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REAPING THE POTENTIAL BENEFITS OF THE African Continental Free Trade Area FOR INCLUSIVE GROWTH

ECONOMIC DEVELOPMENT IN AFRICA Report 2021

UNITED NATIONS

Chapter 2

People, informality and inclusivity

This chapter provides an analysis of how the African Continental Free Trade Area Agreement can be implemented in order that the benefits lead to more inclusive gains for informal actors, specifically for women and young people – especially after a global pandemic that has exacerbated the challenges faced by such informal actors.

INFORMALITY MAKES THE PEOPLE OF AFRICA VULNERABLE TO ECONOMIC CRISES AND EXTERNAL SHOCKS

86%
of total employment is informal *

30-40 %
of intra-SADC and
40%
of intra-COMESA trade is informal **

Informal microenterprises and small enterprises often function as employment of last resort

Women and youth in poor households make up a large share of informal traders

The African Continental Free Trade Area can foster **INCLUSIVE GROWTH** by empowering these vulnerable groups through targeted support measures

* Median of informal employment in total employment (percentage) for 36 countries in Africa based on latest available data from the International Labour Organization statistics database, indicator 8.3.1 under the Sustainable Development Goals, July 2021

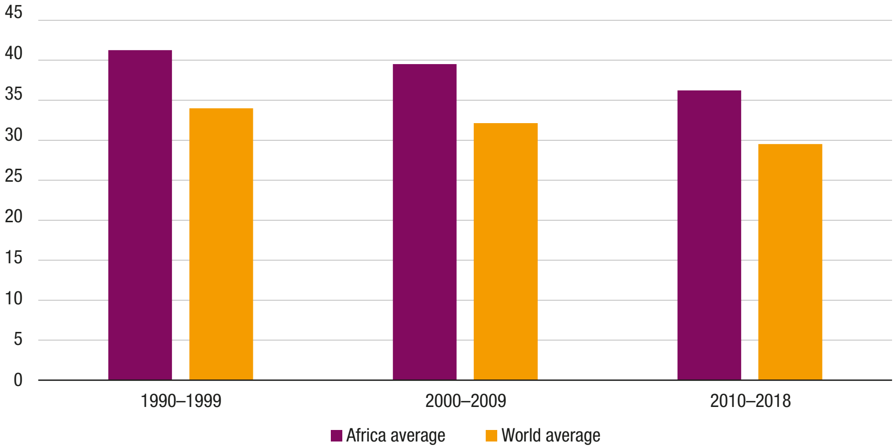
** Afrika and Ajumbo, 2012; Moyo, 2018

Informal employment and trade play a large part in terms of livelihoods on the continent. It is estimated that informal employment constitutes a large share of total employment, with 72 per cent of non-agricultural employment and 98 per cent of agricultural employment being informal (International Labour Organization, 2018). In many countries in Africa, the informal economy, albeit in gradual decline over the past 30 years, remains pervasive and constitutes a significant share of the total economy (figure 15), ranging from a low of 21 per cent in Mauritius to a high of 59 per cent in Zimbabwe in 2018 (Ohnsorge and Yu, 2021).

Figure 15

Africa: Size of informal economy

(Percentage of gross domestic product)



Source: UNCTAD calculations, based on Ohnsorge and Yu, 2021.
Note: Purple bars show unweighted averages of the informal economy of the region. Orange bars show the unweighted world average. The dynamic general equilibrium model used provides an estimate of the size of the informal sector as a percentage of official GDP. Data are available for 46 countries in Africa.

A practice predating modern Africa, informal cross-border trade contributes to job creation, especially for women and young people, and food security through the trade of agricultural goods and economic growth; it is therefore a key pillar of intra-African trade integration. The role of informal cross-border trade for inclusive growth and poverty reduction, inasmuch as it functions as an employer of last resort and can be a survival strategy for vulnerable groups for which formal employment opportunities are not available, is analysed hereunder.

The present chapter contains a review of definitional and conceptual issues linked to the measurement and understanding of informal cross-border trade and an analysis of how the availability of informal trade data, especially disaggregated by gender, can be improved, to allow for better research and targeted policies aimed at women, poverty reduction and inclusive growth. The role that technology can play in creating complementary, informal cross-border trade data is highlighted, and the potential of mobile telephone data collection, based on the Trade and Market Information Platform of Sauti East Africa, is showcased.

The chapter also contains a summary of the challenges faced by women informal entrepreneurs and of gender-specific barriers to entrepreneurial activities and success. The case of Rwanda is used as an example of informal enterprises where data disaggregated by gender is available. The analysis reveals that there are gender-related differences in terms of access to capital and the performance of firms, suggesting unequal entrepreneurial outcomes for women. The analysis further shows that youth-led enterprises are likely to employ less working capital and generate lower annual turnover.

Although informal cross-border trade is not explicitly reflected in the African Continental Free Trade Area Agreement and mentioned only indirectly in the Protocol to the Treaty Establishing the African Economic Community Relating to Free Movement of Persons, Right of Residence and Right of Establishment, the African Continental Free Trade Area has the potential to generate significant benefits for informal cross-border traders. Complementary measures in favour of an inclusive African Continental Free Trade Area can entail the adoption of simplified trade regimes, trade information portals and one-stop border posts, building on the initiatives in the Common Market for Eastern and Southern Africa and the East African Community.

Defining informal cross-border trade

There is no streamlined definition for informal cross-border trade, given that it covers an array of activities, from formal to informal production and trade. The diverging conceptual approaches to informal cross-border trade have posed difficulties for the collection of data on the activities of informal cross-border traders within RECs and at the national level (Food and Agriculture Organization of the United Nations (FAO), 2017).

Debates on the definition of informal cross-border trade usually revolve around the term "informal" and whether it applies to the recording of the trade, namely, whether goods are recorded by customs authorities, or to the status of the traders, in terms of whether they are registered or not. According to Lesser and Moisé-Leeman (2009), informal cross-border trade is "trade in legitimately produced goods and services, which escapes the regulatory framework set by the Government, as such avoiding certain tax and regulatory burdens". Informal cross-border trade therefore refers to goods and services traded by unregistered traders and firms that operate entirely outside the formal economy or by registered firms that fully evade trade-related regulations and duties by avoiding official border-crossing posts and passing their commodities through "unofficial routes". In other cases, such firms may partially evade trade-related regulations and duties, even as they pass their goods through official routes that have border-crossing points and customs offices, through illegal practices such as underinvoicing, which entails reporting a lower quantity, weight or value of goods so as to pay lower import tariffs, misclassification, in terms of falsifying the description of products so that they are misclassified as products subject to lower tariffs, misdeclaration of the country of origin and/or bribing customs officials (Lesser and Moisé-Leeman, 2009).

Informal cross-border trade is sometimes wrongly equated with smuggling, given that both practices evade duties and regulations, but the difference is essentially motivational, in that informal cross-border traders avoid formalities for more legitimate reasons, such as the higher costs associated with formal trade and/or a lack of skills or knowledge to be able to comply with trade regulations. A distinction should also be drawn between informal cross-border trade and illicit trade, whereby illicit trade refers to the trade in illegal goods, such as arms or drugs, or trafficking in persons, which are criminal and deemed socially undesirable (Meagher, 2003). Although informal trade is also unreported and can fail to comply with regulations, the products involved are not illegal to trade or use (Golub, 2015). In this regard, institutions such as the World Bank and the Common Market for Eastern and Southern Africa use the term "small-scale cross-border trade" to distinguish between illegal activities and informal cross-border trade (African Export-Import Bank, 2020). The present chapter is focused on informal traders that operate outside of the formal economy and are often small-scale producers that sell their goods at nearby markets in neighbouring countries.

Informal cross-border trade actors

Informal cross-border trade involves a complex interplay and overlap of formal and informal practices and actors, due to the strong interlinkages between formal and informal trade. In some cases, informally traded goods can enter formal value chains in another country and be captured by official statistics downstream. In other cases, goods acquired informally may go through formal clearance processes at border points, except that they might have been smuggled at unofficial border posts, misclassified and/or declared with a wrong origin at official border crossing points (FAO, 2017). Such goods can be, for example, agricultural products or second-hand clothes that are prohibited from import to some countries (UNCTAD, 2018b; UNCTAD, 2019b).

Informal cross-border trade is undertaken by unregistered and vulnerable traders, farmers, microenterprises, small and medium-sized enterprises and sometimes even formal workers seeking to supplement their salaries as part of a household livelihood diversification strategy.[1] In border areas where employment opportunities are limited, informal cross-border trade often represents the only available opportunity, especially for unskilled workers with limited access to capital to start a business; women more often than men tend to fall into that category, as do refugees and internally displaced persons, in particular in East and Central Africa (African Export-Import Bank, 2020). Many entrepreneurs begin their business activities as vendors, using personal savings, and later shift into cross-border trading. The shift into informal cross-border trade may be motivated by arbitrage opportunities, due to variations in production capacities, trade barriers and regulatory compliance costs, all of which remain quite high in many countries in Africa. Traders who aim to expand their activities beyond local markets, where many businesses of the same nature proliferate, may seek opportunities for diversification across the border. For many traders, cross-border business may provide more profits than buying or selling locally (Lesser and Moisé-Leeman, 2009; UNCTAD, 2019a; UNCTAD, 2019b).

For vulnerable informal cross-border trade actors to benefit from the African Continental Free Trade Area it will be important to move beyond a purely trade policy focus towards formalizing and upgrading the performance of such entrepreneurs, firms and traders. Moreover, a continental effort for the development of a common definition of informal cross-border trade and a common data collection framework would allow for a better understanding of actors and drivers and would enhance policies supporting vulnerable groups.

