No more business-as-usual in African capital markets

By Bohani Hlungwane and Ovizikhungo Sicwetsha

22 Mar 2024

For Africa to narrow a trade finance gap which is nearing $120bn per year, we need stakeholders to take a more nuanced approach to risk and partnerships in 2024.

Source: Supplied. Bohani Hlungwane, head of trade and working capital, Pan-Africa, Absa CIB.

Prior to the Covid-19 pandemic and the associated lockdowns, Africa was making progress in reducing the trade finance gap as emerging markets attracted capital.

A combination of geopolitical risk factors, a liquidity challenge as a result of a stronger US dollar and weaker local currencies, as well as the cost-of-living crisis and higher interest rates have combined to create an environment where banks are more risk averse – limiting emerging market investments by sovereigns in transformative projects.

Further to this, strategic trade routes have been impacted by global conflicts in Ukraine and the Middle East. As domestic supply chains are being reconfigured, we can see increased urgency around the rollout of the African Continental Free Trade Area (AfCFTA).

Unfortunately, just as the African continent begins to build momentum, it is negatively impacted by external factors beyond its control. While an integrated global economy has many upsides, this is unfortunately one of its downsides.

Whether it was the Global Financial Crisis in 2007/8, the Covid-19 pandemic or more recent events – we see African countries establishing some confidence, taking on debt for key projects to support long-term, sustainable and resilient growth objectives … and then a crisis hits, and interventions are often aggressively applied.

Fostering investment confidence

For Africa to break this stop-start situation, we need to identify practical steps that can be taken to unlock affordable funding.

The first and most practical step is to ensure that the necessary structural reforms are prioritised in Africa's economies, and then enforce a narrative that Africa is an attractive investment destination for patient capital.

There is often a perception that African capital markets are not a destination of choice for foreign direct investment however, we as the largest funder of renewable energy projects on the continent disagree and we are not alone.

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If we look at the current currency crisis in Nigeria, we continue to see many international banks still invested driving economic investment.

While there is still uncertainty and many moving pieces in this currency crisis, many international-, regional-, and local banks continue to provide the necessary support to facilitate international trade for the strategic services and goods as the authorities implement the necessary overdue reforms that are expected to drive Africa's largest country and economy forward.

This is a recognition that Nigeria is a key economic player in Africa and will remain so for the foreseeable future. While there is short-term pain, there is a widespread acknowledgement that the structural policy reforms implemented by the Central Bank should result in a more resilient financial system and economy.

Building resilient financial ecosystems

From country to country in Africa, we continue to see many international banks taking on a more nuanced approach and optimistic stance than previously observed. This patient approach may be the best way to ride multiple crises as Africa continues on its journey of economic development

While global banking groups enjoy deeper funding pockets, it is imperative that there is a co-ordinated focus on local capital pools. This segues into our second practical step – partnerships.

In recent years we have seen far more collaboration between the banks, Development Finance Institutions (DFIs) and insurers – particularly as Environmental, Social and Governance (ESG) funding frameworks are maturing. It is clear that funding pools here are expanding.

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As a result, there is a renewed focus on extending this funding to focus on the Social ("S") side of the equation, with a special interest in projects that prioritise the economic participation of women and youth.

It is imperative for the African financial institutions, like Absa, to be at the forefront of the global efforts to define and inform policies and frameworks around the “S” of ESG – if we fail to lead these – the tendency is a huge bias towards Global North’s agenda and priorities. Further, African economies should – individually or through the regional collective – be bold in driving those ESG priorities, like “S”, that align mostly with their own developmental agenda.

After all Africa is on the cusp of huge industrialisation – such should be deeply grounded on sustainability and inclusion – learning from the mistakes of the Global North.

Driving economic integration

Thirdly, we need to have a focus on pushing infrastructure projects over the line. While we all recognise the important role that these projects play in reducing friction in the economy, too often these projects are put on hold when financial “shocks” or disruptions fracture local funding models.

The Lubito Corridor Trade Facilitation Project, which aims to connect trade routes in Zambia, the Democratic Republic of Congo (DRC) and Angola is proof that getting infrastructure projects over the line is essential.

Not only will this boost one of the key mining areas on the continent, but it will also establish a mechanism for harmonising trade in other industries in retail and agriculture.

As this trade corridor becomes more influential in Africa, this will encourage the likes of Mozambique and South Africa to modernise systems and harmonise activities with the rest of the continent in an attempt to drive competitiveness. At the core of driving Africa’s anticipated industrialisation, is the focus on integration of the regions from all fronts of infrastructure such as technology and logistics.

Lastly, increased digitisation and the adoption of technology must become a priority. The African fintech sector has been able to attract both local and international funding, being a beacon of success for early-stage capital in Africa.

Empowering SMEs

Despite these successes, small business funding remains expensive, and entrepreneurs are exposed to friction throughout the process. A focus on digitisation, especially in supplier onboarding processes, will make it easier for businesses to introduce SMEs into their ecosystem and expand their local supplier base.

An increasing limitation on the SME integration into main stream economic activity has not only been “fit for purpose” technology but that which is affordable and secure for SMEs to adopt with ease. Technology and digitisation are seen as an imperative to unlocking SME potential in the African industrialisation.

For Africa to effectively tackle the trade finance gap, it can no longer be business-as-usual. Roleplayers on the continent must spend more time understanding the nuances around supply chains.

Ultimately, we need to build resilience and sustainability.

As one of the leading Pan-African banking groups, we recognise these challenges and continue to invest in our deep knowledge and understanding of supply-chains to reduce the disruptions created by external shocks and events. Through partnerships with like-minded teams, we look forward to a solution-oriented focus in 2024.

ABOUT THE AUTHOR

Bohani Hungwane is the head of trade and working capital, Pan-Africa, Absa CIB; and Ovizikhungo Sicwetsha is the Pan-African head of short-term finance, Absa CIB.