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The Role of Trade Financing in Enhancing Intra-African trade under the African Continental Free Trade Area (AFCFTA)

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Abstract
The study examines the role of trade finance in enhancing intra-African trade under the African Continental Free Trade Area (AfCFTA), with focus on how financing constraints, trade finance mechanisms and digital payment systems affect the ability of African firms to participate in cross-border trade. The study covers the AfCFTA era, with attention to recent evidence on trade finance, intra-African trade and digital payments across Africa. It reviews trade finance mechanisms, the African trade finance gap, financing constraints facing firms and the emerging role of the Pan-African Payment and Settlement System (PAPSS) and FinTech. The study adopts a conceptual and policy analysis approach based on verified empirical studies and reports from credible institutions, including the African Development Bank, Afreximbank, World Trade Organization, UN Trade and Development and the World Bank. Evidence from the literature shows that limited access to trade finance constrains export participation, trade volume and intra-African trade efficiency, with SMEs facing greater financing barriers. The study also finds that digital payment systems can reduce transaction costs and payment delays, while risk-sharing facilities can encourage banks to provide more trade finance. The study concludes that AfCFTA's success depends partly on the availability of affordable and accessible trade finance. It recommends stronger risk-sharing schemes, improved SME financing, wider use of PAPSS, better foreign-exchange access and greater investment in digital trade finance infrastructure.
Keywords: Trade finance, intra-African trade, AfCFTA, trade finance gap, digital trade finance, PAPSS, FinTech, SMEs, cross-border payments, African trade.

1. Introduction

African countries are at a turning point in their journey towards deepening economic integration. The African Continental Free Trade Area (AfCFTA) offers a great chance to transition the continent from fragmented national markets to a more integrated market for Africa. The Agreement took effect in 2019, and trade under the AfCFTA started from 1 January 2021. It aims to lower trade barriers, increase market access, foster regional value chains and boost Africa's trade profile (African Union [AU] 2021, 2023).

But AfCFTA is more than just the elimination of tariffs. Money is required for the purchase of inputs, manufacturing of products, shipment of goods, payment of bills and risk management both before and after goods cross borders for firms. Trade finance is the source of working capital, guarantees, letters of credit, documentary finance, factoring and other financial instruments, necessary to enable cross-border transactions. It cuts down on payment and credit risks when buyers and sellers are involved and provides liquidity to companies to engage in regional markets.

From the pattern of trade in Africa, it is evident that trade finance is needed. Intra-African trade in 2024 made up just approximately 13.2% of the total African goods trade, a figure much lower than in the large, integrated trade regions such as Asia. African Development Bank [AfDB] (2026) and the United Nations Trade and Development [UNCTAD] (2025) report that weak regional transport systems, high trade costs, non-tariff barriers and limited financial access remain barriers to regional trade growth.

The problem is exacerbated by trade financing deficits. AfDB estimates the unmet demand for trade financing in Africa at US$74 billion to US$92 billion in 2024, which is equivalent to approximately 5.4% of the continent's exports of goods. In the previous period (2011-2019), commercial banks were responsible for

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facilitating 40% of African trade, while they facilitated only about 23% during 2020-2024. Another significant challenge facing banks to grow their trade finance business was foreign exchange shortage.

The financing issue is significant especially for small and medium scale businesses (SMEs), which constitute a significant proportion of the business sector in Africa. Many SMEs do not qualify for financing due to poor credit history, low collateral, high interest rates, and information deficiencies. Only 7-25% of the need for supply chain finance is currently being met in Africa, with a market value that is estimated to be greater than US$60 billion, according to UNCTAD. Lack of access to finance, in turn, hinders firms in being able to participate in the regional supply chains and use the AfCFTA market (UNCTAD, 2025).

Another aspect of trade financing that can contribute to addressing the currency and payment issues that plague African trade is related to the role of money and banking in the process. Especially, the use of foreign currencies leads to high transaction costs and to exchange rate risk. The development of the Pan-African Payment and Settlement System (PAPSS) provides an important step towards settling eligible cross-border transactions in African currencies. When used alongside appropriate trade finance tools, these payment systems can mitigate delay and cost of transactions, and enhance the capacity of African companies to trade with each other. Afreximbank believes that PAPSS and robust trade finance frameworks are crucial instruments for promoting the implementation of AfCFTA.

Financial institutions can also play an important role in minimizing trade risk. Development banks, commercial banks and regional financial institutions may be able to guarantee, risk share, offer credit lines and other facilities that will encourage banks to finance transactions that they would not otherwise finance. African banks and businesses can be helped by the AfDB, for instance, through risk participation agreements and other trade finance mechanisms. Its trade finance programme has facilitated intra-African trade and is also thought to be tailored to boost financing for industries like agriculture, manufacturing and energy.

The latest evidence suggests that circumstances for intra-African trade have improved, and are attracting investment. According to the AfDB data, during 2020-2024, intra-African bank mediated trade accounted for 34% of overall bank mediated trade, which was 89% higher than its previous share. Similarly, Afreximbank says trade among African nations grew by 12.4% in 2024 to reach US$220.3 billion. These numbers indicate that the development of financial relations will help to extend regional trade but that the financing gap is still a significant hurdle in the way of broader trade involvement.

AfCFTA's success will thus require the financial systems that put into use trade rules. There is very little benefit from the lower the tariffs if the exporters are unable to access working capital, the importers are unable to secure payment facilities, banks are unable to access sufficient foreign exchange and/or SMEs are unable to get guarantees. Trade finance needs to then be considered as an important bridge between AfCFTA policy and trade.

In this regard, analysis of AfCFTA and the role of trade finance in improving intra-African trade assumes great importance and is timely. The study aims at addressing the potential of enhancing liquidity, mitigating transaction and payment risks, facilitating SMEs, bolstering regional value chains and cross-border trade by providing access to trade finance. It also highlights the importance of greater financial strength of African financial institutions, of digital payment systems, of risk sharing, of policies and practices to increase access and lowers the cost of trade finance. The main message is evident: AfCFTA can open African markets but there is need for good trade finance in order to allow African businesses to trade effectively in those markets.