2.1 Measuring the magnitude of informal cross-border trade

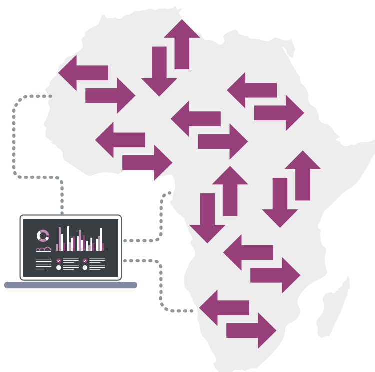
Due to its undocumented nature, informal trade, in particular small-scale activities, is difficult to quantify. Although estimates concerning the size of informal cross-border trade vary, studies show that it represents a significant proportion of official imports

[1] See https://globalinitiative.net/analysis/formalization-of-informal-trade-in-africa-trends-experiences-and-socio-economic-impacts/.

and exports, in value and volume (Bensassi et al., 2017; Brenton and Işık, 2012; FAO, 2017; Lesser and Moisé-Leeman, 2009). The results of surveys indicate that informal cross-border trade can account for up to 90 per cent of official trade flows in some countries in Africa (Economic Commission for Africa, 2013) and contribute to 30–40 per cent of total trade within the Southern African Development Community and about 40 per cent of trade in the Common Market for Eastern and Southern Africa (Afrika and Ajumbo, 2012; Moyo, 2018).

While initiatives for measuring informal cross-border trade in Africa are growing in size and scope, they remain largely fragmented and unsystematic. For some initiatives, data collection is a by-product of core trade facilitation efforts, as in the case of the trade information desks of the Common Market for Eastern and Southern Africa. Other initiatives that are aimed at analysing food security only survey specific agricultural products and selected trade routes, such as initiatives of the Famine Early Warning Systems Network and the World Food Programme.

Without accurate **informal cross-border trade data**, it is impossible to paint a complete picture of intra-African trade



Another form of data collection is through statistical exercises by central banks and national statistical authorities, with the objective of complementing formal trade records for compiling national accounts and balance of payments statistics (table 8). East Africa is an advanced subregion in terms of the systematic collection of data on informal cross-border trade. The Governments of Rwanda and Uganda have been monitoring informal cross-border trade at their borders since 2009 and 2005, respectively.[2]

[2] Approaches of the two countries to data collection differ: enumerators in Rwanda conduct brief interviews of traders and record their findings on tablets and data collectors in Uganda rely on unobtrusive observation and record information on paper. Rwanda collects data on small-scale cross-border trade daily and Uganda places enumerators at border crossings for two weeks every month and then extrapolates the data.

Table 8

Selected informal cross-border trade initiatives, by country

	Agency conducting survey	Borders with	Value of informal trade (Millions of dollars)
Benin	National Institute of Statistics and Economic Analysis	Burkina Faso; Niger; Nigeria; Togo	Exports 2010, $211 Imports 2010, $833 Re-exports 2010, $596 Transit trade 2010, $172
Kenya	Kenya National Bureau of Statistics	Ethiopia; Somalia; Uganda; United Republic of Tanzania	Exports 2011, $16.6 Imports 2011, $14.5
Namibia	Namibia Statistics Agency	Angola; South Africa; Zambia	Exports 2019, $1.1 Imports 2019, $0.2
Nigeria	Central Bank of Nigeria	Benin; Cameroon; Niger	Total trade June 2013 – May 2014, across the selected borders, $6,913
Rwanda	National Bank of Rwanda, National Institute of Statistics	Burundi; Democratic Republic of the Congo; Uganda; United Republic of Tanzania	Exports 2019, $110 Imports 2019, $12
Uganda	Uganda Bureau of Statistics, Bank of Uganda	Democratic Republic of the Congo; Kenya; Rwanda; South Sudan; United Republic of Tanzania	Exports 2019, $531.9 Imports 2019, $57.8

Source: UNCTAD calculations, based on data from the official national sources and the ComStat database.
Note: If reported in national currency, conversion to dollars uses the annual average exchange rate.

In Southern Africa, regular data collection is limited to Namibia, where surveys were conducted in 2014, 2015, 2016 and 2019.[3] At the other extreme, North Africa is the region in which data on informal cross-border trade is the most scarce; the results of several studies show that it is likely that informal cross-border trade with neighbouring countries exceeds formal bilateral trade in the region (Ayadi et al., 2013; Gallien, 2017). More recently, the Zambian Statistical Office has undertaken a pilot study on small-scale cross-border trade monitoring at four of the country's border crossings, namely, with the Democratic Republic of the Congo, Malawi, the United Republic of Tanzania and Zimbabwe (World Bank, 2020a). In West Africa, the Bank of Nigeria undertook a study to monitor and document informal cross-border trade across Nigerian international land borders in 2013/14, with updates planned at intervals of, at a minimum, five years.[4]

3 See https://d3rp5jatom3eyn.cloudfront.net/cms/assets/documents/Informal_Cross_Border_Trade_Survey_(ICBTS)_2019.pdf.

4 See https://www.imf.org/en/Data/Statistics/informal-economy-data/Reports/nigeria-informal-trade-with-neighboring-countries.

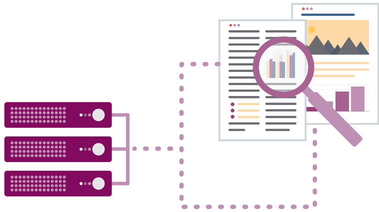
In Central Africa, Cameroon is undertaking follow-up work to a survey conducted in 2013 to integrate informal cross-border trade data into national trade statistical databases (World Bank, 2020a). The drawback of most of the statistical exercises, however, is that they are focused on trade volume and products and usually do not cover any demographic information, such as gender or age.

Approaches to quantifying informal cross-border trade

There is currently no permanent and continent-wide system for monitoring and quantifying informal cross-border trade in Africa. A census-like survey approach can be costly and time-consuming, given that most informal cross-border trade is small in scale. Checking on the volume and value of a small-scale transaction may take as much time as assessing a larger consignment at the border, potentially limiting the ability for systematic documentation. Informal cross-border traders may also be reluctant to reveal the true value and origin of their goods.

Several researchers and organizations have evaluated the magnitude of informal cross-border trade, through surveys and one-off studies consisting of snapshot views of specific borders, rather than the entire region, and goods transported by land (Lesser and Moisé-Leeman, 2009). One challenge when interpreting the findings from one-off studies with short durations is the seasonal variation in trade flows, in particular with regard to trade in agricultural commodities (World Bank, 2020a). Another challenge is the limited scope of monitored commodities under some initiatives, as discussed above. Informal cross-border trade in Africa covers a wide range of agricultural and non-agricultural and/or manufacturing commodities, yet the most consistent commodities being monitored have been trade in maize, rice and beans in East and Southern Africa and rice in West Africa (Economic Commission for Africa, 2013; World Bank, 2020a).

Monitoring informal cross-border trade is essential for determining sensitive products and corresponding tariff reduction modalities for which a country should actively seek enhanced market access under the African Continental Free Trade Area. Informal cross-border trade data can inform the formulation of appropriate policies to exploit its potential impact on job creation and the development of microenterprises and small and medium-sized enterprises, through the linkages between formal and informal trade. Most cross-border traders are also small-scale producers, which is also evident in the analysis of the data from the Trade and Market Information Platform of Sauti East Africa (as detailed in box 4). Better understanding of traded commodities and their origins could enable government support to boost the efficiency and competitiveness of such small-scale producers, availing them opportunities for value addition and to enter regional value chains (World Bank, 2020a).



Innovative data collection initiatives based on information and communications technology hold great potential to supplement and enrich traditional data collection techniques

Technology-enabled, innovative approaches to understanding and assessing informal cross-border trade are detailed in box 3. Outlined below are some of the main processes for obtaining relevant data on informal cross-border trade; a comprehensive assessment often requires a combination of the following:

(a) Monitoring official border posts. Systematically documenting collected micro-observations from individuals at the most active official border crossings and their surroundings, an approach which can be complemented by interviewing selected cross-border traders for any qualitative information and clarifications needed concerning cross-border flows. A census approach can be used to cover major agricultural and industrial commodities during randomly selected weeks from each month; the data can then be extrapolated for monthly and/or annual estimates for all border monitoring posts. The method is focused on goods that pass through official border crossings, however, some cross-border traders might actively try to avoid contact with border officials, due to corruption, harassment or a lack of awareness of border requirements (Economic Commission for Africa, 2013);

(b) Monitoring unofficial border posts. Posting people to observe trading activities at the most active unofficial border-crossing points could complement monitoring activities at official border posts;

(c) Monitoring of border markets. Informal cross-border trade often takes place in areas that are peripheral within States, given that such traders are distant from the respective capitals. Border markets function as storage and relay sites that provide for the distribution of goods to neighbouring countries (Economic Commission for Africa, 2013);

(d) Monitoring trade among neighbours engaged in conflict. Informal cross-border trade tends to be prevalent in conflict zones. Conflict provokes a strong movement of refugees in many areas, playing a significant role in the development of informal cross-border trade (Meagher, 2003; Titeca, 2009; World Bank, 2020a);

(e) Other approaches focused on registered firms in informal cross-border trade. Stocktaking at open markets or warehouses provides estimates of net import and export and the volume of goods sold and bought by traders and buyers from either country, considering stock carryover and replenishment (Economic Commission for Africa, 2013).

Box 3

Technology-enabled, innovative approaches to understanding and assessing informal cross-border trade

Technological innovation, coupled with the broader use of electronic devices, even in some of the poorest, most remote communities, has contributed to generating vast amounts of data through devices enabled with global positioning systems, mobile telephones, online tools, platforms, payment services and digital sensors and meters, such as satellite imagery, in real-time at a low cost.[a]

Artificial intelligence

Artificial intelligence technology is spreading rapidly across the globe and is being deployed in applications from speech recognition to monitoring traffic congestion. According to the Carnegie Endowment for International Peace, at least 75 of 176 nations surveyed globally are actively using artificial intelligence technologies for surveillance purposes, including facial recognition systems, smart policing tools and the establishment of safe city platforms. The leading suppliers of artificial intelligence systems globally are companies in China. Most countries in Africa still lag behind in adopting artificial intelligence technologies; less than one quarter have invested in them, however, the situation is likely to improve with the Belt and Road initiative. Artificial intelligence techniques, especially video surveillance systems software, can be used at border crossings to detect and monitor the movement of individuals, capture some of their demographic characteristics, such as gender and age, and determine the direction of trade.

