



USE OF CROSS-BORDER DIGITAL PAYMENTS IN THE COMESA REGION

UNDERSTANDING THE TRAINING NEEDS OF MSMES

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ACRONYMS

Acronyms	Meaning
ADLA	Authorized Dealers in Foreign Exchange with Limited Authority
AfDB	African Development Bank
AFREXIMBANK	African Export-Import Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
API	Application Programming Interface
B2B	Business-to-Business
B2P	Business-to-Person
BDS	Business Development Services
BNR	National Bank of Rwanda
CACID	Centre Africain Pour le Commerce
CB	Cross-Border
CBC	COMESA Business Council
CBK	Central Bank of Kenya
CBN	Corresponding Banking Network
CBT	Cross-Border Trade
CBTr	Cross-Border Trader
COMESA	Common Market for Eastern and Southern Africa
CRB	Credit Reference Bureau
CSR	Corporate Social Responsibility
EAPS	East African Payment System
ECA	Export Credit Agencies
ECDPM	European Centre for Development Policy Management
ECGC	Export Credit Guarantee Corporation
FMT	FinMark Trust
FSD	Financial Sector Deepening Trust

FSNWG	The Food Security and Nutrition Working Group
FSP	Financial Service Provider
GDP	Gross Domestic Product
ICBT	Informal Cross-Border Trade
IFC	International Finance Corporation
IPI	International Payment Instruction Code
KES	Kenya Shillings
KII	Key Informant Interview
KNBS	Kenya National Bureau of Statistics
KYC	Know Your Customer
LPO	Local Purchase Order
MFI	Microfinance Institution
MMO	Mobile Money Operator
MSMEs	Micro, Small and Medium-sized Enterprises
MTO	Money Transfer Operators
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
NISR	National Institute of Statistics Rwanda
OECD	Organization for Economic Co-operation and Development
OSBP	One-Stop Border Posts
P2B	Person-to-Business
P2P	Person-to-Person
PAPSS	Pan-African Payment and Settlement System
PSP	Payment Service Provider
REPSS	Regional Payment and Settlement System
ReSAKSS	Regional Strategic Analysis and Knowledge Support System
RTGS	Real Time Gross Settlement
SACCOs	Savings and Credit Cooperative Societies
SADC	Southern African Development Community
SAIIA	The South African Institute of International Affairs
SFTP	Secure File Transfer Protocol

SIRESS	SADC Integrated Regional Electronic Settlement System
SSA	Sub-Saharan Africa
STR	Simplified Trade Regimes
UBOS	Uganda Bureau of Statistics
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
WBG	World Bank Group
WICBT	Women in Informal Cross-Border Trade

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EXECUTIVE SUMMARY

Introduction and context

The Common Market for Eastern and Southern Africa (COMESA) Business Council (CBC) is working to develop and deploy an integrated, low-cost, interoperable and fraud-resistant digital payments platform. The objective is to serve the Micro, Small and Medium Enterprises (MSMEs) engaging in cross-border trade (CBT) and the customers they transact with at the bottom of the financial pyramid. The business case and policy framework (Phase I) for this platform have been developed, while the business model (Phase II) is currently under development.

The deployment of this digital payments platform is expected to result in a significant increase in the adoption of digital cross-border (CB) payment solutions amongst MSMEs. Thereby increasing trade within the region and supporting the development of digitally inclusive economies within its member states. However, for this benefit to be realized, factors that lower the adoption rate of CB digital payments by MSMEs must be understood and addressed. This report captures the findings of a market research conducted to assess the key challenges faced by MSMEs to develop an understanding of their training needs for accelerating the use of digital payments for cross-border transactions.

The team used a mixed methods approach for this assignment. It employed both a bottom-up and top-down analysis. The bottom-up approach involved conducting primary research in the form of a survey of 313 MSMEs owners involved in CBT in the five countries of interest (i.e., Kenya, Malawi, Rwanda, Uganda and Zambia) and conducting 11 key informant interviews (KIIs) with financial service providers (FSPs), development organizations, trade and business associations and a regional secretariat. The top-down approach involved reviewing available secondary research.

The supply-side landscape

The supply-side analysis focused on available payment and trade financing solutions for MSMEs involved in CBT. From a payment perspective, a growing number of players support CB payments within COMESA that are highlighted below:

- 1. Regional payment systems:** They include the East African Community (EAC), East African Payment System (EAPS), COMESA's Regional Payment and Settlement System (REPSS), and Pan-African Payment and Settlement System (PAPSS). They have yet to attain scale and have therefore not impacted the flow of CB payments.
- 2. Back-end payment connectivity:** In recent years, several players have begun to offer alternative back-end payment connectivity across borders/international remittances hubs. These seek to provide alternatives

to the historic commercial bank networks (i.e., through SWIFT or corresponding banking networks – CBNs) and money transfer operators (MTOs such as Western Union and MoneyGram). Some of these players include MFS Africa, TerraPay, HomeSend and Thunes, among others. They are increasing the options for financial service providers (FSP) to explore solutions across more countries.

- **3. Payment value propositions:** Mobile money operators (MMOs) are increasingly enhancing their payment offerings to include remittances and CB payments. These solutions usually have low transaction limits, meaning they remain mostly used for person-to-person (P2P) payments. MTOs have partnered with MMOs and banks to allow payments/receipts to directly reflect in consumers' wallets or accounts. Similarly, a growing number of business-to-business (B2B) cross-border payment solutions are being developed. These often require customers to fund a separate wallet that they can therefore use to transact within their ecosystem.

Despite continued efforts by development agencies to grow access to trade finance for MSMEs, usage remains limited. This is due to the fact that the **transaction records of MSMEs remain largely unavailable**, preventing FSPs from assessing their inherent risk (conducting due diligence). In addition, FSPs' **documentation requirements remain high, and FSPs run costly manual and paper-based processes for many of their trade finance solutions**. As a result of these two forces, there has been limited progress in extending trade finance solutions to smaller scale or less informal MSMEs.

The demand-side landscape

From the demand-side research, the key financial challenges facing cross-border traders (CBTrs) are as follows:

- **1. In several countries, there is a lack of designated low-cost digital payment services for CBT.** Bank and money transfer operators (MTO) can be expensive, while mobile money transaction limits are relatively low, especially for medium-sized enterprises, which reduces the use case demand for CBTrs.
- **2. Accessing foreign currency** is often a key constraint when the country has exchange controls in place.
- **3. MSMEs often lack access to adequate trade finance solutions** and, therefore, must make payments to their suppliers of goods and services before delivery. Conversely, their consumers may often take longer to pay for the goods and services after delivery, suggesting the CBTrs shoulder the working capital burden from their finances.
- **4. Most suppliers and customers of traders insist on the use of cash.** This can often be the case even when traders have access to formal financial services themselves.
- **5. Export Credit Agencies (ECAs) are entities that provide/facilitate export credit insurance and/or outward investment insurance, which ultimately reduces the cost of financing for businesses. In the countries where ECAs operate, ECAs often focus on insuring credit of large export companies, not MSMEs.**
- **6. Traders have a low uptake of formal insurance products (such as goods in transit, money in transit and commercial vehicle insurance) while they are crossing international borders,** despite a need for this.
- **7. Even where MSMEs have access to digital forms of payment,** they face several challenges, e.g., unreliable FSP websites/apps/USSD platforms.

Based on the demand-side research, the key non-financial challenges faced by CBTs are as follows:

1. MSMEs, in general, face **barriers to business formalization**, including registration as traders.
2. **Trade facilitation (i.e., the procedures and controls that govern the movement of goods across national borders) is generally a lengthy, complicated and costly process for MSMEs.**
3. **Poor infrastructure and lack of adequate border facilities:** Despite continued efforts by COMESA and member states to deploy simplified trade regimes (STRs), one-stop border posts (OSBPs) and national trade strategies and policies to drive increased intra-African trade, countries continue to face poor infrastructure and lack of adequate border facilities.
4. **Traders, especially female traders, face harassment and physical assault at border posts and informal border crossings.**
5. **Political shocks have a significant impact on trader operations.**
6. As with other MSMEs, **CBTs often have limited knowledge of entrepreneurship and business management skills.**
7. **Traders, particularly women, reported having limited access to market information and communication technology.**
8. **Digital access levels vary significantly across MSMEs in COMESA member states.**

Recommendations

Increased innovation around digital payment solutions that meet the needs of CBTs is essential to drive increased uptake and usage by MSMEs. To ensure relevance, these solutions will need to consider the higher value of transactions and frequency of trade of CBTs. They should also be interoperable across all types of financial service providers (FSPs) domestically and across borders; include the ability to share (with permissions) customer transaction records to aid the provision of trade finance solutions. Finally, they should enable the easy identification of payers and payees that use various modes of identification.

Once these solutions are available, there will be a need **to inform consumers of the solutions and train them on how to use them.** FSPs offering payment solutions to consumers should likely conduct this training.

Research findings identified the highly sought-after curriculum topics for capacity-building programs: **financial education, digital access and usage of financial products, and how to navigate the trade facilitation process.** The need for these types of training, however, differs by CBT segments/profiles (e.g., by gender, business size or sector of focus). The nature of the training, mode and channels of training and implementation partners would therefore need to be tailored to ensure relevance to the segments/profiles.

Based on the traders' preferences, the report recommends that the training curriculum should explore three modes of training. The first involves the use of **in-person group training.** These involve a lot of coordination and planning and would need to be limited in their duration to not take operators and managers of MSMEs away from their business operations for too long. Next, the programs could explore **follow-up one-on-one sessions conducted digitally.** These could leverage MSMEs' high smartphone access to leverage several platforms such

as WhatsApp or Zoom. **Written training content and pre-recorded videos shared on social media** can be used to reinforce training received in training sessions and extend the reach of the training to CBTs.

There are several implementation partners to help administer the capacity-building program, including the use of COMESA trade information desks, associations of CBTs or farmers, non-governmental organizations (NGOs) and FSPs. These would leverage existing and future relationships with CBTs and their experience in conducting capacity-building initiatives.

INTRODUCTION AND CONTEXT



1



Micro, small and medium-sized enterprises (MSMEs) are the backbone of economic development in most African countries. They often make up more than 90% of the private sector, and more than 50% of employment and contribute significantly to economic growth in terms of gross domestic product (GDP).¹ Although their contribution to international trade is likely not commensurate with their contribution to economic output, MSMEs' cross-border trade (CBT) is substantial in terms of the volume of transactions and the number of times traders cross national borders.

The exact contribution of MSMEs' CBT to total CBT in Sub-Saharan Africa (SSA) is difficult to calculate as it combines both formal and informal trade. For example, 30 - 40% of intra-Africa trade in the Southern African Development Community (SADC) is informal.² In Uganda, for instance, informal exports to its five neighboring countries were worth USD 232 million in 2006, accounting for 46% of total exports, while informal imports were worth USD 81 million, accounting for 16% of total imports from those same countries.³

Many MSMEs continue to rely on cash payments for CBT, with limited knowledge and even more limited use of formal and digital cross-border payment solutions. This hinders the growth of MSMEs' cross-border (CB) business and discourages CBT among MSMEs, as they are often unable to access financing or make remote payments. This ultimately limits the market reach of MSMEs and their growth opportunities.

For this reason, the Common Market for Eastern and Southern Africa (COMESA) Business Council (CBC) is working to develop and deploy an integrated, low-cost, interoperable and fraud-resistant digital payments platform. It will serve MSMEs engaging in CBT and the customers they transact with at the bottom of the financial pyramid. The business case and policy framework (Phase I) for this platform have been developed, while the business model (Phase II) is currently under development.

The deployment of this digital payments platform is expected to result in a significant increase in the adoption of digital cross-border payment solutions amongst MSMEs, thereby increasing trade within the region and supporting the development of digitally inclusive economies within its member states. However, for this benefit to be realized, factors that lower the adoption rate of CB digital payments by MSMEs must be understood and addressed. It is for this reason that AfricaNenda and CBC commissioned Genesis Analytics to undertake a training needs assessment of MSMEs with respect to accelerating the use of digital payments for cross-border transactions.

The report captures the findings of this assessment and is structured as follows:

- **Section 1** provides the background context to the project
- **Section 2** highlights the methodology employed
- **Section 3** describes the supply-side landscape
- **Section 4** provides the demand-side landscape
- **Section 5** states the recommendations to CBC on promoting digital retail payments and capacity-building for the COMESA region
- **Section 6** has the annexure.