2. Literature Review

2.1 Conceptual Review

Trade finance is the financial products and services which help in flow of goods and services from seller to buyer. This includes instruments like letters of credit, documentary collections, bank guarantees, pre-shipment finance, post-shipment finance, export credit, factoring and forfaiting. They are used to control the company's working-capital requirements, payment risk and the time between the production and shipment and payment. Trade finance plays a special role in African markets due to relatively poor credit systems, high transaction costs and the risks associated with currencies, as well as restricted access to bank financing.

Intra-African trade – describes trade between African countries. Regional trade agreements have not been enough to significantly boost intra-Africa trade, which remains very low compared with that in Europe and Asia. To tackle the issue, the AfCFTA proposes to establish a single market for goods, eliminate tariff and non-tariff trade barriers, enhance trade facilitation and promote regional value chains. Abrego et al. (2020)

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note that tackling infrastructure deficits, as well as weak institutions and other constraints that hindered the benefits of previous regional cooperation, will be critical to the success of AfCFTA.

Trade finance provides an important link between AfCFTA rules and actual trade. The removal of tariffs does not automatically create trade if firms lack the funds needed to produce, transport and sell their goods. Banks and development finance institutions can reduce these constraints through credit, guarantees and risk-sharing facilities. Oramah (2021) argues that Afreximbank has an important role in supporting AfCFTA through trade finance, payment systems and measures designed to strengthen intra-African trade.

2.1.1 Trade Finance and Intra-African Trade

Trade finance is a type of financing that facilitates trade between countries, businesses, and individuals. It includes bank credit, letters of credit, guarantees, export financing and other types of financing that assist companies in fulfilling their production, transport and payment needs. Access to trade finance is significant for African firms, as cross-border trade can be subject to long delivery time, increased transport expenses, and currency risk and lack of payment certainty.

There are different ways in which trade finance can affect intra-African trade. First, it offers working capital for firms to produce and ready products for export. Second, it minimizes payment risk by providing increased payment guarantee to the seller. Thirdly, it enables buyers to receive products before the time of their own sale or return of cash. Trade finance is therefore alleviating the financial strain due to the time lag between the production, shipment and final payment. The results by Bempong Nyantakyi (2023) indicate that bank-intermediated trade finance is positive and significantly affecting the volume of trade in Africa. Based on 43 countries in Africa, the study finds that approximately 40% of trade was intermediated by banks on the continent, while this rate is approximately 80% in the rest of the world.

As firms have to deal with high trade and logistics costs, the role of finance is more important in such situations. African traders typically trade long distances and have to face high transportation costs, complex administrative requirements at borders, and poor infrastructure. Firms need to invest money first before the customers pay for the products. Financial access will enable companies to cope with such costs and continue to operate in export markets. Mazorodze (2024) finds that access to finance has a significant positive effect on enhancing the efficiency of intra-African trade using an unbalanced panel data set of 44 African exporters between 2008 and 2021, and a stochastic frontier gravity model. During the period of the study, the study estimates that intra-African exports were about 5% of their potential.

Mazorodze (2024) further reveals that availability of finance has a greater impact when trading partners do not share a common border. The findings indicate that finance facilitates firms' efforts to offset the increased transport and logistics expenditure on longer trading distances. The finding is significant in the context of intra-African trade given the fact that many possible trading links are between geographically distant countries. It is therefore finance which can assist firms to overcome a major cost disadvantage of distance.

Trade finance is important too, as many of African's small businesses are not able to finance cross-border trade with retained capital. The gap in financing can be filled by banks by providing pre-shipment finance, post-shipment finance, guarantees and other facilities related to trade. If these facilities are unavailable or are costly, firms can limit their export activities, or stick to domestic markets. In the standardised coefficient terms, Bempong Nyantakyi (2023) finds evidence of a greater impact from bank-intermediated trade finance on trade volume in Africa compared to exchange-rate volatility and trade logistics.

The importance of trade finance has become more pronounced under the AfCFTA. Trade is not a direct consequence of market access, the agreement aims to establish a larger market within the continent. Companies need to possess the monetary resources to manufacture, move and provide goods throughout borders. Firms may therefore not be able to benefit from lower tariffs and increased market access because of a financing constraint. Trade finance is a link between the opportunities brought about by AfCFTA and the capacity of companies to engage in intra-African trade.

African trade finance gap is a huge constraint. Unpredictable financial environments, shifting worldwide financial conditions and the lack of trade finance continue to pose challenges, according to a report, African Trade Report (2025), by Afreximbank. The report also emphasizes the need for enhanced financial systems in Africa and improved utilization of regional financial mechanisms to facilitate trade.

The liquidity, risk and transaction cost channels, therefore, can help explain the link between trade finance and intra-African trade. Improved access to finance provides companies increased liquidity, lowers the risk of

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late or uncertain payment, and facilitates companies in covering the cost of cross-border trade. African countries have empirical evidence of a positive link between access to finance and trade performance (Mazorodze, 2024; Bempong Nyantakyi, 2023). It is implied that providing more affordable and reliable trade finance should be part of the processes of achieving higher intra-African trade through AfCFTA market integration.

2.1.2 AfCFTA and Intra-African Trade

The African Continental Free Trade Area (AfCFTA) is meant to establish a free trade area across the continent for goods and services. It aims to lower the tariffs, tackle the non-tariff barriers, accelerate the trade facilitation, and foster closer economic connectivity. Part of the agreement is to bolster regional value chains and boost African business involvement in regional trade. UN Trade and Development (UNCTAD, 2025) flags better regional trade as a key measure to reduce Africa's vulnerability to external shocks and enhance the resilience of African economies.

AfCFTA is expected to create more market access opportunities for African producers, however, market access does not necessarily translate into increased intra-African trade. Companies need to be able to manufacture, ship and deliver products internationally. They also must have working capital that will cover expenditures that occur prior to receipt of payment. Thus trade finance, in addition to trade liberalisation, acts as a facilitator to make new market opportunities a reality for firms.

The potential benefits of AfCFTA are huge. While it may boost intra-African trade, it is not guaranteed to do so, and the gains could be realized only if it overcomes structural barriers such as trade costs and address infrastructure gaps, argues Abrego et al. (2020). Their analysis identifies the need to back the trade liberalisation with broader reforms to enable firms to react to new market opportunities.

