, along with tea
- Robusta has received some support from substitution for Arabica

Sources: IMF, Ecobank Research.
Price volatility has eased in 2012-13

Moderate price volatility, 2008-2013

- Commodity prices have fluctuated wildly over the past five years
- Volatility peaked in 2010-11, with sugar & maize touching on +6% & -3%
- Since 2012 prices have been far less volatile, moving within +1%/-2% band
- Key factor has been withdrawal of over US$40bn of ‘hot money’ from commodity index-linked funds
- Surging global surpluses & stocks have also been a factor
- Many traders have struggled to run profitable positions in such a flat market

High price volatility, 2009-2013

Sources: World Bank & Ecobank Research. Volatility of percentage change in average monthly prices.
Key opportunities for investment
Value chain financing: from farm to fork

The key to a successful agricultural sector is knitting the value chain together

- **Inputs**
  Seed, fertiliser & pesticide

- **Farmers & cooperatives**
  Training, financing, market for goods

- **Agri-processors**
  Financing (working capital & capital investment)

- **Logistics**
  Warehousing, ports, roads, railways, border crossing

- **Traders & retailers**
  Financing

- **Exporters & offtakers**
  Financing
Improve & diversify farming practices

• **Boost yields** through cultivating new disease- & pest-resistant varieties, and better use of inputs. Essential for crops where land is scarce (e.g. coffee in Kenya, cocoa in Côte d’Ivoire & Ghana)

• **Improve irrigation**
  Just 18% of world crops are irrigated, the rest depending on rainfall
  In Sub-Saharan Africa only 4% of farmland is under irrigation

• **Training for farmers**
  Ensure farmers use the best modern practices, efficiently manage land & water resources, correctly apply fertiliser and strengthen their marketing knowhow to ensure they get a fair price at the farmgate

• **Research & Development (R&D)**
  Develop substitutes to wheat imports (e.g. cassava) & cocoa products designed for African tastes

• **Certification of cocoa & coffee**
  Can drive adoption of best farming practices (e.g. limit environmental impact, stamp out child labour), whilst also building a brand for African goods

• **Diversify crop production**
  Reduce dependence of single crop (e.g. cocoa in West Africa) and spread risk of crop & marketing failure
  Develop crops in new countries
Support & develop agri-processing

- **Link together the value chain**
  A processor with a strong relationship with their supplier and an offtaker agreement can be financed easily

- **Cocoa & coffee processing**
  Expanding processing to over 50% of domestic production is a major aim of all West African producers
  But the outlook for the sectors remains uncertain owing to regulatory regime and rising competition from SE Asia

- **Bio-fuel & co-generation**
  Adapting existing cane plantations and mills to produce bio-fuel & co-generated power can improve their viability. In Africa, Kenya & Senegal are key targets
Improve & expand logistics infrastructure

- **Broad-based investment is needed**
  US$2.3tr of investment is needed globally to improve the logistics network for agricultural goods

- **Reduce wastage**
  Around 40% of agricultural produce rots before it gets to market. Each year 1.3bn tonnes of food is wasted, more than 5 times SSA’s net food production

- **Warehousing forms the backbone**
  The lack of adequate and secure warehousing is the key constraint on expanding agricultural output

- **WRS can unlock financing potential**
  Once a reliable system of warehouses is in place, WRS becomes a possibility, enabling farmers to raise financing for next season’s inputs

- **Commodity exchanges are the future**
  Dozens of new exchanges and forward auctions are planned, trading domestically produced soft commodities
  Support is needed for financing, logistics & technical expertise to ensure a robust & reliable system
Thank you
Climate change poses the most serious risk

Extreme weather events are on the increase, with uncertain impacts

Typical impact of El Niño (December to February)

• **El Niño** typically produces warmer & wetter weather, **La Niña** colder & drier weather, with different impacts
• **El Niño** tends to alter weather patterns, **La Niña** makes them more intense
• The world has emerged from **La Niña** which caused flooding in Australia, harsh winters in Europe & North America and severe drought in South America & East Africa
• Global weather conditions are stable, but there is a high probability of **El Niño** returning in the next couple of years
• Could severely impact rice & palm oil production in SE Asia & sugar in India, but could benefit cocoa & coffee
• Should **La Niña** return this could result in more extreme weather

Source: Climate Prediction Centre.
The dominance of trading houses is increasing

Competition varies between the soft commodities

Commodities traded by leading trading houses, 2012

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Olam</th>
<th>ADM</th>
<th>Bunge</th>
<th>Cargill</th>
<th>Dreyfus</th>
<th>Glencore</th>
<th>Noble</th>
<th>Wilmar</th>
<th>Major Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edible Nuts</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td>Olam</td>
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<tr>
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<td>Sugar/Sweeteners</td>
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<td>Fertilisers</td>
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<tr>
<td>Presence in products (＃)</td>
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<td>3</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>7</td>
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Source: Olam.
SMEs are being squeezed out
New entrants are starved of trade finance

- SMEs make up 90% of businesses in SSA and most are *de facto* in the informal sector
- 80% already have bank accounts, but lending to them is limited by their lack of credit history
- The IFC estimates total SME lending in SSA at US$25bn-30bn, leaving a gap of US$80bn-100bn
- The major losers are the ‘Missing Middle’, SMEs that fall between micro-SMEs and large SMEs
- Banks’ focus on their main clients is starving SMEs of finance and choking off the emergence of new players to challenge the market leaders
- Banks could address this issue by having a portfolio of SME loans to spread the risk

Source: IFC.