

USE OF CROSS-BORDER DIGITAL PAYMENTS IN THE COMESA REGION

AUGUST 2022

Understanding
the training needs
of MSMEs

KEY HIGHLIGHTS

To facilitate the adoption of cross-border digital payments by micro, small and medium enterprises (MSMEs) in the COMESA region, AfricaNenda, in collaboration with the COMESA Business Council (CBC) and the United Nations Economic Commission for Africa (UNECA), carried out a market research in order to assess the key challenges faced. This summary report captures insights into the needs of MSMEs involved in cross-border trade.

The findings will inform training content design to strengthen MSMEs' capacity in using digital financial services for cross-border trade.

1

Methodology

The team used a mixed-methods approach that combines both a bottom-up and top-down analysis.

Bottom-up analysis



301'
MSMEs' owners



50%
female-owned

active in cross-border trade surveyed
in 5 countries:



Kenya



Uganda



Malawi



Zambia



Rwanda

11

key informants
interviewed



Financial services providers



Development organizations



Trade & business associations

Top-down analysis

Desk
research



15
publications

highlighting the challenges
cross-border traders faced in COMESA
member states.

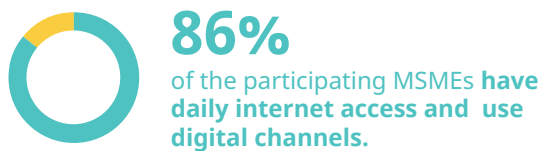
¹ The research consisted of a survey of 313 MSMEs. However, 12 participants were removed because they did not meet at least one of the sampling criteria.

2

Findings

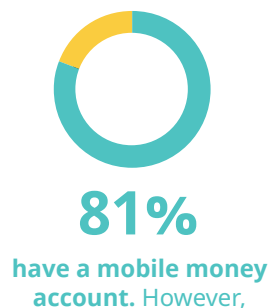
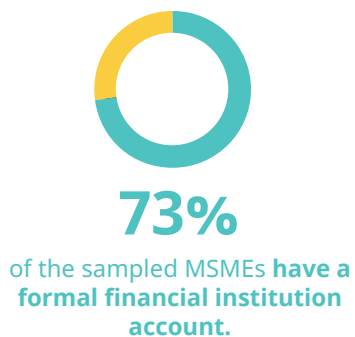
a) Traders are mostly involved in informal cross-border trade and less engaged in e-commerce

The research reveals that most MSMEs are formally registered with the registrar of companies. However, they primarily engage in informal cross-border trade activities as they do not always declare all goods and their full value to customs officials.



b) Cash remains king in cross-border trade transactions








The research also shows that many cross-border traders have access to digital financial services, yet cash is still predominantly used for cross-border trade payments.



c) Common obstacles to the use of cross-border digital payments








The report reveals various barriers that cross-border traders face in their daily activities.

Financial related barriers

 Lack of designated low-cost digital payment services	There are limited designated low-cost digital payments services for cross-border trade in the region.
 Access to foreign currency	Accessing foreign currency at competitive rates hinders the adoption of formal financial services for cross-border trade.
 Lack of access to trade finance solutions	MSMEs are therefore required to make payments of goods and services in advance, to their suppliers.
 Reliance on cash	Low acceptability of digital payments. Suppliers and customers of traders insist on the use of cash.
 Insurance products not suitable for MSMEs	In countries where Export Credit Agencies (ECAs) provide and facilitate export credit insurance and/or outward investment insurance, the big businesses are usually privileged.
 Low uptake of formal insurance products	Despite a need for formal insurance products while crossing international borders, cross-border traders usually do not have any.
 Inconsistent and high taxation	Sampled cross-border traders reported that they face a lot of excessive taxes on imports.

The high preference for liquidity inhibits the use of existing digital payment solutions.

Non-financial related barriers

 Barriers to business formalization	Some barriers include insufficient funds, limited knowledge about processes, and understanding of business registration and formalization.
 Lengthy and costly trade facilitation processes	Trade facilitation is generally a lengthy, complicated, and costly process for MSMEs.
 Gender-based violence	Traders, especially female traders, face harassment and physical assaults at the border posts and at the informal border crossings.
 Political shocks	Political rows between neighboring countries can halt or slow down cross-border trade.
 Limited business management skills	Cross-border traders often have limited knowledge of entrepreneurship and business management skills.
 Limited access to market information	Traders, particularly women, reported having limited access to market information and communication technology.
 Infrastructure challenges	MSMEs face several challenges including unreliable financial service providers websites, apps, USSD platforms...

Inefficiencies and low awareness around import/export logistics and requirements inhibit the use of digital cross-border trade payments.

3

Recommendations








Innovate in digital payments solutions for cross-border trade

Innovation is essential to drive increased uptake and usage by MSMEs. The following areas are crucial to ensure the relevance of proposed solutions:

	Data analytics and product development		Digital identity and protection
	Offline digital payments solutions		Authorization of higher-value transaction limits
	Domestic and cross-border interoperability		More research on digital payment use-cases and needs

Design several curriculum attributes for capacity-building for MSMEs

There is an urgent need to raise awareness on the benefits of digital payment solutions for cross-border traders. The training options will depend on the MSME segments and should be tailored to ensure relevance.

Training areas		Training modes	
	Financial education		In-person group training
	Digital access and usage of financial products		Follow-up one-on-one sessions conducted digitally
	Trade facilitation process		Written training content and pre-recorded videos shared on social media
	Logistics planning		

AfricaNenda will closely work with the COMESA Business Council, farmers and cross-border traders' associations, non-governmental organizations (NGOs) and financial service providers to conduct adapted capacity-building initiatives.

For more information, please download the report [here](#).

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