One of the factors which can either make or mar the benefits of AfCFTA for firms is Finance. The business may find a willing buyer in another African country but may not be able to finalise a transaction due to lack of funds to produce or transport / ship to the buyer. Trade finance can fill that gap by providing credit facilities, guarantees and payment instruments. African Development Bank (AfDB, 2026) statistics indicate that in 2020-24, intra-African trade made up 34% of bank-intermediated trade, a 89% rise from the 2011-19 period.

Small businesses also have an interest in the AfCFTA-trade finance nexus. SMEs tend to lack collateral and short credit history, and have weak access to formal finance. According to UNCTAD (2025) only 14% of African companies in export activities in 2024 and around 51% of African small businesses lack access to financing they require. The findings indicate that enhancing the access of smaller businesses to finance is important if the smaller businesses are to fully harness the benefits of AfCFTA's continental market.

AfCFTA can then be seen as as opening up a market for such opportunities, with trade finance contributing to a part of the financial capacity to make use of that market. The two are very intertwined. If the tariff is reduced, and trade barriers are lowered, there will be more trade potential, but there must be sufficient finances to enable this trade to be produced and shipped, and financed and insured. Therefore, the strengthening of trade finance systems should be part of the overall agenda to boost intra-African trade.

2.1.3 Trade Finance Gap in Africa

The trade finance gap is the disparity between the quantity of trade finance needed by the firms and financial institutions providing funds to support trade. It continues to be a significant obstacle to trade in Africa. This issue isn't just about the money. It also mirrors a high perceived risk, less liquidity in foreign exchange, poor credit information availability and the fact that some banks are not willing to finance smaller firms or less established firms.

The AfDB Trade Finance Report has just been released and is an accurate reflection of the magnitude of the issue. According to estimates, the unmet demand for trade finance in Africa amounted to US$74 billion to US$92 billion in 2024. This was a lower figure of 5.4% of the region's merchandise trade. Only 23% of the trade in Africa was mediated by commercial banks on average in 2020-24, down from 40% in 2011-19.

A shortage of foreign exchange has emerged as one of the major bottlenecks in providing trade finance. According to the AfDB (2026), the primary challenge for 36 % of banks surveyed across Africa in expanding the provision of trade finance between 2020 and 2024 was the lack of liquidity in foreign currencies. The share was only 18% during 2015–2019. What can make trade and export transactions difficult is the lack of foreign currency for banks to back trade instruments or the increased cost of the transaction.

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The financing gap also has a stronger impact on the SMEs due to the fact that smaller enterprises may have less choices of financing. UNCTAD (2025) estimates that the African supply-chain finance market is valued at over US$60 billion with 7–25% of the demand being currently met. Trade credit is already an important source of working capital for trade among firms engaged in intra-African trade, as they rely on trade credit more than firms exporting to outside Africa.

Development finance institutions can play a part in closing the gap by having a stake in the risks with commercial banks. AfDB, for instance, has signed an Unfunded Risk Participation Agreement with the Trade and Development Bank (TDBank) for US$150 million in Trade Finance in 2024. The facility will help to support intra-African trade and regional integration and offer risk cover to eligible banks.

As such, the trade finance gap directly impacts on AfCFTA. Businesses may not be able to access cost effective finance, which can make expansion of production difficult, as well as access some of the new markets on the continent and finance cross-border transactions. However, the role of commercial banks, development finance institutions, export credit agencies and regional financial systems will have to be strengthened to close the gap. It also demands financial products with a responsiveness to regional supply chain needs, to SMEs and firms.

2.1.4 Digital Trade Finance and Cross-Border Payments

The digital transformation of the delivery of trade finance and cross-border payments. Digital platforms have the potential to streamline paperwork, speed up transactions, increase the availability of transaction information and cut down on the price of financial services. The benefits of these are significant for Africa as delays and transaction costs can make cross-border trade less appealing, especially for small enterprises.

Digital trade finance, electronic trade documents, digital platforms, automated credit assessment, electronic payment systems and technology-based supply-chain finance are all considered to be digital trade finance. The use of digital technologies, such as mobile money, e-commerce and digital trade facilitation tools, can enhance MSMEs' capacity to access regional value and supply chains in Africa, says UNCTAD (2025). Smart financing, like FinTech and supply-chain financing, can also be used to overcome the financing difficulties of smaller businesses.

The Pan-African Payment and Settlement System (PAPSS) is one of the key components of Africa's digital payment system. PAPSS was created by Afreximbank in collaboration with the African Union and the AfCFTA Secretariat, to facilitate cross-border payments in African currencies. The system eliminates the need for transactions to be conducted in third country currencies and through correspondent banking relationships. According to Afreximbank, its complete rollout will increase the annual savings for African businesses on payment transactions by over US$5 billion.

By making payment arrangements easier and more predictable, PAPSS can help to boost intra-African trade. Afreximbank has stated in 2025 that PAPSS was now grown to include more banks and markets, thus enabling customers in the PAPSS participating countries to make and receive cross-border payments through their local banking system. The expansion is meant to support the broader vision of AfCFTA to improve the speed and lower the cost of intra-African transactions.

There are also wide applications of digital payment systems in trade finance. The speed of settlement can help to shorten the time between funds being sent and funds being received. A more robust system for recording transactions could enhance the information that is made available to the lenders, and digital platforms could enable traders to access banks and other finance providers. These improvements can be especially beneficial for small and medium enterprises (SMEs) which may face challenges with conventional documentation and credit analysis methods.

The AfDB (2026) also says digitalisation is a developing characteristic of the trade finance market in Africa. The report highlights that digital trade finance will help to lower transaction costs, enhance financial inclusion, and enable integration with PAPSS. Digital systems can then be used to supplement traditional trade finance to enhance the speed, coverage and effectiveness of financial services.

Digital trade finance should not however be seen as a panacea to Africa's trade finance challenge. Technology alone will not solve the foreign exchange problem, credit risk, poor infrastructure or limited supply of credit. It is best used to enhance the accessibility and affordability of current financial services. Digital finance, robust banking systems, risk-sharing mechanisms and a more efficient cross-border payment system are more likely to facilitate the continued expansion of intra-African trade.