¹ World Bank Group (WBG), Small and medium enterprises (SMEs) finance. Available [here](#).

² Kahiya, E. and Kadirov, D, 2020, Informal Cross Border Trade as a Substratum Marketing System: A Review and Conceptual Framework, Journal of Macromarketing, Vol 40(1).

³ Lesser, C. and E. Moisé-Leeman (2009), "Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa", OECD Trade Policy Working Papers, No. 86.

1.1

Objective of this study

The principal objective of this assignment was to assess the training needs of MSMEs in the areas of digital literacy, trade logistics, financial literacy and other non-financial challenges with respect to accelerating cross-border payments in five countries,

namely Kenya, Malawi, Rwanda, Uganda and Zambia. This assessment will be used as the foundation for a capacity-building program aimed at improving MSMEs' ability to uptake Digital Financial Services (DFS) and fully adopt the COMESA digital retail payments platform.

The research entailed the following:

- **Unveiling key challenges** faced by MSMEs, including specific difficulties for women-owned businesses and early-stage entrepreneurs.
- **Evaluating the levels of entrepreneurs' business and financial management skills.** This included their knowledge and gaps around guidelines and norms, business practices, and productivity.
- **Evaluating the levels of entrepreneurs' digital literacy.** This included evaluating their understanding of the implications of digital platforms/ technology to their business, as well as their understanding and familiarity with DFS.
- **Evaluating the levels of entrepreneurs' literacy** to inform the development of adapted, user-friendly training tools.
- **Developing favorable adult-learning instructional design approaches** to be used during the capacity-building exercise.

CBTrs in Busia Town, Kenya/Uganda Border



1.2

Methodology

This assignment used a mixed-methods approach. It employed both a bottom-up and top-down analysis. The bottom-up approach involved primary research to collect first-hand insights on MSMEs’ training needs, whereas the top-down approach involved reviewing secondary research.

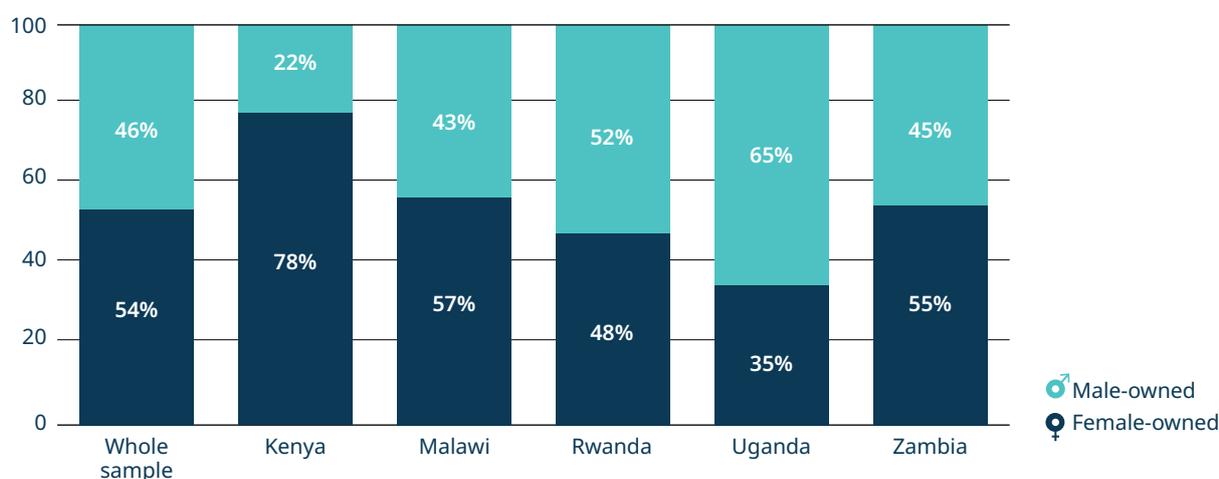
The primary research involved conducting a survey among 313 MSMEs owners active in CBT in the five countries of interest (i.e., Kenya, Malawi, Rwanda,

Uganda and Zambia). Surveys were carried out both at border crossings and in capital cities to get a broader sample of MSMEs. However, 12 respondents were screened out because they did not meet at least one of the criteria for sampling. The survey results are therefore based on 301 responses. 92% of the responses were from MSMEs owners and co-owners, while 8% were from MSMEs managers. The table below summarizes the number of respondents reached in each location.

TABLE 1. Summary of surveys conducted.

Border towns	Number	Capital Cities	Number
Rubavu (Rwanda and Democratic Republic of Congo)	30	Kigali, Rwanda	32
Busia (Kenya and Uganda) - Kenya side	30	Nairobi, Kenya	32
Busia (Kenya and Uganda) - Uganda side	30	Kampala, Uganda	37
Mchinji (Malawi and Zambia) - Malawi side	30	Lilongwe, Malawi	30
Mwami (Malawi and Zambia) - Zambia side	24	Lusaka, Zambia	38
Total	144	Total	169

FIGURE 1. A majority of the sampled CBT MSMEs, in the whole sample and all countries apart from Rwanda and Uganda, are female-owned.



In addition to the survey, 11 key informant interviews (KIIs) were conducted with a list of different stakeholders. Stakeholders ranged from financial service providers (FSPs), development organizations, trade and business associations and a regional secretariat. The list of KIIs can be found in the appendix.

There is a growing body of research focused on sizing and identifying the challenges faced by cross-border

traders (CBTrs) in COMESA states. This reflects increasing efforts to use CBT as a means of raising economic growth and improving livelihoods. For the secondary research analysis, the consultants evaluated at least 15 reports.⁴ These reports were used to draw insights around the profiling of CBTrs, identify their payment and financing needs, and assess the type of capacity-building support required.

A cyclist transporting agricultural produce in Busia town, Kenya/Uganda border



⁴ Note: in some cases a report reflects periodic surveys across multiple years. This means there are more than 15 reports.

THE SUPPLY-SIDE LANDSCAPE



2



This section seeks to understand the payment and trade finance solutions landscape to identify any existing gaps. This assessment was conducted to identify potential opportunities or considerations for the COMESA digital retail payment platform that may impact uptake and usage. It should be noted that CBC already conducted an extensive opportunity assessment and is captured in the **Business Model the Implementation and Operation of a Regional Digital Retail Payment Scheme report**. This supply-side landscape, therefore, served to be additive and to contextualize potential responses from MSMEs interactions discussed in Section 4 of this report.

This section provides findings from a mystery shopping exercise. Findings are split between payments and trade finance solutions. The mystery shopping focused on trade finance rather than the broader credit as trade finance is specifically designed to facilitate trade (including that across borders). Whereas the authors

were cognizant that “trade finance” serves as an umbrella term that includes a variety of financial instruments, the focus of the assessment was on the specific products that offer MSMEs funds to purchase goods or services traded across borders or that aided MSMEs to manage cash and working capital to execute the CBT.⁵

2.1

Payments

Regional payment systems

In recent years regional markets, namely East African Community (EAC) and COMESA **launched regional real-time gross settlement (RTGS) systems to spur increased intra-Africa payments**. The East African Payment System (EAPS) launched in 2013, is operational in four countries,⁶ while Regional Payment and Settlement System (REPSS) went live in 2012 and is operational in nine countries.⁷ Both EAPS and REPSS **have exhibited limited uptake to date in general, with them processing only a small share of total cross-border bank payments**. REPSS’ total value of transactions was worth USD 208 million as of December 2020.⁸ There was no reporting of EAPS total transactions. However, stakeholder engagements identified that there is limited uptake. This low uptake could be a result of multiple challenges such as poor design and implementation of the systems or limited marketing by the PSPs.

Pan-African Payment and Settlement System (PAPSS) is a centralized payment and settlement infrastructure for intra-Africa trade and commerce payments. It is being developed by the African Export-Import Bank (AFREXIMBANK). The payment system will enable instant or near-instant transfers from one African country to another. After a successful pilot in six countries in the Western African Monetary Zone, PAPSS launched commercially in January 2022.⁹

Reviews of other similar payment systems in the European Union (i.e., TARGET₂) and SADC (i.e., SADC-RTGS - formerly known as SIRESS) provide several **operational considerations that may drive usage of CBC’s retail payment platform**. These include introducing longer operating hours, possibly towards 24/7 systems; a maximum processing time for payments; standard balance of payment nomenclature, international bank account numbers, bank identifier codes and the international payment

⁵ Trade Finance Global, Trade Finance & International Trade. Available [here](#).

⁶ I.e. Kenya, Rwanda, Tanzania and Uganda.

⁷ I.e. DR Congo, Egypt, eSwatini, Kenya, Malawi, Mauritius, Rwanda, Uganda and Zambia.

⁸ COMESA Annual Report, 2020. Available [here](#).

⁹ African Union (AU), PAPSS. Available [here](#).

instruction code (IPI); base the system's cost on a cost-recovery model; interchange fee caps for participants over the long term; and regressive fees for bulk payments processing.

Because these regional payment systems have had limited uptake, they are unlikely to have caused the prices of CB payments to drop as they were intended to do. Nevertheless, the pricing of **CB payments and remittances has been largely dropping, as reported by the World Bank Group (WBG). Based on their cost of remitting USD 200 to the other countries, only Malawi did not record a decrease in cost from 2011 (16.2% of the value remitted) to 2020 (16.3% of the value remitted).**¹⁰ This drop in pricing is likely related to the proliferation of other alternatives discussed below.

Back-end payment infrastructure

Historically, the main back-end payment connectivity used for CB payments was through **SWIFT or corresponding banking networks (CBNs)**. As a few dominant global correspondent banks often led this with little competition, this resulted in various pain points such as a lack of transparency, long settlement periods, high transaction costs and limited accessibility, particularly for transactions with less liquid currencies.¹¹ The next players to join the market were **Money Transfer Operators (MTOs) such as Western Union and MoneyGram**. They either made use of CBNs or their internal systems to ensure back-end connectivity.

In more recent years, several players offering alternative back-end payment connectivity across borders/international remittance hubs emerged, in addition to the two regional payment systems. **These back-end payment connectivity players/remittance hubs enable interoperability between different payment providers, thereby increasing the possible reach.**

Four examples are provided below:

- **1. MFS Africa:** currently operational in over 30 African countries, including Kenya, Uganda, Rwanda, Zambia and Malawi. They reportedly connect over 320 million mobile money wallets enabling cross-border payments into banks, other mobile money operators (MMOs) and global merchants.¹² Key strategic partners for MFS Africa include Financial Sector Deepening Trust (FSD) Africa, Equator Capital, Visa, LUB Partners Group and Beyonic (recently purchased by MFS Africa).
- **2. TerraPay:** TerraPay aims to facilitate small value payments across borders. It is currently registered and regulated across 24 global markets. The firm is backed by the IFC, Partech and Prime Ventures (both global venture capital firms) and partners with Visa to use its network.¹³
- **3. HomeSend:** HomeSend is a joint venture between Mastercard and eServeGlobal and is operational in over 100 countries. As with the other back-end payment connectivity providers, it offers payment connectivity across borders for banks, MMOs, MTOs, merchants and clearing partners.¹⁴
- **4. Thunes:** is currently operational in 31 countries, including Kenya, Uganda, Rwanda, Zambia and Malawi. They reportedly connect over 4 billion bank accounts, 1.5 billion mobile money accounts and 1.1 billion cards. Their key strategic partner is Global eTrade Services (GeTs). GeTs is a global trade platform company that facilitates trade businesses and specializes in government-to-business (G2B) and business-to-business (B2B) CBT. GeTs has 28 customs nodes across the world, more than 176,000 connected parties and conducts more than 18 million transactions annually.¹⁵

¹⁰ WBG, Average transaction costs of sending remittances, 2020. Available [here](#).

¹¹ EY, How new entrants are redefining CB payments, 2021. Available [here](#).

¹² MFS Africa Website. Available [here](#).

¹³ TerraPay Website, Available [here](#).

¹⁴ HomeSend Website. Available [here](#).

¹⁵ Thunes, Singapore-based fintech firm - Thunes to provide payment services across ASEAN on CALISTATM, 2019. Available [here](#).

