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*The findings of this Brief reflect the opinions of the authors and not those of the African Development Bank, its Board of Directors or the countries they represent.*

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## Informal Cross Border Trade in Africa: Implications and Policy Recommendations

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### KEY MESSAGES

- Informal Cross Border Trade (ICBT) can help alleviate poverty and enhance regional food security;
- Africa should enhance its data collection and analytical capabilities on the ICBT sector in order to design more appropriate policy responses;
- ICBT which produces positive socio-economic ramifications should not be criminalized; and
- ICBT should be streamlined in national and regional trade strategies.

### I Introduction

Despite being a source of income to about 43 percent of Africa's population, informal cross border trade (ICBT) is generally regarded as illegal commercialization of cross border activities<sup>2</sup>. ICBT can have positive macroeconomic and social ramifications such as food security and income creation particularly for rural populations who would otherwise suffer from social exclusion. If properly harnessed, ICBT has the potential to support Africa's on-going efforts at poverty alleviation.

#### a. Objective and structure

The objective of this brief is to present strategic policy recommendations on how best to approach the issue of ICBT in Africa. This is achieved through an examination of the general characteristics of ICBT, patterns and trends

in selected regions, borders and products and a review of the existing evidence of ICBT's impact on African economies.

After this introduction, the second section defines ICBT and identifies the key characteristics of goods traded informally as well as the profile of traders. The third section reviews ICBT patterns within selected regions (Southern, Eastern, Western) and products in an attempt to understand the basic dynamics of ICBT. The fourth section critically analyses the key determinants of ICBT in Africa while the fifth section evaluates its likely impacts on African economies. The brief concludes by making policy recommendations to Governments, Regional Economic Communities and Development Partners on how best to address the issue of ICBT in Africa.

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<sup>2</sup> Organization for Economic Cooperation & Development: Report on ICBT in Africa, 2003.

**b. Methodology & limitations**

This brief is based on a desk review of existing literature including secondary data and other types of information provided by officials and experts from relevant national, regional and international organizations (e.g. East African Community (EAC), Common Market for Eastern & Southern Africa (COMESA)). Additional information was also collected through online surveys on ICBT as well as monographs and recognized online articles.

It is important to note that given the nature of ICBT, trade data especially trends, volumes and values, are difficult to establish. Section 3, which analyses trade patterns in selected regions, borders and products, is solely dependent on the availability of current information in the body of literature. There are some attempts in East, West and Southern Africa to collect ICBT data on foodstuff. As a result, section 3 mainly focuses on these three regions and on the categories of reported

ICBT data. The brief assumes that the ICBT dynamics in those specific regions and borders are a relatively good indication of what might be going on in other parts of the continent, particularly for Sub-Saharan African countries.

**II Characteristics of ICBT and profiles of traders**

**a. Defining ICBT**

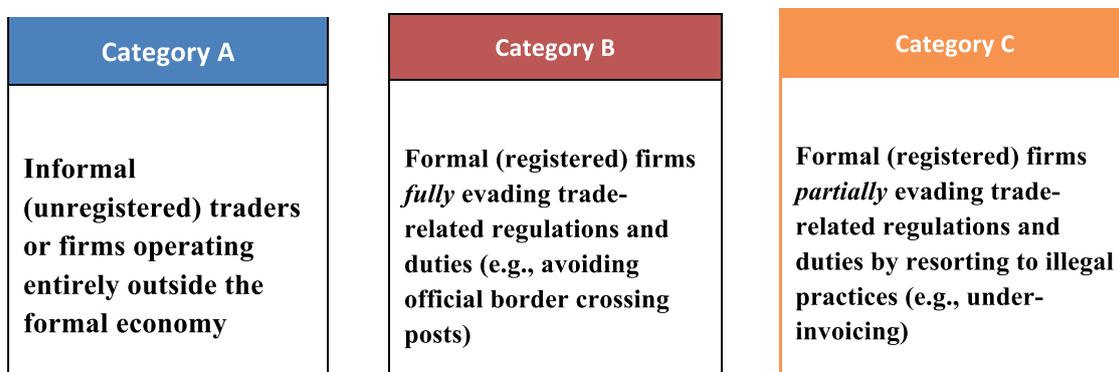
As a subject yet to be fully mainstreamed in trade policy disciplines, there is no universal definition of ICBT. It generally refers to trade in processed or non-processed merchandise which may be legal imports or exports on one side of the border and illicit on the other side and vice-versa, on account of not having been subjected to statutory border formalities such as customs clearance. There is no established means of transportation and these may range from haulage by beasts of burden, porters, canoes, to hired motorized transport such as buses and motorcycles.

