

**REPORT OF VALIDATION WORKSHOP ON TRENDS, EXPERIENCES AND
SOCIO-ECONOMIC IMPACT OF FORMALIZATION OF INFORMAL TRADE IN
AFRICA WITH A FOCUS ON WOMEN SMALL TRADERS**



Organizers

- **Food and Agriculture Organisation of the United Nations (FAO)**
- **Consumer Unity and Trust Society (CUTS) International**

Introduction

Informal Cross Border Trade (ICBT or Grey Economy) is described as trade that is neither taxed, nor monitored by any form of government, to the extent that it's not included in the Gross National Product (GNP) and Gross Domestic Product (GDP) of a country.

ICBT accounts for an estimated 70% of employment in sub-Saharan Africa, and further constitutes the majority of informal activity in most African countries. In the Southern African Development Community (SADC), for example, it makes up an estimated 30% to 40% of total intra-SADC trade, with an estimated value of \$17.6bn. This in turn has significantly alleviated poverty for both the employed and unemployed. In addition, profits generated from such informal trade are often employed to sustain families, providing for their healthcare and education.

More generally, ICBT provides access to goods that are unavailable domestically to meet domestic demand. Traders are often forced to engage in informal trade because of barriers to entering the formal sector, including difficulty in getting access to traveling documents or trading licenses, excessively long waiting times at borders, overcharging by customs officials, and lack of knowledge of official procedures.

Despite the milestones achieved by Regional Economic Blocs towards formalisation, there are still structural and legal inadequacies when it comes to ICBT, and more often than not, most of these traders are faced with challenges ranging from corruption in the form of bribes solicited by officials in order to smuggle goods, sexual abuse, confiscation of goods and lack of knowledge on customs border procedures due to illiteracy.

Workshop Objectives

The workshop aimed at sharing best practices and lessons from East Africa, West Africa and Southern Africa on how to formalize Informal Cross-Border Trade (ICBT) with a focus on women, the marginalized group. Specific objectives were:

- a) To determine whether the study has holistically addressed the issues on African ICBT
- b) Come up with additional recommended approaches and policy actions in relation to ICBT
- c) Identify necessary strategies to be employed to meaningfully use the study as a tool for implementation thereafter.

Opening Remarks

Attaher Maiga, FAO Country Representative to Rwanda, opened the 2-day validation workshop. In his opening speech, he stated that effective market information systems, increased access to financial opportunities, and trade fairs are recipes for the formalization of informal trade, which currently contributes about 42 per cent to Gross National Income (GNI) in Sub-Saharan Africa. He added that that storage, weighing and refrigeration of agricultural produce were the main incentives on the journey to formalization of small scale trade that make business registration and tax adherence friendlier.

He attributed the emergence and thriving of informal trade in the developing world to economic liberalization and collapse of the public sector in the wake of structural Adjustment Programmes (SAPs). In fact, informality within African economies proceeds the adjustment era, featuring as a core feature in the transition from the colonial period and the evolution of Africa's tax economy," observed Maiga.

CUTS Director, Mr Clement Onyango, in agreement, argued that it's mostly poverty that pushes women into engaging in this type of trade. "Sometimes, the governed don't want to interfere with informal trade as they also thrive on it, said Clement. Of main concern to him was the role that Civil Society Organisations can play in ICBT. The main role of CSOs is to ensure that trade is inclusive, while considering gender aspects. There is need to provide

resources for data generation that will inform policy dialogues in the continent and leverage also on ongoing discussions such as the CFTA, he concluded.

Alice Twizeye, the Director of External Trade at the Rwandan Ministry of Trade, Industry and East African Community Affairs (MINEACOM) said her government's concern on how key players in this sub-sector would contribute to economic growth dates back in 2010.

“In 2010 fruitful conversation on how to assess the informal cross-border trade in relation to its contribution to export trade and economic development started in Rwanda,” said Twizeye.

Twizeye, representing the minister, decried the challenges in the women predominated sub-sector, which ranged from the economic activities being perceived as illegal, harassment, and corruption, to dire lack of infrastructure within market places, for example.

Such circumstances have propelled the Rwandan government to construct markets in 12 districts that border Uganda, DR Congo, Tanzania and Burundi with more still underway due to financial constraints.

