Distr.: General

E/ECA/CTRCI/8/5
08 January 2013

Original : English

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

ECONOMIC COMMISSION FOR AFRICA

Eighth Session of the Committee on Trade, Regional Cooperation and Integration

Addis Ababa, Ethiopia
6-8 February 2013

Report on the Magnitude of and Tools for Measuring Informal Cross Border Trade in Africa's Regional Economic Communities

1. Background and Justification

In Africa, it is estimated that informal cross border trade (ICBT) represents 43 percent of official gross domestic product (GDP), thus being almost equivalent to the formal sector (Lesser &. Moisé-Leeman, 2009). Surveys indicate that in some African countries, informal regional trade flows represent up to 90 per cent of official flows.

Intra-Africa trade is quite diversified compared with Africa's trade with the rest of the world, a large part of which is ICBT, generally following a long trading tradition among African nations. It is significant in boosting Intra-African trade, as well as in tackling unemployment levels, improving the supply side of goods and services and food security among others. In many instances, informal trade represents the only type of exchange that is possible under conditions prevailing in some regional economic communities. Poor regional infrastructure and communications often render near-impossible "official" trade between neighbouring countries.

However, to date, there is still limited information on its dimension as the tools for its measurement have not been very well developed. The situation has had some adverse impact on the estimation and reporting of intra-African trade, impacting negatively on African countries ability to seize the opportunities offered by comparative advantage in informal cross border trade to improve efficiency and specialization. It is hence prudent for ICBT to now be brought to the fore fronts of the whole intra-African trade and the African integration agenda. This was strongly emphasized during the last 7th Session of the Committee on Trade, Regional Cooperation and Integration, which called for the development of a tool/instrument for measuring and tracking the contribution of the informal trade sector in regional integration and intra-African trade in general.

Therefore, the overall objective of this paper is to provide a descriptive account of the magnitude of informal cross border trade in Africa, develop a tool or instrument for measuring its contributions, and suggest opportunities for private sector involvement in the whole of African regional integration agenda.

1.1. Regional Economic Integration and its Link to informal sector Trade

Regional economic integration has been viewed as a novel phenomenon in global trade dynamics with the potential to halt the marginalization of African countries in the multilateral trading system and the subsequent eradication of poverty. However, cross-border production networks, that have been a salient feature of development in other regions, especially East Asia, have yet to materialise in Africa (World Bank, 2012). Regional economic integration aims to create a common market for better economic performance as it helps to increase the volume of trade, stimulate production of goods and services and increase employment. Hashim and Meagher (1999) favourably conclude that "Cross-border trade offers, by far, the most efficient financial and commercial infrastructure that is presently available for regional trade. It could, given the appropriate policy framework, contribute to the rapid and massive expansive of markets for local industrial and agricultural goods".

1.2. Definition of Informal Cross Border Trade in Africa

There are many definitions of informal cross border trade. Lesser and Moisé-Leeman (2009) describe informal cross-border trade as involving *legitimately* produced goods and services, which escape government regulatory framework, thereby avoiding certain tax and regulatory burdens, hence fully or partly evading payment of duties and charges. Such trade include those which pass through unofficial routes and avoid customs controls, as well as those that pass through official

routes with border crossing points and customs offices yet involve illegal practices. Such practices can comprise *under-invoicing* (i.e., reporting a lower quantity, weight or value of goods to pay lower import tariffs), *misclassification* (i.e., falsifying the description of products so that they are misclassified as products subject to lower tariffs), *mis-declaration* of the country of origin, with or without clandestine operations such as secret deals involving formal importers, exporters, customs and other public officials (Macamo, 1998). ICBT is also referred to as parallel trade or smuggling Kallungia (2001). Little (2007) defines it as "a normal market response to cumbersome, time-consuming export regulations and regional price distortions, and should be encouraged as a means to increase intra-regional trade (and 'regionalization'), meet local demand that is not being met by national production and markets, and insure regional food security". The populace breaks state laws and regulations which they reject as unacceptable' in order to survive in the light of the state's incapacity to satisfy the basic needs of the impoverished masses (MacGaffey, 1991).

