

EXIM BANK: RESEARCH BRIEF

WEST AFRICAN REGION :

A STUDY OF INDIA'S TRADE AND INVESTMENT POTENTIAL



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INTRODUCTION

This study focuses on the eight member countries of the West African Development Bank (BOAD), viz. Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The BOAD is the development financing institution for the member states of the West African Economic and Monetary Union (UEMOA). The BOAD countries are important trading partners for India. Increased economic activity in recent years in the BOAD region, coupled with rise in foreign trade and FDI inflows would present potential to enhance India's trade and investment relations with the region.

WEST AFRICAN DEVELOPMENT BANK - BOAD

The Banque Ouest Africaine De Développement (West African Development Bank - BOAD) is the common institution of development financing for the member states of the West African Economic and Monetary Union (UEMOA). BOAD was created by a treaty signed on November 14, 1973 by its eight member states and became operational in 1976. The original charter focused on development of member economies towards balanced development and to prepare economies for future West African economic integration. In 1994, it became the development arm of the West African Economic and Monetary Union. BOAD's headquarters is located in Lome, Togo. The member countries of BOAD share a common currency, the Franc of the African Financial Community (FCFA) and are governed by a regional central bank, the Central Bank of West African States (BCEAO). BOAD has representative offices in the capital of each Member State.

ECONOMIC ENVIRONMENT IN THE BOAD COUNTRIES

Economic performance in most BOAD countries has strengthened over the past 15 years. The buoyant economic outlook is supported by a quicker-than-expected recovery from recession, and rising oil prices (crucial for many countries in the region). Most BOAD countries weathered the impact of the recent global financial crisis and the earlier oil and food price shocks reasonably well. Improvements in macroeconomic fundamentals, together with broadly appropriate policy responses to the crisis, and limited global financial integration, helped to cushion the impact of the external shocks at the regional level. Notable progress within the BOAD countries has been achieved through improved macroeconomic management, market-based reforms and continued structural progress in many countries.

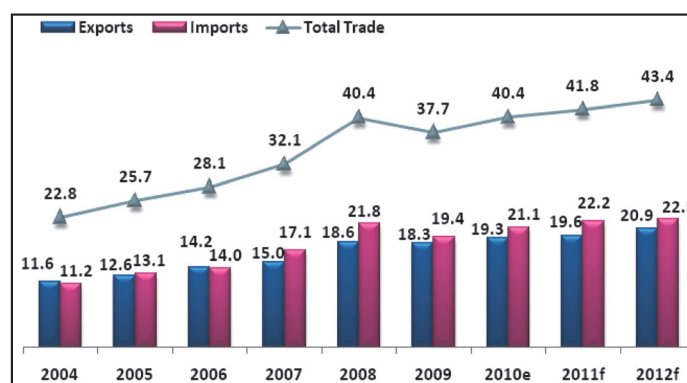
In 2010, the combined gross domestic product (GDP) for BOAD countries increased to an estimated US\$ 68.8 billion from US\$ 68.3 billion in 2009. The total GDP of BOAD countries is forecast to touch US\$ 72.2 billion in 2011, growing at an annual average of 5 percent and further to US\$ 77.6 billion in 2012, reflecting a slightly higher year on year growth of 7.4 percent in 2012.

The economies within the BOAD region are at varying stages of development. For instance, the GDP of Côte d'Ivoire and Senegal put together was larger than the combined GDP of the remaining six BOAD countries, with GDP of US\$ 22.5 billion and US\$ 12.7 billion respectively in 2010, as compared to the combined GDP of US\$ 33.8 billion of the remaining six countries during the same year.