Mobile telephone data collection

Growth in mobile telephone access and ownership presents an opportunity for more frequent data collection, from more people, at substantially lower costs than through the use of traditional means.

For example, Sauti East Africa established the mobile telephone-based Trade and Market Information Platform in 2017 to address the digital information gap facing cross-border traders, especially women traders, across East Africa. Ipsos Nigeria, a market research firm, has been piloting innovative data collection tools for monitoring small-scale cross-border trade in West Africa. More specifically, Ipsos analysed cellular phone data to understand the duration and frequency of trade and to differentiate modes of transport in the subregion, including whether the trader travelled on foot or by vehicle through measuring the speed of travel along the trade corridors.

Data collection through the use of mobile telephones may offer particular advantages in comparison with traditional survey and data collection efforts, yet such efforts are not without caveats. Potential caveats include sampling bias, which could arise when only a fraction of the population has access to mobile telephones and the subpopulation concerned does not have the same characteristics or behaviours as the population of interest. This is likely to be the case in most countries in Africa; despite increasing mobile telephone subscriptions, mobile services penetration reached only 45 per cent of sub-Saharan Africa's population in 2019. There was also a considerable mobile telephone gender gap of 13 per cent in 2019. Making population-level inferences is therefore complicated by differential ownership of mobile telephones among demographic groups that are involved in informal cross-border trade.

Satellite data collection

Access to satellite imagery has greatly improved in recent years. Complementing traditional data collection mechanisms, such as censuses and surveys, satellite imagery can provide useful data to capture informal cross-border trade. Ipsos Nigeria used satellite imagery to assess trade activity at border crossings in West Africa, in the context of the Trade Facilitation West Africa programme.[b] Satellite imaging has been used to identify the market size, including volume of trade in city markets, the total number of covered and uncovered stalls, traffic along trade corridors, such as total number of trucks and cars present, and the security situation through street lighting and remote sensing.

Sources: African Development Bank, 2012a; Global System for Mobile Communications Association, 2020; World Bank, 2020d.

[a] See https://gmdac.iom.int/data-bulletin-5-big-data-and-migration.

[b] The Trade Facilitation West Africa programme is managed by the World Bank Group and the German Development Cooperation Agency, the programme's implementing partners, with strategic oversight by the Economic Community of West African States and the West African Economic and Monetary Union.

2.2 Demographic dimension of informal cross-border trade

Women and young people make major contributions to trade in most countries in Africa, through their involvement in the production of tradable goods, as cross-border traders, small-scale producers, home-based entrepreneurs usually in the areas of handicrafts, garments and food, in the services sector, mostly as informal and casual workers, and as managers and owners of firms involved in trade. Nevertheless, little comparable data are available to help to understand the role of women and young people in informal cross-border trade. The characteristics of women and young people as informal cross-border traders, entrepreneurs and small-scale producers, and the conditions, barriers and challenges encountered by them, are considered below.

Given the nature of informal cross-border trade, the exact characteristics, in terms of trader profiles with such demographic variables as gender, education and age, and economic significance are statistically difficult to establish. The analysis hereunder is focused on the demographic characteristics of informal cross-border traders and the goods that they are trading. Although many empirical studies highlight the relevance of informal cross-border trade in the context of regional integration and trade in Africa, the profiles of traders and traded goods may vary across countries and border crossings. In that context, the findings below draw on data from a novel database, the Trade and Market Information Platform of Sauti East Africa (box 4). The analysis of the data is aimed at complementing earlier efforts to understand the demographic characteristics of traders by analysing information needs for trading, such as inquiries from platform users regarding market prices of agricultural commodities and border procedures, and the main destinations of traders, which can inform improved policy responses.

Box 4

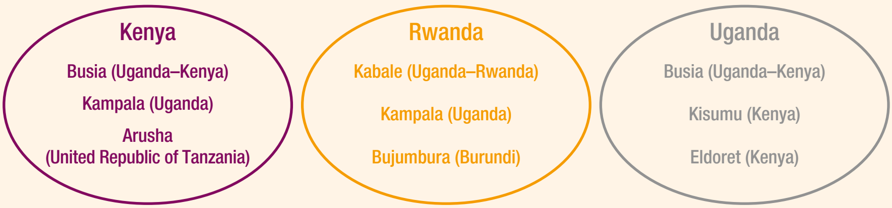
Using mobile telephones in data collection: Sauti East Africa Trade and Market Information Platform

Launched in 2017 in East Africa, this platform is aimed at empowering cross-border traders, especially women traders, to trade safely, legally and profitably, by reducing information asymmetry. Relying on unstructured supplementary service data technology, the platform enables users to access real-time and accurate market and trade information, including commodity prices, border procedures and real-time international exchange rates, using their mobile telephones.

Analysis of two sets of data collected through the platform, namely, user profiles generated by Sauti through demographic surveys and behavioural data collected through the information needs of users, is set out below. Figure 4.I displays the top three most frequently searched for foreign marketplaces on the platform. Under the assumption that users seek market prices in their existing or desired trading destination countries and markets, the data provides an indication of the trade corridors used most frequently by cross-border traders.[a] For Kenyan cross-border traders, the data suggests that Busia, Uganda; Kampala, Uganda; and Arusha, United Republic of Tanzania, comprise the three most important foreign buying and selling markets, in order of relevance, whereas Busia, Kenya; Kisumu, Kenya; and Eldoret, Kenya, are among the three foreign markets most often searched for by Ugandan traders. Most Rwandan traders requested price information for the foreign markets of Kabale, Uganda; Kampala, Uganda; and Bujumbura, Burundi (results consistent with Ogalo, 2010).[b]

Figure 4.I

Market price search frequency, by foreign destination marketplace



Source: UNCTAD calculations, based on data from Sauti Trade Insights.
Note: Data availability: Kenya, since 1 June 2017; Uganda, since 1 June 2017; Rwanda, since 1 September 2018. Data analysed until 22 March 2020 (aligned with border closures in Burundi, the Democratic Republic of the Congo, Kenya, Rwanda and Uganda; Kenya closed its border with the United Republic of Tanzania on 16 May 2020). Limitations and exceptions: Options available to users include up-to-date commodity and country market prices. As a result, marketplaces or commodities with limited accessible price information will be poorly represented in the data series. Sample size: Kenya, 10,063 users; Rwanda, 4,993; and Uganda, 2,886.

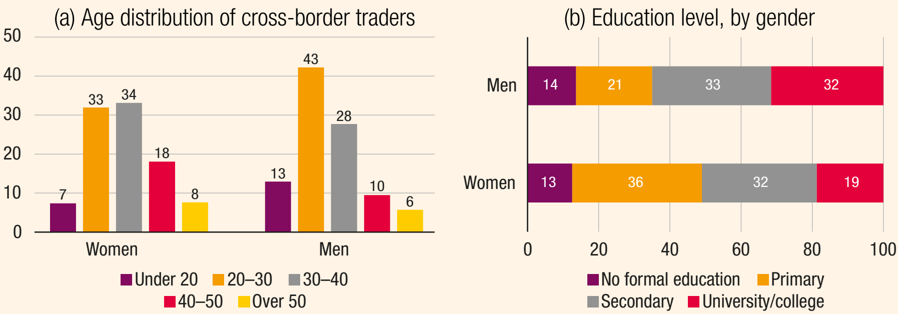
Several results stand out from the marketplace analysis. Data show a higher frequency of market price information searches in border towns, such as Busia and Kabale, consistent with the findings from earlier studies (e.g. African Development Bank, 2012a; Brenton and Işık, 2012), suggesting that a large share of cross-border trade takes place by cross-border traders residing in border regions, given that transport options are limited over long distances. Urban centres, such as Arusha, Bujumbura and Kampala, also constitute an important share of marketplace searches, which might suggest that some users of the platform are urban entrepreneurs and retailers leveraging price information.

Due to data limitations for Rwanda, a comparative analysis is presented for demographic features of traders for only Kenya and Uganda (figure 4.II).[c] Although the platform is mainly marketed to women cross-border traders to help them to negotiate better prices and identify new markets and products, the results of the analysis show an almost equal distribution among women and men cross-border traders. However, due to the significant digital gender divide, including the wide gender gaps in mobile telephone ownership and the literacy and skills needed to use digital technologies, in Africa, in particular in rural areas, where informal cross-border trade is particularly prevalent, the overall results should therefore be interpreted with caution.[d] Crossing frequency data shows that most Kenyan and Ugandan women cross-border traders trade either weekly or monthly, whereas there is not a significant variation in crossing frequency for men cross-border traders. The analysis shows that cross-border trade is the primary, or only, source of income for most traders in both Kenya and Uganda and that they tend to sell products grown and produced by themselves and/or family members.

Figure 4.II

User insights from Kenya and Uganda

(Percentage)



Source: UNCTAD calculations, based on data from Sauti Trade Insights.

Note: For (a): sample size: 683 users from Kenya and 83 users from Uganda. For (b): sample size: 686 users from Kenya and 78 users from Uganda. Age reflects the self-reported answer of users of the Trade and Market Information Platform of Sauti East Africa to the question, “Your age”. Users have six options: 10–20, 20–30, 30–40, 40–50, 50–60 and 60–70. Level of education is based on the self-reported answer of users to the question, “Your education”. Users have four options: No formal education, primary, secondary and university/college.

Figure 4.II (a) shows that, in terms of age distribution, most men cross-border traders are young (20–30 years of age), and a lack of formal jobs pushes them into the informal sector, including engaging in informal cross-border trade. Most women cross-border traders fall within the age

group of 30–40 years of age, and women cross-border traders proportionately outnumber men in older age groups. There could be several reasons behind that phenomenon, as follows: women between 30 and 40 years of age tend to have children, and therefore often have the attendant financial needs of their families, including shelter, food and school fees, as well as a need for the greater flexibility that informal cross-border trade affords in order to ensure remunerative and manageable work-life balance, given family commitments; owing to poor conditions of transport, insecurity and harassment young women are often deterred from seeking opportunities in informal cross-border trade, but, with time, women tend to establish strong networks with other women cross-border traders, making informal cross-border trade relatively easier for them; and women stay longer in cross-border trade, compared with men, often due to limited job opportunities elsewhere.