1.3. Types of Informal Cross Border Trade

Table 1: Categories of Informal Cross Border Trade

Category A	Category B	Category C
Informal (unregistered) traders or firms operating entirely outside the formal economy	Formal (registered) firms *fully* evading trade-related regulations and duties (e.g., avoiding official border crossing posts)	Formal (registered) firms *partially* evading trade-related regulations and duties by resorting to illegal practices (e.g., under-invoicing)

There are three categories of informal cross border trade. Category A ICBT consists of unregistered operating entirely outside the realm of formality. Category B ICBT embraces those firms that are registered but who fully evade trade related regulations and duties. Category C ICBT are those participants that are formally registered but who partially evade regulations by resorting to illegal practices. Informal cross border trade in Africa covers a wide range of agricultural and non-agricultural or manufacturing sector commodities. However, the most consistent commodities being monitored have been agricultural and concern trade in maize, rice and beans in eastern and southern Africa and rice in West Africa. Goods traded informally can cover both small volumes of goods, transported by individual traders crossing the border by foot or by bicycle, as well as larger volumes transported in containers by land, sea or air. Informally-traded goods can originate from (and be produced in) world markets or come from neighbouring countries.

Illegal ICBT participants engage in the distribution of prohibited goods and services, deriving lucrative income that competes directly with trade in food and cash crops in Africa. For example, enforcing the official rice export ban in place in Sierra Leone since February 2011, has been challenging, such that informal cross-border flows meant reduced availability of rice in local markets (WFP & MOA, 2011)[1]. Cocoa from Côte d'Ivoire is routinely exported through Liberia. Cocoa and coffee production tend to flow to the market where prices are most attractive, irrespective of borders (IITA, 2004).

1.4. Methodology of Study

A preliminary desk study enables us to determine, from existing literature, the magnitude of informal cross border trade in Africa and the tools and methodologies used in estimating it. The paper draws on information published by national agencies such as national statistics offices,

[1] In 2011, 50kg of imported rice cost US$33-40 in Liberia compared to US$42-50 in Guinea. ICBT contributed to rising rice prices in Liberia, due to "huge rice outflows" to neighbouring Guinea. In Sierra Leone the equivalent price currently was US$36, making "re-exporting" rice to Guinea quite attractive.

customs and trade agencies and experts from relevant international and regional organisations (e.g., World Food Programme, United States Agency for International Development, Common Market for Eastern and Southern Africa (COMESA), and Global Organizations such as United Nations Agencies, The World Bank, International Monetary Fund, World Customs Organisation (WCO) and African countries. The study relies on monitoring reports of informal cross border trade in selected countries; past OECD work on trade facilitation; and business surveys regarding the customs environment in Africa.

1.5. Structure of the Report

The first section describes the general background of informal cross-border trade in Africa. It lays the study context and provides comprehensive definitions of the ICBT. In the second section, measurement issues such as tools, what to measure, key survey participants and data challenges are discussed. Section three presents selected results of measurement of agricultural and industrial ICBT by category, while section four highlights opportunities for private sector development in cross border trade as part of the presentation of specific policy measures for improving ICBT in Africa. The last section concludes the paper.

2. Measuring the size of Informal Cross Border Trade

Each ICBT category is characterized by the particular institutional set of rules that it circumvents. The metric for measuring the dimensions of each trading activity might therefore differ, but in all it is related to the aggregate income generated by each activity. In general, measuring ICBT consists of monitoring trading activities in official and unofficial border posts, border markets and using aggregate data to capture trade gap.

2.1. ***Monitoring Official and Unofficial Border Posts*****:** Border monitoring normally proceeds in eight stages and includes: border site selection, profiling of selected border points, development of a monitoring schedule, selection and training of enumerators, data collection and data transmission and validation, database hosting and maintenance and data analysis and dissemination (Nzuma 2011). Enumerators are posted to directly observe traders and record data on ICBT at the most active border crossing points and their surroundings. They keep records of all traded goods that are not recorded or officially cleared by the customs authorities, and work during the border opening hours per day (e.g. 7 am to 6 pm), observing and recording the amount of commodities and livestock crossing in and out through a designated border point. The monitor also works with selected border traders who act as key informants for any qualitative information and clarifications needed with regard to the cross-border flows. Later, a census techniques is applied to cover major agricultural and industrial commodities during two randomly selected weeks from each month over a period of 12 months. Estimated average monthly trade volumes derived from observed figures are used to calculate the annual volume and value of unrecorded trade flows between two trading partners.