FOREIGN TRADE IN BOAD COUNTRIES

BOAD region as a whole has shown a steady performance in terms of its global trade. Total trade of BOAD region has almost doubled from US\$ 22.8 billion in 2004 to an estimated US\$ 40.4 billion in 2010, growing at a compound annual growth rate of 10 percent over the period, reflecting favourable growth performance of both exports and imports. Exports of BOAD steadily increased from US\$ 11.6 billion in 2004 to an estimated US\$ 19.3 billion in 2010. Growing at almost a similar pace, imports of BOAD too rose from US\$ 11.2

Chart 1: Global Trade of BOAD Region (US\$ billion)



Note: e: estimates; f: forecasts.

Source: IMF, UNCTAD & Exim India research

billion to US\$ 21.1 billion over the period 2004-2010 (Chart 1). Both exports and imports of almost all the BOAD countries are forecast to grow in 2011 and 2012, as a result of various stimulus packages and economic recovery.

INDIA'S BILATERAL TRADE RELATIONS WITH BOAD COUNTRIES

The synergy that exists between India and the BOAD region, and the potential thereof, can be assessed from the trends in bilateral trade relations witnessed in recent years. India's total trade with the BOAD countries has increased from US\$ 1.12 billion in 2004-05 to US\$ 1.73 billion in 2009-10 (Chart 2).

During 2009-10, India's total trade with BOAD countries registered higher growth rate than India's trade with African region as a whole. The BOAD countries accounted for 4.5 percent of India's total trade with Africa region. India's total exports to the BOAD countries have risen from US\$ 565 mn in 2004-05 to US\$ 813.4 mn in 2009-10, with the result that the share of BOAD countries in India's total exports to Africa has risen to 6 percent in 2009-10. During the year 2009-10, India's exports to BOAD countries registered a sharp rise of 10.9 percent compared to decline of 32 percent during the previous year. India's imports from the BOAD countries have also witnessed a rise from US\$ 560 mn in 2004-05 to US\$ 920 mn in 2009-10. During 2009-10, India's imports to BOAD countries accounted for 3.6 percent of India's total imports from Africa.

Among the BOAD countries, Benin has emerged as the leading destination for India's exports during 2009-10, reflecting the sharp rise in exports from India to the country. Benin accounted for 27.2 percent of India's total exports to BOAD countries during 2009-10, followed by Senegal (23.2 percent), Togo (20.0 percent), Côte d'Ivoire (15.0 percent), Mali (5.2 percent), Niger (4.6 percent), Burkina Faso (4.5 percent) and Guinea-Bissau (0.4 percent) (Chart 3).

As far as imports are concerned, Côte d'Ivoire is the largest supplier to India among BOAD countries, accounting for 31.9 percent of India's total imports from the region in 2009-10, followed by Senegal (25.8 percent), Guinea-Bissau (20.0 percent),

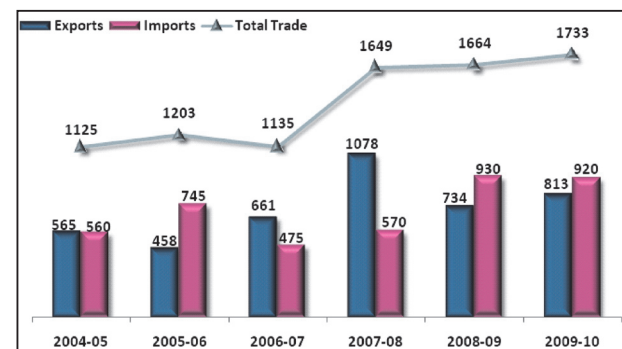
Benin (13.1 percent), Togo (7.5 percent), Burkina Faso (0.8 percent), Mali (0.4 percent), and Niger (0.03 percent) (Chart 4).

Major export items in India's export basket to BOAD countries include cotton yarn fabrics & madeups (accounting for around 16 percent of India's total exports to BOAD), pharmaceutical products (13.0 percent), manufactures of metals (12.7 percent), manmade yarn fabrics madeups (9.6 percent), petroleum products (7.6 percent), transport equipment (6.4 percent), machinery & instruments (4.7 percent), primary & semi-finished iron & steel (4.1 percent), and plastic & linoleum products (2.7 percent). India's major imports from BOAD countries include cashew nuts (39.1 percent of India's total imports from BOAD), inorganic chemicals (19.7 percent), crude fertiliser (10.9 percent), metaliferrous ores & metal scrap (9.9 percent), wood & wood products (7.7 percent), cotton raw (6.0 percent) and petroleum crude (4.8 percent).