Payments use cases

Banks offer **account-to-account transfers** (SWIFT payments) as well as **card payments** made across borders. Account-to-account transfers remain the main conduit for formal large value transactions. **MTOs** offer customers the ability to either make or receive transactions either **over the counter (OTC) or from banks and mobile money accounts**. These two providers and their underlying payment value propositions remain key forms of CB payments, though they likely have limited uptake from small-scale and informal CBTs. This often relates to the high cost/fees of transacting and prudential requirements (such as requiring formal invoices for rationalizing the

purpose of the funds), particularly when transacting through a bank.

MMOs are increasingly enhancing their payment offering to include remittance and CB payments.

These are being supported either where the MMO operates in two countries or by leveraging back-end connectivity players such as MFS Africa or Western Union. These CB payments normally have low transaction limits, meaning they largely remain used for person-to-person (P2P) payments. This limits their use by CBTs whose transaction values may vary even for informal or micro providers. The table below highlights a selection of these offerings in the countries of focus.

TABLE 2: summary of different mobile money options and the countries where they allow cross-border payments.

Country sent from:	Mobile Money	Allows cross-border payments to	Transaction Limit *
Kenya	M-Pesa	Rwanda (MTN), Tanzania (Vodacom) and Uganda (MTN)	KES 70,000 (USD 601)
Kenya	Airtel Money	Malawi, Rwanda, Zambia (Airtel)	KES 70,000 (USD 601)
Malawi	Airtel Money	Zambia, Rwanda, Tanzania and Nigeria (Airtel)	MWK 750,000 (USD 907) **
Rwanda	Tigo Cash/Airtel Money	Tanzania, DRC (Airtel)	RWF 500,000 (USD 483)
Rwanda	MTN Mobile Money	Uganda, Kenya, Tanzania & Zambia (MTN)	RWF 2,000,000 (USD 1,925)
Tanzania	M-Pesa	Kenya, Uganda (MTN), Rwanda (MTN), Zambia (MTN)	KES 70,000 (USD 601)
Tanzania	Tigo Pesa	Rwanda (MTN and Airtel), Uganda (MTN and airtel), Kenya (M-Pesa)	TZS 3,000,000 (USD 1,287)
Uganda	MTN Mobile Money	Kenya (M-Pesa) and Rwanda (MTN)	UGX 7,000,000 (USD 1,972)
Uganda	Airtel Money	Kenya, Rwanda, Malawi, Zambia (Airtel)	UGX 5,000,000 (USD 1,408)
Zambia	MTN Mobile Money	Rwanda (MTN)	ZMW 20,000 (USD 1,143)**
Zambia	Airtel Money	International airtel numbers	ZMW 10,000 (USD 571)

Source: Provider websites

Note: *USD conversion as of 19 June 2022 from Oanda.com | These amounts, therefore, reflect the daily limits for local P2P transactions | ** Tiered amounts, where the ZMW 2 million is for merchants that have completed certain KYC

A variety of person-to-person (P2P) CB payment solutions operate throughout Africa, whereas business-to-business (B2B) solutions remain limited but growing. Below we highlight some examples of payment solutions offering business-to-business (B2B), person-to-business (P2B) and business-to-person (B2P) payments. To achieve this, these payment solutions allow for low to high-value payments, incorporate the ability to add invoice numbers/ relevant documentation, can integrate with enterprise software, and allow merchant connectivity.

Transfy is an example of a payment solution offering B2B payments. This is achieved by creating a wallet for a customer that can be funded either by a bank or through mobile money transfers. Funds are then paid to the recipient into their Transfy wallet, mobile money wallet or bank account. The wallet offers multiple currencies (i.e., NGN, KES, ZAR, RWF, UGX, ZMW and BWP) that can be instantly switched. It is operational in Kenya, Rwanda, Uganda, Zambia, Nigeria, Ghana, South Africa, Cameroon and Botswana.¹⁶

ClickPesa provides a B2B payment solution to companies that offer invoicing, payment, and e-commerce functionality in East Africa. It allows MSMEs to simply create a portal account that either connects with their existing bank account or creates an entirely new one. Merchants can push funds to their bank account or

mobile account. There is a KYC process that involves filling out business details and uploading identification (ID) documents. It is operational in Kenya, Rwanda, and Tanzania.¹⁷

Transfast is a global cross-border payments network provider that covers over 125 countries across Asia, Europe, Africa, the Americas, and Australia. The solution enables P2P, B2P and B2B payments services to Transfast partners via application programming interfaces (APIs), secure file transfer protocol (SFTP), web and mobile and product apps. Its clients include banks, financial institutions, e-commerce companies, service marketplaces, small businesses, and individual consumers. It is operational in Kenya, Uganda, Rwanda, Malawi, and Zambia.

PayPal operates as a payment processor for both online and in-person vendors worldwide (including across Africa). With over 400 million active customers, 30 million merchants and operating across 200 markets, PayPal offers additional services to just payments, including fraud detection, a commerce platform, integration with e-commerce platforms and business loans.¹⁸ Equity Bank of Kenya customers are currently able to withdraw funds sent to their **PayPal accounts in one day, from three days as before.** This reduction in the timelines is aimed at increasing the uptake of e-commerce.¹⁹

¹⁶ Transfy Website. Available [here](#).

¹⁷ ClickPesa Website. Available [here](#).

¹⁸ PayPal Website. Available [here](#).

¹⁹ Equity, Equity now offers one-day settlement for PayPal withdrawals, 2022. Available [here](#).

2.2

Trade finance offerings

The extension of trade finance solutions²⁰ (e.g., documentary business - letters of credit for importers or guarantees for exporters) to MSMEs continues to receive greater interest from development agencies. Institutions such as the African Development Bank (AfDB)²¹, WBG/ IFC²², AFREXIMBANK and British International – Development Finance Institution offer numerous **de-risking facilities, hard currency-denominated liquidity and technical support** to both bank and non-bank providers across the continent to extend financing to MSMEs. Whereas these efforts are welcome and often play to specific gaps, their impact to date has been mixed and unclear. The African Development Bank reported the average share of trade finance portfolio to SMEs from banks in Africa has fluctuated by around 30% from 2013 to 2019. The rejection rates of trade finance applications for MSMEs have deteriorated in recent years from 20% in 2013 to 40% in 2019, despite default rates of MSMEs being lower than overall bank lending.²³ The support has had no impact on improving the visibility of MSMEs operations to aid FSPs' due diligence or reducing the stringent FSP requirements, thereby limiting the ability of smaller or less formal MSMEs to benefit. Similarly, the operations spanning multiple parties involved in trade finance deals largely remain manual and paper-based, maintaining the prohibitive costs to provide them.²⁴

Digitization is believed to be the key opportunity to address several of these challenges. This is expected to drive the increased visibility of MSMEs operations (to aid in due diligence) and digitize FSP processes to increase the efficiency of loan dissemination. Though digitization pilots are at different stages of development, these solutions reportedly remain in digital islands or closed systems for now. Ultimately, these systems will need increased collaboration across the various players within the trade finance landscape to be effective.²⁵

AFREXIMBANK launched a **due diligence platform in July 2018 called MANSA**. The platform aims to provide a single trusted source of primary data for customer due diligence and KYC checks on African entities, including financial institutions, corporates and SMEs. In essence, this aims to be the equivalent of an international trade finance credit reference bureau (CRB). MANSA was developed to reduce the direct and indirect cost burden on FSPs on the growing reforms and enforcement of anti-money laundering and counter-financing of terrorism (AML/CFT) regulations, laws and principles.²⁶ To date, uptake and usage of the platform are not clear.

²⁰ These can be classified into three: i) **documentary business** which includes traditional on and off-balance sheet trade finance instruments such as letters of credit, international guarantees and banks' payment obligations. These are used to cover the risks inherent in CBT transactions; ii) **buyer-led finance** which enable both buyers and suppliers to optimize their working capital through programs sponsored by buyers e.g., payables financing (reverse factoring) which gives suppliers the option of receiving from a funding bank the discounted value of its outstanding invoices prior to their actual due date. These products help unlock working capital by buyers extending payment terms and suppliers who accept a discount rate are paid sooner; iii) **supplier-side finance** which includes factoring (involving the transfer of the underlying asset), receivables discounting, forfaiting and other products that address corporate sellers financing needs by anticipating the liquidity resulting from commercial transactions.

²¹ Trade Finance Program.

²² Global Trade Finance Program.

²³ AfDB, Trade Finance in Africa, 2020. Available [here](#).

²⁴ Botta, A. Tunon, A. & Jain, R., Reconciling the global trade finance ecosystem, 2021. Available [here](#) | CDC, The growing role of trade finance in African Economies' pandemic recovery, 2021. Available [here](#).

²⁵ *ibid*.

²⁶ Mansa Website, Available [here](#).

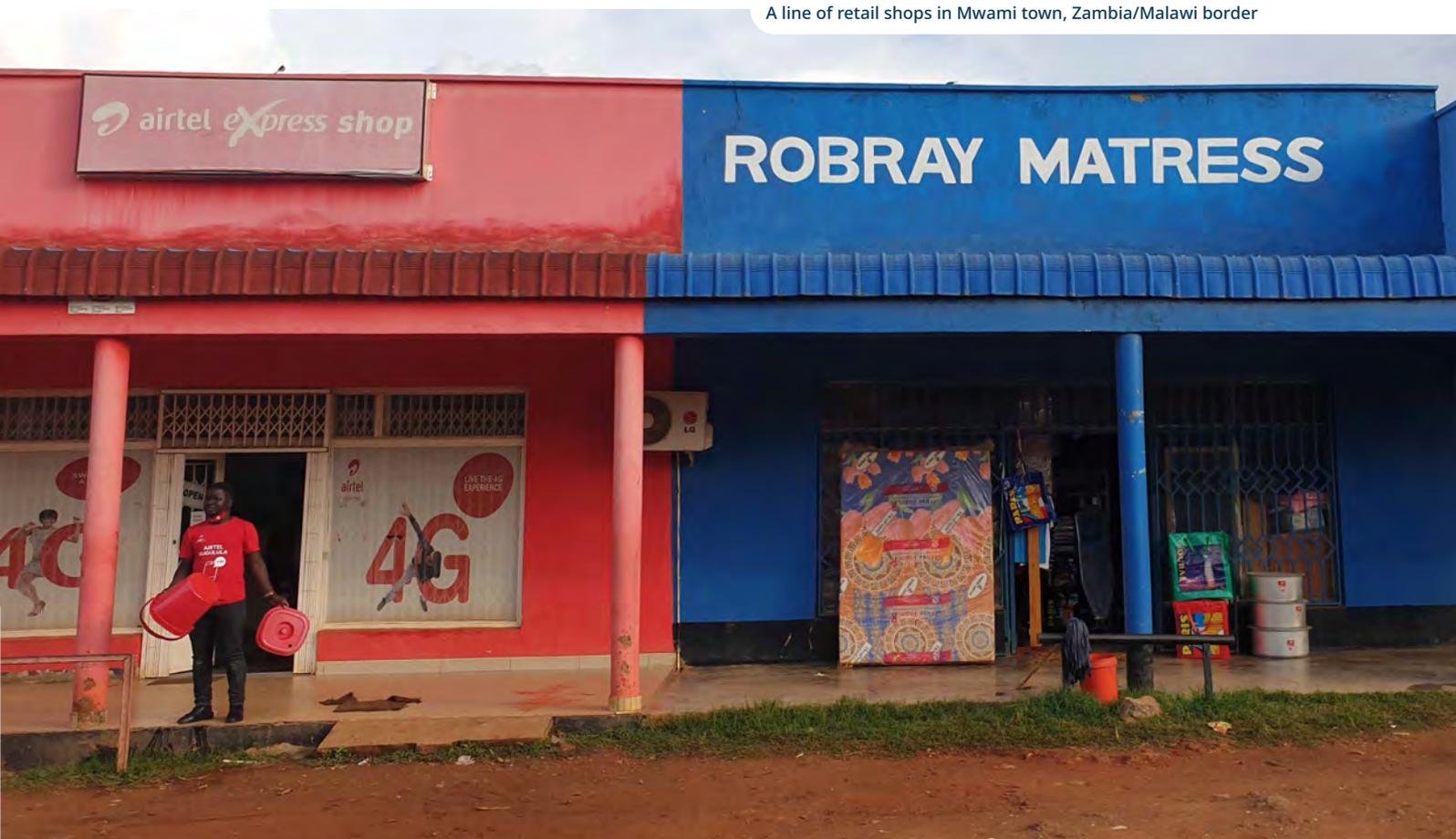
Export Credit Agencies (ECAs) are entities that provide/facilitate export credit insurance and/or outward investment insurance, which ultimately reduces the cost of financing for businesses. In the countries where ECAs operate, **ECAs often focus on insuring credit of large export companies and not MSMEs.**²⁷ This is due to only offering insurance plans/ guarantees for long-term and hard currency-denominated transactions. However, it should be noted that in Zimbabwe, the Export Credit Guarantee Corporation (ECGC) introduced a facility in partnership with banks and microfinance institutions (MFIs) to extend a working capital guarantee denominated in Zimbabwean Dollars. Due to the unpredictability of interest and exchange rate fluctuations, MSMEs were, in this case, not willing to take up the local currency-denominated guarantee, rather preferring a hard currency-denominated offering.