2.2. Using aggregate trade gap as a tool for measuring all Categories of ICBT

Unreported ICBT can be estimated using the "trade gap" method, namely the difference between the amount of trade recorded by the national authorities and the amount of cross border trade that is actually taking place. Because these are unobtrusive measures, they are not susceptible to wilful distortion on the part of a respondent. Such approaches are typically less costly to undertake, and they provide temporal estimates of both the size and growth of unobserved activities (Feige, 1990). Theoretically, international trade statistics should match so that a country's exports to a particular partner are identical to the partner's recorded imports from that supplier. However, this is not

always the case[2]. Fisman and Wei (2007) provide some explanation for the observed differences in matched partner trade statistics. They argue that the gap between exports and imports may (partly) reflect systematic (criminal) behaviour by traders. In particular, for products with sharp export restrictions in the source country and no barriers to import in the destination country, traders have a strong incentive to under-report exports (i.e., to partially smuggle the good out of the country), while properly declaring imports (because of no constraints for entry, in combination with the risk of seizure when there is false declaration). Hence, some national customs authorities and experts estimate the extent of informal cross-border trade by comparing their customs data with that of their trading partners[3] (e.g., Levin and Widell, 2007 who compare Kenyan and Tanzanian customs data to identify ―missing imports in each country).

2.3. Measuring Category A Informal Cross Border Trade (Unregistered Traders/Firms)

2.4.1. What to measure

What is necessary to measure for category A ICBT are the micro-observations on informal cross border trade. These include the typically small volumes of goods traded informally, transported by individual traders crossing the border by foot or by bicycle. The profile of the traders and their ethnic affiliation, whether they have relatives across the border etc.

Data are needed on the functioning of cross-border trade, the origin of customers, the provenance and destination of traded goods, the importance of formal compared to informal trade, the buying and selling prices for commodities, price trends, import channels, amount of taxes and levies paid (if any), bribes, customs receipts, and transportation costs. Data on the underlying causes of ICBT such as the macro-economic performance and magnitude of unemployment in the country could be obtained from secondary sources.

It is essential to map ICBT flows, indicating the geographic breakdown in the importing country: indicate origins, areas of transit and destination. The researcher can then compare formal imports, informal imports and domestic products. It is also important to identify main recent changes in these flows.

Mapping the main logistical problems confronting ICBT (roads, bridges, bottlenecks etc) will provide some of the underlying causes of the trade.

2.4.2. Methods for Measuring Category A ICBT.

(i) ***Monitoring Official Border Posts*****:** Systematically documenting collected micro-observations from individual category A ICBT surveys is important.

(ii) **Monitoring of border markets**: ICBT very often takes place in areas that are 'peripheral' within their national states, as they are very distant from their respective capitals. Border markets function as storage and relay sites that provide the distribution of goods to neighbouring countries.

[2] A major source of discrepancy is the conceptual difference in valuation. Exporting countries report the value of goods at the initial point of departure (fob), while import values refer to the value at the point of final destination, thereby including the costs of freight and insurance (cif).

[3] While such a methodology is useful, some experts consider that it needs to be complemented by other evidence to get a more complete assessment of informal trade.

(iii) **Monitor trade among neighbours engaged in conflict :** ICBT tends to be prevalent among conflict ridden neighbours (Titeca, 2009). Conflict provokes a strong movement of refugees in many areas, playing a role in the development of cross-border trade (Meagher 1990).

(iv) **Use aggregate macroeconomic and trade data to estimate ICBT**: Another approach to measuring category A ICBT is to rely on published aggregate data that have been collected for purposes unrelated to the study of ICBT.

2.4. Measuring Category B ICBT: Formal unrecorded/unreported Cross Border Trade

2.4.1. What to measure

Data on commodity consumption and market chain. These could include cross-border trade data on (1) market organisation (2) buying and selling price differential (3) import and export volumes (4) share of formal and informal trade (5) harmonisation of customs procedures (6) harmonization of sanitory and phytosanitory measures (7) common rulers of origin (8) quality standards. Exchange rate fluctuations need to be monitored as are the existence of commodity price subsidies, customs duties across borders.
Data on trade infrastructure such as (1) storage facilities (2) transport system and costs (3) market information credit facilitation.

