The term “trade finance” is commonly used to indicate a wide variety of instruments that are offered by banks and other financial institutions for facilitating trade operations, including purchase order finance; stock finance; structured commodity finance; invoice finance (e.g. discounting and factoring); supply chain finance; letters of credit (LCs), bonds, guarantees and other similar financial products.

Trade finance instruments are particularly useful for small and medium enterprises as they ease trade transactions, that can be hampered by difficulties in cashflow or working capital determined by the concession to their clients of deferral of payment terms or of the possibility to pay by installments the purchase of goods and services they offer. Indeed, a standard practice used in both domestic and international trade by suppliers, is to sell goods or services on payment terms, by allowing customers or buyers to delay their payment. This practice, however, also exposes suppliers to cash flow difficulties that can be effectively mitigated through trade finance, which allows traders to reduce payment gaps in the trade cycle.

A recent survey of Afreximbank on the impact of COVID-19 on trade finance reveals that in Africa there is an increasing demand for trade finance, pointing out how Southern Africa and Western Africa regions are registering the largest increases in such a demand.

Another report issued in September 2020 by the African Development Bank that analysed the trends in trade finance in Africa over the past decade with the opportunities for this sector, shows that in the period 2011-19, **only 40% of total African trade was intermediated by banks** (for an average of USD417 billion), a figure that is almost half of the global average (80%), concluding that currently, African trade is significantly underserved by banks.

The main reasons for this is that trade finance in Africa is constrained by a series of causes, most of them impeding to the trade finance industry to competitively provide these services, that are highly demanded by the market. These constraints include for instance an inadequate foreign exchange liquidity and stringent regulatory requirements that raise the compliance costs of financial intermediaries. In this regard, the report highlights the urgency to expand trade finance, by urging African policymakers to remove all unnecessary obstacles, to facilitate the use of such tools in view of a future expansion of both extra- and intra-African trade, in line with the objectives of the recently operationalized African Continental Free Trade Area (AfCFTA).