**b. Who are the cross-border informal traders?**

Most baseline surveys indicate that the majority of informal cross border traders are women. According to the United Nations Development Fund for Women (UNDFW), in the SADC region, women constitute about 70 percent of the informal cross border traders<sup>3</sup>. In the Western and Central parts of Africa, women constitute nearly 60 percent of informal traders.

Traders engage in ICBT as a source of income and economic activity. Most traders have no education and raise capital from their own resources or through loans from friends and relatives. Traders are generally not bankable nor do they have assets that Banks would accept as collateral. They can also be formally registered firms evading regulations and taxes or aiming to avoid border crossing posts. Broadly speaking, players in ICBT fall under the three following categories (Figure 1):

**Figure 1 Types of Informal Cross-Border Traders**



Source: OECD Trade Policy Working Paper No.86, 2009.

<sup>3</sup> United Nations Development Fund for Women (2009); www.unwomen.org.

### c. Which goods are being traded?

The types of merchandise traded informally across the borders are generally categorized as: (i) non-processed goods; (ii) manufactured goods; and (iii) re-exports goods. As illustrated in Table 1, all African countries trade in foodstuff and non-foodstuff. The West and Eastern African regions have a propensity to trade in livestock whereas the Central and Southern African regions deal in minerals and

handicrafts. Manufactured and re-exports goods are usually comprised of low quality manufactured goods, counterfeits and contraband originating from Asia. Most studies estimate that the value of goods traded is generally between 50-1000 USD.

As illustrated in Table 2, non-processed items generally include food stuff such as beans, maize and rice, but also non-food

stuff such as hides and skins, paintings and handicrafts. Processed goods include industrial products such as sugar, edible oils, clothing, dairy products, packaged beverages, soft drinks and juices. Manufactured and re-export goods comprise low quality processed goods from Asia such as electronic appliances, apparel and shoes. Contraband and counterfeit goods are more difficult to discern but are estimated to include fuels, cosmetics, pharmaceutical drugs, and electronics.

**Table 1 ICBT Product categorization**

Regions	Non-Processed Goods	Manufactured Goods	Re-exports	Value of Goods
Eastern Africa including Horn of Africa	Foodstuff and non-food stuff, livestock.	Low quality manufactured and processed goods	Low quality goods from Asia, contrabands, counterfeits and substandard goods	US\$50-US\$1,000
West Africa	Foodstuff and non-foods-tuff, livestock.			
Central Africa	Minerals, jewelry, forest products, Food and non-food stuff			
Southern Africa	Handicrafts and foodstuff and non-foodstuff.			

Source: Compilation from authors inspired from OECD, COMESA, EAC, Uganda official sources.

**Table 2 ICBT Product categorization**

Classification	Products	Category
Non-Processed	Fruits, dried and fresh fish and other marine products, wild vegetables, roots/tubers, spices, poultry products, livestock, grains, pulses, unprocessed coffee beans.	Foodstuff
Manufactured/ Semi- Processed	Hides and skins, paintings and handicrafts, woven clothing (kente), iron implements, mortars etc.	Non-Foodstuff
	Sugar, edible oils, new and used clothing, dairy products, packaged beverages, soft drinks and juices, salt, agro-chemicals, cosmetics and toiletry products, confectionery and wheat products, plastic products, beer,	Industrial Products
	Hardwood, precious metals, jewelry, charcoal, gum Arabic, insects and insect products, rare poultry and game	Minerals and Forest Products
Re-Exports	Manufactured foodstuff, tobacco, petroleum products, electronic appliances, shoes, apparel, tools, spare parts, and simple machines	Re-Exports
Sub-standard and counterfeits	Fuels, precious metals, dairy products, banned goods.	Miscellaneous

Source: Compilation from authors inspired from OECD, COMESA, EAC, Uganda official sources.

### III ICBT Patterns in selected regions, borders and products

#### a. Southern Africa: ICBT patterns in Maize, Rice & Beans.

ICBT contributes between 30-40 percent of total intra-SADC trade. Some studies estimate that average value of informal cross border trade in the Southern African Development Community (SADC) region stands at an impressive \$17.6 billion per year<sup>4</sup>. Items traded mainly include foodstuff such as maize, rice and beans although additional products such as handicrafts and minerals are also commonly traded in the region.

This section focuses on ICBT in foodstuff more specifically, maize, rice and beans – items for which data is relatively available. The data was extracted from quarterly reports generated by the Cross Border Food Trade Monitoring Initiative, a USAID and WFP funded initiative which established a network of border monitors in selected border points throughout the Southern African region. The cross-border trade monitoring system currently includes 29 borders from 10 different SADC countries. As illustrated in Table 3 (below) between 2005 and 2012, total informal cross border trade in maize, rice and beans averaged 117,606; 11,866; and 12,013 metric tons per year respectively.

