

Use: *Sponsored, Annual Custom Plan*

Client: *Absa*

Structure: *Q&A or thought leadership article, ghost-written by TFG*

Medium: *Online, In-print (magazine)*

Publish date: *18th September 2023, at Sibos Toronto*

Promotion: *push notification, social promotion, magazine, TFG Weekly e-Bulletin*

Author(s): *Michelle Knowles*

Reporters: *Brian Canup, Deepesh Patel*

Timelines: *Draft sent to client - 10 August, print deadline - 25th August*

Approvers: *Absa, Carat*

Bridging the trade finance gap: Absa's digital journey in Africa

In the wake of the pandemic, the global economy has seen a confluence of challenges, including geopolitical risks, interest rate changes, and commodity price fluctuations.

The African trade landscape has navigated its own complex journey through market turbulence and volatility, with rising inflation and supply limitations posing hurdles. Despite this, the continent stands resilient, propelled by some of the world's [fastest-growing economies](#), with trade emerging as a crucial driver of economic growth and recovery.

In Sub-Saharan Africa, this year's growth projection of 3.6% - despite a global slowdown - underscores the resilience of the economies in that region. Africa's aggregate cross-border trade, though modest in recent decades at 2-3% of global trade, is gradually evolving, with intra-regional trade now accounting for 17% of Africa's exports.

This determination to bolster economic ties does not stop at Africa's shores. Europe remains a prominent trade partner, closely followed by China, and the Middle East and Africa (MEA) are witnessing increased flows, indicative of a broader uptick in bilateral trade activity.

Despite the clear importance of trade, limited access to trade financing continues to loom large for small and medium-sized businesses across Africa, hindering their growth and potential. This complex issue is influenced by many factors, including the costs associated with trade finance instruments, perceptions of risk, data challenges, and regulatory hurdles.

While the continent's trade finance gap was narrowing pre-pandemic, shrinking from \$120 billion to around \$81 billion, subsequent geopolitical uncertainties in regions like Ukraine and Taiwan, coupled with broader macroeconomic dynamics, have since led to a widening of this gap. Spiralling input costs and supply chain bottlenecks further exacerbated the situation.

In this context, the digitalisation of trade finance emerges as a beacon of hope, holding promises for banks and SMEs alike. By automating and streamlining trade finance processes, digital tools can significantly reduce costs, foster inclusivity, and enhance the availability of financing for African businesses.

Through all of this, we can see the transformative potential of digital trade solutions, which is helping Absa Bank's concerted efforts to bridge this gap and empower businesses through technological innovation and collaboration.

The journey to digital innovation

Headquartered in South Africa and fully operational in ten African markets, we are attuned to the critical nature of expanding access to trade finance by enhancing its digital capabilities.

The transformational potential of technology in bridging the African trade finance gap is undeniable. Trade finance, as a convergence of physical, information, and financial flows, stands uniquely positioned to benefit from digital innovation.

The COVID-19 lockdowns served as an initial catalyst for the adoption of digital trade finance solutions, disrupting traditional paper-driven processes that hindered swift access to finance. Over the course of the pandemic, Absa witnessed a substantial uptake in the adoption of our digital trade solutions across the continent.

While innovative technologies are readily available, their efficacy hinges upon regulatory and legal reforms, making widespread collaboration among policymakers, banks, financial institutions, and development finance institutions (DFIs) paramount - something that Absa is actively involved with.

Initiatives like the African Continental Free Trade Area (AfCFTA) provide a further avenue for collaboration and establishing standards tailored to African trade while remaining aligned with global standards. AfCFTA, underpinned by robust political momentum, offers a prime opportunity to dismantle barriers to regional trade, with digitalisation as a cornerstone.

Ongoing efforts within the AfCFTA framework actively address policy recommendations, regulatory adjustments, and the establishment of digital standards, fostering an environment conducive to digital trade.

Combining global and local lenses

When exploring the realm of tradetech, it becomes evident that a dual perspective - both global and local - is essential to fostering comprehensive and impactful growth.