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Generally, the literature indicates that the AfCFTA has established a sound policy framework for promoting intra-African trade, while finance will still play a crucial role for firms to make the most of the new market. Digital finance and PAPSS can help mitigate payment and transaction barriers, and many African companies cannot engage in international trade due to the large trade finance gap. Trade finance should, therefore, be considered as a critical financial bridge between AfCFTA market access and realisation of trade growth within Africa.

2.2 Theoretical Review

2.2.1 Financial Constraint Theory

Financial Constraint Theory helps in understanding the effect that limited access to external finance has on a firm's involvement in international trade. Manova (2013) found that companies require capital from outside sources to cover the costs of exports, including fixed and variable costs. Thus firms with credit constraints are less willing to go abroad and to export to a multitude of destinations or to high export levels. A trade barrier may be financial in nature where firms may have an opportunity to export to a profitable market, but do not have the finances needed to exploit this opportunity.

The theory is very pertinent to trading in Africa. Often, exporters have to pay some costs before they get paid from foreign buyers. This costs include production, packing, transport, customs clearance and distribution. Trade finance can help to liquidate those obligations. Letters of credit, bank guarantees, pre-shipment finance and post-shipment finance can also minimize payment risks and help banks more willing to provide assistance for cross-border transactions.

The theory also has an insight into the reason for the impact of access to finance on trade size. Access to credit enables firms with a better credit situation to be able to generate larger quantities, enter more markets and have more buyers. Those businesses that are unable to access financing can focus on the domestic market as payment and delivery risks are less. An economy's stock of financial development is associated with an increase in its exports of goods in sectors reliant on external financing, according to Manova (2013). The evidence presented here suggests that financing affects export participation and export performance.

The African evidence corroborates the theory. Using a stochastic frontier gravity model, Mazorodze (2024) analyzed 44 African exporters between 2008 and 2021. The study has determined that ease of access to finance has a significant impact on improving intra-African trade efficiency. The effect was larger the further apart trade partners were, implying that finance facilitates firms to cover increased transport and logistics expenses. Financial Constraint Theory thus offers a direct answer to the question of the role of trade finance under AfCFTA. AfCFTA can eliminate tariff and other trade barriers, but companies will require financing to be able to manufacture and cross borders. In some instances, firms may lack the finance needed to take advantage of the market opportunities that AfCFTA has brought about. Greater ease of access to trade finance can then enable companies to shift from participation in potential to real intra-African trade.

2.2.2 Gravity Theory of Trade

Gravity Theory of Trade can be used to understand the bilateral trade flows, considering the economic size of the trading partners and the costs of trade between them. The fundamental argument is that the bigger the economies, the more trade there will be, and the farther apart they are, the less trade there will be. With modern gravity models, it is possible to take into account also factors that affect bilateral trade, such as trade costs, borders, institutions, etc.

The gravity model was given theoretical sustenance by Anderson and van Wincoop (2003). According to their work, bilateral trade costs are not the only factor that influences trade between the two countries, but their trade costs with other countries as well. Their argument adds bilateral resistance terms to the gravity equation and offers a more solid theoretical justification for measuring the impact of trade restrictions on bilateral trade. In analysing intra-African trade, African countries vary significantly in many dimensions such as economic size, geographical distance, infrastructure, market access, and trade costs, making the gravity framework useful. Larger markets in one country can lead to higher trade volumes, and transport costs and distance can lower trade volumes. The capacity of firms to absorb these costs may also be impacted by financial conditions. The gravity framework is clearly relevant to African trade as illustrated by Mazorodze (2024). The study also examined the intra-African exports using a stochastic frontier gravity model, revealing that intra-African exports were far from their estimated potential throughout 2008-2021. Access to finance brought African exporters closer to their trade potential, more acutely with more distant trade partners.

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The identification provides a clear role for trade finance in the gravity model. The farther away, the more expensive transportation and logistics will be. Liquidity is required for companies to cover these costs prior to income. Then trade finance can lessen the costs of doing business with someone who's living in another country, and enable businesses to trade with partners which they might not be able to afford otherwise.

Gravity Theory is also applicable to AfCFTA due to the fact that the AfCFTA aims at lowering the cost of trade between African nations. Lower tariffs, streamlined customs clearance and better facilitation of trade should boost trade volumes. The impact of the gains will probably be more pronounced when companies are also in a position to attract financial resources. Opportunity to trade can be provided through trade liberalisation, but means to act on that opportunity will be provided by finance.

2.2.3 Theoretical Link to the Study

The relationship investigated in the study is explained by complementary theories: Financial Constraint Theory and Gravity Theory. Financial Constraint Theory is concerned with the firm's capacity to secure the funds needed for trade, while the Gravity Theory is concerned with the economic and geographical factors that influence bilateral trade flows. Both offer a solid foundation to study the importance of trade finance as a tool for intra-African trade.

The relationship between the two can be written in the following way:

Trade Finance → Reduced Financial Constraints → Greater Capacity to Meet Trade Costs → Higher Cross-Border Trade → Increased Intra-African Trade

According to Financial Constraint Theory, the lack of finance hinders firms' ability to enter/exit and grow in export markets. In addition to gravity theory, distance, market size and trade costs are factors that affect the amount of bilateral trade, as noted by Gravity Theory. Some of these costs can be mitigated through the provision of trade finance for working capital, payment security and transport & logistics.

Under AfCFTA, the link will be intensified. The agreement will remove some impediments to trade within the African continent and open up more market opportunities. Companies still require cash flow to take advantage of these opportunities. Trade finance can help fill the gap between market access facilitated by AfCFTA and trade in Africa.

The theoretical argument is backed up by empirical evidence. A more efficient financing of intra-African trade leads to more efficient trade, and has a larger impact when trading partners are farther apart, according to Mazorodze (2024). In addition, Manova (2013) concludes that financial restrictions are related to firms' export involvement and export output. The two streams of evidence suggest that better trade finance can help lower liquidity constraints and support firms to cover trade costs to improve intra-African trade.