“Mobilizing funds and development partners has been a challenge but we've completed two markets. She said the Rusizi market was one of those completed with construction underway at Bulera, Karongi and Nyaruguru.

Participants agreed on the urgency to provide security and protection to cross-border traders as well as bringing them together under cooperatives. Such initiatives will be helpful in ensuring that apparently marginalized traders find easy access to finance alongside improving their contribution to the nation's GDPs.

Discussions

Understanding the Dynamics of ICBT in Africa: Experiences from other Regions

Experiences and dynamics of ICBT from West Africa and Asia were shared. In West Africa, Approximately 75% of intra-regional trade occurs informally, with over 60% of women dominating the sector. When sharing on the West African experience, Mrs. Eshun of Borderless Alliance of Ghana said that most of these traders operate entirely outside the formal economy through unapproved routes and borders. Others go through formal routes and borders yet escape fully or partially trade related regulations and duties. They avoid official border posts or pass through such posts yet resort to illegal practices such as under-invoicing, misclassification of goods and non-declaration of country of origin.

From the session, it was concluded that allowing these traders to flourish and gradually integrate into the formal economy would boost trade and the private sector base for future growth and development.

ICBT- A Private and Informal Sector Perspective

The role of private sector in formalizing informal trade cannot be under-estimated. Formal private sector organizations, in a bid to expand their market and their own sustainability, have also come up with products and market linkage relationships with informal traders as their clients. Within this context therefore, the transition to formalisation of informal trade could be achieved through multiple strategies and programmes developed by formal enterprises, NGOs and development partners towards addressing some of the critical needs and gaps of the informal cross border traders. These include access to finance, access to technical information (health & technical standards), and access to market information (inputs, products).

The panellists in the session cited the need to consider the geographical role in ICBT; for instance a country bordering many countries will have high incidences of informal trade and this will hamper the ability of government to limit it.

However, addressing it calls for a well-planned transition to ensure that no source of livelihoods for the majority involved in informal trade is affected or cut down. Acknowledging their existence is the first step, followed by the formulation of policies and strategies that will address their needs, not only focusing on tax revenues as a government

The current trend is for informal traders to access permits online to register their businesses, but most people involved cannot use online platforms. In addition, the distance at the capital where permits are issued and at the border point is wide, hence these traders cannot travel such distance to acquire permits as sometimes it is tedious and expensive for them.

Gendered Dimensions of ICBT in Africa

What strikes about informal trade is that it includes a disproportionate number of young people most of whom are women and others from disadvantaged groups. Women informal cross border traders make an important contribution to economic growth and government revenues. Their trading activities contribute to poverty reduction, employment and wealth creation in Africa. They also address vital issues of livelihoods such as food and income security. Yet they are neglected by mainstream trade policies and institutions, thus undermining the profitability and visibility of their activities. Women informal cross border traders still suffer from invisibility, stigmatization, violence, harassment, poor working conditions and lack of recognition of their economic contribution. All the economic transactions taking place at the borders are not systematically documented in terms of data and statistics, making it difficult to capture and understand the different dynamics at play to inform trade policies and processes.

Challenges affecting women in informal cross border trade

- Low level of education and business illiteracy
- Limited access to trade information and facilitation

- Exclusion from policy processes and a lack of appropriate legal and policy frameworks – top down policies
- Limited access to capital -cannot have the same level of access to finance as their male counterparts.
- The lack of assets and capital required for collateral
- Limited access to technology

There is need to address the issue of informality in mainstream trade policy making and to strengthen the notion that women informal traders are also an important client of Ministries of trade and regional economic communities. Trade policies need to be gender responsive and address the lack of provisions to address informal trade, especially that of women in the sector.

GAPS IMPEDING FORMALISATION OF ICBT

The lack of economic and physical security and safety undermines the livelihoods of informal traders and compounds their lack of access to finance, information, and business knowledge. Informal traders, especially poor women food traders, often lack representation and organization. As a result, they are vulnerable to powerful officials who control the borders. Most of the attention of the governments and donors has been on improving conditions for formal trade and better infrastructure for trucks at the main border crossings. Informal cross-border traders have not been high on the agenda. This in turn means that there has been little effort to improve the condition of the infrastructure at the border crossings that such traders use and a lack of effort to bring discipline and order to the officials who regulate these borders.