There are limited developments in the **trade finance space that will result in smaller scale or less formal MSMEs getting access to financing.** This

is because the visibility (i.e., from a transaction history perspective and an understanding of some of the operations of the MSMEs) remains a challenge. Many MSMEs traders conduct trade in cash, keep accounts at multiple financial institutions and keep poor records. On the other side, **FSPs' documentation requirements remain high, and FSPs run costly manual and paper-based processes** for many of their trade finance solutions.

Potential opportunities for the capacity-building of MSMEs are training cross-border traders on the value of **dedicated trade financing products** as opposed to vanilla credit offerings, and **the requirements needed to get access to said trade finance products** (e.g., purchasing from or selling to established corporations). In addition to these, an opportunity exists to direct MSMEs that meet the trade finance eligibility criteria to **bank and non-bank providers** that receive support from development agencies (e.g., guarantee schemes) that may make it easier for the MSMEs to access the financing.

A line of retail shops in Mwami town, Zambia/Malawi border



²⁷ Africa has nine national ECAs. The most recent being established in Sudan in 2005 and Ghana in 2016. 18 countries make use of the Africa Trade Insurance (ATI) based in Kenya as a kind of multilateral ECA.

²⁸ FMT, Digitisation of financial products for CBT, 2021. Available [here](#).

THE DEMAND-SIDE LANDSCAPE



3



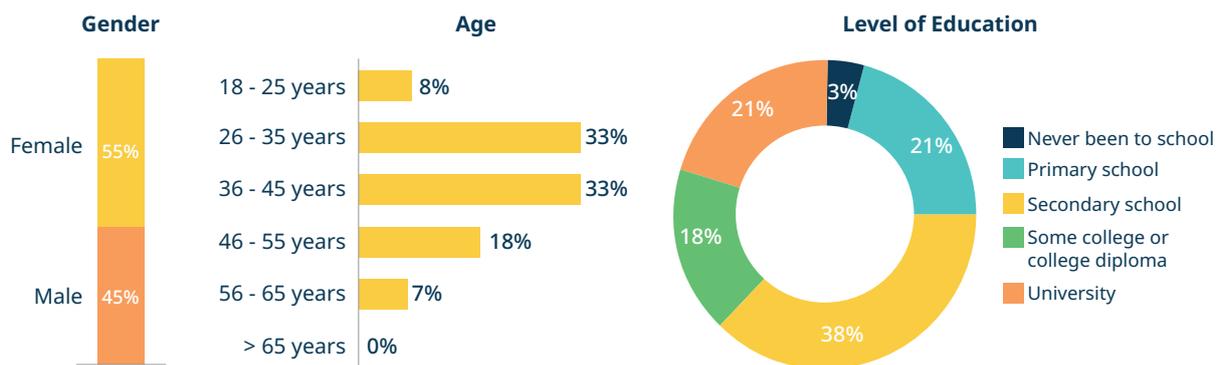
This section captures the demand-side findings of MSMEs capacity-building needs. These insights are drawn from surveys with MSMEs and secondary research.

3.1

Respondent profiles of cross-border traders

The section below highlights the general business characteristics of MSMEs involved in CBT as well as the characteristics of the CBT component of their business.

Figure 2: Most CBTs interviewed are women aged below 45 years and have at least secondary education.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

Women make up the majority of the respondent MSMEs involved in CBT, particularly at the micro and informal levels.²⁹ These traders are aged between 26 years and 55 years old. Very few MSME owners have never gone to school. **This implies that access to basic literacy and some elements of financial literacy is not typical challenges that the traders face.**

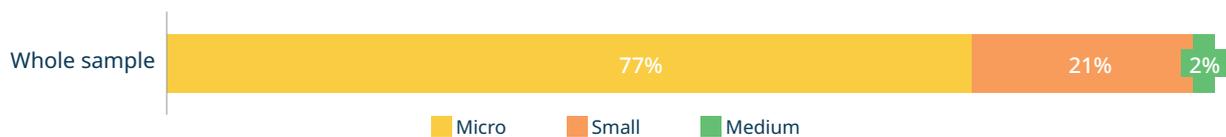
Female MSMEs owners have lower levels of education than male owners in general. Educational attainment for MSMEs owners increases as businesses become larger. **This implies that smaller sized businesses and women-led MSMEs may require additional capacity-building compared to their male counterparts.**

²⁹ IFC, Enhancing Access to Finance for East African Community (EAC) Women Cross-Border Traders: Diagnostic Study, 2020.

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Figure 3: Micro-enterprises formed the majority of sampled CBT MSMEs.



As with MSMEs in general, most of the CBT MSMEs in the sample are micro-enterprises. The ratio of micro to small to medium enterprises within the sample stood at approximately 40:10:1.³⁰ Although the survey

results show that the distribution of male-owned and female-owned MSMEs by size is almost the same, prior research shows that a larger proportion of informal and micro-scale CBT MSMEs tend to be owned by women.³¹

Women CBTs in Busia Town, Kenya/Uganda border

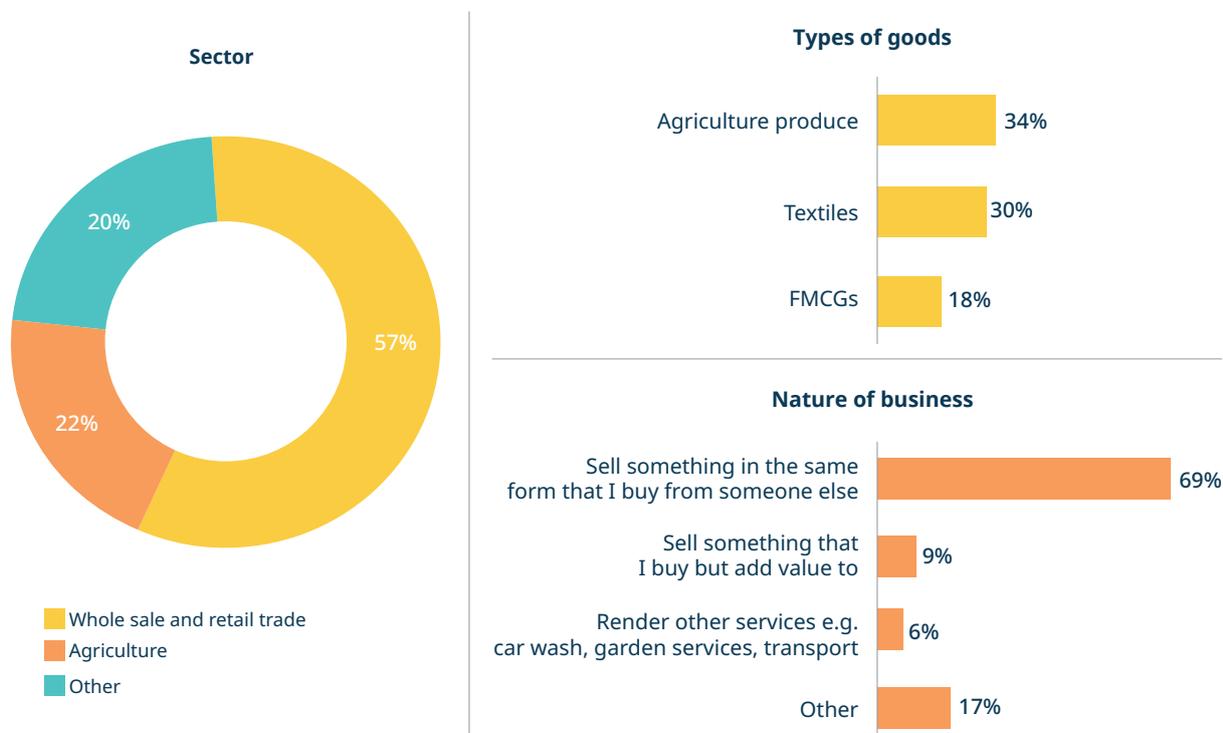


²⁹ IFC, Enhancing Access to Finance for East African Community (EAC) Women Cross-Border Traders: Diagnostic Study, 2020.

³⁰ An MSME is considered a micro enterprise if it has 0 – 4 employees, small enterprise if it has 5 – 29 employees and medium enterprise if it has 30 – 99 employees.

³¹ USAID, Women Cross-Border Traders in Southern Africa, March 2016. Available [here](#).

Figure 4: MSMEs reported trading mainly in agricultural produce, textiles and fast-moving consumable goods. They are often flexible depending on the supply and demand dynamics across countries.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

The majority of MSMEs reported operating in the wholesale and retail trade sectors. The MSMEs rarely conduct any value addition to the goods they sell and rather sell the goods in the same form as they purchase them. MSMEs reported trading mainly in agricultural produce (i.e., engaging in wholesale and retail trade of cereals, fruits and vegetables as well as poultry products), textiles and fast-moving consumable goods. They are often flexible depending on the supply and demand dynamics across the two countries. This highlights the entrepreneurial nature/acumen of MSMEs.³²

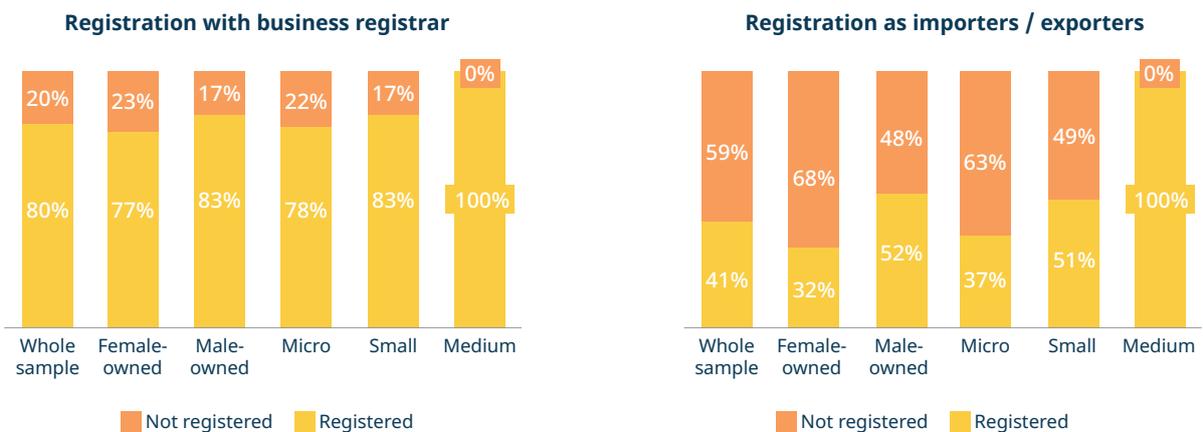
The definition of formality or informality is binary (i.e., a trader is either formal or informal). In reality, formality takes a sliding scale format that is determined by three key criteria identified below:

1. Is a business registered with the registrar of companies?
2. Is the business licensed or registered as an importer or exporter with a revenue authority? Revenue authorities have developed license categories that have less stringent requirements and lower tax charges than normal import or export licenses. These are based on the maximum value of goods traded across the border at a given time and, in some cases, do not require registration at the registrar of companies.
3. Does the business declare all goods and their full value to customs officials? This means that businesses that are registered with the registrar of companies or are licensed as importers/ exporters with a revenue authority could still trade informally if they do not declare the full details of their businesses.

According to this survey, though a vast majority of CBT MSMEs meet the first criteria, i.e., being registered with a government agency, only two in five CBT MSMEs meet the second criteria of being licensed as importers or exporters. However, it is worth noting that a higher

proportion of male-owned CBT MSMEs and small and medium-sized CBT MSMEs meet either criterion. The third criterion is harder to measure as few CBTs are comfortable disclosing how frequently and accurately they declare goods they are importing or exporting.

Figure 5: Though most CBT MSMEs are formally registered businesses, less than half are registered as importers/exporters.