Timing is another issue to note. There are often usually significant time lags between the departure and arrival of traded goods/commodities, hence ICBT could hence be recorded in different calendar years.
Secondary data also have to be collected on national governmental expenditure on particular sectors to understand whether the country's policies are conducive to or hinder cross-border trade.

2.4.2. Tools for measuring category B ICBT.

(i) ***Monitor Unofficial Border Posts*:** Monitoring ICBT activities in this circumstance could be enhanced by posting people to observe traders and trading activities at the most active unofficial border crossing points and their surroundings[4].

(ii) ***Stocktaking at open markets or warehouses*:** This approach is best implemented along those borders with open markets where all commodities moving in and out of the country are assembled or stored. The objective of this approach is to estimate net import and export, the volume of goods sold and bought by traders/buyers from either country, taking into account stock carryover and replenishment. Carryover stocks are treated as beginning stocks for the next market day.

Key survey tool

A particularly useful method is to implement a "participant observer" method. This involves the participation of a researcher who has made sufficiently close contacts with agents engaged in ICBT activities that he is trusted and is accepted as a routine participant.

[4] Many African countries with long borders experience serious challenges monitoring trading activities, partly because borders are weak and porous. This provides a fertile environment for category B ICBT to thrive as traders fully evade border posts.

2.5. Measuring Category C (Registered Traders/Firms) Formal Cross Border Trade partially involving illegal activities

Criminologists and law enforcement officials have a natural interest in monitoring the size, growth and social consequences of illegal trade. The most notable illegal trading activities are those involving trade in prohibited substances (caused by import quotas or export bans e.g., on some food commodities) and black market commodity or foreign exchange.
Regulatory issues can influence category C cross-border exchanges. These contribute to increasing trade transaction costs and encourage traders to escape formal procedures and duties. ICBT is also enhanced when important price disparities arise between formally and informally traded goods in the importing country due to high levels of import and export duties on selected commodities.

2.5.1. What to measure

(i) ***Data on all illegal ICBT:*** It is useful for observers to capture records of all illegally traded goods that are beyond the records of customs authorities.

(ii) ***Measure the extent and cost of trade related regulations and duties:*** It is essential to measure the extent to which officially traded goods are subjected to *complex, non-transparent or divergent regulatory requirements* (e.g., customs formalities, extent and cost of technical regulations, sanitary and other standards).

(iii) ***Measure the extent of interference with cross border trade:*** There is also the issue of persistent interference with trade, especially those using truck transportation in many African countries, which is characterized by arduous customs and roadblock checks. It will be necessary to measure how long it takes (number of hours, days, or weeks) to secure export and import customs clearance and technical controls[5], and the number of truck scales[6] at the border. Also determine the number of checkpoints[7] mounted to interfere with cross border trade. These holdups act as avenues for corruption (Uganda Freight Forwarders Association 2011).

(iv) ***Measure the degree of obstructed entry or exit of certain commodities***, caused by import quotas or export bans (e.g., on some food commodities) or foreign exchange controls. Collecting anonymous data on the amount of formal and informal payments that traders pay when crossing the border could be used to establish trends in border management (Hoppe and Aidoo, 2012).

(v) ***Overall, it is important develop measurable indicators of ICBT development.*** It is important to develop and assess how successful ICBT reforms and initiatives are in helping trade between REC member countries. For example, the number of interactions with government officials or the average time it takes to cross the border in either direction could be monitored.

[5] For example, it takes four and five days, respectively, to secure export and import customs clearance and technical controls in Uganda (World Bank and International Finance Corporation 2011).
[6] In Uganda, there are three truck scales between Malaba and Kampala located in Malaba (permanent) just before customs, Busitema (permanent) and Iganga (mobile).
[7] There are about 13 checkpoints in Kenya staffed by security agencies (mainly Kenyan police and administration police), which are located in Mombasa (town exit).

2.5.2. Tools for measurement of Category C ICBT

***Tracking movements of large transport vehicles*:** This *tracking technique* is aimed at estimating the volume of unrecorded trade that passes across the border through illegal activities such as manipulation of the documentation procedures[8].