Integrating a global lens ensures the improvement of regional value chains and bolsters seamless integration into the broader global value chains. This approach acknowledges the interconnectedness of economies and the benefits of collaboration across borders.

However, it is equally imperative to adopt a local lens, recognising the nuanced intricacies of emerging markets that demand tailor-made solutions and a deep understanding of local dynamics.

Notably, East Africa has exhibited robust momentum in trade digitisation, intertwining payment capabilities and unveiling digital platforms that empower small businesses to expand their trade horizons.

The triumph of initiatives like M-PESA in mobile money underscores the potency of localised approaches. Initiatives like the Africa Trade Gateway, pioneered by Afreximbank, further exemplify the commitment to driving digital transformation.

Africa's innovation landscape in trade digitisation is vibrant, yet success hinges on fostering a collaborative environment for effective economic transformation.

When it comes to trade digitalisation, collaboration is key

Absa's approach to digitalising trade is rooted in a multi-faceted strategy, reflecting our commitment to innovation and seamless integration across the complex landscape of platforms, standards, and players.

Central to our strategy is a client portal built on open-source architecture. This portal empowers the bank to seamlessly integrate with various ecosystems through application programming interfaces (APIs), ensuring it can connect with strategic partners and systems efficiently.

Moreover, Absa is harnessing the power of big data and artificial intelligence (AI) to optimise key processes. By leveraging these technologies, we are not only staying ahead of increasing regulatory demands but also automating checklist processes, leading to lower overall client costs.

Our partnership with Traydstream, a pioneering AI platform in the trade space, is a great example of our innovation journey. This collaboration has enabled Absa to automate crucial steps within the trade lifecycle, transforming labour-intensive document-checking processes into streamlined digital workflows.

The solution went live in December 2022 and is anticipated to deliver substantial benefits. With estimated wait times of 2-5 days reduced to 10-15 minutes per stage, enhanced accuracy, and improved client experiences, the resulting cost reduction is projected at an impressive 60-70%.

Moreover, our commitment to creating connected and trusted ecosystems is embodied by our status as the first African bank to join the Contour Network. This decentralised technology platform unifies banks, corporations, and ecosystem partners, fostering the seamless flow of reliable data across global trade routes.

As Absa navigates the intricate trade finance landscape, its comprehensive strategy underscores its dedication to driving digitisation, automation, and integration that ultimately empowers smoother, more efficient, cost-effective, and more sustainable trade processes.

Trade digitalisation is also great for ESG

Digital trade technologies also hold significant benefits from an environmental, social, and governance (ESG) perspective, aligning with Absa's commitment to fostering a just and sustainable economy.

As a notable example, Absa's sustainable financing solutions are geared towards supporting SMEs, including women and youth, who constitute a significant portion of the economy.

This commitment is mirrored in Absa's emphasis on addressing environmental and social imperatives, especially given the continent's priority to alleviate poverty and drive economic growth in line with the United Nations Declaration on Financing for Development.

One of our central focuses is empowering SMEs with more inclusive access to finance, exemplified by initiatives like the Supplier Financing solution, which directly influences supply chains and aligns with sustainability principles.

Through this digital platform, corporate buyers can accelerate the payment collection of trade receivables for their suppliers, offering instant liquidity. This approach not only bolsters the sustainability of suppliers' financial well-being but also contributes to a more robust and resilient supply chain for corporate buyers.

As Absa continues our journey as a catalyst for positive change, the convergence of trade technologies and ESG principles pave the way for impactful and sustainable transformation across economies and societies.



Pioneering progress in trade finance

In a world marked by complex challenges and dynamic shifts, Africa's trade landscape has proven resilient, driven by determined economies and a burgeoning trade spirit. Despite hurdles posed by global geopolitical shifts, inflation, and supply constraints, Africa's steadfast commitment to economic growth through trade remains unwavering.

Absa Bank's approach to digitalising trade finance emerges as a beacon of hope in the face of these challenges. By harnessing the transformative power of technology, Absa stands committed to bridging the trade finance gap that hampers SMEs' growth potential.

As we continue our journey as a catalyst for impactful change, the synthesis of trade technologies, innovation, and ESG principles paints a promising picture for the continent's future.