INSTITUTIONAL FRAMEWORKS & POLICY INITIATIVES

With a view to facilitate and further enhance bilateral trade and commercial relations with countries in Africa, including the BOAD region, India has put in place important policy measures as also institutional frameworks to create an enabling trade and business environment. Such initiatives have been effective in giving a new dimension to mutual cooperation and the already existing close relations between the two sides. Major policy initiatives would include, among others, Focus Africa Programme, Pan-

Chart 2: India's Trade with BOAD Region (US\$ mn)



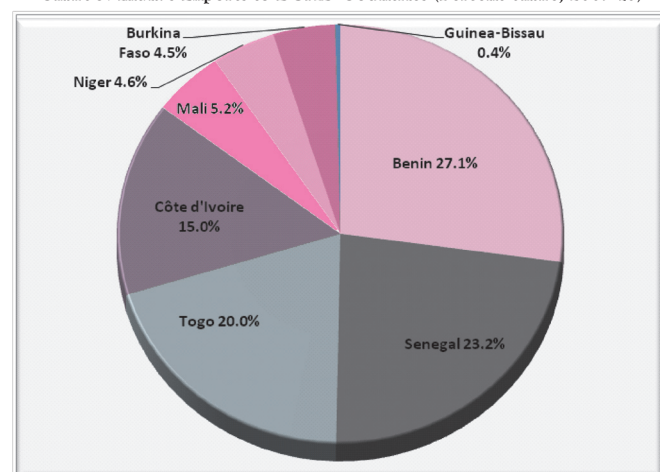
Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), Ministry Of Commerce & Industry (MOCI), Government of India (GOI)

African E-Network, India-Africa Partnership Conclaves and India Africa Summit.

POTENTIAL FOR ENHANCING BILATERAL TRADE RELATIONS BETWEEN INDIA AND BOAD COUNTRIES

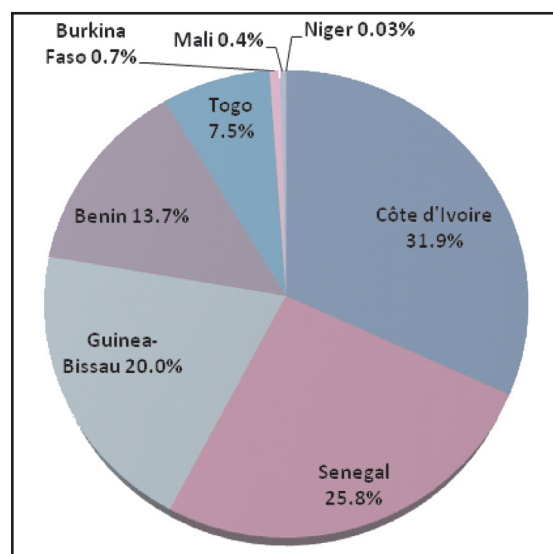
Based on India's export potentials and demand existing in the BOAD region, the potential items for India's exports to the BOAD region could broadly include food products and beverages, pharmaceutical products, textile yarn and fabrics, iron & steel products, tobacco and products, essential oils and perfumes, chemical products, plastic and their articles, paper and paper boards, petroleum products, electronic goods, inorganic chemicals, ceramic products, optical, photographic instruments and machinery and transport equipment.

Chart 3: India's Exports to BOAD Countries (Percent Share, 2009-10)



Source: DGCIS, MOCI, GOI

Chart 4: India's Imports from BOAD Countries
(Percent Share, 2009-10)



Source: DGCIS, MOCI, GOI

Based upon India's primary requirement of imports, items which hold potential for imports from BOAD region would include gold, cotton, cocoa, edible fruits and nuts, wood and wood products, raw hides and skins - goat or kid skins, ammonia, sheep or lamb skin leather, and chemicals.

