

## Why Value Chain Development of the Cosmetics & Personal Care Products Sector Could Benefit Female MSME Entrepreneurs in Africa

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The cosmetics and personal care products value chain in Africa is an emerging and rapidly growing sector, reflecting the increasing demand from a burgeoning middle class and a growing demand for personal grooming products. This value chain comprises various stages, including raw material sourcing, product development, manufacturing, distribution, and retail. The sector also features dominant female ownership of MSME enterprises, according to a recent survey conducted by tralac. This blog draws on some of the insights gained from this survey, but for a more complete analysis refer to the forthcoming tralac trade reports<sup>1</sup>.

Not many industry sectors in Africa have their MSME segment characterised by significant female ownership. The textile, apparel and leather broad sector is one, and the hospitality & tourism sector is another<sup>2</sup>, according to the World Bank (World Bank Enterprise Surveys 2023). Unfortunately, the World Bank Enterprise Surveys project has an industry sector classification based on the relatively outdated ISIC3 classification<sup>3</sup>, which does not have a discrete sectoral heading for the segment 'cosmetics and personal care products'.

This cosmetics and personal care products sector is of some interest to African value chain development because, when it comes to female enterprise ownership, the sector exhibits a substantial lead in the 'fully owned' category compared with the other sectors covered in a recent tralac field research survey<sup>4</sup>. Secondly, it has been found to be the

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<sup>1</sup> There are four trade reports exploring the same theme, focusing respectively on the broad agricultural/agro-processing sector; the clothing, textile and leather sector; the pharmaceutical sector; and the cosmetics & personal care sector. These will be available on the tralac website.

<https://www.tralac.org/publications/working-papers.html>

<sup>2</sup> World Bank Enterprise Surveys, 2023. *Enterprise surveys data portal* <http://www.enterprisesurveys.org>

<sup>3</sup> UN Statistical Division <https://unstats.un.org/unsd/classifications/Family>

<sup>4</sup> Stuart, J. 2023. *Gender, value chains and MSMEs in Africa – exploring primary survey data for the cosmetics sector*. Forthcoming Trade Report. Stellenbosch: tralac

only one out of 13 biotrade sub-sectors for which intra-African trade exceeds extra-African trade, by about a factor of four times<sup>5</sup>.

The UNCTAD-defined perfumery product group is the only one of the 13 product groups for which intra-African trade exceeds extra-African trade, by about a factor of four times. The bulk of this category is made up of cosmetics and personal care products (CPCP) and this pattern could indicate that local products have developed according to the needs of buyers on the continent and suit the unique needs of its citizens. The overwhelming majority of intra-African trade in perfumery products takes place within SADC and within ECOWAS and two exporters dominate – South Africa and Côte d’Ivoire. For extra-African trade, the most significant flows are those from Egypt to Saudi Arabia and the United Arab Emirates (UAE) and several other Middle East countries, underscoring the trade ties between Egypt and its neighbours.

However, this extra-African trade is less important than the intra-African component. The fact that the export share of cosmetics and personal care products to Africa is more than double that to the ROW could indicate that local products have developed according to the needs of local buyers on the continent. For example, the largest HS 6 digit sub-heading associated with the UNCTAD sub-heading ‘cosmetic preparations’ includes skin lotions (HS 330499). Similarly, one of the larger categories under the ‘personal care preparations’ heading includes hair preparations (HS 330590).

Regarding female ownership of the CPCP sector, the sector exhibits a substantial lead in the ‘fully owned’ category compared with the rest of the sectors surveyed. The dominance of ‘full female ownership’ in this sector suggests that the cosmetics and personal care sector is a viable field for female entrepreneurs, probably due to the nature of the client base for the product and product-specific knowledge patterns.

Regarding entity size, the ‘small’ category is most prevalent, consistent with the broader field survey sample<sup>6</sup> and indicative of the sector’s composition of numerous small-scale enterprises, which are often retail-oriented or service-based businesses. The ‘micro’ category also shows significant representation, which might reflect the ease of starting small-scale operations within this sector.

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<sup>5</sup> Stuart, J. 2022. *A comprehensive data analysis of Biotrade for the AfCFTA: report for UNCTAD*. Geneva: United Nations Conference on Trade and Development

<sup>6</sup> Stuart, J. 2023. *Gender, value chains and MSMEs in Africa – exploring primary survey data for the cosmetics sector*. Forthcoming Trade Report. Stellenbosch: tralac

Overall, the data shows a sector that not only has a notable degree of female leadership, particularly in full ownership, but also a tendency towards smaller enterprise sizes (relative to the pharmaceutical sector for example).