2.3 Empirical Review

The empirical literature provides a strong empirical relationship that exists between access to finance and international trade. The study of Manova (2013) is a large cross-country panel study that investigates the impact of credit constraints on firms' export decision and export volume. The study identified three main channels by which the imperfections in the financial market affect international trade: fewer firms enter into export markets, fewer firms stay in foreign markets, and existing exporters decrease their sales. So one of the reasons for restricting trade is that the exporters have to finance their production and other expenses in advance before they get paid. The discovery offers further evidence as to the mechanism through which access to trade finance can impact trade performance, especially in developing economies where firms are less likely to be able to gain access to external finance.

The facts from Africa support the argument. In her study, Bempong Nyantakyi (2023) analyzed trade finance facilitated by banks across 43 African countries. The study revealed that banks were intermediating – meaning passing on – roughly 40% of African trade, whereas it was about 80% in other parts of the world. Most important, bank-intermediated trade finance was positively and significantly related to the intensive margin of trade in Africa when domestic credit to the private sector was controlled for. The standardized results also indicated that access to trade finance was more influential in trade volume than exchange-rate volatility and trade logistics. The study concluded that bank-intermediated trade finance should be a priority of policies to boost African trade.

New evidence that has recently been uncovered supports the connection between finance and trade. Access to finance, export channels and export performance were looked at across 46 African economies between 2006 and 2020 by Abor et al (2024). The paper employed mixed-effects regression and dynamic system GMM

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models to conclude that access to finance had a positive impact on export performance and was especially important for the companies that implemented direct and hybrid export channels. It was also observed that SMEs that had access to bank finance were more likely to have exports than those without access to bank finance. This outcome is significant due to the fact that it demonstrates that finance is not just for large exporters. It also enables small companies to gain access and grow in overseas markets.

This becomes even more evident if only intra-African trade is looked at. Using a stochastic frontier gravity model, Mazorodze (2024) analyzed 44 countries in Africa between 2008 and 2021. Intra-African exports were still significantly lower than potential – the study estimates an annual loss of trade in the region of US$1.1 billion. There was a positive correlation between countries' access to finance and their performance relative to their trade potential, and the impact of finance was greater among countries that were farther away. The discovery indicates that financing plays a role in covering transport & logistics expenses that increase in significance as a result of the growing distance of trade.

AfCFTA also indicates that there is significant potential for intra-African trade. Fofack et al. (2021) used an augmented general equilibrium Poisson pseudo-maximum likelihood model to estimate the effect of AfCFTA on intra-African trade. Based on their findings, AfCFTA can boost intra-African trade by approximately 24% in the short term, and even more in the long term. These potential benefits, however, differ by country due to the differing levels of trade integration in Africa. The discovery indicates that liberalization of tariffs and increased market access can generate significant trade potentials, and that firms still need the financial resources to exploit them.

AfCFTA research on the institutional front is also linked to the integration of the continent. Oramah (2021) explored Afreximbank's contributions to the implementation of AfCFTA and its trade finance, trade facilitation and payment programmes. The study demonstrates tangible evidence of the financial support being tied together with the digital payment infrastructure to alleviate liquidity constraint and facilitate cross-border transactions. The argument is significant because AfCFTA will create the market access, and financial institutions like Afreximbank will offer financial mechanisms to enable firms and banks to take advantage of the market opportunity. Kaulihowa (2022) associates PAPSS directly to the overarching trade finance requirements of AfCFTA. The study concludes that an efficient payment system for a continent can facilitate trade, but its effects will be restricted if firms are not able to get credit.

Kaulihowa (2022) investigated the effects of trade finance and policy uncertainty on Africa spanning the period 1990–2020 and a heterogeneous augmented mean group estimator. The study also revealed positive correlation between global policy uncertainty and demand for trade finance along with the increase in trade policy uncertainty also increased the demand for trade finance. The study says that trade finance could be 'countercyclical' in times of uncertainty, but that the size of the trade finance gap in Africa could restrict its impact. The outcome further underscores the importance of increasing the availability of trade finance to help African countries access the full benefits of trade as per AfCFTA.

In line with this, from a law & economics perspective, Warikandwa (2026) asserts that lack of necessary trade finance can also be a non-tariff barrier under AfCFTA as SMEs fail to take full advantage of the market opportunities without having adequate working capital and financial instruments. The latter study is not an econometric analysis, but offers a contemporary institutional view of the finance constraint of SMEs under AfCFTA.

Digital payments have brought another dimension to the finance–trade relationship. The Pan-African Payment and Settlement System (PAPSS), which was formally launched in 2022, has been designed by Afreximbank, in collaboration with the African Union and the AfCFTA Secretariat. PAPSS enables eligible intra-African transactions to be settled in local currencies instead of the traders paying via correspondent banks and in foreign currencies. The system will lower the cost of payments, shorten settlement time, and alleviate foreign exchange and liquidity pressures that have long plagued African cross-border payments.

Overall the empirical results suggest an overall consistent finance-trade nexus. Evidence from around the world indicates that credit restrictions lower export participation and export volumes, and African evidence indicates that easier access to bank finance boosts export performance and intra-African trade efficiency. AfCFTA studies show that there is great potential for increased intra-African trade, however, the potential will only be realized if the financial, logistical and payment facilities faced by firms can be improved. Given this,

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the literature provides support for the notion that trade finance will be a significant financial channel for AfCFTA to drive up intra-African trade flows from increased market access.

3. Trade Finance and AfCFTA

The African Continental Free Trade Area (AfCFTA) is expected to create opportunities for African firms to leverage on these opportunities, and trade finance is one crucial bridge between the opportunities created by AfCFTA and the capacity of firms in Africa to access those opportunities. While tariffs can be lowered, market access can be enhanced and trade among African countries facilitated by AfCFTA, firms will still require financing to manufacture, export and import goods. If there are few funds, lower barriers to trade may not lead to greater volumes of trade. Intra-African trade (IAT) represents 34% of total bank intermediated Africa trade from 2020 to 2024 according to the African Development Bank (AfDB, 2026) which is also increasing in importance as the facility of finance in supporting continental trade.