Source: CBC & AfricaNenda CBTs' survey, 2022

The proportion of CBTs that are registered as importers or exporters varies considerably by gender, size and country. Women MSMEs owners were less likely to be registered than their male counterparts. The interviewed women CBTs cited limited capital, lack of registration requirements and limited knowledge of the requirements as key reasons for operating informal businesses. From a country perspective, Malawi reported the lowest levels of registration (at 15% of MSMEs surveyed) compared to Rwanda (82% of MSMEs surveyed). Larger-sized businesses are more likely to

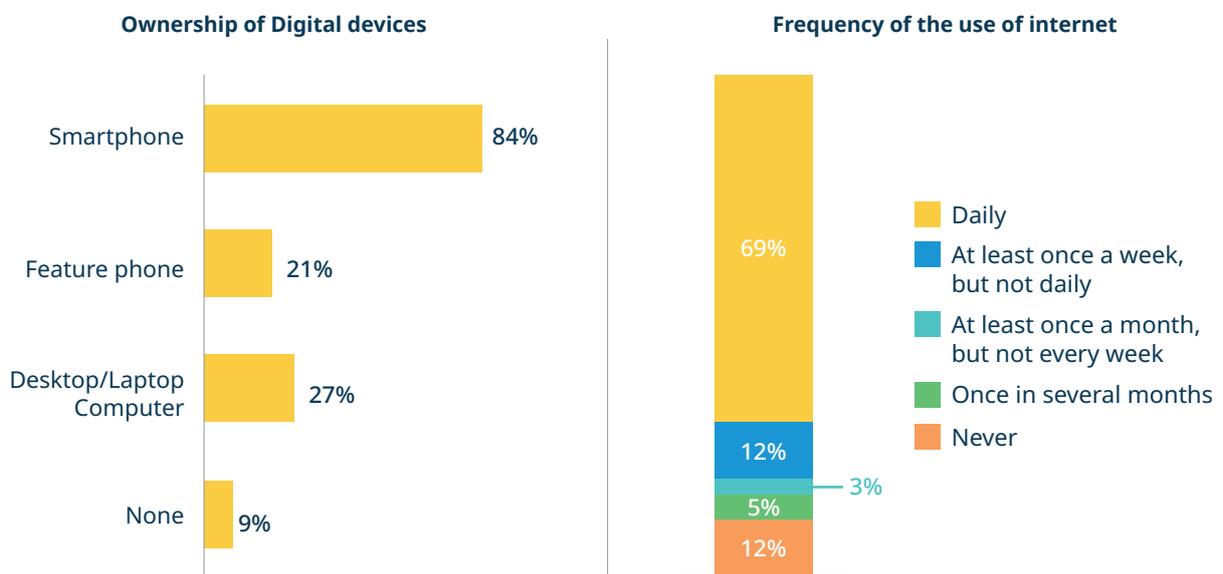
be registered across each country. **Compliance with registration and licensing requirements is a potential area for capacity building.**

Most MSMEs (73% of those surveyed) are registered with a CBT association. This registration does not differ by gender or size of business. CBT associations offer capacity-building services to their members and are **therefore potential partners through which skills development initiatives can be run.**



Some MSMEs' establishments in the Mwami town, Zambia/Malawi border

Figure 6: Daily internet usage is fairly common among CBT MSMEs. This is enabled by a high rate of smartphone ownership.

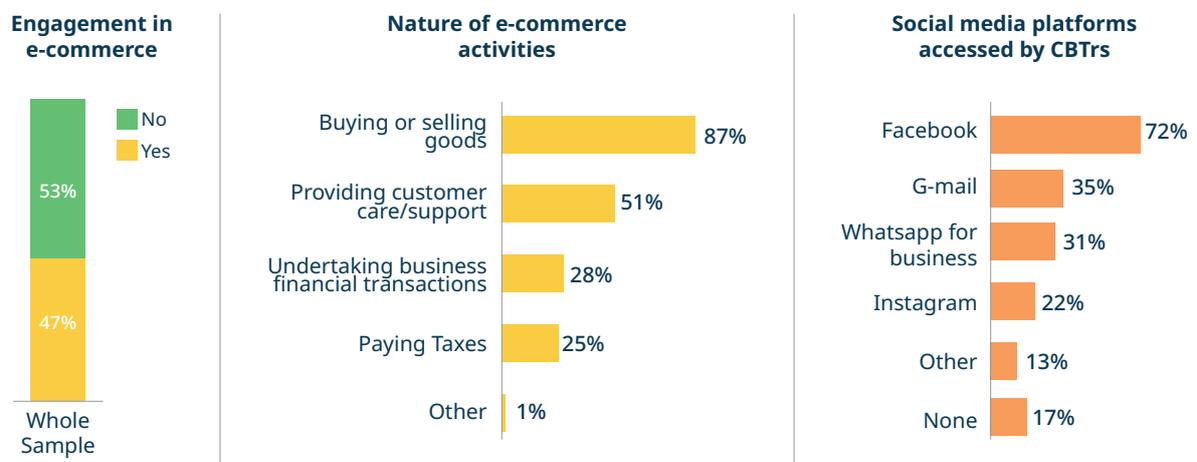


Source: CBC & AfricaNenda cross-border traders' survey, 2022

Courtesy of the high level of digital access among CBTs, slightly less than half of the sampled CBT MSMEs are involved in e-commerce. Engagement in e-commerce is higher among larger CBT MSMEs as well as those owned by men. The e-commercial activities are undertaken by CBT MSMEs related to buying or selling goods online as well as the provision

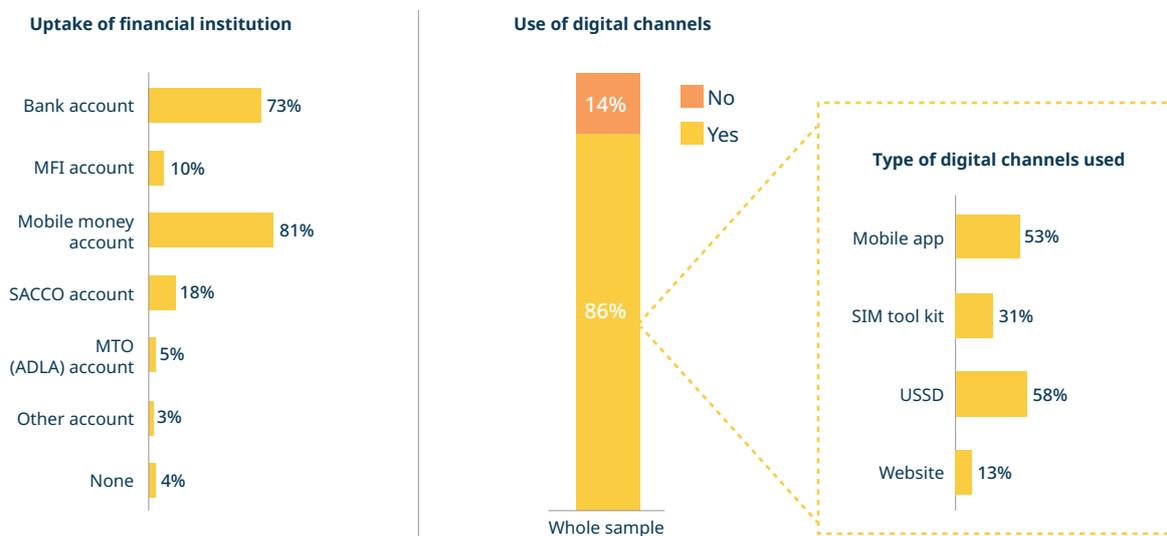
of customer support. CBT MSMEs engaged in e-commerce likely use various social media platforms to provide a catalog of their products, advertise them, and receive or place orders for goods. The most used social media platform for these purposes would likely be Facebook, given the high subscription to the platform by CBTs.

Figure 7: A high proportion of CBT MSMEs engage in e-commerce for trading goods and providing customer support. This is done through various social media platforms.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

Figure 8: Ownership of bank and mobile money accounts is high among CBTs; they opt to access these accounts through mobile-based digital channels.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

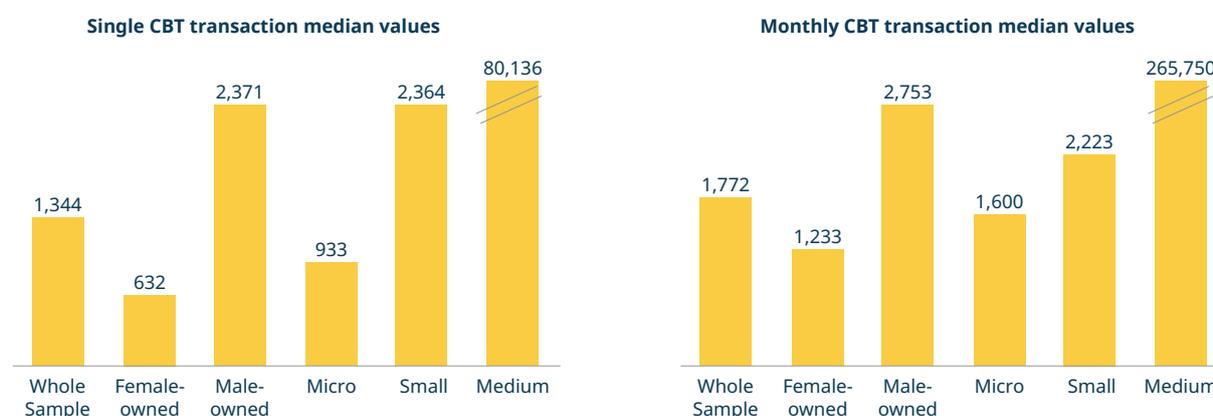
Formal financial access through bank and mobile money accounts is high among CBTs. Furthermore, up to 86% of them use digital channels, in line with high smartphone penetration rates. Usage of digital channels for micro-sized enterprises is high at 84% and rises to 100% for medium-sized enterprises. USSD and mobile apps are the most commonly used digital channels, while financial institutions' websites are the least used. **Basic financial inclusion training is therefore not required.**

Cross-border trade revenue accounts for less than half of the total revenue for 56% of the businesses involved in this survey. 44% of businesses receive over half their total revenue from CBT activities. This is consistent across female-owned and male-owned businesses. The proportion of revenue that comes from CBT increases as the size of the business increases. Half of all medium businesses receive 50% or more of their total revenue from CBT.

The median value of a single CBT transaction undertaken by the sampled CBT MSMEs is USD 1,344. As may be expected, the median value of a single transaction is higher among larger MSMEs. This value is also higher for male owned MSMEs. Given that the median frequency of CBT transactions among CBT MSMEs is monthly, the median monthly values of CBT transactions are slightly higher than the median value of a single CBT transaction. Moreover, monthly median CBT transaction values follow the same pattern across the different segments of CBT MSMEs as single CBT transaction median values.

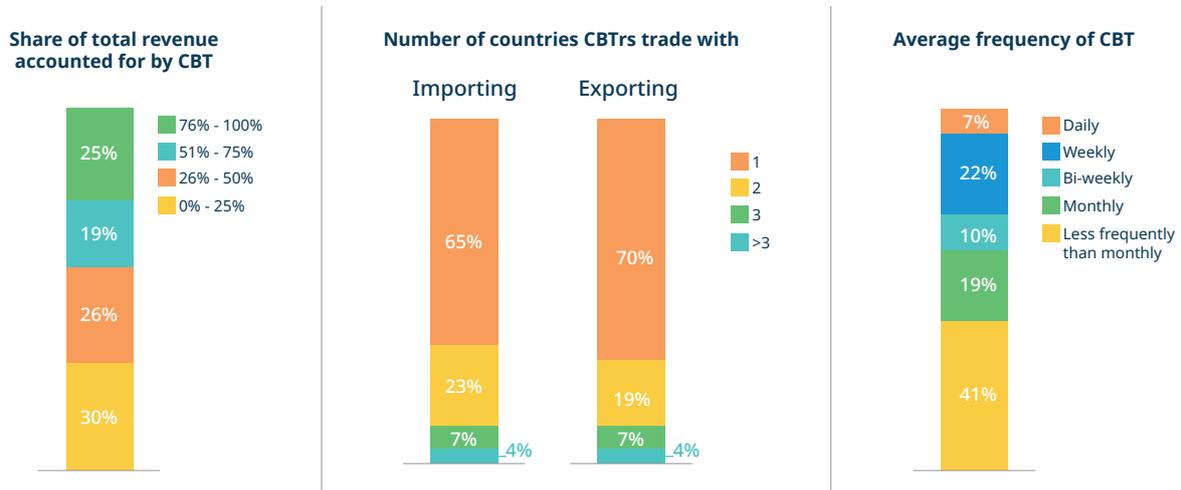
Most business trade transactions (i.e., import from or export to) are with only one country. More men traded between two countries compared to women. Medium businesses traded across more countries than small-sized businesses.