INVESTMENT CLIMATE AND OPPORTUNITES IN BOAD REGION

The common aspiration of the BOAD countries is to realize a unified common market in order to have a dynamic and competitive regional economy which successfully integrates itself into the African and global economies. According to the 2006-2010 Programme of action adopted by Head of States and Governments in January 2004, in Niamey, by 2015, UEMOA is expected to emerge as a competitive regional economy which generates economic growth and which integrates itself into the global economy in a harmonious manner. With a view to enhancing investment flows, the BOAD countries have streamlined their investment laws and have also identified priority sectors for increased investment inflows and development.

Trends in investment during the last decade show pick up in both inflows as well as outflows. The total foreign direct investment (FDI) into BOAD region increased slowly in the first half of the decade, and picked up strongly since 2004, increasing over three-

fold in 2009 over 2000 level. By 2009, FDI into BOAD region stood at US\$ 1.8 billion. Outflow of investment from BOAD region is relatively lower, and was in the range of 3 to 13 percent of the total inflows during the last ten years. Outward investment started picking up significantly only from 2004 onwards, increasing to US\$ 78 mn from US\$ 17 mn in 2000, but reduced to US\$ 51 mn in 2009 due to global financial crisis.

In line with the policy of the governments in the BOAD region, potential sectors that hold opportunities for investment in the region would broadly include infrastructure, transportation, construction, oil & gas, mining & minerals, tourism, pharmaceuticals, computer software and accessories, agribusiness, banking and financial services.

EXIM INDIA IN THE BOAD REGION

As a partner institution to promote economic development in Africa, the commitment towards building relationships with the African region is reflected in the various activities and programmes which Export-Import Bank of India (Exim India) has set in place, especially in the Western African countries. Exim India operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with countries in Africa, including the BOAD region.

Lines of Credit

Exim India extends Lines of Credit (LOCs) to overseas governments, parastatal organisations, financial institutions, commercial banks and regional development banks to support export of eligible goods and services on deferred payment terms. Exim India also extends overseas buyers' credit directly to foreign entities for import of eligible Indian goods and related services or for financing eligible turnkey projects. Exim India also extends LOCs on behalf and at the behest of Government of India.

In the African region, as on February 28,

2011, Exim India had 92 operative LOCs totaling US\$ 3,429.48 mn, covering 32 countries, including the BOAD region. With respect to countries in the BOAD region, Exim India has 23 operative LOCs, amounting to US\$ 530.87 mn earmarked for development projects in diverse sectors.

Support for Project Exports

Exim India plays a pivotal role in promoting and financing Indian companies in execution of projects in markets overseas. Such projects, primarily in the infrastructure sector, contribute to local and regional development. Exim India extends both funded and non-funded facilities to Indian project exporters for overseas industrial turnkey projects, civil construction contracts, supplies as well as technical and consultancy services contracts. Indian companies have implemented numerous projects in Africa, including the BOAD region, with the support of Exim India, in sectors such as power, telecommunications, transport, water supply & sanitation.

Association with African Development Bank (AfDB)

India is a member of African Development Bank (AfDB). Many Indian companies participate in projects funded by African Development Bank Group. Exim India works very closely with African Development Bank and has an active programme which offers a range of information, advisory and support services to Indian companies to enable more effective participation in projects funded by Multilateral Funding Agencies such as African Development Bank. Towards this end, Exim India and AfDB have signed a Memorandum of Understanding (MOU) for co-financing projects in Africa. The MOU envisages joint financing of projects (priority being given to support projects of small and medium enterprises) in regional member countries of AfDB, including the West African region. Exim India also organizes Business Opportunities seminars in Projects funded by African Development Bank at various centres in India.