Trade finance is a financial mechanism for facilitating goods and payments transactions between the buyer and the seller. The common methods for financing goods are letters of credit, documentary collections, trade loans, guarantees, open account finance and advance payments and bills of exchange. Both of these instruments are used to mitigate various risks when involving in a transaction. For instance, if certain conditions are fulfilled, a letter of credit will provide the exporter with greater confidence of payment, and guarantees will provide a level of security for a buyer or seller if there is a risk of non-performance. Open-account transactions involve a higher degree of payment risk for the exporter but can be facilitated for trade where there is a relationship between the parties. Letters of credit, payment guarantees, open-account payments and advance payments are among the most important international trade financing instruments mentioned by the IFC and WTO (2022).

These mechanisms are important because when the products are traded internationally, there is often a time lag between production, shipping and payment. The exporter may require funds for manufacturing and dispatching goods before he gets the payment from the buyer. Meanwhile, an importer could require the goods prior to having enough income to pay for the transaction. Trade finance fills this gap. It helps a business to have the working capital; it helps to reduce the risk of payment, and it also helps businesses to carry on trading even if they do not have the funds required to finance the entire transaction. The IFC and WTO (2022) have pointed out that trade finance facilitates the gap in time between the exporter's need for payment and the importer's payment after receipt or delivery of goods.

3.1 Trade Finance Mechanisms

Letters of credit are especially effective when the buyer and the seller do not know each other or when the market for the goods is one of high payment risk. The bank that issues the LC agrees to pay the exporter upon fulfillment of the documentary conditions. This helps to alleviate the exporter's risk of non-payment and provides the importer with some confidence that the exporter will pay in return for the due presentation of the agreed trade documents.

Trade loans and working-capital facilities are available to the firms to finance the procurement of inputs and the production of goods, transport of consignment and other expenses before the receipt of payment. For SMEs, who may not have access to as much financing or retained earnings, these facilities are especially crucial. The IFC and WTO (2022) reported that SMEs in West Africa have higher rejection rate and higher financing costs than large companies.

Risk sharing and guarantees are also playing a significant role. African trade finance might be hampered by the banks' perception of credit, country, currency and payment risk. DFIs can lower the risk of commercial banks and incentivize commercial banks to offer more trade finance. AfDB's recent trade finance activities demonstrate the crucial contribution of development finance institutions in supporting trade finance in 2020-2024. In the absence of this help, the African trade finance gap during the period could have been more than US$100 billion a year.

These are especially relevant to AfCFTA as it aims to boost the volume and value of transactions between African nations. The more the intra-African trade expands, the more financial support of various forms is required, such as payment guarantees and working capital. Trade finance thus works for AfCFTA, not in place of trade liberalization, but to facilitate firms' reaction to the opportunities brought by trade liberalization.

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3.2 Financing Constraints

African firms have been operating under a number of financing constraints which may hinder their involvement in cross border trade. These are high interest rates, lack of collateral, poor credit scores, foreign-exchange shortages, and short of corresponding banking relationships and high perceived risks. Small companies are more likely to have fewer assets that they can offer as security and less solid connections with banks.

Banks in the country rejected trade finance applications on average at 21% and about 25% of the value applied for was rejected in the countries of Côte d'Ivoire, Ghana, Nigeria and Senegal (IFC and WTO, 2022). Banks less than two million customers in size saw even higher rejection rates. Insufficient collateral and high perceived risk by the applicants were the primary reasons.

Another issue is the price of trade financing. The average cost of a letter of credit in the four countries of West Africa studied by the IFC and the WTO was approximately 2–4% of the value of the transaction by the year. SMEs also had to pay higher financing costs as compared to large firms. The additional expenses could prevent companies from establishing themselves in regional markets, particularly in markets with low margins.

A second limitation is the foreign-exchange liquidity. According to AfDB (2026), limited foreign-exchange liquidity is the primary factor that hinders the growth of trade financing in Africa, accounting for approximately 36% of banks' answers from 2020 to 2024. The share was 18% during 2015–2019. This increase is significant as a number of trade transactions in Africa are still conducted in foreign currencies and correspondent banking relationships.

These financing challenges can diminish the effects of AfCFTA. A firm can be able to have a wider market in Africa but they may be short of the capital to expand their production, transport products and deal with delayed payment. This implies a gap in the formal market access and real market participation. Access to trade finance is therefore key if African firms are to fully capitalize on the opportunities AfCFTA provides as sufficient opportunities do not exist without it.

3.3 African Trade Finance Gap

There is still a significant trade finance deficit in Africa, with financial institutions providing less trade finance than the demand. According to the latest AfDB Trade Finance Report, the unmet demand in 2024 was estimated to be anywhere between US$74 billion and US$92 billion. This lower estimate accounted for approximately 5.4% of Africa's total merchandise trade volume. The average rate of commercial bank intermediation for African trade between 2020 and 2024 was 23%, which is lower than the 40% for 2011-19.

The widening of the gap is significant for intra-African trade. According to Afreximbank (2025), the trade finance gap is approximately US$100 billion per year in Africa, and is more severely impacting SMEs. The report also notes that trade finance portfolios in Africa are also skewed in favour of transactions with markets outside the region, with only approximately 18% of the trade finance of African banks allocated to intra-African transactions.

At a more local level the same issue is demonstrated in West Africa. IFC and WTO (2022) estimate that there is a trade finance gap of US$14 billion across Côte d'Ivoire, Ghana, Nigeria and Senegal per annum. They also determined that by enhancing access to low-cost trade finance, the four countries' exports and imports could grow by as much as US$26 billion a year, including significant possibilities in trade within Africa.

This seems to be not caused by a lack of demand. There are also problems for banks in providing finance. These include foreign exchange problems, inadequate correspondent banking relationships, borrower risk, poor collateral and expensive regulatory obligations. AfDB (2026) further notes low adoption rates of digital tools or platforms by banks in Africa for trade finance, where 28% were found to be so, and that high implementation costs, and strong technology infrastructure deters wider adoption.

Therefore, closing the trade finance gap should be considered as a component to AfCFTA implementation. African governments, commercial banks, development finance institutions and regional financial institutions should increase their risk-sharing programmes and increase access to foreign exchange, improve credit information systems and create affordable products for SMEs. The objective is not just to boost finance but also to ensure that that finance is available, affordable and appropriate to intra-African trade.

The evidence does support a simple conclusion. Trade finance can help companies walk through the door of AfCFTA and into a growing market on the continent. The extent to which African firms, particularly SMEs,

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are able to access trade financing to manufacture, move, market and accept payments for their products will therefore be an important component of the success of continental trade integration.