In Southern Africa, maize trade is the most informally traded foodstuff, ave-

raging approximately 80% of the total recorded ICBT in foodstuff between 2005 and 2012. More specifically, the disaggregated data points to the fact that Mozambique, Zambia, South Africa and Tanzania are generally the major source countries while DRC, Malawi and Zimbabwe are the major destinations<sup>5</sup>.

It is worth noting that during the 2005 - 2006 periods, many countries in the region experienced critical food shortages. It is indisputable that the 208,922 metric tons of foodstuff traded informally traded during that year helped lessen the impact of the food crisis. This underscores the relative importance of ICBT in supporting food security in the southern African region.

**Table 3 Average Informal Cross-Border Trade in Maize, Rice and Beans from 05-12**

Food stuff	05-06 Season	06-07 Season	07-08 Season	08-09 season	09-10 Season	10-11 Season	11-12 Season	Trading Average
Maize	177,959	103,127	108,679	74,470	123,685	96,081	139,243	117,606
Rice	16,620	7,003	17,434	15,268	11,541	6,708	8,485	11,866
Beans	14,343	10,153	10,988	9,236	15,192	8,800	15,380	12,013
<b>Total</b>	<b>208,922</b>	<b>120,283</b>	<b>137,101</b>	<b>98,974</b>	<b>150,418</b>	<b>111,589</b>	<b>163,108</b>	<b>141,485</b>

Source: FEWSNET, ICBT in Southern Africa, 2012.

<sup>4</sup> Musonda, M. 2004. "Overview of Informal Trade in the SADC Region: Where are we now?". Regional Workshop for SADC Informal Traders 11-12 February. Harare, Zimbabwe.

<sup>5</sup> USAID. October 2010. Informal Cross Border Food Trade in Southern Africa.

**Box 1 We are only seeing the tip of the iceberg:  
 The Case of the Mwami- Mchinji Border**

The Mwami/Mchinji border is one of the most active ICBT hubs in Southern Africa. It handles goods largely from Malawi and Zambia. Goods traded tend to be agrarian and non-processed. 75 percent of the informal cross border traders are women and the values of their wares per unit ranges from US\$ 20 to US\$ 500.

COMESA estimates that an astounding US\$ 2.9 million per month is traded informally. This estimate dwarfs formal trade which is estimated at \$1.6 million per month. High customs duties are cited by border officials as the main reason why traders prefer informal channels. Another reason why traders avoid formal crossings is so as not to incur the US\$ 30 processing fees under customs clearance. A simplified trade regime (STR) under the auspices of COMESA was introduced. STRs aim to reduce documentary requirements by allowing traders trading goods with a value of 500 USD or less to be issued a Simplified Certificate of Origin at the border post. Since ICBT transactional values can be as low as US\$ 20, it is understandable why despite the STR, a large percentage of cross border traders continue to avoid formal crossings.

The Mwami-Mchinji border is a stark reminder that we might only be seeing the tip of iceberg. It is likely that in many borders around the continent, ICBT is either higher or represents a significant portion of formal trade.

Source: Daniel Njiwa, Timothy Nthambi and John Chirwa. 2010.

Existing research on the key causes of ICBT in Southern Africa point to the fact that traders engage in the practice for wealth creation and as a mean of survival. Lack of other income generation and employment opportunities in the formal sector is also pointed out as the key factor for engaging in ICBT. Nevertheless, in Southern Africa, ICBT has proven to have a positive impact on the economy, especially with regard to its potential to cushion the impacts of food crises as was the case in the 2005-2006 periods.

**b. Eastern Africa**

ICBT in Eastern Africa is relatively more discernible when compared to other parts of the continent. Countries such as Uganda, Tanzania, Ethiopia and Somalia are generally recognized as

sources of non-processed tradable goods consumed in Kenya and South Sudan. Kenya is a major source of manufactured goods sold informally into the region. With regard to non-processed goods, food items are the most traded to satisfy the huge demand in the horn of Africa and to mitigate ecological variations. All the countries in the region except South Sudan trade in re-exports.

This section primarily focuses on highlighting the extent of ICBT between Uganda and its neighbours, Kenya, Rwanda, Tanzania, Democratic Republic of Congo and Sudan. This is primarily due to the fact that there are some aggressive attempts in Uganda to capture ICBT flows. The section also analyzes the dynamics and impacts of informal livestock trade in East Africa.

**ICBT in Eastern Africa:  
 The Case of Uganda**

Uganda generates sizeable foreign exchange earnings from the informal trade sector. Deliberate efforts by the government have allowed the country to systematically estimate the impact of the country's informal sector.

Data from Uganda's customs authorities highlights the fact that a thriving informal market exists in Ugandan manufactured goods for South Sudan, DR Congo and Tanzanian markets. Table 4 shows that in 2006, the value of Ugandan informal exports to its five neighboring countries – Kenya, Rwanda and Tanzania, DRC and Sudan stood at an impressive US\$ 223.89 million, corresponding to around 83% of official exports to these countries over the same period<sup>6</sup>.