The analysis (figure 4.II (b)) shows high literacy levels among both women and men; more than 50 per cent of cross-border traders have attained at least secondary education, challenging much of the conventional wisdom that cross-border traders are illiterate or partially literate (e.g. UNCTAD, 2019b). Although not shown in the results set out herein, the finding is more pronounced for younger men than for younger women, which can be explained by the following: the requirement of a certain level of literacy to use a digital platform (i.e. indirect sampling approach of Sauti East Africa); and unemployment or lack of start-up capital to establish formal business ventures, especially for recent graduates, and skills mismatch, with several studies documenting pervasive underemployment in African labour markets. Figure 4.II (b) further shows that men cross-border traders are on average better educated than women cross-border traders, with a higher proportion of men cross-border traders having completed secondary and tertiary education.

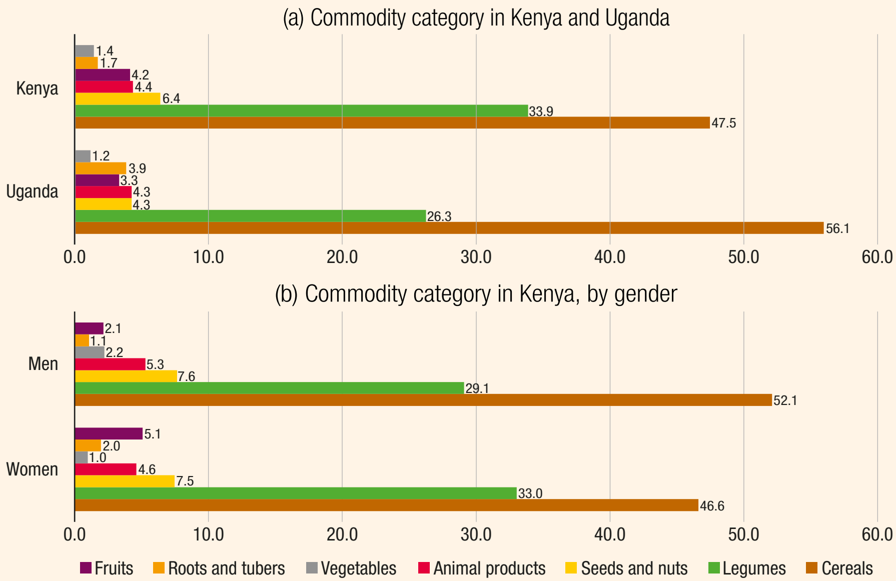
The Trade and Market Information Platform of Sauti East Africa also allows for insights into general and gender-related trading through user inquiries for market prices and border-crossing procedures. Figure 4.III shows that market price searches for staple goods, such as cereals, in particular maize, and legumes, lead for both men and women cross-border traders in both countries, followed by seeds and nuts and animal products, a finding also reflected in cross-border trade monitoring studies in East Africa by the Famine Early Warning Systems Network.[e] Among cross-border traders in Kenya, men seek information on the price of cereals and animal products more often than women, whereas women seek market prices of fruits more frequently than men, with small differences between genders for other products. These findings are consistent with other evidence in East Africa, given that women dominate in sales of low market value agricultural goods, whereas men dominate in sales of high-value agricultural goods (figure 4.III).[f]

Information sessions for border crossing procedures can be used as a proxy for the frequency of goods being traded and those desired to be traded, by younger and less experienced cross-border traders, as this feature of the platform is most frequently used by younger cross-border traders who are unfamiliar with border procedures. The feature allows for a unique perspective into cross-border trade market behaviour, given that product categories under the feature are broader, compared with market price searches, which are limited to agricultural products only. Results from the product category search show that cereals and low-quality goods, such as clothing and shoes, constitute an important share of inquiries about border procedures for cross-border traders in both Kenya and Uganda. Among cross-border traders in Kenya, men seek border procedure information for higher value commodities, such as livestock and livestock products, poultry and bees and their products, more frequently than women cross-border traders. Border procedure searches for fruits are more popular with women cross-border traders than men, consistent with the findings shown in figure 4.III (b).

Figure 4.III

Market price search frequency

(Percentage)



Source: UNCTAD calculations, based on data from Sauti Trade Insights.
Note: Sample size for (a): Kenya, 4,764 users, and Uganda, 744 users. For (b): Kenya, 3,531 users. Limitations and exceptions: Options available to users include up-to-date commodity and country market prices. Consequently, marketplaces or commodities with limited accessible price information will be poorly represented in the data series. Results from Uganda are not shown in (b) due to data limitations.

Such findings reiterate the importance of improved understanding of the most traded commodities, in particular agricultural goods, for which countries should actively seek enhanced market access under the African Continental Free Trade Area. Government support will be key for boosting the competitiveness of small-scale producers and cross-border traders in adding value to their produce to enter regional and global value chains and/or gain access to larger-scale commercial trading, such as supermarket retail chains.

Without accurate informal cross-border trade data, it is impossible to paint a complete picture of intra-African trade. Systematic informal cross-border trade data collection can support targeted policymaking to ensure that the full potential of the sector is harnessed under the implementation of the African Continental Free Trade Area. As shown above, innovative information and communications technology-based data collection initiatives, such as the Trade and Market Information Platform of Sauti East Africa, hold great potential to supplement and enrich the analysis, and often reduce the cost of traditional data collection techniques; they therefore should be supported by Governments and development partners.

Sources: African Development Bank, 2012a; Brenton and Işık, 2012; Golub, 2015; Hadley and Rowlatt, 2019; Ogalo, 2010; UNCTAD, 2019b.

[a] See https://www.researchgate.net/publication/347473284_Innovating_Past_Data_Collection_Obstacles_for_East_Africa%27s_Women_Cross-_Border_Traders_Evidence_from_Sauti_East_Africa.

[b] See https://www.wcoesarocb.org/wp-content/uploads/2018/07/Informal-Cross-Border-Trade-in-EAC-Implications-for-Regional-Intergration-Development.pdf.

[c] After being piloted on the Kenya-Uganda border in 2017, the platform became operational in Rwanda in late 2018, and user specific demographic data was not collected until late 2019.

[d] The digital gender divide has the following three components: access to and use of digital technologies and the Internet; development of skills needed to use digital technologies and participate in their design and production; and advancement of women to visible leadership and decision-making roles in the digital sector (see https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/02/Digital-Equity-Policy-Brief-W20-Japan.pdf).

[e] See https://fews.net/sites/default/files/documents/reports/East_Africa_2021_01_PB_EN.pdf.

[f] See https://www.un.org/africarenewal/magazine/august-2014/raw-deal-african-women-traders.

Although informal cross-border trade cuts across gender, age, religious and ethnic groups, several studies suggest that a large proportion of cross-border traders in Africa are women and young people, a majority of whom fall into the age range of between 20 and 40 years of age (African Development Bank, 2012a; Eastern African Subregional Support Initiative for the Advancement of Women, 2012; FAO, 2017). A field survey conducted in the Great Lakes region found that 85 per cent of small-scale traders were women, with an average age of 32 (Brenton and Işık, 2012). For example, in Botswana, more women (61 per cent) than men (39 per cent) are participating in informal cross-border trade and that most of the traders (60 per cent of men and 52 per cent of women) are between 26 and 35 years of age (Ama et al., 2014). The share of women traders in West Africa is estimated at between 70 and 90 per cent of all small-scale traders in the region (African Development Bank, 2012a). More recently, an informal cross-border trade survey conducted by the Economic Commission for Africa and African Export-Import Bank (2020) on the Abidjan-Lagos corridor in West Africa found that women traders conducted 61 per cent of all such transactions.

Depending on the region and border posts, the results from field surveys and studies can also be mixed, in terms of gender differences in informal cross-border trade. For example, one study found that the picture of informal cross-border traders was more complex, with the proportion of women cross-border entrepreneurs varying between countries of the Southern African Development Community and at different border posts. The study found that women constituted most traders, crossing almost half the border posts surveyed. However, men were in the majority at the border posts into Lesotho (52 per cent), Malawi (68 per cent), Namibia (65 per cent) and Zambia (78 per cent). The results also revealed that a significant cohort of traders appeared to be survivalist entrepreneurs (Peberdy et al., 2015).

The results from a recent field survey conducted through the Trade Facilitation West Africa programme indicated that traders were predominantly men (60 per cent), with an even more pronounced presence in the Lagos-Kano-Niamey corridor, where women were severely underrepresented, owing to cultural and security concerns.[5]

With regard to the type of goods involved in informal cross-border trade, studies show that such trade involves almost all types of goods – staple food commodities, processed food, livestock, fish and related products that have a direct impact on regional food security, low-quality manufacturing goods, such as textiles, clothing and cosmetics, and services, such as hairdressing and microfinancial services (African Export-Import Bank, 2020; Trade Facilitation West Africa, 2020; UNCTAD, 2019b).

2.3 Vulnerability of informal cross-border trade actors

There are inherent challenges and obstacles that informal cross-border traders, in particular women, face that prevent them from leveraging their full potential. The array of challenges and obstacles can be broadly categorized into two dimensions: border challenges and supply-side challenges.

5 See https://pubdocs.worldbank.org/en/426931590681026830/West-Africa.pdf.

Border challenges include lack of trade facilitation, including the time and cost associated with logistics and required documents and certifications, harassment by customs officials, insecurity, the inconsistent application of existing rules, including rent-seeking behaviour, the confiscation of goods, bribery and corruption at the border, poor infrastructural facilities and difficulties in access to travel documents and/or trading licences (African Export-Import Bank, 2020; UNCTAD, 2019b), with compounded impacts for women cross-border traders (FAO, 2017; Jawando et al., 2012; UNCTAD, 2019b). For example, women cross-border traders are more vulnerable to physical and verbal harassment and abuse than men, and the former spend longer hours, sometimes days, clearing their goods away from home, owing to prolonged inspections (UNCTAD, 2019b).

