How Fintech Platforms are democratizing access to trade finance to SMEs

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The **democratization of trade finance** refers to making trade finance accessible to a wider range of businesses, especially small and medium-sized enterprises (SMEs), which have traditionally faced barriers like high costs, strict credit requirements, and complex processes. This transformation involves leveraging technology to decentralize and simplify access, reducing reliance on traditional financial institutions.

India and Africa are witnessing rapid fintech advancements that democratize trade finance, particularly for Small and Medium Enterprises (SMEs). Trade finance has traditionally been complex, manual, and inaccessible to SMEs due to high costs, lengthy processes, and lack of creditworthiness. Fintech innovations are changing this by leveraging digital platforms, blockchain, and artificial intelligence (AI) to democratize trade finance and facilitate cross-border trade.

In India, SMEs account for approximately 45% of total exports (as of Sep 2023) and employed around 93.1 million people, including 21.8 million women (as of Dec 2022) whilst in Africa, it accounts for around 60% of all jobs in Africa and contributes to over 50% of the continent's GDP. Given their potential to positively impact their economies, they still face tremendous challenges in accessing trade finance such as:

1. Lack of collateral
2. Limited Credit history
3. Complex documentation and bureaucracy
4. High costs and interest rates
5. Limited awareness and financial literacy
6. Slow processing times
7. High dependence on informal credit channels

Despite these barriers, what we have seen in the last decade in both India and in Africa has been phenomenal. Examples of such fintech innovations in India which have solved the above-mentioned problems include:

- **RXIL (Receivables Exchange of India Limited)** – They solved their problem of slow payment cycles and cash flow issues by letting SMEs upload their invoices to RXIL which financiers bid to discount. This has impacted over $585m worth of transactions, reducing cash flow bottlenecks and letting SMEs receive early payments

- **Lending kart** – They solved the problem of limited credit history by utilizing AI-driven algorithms to evaluate SMEs financial health over alternative data and have disbursed over 100,000 loans with fast approvals and no collateral.
- **Contour** – They solved the problem of complex documentation for LCs with a blockchain based platform that digitizes the issuance and settlement of LCs, thereby reducing the LC cycle time from 7-10 days to just 24 hours.
- **CredAble –** They solved the problem of high interest rates and lack of working capital and facilitated over $1Bn for SMEs by providing supply chain financing and invoice discounting using AI and data analytics
- **Instarem –** They solved the problem of high cross-border payments by enabling Indian SMEs to trade globally without banking intermediaries
- **M1xchange and KredX –** It is a mobile platform that allows SMEs to apply for trade finance remotely, providing real-time access to financing options thereby reducing barriers for SMEs in semi-urban and rural areas.

In Africa, access to funding and banking services which have been perennial bugbears for SMEs are getting addressed by nimble neo banks who offer low-fee services and alternative lending options. But trade finance is a different animal with major barriers being FX and economic volatility around inflation with even the four largest members of ECOWAS (Economic Community for West African states) i.e. Cote d'Ivoire, Ghana, Nigeria and Senegal facing trade finance gaps. IFC found that trade finance supported only 25% of goods trade in these countries whereas global average was at 60-80% and reported that unmet annual demand for trade finance across ECOWAS was at $14Bn.

Institutions like AfDB and IFC play a critical role in helping ease of access to trade finance for the African SMEs. AfDB found that 90% of the local banks have difficulties in meeting the requirements of foreign correspondent banks and is helping better collaboration between Africa's tier-2 and tier-3 banks with global banks. AfDB found that the risks were not primarily credit risks but risks due to shifts FX rates and commodity prices. Similarly, IFC is also addressing the problem of shortage of low-cost funding (source: 77% of banks in ECOWAS countries) as a barrier to trade finance and the problem of lack of collateral for the high perceived risk of borrowers (source: 80% of the banks.

Examples of such fintech innovations in Africa which have solved the above-mentioned problems are:

BanQu – It is a Blockchain-based digital identity and supply chain solution that enables over 200,000 smallholder farmers in Africa in reducing trade finance gaps for agricultural SMEs. For example, Coco-cola has enabled over 2000 small traders in East Africa to integrate informal retailers into formal supply chains

Trade Depot – It is a digital B2B platform for FMCG trade which connects suppliers with retailers offering financing options for purchase of inventory. This enhances market access for small retailers (over 40,000 SMEs) reduces dependency on traditional banks for credit and increases efficiency in supply chain operations by reducing inventory management costs for retailers.

Komgo – It is also a blockchain platform focused on commodity trade finance. It enabled faster issuance of letters of credit and digitized verification of trade docs.

Marcopolo Network – It provides end-to-end visibility of trade transactions and automates processes like invoice financing. For example, it has reduced document processing times by 80% for an Indian exporter.

Lidya – It has solved the problem of lack of collateral or lack of credit history by offering loans over $12Mn to SMEs across agriculture, retail and manufacturing by using AI-based credit scoring. This has resulted in improved cash flows for 95% of borrowers in Nigeria and East Africa.

M-Pesa Global – It has enabled SMEs in Kenya to process $1.5 billion in cross-border payments in 2023 by reducing transaction costs by 40% compared to traditional banking channels while enhancing trade volume for small businesses engaging in global trade.

AFEX Commodities Exchange – It is a Nigerian digital commodities exchange enabling smallholder farmers to trade agricultural produce and access financing by providing a transparent pricing mechanism and connecting SMEs with global buyers.

Thus, the fintech platforms in India and Africa have democratized trade finance by lowering entry barriers, making financing accessible to those with limited credit histories. They have played a critical role in enhancing cost efficiency through digitized workflows, enabling faster processing with AI and blockchain for instant approvals, and in ensuring transparency with tamper-proof blockchain records. Additionally, they have also expanded financing options through peer-to-peer lending and invoice discounting, thereby, empowering SMEs to overcome the long-standing traditional hurdles in access to trade finance.

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