<sup>6</sup> Victor, Ogalo. ICBT in EAC: "Implications for Regional Integration and Development". CUTS African Resource Centre.

**Table 4 Extent of ICBT between Uganda and its neighbors (in million \$)**

Trading Partner	EXPORTS			IMPORTS		
	2006	2009	2010	2006	2009	2010
Kenya	96.88	102.76	94.06	63.88	43.25	37.53
Rwanda	25.04	34.93	32.69	0.7	1.98	1.47
Tanzania	21.52	60.93	53.32	4.26	5.64	5.07
DRC	80.45	143.63	143.18	11.29	25.41	19.26
Sudan	7.842	448.48	196.90	0.5	5.75	3.17
<b>Total ICBT</b>	<b>223.89</b>	<b>790.73</b>	<b>520.15</b>	<b>80.63</b>	<b>82.03</b>	<b>66.5</b>
<b>Total formal</b>	<b>268.842</b>	<b>1567.61</b>	<b>1618.60</b>	N/A	<b>4257.00</b>	<b>4664.38</b>
<b>% inf./formal</b>	<b>83</b>	<b>50.44</b>	<b>32.14</b>		<b>1.92</b>	<b>1.41</b>

Source: Authors computation from Uganda Bureau of Statistics ICBT Reports 2006, 2009, 2010.

By 2009, Uganda's total informal exports to the five countries had almost tripled to reach approximately \$790.73 million. The exports included shoes, clothes, fish, beans, maize grain, sandals, flour, beer, medicines and alcohol spirits. Sudan and DRC were the main destinations for informal exports and accounted for 74.1% and 64.4% in 2009 and 2010 respectively. Informal imports were estimated at \$66.49 million in 2010. Kenya was the main source of informal imports and accounted for 56% of total informal imports in 2010.

ICBT has had positive knock-on effects in Uganda in terms of employment creation and increased income. The strong regional demand for agricultural items from Ugandan presents lots of opportunities to support the develop-

ment of its agricultural sector and enhance regional food security.

The captured data on ICBT is pushing policy makers in Uganda to give ICBT the attention that it deserves. Through ICBT data collection, the Ugandan government has gradually developed greater awareness and appreciation of the potential impacts of ICBT.

#### **Informal cross-border trading in livestock also thrives in East Africa...**

A study conducted by Peter Little noted that informal traders along the Kenya-Somalia borders were known to realize astounding growth of 500 percent-700 percent in the value of their livestock and generated annual sales in excess of US\$ 11.7 million. The study estimated

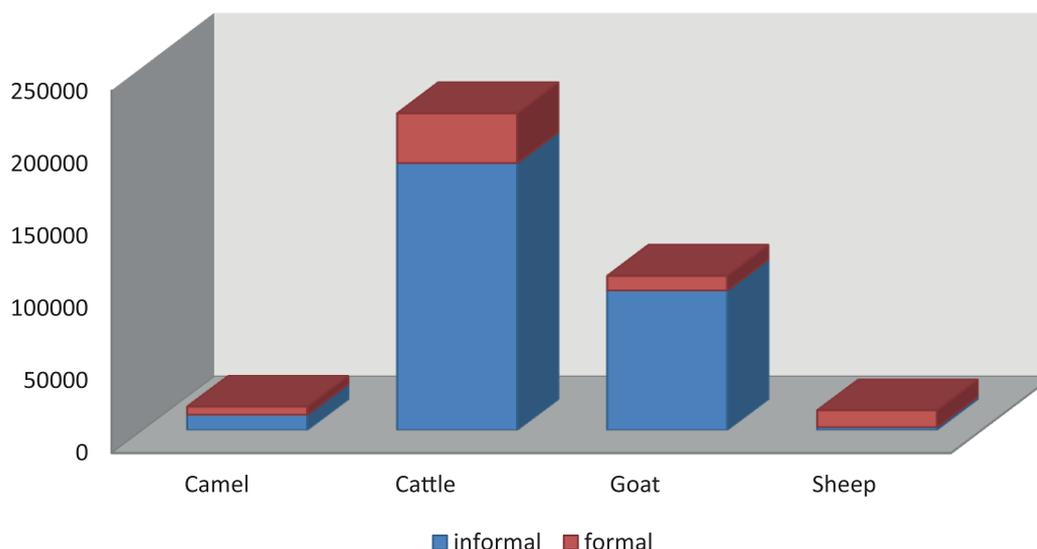
that in Eastern Ethiopia annual sales exceeded US\$ 25 million<sup>7</sup>.

The livestock traded informally in Eastern Africa includes camel, cattle, goats and sheep. Source countries include Somalia and Ethiopia while key consumer markets are located in Kenya and Sudan. Livestock trade requires long distance travel on foot, since in these areas transport infrastructure is usually poor. There is often lack of adequate security and market information.

