Boosting Trade in Africa: Inclusion of Marginalized Trade Actors in Development Financing

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Background

International trade has undoubtedly played a significant role as an engine of development as envisaged in the 2002 Monterrey Consensus. The Elements paper for the outcome document of the FfD4 ('The Elements Paper') prepared by the co-facilitators of the FfD4 (Ambassadors of Mexico, Nepal, Norway, and Zambia) and the Zero Draft: Outcome document of the Fourth International Conference on Financing for Development ('Zero Draft') acknowledges the critical role of international trade in developing countries, noting that it has contributed to economic growth and poverty reduction and narrowed the development gap with developed countries. The paper distinctively highlights that the least-developed countries (LDCs), land-locked developing countries (LLDCs) and small island developing states (SIDS) are largely marginalised in international trade. It proposes the need to strengthen the participation of countries to ensure the productive integration of developing countries into the global economy.

In the African context, the convergence and integration of African countries on both regional and continental levels have contributed towards generating revenue, fostering economic growth, facilitating the flow of resources and development finance. However, Africa, including developing economies, LDCs, LLDs and SIDS, still faces challenges with trade inequalities and poor structures for development financing. Africa's vision to employ trade to close the gap in the global economy requires accelerated efforts and opportunities to gain a competitive advantage on an international scale. The Element Paper proposes actions such as doubling the share of LDCs in global trade, including preferential market access to LDCs and increasing aid for trade, among others. The Zero Draft provides a succinct description of commitments for a renewed global financing framework for sustainable development. The Zero Draft builds on the previous International Conferences on FfD, the 2002 Monterrey Consensus, the 2008 Doha Declaration and the 2015 Addis Ababa Action Agenda.

In this essay, I argue that while the Zero Draft and Elements Paper recognize the role of trade as a driver of economic growth and development, particularly through regional integration and increased trade finance, these documents fall short of addressing the structural barriers that prevent marginalized trade actors—such as informal cross-border traders (ICBTs), women, and SMEs—from fully participating in and benefiting from trade-driven development. To ensure that trade genuinely fosters inclusive development, the financing for development agenda must move beyond broad commitments and explicitly integrate policies that support marginalized trade actors, particularly within frameworks like the African Continental Free Trade Area (AfCFTA). The following sections critically assess the strengths and gaps in the Zero Draft and Elements Paper and propose targeted policy interventions to enhance inclusivity in trade finance and development.

Trade Inequalities, Trade Finance & Inclusion Agenda

Trade inequalities in Africa are deeply rooted in structural economic disparities that disadvantage smaller firms, limit access to trade finance, and reinforce the dominance of multinational enterprises. The Element paper acknowledges that inequalities in trade are contributed by economic, social and political factors, etc. Narrowing down to Africa, closer scrutiny of exports of LDCs and LLDCs shows that they are concentrated on commodities and low value-added goods, which have a less positive impact on the economy, let alone on employment and wages. This, coupled with the fact that they are produced by smaller firms, causes the competitive advantage to tilt in favour of multi-national enterprises, hence diminishing their consumer leverage. This form of market power imbalance in international trade results from these inequalities brought about by the geographical distribution of trade actors, access to trade finance, access to the market and responsive policies within national frameworks. The Zero Draft acknowledges these disparities and commits to promoting Africa's inclusion in development financing, yet its proposals must go further in addressing the systemic barriers that marginalize key trade actors.

A critical aspect of reducing these inequalities lies in ensuring that marginalized trade actors—particularly women, MSMEs, and youth—have access to the financial resources, market opportunities, and policy support needed to compete effectively. The Zero Draft makes important commitments in this regard, yet a closer examination is necessary to determine whether these commitments provide tangible solutions or risk becoming aspirational rhetoric without meaningful implementation. The Element paper notes that, for these groups to have a fair level of playing on the global market, there is a need to ensure equal opportunities, including interventions that reduce trade costs, ease market access and increase access to trade.

In the Zero Draft, Heads of State and Government commit to promoting efforts that encourage entrepreneurship, particularly among women and youth, and facilitate the growth of MSMEs through increased access to affordable finance and skills development. Notably, there is an express commitment to give special attention to supporting women-owned and women-led businesses.

Aspirational vs Pragmatic commitments?

The Zero Draft proposes an inclusion agenda for the marginalized group actors in development financing. It refers to evidence that supports increasing women's participation in the workforce and leadership positions to drive significant economic growth and foster sustainable development. It further commits to providing developing countries with capacity-building and policy-support tailored to their specific needs to formalize the informal economy and improve the administration of domestic taxation. The proposal affirms the integration of the informal sector, mainly composed of marginalized groups, into the formal economy to broaden a country's tax base.

The Zero Draft’s commitment to integrating the informal sector into the formal economy is particularly relevant for Africa, where informal cross-border trade (ICBT) is a critical economic lifeline for marginalized groups, especially women, youth, and MSMEs. However, while the proposal acknowledges the importance of capacity-building and policy support, it does not fully account for the distinct barriers that informal traders face in transitioning to the formal sector. A closer examination of Africa’s trade realities reveals that ICBT is not simply a matter of economic informality but is profoundly shaped by structural inequalities, regulatory challenges, and gendered barriers that hinder meaningful participation in formal trade systems.

ICBT is characterized by unregistered traders participating in an exchange of goods and services without the notification of the customs border authorities. Although informal trade is unreported, unmeasured or unaccounted for and may fail to comply with regulations, the products involved in the trade are legitimate. The nature of ICBT is defined by the challenges faced by marginalized groups, including access to trade-related information, services, and minimal resources in support of women’s trading activities. A closer scrutiny of the gendered challenges of ICBT reveals that the prospects of transitioning from informal to formal trading are worse for women who often have limited access to finance, productive resources, training and skills. World Bank published research that women cross-border traders remain vulnerable to abuse, harassment, and confiscation of goods at the border, screaming a need to address ICBT actors’ human rights in relation to trade and investment.