4. Digitalization and Cross-Border Payments

Digitalization is transforming African companies' financing, documentation and settlement of cross-border transactions. Digital systems help to decrease paperwork, to accelerate payment, to enhance transaction records and to decrease some of the costs associated with international trade. In Africa, the benefits are significant as slow payments and poor infrastructure or high-cost financial services can dissuade companies from transborder trade. African economies can benefit from digital trade to address some of the challenges with transport and border clearance that has hampered their engagement in trade, says the World Trade Organization (WTO).

4.1 Digital Trade Finance

Digital trade finance is the application of digital platforms and technologies for providing, processing and managing trade-finance transactions. It contains electronic trade documents, digital applications, automated processing, electronic guarantees, digital payment systems and the technology based supply-chain finance. The primary advantage is the speed. Several paper documents and manual checks were used to process a transaction that can now be done more and more on a connected digital platform.

Digitalization also has potential to enhance access to finance. Digital records can provide banks with more information on a firm's transactions and cash flows. This can aid financial institutions for evaluating borrowers and processing loan applications effectively. The benefit is especially critical for SMEs, whose credit record may be poor and financing costs are high, and whose collateral is restricted. The African Development Bank (AfDB, 2026), however, attributes the lack of digital adoption in trade finance in Africa to a number of issues. During the last 5 years (2020-2024), only one in four surveyed banks (28%) have implemented digital tools or platforms for trade-finance. High implementation costs and poor technological infrastructure are still big challenges.

Digital trade finance can thus be a complement to, not a replacement for, traditional banking. Traders still receive the credit, guarantees and other financial assistance from banks. Those services are delivered faster and more efficiently via digital platforms. A larger market for AfCFTA, is the key, as it will lead to more transactions in the continent that will need timely and reliable financing and payment services.

The African Development Bank has also been instrumental in the development of digital payment and e-commerce systems in Africa. It's the Institutional Support for Digital Payments and E-Commerce Policies for Cross-Border Trade project aims to enhance the institutional framework for electronic payments and facilitate the conducive environment for cross-border inclusive digital trade. The project recognizes that efficient digital payments are an important part of cross-border trade integration.

4.2 PAPSS

One of the most significant digital finance projects that is enabling AfCFTA is the Pan-African Payment and Settlement System (PAPSS). PAPSS was officially launched in January 2022 by Afreximbank, the African Union and the AfCFTA Secretariat. It will enable eligible cross-border transactions to pass through local currencies among African countries, rather than through third-party currencies.

PAPSS is a practical solution to the problem in African trade. In Africa, numerous companies do business with other countries and still rely on hard currencies and correspondent banking to pay for their business. That can be an added cost, time delay and foreign exchange pressure. The buyer makes payments in his/her local currency, and the seller makes payments in the other country's local currency. The system offers fast or near-instant settlement, and PAPSS claims eligible instant payments can be settled within 120 seconds.

Since its launch the system has grown. At the end of 2024, PAPSS had linked 16 central banks and over 150 commercial banks in Africa. It had also set up pilot transactions on its African Currency Marketplace with 12 local currencies. According to AfDB (2026), PAPSS aims to lower transaction costs, alleviate liquidity constraints, and enhance financial integration in Africa.

PAPSS is especially important for AfCFTA as the absence of payment issues can constrain the benefits of trade liberalization. Nothing for a trader who has a difficult time paying or receiving. PAPSS will facilitate settlement between African markets, thereby lessening one of the practical hurdles firms encounter once they have identified a buyer or supplier in another African country. This is therefore an important financial bridge between AfCFTA's market opening goals and the actual commercial transactions undertaken by the market.

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PAPSS should not, however, be considered as an alternative to trade finance. A quicker payment system does not come with quick money to produce, buy or carry goods. It is primarily used to ease the payment and settlement part of the trade transaction. Thus, there is a possibility to combine efforts of trade finance and PAPSS, i.e. provide liquidity and risk support for trade finance and efficient settlement for PAPSS.

4.3 FinTech

FinTech takes another step towards the digitalization of African trade finance. Mobile money, digital lending platforms, electronic payment systems and all technology-based financial services can help expand access to financial services, particularly for smaller enterprises. In addition, FinTech can link businesses to banks and other financial entities without having to go through traditional, physical banking structures, thus creating a broader service network.

For SMEs, the importance of FinTech is more evident. In Africa, small companies may have less working capital, and may struggle to qualify for traditional banking loans. Digital transaction records can give lenders more information regarding sales, payments and business activity. The data can enable improved credit evaluation and help mitigate some of the information gaps that have been deterring banks from financing small businesses.

Another area where the integration between trade finance and payment systems can be enhanced is through FinTech. Another area where FinTech can help enhance is the integration between trade finance and payment systems. For instance, PAPSS makes it possible for fintech companies or other payment service providers with licenses to interface with the infrastructure of banks and central banks. This opens up the space for technology firms to join in with cross-border payment services and take payment services beyond the traditional banking system.

Robust regulation is needed to go hand in hand with the development of FinTech. Cross-border digital transactions can be complicated by variations in national payment regimes, data protection laws and procedures, and the rules governing consumer protection and cybersecurity. The AfDB's digital payment project, therefore, emphasizes on aligning e-payment policies among the participating African countries. This alignment of policy is critical for digital finance to be a continental force for AfCFTA.

Overall, digitalization can enhance trade finance and cross-border payments by enabling payments to be faster, more transparent and less expensive. PAPSS offers the payment ecosystem on the continent, and fintech companies can offer businesses and consumers digital financial services. Digital trade finance bridges these with credit, guarantees and other trade support. The combination of the two may help African firms cross some of the financial and payment hurdles still hampering intra-African trade.

The evidence also indicates that digitalisation is not the whole solution for the Africa's trade-finance problem. There are significant technology costs, digital infrastructure weaknesses, and regulatory disparities that still pose a challenge, as well as limited digital adoption. AfDB's report indicates that the uptake of digital trade finance tools remains at an early stage, with only 28% of the banks surveyed implementing the tools. The best way to achieve this is thus to link digital finance with more robust banking systems, sufficient trade credit, risk sharing instruments and cross-border payment regulations.