As illustrated in Figure 2, the East Africa Cross Border Trade Bulletin reported that between October and December 2011 alone, close to 200,000 heads of cattle were traded (formally and informally). Informal trade in cattle represented more than 85 percent of total trade. The same is true for goat and camel.

<sup>7</sup> Peter Little. 2005. "Unofficial trade when states are weak: The case of the cross border commerce in the horn of Africa"

**Figure 2 Number of Livestock traded formally and informally in October-December 2011**



Source: East Africa Cross Border Trade Bulletin, 2011.

In addition to foodstuff and livestock, a range of manufactured and re-exports are traded informally in Eastern Africa. These include sugar, edible oils, used clothing and shoes, packaged beverages, soft drinks, confectionery, plastic products, contraband fuel, chemicals and low quality goods from Asian countries.

Be it in Uganda, Somalia or Kenya, and regardless of the kinds of goods traded, formal and informal trade in Eastern Africa

is plagued by lack of trade facilitation. Frequent inspections at roadblocks delay traders and add costs to an already costly transport system. Stringent documentary requirements further exacerbate the situation. Documentary requirements often involved the need to provide certificates of origin, or sanitary & phytosanitary (SPS) certificates. Those are generally issued in the city centers, miles away from the borders. Some regions such as COMESA established Simplified Trade

Regimes (STR) in order to address the issue. Unfortunately, small-scale traders are generally unable to access STR benefits because of processing fees, low awareness on STR and its functioning and corruption.

Nevertheless, as was the case in Southern Africa, existing data in Eastern Africa indicates that ICBT in foodstuff has a propensity to enhance regional food security.

**Box 2 Documentary requirements push traders to go informal  
 The case on the Arusha-Namanga Border**

Cross border trade at the Arusha-Namanga border between Tanzania and Kenya is characterized by perishable commodities such as tomatoes, bananas, and onions. These goods generally require SPS certificates. SPS measures are regulations for food safety, animal and plant health standards which aim at enhancing consumer welfare through consumption of safe food products.

SPS certificates are obtainable either from Arusha, Dar-es-Salaam or Nairobi. Namanga is 930 kms from Dar-es-Salaam, Tanzania and 230kms from Nairobi, Kenya. Tradable goods (i.e. tomatoes/bananas) are usually ready for the market at the point they are being ferried across the border. Due to the perishable nature of the goods, the mode of transportation is generally trucks and the consignments could be for different cross border traders using pooled transport. The traders travel by buses and receive their individual consignments when the truck reaches the destination. At Namanga SPS inspection is mandatory. Where an SPS certificates cannot be availed on demand, the goods are usually detained and the transporter compelled to obtain such certificates from Arusha, Dar es Salaam or Nairobi. In situations where all the documentation relating to the consignments are in order, the border officials may instead focus on the mode of transport (truck) and demand all manner of documentation invariably detaining the truck and its consignment.

Challenges associated with management of SPS and lack of trade facilitation push traders to use informal routes. This issue could be addressed through increased cross border policy dialogue to identify ways to reduce documentary requirements and simplify trade.

Source: Border visits from authors.

**c. West Africa**

In West Africa, informal cross border trade is estimated to range from 20 percent of GDP in Nigeria to 75 percent in Benin<sup>8</sup>. A large proportion of the products traded within or exported from the region are raw or semi-processed, particularly agro-industrial products originating from or being destined to four West African countries: Nigeria, Cote d'Ivoire, Ghana and Senegal.

**A Snapshot of ICBT in West Africa**

The Nigerian hub is one of the most active with informal exports going to countries like Benin, Niger, Chad and Cameroon. In Niger alone, it is estimated that tens of

thousands of tons of Nigerian grains are sold annually. Informal trade in petroleum products has helped make Nigeria the major economic power in West Africa by supplying areas (especially rural ones) which are shunned by traditional international companies such as Total, Shell and BP but also national distribution companies.

In Ghana, existing data point to the fact that the informal market is dominated by informal exports of non-processed produce and minerals such as cocoa, gold and diamonds into Togo and Cote d'Ivoire but also re-exports throughout the region in used vehicles and spare parts.

The Togolese and Ivorian Authorities realize significant revenues from exporting

gold and cocoa respectively that originated from other countries. However, recent political upheavals in Cote d'Ivoire have reversed the trend and compelled some of its cocoa to be sold through Ghana.