Figure 9: The median values of CBT transaction, both single transactions and total monthly transactions exceeds USD 1,000 and is higher for larger CBT MSMEs as well as those owned by men.



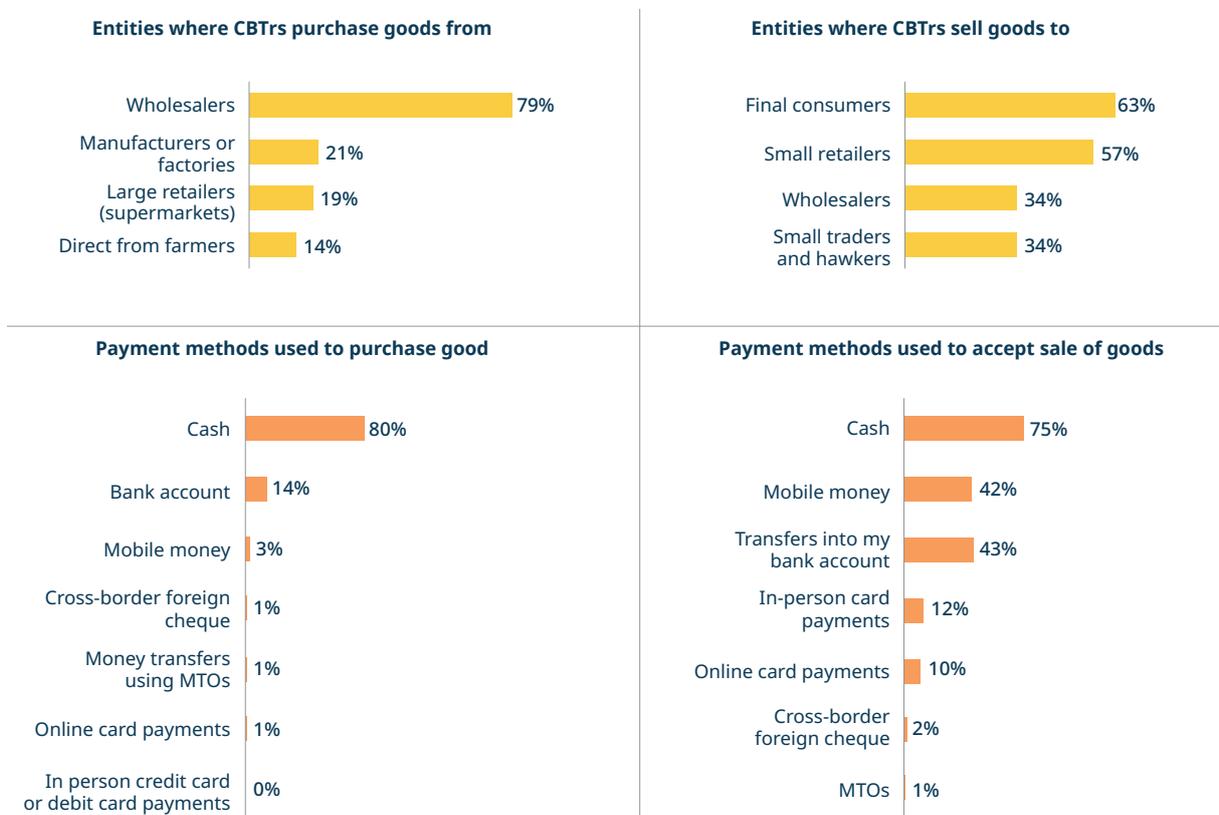
Source: CBC & AfricaNenda cross-border traders' survey, 2022

Figure 10: CBT MSMEs, on average, undertake CBT once or twice a month across one border, thereby generating slightly less than half of all their business revenues.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

Figure 11: Most CBTs predominantly conduct cash transactions when making purchases from wholesalers and when receiving payments from customers.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

MSMEs involved in CBT often purchase goods from large, formalized businesses such as wholesalers, manufacturers/factories and large retailers. Despite this, cash remains the most commonly used payment instrument to pay for these goods. The CBTs reported very low mobile money usage, despite the growing dominance of mobile money for domestic payments in sub-Saharan Africa.³³ This may result from a low level of regional interoperability for mobile money payment transactions. The larger the business, the more the use of bank account to account transfers for payments.

The main reasons reported for the use of cash include cash being more convenient, cash payments being faster than digital payments options, and being easily acceptable by suppliers and customers. These cash payment drivers reflect some of the drawbacks related to digital payments, which include long or delayed settlement periods for CB bank account to account transfers and high costs associated with making bank account and card payments. Other challenges include the low levels of interoperability of mobile money wallets across borders, perceptions that the payment values involved are too low to be made digitally and the desire to keep CB transactions hidden from tax and government authorities.

Male-owned MSMEs were more likely to accept mobile money payments compared to women. Larger businesses were more likely to conduct and accept digital payments.

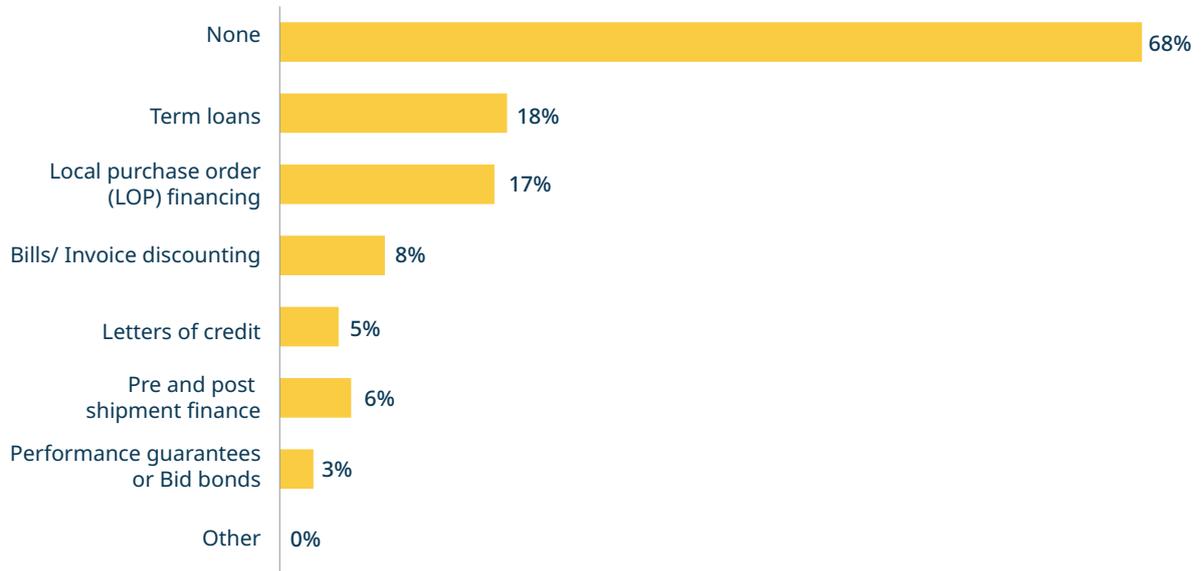
The median value of monthly transactions for these MSMEs involved in CBT was reported as USD 1,772. These large amounts suggest the potential opportunity to digitize some of these transactions.

This suggests the need for tailored retail payment solutions and some level of capacity-building to address perceptions against digital forms of making payments.

Fish Traders in Busia Town, Kenya/Uganda Border



³³ World Economic Forum. Where is mobile money being used the most?, 2021. Available [here](#).

Figure 12: Uptake of trade finance solutions remain limited.

Source: CBC and AfricaNenda cross-border traders' survey, 2022

There is a very low uptake or usage of trade finance solutions in the last 12 months among the respondent CBTrs. Women reported using more trade finance solutions than men in this survey. This is due to the fact that men have more options for raising capital and have larger business networks than women.

Where there is access to finance, term loans and local purchase order (LPO) financing are the commonly available options. This suggests **the need for capacity-building for MSMEs to understand the type of trade finance solutions that can support their operations.**

3.2

Key MSMEs cross-border trader financial challenges

This section of the report highlights the key financial challenges affecting MSMEs in the assessed COMESA countries. In addition, there is an analysis of which of these challenges can be addressed by the capacity-building initiative of the COMESA Business Council.

MSMEs key financial challenges are as follows:

- **1. Lack of designated low-cost digital payment solutions for CBT.** Digital payment transactions through banks and forex bureaus are expensive, while mobile money transactions have some restrictions, i.e., transaction limits and are not seamless due to limited mobile wallet interoperability.³⁴ However, CBTs at the Kenya and Uganda border have reported the growing usage of mobile money for CB payments from an identified coping mechanism. This is where customers, MSMEs suppliers and traders sign-up for mobile money with multiple providers with coverage at the border towns and can therefore easily make payments within mobile money networks, depending on the recipients' service providers.

Capacity-building suitability: The proposed COMESA digital retail payment platform seeks to enable Payment Service Providers (PSPs) to develop, deploy and reprice CB payment-related services. The most important axis of training will fall on the providers of the retail payment products. Training could be administered in conjunction with participating PSPs to drive the acceptability of digital payments.

- **2. Challenges in accessing foreign currency, especially** in countries with foreign exchange controls in place. This is a challenge in Zimbabwe with the reintroduction of the Zimbabwe Dollar and Ethiopia, where businesses must make applications

to the National Bank of Ethiopia (NBE) to access hard foreign currencies. In addition to mere access, these countries can often be subject to large and unpredictable fluctuations in exchange rates making goods more expensive (to purchase) or cheaper (when selling), thereby eroding traders' incomes.

Capacity-building suitability: A general training program on CB trading would need to highlight how businesses can protect against currency fluctuations through the use of a reference currency (such as USD) and the danger of speculating on a specific currency movement.

- **3. MSMEs often lack access to adequate trade finance solutions** and are therefore required to make payment of goods and services upfront. Conversely, their consumers may often take longer to pay for the goods and services after delivery, suggesting the CBTs bear the working capital burden from their finances. Where traders borrow, this is in the form of vanilla financing products (e.g., from MMOs, Fintechs, and savings and credit cooperatives organizations - SACCOs), but these transactions do not reflect their specific trading cycles. Collectively these impact MSMEs' profitability and operational sustainability.³⁵

Capacity-building suitability: This is likely a result of limited interest from FSPs in offering solutions to the MSMEs due to the costly process involved in the administration of trade finance solutions or the deferred settlement in the case of traditional FSPs like banks. For MSMEs to take advantage of free trade areas and CBT, development partners need to support FSPs/Fintechs to develop next-generation inclusive trade finance solutions.

³⁴ FMT, Digitisation of financial products for CBT, 2021. Available [here](#)

³⁵ USAID, Women CBT in Southern Africa, 2016. Available [here](#).

- **4. Predominant cash transactions.** This can often be the case even when traders have access to formal digital financial services. This inhibits the ability of traders to develop transactional records and exposes traders to the risk of theft as they cross borders.³⁶

Capacity-building suitability: This can be addressed through the planned COMESA digital retail payment platform and existing forms of digital payments. Highlighting the advantages of digital payment options should be part of any general training program for MSMEs in CBT.

Export Credit Agencies (ECAs) are entities that provide/ facilitate export credit insurance and/ or outward investment insurance, which ultimately reduces the cost of financing for businesses. In the countries where ECAs operate, ECAs often focus on insuring credit of large export companies, **not MSMEs**. This is as a result of only offering insurance plans/guarantees for long-term and hard currency-denominated transactions.

Capacity-building suitability: There is a lack of product availability rather than an opportunity for capacity-building.

- **5. Low uptake of formal insurance products by CBTs, e.g., for goods in transit, money in transit, commercial vehicle insurance etc., despite there being a need for this.** These products are also often designed for medium and larger enterprises. Similarly, low uptake is likely also a result of the affordability of such products and limited knowledge around them.