Supply-side challenges are factors hampering the capacity of traders to scale up their businesses and trade in higher value added goods. A lack of access to affordable finance and credit facilities is one of the most pressing challenges for traders, especially women (Afrika and Ajumbo, 2012; UNCTAD, 2019b). Without sufficient capital, informal cross-border traders are often compelled to rely on their own minimal savings or to try to raise capital from expensive informal moneylenders, such as usurers in Kenya and *mashonisas* in South Africa, to run their businesses (African Export-Import Bank, 2020). Education is another factor limiting opportunities for cross-border traders, in particular rural women. Poor literacy and low education levels limit the abilities of traders to adopt technical and business skills in order to produce and trade higher-value products. Where access to a reliable market remains critical to succeeding in business, cross-border traders, especially women traders, struggle to find profitable markets where they can sell their products beyond occasional street vending in border areas, due to their limited access to information and communications technology, including low ownership of cellular phones and poor network coverage in remote areas. As a result, word of mouth often remains the only information channel to which cross-border traders can resort (UNCTAD, 2019b).

Gender-specific constraints leave women cross-border traders more vulnerable to the impacts of shocks and crises. Due to border closures resulting from the pandemic – in most cases, such interdictions have concerned the free movement of persons, whereas the traffic of trucks shipping goods has remained authorized – women cross-border traders have experienced a complete depletion of their savings and have struggled to provide necessities for their families. The pandemic has also adversely affected food security (International Trade Centre and UNCTAD, 2021; Lambert et al., 2021). Containment and sanitary measures and curfews have also led to longer transport times, resulting in significant losses and waste of agricultural commodities, and to increased illicit collections by gendarmes, customs officers and police officers, in particular along West African trade corridors (Antoine et al., 2020; Bouët et al., 2020).

2.4 Entrepreneurship in the informal sector among women and young people

The level of informal employment in Africa is high (exceeding 80 per cent); studies show that wage employment is relatively limited on the continent, whereas various forms of self-employment, including as employers, own-account workers and contributing family workers, are the most prevalent, notably in rural areas and the urban informal sector (UNCTAD, 2018c). Although there is considerable variability among individual economies, most self-employed workers in countries in Africa can more accurately be defined as own-account workers. Although men and women on the continent have a similar likelihood of being in self-employment, the tendency to work as contributing family workers, typically in agriculture or as survivalist entrepreneurs in the informal sector, is greater among women (International Labour Organization, 2020; UNCTAD, 2018c).

The contribution to economic growth differs by type of entrepreneur and firm. Survivalist enterprises are often confused with microenterprises and small and medium-sized enterprises, due to similarities in the obstacles faced. However, unlike opportunity-driven microenterprises and small and medium-sized enterprises, survivalist entrepreneurs depend on their income for the basic survival of their families, which serves as a shield from poverty. Whereas dynamic, opportunity-driven entrepreneurship may have significant positive effects on economic growth, survivalist entrepreneurs operate mostly in low-productivity and low value added activities and produce traditional goods and services with established technologies. Their growth potential is therefore limited, and most related firms remain at a microenterprise stage (UNCTAD, 2018c).

Africa has the highest entrepreneurship[6] rate in the world, at 22 per cent, and African women are more likely to start their own businesses than women elsewhere. Women entrepreneurs are much more likely to work in non-tradable services than men entrepreneurs, with 63 per cent of such women working in retail trade, hotels and

[6] No consensus exists on the definitions of entrepreneurship and entrepreneurs. Entrepreneurs can be employers paying employees and own-account workers with no employees (self-employed) (African Development Bank et al., 2017). Informal entrepreneurs refer to employers and own-account workers in the informal sector (International Labour Organization, 2018).

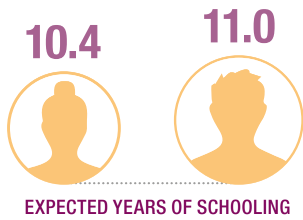
restaurants, compared with 46 per cent of men. Entrepreneurs in Africa are also younger, with a median age of 31, than in other developing regions (African Development Bank et al., 2017). Entrepreneurship has proven fruitful for providing employment. However, few African entrepreneurs are truly innovative and competitive, and challenges remain for women entrepreneurs and young adults, which are amplified for those in the informal sector, given that they are unable to expand their businesses beyond subsistence operations and sectors with low productivity and profits (African Development Bank et al., 2017). Studies comprising a range of survey techniques and evaluation studies confirm this observation (Brixiová and Kangoye, 2019; World Bank, 2019).

Women face disadvantages in terms of barriers to gender equality in business, including regarding access to equal opportunities as producers and entrepreneurs, which are compounded by the concentration of women entrepreneurs in the informal sector. For example, the reduction in returns (income) to education associated with informality is higher among women than men (World Bank and OECD, 2017).

Gender differences in the performance outcomes, including lower profits, and the competitiveness of women-led microenterprises and small and medium-sized enterprises may be explained by the different choices that men and women make, which are often driven by gender-specific constraints. Such constraints include contextual factors, such as legal discrimination, social norms and gender-based violence, gender gaps in endowments, such as education and skills, start-up financing and access to resources and networks, and a restricted range of economic choices that women can make, due to household responsibilities. The barriers that women face put them at a competitive disadvantage and impede the development of women-led businesses and their participation in downstream activities in value chains, such as marketing, processing and distribution. Consequently, women-operated firms tend to be focused on national markets, with a minority of them involved in international export activities (United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), 2019).

An important feature of a start-up with growth potential is the entrepreneur's level of education. Typically, highly educated entrepreneurs are better able to innovate, maintain and manage business activities. Despite progress made towards greater gender equality in expected years of schooling over the past 20 years, gender gaps in expected years of schooling persist in Africa (figure 16), gaps which are particularly pronounced in countries affected by conflict and instability, such as those in the Sahel Region. Such gender gaps might have far-reaching consequences and significant opportunity costs, not only because longer education for girls reduces the likelihood of early marriage and paves the way for the productive participation of women in the labour market, but also because girls tend to have better learning outcomes than boys in harmonized test scores, as evidenced in about one third of African countries.[7]

Lower levels of educational attainment are an internal barrier for WOMEN's participation in economic activities



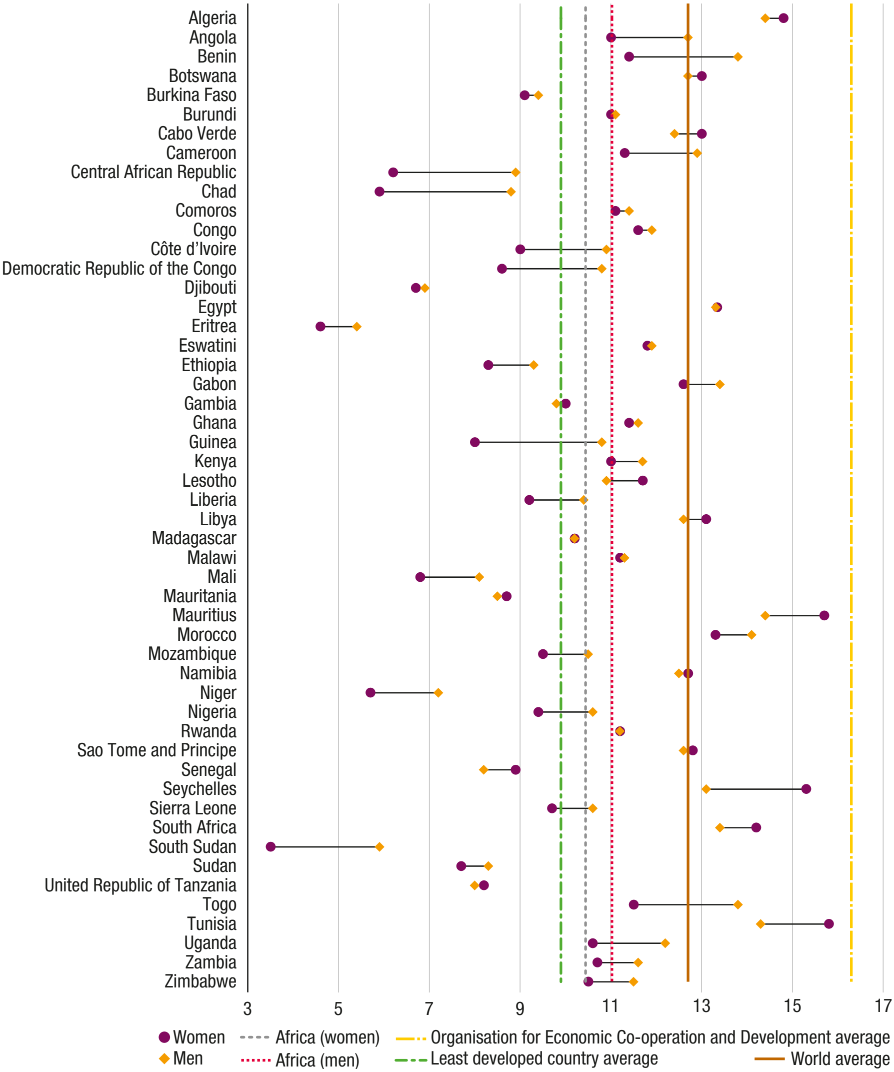
Further, the number of educational opportunities for developing entrepreneurial skills are likely to be greater for men than for women, even more so in rural areas; young men may have greater opportunities to receive formal training either through specialized providers or a member of their network (World Bank and OECD, 2017). Moreover, inadequate access to education among women hampers their abilities to start and expand their businesses and to gain access to financial institutions (Brixiová and Kangoye, 2019; Nwakanma, 2020). In contrast, women with higher levels of education tend to start their firms with more capital than their less educated counterparts (Brixiová and Kangoye, 2019).