Informal cross border trading is deeply rooted in West Africa's cultural history. Lagos' "Tinubu Square" was labeled after a famous Yoruba informal cross border trader by the name of Madam Efunroye Tinubu. Madam Tinubu owed her economic success and fame to massive, cross regional informal trading in salts and arms during the British colonial era. However, Madam Tinubu's fame pales in comparison to the modern day women informal cross border traders of Togo known as

<sup>8</sup> UNECA, AfDB. 2010. "Assessing Regional Integration in Africa IV: Gender and Intra-African Trade, The case of West Africa"

the “Nana-Benz”. Then, as now, these women conduct their businesses on the regional and even international stage, drawing on a long history of trading experience as informal cross border traders<sup>9</sup>.

Undoubtedly, extensive, complex and multi-directional informal cross-border trade of foodstuff, gold and manufactures exist in the Western African region. Unfortunately, all too often, informal and formal cross-border trade takes place against a backdrop of insecurity to persons and goods from corrupt law-enforcement agencies or cross border robbing gangs or syndicates. Traders carrying money often run the risk of having money seized. A UNIFEM study noted that in West Africa, one in two respondents had experienced some form of harassment during their trip. The same study concluded that

the Nigeria-Benin border was considered particularly problematic and that despite joint border patrols organized at the behest of their respective Presidents, the situation was still problematic. In Liberia, close to a third of the women respondents had experienced gender-based violence. The insecurity of traders is compounded by the fact that border infrastructure (warehousing facilities, reliable transport, etc.) is inadequate and that traders often do not have valid travel documents.

Despite the challenges, in West Africa, cross-border trade (both formal and informal) remains the most efficient, organized and deep-rooted system of trade in the sub-region. The commercial skills, experience and organizational infrastructure of cross-border networks represents in-

valuable resources for the development of effective West African trade<sup>10</sup>.

What is needed in West Africa is to design appropriate policy incentives in order to gradually incorporate a thriving ICBT sector into the formal economy. ECO-WAS’ recent approval of a regional program to formalize informal trade as part of efforts to reduce poverty and boost economic development and integration is an excellent step in the right direction, one which other regions should emulate.

#### IV Key determinants of informal cross border trade in Africa

As highlighted above, a variety of factors are responsible for the proliferation of ICBT in Africa. Although the key causes

#### Box 3 How checkpoints, delays & bribes fuel ICBT

##### Transporting goods from Lomé to Ouagadougou

In 2006, UEMOA with financial, technical and administrative support from USAID started observing and documenting the number of checkpoints on major West African transport corridors and the bribes and delays truck drivers incurred at these checkpoints.

It was observed that a truck carrying imported goods from Lomé to Ouagadougou would get stopped an average of 23 times along the road, 14 times in Togo (746 km) and 9 times in Burkina Faso (276 km). An export truck would be harassed somewhat less having to stop a total of 17 times.

Bribes paid at roadblocks amounted to an average of USD 36 for imports and USD 24 for exports. Yet, when compared to other countries in the region, both countries have relatively low levels of bribes at road blocks suggesting that average bribes could be much high in other parts of the region. The study estimated that the delays caused by checkpoints amounted to about 2 hours per trip.

The number of checkpoints in West Africa is of great nuisance to traders and transporters and significantly adds to the cost of doing business. Since transactional values in ICBT average 50 to 1000 USD, unnecessary checkpoints and bribes provide a great incentive for traders to join the informal economy.

Source: USAID, West Africa Trade Hub Technical Report #47.

<sup>9</sup> AfDB, UNECA. “Assessing Regional Integration in Africa IV: Informal Trade in Africa”. Chapter 5, page 152.

<sup>10</sup> Kate, Meager. 2003. “A back door to globalization? Structural adjustment, globalisation and transborder trade in West Africa”. Review of African Political Economy No.95:57-75.

vary from one region to the other, theoretically speaking, the main determinants of ICBT in Africa could be categorized as:

- (i) lack of trade facilitation;
- (ii) inadequate border infrastructure;
- (iii) limited access to finance;
- (iv) limited market information;
- (v) corruption & insecurity; and
- (vi) limited knowledge, education & business management skills.

**Lack of trade facilitation** makes trading along the border lengthy and costly. Crossing formal borders can take days at times and costs of clearance, processing fees, tariffs and taxes are generally above the value of goods being traded informally. Documentary requirements should be reduced and RTAs, STRs and existing tax regimes should be reviewed to factor in ICBT. RECs should be used as a springboard to monitor and evaluate ICBT activities. They could provide an excellent medium for intensification of regional cross border trade policy dialogue.

**Inadequate border infrastructure** including proper warehousing facilities, community markets, transport networks and especially functional and adequately staffed border institutions and agencies makes it unattractive, inefficient and sometimes downright dangerous to trade via formal routes. Lack of adequate public and private transportation systems causes delays, forcing traders to miss community market days and their consumable goods especially agricultural pro-

duce to perish. Border infrastructure issues should be addressed in order to enhance the movement and security of traders and their goods.