Member of Association of African Development Finance Institutions (AADFI)

Exim India is also a member of AADFI, a forum of institutions / banks with the objective of creating co-ordination and

economic solidarity among the development finance institutions in the African continent. The membership of AADFI helps Exim India in identifying potential markets / partners in the African region and provides an ideal platform for building linkages with other institutions in Africa, which are members of AADFI. Most of the BOAD countries are either ordinary or special members of AADFI.

Shareholder in Afrexim Bank and West African Development Bank (BOAD)

Towards facilitating economic cooperation, Exim India has taken up equity in the African Export-Import Bank (Afrexim Bank), which is headquartered in Cairo, Egypt. The Afrexim Bank was established in 1993 by African Governments, African private and institutional investors as well as non-African financial institutions and private investors for the purpose of financing and promoting intra-and extra-African trade. Further, Exim India has also taken equity in West African Development Bank (BOAD).

Global Network of Development Finance Institutions and Exim Banks (G-NEXID)

With a view to facilitating South-South trade and investment cooperation, at the joint initiative of Exim India and UNCTAD, a Global Network of Exim Banks and Development Financial Institutions (G-NEXID) was launched in March 2006 in Geneva. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and strengthen financial cooperation to promote trade and investment relations between developing countries. A number of institutions from Africa, including the BOAD region, are G-NEXID members.

Exim India's Offices in Africa

In order to facilitate closer economic cooperation with the African region, Exim India has representative offices in Dakar, Senegal; Johannesburg, South Africa; and Addis Ababa, Ethiopia. The Dakar office of Exim India plays a key, catalytic role in enhancing trade and investment between India and the West African region. The Dakar office has been conferred with a special

status 'Accord de Siège' by Government of Senegal at par with multilateral institutions located in Senegal.

STRATEGIES AND RECOMMENDATIONS FOR ENHANCING BILATERAL COMMERCIAL RELATIONS WITH BOAD REGION

Since agriculture and related activities are important foreign exchange earners of most of the countries in the BOAD region, Indian companies could invest in this sector for improving the agricultural sector of the target country through skill development, job creation, technological upgradation, supply of quality inputs like seed, better supply chain management, and biotechnology. Likewise, with many of the countries in the BOAD region endowed with mineral wealth and natural resources, enhanced bilateral cooperation for development of natural resources in these countries could benefit both India and the region. In addition, with the emergence of countries such as Mali, Senegal, and Benin in the BOAD region as major tourism destinations in the West African region, Indian companies could focus on developing Indian-style world-class hotels and resorts. Also given the rich cultural and geographical diversities and vast biodiversity in flora and fauna of African nations, Indian entrepreneurs could also specifically focus on different kinds of tourism products, such as adventure tourism, eco-tourism and cultural tourism.

With the strength and capability that India possesses in the realm of Information Technology sector, Indian IT firms could explore the opportunities in the BOAD region, and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region. Sectors such as health, education and skill development are in increasingly high demand in many BOAD countries, due to their direct impact on improving the standard of life. Investment in infrastructure development and electricity generation, due to an increasing need for

better infrastructural facilities, coupled with the endeavour of BOAD member countries for rapid economic growth, could prove to be a mutually rewarding area of bilateral cooperation. Indian banks and financial institutions could also explore the opportunities of opening branches/ representative offices in the region, and developing correspondent banking relations with select banks in the region, which would serve to facilitate and promote commercial relations. Building closer co-operation and linkages with investment promotion agencies and Chambers of Commerce in BOAD region would serve to enhance access to information about investment opportunities in the region, particularly in the SME sector wherein India has developed successful SME clusters. In light of the increasing importance of the BOAD region in India's foreign trade, a PTA between India and the BOAD region could also be a worthwhile exercise to add to the overall endeavours to enhance Indo-BOAD trade and investment relations. Dissemination of relevant information about trade and investment opportunities through reciprocal visits by trade and industry delegations / economic missions and bi-lingual publications (in English and French) would enhance effectiveness of information dissemination and serve to strengthen bilateral relationship.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information

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