Addressing these issues by providing security at the border and implementing a transparent and predictable regime for those crossing the border would facilitate trade, improve incomes, contribute to regional food security and, in turn, provide for greater stability in the regions.

ICBT AND REGIONAL INTEGRATION

Capacity constraints for the member states is one of the reasons for lacking formalisation of ICBT at the regional level. Inadequate policy coherence and inadequate political will from some member states is one of the key reasons. There is need for data collection and management both at the regional and national level to inform policies that will promote formalisation and recognition of informal cross border trade.

Recommendations

ICBT Dynamics; Experiences from Other Regions

1. Strengthen ICBT data collection at the border posts

2. Forming trader associations/cooperatives through which market information can be passed down to members and capacity building
3. Mainstream ICBT in national and regional economic policy dialogues

Gendered Dimensions of ICBT in Africa

1. Focus on solutions by scaling up best practices i.e. – development of information manual for traders in local languages, e.g. Swahili in EAC
2. Develop awareness raising campaigns on trade regulations – targeting women in local languages
3. Strengthen market access by improving linkages across the value chain and addressing bottlenecks i.e. capital constraints
4. Develop trade policies that are gender responsive
5. Promote women trade associations in policy formulation processes

Private and Informal Sector Perspective

1. Streamline procedures for trade formalisation and reduce bureaucracy incentives
2. Strengthen the capacity of law enforcement agencies to implement border control regulation
3. Promote advocacy platforms within trade associations - to support ICBT reforms

Gaps Impeding Formalisation of ICBT in Africa

1. Promote streamlining of documentation and standards for trade formalization
2. Support the development of e-technologies to assist ICBT reporting at borders post i.e. mobile app solutions
3. Empower ICBT traders through the establishment of community actions at trading post – i.e. public display of ICBT rights and protocols
4. Harmonise fiscal measures –and reduce difference in trade tariffs from one country to another
5. Coordinate training targeting cross border officials to match ICBT demands

ICBT and Regional Integration

1. Foster political will of African governments to accelerate regional integration
2. Improve coordination between revenue authorities on ICBT – focusing on data sharing
3. Improve policy coherence on ICBT at regional level
4. Address policy implementation constraints impeding further ICBT integration at regional level

Approaches to formalisation of ICBT

1. Identification of sector specific entry points for formalization based on best practices at RECs and country level
2. ICBT data collection and analysis should be prioritised by government agencies
3. ICBT traders should be integrated in policy processes through consultations and dialogue
4. Leverage opportunities for Private Public Partnerships on ICBT facilitation (focusing at border posts) on concrete action on ICBT reforms. These partnerships to be with;
 - Between the actors themselves: Support traders to form cooperatives/trade associations- so they can address their own challenges
 - Partnerships with private sector, e.g. supply chain partnerships with agro-processors and with financial institutions like banks and insurance companies.
 - Partnerships between actors and governments e.g. municipals, county govt. to provide cross border facilities
 - Partnerships with CSO to bring in the rights approach/livelihood approach-e.g. advocacy, capacity building
 - Partnerships with development partners- leverage financial and technical support for trade associations
5. Coordinate tailored capacity development initiatives to meet demands of trade associations
6. Generate public/private investment in cross border post infrastructure
7. Identify clear incentives for trade formalization attractive to informal traders
8. Develop cutting edge research on informal trade that reflects innovative initiative on formalization
9. Prioritize data collection and analysis on ICBT to inform policy design (focus on inclusion of gender disaggregated data)
10. Support institutional capacity building of women trade associations in synergy between government and development agencies
11. Establish transparent and accountable reporting mechanisms
12. Generate resource mobilization for programme implementation on ICBT reform
13. Clarify role of CSOs in the formalisation of ICBT

Way Forward

- Incorporate above recommendations in to the final study
- Request the sector players to share any studies on the same to be added into this study
- On partnerships, develop a simplified executive summary that can be addressed to government e.g. communique to various RECs
- Partner with FAO to seek multi-stakeholder audience to report on these findings e.g. RECS and national government of specific countries
- We focus on solutions to implement the recommendations
- Inform the county governments at individual countries on what are the benefits of facilitating the cross border traders
- Develop a case study data at each border posts identified within various regions
- Engage at national level for government buy into these partnerships on ICBT