**Limited access to finance** also plays a prominent role since traders are not bankable and transactions are cash based or bartered. Most traders lack working capital and tangible business assets making it difficult for them to get financing. The absence of banks in the rural areas makes access to financial services virtually impossible. Since policymakers generally regard ICBT as illegal, the scope and opportunities for developing ICBT related trade finance facilities have not been adequately explored. Access to finance could provide a tremendous incentive for informal traders to join the formal economy.

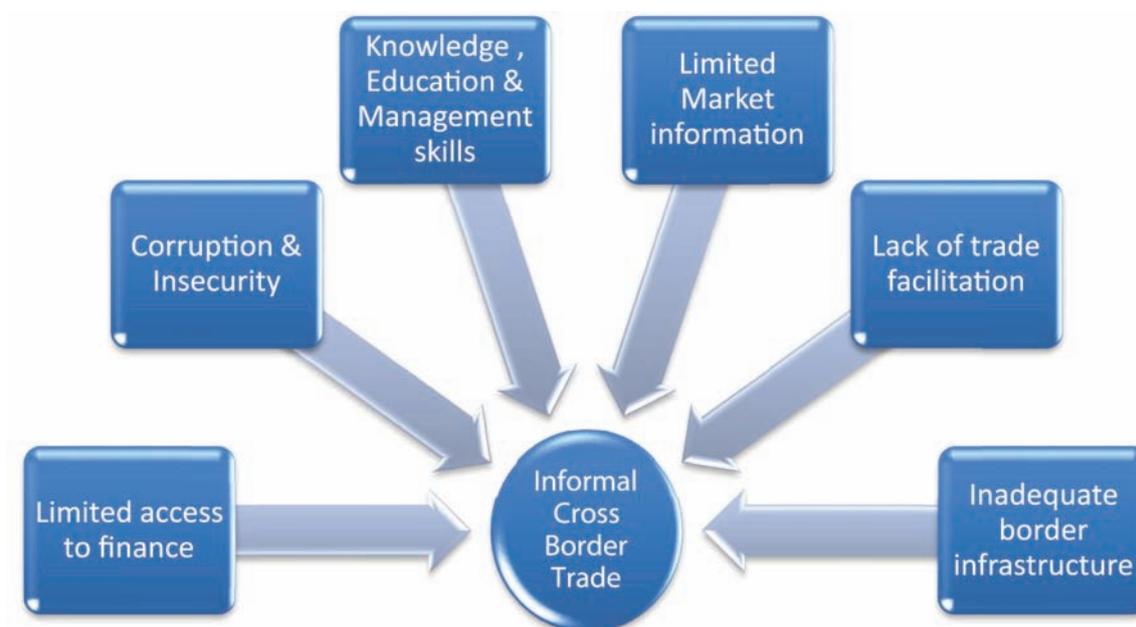
**Limited market information** makes it difficult for informal cross border traders to tap into regional and local market opportunities. In most African regions, the provision of information on cross-border markets is at best, minimal. Since most traders operate outside regular business circles, market information on prices, demand and supply is generally not available to them. They generally rely on informal sometimes unreliable information networks. Information on policies, regulations, agreements and protocols for the facilitation of cross-border trade is equally difficult to obtain. These should be published in reader friendly language and conspicuously displayed at border points

in order to enhance communication and expedite implementation. More must be done to provide market intelligence services at key border points to facilitate flow of information on prices, demand and supply but also policies and regulations affecting cross-border trade.

**Corruption & Insecurity** at the border fuels ICBT. Corrupt law-enforcement agencies often take advantage of the local traders' lack of knowledge on customs procedures to take bribes. Traders carrying money run the risk of having money seized. Some regions have recorded high incidences of rapes. Lack of effective policing at border points and market ports increases the incidence of crimes against traders, forcing them to travel in groups to protect themselves, or simply use informal routes.

**Low knowledge, education and business management skills** are also at the core of addressing the ICBT issue. ICBT traders are generally less educated and often lack basic business management skills. Business skills are generally acquired via traditional means and numeracy as well as literacy levels are notoriously low in some regions. This is exacerbated by a lack of knowledge and understanding of customs procedures and regional trade protocols. Conducting border community sensitization campaigns and empowering local traders with basic knowledge on management and customs procedures could go a long way in addressing the ICBT issue.

**Figure 3 The 6 determinants of ICBT in Africa**



Source: Authors' compilation from literature review.

## V Impacts of Informal Cross Border Trade

Depending on border specificities, regional and local circumstances, ICBT impacts consumers, producers and the government differently.