Another constraint on women's entrepreneurship concerns how statutory and customary laws, and patriarchal systems, influence the gender divide in access to productive and financial resources. Women entrepreneurs are denied equal economic opportunities where a country's laws restrict a woman's ability to operate a business (box 5). Similarly, secure property rights for women, including land and other assets, are an important factor driving investment decisions, allocative resources and economic development (Acemoglu and Zilibotti, 2001; O'Sullivan, 2017). Many countries in Africa have made progress in removing formal legal barriers that have prevented women entrepreneurs from operating businesses. For example, Mali, in 2012, removed legal restrictions that prevented married women from registering a business; the Democratic Republic of the Congo, in 2016, eliminated provisions that prevented married women from signing contracts, registering companies and opening bank accounts, among other things. However, despite regulatory advances, many countries struggle to implement such laws. Even where statutory law seeks to promote gender equality, women entrepreneurs may face barriers derived from customary law, which often takes precedence in settings with legal pluralism (Nwakanma, 2020).

[7] See https://govdata360.worldbank.org/indicators/hc58163b0?country=BRA&indicator=40961&viz=line_chart&years=2010,2020.

Figure 16

Expected years of schooling, selected countries in Africa, 2019



Source: UNCTAD, based on data from the Human Development Data Centre of the United Nations Development Programme.

Box 5

Rwanda: Gender gaps translate into competitive disadvantages for women-owned enterprises in the informal sector

Empowering women entrepreneurs in the informal economy is essential for expanding their opportunities and options and for improving their livelihoods. However, there are still notable gender differences in terms of access to resources and wider socioeconomic opportunities on the continent, arising in large part from gender-related discrimination in laws, customs and practices. Such constraints can reduce both women's willingness to engage in entrepreneurial activities and their chances of entrepreneurial success.

Rwanda has become a role model in Africa, given its dedication to, and progress made on, gender equality and the empowerment of women in post-conflict reconstruction. Despite strong political commitment, however, there remains work to be done, in particular regarding access for women to economic assets and financial resources.[a]

Access to finance is generally perceived as the most important constraint on the growth of women-owned enterprises. The ways in which gender gaps translate into competitive disadvantages for women-owned enterprises, in terms of access to finance (with employed capital serving as a proxy)[b] and business performance (with annual turnover as proxy), in Rwanda are set out as a case study below.

The analysis uses data from the Rwanda Establishment Census, conducted in 2017, which is a nationally representative census of formal and informal enterprises across all sectors, excluding agriculture, collecting information on several attributes of businesses, including size (micro, small, medium and large), location, industry and ownership.[c] The main novelty of the data is that they allow for a focus on informal enterprises, as well as export and import enterprises, the data for which are usually unavailable in countries in Africa. The sample consists of 166,988 informal enterprises, after data cleaning for head unit establishments, which is more than 90 per cent of the establishments covered by the census, of which 53 per cent are in wholesale and retail trade, 30 per cent in accommodation and food service activities, 8 per cent in manufacturing and 9 per cent in other activities.

A limitation of the census data is that continuous data are lacking for annual turnover and employed capital, and corresponding values are categorical with significant variation. The capital variable has ranges of between RF 500,000 (approximately $500) and below; from RF 500,000 to 15 million; between RF 15 and 75 million ($75,000); and above RF 75 million.[d] However, given the small number of observations in the last two categories, in particular for informal enterprises, they are combined with the second category to create an indicator taking the value of 1 when the capital employed by the enterprises exceeds RF 500,000 and 0 otherwise. A similar exercise is done for annual turnover, whereby an indicator takes the value of 1 if the annual turnover in 2016 exceeded RF 300,000 (approximately $300) and 0 otherwise.

A logit regression model is then estimated, linking the probability of an enterprise – model A, employing more than RF 500,000 in capital, and model B, generating annual turnover of more than RF 300,000 – to owner and enterprise characteristics, the results of which are shown in the table below.

Results of estimation using logit model for informal enterprises in Rwanda

Dependent variables		Employed capital	Annual turnover
		Odds ratio	
Models		A	B
Constant		0.211***	0.628***
Gender of business owner	Female (base=male)	0.578***	0.621***
Age group of business owner	Over 35 years (base=35 years or under)	1.381***	1.057***
Trades in goods and/or services	Yes (base=no)	4.709***	2.029***
Keeps financial accounts	Yes (base=no)	1.933***	1.106
Industry	Accommodation	0.561***	1.003
	Manufacturing	1.808***	1.52***
	Wholesale and retail	1.776***	1.874***
Size of business	Small, medium or large (base=micro)	6.243***	4.911**
Location	Rural (base=urban)	0.559***	1.644***
Number of years in operation		1.043***	1.025***
Number		*163 747*	*95 676*
Wald chi2 (df)		*11 308.19(10)*	*4 661(10)*
p>chi2		*0*	*0*
Pseudo R2		*0.087*	*0.041*

Source: UNCTAD calculations.
Note: Constant estimates baseline odds. Financial accounts could be in the form of ledgers, journals, balance sheets, income statements or invoices.
* Level of significance 10 per cent.
** Level of significance 5 per cent.
*** Level of significance 1 per cent.

The regression results show that both models A and B as a whole fit significantly better than a model with no predictors. The overall effect of economic activity by the first level under the International

Standard Industrial Classification is significant, although the coefficient for accommodation and food services is not significant in model B. The odds of investing capital greater than RF 500,000 and having an annual turnover of more than RF 300,000 decreases by about 40 per cent (i.e. (0.6-1)x100) for enterprises owned by women. The odds of investing capital (and generating annual turnover) greater than RF 500,000 (annual turnover of RF 300,000) is 1.4 (1.1) and 4 (2) times greater for enterprises with owners over 35 years of age (i.e. more experienced) and exporting and importing goods and/or services, respectively.

The results show the following:

- Informal exporting and/or importing enterprises require larger amounts of working capital (increasing access to finance is therefore important) and are likely to achieve higher annual turnover, relative to non-trading informal enterprises.
- There are gender-related differences in terms of access to capital and performance of an enterprise (proxied by annual turnover). The likelihood of investing more capital and generating annual turnover over the threshold level, namely RF 500,000 and RF 300,000, respectively, declines for women-owned enterprises.
- Youth-led enterprises are likely to employ less capital and generate lower annual turnover.

Sources: International Labour Organization, 2018; UNCTAD, 2018b; UNCTAD, 2019b.
[a] See https://stats.oecd.org/Index.aspx?DataSetCode=GIDDB2019.
[b] The capital employed is the value of the assets that contribute to the ability of an establishment to generate revenue.
[c] See https://statistics.gov.rw/publication/establishment-census-report-2017.
[d] As at 29 May 2021, 100 Rwandan francs is equivalent to 0.840516 dollars.

Access to finance is an essential element of enterprise performance. However, access is only one part of the equation: the conditions under which loans are granted also matter. Impediments to generating personal savings, gaining access to sources of finance, such as engaging the interest of loan officers and angel investors, influence the types of ventures that men and women entrepreneurs begin and their subsequent performance. Women-run businesses are often smaller and less profitable (Carranza et al., 2018), which in turn reinforces stereotypes about self-employment among men and women (Greene et al., 2003).

Facilitating access to physical and human capital by enabling young people to start businesses or existing firms to scale up and hire young people is essential for addressing youth unemployment. However, access to formal financial institutions and financial services for a business start-up is constrained for young people, even more so for young women, in Africa (African Union, 2020).

Networks are critical to career-related decisions and job prospects, however, young people in most countries in Africa have inadequate networks, excluding them from employment opportunities. Young women may experience network constraints more acutely, with less exposure to the world of work, facing more discrimination and having fewer role models and smaller networks due to limited mobility (Chakravarty et al., 2017).

Like all free trade agreements, the African Continental Free Trade Area Agreement will inevitably create winners and losers. Many women small-scale entrepreneurs, producers and cross-border traders may not be able to immediately exploit the expanded market opportunities and/or compete with the influx of new strong competitors from other economies (box 6). Success will hinge on gender mainstreaming in national strategies for the implementation of the African Continental Free Trade Area, in particular in strategic sectors, such as agriculture and food processing, where there is strong potential for the participation of women, given that the presence of women in various sectors is characterized by informality, subsistence activities and unequal access to productive resources, most notably land ownership and finance, which leads to their poor value chain positioning (UNCTAD, 2020a; UN-Women, 2019).

Box 6

Developing capabilities of informal small and medium-sized enterprises in agrifood markets: Case study of South African supermarket chains

Over the past 20 years, supermarket chains, in particular South African chains, have expanded into the Southern African Development Community region and, less successfully, into other regions in Africa. Four large retailers, Shoprite, Pick n Pay, Spar and Woolworths, collectively have a market share of 72 per cent, based on turnover figures for 2015.[a] Some of the factors attributed to the "supermarketization" of food retail in countries in the Southern African Development Community are increased urbanization and the newly developing middle class.

Opportunities

Supermarkets are potential catalysts for stimulating food processing and light manufacturing industries under the African Continental Free Trade Area. Although countries in Africa rely on alternative retail routes, such as wet markets and small traditional informal retailers, to varying degrees, the expansion of supermarket chains and their procurement methods and requirements have important implications for the participation and success of local suppliers, including women cross-border traders, small-scale entrepreneurs and producers, and the competitive landscape in Africa.

The multinational nature of supermarkets opens much larger regional and international markets for small local suppliers, allowing them to attain the scale necessary to potentially make them more competitive in national, regional and international markets. For example, women entrepreneurs can supply house brands or private labels to supermarket chains, which are often cheaper than branded products, offering an opportunity for such suppliers to get a foot in the door of large retailers.