To put this in context, the proposal to integrate the informal sector into the formal economy does not take into consideration the challenges faced by African traders in the ICBT sector. The proposal is keen on broadening the tax base without putting in place structures that formalize the informal economy or deepen the understanding of the needs of the informal sector. Significant issues in ICBT, such as human rights, are described as a matter of aspiration or fulfilment of a requirement. For instance, the proposal reaffirms that freedom, human rights and national sovereignty must enable the effective, efficient and transparent mobilization of resources. The aspect of human rights towards sustainable development for economic growth in African economies is not given as much weight as the consequences of their violations or lack thereof. This proposal fails to link business and human rights and provides relevant strategies, frameworks, and steps towards fulfilling the commitment to formalize the informal economy.

Additionally, in the commitment to boost trade in LDCs, the Zero Draft is keen to advocate for policies that leave out the informal economy in Africa. These proposals seek to strengthen preferential market access for LDCs, support LDCs to integrate into regional and global value chains, promote technical and financial assistance towards product value-addition, increase capacity building for LDC governments in international trade negotiations, and scale up aid for trade infrastructure and facilitation. However, by failing to recognize the dominance of informal cross-border trade (ICBT), particularly among women, these proposals risk reinforcing existing inequalities and excluding a significant portion of African traders from the benefits of trade integration.

These proposals fail to acknowledge that informal cross-border trade is considered the largest representation of trade in Sub-Saharan Africa, especially among women. UNECA estimates that the share of informal cross-border trade between neighbouring countries in Africa, represents 30 to 72% of their overall trade. According to UNCTAD, 70-80% of small-scale traders in African countries are women, who form the most significant percent of informal traders. The Element paper notes that on a global scale, SMEs, women and youth-led enterprises struggle with access to finance, human rights violations, market information and promotion activities.

Given the scale and economic significance of ICBT, efforts to formalize and support this sector have gained traction at the regional level. Recognizing the need for reliable data to inform policy decisions, the African Union Commission (AUC), in collaboration with UNECA and Afreximbank, has taken steps to develop a harmonized methodology for measuring informal trade, underscoring the urgency of integrating ICBT into broader trade policies. For example, to measure informal cross-border trade to monitor intra-African trade, the AUC, with the support of UNECA and the Afreximbank, established a Task Force to develop a harmonized methodology for Informal Cross-Border Trade Data Collection. UNECA's research depicted that informal cross-border trade is estimated to be equivalent between 7 and 16% of all formal intra-African trade flows. Stephen Karingi, the Director of Regional Integration and Trade at the UNECA noted that despite ICBT's significant contribution to the economy, it remains largely undocumented. In his words, "true to the saying that what is not defined cannot be measured; what is not measured cannot be improved", Mr. Karingi emphasized the need to understand the ICBT landscape and its challenges to design a policy that targets major trade corridors with the African borders. Karingi's insight underscores the critical need for policymakers to move beyond abstract commitments and invest in concrete mechanisms that recognize, quantify, and support ICBT as a legitimate component of Africa's trade ecosystem. Without accurate data and targeted policy interventions, informal traders—who form the backbone of cross-border commerce—will continue to operate in regulatory limbo, limiting their ability to contribute fully to regional and continental economic integration.

Recommendations

In conclusion, this paper provides recommendations for improving the proposals in the Zero Draft to embrace the needs and interests of the African continent.

For Africa to reap the benefits of trade in the continent and under the African Continental Free Trade Area (AfCFTA), it must address the challenge of ICBT that enables the participation of marginalized groups. The 2021 UNCTAD Report states that the AfCFTA has great potential to generate significant benefits from informal cross-border trade. Therefore, African governments need to acknowledge the percentages of trade activities in the informal economy and endeavour to put in place strategies that will support contextualised formalization. Contextualized formalization can be achieved through the adoption of simplified trade regimes, trade information portals and one-stop border posts and building on the initiatives in the Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC).

More so, Africa's commitment to broaden the tax base and encourage efforts to integrate the informal sector into the formal economy requires responsive policies tailor-made to match national circumstances. It is factual that the higher the incidence of ICBT, the more likely there will be lower investment rates in the local economy, thus reducing the possibilities of integrating into the global economy. In its nature, informal trade evades taxation, thus contributing to a reduced generation of revenue for a government's utilization. According to OECD Trade Policy papers on 'Informal cross-border trade and trade facilitation reform in Sub-Saharan Africa', bringing informal traders back to the formal economy stands to broaden a government's tax base. However, policymakers must adopt a responsive approach that balances the need for revenue generation with the realities faced by informal traders, ensuring that integration strategies provide incentives, reduce bureaucratic barriers, and enhance access to financial and regulatory support rather than merely enforcing compliance.

Finally, the proposal to encourage regional integration should encompass the aspect of leveraging regional trade agreements (RTAs) to draw experiences on simplified trade regimes to boost trade in LDCs. COMESA, for instance, employs a simplified trade regime where small-scale traders benefit from a Simplified Customs Document and a Simplified Certificate of Origin, under which goods that are COMESA-originating and whose value does not exceed $500 per consignment qualify for duty-free entry in the COMESA market. In embracing this recommendation, the Zero Draft may glean insights into encouraging simplified documentation formalities, lower-trade related fees and immediate release from Customs custody for goods under a certain threshold to encourage MSMEs, women and youth-led enterprises to formalize informal cross-border transactions.

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