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Our readers' views on Implications of financial crisis for SMEs*

Chinyemike Torti, CEO, Federation of Nigerian Exporters

"The timely appraisal of the situation arising out of financial crisis should put governments in developing countries on notice. Some technocrats and even bankers have argued that Nigeria will be minimally affected by the global financial crisis, as the country is not fully integrated into the world economy. The truth is that the meltdown of financial epicentres in Tokyo, London and Wall Street spells bad news for the Nigerian economy.

Firstly, the price of oil reached an all-time low at $54 per barrel, down from $65 per barrel in July this year. As long as the financial crisis continues, the economy will groan- as demand for oil decreases. This situation has very deleterious implications for the budget, as well as the government's capacity for spending.

As for trade finance, offshore banks previously rendered credit support to Nigerian banks. Some of these banks have now gone bankrupt, putting an end to former business activities. For non-oil export businesses, even at the best of times a lack-lustre affair, this comes as bad news. Hobbled by high transaction costs, a hostile environment, inaccessibility to trade finance, infrastructural deficits, and external trade barriers, many Nigerian exporters just "hang in there" due to a lack of alternative revenue. These days, a large number of exporters are closing their businesses, for the reason that the exchange rate of the dollar and the euro has bottomed out. Hitherto, one euro exchanged for 180 Naira. Today the exchange rate hovers at approximately 160 Naira. The Nigerian bankers are like the proverbial ostrich burying their heads in the sand, extolling the virtues of a "strong" Naira; however, the current rate is not good for the balance of payments account.

The global credit crunch has worsened an already bad situation. Even when Nigerian banks were sitting on a cornucopia of funds, credit was not made available to exporters, due to an ingrained suspicion of SMEs. Now that the squeeze is on, the consequences for the sector will be devastating."

Alexander R. Malaket, President of OPUS Advisory Services International Inc., a Canadian consultancy

"Trade Finance has experienced its most dynamic period in the last quarter century or more, in terms of product development as well as in the effective application of technology to trade finance. The current crisis has prompted some return to traditional products such as the familiar (if unappreciated) documentary letter of credit.

Trade finance is about four things: payment facilitation, financing, risk mitigation and the timely flow of information. Each of these areas has been impacted by the financial crisis, and the consequences are greatest for SME's and for emerging markets, because of the current emphasis on risk-avoidance. Even the increased recourse to export credit agencies, and the higher-profile involvement of International Financial Institutions (IFI's) and their various trade facilitation programs, will not fully address the trade financing gap which has been estimated at USD $25 Billion.

Relationships between banks, export credit agencies and other providers of trade finance (including investment banks) are critical to the timely availability of trade finance. Trust in the integrity and financial viability of trade finance providers is fundamental to the working of the global trading system. The current crisis has caused this trust to evaporate.

A letter of credit (documentary credit) provides protection for exporters, but only if all terms and conditions are fully complied with. Protection is lost when export documents do not exactly meet the terms and conditions making them non-compliant (as is the case in 60-70% of transactions). Discrepancies between documents and the letter of credit can include incomplete or inaccurate description of the goods, late shipment of the goods as shown by the transport documentation, and many others – some material and serious, others with no practical impact, such as a typographical error in the description of goods on the commercial invoice.

The high rates of non-compliance, coupled with price volatility in commodities, has motivated certain importers and bankers to identify frivolous discrepancies in exporters' documents, to force discounts or to refuse shipments altogether. Such practices, considered astute and savvy by some, undermine the spirit and intent of practices related to trade finance, causing delays, adding cost and reducing the effectiveness of the global trading system.

The crisis in trade finance is real, however, some experts already speak of a return of liquidity, and the combined efforts of IFI's, export credit agencies, and some non-traditional providers of trade finance, will facilitate access to financing in support of global commerce."

**The views expressed are those of the authors.*