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CUTS International ACCRA

Ghana National Chamber of Commerce & Industry
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3rd CUTS-GIZ Public Private Dialogue (PPD) on

Creating SME Competitive Advantage for AfCFTA: *The Strategic Role of Trade Finance*

23 November 2022 Wednesday

09.30AM-01:30PM | Alisa Hotel, North Ridge, Accra

CONCEPT NOTE

Background/Introduction

The AfCFTA creates opportunities for businesses across the continent to be able to export goods, largely quota-free and duty-free. On the parallel side also, member countries can equally import from one country to the other without any quantitative restriction. With the common market, demand for goods for export and import would increase. Businesses need funds to be able to expand production capacity to be able to produce to meet the increased demand. Access to finance remains one of the biggest problems among SMEs and startups doing business in the developing world and Ghana is no exception. Ghanaian businesses especially SMEs have to contend with both high-interest rates and limited access to credit. It has been a known fact that the government's continued borrowing has contributed to the private sector being crowded out from the credit scene.

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.

SMEs wanting to produce and export to the African market under the AfCFTA are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. Most of these have to rely on micro-finance institutions at a prohibitive interest rate of about 10% per month or 120% per annum. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. About half of formal SMEs don't have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account.

For countries in Africa to take advantage of the agreement, produce and export to other countries on the continent, it is essential that financing for trade be made available to local businesses in these countries if they are to exploit the opportunities that AfCFTA affords. Trade finance activities are relatively low-risk ventures mainly because they are asset-backed, self-liquidating and short-term in nature. The default rate on trade-related transactions was 7.5 per cent which is lower than that of overall banking of 11 per cent in Africa for the period 2017 - 2019 (AfDB, 2020). That notwithstanding the trade finance gap in Africa decreased from $120 billion in 2011 to $70 billion in 2016 but reversed to $81.80 billion in 2019. While 80 per cent of world trade was bank-intermediated in the last decade, only 40 per cent of African trade was bank-intermediated in the same period. This shows how African trade has unmet demands and is underserved by banks.

In Ghana, Businesses and SMEs, require finance to be able to increase their production capacity, innovate, market, meet certification standards, research and develop new products to fulfil the demands of the growing market. However, most of these SMEs in Ghana, similar to other African countries, face obstacles when trying to get trade financing. Access to trade finance is listed as one of the biggest problems that SMEs in Ghana must deal with[1]. For this reason, the exposure of SMEs to trade finance in Ghana is relatively lower and Literature has demonstrated that access to trade finance continues to remain a major obstacle to SMEs in Ghana which negatively influences their decision to expand, export, develop, innovate, and grow. SMEs with good potential have always felt that they are discriminated against since banks in Ghana often prioritize large borrowers and large firms. Access to finance has often been cited as a key barrier to growth amongst small and growing businesses (SGBs). According to the most recent World Bank Enterprise Survey for Ghana (2019), 72 per cent of small and 52 per cent of growing businesses identified access to finance as a major constraint which is above the average of 38 per cent in Sub-Saharan Africa and the global average of 26 per cent.

The trade financing gap in Ghana reflects the limited profitability of small and medium enterprises and the lack of specialized departments and monetary processes on the part of financial institutions that focus on financing SMEs to trade[2]. The sources of trade finance for export traders in Ghana include the exporter's resources, credit from suppliers, and advance

1 International Trade Centre (ITC) (2017): SME Competitiveness Outlook 2017 – The region: A door to global trade

2 World Bank (2019). Improving Access to Finance for Ghanaian SMEs: Is there a Role for a New Development Finance Institution?

payment from oversea buyers and financial institutions. Apart from financial institutions as the main source of trade financing, the remaining source of financing remain meagre and cannot be relied on because they are informal. Consequently, the role of financial institutions in financing SMEs for trade cannot be underestimated. However, financial institutions as a formal source of trade financing are not easily accessible. This often results in SMEs in trade exports resorting to informal sources of financing which is bad for trading.

The Government of Ghana recently established the Development Bank Ghana (DBG), aimed at providing long-term competitively priced loans to SMEs who have long struggled with the problem of access to finance to ensure that SMEs are better financed in critical sectors of the economy. This, along with initiatives made by the private sector, will guarantee that SMEs have access to trade financing to support the growth and expansion of their business to other countries.

Purpose of the Public-Private Dialogue

This PPD initiative follows a research study that was conducted by CUTS International Accra with support from GIZ entitled **"Improving Framework Conditions to Unlock the Potential of AfCFTA for SMEs in Ghana."** The study among other objectives involved a nationwide assessment of the capacity of SMEs to change which is an assessment of whether firms can make human and financial investments to adapt to fast-changing markets. Concerning this diagnostic, it was found that a few (only 20 per cent) Ghanaian SMEs can secure financing from financial institutions. This means that most SMEs in Ghana are unable to secure trade-related finance such as payment-in-advance, working capital loans, overdrafts, factoring, forfeiting etc. easily from financial institutions.

Against the backdrop of the research study, the PPD seeks to engage relevant stakeholders with the findings of the diagnostic report, and the current state of play of AfCFTA implementation and seek their inputs and recommendations on how to practically improve businesses and SMEs' access to trade finance. The overall objective of the dialogue is to improve public and private dialogue relations in improving the discourse on AfCFTA.

The discussions would be based on the findings from the research study including but not limited to:

- Access to trade finance products.
- Bridging the trade finance gap
- Barriers to Accessing Trade Finance from Financial Institution – SMEs related factors
- Trade finance to support the private sector trading under the AfCFTA
- Enhancing the capabilities of SMEs in Ghana to access trade finance
- Addressing export financing challenges

Participants

The PPD would bring together high-profile officials from the Bank of Ghana (BoG), the Ministry of Trade and Industry (MOTI), the Ministry of Finance(MoF), the Ghana Securities Industry Association (GSIA), Ghana Association of Banks (GAB), Ghana Insurers Association (GIA) and Ghana National Chamber of Commerce and Industries (GNCCI) Private Enterprise Federation (PEF), Association of Ghana Industries (AGI), Ghana Export Promotion Authority (GEPA), Institute for Statistical, Social and Economic Research (ISSER), Ghana Investment Promotion Centre (GIPC), Economic Unit of Various Embassies in Ghana, donor agencies, Social and Economic Research (ISSER), Ghana Union of Traders Associations (GUTA), academia, economists, trade experts, CSOs, businessmen and women etc.

Expected Outcomes

Policy Briefs: After the expert dialogues, a policy brief will be developed highlighting the recommendations by experts in the forum. All the previous data collected through primary research including surveys, will make part of such policy brief. That will help substantiate or differ from the forum proceedings and recommendations, thus giving a complete picture of the on-ground realities. Such briefs will be circulated to all experts and stakeholders including the specific sector ministry (duty bearers), and meetings will be held with key duty bearers for implementation.

Public Private Dialogue (PPD) on Creating SME Competitive Advantage for AfCFTA; the Strategic Role of Trade Finance

Date:	**Wednesday 23rd November, 2022**
Time:	**9:30am**
Venue:	**Alisa Hotel, North Ridge Accra**

For More Information

For more enquires regarding this event,
please email: sny@cuts.org or accra@cuts.org or call (Shadrack) 0558045500