5. Discussion and Policy Implications

The study concludes that trade finance is more than a banking service based on the evidence reviewed. It is an important support for intra-African trade. AfCFTA has established a larger market for African producers, but companies require investment to make products, move them to external markets and sell them to customers. In cases where funds are limited and expensive, companies might not be able to capitalize on the opportunities that AfCFTA opens in the market.

This is supported by the results of the previous studies. Financial constraints have an impact on firms' capability of engaging in international trade as illustrated in Manova (2013). African evidence confirms this. Bempong Nyantakyi (2023) shows that bank intermediated trade finance has a positive impact on intra-African trade while Mazorodze (2024) highlights that the availability of finance matters for the efficiency of intra-African trade. This brings trade finance closer to African firms' potential, according to the findings, thus helping them better reach their trade potential.

The strong gap in trade finance is an issue of concern. According to the African Development Bank (AfDB, 2026), the demand for trade financing in Africa is estimated at US$74 billion to US$92 billion, unmet in 2024. It is even more difficult for small businesses, as they do not generally have as much collateral, good credit and

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banking history. It's not just about the money that's available to the problem. It is also a question of whether or not firms wishing to borrow finance can do so at a reasonable price.

With AfCFTA, the need to bridge the gap grows even stronger. A larger continental market will bring more opportunities for businesses in Africa, but businesses will need sufficient working capital to be able to meet the new demand. Trade finance can be used for production, stock buying, shipping and financing. It also minimizes the risks of when buyers and sellers are in different countries and legal systems.

Digital finance is another opportunity. PAPSS can speed up cross-border payments, decrease reliance on third-party currencies and correspondent banking. In addition, FinTech can enhance access to financial services and aid lenders in evaluating smaller businesses based on digital transactions. They can mitigate some of the financial costs of intra-African trade, but they cannot be a substitute for credit, trade finance guarantees and other methods of trade finance.

Policy Implications

AfCFTA implementation should include trade finance as a key component of African governments' agendas. Access to working capital and payment facilities should be facilitated when considering negotiating with trade and tariff reform. Access to markets alone will be of only marginal value if production and cross-border transactions are not financed by African companies.

Second, there should be a greater development of risk-sharing schemes by development finance institutions. Afreximbank and other financial institutions like the African Development Bank can offer guarantees and risk-participation facilities to incentivize trade finance by commercial banks in Africa. Risk sharing can alleviate banks' worries about unknown markets, low collateral and payment risk.

Thirdly, trade finance should be more accessible to the SMEs. Banks must create products that better serve smaller businesses, rather than primarily traditional collateral loans. Information from transaction history, purchase orders, invoices and digital sales records can be helpful in determining credit-worthiness. This can help to increase the formalization of more SMEs.

Fourth, African States need to beef up cross border payment mechanisms. The adoption of PAPSS can decrease payment delays, foreign exchange burden and transaction expenses. Central banks must foster friendly payment regulations; and promote and facilitate the integration of commercial banks and licensed FinTech companies into the regional payment system.

Fifth, digital trade financing should be more invested. The digitization of documents, digital guarantees, digital processing of transactions and digital lending can shorten and make trade transactions cheaper. Investing in digital infrastructure, cybersecurity and staff skills by governments and financial institutions is also needed for digital systems to function safely across borders.

Sixth, African countries need to develop credit information systems. Poor information of borrowers is still a significant constraint on banks to finance SMEs. Better credit reporting facilitates banks to make more accurate risk assessments, which lessens the need for collateral. Additional information will also help to reduce the lending costs to “good” firms.

Seventh, attention needs to be paid to foreign-exchange liquidity. Foreign exchange shortages are cited as one of the biggest challenges affecting African banks in their provision of trade finance by the AfDB (2026). To enhance foreign exchange availability for legitimate trade transactions, especially those involving intra-African trade, there is a need to create mechanisms at the regional financial institutions and central banks.

Lastly, there has to be a focus on policy for trade finance that enables African value chains. Finance should not just be used to facilitate the delivery of finished goods. It should also facilitate access of firms to raw material and process products as well as supply inputs across African borders. This can strengthen the value chain in the region and help African economies reap more value from the trading of the continent.

The overall policy message is that AfCFTA will unlock the market, and trade finance will enable African businesses to leverage the market. AfCFTA's trade potential can be realised into real trade if the banks are strengthened, risk sharing mechanisms are improved, digital payments are made efficient, and financing opportunities for SMEs are made easier. Trade finance should therefore be viewed as a fundamental financial facility for effective integration of the economies of Africa.

6. Conclusion

AfCFTA has offered a unique chance to enhance trade and economic integration in Africa. But it is not enough to reduce trade barriers to increase intra-African trade. Firms require sufficient financial resources to

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manufacture products, to acquire raw materials, to move the products, and to cover the time lag between production and payment of the product. Trade finance is therefore very important in bridging the gap between access to the AfCFTA market and actual trade.

Financial constraints have been found to restrict companies' involvement in international trade, and access to trade finance can enhance the performance of trade. African evidence also suggests positive effects on the trade efficiency in companies that enjoy stronger access to finance. The issue of trade finance gap, unfavorable financing rates, foreign exchange scarcity and lack of access for SMEs are continuing to be significant challenges in realizing AfCFTA trade potential.

There are more opportunities as a result of digitalisation. PAPSS can help streamline payments across borders, and FinTech can help expand access to financial services and facilitate digital trade finance. These advancements can alleviate transaction costs and payment delays but do not eliminate the need for proper guarantees and risk-sharing arrangements as well as credit.

The study ends by arguing that trade finance cannot be just about banking, but a central pillar in the implementation of AfCFTA. African governments, commercial banks and development finance institutions should increase access to cheap and secure trade finance, enhance risk-sharing arrangements, increase foreign exchange availability, and enhance digital payment systems. The SMEs and regional value chains should be also included in greater detail.

A successful AfCFTA will go beyond just a common market. It needs an economy with a financial system that can enable African businesses to play a part in that market. Closing Africa's trade finance gap will help businesses trade across borders, and enhance the prospects of sustained growth in intra-African trade.

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