Challenges

Despite the benefits, there are also challenges, resulting from uneven power dynamics, hindering the participation and growth of new entrants and smaller suppliers. Procurement strategies of supermarket chains shrink the supply base by using only preferred suppliers. Supermarkets tend to source only indirectly from smaller farmers, through wholesalers and processors, but even smaller farmers are those that have better capital assets and equipment and access to infrastructure and are more commercially oriented. Moreover, large supermarkets impose high-quality packaging and other standards on suppliers, which makes it harder for local suppliers with limited capabilities to meet such requirements and compete. Therefore, the supplier base continues to be dominated by a few large suppliers that are able to meet the requirements. Suppliers require significant capital, technological, managerial and financial investment to develop and upgrade their capabilities to meet such requirements. Yet upgrading and developing capabilities does not automatically ensure access to retail space. The substantial purchasing power of supermarkets, given that retailers are the last link between products and consumers, skews bargaining power between local suppliers and retailers, in favour of retailers, leading to supermarkets imposing trading terms that prevent small suppliers from gaining access to the retail space. For example, in Botswana and South Africa, the exertion of market power by large supermarket chains has been an area of concern for competition authorities.

Potential role of the African Continental Free Trade Area

There is a large, versatile and dynamic informal sector, dominated by women cross-border traders, small-scale entrepreneurs and producers in agroindustry. Despite significant opportunities available under the African Continental Free Trade Area, trade liberalization alone will not guarantee existing and potential suppliers shelf space in the supermarket chains; overcoming the challenges described above requires active collaboration, coordination and public–private partnerships in formal and informal markets.

Adaptation is key to delivering on the benefits of the African Continental Free Trade Area. Local suppliers must continue to invest in building their capabilities to ensure that they meet the requirements of retailers, with the goal of becoming self-sufficient at a certain point. Developing the capabilities of local suppliers should ideally involve both non-government entities, such as supplier development programmes led by supermarket chains, and government institutions. Investments in infrastructure development, the construction of distribution and warehouse facilities and cold chains are also critical to supporting supplier development initiatives.

Suppliers are regularly audited to ensure that they meet the range of requirements to successfully supply supermarket chains. Investment in meeting such requirements and the recommendations resulting from audits come at a cost, which is often out of the reach of vulnerable women entrepreneurs and producers, given that they face more difficulties in gaining access to finance. The solution is to create the right financing packages catering to the unique and evolving needs of those suppliers, while addressing barriers to entry in value chains.

For a more balanced distribution of benefits under the African Continental Free Trade Area, the competitiveness of local suppliers can be developed through appropriate and coordinated regional industrial and competition policies as part of the Free Trade Area, such as under phase II of its implementation, and the Boosting Intra-African Trade Initiative. For example, under a protocol on competition policy, the impact of anticompetitive conduct on woman-owned businesses could be explicitly considered.

Codes of conduct or a retail charter between suppliers and buyer multinational corporations can serve as an effective approach to controlling the exertion power of buyers and reduce information asymmetries between suppliers and buyers. An example of such an initiative is the Retail Sector Charter of Namibia (2016), enacted as part of efforts to increase the procurement of locally produced goods and to boost local manufacturing and value added processing. The Charter is a valuable example of the importance of political commitment from the Government, given that the Government of Namibia was instrumental in spearheading the Charter. Such charters could be extended to different regions in Africa, with commitments for the fair treatment of local suppliers and supplier development elements.

Sources: Das Nair, 2018; Das Nair and Landani, 2021; Humphrey, 2017; Nkhonjera and Das Nair, 2018; Reardon and Hopkins, 2006.
[a] See https://www.compcom.co.za/wp-content/uploads/2019/12/Grocery-Retail-Market-Inquiry-Sumary-002.pdf.

2.5 Formalization of informal traders and entrepreneurs

2.5.1 Informal cross-border trade and the formalization of microenterprises and small and medium-sized enterprises: Role of trade facilitation

The difficulties of conforming to the trade requirements applicable in the formal sector for informal traders, in particular women, encourage the avoidance of the customs controls, rules of origin documentation and cumbersome regulatory requirements and procedures necessary to formally register a business. The profit margins in informal cross-border trade are typically tight, so compliance with formal requirements that increase the costs of trading is not a viable option for most informal actors.

Trade facilitation measures can be a means for informal and small-scale traders to scale up their activities and graduate from the “informality trap” to improved economic inclusivity. Trade facilitation measures that target the better integration of informal cross-border traders into formal trade, such as the simplified trade regime and cooperative enterprise model, in particular the implementation of simplified trade regimes in the Common Market for Eastern and Southern Africa and the East African Community, are considered below. A continental simplified trade regime from which the African Continental Free Trade Area can draw concrete lessons and on which it can build during its implementation, is recommended.

The Common Market for Eastern and Southern Africa simplified trade regime is aimed at reducing barriers to trade within member countries (UNCTAD, 2019b).[8] The key features of this regime are a simplified common list of goods, a simplified customs document and a simplified certificate of origin.[9] Traders carrying goods included in the common list and valued up to $2,000 per consignment can clear them with limited paperwork, using the simplified customs document available at border posts, without the involvement of clearing agents. The list of qualifying

8 The common list of goods that are eligible for the simplified trade regime are bilaterally negotiated. For example, there is a common list agreed between Malawi and Zimbabwe, one between Zambia and Zimbabwe and a common list of products that will be harmonized between the Democratic Republic of the Congo and Uganda.

9 The simplified certificate of origin includes a declaration by the exporter, producer or supplier stating that the goods to which the certificate refers have been produced in accordance with the Common Market for Eastern and Southern Africa rules of origin.

products is jointly agreed upon by member States with shared borders based on goods that are commonly traded by small-scale traders; each list applies only to the traders of the respective participating countries who are party to that agreed list. Participation in the simplified trade regime in the Common Market for Eastern and Southern Africa is voluntary; only about half of the member countries have taken steps to implement it.

Although the implementation of the Common Market for Eastern and Southern Africa simplified trade regime has produced some successes, there remain several challenges that negate the full uptake of the regime. A range of non-tariff barriers, such as the arbitrary application of rules and requirements by border officers for goods eligible for simplified treatment, continue to exist at the borders, and many of the requirements associated with formal trade remain in place. For example, although the simplified trade regime allows for the duty-free entry of products to neighbouring countries, application of the regime does not exclude the requirement to obtain import and export permits for agricultural goods or animal products. Many such documents are costly and difficult to obtain, which remains an important constraint to cross-border trade. Nor does the regime provide exemptions from border requirements regarding immigration or sanitary and phytosanitary measures or value added tax, excise duties and associated processing fees (World Bank, 2014).

Furthermore, the common list that identifies goods eligible for simplified treatment is limited and not regularly updated and therefore fails to reflect changing market conditions over time. For example, Malawi has not updated the common list of goods eligible under the simplified trade regime since 2010, as have other member States of the Common Market for Eastern and Southern Africa (UNCTAD, 2019b). In addition, there is still a lack of understanding with regard to the existence, role and application of simplified trade regimes. Frequently, traders observe that information on clearance procedures and the list of eligible goods is not available and that the required forms are not always easy to understand, sometimes due to language barriers, and they have concerns about approaching customs officials to seek clarification (UNCTAD, 2019b). To address this, trade information desk officers have been deployed at some border posts to provide information and assistance on clearance procedures and the list of goods qualifying for the simplified trade regime (World Bank, 2014). Lack of resources, however, has resulted in the inconsistent provision of such services, which coincides with the drop in the uptake of the simplified trade regime (UNCTAD, 2019b).

The East African Community simplified trade regime, premised on that of the Common Market for Eastern and Southern Africa, was introduced in 2007, with the adoption of a simplified certificate of origin that exempts consignments of goods that originate in the East African Community, are valued at or under $2,000 and are on the list of qualified products. The introduction of this simplified trade regime has had limited success, as has been the case with that of the Common Market for Eastern and Southern Africa. This is because the East African Community regime, while introducing streamlined paperwork and exemptions from cumbersome formal customs clearance procedures, does not provide exemptions from certain domestic taxes and other border requirements. Another inhibiting factor has been the lack of awareness, knowledge and understanding of the implications of the regime; trade procedures remain complex and lengthy for small-scale traders with limited capacities who frequently cross the border. In order to ease compliance by businesses and enhance the transparency of trade procedures, the East African Community trade information portal, an online platform linked to national trade facilitation portals in Kenya, Rwanda, Uganda and the United Republic of Tanzania, was launched in 2018.

2.5.2 Trade facilitation through one-stop border posts

One-stop border posts, also known as joint border posts, have been introduced under the New Partnership for Africa's Development[10] to reduce formalities, costs and delays at border crossings. Currently, one-stop border posts are being rolled out across Africa as part of the regional integration agenda and to complement the implementation of simplified trade regimes. Currently, more than 80 one-stop border posts have been planned or implemented in various parts of Africa, however, not all of them have aligned operations (African Export-Import Bank, 2020). Studies suggest that, in sub-Saharan Africa, an average reduction of 5 per cent in the time spent at the border could achieve a 10 per cent increase in regional exports.[11] By simplifying trading requirements and procedures and harmonizing border policies, such as those regarding visas and immigration, one-stop border posts could encourage the formalization of trade.

[10] The New Partnership for Africa's Development is an economic development programme of the African Union, which was adopted at the thirty-seventh session of the Assembly of Heads of State and Government of the Organization of African Unity, in July 2001.

[11] See https://www.rural21.com/english/opinion-corner/detail/article/boosting-trade-with-better-border-infrastructure.html.

2.5.3 Continental simplified trade regimes

Apart from trade facilitation through the simplification of customs procedures and by reducing non-tariff barriers associated with informal trade, a continental simplified trade regime, including simplified customs documents, simplified clearance procedures, a common list of products, a threshold for the value of consignments and a common passport or pass for traders, could potentially improve the collection and reliability of official trade statistics between RECs. Specifically, the collection of gender-disaggregated data would effectively guide the integration of concerns relating to gender equality into policies and legal frameworks in the implementation of the African Continental Free Trade Area. Moreover, good quality data helps informal traders to move towards formalization. A continental simplified trade regime would appropriately utilize the market diversity of member States, which would strengthen a coordinated response for sustaining small-scale traders. For example, the continental simplified trade regime could increase the threshold value, extend the list of traded products, with a focus on products of particular significance to informal cross-border traders, and importantly, include women and young people who are major actors in informal trade.[12]

Evidence from both the Tripartite Free Trade Area non-tariff barrier reporting mechanism and the regional simplified trade regimes suggests that informal traders face an information gap, which indicates the need for customs arrangements and procedures modified according to their needs and circumstances. For example, in the wake of restrictions put in place to address the COVID-19 pandemic, more cross-border traders in the Common Market for Eastern and Southern Africa found themselves excluded from trade, because regulations favoured traders with larger consignments and means of transport. Moreover, amendments to routes have led to delays at border posts, thereby increasing costs to trade. A coordinated response, through the African Continental Free Trade Area, focusing on processes for small-scale cross-border traders is therefore vital. Bilaterally, Governments should ensure that implementation teams are fully supported.