Capacity-building suitability: This is first an issue around a lack of tailored or embedded insurance products suited to MSME needs. Once there are available products, there would be a need for training on the importance or value of insurance and identification of potential providers MSMEs may use.

- **6. Challenges experienced with available digital payment options.** These challenges include unreliable FSPs' platforms and channels caused by high downtimes, unaffordable data and unfriendly digital channel interfaces. Collectively these limit uptake and usage.

Capacity-building suitability: No capacity-building opportunity exists here for the CBTs' training. This will depend on what the DFS providers offer.



A cyclist transporting agricultural produce in Busia town, Kenya/Uganda border

³⁶ Africa has nine national ECAs. The most recent being established in Sudan in 2005 and Ghana in 2016. 18 countries make use of the Africa Trade Insurance (ATI) based in Kenya as a kind of multilateral ECA.

3.3

Key MSMEs cross-border trader non-financial challenges

This section of the report highlights the key non-financial challenges faced by MSMEs involved in CBT.

The identified non-financial challenges faced by MSMEs are as follows:

- **1. MSMEs, in general, face barriers to business formalization.** Several reasons were cited for this, including insufficient funds to register the businesses to formalize them, being unclear about the processes of business registration, lacking key documentation as required or understanding of the benefits of formal businesses.

Capacity-building suitability: Training can be offered to address this.

- **2. Trade facilitation (i.e., the procedures and controls that govern the movement of goods across national borders) is generally a lengthy, complicated and costly process for MSMEs.** This often translates to long queues and waiting at borders, which could ruin perishable agricultural goods. MSMEs often lack the documentation required by revenue authorities or customs officials.³⁷

Capacity-building suitability: Whereas some MSMEs may benefit from capacity building to understand the different processes or documentation requirements, the key challenges with the trade facilitation process cannot be addressed from the capacity building as described.

- **3. Poor infrastructure and lack of adequate border facilities.** Despite continued efforts by COMESA and member states to deploy simplified trade regimes (STRs), one-stop border posts

(OSBPs), and national trade strategies and policies to drive increased intra-Africa trade, countries continue to face poor infrastructure and lack of adequate border facilities. This likely impacts smaller border crossings between countries. Examples of such gaps include:

- a. **Poor public and private transportation systems** restrict mobility and prevent traders from reaching more distant areas that could potentially be more profitable.
- b. **Poor network infrastructure and cellular coverage** make it difficult for traders to communicate with their clients, suppliers or transporters. At some border crossings, there are additional functional and institutional challenges such as the use of manual customs clearance processes, malfunctioning electronic systems and network failures due to electricity shortages. This translates to traders spending more time than is needed at border crossings.
- c. **A lack of facilities such as standardized warehousing and storage facilities or toilets and inspection rooms.** This affects traders' ability to trade perishable goods and their hygiene and safety at border posts.³⁸

Capacity-building suitability: These challenges cannot be addressed by capacity-building.

³⁷ USAID, Women CBT in Southern Africa, 2016. Available [here](#) | UNCTAD, Borderline: Women in ICBT in Malawi, the United Republic of Tanzania and Zambia. Available [here](#) | CUTS African Resource Center, ICBT in EAC Implications for regional integration and development. Available [here](#).

³⁸ UNCTAD, Borderline: Women in ICBT in Malawi, the United Republic of Tanzania and Zambia. Available [here](#).

● **4. Traders face harassment and physical assault by some rogue administration officers at border posts and informal border crossings.**

These corrupt practices may be conducted by immigration officers, revenue authority officials, the police and other public service officers at borders. In addition, other actors in positions of authority, such as money changers and transport operators, have also been reported to be perpetrators. Women who generally spend longer hours clearing their commodities at the border due to prolonged inspections are key targets. Inadequate infrastructure and long waiting times where women are required to stay at the border overnight also raise the risks of sexual violence. Local traders with limited knowledge of customs procedures are most vulnerable to corrupt law enforcement officers.

Women face additional social insecurities that are patriarchal. As women are often responsible for child caretaking, traders often travel to border posts with their children. These children are constantly exposed to harsh weather conditions, poor hygiene and in some cases, female children are also required to fulfill sexual favors. Married women traders also reported their harassment by their husbands from taking their earnings made from trade.³⁹

Capacity-building suitability: Training on the correct procedures will reduce the vulnerability of some traders but will only partially resolve this challenge.

● **5. Political shocks have a significant impact on MSME trader operations.**

Examples include political rows between Rwanda and Burundi in 2017 and Rwanda and Uganda in 2018 that halted trade across the countries. The border was only opened in February 2022, with traffic reportedly still very slow by the time of writing of this report.

Capacity-building suitability: These challenges cannot be addressed by capacity-building.

● **6. As with other MSMEs, CBTs face limited knowledge of entrepreneurship and business management skills.** This impacts their ability to run and scale their operations.

Capacity-building suitability: Training can be offered to address this.

● **7. Traders, particularly women, reported having limited access to market information and communication technology.**

In East Africa, the growing usage of cell phones has, however, increased the ability of traders to access real-time information regarding up-to-date market prices and the most in-demand products. In addition, organizations such as Sauti East Africa operating in Kenya, Rwanda, Tanzania, and Uganda have further developed market information platforms for traders. Through either SMS, USSD or WhatsApp, traders can get information on topics such as prevailing market prices, COVID-19 updates, prevailing exchange rates, agricultural information and support services, trade and tax information, among others.

Capacity-building suitability: Training can be offered to address this.

● **8. Digital access levels vary significantly across MSMEs in COMESA member states.**

Lack of access can be a result of several challenges, such as lack of access to devices (e.g., smartphones or laptops), limited internet connectivity, or lack of sufficient knowledge.

Capacity-building suitability: Training can be offered to address the lack of knowledge but is not suited to address the other challenges impacting MSMEs.

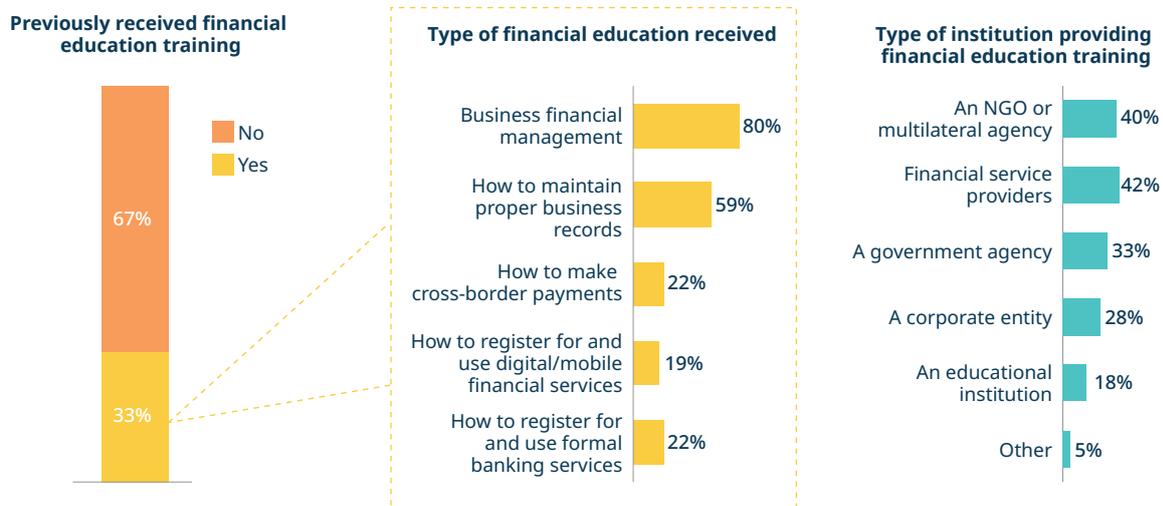


A queue of trailers in Busia Town, Kenya/Uganda border

3.4

The status of existing capacity-building programs and need areas

Figure 13: Less than a quarter of the interviewed enterprise owners have received some form of capacity-building services.



Source: CBC & AfricaNenda cross-border traders' survey, 2022

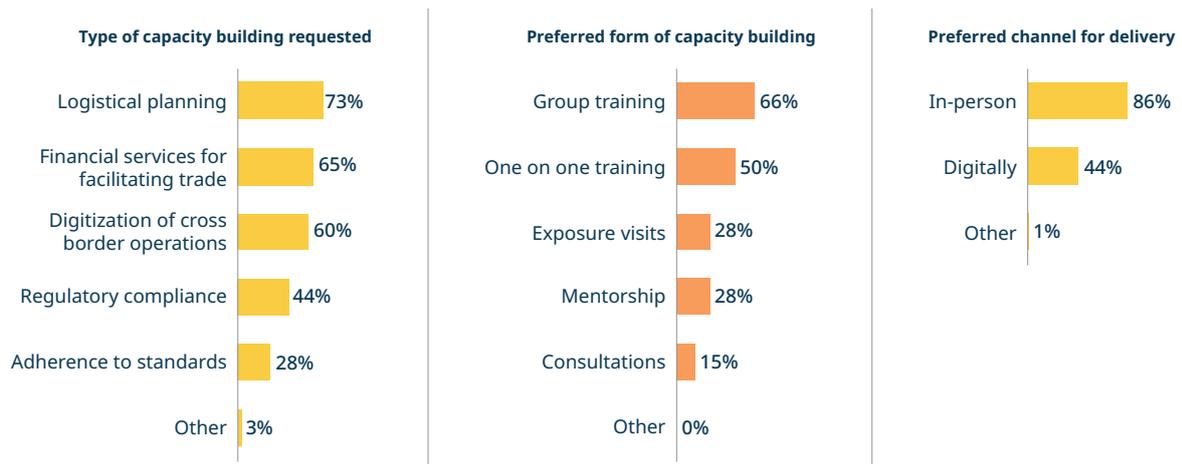
Only 33% of CBTs have received some form of capacity-building services. Small and medium-sized enterprises received more training than other types of businesses. These capacity-building initiatives focused on business financial management and how to maintain proper business records. Only 19% of CBTs that have benefited from the capacity-building have received training in the registration for and use of digital/mobile financial services.

The financial education training was largely administered through in-person workshops. Over 90% of CBTs receiving the training found it either very

effective or fairly effective. For the few that found the training less effective, their key grievances related to the content being difficult to understand, the content lacking relevance to their type of business, and the mode of delivery not being suited to them.

Several entities have been responsible for providing capacity building to MSMEs. These include NGOs, FSPs, government agencies, corporate entities and educational institutions. A few CBTs have also received training through cross-border trade associations and specifically women cross-border trade associations. An example of this is the Busia Women's Association.

Figure 14: Logistical planning, financial services for facilitating trade and digitization of cross-border operations, are the highly requested topics for the MSMEs capacity-building exercise.



Source: CBC/AfricaNenda cross-border traders' survey, 2022

The three main areas that the CBTs would like to receive training on are logistical planning, financial services for facilitating trade and digitization of cross-border operations. Less than half would like to receive training on regulatory compliance and adherence to standards. This is consistent across female-owned, male-owned and micro businesses. However, a higher proportion of medium businesses would like training on digitization of cross-border operations than small and micro-businesses.

Traders would like to receive capacity-building in the form of group training (66%) and one-on-one training (50%). 86% of the CBTs would prefer the training to

be in person and only 44% would prefer that the training is digital. A smaller proportion of women were interested in receiving training digitally compared to all other segments of traders.

The most preferred digital channel for training is small group/one-on-one video calls on messaging apps, preferred by 52% of CBTs who are open to receiving training digitally. 46% of traders that prefer digital channels for training would like training delivery through video calls/webinars on platforms such as Zoom. Many medium businesses would prefer video calls and written content shared digitally.

RECOMMENDATIONS



4





Cereals trader in Busia Town, Kenya/Uganda Border

4.1

Innovation in cross-border payments

Cash continues to dominate CBTs' payments and receipts among micro and small CBTs and female-owned MSMEs. This is despite the high average values of these transactions and the high ownership rates of mobile money and bank accounts among traders.

Cash payments are driven by the speed and ease with which such payments are settled, and the perception among CBTs that their payments are too small to be affected electronically or digitally. This has resulted in a strong preference and insistence on cash payments by suppliers and traders' customers.

The preference for cash payments is also due to a lack of suitable products that meet the cross-border payment needs of CBTs. This is confirmed by the 28% of respondent CBTs that cite the absence of a designated low-cost digital payment service as a

financial challenge they face in cross-border payments. Additionally, service gaps of 'FSPs' websites/apps/USDD platforms are the most common challenge CBTs face regarding making CB payments digitally.