**In terms of revenue collection, governments are generally on the losing end...**

Countries with low revenue bases but higher incidence of ICBT along their borders such as Ethiopia, Benin, Togo, Niger, Mali, Congo, South Sudan, Somalia may experience macroeconomic imbalances due to revenue losses. Coastal countries such as Benin and Togo spend foreign ex-

change importing merchandise that are later informally sold across its borders on local currencies hence exerting a drain on their economies. However, this doesn't mean that governments should criminalize the practice. Uganda showed that although its government lost potential revenues from ICBT, the economy as whole was better with foreign exchange earnings on ICBT amounting to (positive informal trade balances) of US\$ 717 million and US\$ 461 million respectively for 2009 and 2010.<sup>11</sup>

**Consumers usually come out as winners, but not all the time...**

ICBT generally benefits consumers by increasing the availability of goods at affor-

dable prices. However, consumption of tradable goods not subjected to customs clearance and other border formalities may in some cases lead to loss of consumer welfare. Most foodstuff and other commodities traded informally are not subject to Sanitary and Phytosanitary (SPS) measures thus making consumption riskier. Failure to subject goods to standards inspection exposes consumers to health, safety and environmental risks.

**For producers, it depends...**

Where traded goods are counterfeits or adulterated merchandise, ICBT may have a negative effect on competition. Local producers could fall victim to copyrights infringement, or find themselves unable to

<sup>11</sup> Ugandan Bureau of Statistics, ICBT 2009-2010 Report.

compete against cheaper (sub-standard) products from Asia and gradually see their market shares erode. This is exacerbated by the fact that African countries generally have weak regulatory frameworks and capacity to protect intellectual property rights and competition. Even ICBT in foodstuff, in spite of its many food security benefits, can in some cases adversely affect the livelihoods of farmers. This is especially true when the crops are brought in more cheaply from neighboring countries, creating a glut, decreasing prices in the local market and leaving local farmers with no market for their products.

### Generally, the positive impacts of ICBT outweigh the negative ones...

The knock-on effects of ICBT on employment creation, income generation and the improvement of welfare for the participants is an important contribution to the economy from informal trade. In Southern and Eastern Africa, ICBT has proven to lessen the impact of food crises and help reduce price volatility. ICBT can lead to wider market access and a greater availability of goods at affordable prices and can also contribute to macroeconomic stabilization.

The example of Uganda where ICBT accounted for 33.8 percent and 24.6 percent of total exports trade in 2009 and 2010 respectively provides empirical evidence and demonstrates how beneficial ICBT can be to some African economies. What is needed is to improve our understanding of the dynamics and structure of ICBT in key regions and borders. Data collection/estimation capacities should be strengthened as a basis for further economic analyses on the exact impact of ICBT and the most ideal policy responses.

## VI Policy Recommendations

If properly harnessed, ICBT has the potential to support Africa's on-going efforts at poverty alleviation. The prevalent belief that ICBT should be criminalized demonstrates policy makers' failure to understand the underlying conditions of ICBT and its potential impact on national and regional economies. The Ugandan example serves as a stark reminder to African policy makers that by minimizing the importance of ICBT, they could be overlooking a significant proportion of their total trade. Moving forward, it will be critical for African countries and RECs to establish/strengthen ICBT data collection and analytical capacities in order to effectively measure ICBT's contribution to their respective economies and design appropriate policy responses.

Our assessment of ICBT in Africa also confirms the importance of creating a policy, regulatory, institutional and business environment which enhances the role of informal cross border traders, legitimizes their activities (where the trade is found beneficial to the economy) and gradually mainstreams them into the formal economy.

In view of which, the following policy recommendations are made:

### For Governments

- Mainstream ICBT in national and regional economic policy dialogues;
- Strengthen/establish ICBT data collection and analytical capacities at key border points in order to gauge ICBTs contribution to the economy;
- Intensify cross border policy dialogue to build an understanding of local cross-border dynamics;

- Improve border infrastructure such as cross border storage facilities, stalls in key border markets and checkpoints;
- Prioritize a gender based approach to ICBT which address some of the pervasive constraints that afflict women;
- Facilitate the establishment of ICBT associations and business linkages between ICBTs and established companies;
- Accelerate the implementation of regional trade agreements;
- Curb corrupt practices at the borders and checkpoints;
- Support licensing of small traders; and
- Enhance security for people and their goods at border and market points.

### For Regional Economic Communities

- Establish or strengthen existing STRs by designing programs suited for ICBT;
- Reduce documentary requirements and put in place transparent procedures and processes;
- Increase access to market information at key border points; and
- Integrate ICBT into regional trade strategies.

### For International and Non-Governmental Organizations

- Prioritize ICBT in national development plans and aid for trade assistance;
- Address issues related to access to finance especially for rural communities;
- Provide support to African countries to develop ICBT data collection and analytical capacities;
- Study the contribution of informal networks to cross-trade integration. Studies should aim at: (i) assessing the economic benefits of cross-border informal network; (ii) understanding the specifi-

cities of border markets; and (iii) shedding light on the relationships between traders and public institutions in border areas<sup>12</sup>.

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