The lack of representation of informal trade among complaints raised through the non-tariff barrier reporting mechanism (0.06 per cent of active complaints) highlights the extent of the digital exclusion of informal cross-border trade traders.[13] Limited access to mobile telephones and Internet connectivity or Internet service data packages undermines the use of online reporting mechanisms. In addition to the digital divide, there is likely also

[12] See https://www.uneca.org/sites/default/files/keymessageanddocuments/22May_Final_WhitePaper_Advancing_gender_equitable_outcomes.pdf.
[13] See https://www.tradebarriers.org/active_complaints.

a lack of knowledge about how to lodge complaints, making capacity-building and sensitization efforts all the more important. The African Continental Free Trade Area could further support reporting mechanisms, such as that of the Tripartite Free Trade Area, that would benefit from encouraging engagement among informal traders, which would enhance the effectiveness of the continental simplified trade regime as a tool to formalize informal cross-border trade.

2.5.4 Free movement of persons

Labour mobility is key to reaping the benefits of regional trade for inclusive growth. The International Organization for Migration has emphasized that cross-border human mobility and trade are connected and emphasized the need for the greater integration of human mobility and border management into trade facilitation programmes.[14] Facilitating transactions and communications between buyers and sellers across borders requires reducing the costs of obtaining visas and obstacles to obtaining residency and work permits (Simo, 2020; World Bank, 2016). The protocol on the free movement of persons, a flagship project of the African Union in the implementation of Agenda 2063, will work together with the African Continental Free Trade Area framework to help achieve economic integration and free mobility. More than just an opportunity for cross-border traders, the facilitation of the free movement of people between countries in Africa could have significant implications for women and young people, including their ability to pursue job prospects within Africa. The opportunities that could stem from implementation of a protocol on the free movement of persons for essential services sectors, such as health and education, could be particularly important for girls and women who are medical practitioners, teachers and students. Across Africa, there is a shortage of labour with specialized skills in certain sectors, including engineering and information and communications technology, and for seasonal jobs, for example with regard to cash crops, requiring foreign labour (UNCTAD, 2018b; UNCTAD, 2019a).

Some countries envisage removing labour market restrictions only for the movement of certain categories of workers, such as truck drivers, due to concerns about sovereignty and the ability to regulate the entry, exit and stay of persons.[15] This has hindered the ratification of the African Union protocol on the free movement of persons since January 2018; there have been only 32 signatories and 4 ratifications to date, and 15 ratifications are needed for the protocol to enter into force.

14 See https://publications.iom.int/books/making-case-integrate-human-mobility-cross-border-trade-and-trade-facilitation.

15 See https://ecdpm.org/talking-points/connecting-people-markets-africa-2021/.

2.5.5 Cooperative enterprise model

The cooperative enterprise model is a tool that can be used in formalizing the informal sector. Most small entrepreneurs and cross-border traders, in particular women, are highly vulnerable to deficits in decent work, given that they are unprotected, have no formal recognition and have little representation or voice, and their transition from informality to formality is rather slow. Cooperatives could play an important role in formalization by transforming what are often marginal survival activities into legally protected work and are therefore an option for the formalization of the informal economy (Mshiu, 2019).

Cooperatives represent a practical and efficient model for generating an array of instruments and opportunities for entrepreneurial development, including in the following scenarios:

(a) Informal economy workers in the same line of business often work individually or in small groups and, quite often, compete. By using the services of a cooperative, for example, through bulk purchases of the commodities they deal in (i.e. economies of scale), they could strengthen their businesses and the production and marketing of their goods or services;

(b) Cooperatives could provide an effective platform for advocacy and/or representation;

(c) Cooperatives often provide social protection, including health insurance, through self-funded and mutually established insurance systems;

(d) Cooperatives are stakeholder-based enterprises established for the long term. Their members often benefit from stable employment or production conditions. Joining a cooperative credit and savings system could also provide informal workers with productive credit, enabling them to start their businesses and consolidate their economic activities, forming the basis for a transition towards the formal economy;

(e) Members of cooperatives develop their skills and resources, enhancing business management, productivity and market competitiveness, which will be important under the African Continental Free Trade Area.

To overcome some of the obstacles to formalizing microenterprises and small and medium-sized enterprises through cooperatives, the following strategies may be considered: promote the creation of cooperatives and their key sectors for trade, such as consumer and agricultural cooperatives; enhance the capacities of microenterprises and small and medium-sized enterprises and cooperatives through grants and development support; streamline registration procedures; and promote mass campaigns to mobilize such enterprises to formalize.

2.5.6 Formalizing the informal sector through the use of digital technology

Technology has a role to play in formalizing the informal sector. Technology can facilitate trade by fostering market access, information-sharing and innovation. Moreover, such innovative technologies as mobile telephone-enabled solutions can expand the access of informal cross-border traders to basic financial services, by providing solutions for two important challenges that cross-border traders face, namely, limited alternatives for converting foreign currency for transactions and insufficient access to formal credit to scale up their businesses.[16] Along with mobile money platforms, a continental regulatory framework on harmonizing regional payment systems to facilitate cross-border payments and eliminate informal cross-border payments could provide an opportunity to formalize informal cross-border trade (African Export-Import Bank, 2020).[17]

Harnessing digitalization in the African Continental Free Trade Area could potentially open opportunities for young people and women to participate in the continental marketplace and value chains. Digital tools have proven to be a significant way to reduce the costs required to start a business and to facilitate formalization. For example, UNCTAD has developed a platform to support businesses in Cameroon to enter the formal market, and the initiative has reduced time-related inefficiencies and allowed 25,000 small and medium-sized enterprises to register their business (UNCTAD, 2020b).

2.5.7 Using business support centres to formalize the informal sector

Business support centres were successfully introduced in Colombia, with the assistance of the Inter-American Development Bank for the first phase of the programme,

[16] Existing regional payment systems induce financial exclusion, given that they are linked to formal banking channels. Mobile money providers may be able to create a qualifying credit score for individuals previously excluded from formal credit markets, by leveraging data, such as those relating to airtime, mobile money usage and social media (see https://unctad.org/news/leveraging-digital-solutions-seize-potential-informal-cross-border-trade).

[17] Regional payment systems have already been adopted in the East African Community, the Economic Community of West African States and the Southern African Development Community, which expand the scope of options for informal payments concerned with cross-border trade (FAO, 2017).

in 2001–2004, and the Government of the Netherlands for the second phase, in 2006–2008. According to an evaluation undertaken by Cárdenas and Rozo (2007), cities that had business support centres experienced a 5 per cent increase in business registration, because more advice on documentation reduced operational costs for small enterprises. Such advisory services can play a key role in the African Continental Free Trade Area. By operating as a one-stop shop, business support centres can encourage business registration, inclusion and greater coordination, thereby ensuring that informal traders do not lose out on trade liberalization under the Free Trade Area.

2.6 Concluding remarks

Mapping the economic and social dimensions of informal cross-border trade accurately is challenging. The conduct of regular surveys is needed to collect information on informal cross-border trade and supplement merchandise trade statistics data from customs authorities.

For the benefits of the African Continental Free Trade Area to be fully harnessed and inclusive, both informal forms of trade and their relevant stakeholders should be considered in the design and implementation of policy reforms and trade facilitation measures related to the Free Trade Area. There is a need to acknowledge that women and young people, in particular in the informal sector, face barriers that are higher relative to other groups. Policy interventions should seek to harness emerging opportunities and address structural barriers to women and young people, which will require a targeted mix of interventions that go beyond trade policies, to include ensuring equal access to resources and educational opportunities, such as technical education and vocational and specialized skills development, including digital skills and literacy. To ensure that the Free Trade Area delivers on the commitments made in the Agreement, to empower women and young people, it will be necessary to develop mechanisms to monitor the implementation of the Agreement from the perspective of inclusion.

The informal economy is not necessarily organized and is therefore not readily represented in discussions on the implementation of the African Continental Free Trade Area. However, the views of informal economy actors, in particular those of women and young people, should be considered in discussions on implementation and phase II, in particular with regard to investment (including targeted investment for specific sectors that would benefit such actors), intellectual property rights and competition policy, for the development of provisions catering to their needs.

The implementation of the protocol on the free movement of persons could benefit women and young people, in particular girls, given that many countries in Africa have skills shortages, and it would allow them to take up employment opportunities in neighbouring countries, thereby also facilitating intra-African knowledge and skills transfer. There is a need to enhance advocacy efforts and popularize the protocol and continental passport scheme.

The simplified trade regime and the cooperative enterprise model are potential means of bringing informal traders into formal trading systems in the context of the African Continental Free Trade Area, including by enhancing access to financial resources for market access for microenterprises and small and medium-sized enterprises, helping them to digitalize their processes and building their capacities through training programmes.

Electronic commerce offers tangible opportunities for women and young people, yet policy reforms and legislative frameworks in the context of the African Continental Free Trade Area should create a nurturing environment for women and young people to increase their footprint in this sector. The informal sector cannot be eliminated; rather, the focus of Governments should be on creating opportunities for them to scale up and expand their operations and promoting innovation and an entrepreneurial spirit. Some successful enterprises begin as informal firms and eventually graduate into the formal sector, and informal enterprises contribute to economic development by providing jobs and livelihoods.