The three regional payment systems have yet to attain meaningful scale in the markets they operate in. Similarly, even though a growing number of payment solutions are coming to market, many are closed-loop, severely limiting the size of their actual and potential user network. This, therefore, limits their uptake among CBTs. Traditional bank and MTO solutions are costly, especially relative to the value of payments transacted by CBTs. Although many traders have mobile money accounts, regional interoperability though growing, remains limited, and transaction limits remain inhibitive for CBTs.

The key solution to driving the adoption of digital payments for CB transactions is **inclusive product development and innovation in CB payments**. This development of relevant and accessible payment products is the leading factor to drive digitization of domestic low-value high-volume payments in sub-Saharan Africa. CBC is currently embarking on the development of a digital retail payment system to provide back-end connectivity, which will allow FSPs to innovate in the design of payment solutions. It is important, however, for the design of the digital payment solutions to consider the following based on the characteristics of CBTrs.

- i. Cross-border transactions are relatively high in value per transaction vis-à-vis typical domestic person-to-person transactions. CBC's cross-border digital payments solution rules should therefore allow for higher-value transaction limits. There needs to be additional research to determine the extent of monthly limits for transactions to appropriately consider market dynamics and promote the adoption of digital payments by CBTrs.
- ii. Encouragingly, this survey indicates that most CBTrs have access to/ use a smartphone, and thus financial institutions and Fintechs can design app-based solutions. However, these institutions should be cautious of the cost of data and consider design alternatives, e.g., providing offline applications that allow users to access mobile apps without the Internet.

- iii. The digital payment solutions should be interoperable between all payment service providers domestically and across borders. This is because more than 80% of CBTrs have mobile money accounts, and more than 70% of CBTrs have bank accounts. The interoperability of mobile money and bank accounts increases the size of the network of potential and actual users of the platform.
- iv. Payment solutions could facilitate the sharing (with permissions) of customer transaction records to encourage the design of trade finance and general credit products for the CBTrs.
- v. The digital payment solutions should also enable easy identification of payees and payers, using various modes of identification, including names or appropriate aliases, phone numbers, I.D./Passport numbers or merchant numbers. This will increase the ease and convenience of making digital payments, even across borders.

The transaction cost on the digital platform should be as low as possible as digital payments need to be competitive relative to cash and other payment instruments. More demand-side research is required on the willingness and ability to pay by various stakeholders, as well as supply-side research on appropriate pricing strategies within the financial institutions and payments services providers.

4.2

Training on digital payments usage

If, as the research shows, the main obstacle to the use of cross-border digital financial services is the availability of appropriate products, industry collaboration with service providers in developing new products with associated training has strong potential to close the usage gap. Tailored methods would need to be explored, from providing in-person training

sessions to the dissemination of written content digitally or on print media as well as the dissemination of audio-visual content digitally. Additional training of CBTrs in the form of short workshops in border towns can be undertaken in conjunction with the FSPs that are linked to the platform.

4.3

Recommendations for designing capacity-building programs for MSMEs cross-border traders

The results of the survey of CBTs reveal that they are similar to most MSMEs and vary by size of business as well as gender. Micro businesses and, in several cases, female business owners, face more challenges (e.g., concerning financial literacy, digital skills, etc.) than

other businesses. This suggests the need to provide additional training to these segments. The sections below outline how CBC's capacity-building programs should be structured and delivered to ensure relevance among CBTs and high-efficiency levels for CBC.

Recommendations on the capacity-building curriculum

- i. **The training curriculum should be tailored towards different MSME segments/profiles.** Different segments of CBTs have varying levels of usage of financial products and services and hence knowledge of the same. Distinct training sessions/forums must be arranged for the different segments of CBTs to enable a focus on pertinent/relevant issues within the training
- ii. **The training curriculum should include the following financial education-related topics for each CBT segment.**

Financial education topics	Target segments/profiles	Rationale
<p>Basics of financial management:</p> <ul style="list-style-type: none"> • Bookkeeping and basic accounting • Management of revenues using financial account products • How to open and use financial accounts 	<p>Micro-enterprises, including individual CBTs, farmers/farmers' associations engaged in CBT, female CBTs.</p>	<p>Over 20% of micro and female-owned cross-border trade MSMEs do not keep financial records and 5% + have no financial account.</p>
<p>Using digital banking channels effectively and safely</p> <p>CBTs should be educated about the financial services they can access through digital channels and the basic steps to access those financial services digitally.</p>	<p>Micro-enterprises, including individual CBTs, farmers/farmers' associations engaged in CBT, female CBTs.</p>	<p>15% + of female-owned and micro-enterprises do not use digital channels.</p>
<p>Accessing and using trade finance products</p> <p>CBTs should be educated on the type of trade finance products available in their markets, how/when they are used and how to apply for them.</p>	<p>All cross-border trade MSME segments</p>	<p>Access/use of trade finance products is low among all cross-border trade MSME segments.</p>

- iii. **The training curriculum should include the following digital access and usage-related topics for each CBTr segment.**

Digital access/usage topics	Target segments/profiles	Rationale
<p>Basic digital skills</p> <p>These would include using a laptop/PC, how to browse on various digital devices, among others.</p>	<p>Micro-enterprises, including individual CBTrs, farmers/farmers' associations engaged in CBT, female CBTrs.</p>	<p>Lack of adequate digital skills ranked high among these segments as a challenge to digital access/use .</p>
<p>Internet data management skills</p> <p>This topic would seek to educate training participants on how to choose data plans effectively and budget for internet network costs within the costs of goods/services sold.</p>	<p>Micro enterprises, including individual CBTrs, farmers/farmers' associations engaged in CBT, female CBTrs.</p>	<p>Access to a reliable network was reported to be a considerable challenge amongst the sample micro CBTrs.</p>
<p>Digitizing cross-border trade business operations</p> <p>This topic would seek to educate training participants on the details of and methods of digital cross-border trade operations. This should include customs declaration and digital payment processes for all COMESA countries.</p>	<p>All cross-border trade MSME segments</p>	<p>Lack of knowledge on available platforms to aid cross-border trade was the leading digital usage challenge among all CBTr segments.</p>

- iv. **The training curriculum should include the following areas on the non-financial aspects of cross-border trade operations.**

Non-financial cross-border trade operations topics	Target segments/profiles	Rationale
<p>Managing the transport and storage logistics associated with CBT</p> <p>This topic would be focused on educating training participants on how best to manage the transportation of goods across borders and minimize the associated time and costs.</p>	<p>All cross-border trade MSME segments</p>	<p>Logistics planning was the most cited topic that CBTrs would like training on.</p>
<p>Regulatory compliance and adherence to standards</p> <p>This would involve training on the relevant import/ export laws, including the minimum standards and standards certifications for imported goods in all COMESA countries, other standards like Hazard Analysis Critical Control Point (HACCP) on food safety, etc.</p>	<p>All cross-border trade MSME segments</p>	<p>Regulatory compliance and adherence to standards were cited by more than 25% of CBTrs as topics for training.</p>

The multifaceted nature of the capacity-building program outlined above is important to maximize the relevance of the training to MSMEs and hence their interest and willingness to participate. This is because CBTs (owners and managers) often take up an active role in the management and operations of the business. The training programs must therefore be worthwhile for the CBTs to set time away from running their businesses.

- v. **The benefits of using digital financial services to effect CB payments should be central to the training curriculum for financial behavior change to be realized.** Cash payments in CB transactions are prevalent and are borne out of the preference for and insistence on cash usage by parties in the transaction. Cash as a payment instrument has a strong appeal to parties in a transaction for its ease and speed of settlement and lack of traceability. However, cash CB payments are also fraught with many risks and inconveniences that are addressed by digital payments in conjunction with streamlined foreign exchange. Moreover, the perceived disadvantages of CB digital payments, such as cost and delays in the settlement, also drive the preference for cash payments. The training program must ensure CBTs understand the risks arising from using cash for CB payments and learn about specific CB digital payment products whose benefits outweigh those of cash.

Mode of training

- i. **Training sessions should incorporate in-person group training.** This was selected as the most preferred mode and channel of training by most CBT segments, which will involve significant coordination and planning. For in-person training sessions, the training must not span too many days as this raises the risk of attrition of the training participants. The in-person training sessions must, therefore, focus on core topics to reduce the required time for training.
- ii. **Follow-up one-on-one or group sessions can be done digitally.** The in-person group training sessions provide an opportunity to collect training participants' contact details for digital follow-up. Participants could be grouped according to locality and gathered on social media platforms (e.g., WhatsApp). The effectiveness of this channel for follow-ups is underpinned by the fact that the majority of CBTs own a smartphone and therefore have access to messaging apps, as well as the fact that small group/one-on-one video calls on messaging apps were the most preferred digital channels for training.
- iii. **Written training content and pre-recorded videos shared on social media can also be used to reinforce training received in training sessions as well as extend the reach of the training to CBTs.** This channel may not be the most suitable for initial training, given that only 25% - 30% of CBTs who are open to digital training prefer this mode. However, it can be used to disseminate additional material on the contents of the in-person training to reinforce the initial training received by participating CBTs, and to keep them up to date with the evolutions in digital financial services and trade regulations.

Potential implementation partners

- i. **The COMESA infrastructure of trade information desk officers can be used to mobilize CBTrs to attend the training sessions.** COMESA already has a network of trade information desk officers sitting at various border posts across the COMESA region. In partnership with the COMESA secretariat, CBC can use these trade information desk officers to inform CBTrs about the capacity-building programs and invite them to participate.
- ii. **Associations of CBTrs and farmer organizations can also be utilized to mobilize CBTrs to attend the training sessions.** Partnerships with CBTr associations and farmer organizations are likely to be mutually beneficial for both parties due to the alignment between the training program and the mandate of the CBTr associations/farmer organizations to their members. 70% of sampled CBTrs who were members of associations reported that a benefit they receive out of their membership of the associations is training on the correct procedures to transport goods across the border. Therefore, it is clear from both the survey and from the stakeholder interviews conducted that capacity building is a mandate of CBTr associations and farmer organizations. However, CBTr associations alone will not be enough to reach a majority of CBTrs since less than 30% of CBTrs are members of associations.
- iii. **CBC can leverage NGOs' current or recent training programs and databases of CBTrs.** Several NGOs have conducted capacity-building initiatives targeted at CBTrs in the recent past. Examples of these are TradeMark East Africa, Rwanda Office, which conducted training programs among women CBTrs and GIZ Malawi, which has been running a capacity-building program with members of farmer organizations in rural Malawi. Partnerships with NGOs that have capacity building experience among CBTrs could accelerate the roll-out of CBC's capacity-building initiatives as most of the groundwork will have been done. Moreover, as part of a regional body with the mandate of promoting economic integration and trade, CBC will likely benefit from open partnership postures from the relevant NGOs. TradeMark East Africa Rwanda has already shown interest and willingness to partner with CBC on a capacity-building initiative.
- iv. **CBC can partner with FSPs to develop components of the training curriculum that covers financial education/literacy and digital payments for cross-border transactions as well as facilitating the sessions about these topics.** Such a partnership could be beneficial to FSPs by providing them with an avenue to increase market penetration among CBTrs and provide brand visibility via corporate social responsibility (CSR) activities.

APPENDIX

Summary of KII respondents

Stakeholder	Category	Individual
I&M Bank Rwanda	Financial service provider (FSP)	Christian Abijuru - Head of Business Banking
Bank of Kigali	Financial service provider (FSP)	Darius Mukunzi - Head of SMEs
TradeMark East Africa	Development organization	Patience Mutesi - Country Head
Cross-border Traders Association of Malawi	Traders and business association	Steve Yohane - Chairman
Imbaraga	Traders and business association	Joseph Gafaranga - Chairman
Private sector Foundation Uganda (PSFU)	Traders and business association	Ronny Mulongo - Manager Private sector development
Cross-border Traders Association of Zambia	Traders and business association	Tonny Nguni - Project officer
Malawi Investment and Trade Center	Traders and business association	Maurice Nyemba - Trade Economist
Rural Market Development Trust (RUMARK) Malawi	Traders and business association	Racheal Banda - M&E Officer
Trade and Development Bank	Development organization	Mwaya Siwale - Head of Trade Finance
COMESA	Regional Secretariat	Washington Ndenda - Trade Information Desk Officer

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