Regarding trade relationships for this sector, several patterns are evident when considering the survey data results with those of aggregate value chain directional data<sup>7</sup>:

- Major African hubs (South Africa, Nigeria, and Mauritius) account for 85% of the exports of cosmetics and personal care products made with intermediate goods sourced from out of Africa.
- Major non-Africa originators (India, South Korea, and Thailand) account for 84% of intermediate value finally exported by African exporters of cosmetics and personal care products.
- Smaller countries (Eswatini, Malawi, Ethiopia, Cameroon, Botswana, Congo (DRC), Liberia, Lesotho, Ghana, Tanzania, and Senegal) all import intermediate value from more than one non-African country.
- When the aggregate value chain data<sup>8</sup> is interrogated, no African country appears as an originator of these products in the data, *but this is almost certainly a consequence of the classification of sectors in the aggregate data, which is not standard by country*<sup>9</sup>.

While the sample for this sector is small, the pattern that has been observed in related tralac trade reports dealing with the agribusiness and CTL sectors appears again. That is, there is a significant pattern in the trade relationship found in the extent of intra-African trade within the survey's MSME (and mostly small) respondents. This pattern (confirmed in the data) contrasts with the extra-African trade relationships dominating the aggregate value chain data.

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<sup>7</sup> UNCTAD. 2022. *UNCTAD-Eora GVC database*. <https://worldmrio.com/unctadgvc/>

<sup>8</sup> Ibid.

<sup>9</sup> From the analysis of the aggregate Eora value chain data – no African originators of these products are in the database. However, this is almost certainly a data classification issue. Sectoral classifications in the Eora value chain data are not standard in the UNCTAD version of the data (UNCTAD 2022) and some countries aggregate their data more than others. While certain non-African countries reported products in this sectoral classification, no African countries did. Instead, products such as these may have been classified by African countries as 'pharmaceuticals' or 'chemicals'. Since there is no way to disaggregate these product classifications, we are left without knowing the extent of African-originating value in this sector. Yet the survey data clearly shows that some countries source intermediate cosmetics and personal care products from other African countries.

What actionable insights can be gleaned from these analyses? The cosmetics and personal care products value chain in Africa holds significant potential for growth and value addition, not least because the nature of the product is more ‘home-grown’ than many other products imported into Africa. Capitalising on this potential requires addressing challenges in sustainable sourcing, manufacturing capabilities, regulatory harmonisation, and distribution efficiency. With strategic investments and policy support, this sector can contribute significantly to job creation, industrial development, and economic diversification in Africa.

Product development and manufacturing are pivotal stages in the value chain. There is a growing trend towards ‘Afro-centric’ cosmetics, which use traditional African ingredients and cater to local preferences. However, the manufacturing sector in many African countries faces challenges like limited technological capabilities, regulatory hurdles, and the need for skilled manpower. Despite these challenges, countries like South Africa and Egypt (the latter not covered in the field survey) have established relatively robust manufacturing bases for cosmetics.

Major African hubs like South Africa, Nigeria, and Mauritius account for 85% of exports in cosmetics and personal care products made with intermediate goods sourced from outside Africa. Conversely, major non-African originators like India, South Korea, and Thailand contribute 84% of the intermediate value exported by African exporters in this sector. The data also suggests that MSMEs are more involved in intra-African trade compared to larger businesses. This insight is crucial for policy and strategy related to trade facilitation and support for small enterprises.

When considering value chain position, most imports in this sector are finished goods, predominantly sourced by MSMEs from African countries, but ultimately most originating raw and intermediate value is extra-African. Horizontal value chain development strategy could focus on increasing the proportion of value that is added in Africa, at first by paying attention to the related chemicals and pharmaceuticals sectors. The latter has been identified as a priority industrial development sector by many African countries, following the Covid-19 pandemic and the import-dependency vulnerabilities that it exposed.

The findings of the tralac research based on the MSME survey indicate that support for cosmetics and personal care product MSMEs in general and female-owned MSMEs in particular could strengthen African value-chain development. Supporting the sector would involve prioritising MSMEs in industrial policy strategy and also addressing the requirements of female-owned businesses, which tend to be

found on the smaller end of the scale. Trade facilitation efforts, which are already a part of the action plans of many African trade promotion agencies, should also prioritise the MSME and female-owned MSME sectors.

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