How Trade Finance Can Support SMEs to Leverage the African Continental Free Trade Agreement (AfCFTA)

Graham Bright, Compliance Director, Euro Exim Bank
(graham.bright@euroeximbank.com)

Let us firstly remind ourselves of the scope, ambition, scale, depth and potential of the African Continental Free Trade Agreement (AfCFTA), and the opportunities and long-term possibilities it will support.

The prime objective is to harness, share and promote the strength, capabilities, products and services of an entire continent, among its 43 parties and 11 signatories, making it the largest free-trade area by number of member states, worldwide.

It covers the greatest global population and geography, spanning 1.3 billion people across the world's second largest continent, where its members are committed to ease movement of goods unencumbered by duties, eliminating tariffs on most goods and services, promoting trade with neighbours and collaborating to achieve economies of scale and competitive advantage.

By facilitating foreign and domestic investment, movement of capital and labour, initiate a customs union, and advance regional infrastructure, the Agreement has all the clear directives to support socioeconomic development, improve financial inclusion, reduce poverty, improve trust and confidence and above all allow Africa to be more competitive globally.

And in 2022 another milestone was reached through the establishment of the Pan-African Payment and Settlement System (PAPSS), reducing the dependency on costly, limited US dollars and allowing payments to be effected in any local currency.

By effectively oiling the wheels of trade, intra and inter-continental movement of goods and services has enabled perceptions to be altered, new supply chains to be realised and true value being re-patriated to countries formally disadvantaged by policies of major economies. This especially in the area of undervalued supply of critical raw materials, such as extraction and processing of metals such as cobalt and lithium.

Finally April 2024 saw the AfCFTA enter its operational phase, identifying which product or service may be traded duty free, where concessions on tariffs would apply, online reporting systems, digital processes, payment certainty and an oversight on general trade to ensure all participating nations follow the structure and guidelines.

SME's account for over 80% of businesses in Africa and being able to trade effectively to boost local economies, get materials at eth right price, right place and right time is vital.

In order to make the agreement effective, SME's need trade finance to address funding gaps, mitigating risks for buyers and sellers, and ultimately ensure smooth, safe transactions.

Just as in western developed economies the major hurdles for companies involved in international trade remain risk of fraud, demands on cash flow and working capital, and fluctuating costs for transport and foreign exchange volatility.

Add to this the common issues of political instability, over 35 ongoing and minorly reported domestic conflicts in Africa, inexperience of trading amongst small companies, and international risk perception.

Under the AfCFTA, there are several facilities and mechanisms ideally placed to support reduced payment risk, provision of liquidity, capacity building for large trades, and use of standard instruments such as letter of credit and guarantees to ensure timely, safe delivery.

And these standardised internationally recognised instruments support invoice financing, sourcing of liquidity and short-term funding enabling SMEs to scale production, meet payment obligations and maintain cash flow.

This is vital to first time exporters, for example needing investment to support certification for their products, which will ultimately lead to greater acceptance in international markets, especially with agriproducts, pharmaceuticals etc.

Having access to and working collaboratively with government organisations and regulators, and specifically fintech enabled partners with ranges of trade instrument issuance capabilities, will greatly increase the probability of global acceptance, sustained revenue generation and building reputation.

With the industry suffering many failed transactions, threats of fraud, corruption, non-payment frequency, counterfeits and reputational risk, SME's require tools to make trade happen effectively, economically and above with risk mitigation.

Financial tools such as letters of credit, standbys, bank guarantees and performance bonds will provide credit, surety and certainty of payment, with connected institutions offering loans, market intelligence, and affordable financing options through digital online platforms, for example providing supply chain finance, credit risk and gap insurance.

Successful trade is not just about financing, but providing SME's with the knowledge and skills to meet international standards, navigate regulatory horizons and ensure that areas of certification, ISO standards, are met in all markets. They also need new technology delivering single window platforms to access payments, fx, intelligent data, matching buyers and sellers, views on governance, compliance and ESG aspects.

In todays connected world, client expectation has driven fintech companies to deliver faster, and SME's in any location now take advantage of more cost effective commercial data. There are many groups dedicated to enhancing trade, not least Chambers of commerce and PPPs, which encourage local and international participation in trade delegations and in the many regional agreements such as COMESA, SADC and, significantly the AfCFTA, all deigned to understand and promote trade.

Every trade, whether transported by road, rail, ship or air requires efficiency of logistics across the complex ecosystem of parties, tracking services, inventory management and constant attention to communication across the trade lifecycle.

Reduced lead times and costs are possible through regional warehousing and distribution, as seen with Amazon, Temu, DHL and UPS, and with technology underpinning ordering, loading and delivery, SME’s can rely on smaller volumes to reach destinations on time, on budget.

When it comes to cross border delivery of thousands of metric tons of goods, sometimes taking months to reach final destinations, other factors are at play. Deals are subject to geopolitical influences, requiring trust and confidence, and in these cases, the answer lies in secure financial instruments, backed by established institutions credit facilities, bank guarantees and other appropriate alternative investment options.

The benefits of the AfCFTA are immeasurable.

With empowerment of SME’s to better research, glean trade data, focus marketing efforts, consolidate investment, work with trusted partners with the same global ambition, ultimately contribute to economic growth, promote financial inclusion, create sustainable job opportunities, SME’s will continue to make a lasting contribution to growth, in emerging economies which are the established economies of the future.