2.6. The challenges of monitoring ICBT data

Acacia Consultants (2005) summarize the main practical challenges related to implementations of informal trade monitoring. These are:

(1) Official border points tend to be located next to unofficial border routes hence substantial volumes of informal trade can easily go unrecorded.

(2) Some ICBT surveys also do not consider the unrecorded value or volume of trade caused by under-reporting or misclassification at official border points.

(3) There is a need to find the best time to monitor informal trade. Currently all agencies monitor ICBT between 6 am to 7 pm and hence do not account for night trading activities.

(4) This monitoring time especially when carried out all days in a week may lead to monitor fatigue, thus compromising the quality of data. The ideal monitoring period is actually all year round due to agricultural sector seasonality.

(5) In addition, which borders to monitor is much undefined. Monitoring all borders has financial implications, hence the need to have key representative borders. Further, monitoring surveys are done few weeks in a month and thus provide results which are unlikely to provide an accurate picture of informal trade.

(6) There are challenges related to methodological tools used in ICBT estimation. Direct observation, without any 'balance-weighing scale' to measure the volume of trade, is unlikely to provide accurate estimates of traded quantities.

(7) Other trade related issues include the selection of the prices used by border monitors, whether to use farm gate, wholesale or retail price and what the Cost, Insurance and Freight (CIF) and Free on Board (FOB) equivalent prices are. What exchange rate to monitor is also a challenge, official or local border hawking exchange rate?

(8) Overall, most researchers have measured ICBT by implementing once-off studies or snap shot surveys of specific borders between adjoining countries. These studies are not Africa-wide as this would rather be very time-consuming and costly. Limited funding in the region for compiling trade statistics implies restricted ability for ICBT monitoring (Acacia Consultants, 2005).

[8] Direct border observation alone may not yield a realistic picture of the unrecorded trade if transporters collude with customs officials to fraudulently avoid payment of duty through mis-declaration and misspecification of cargo.

3. Selected Results from measuring ICBT in Africa

3.1 Results from monitoring cross border flows for category A ICBT

3.1.1. Estimates of Agricultural Category A ICBT in East Africa

Tanzania's unreported export to Uganda was US$1.9 million in 2002(Ng and Yeats, 2005).
Cross border trade in Camels through Ethiopia/Djibouti, Southern Sudan/North Western Kenya, and Eastern Uganda/Western Kenya is estimated to be worth US$5million per annum (Little, 2005). In the Horn of Africa (Sudan, Ethiopia, Eritrea, Djibouti and North-East Kenya), for some agricultural commodities—like livestock and grain—unofficial exports to neighbouring countries in fact *exceeded* at times official trade by a factor of 30 percent or more, hence constituting over 95 percent of total trade in these commodities (Omiti, 2009).

3.1.2. Estimates of Agricultural Category A ICBT in ECOWAS

Nigeria's informal exports of foodstuffs to Niger alone, mainly millet and maize, is estimated to vary between 100 000 and 200 000 tonnes a year equivalent to FCFA 10-20 billion (Club du Sahel/OECD, 2001).

3.1.3. Results for selected industrial Category A ICBT in ECOWAS

Each of about 3 million West African cross-border traders conducts an annual average of US$20,000 in transactions, amounting to an aggregate amount of four billion dollars (USAID, 2006). Overall informal exports to West Africa from Nigeria is estimated to be between $1.5 and $1.9 billion. (Club du Sahel/OECD 2001). Up to 15 percent of Nigeria's imports enter Ghana informally, largely along the Benin–Nigeria border (World Bank, 2009).

3.2 Selected Estimates of Category B ICBT

3.2.1. Results from monitoring flows of Agricultural category B ICBT in CEMAC

ICBT of mainly agricultural and horticultural commodities represents 96% of official trade (Nkendah, 2010). In general, the estimated quantities are 556% higher than official quantities. with Chad ranking highest at 638%), followed by Gabon and Equatorial Guinea at (495%), CAR (298%) and Congo (123%).

3.2.2. Estimates from monitoring flows of agricultural Category B ICBT in East Africa

Uganda's ICBT to its five neighbouring countries (Democratic Republic of Congo, Sudan, Kenya, Tanzania and Rwanda) reached an estimated US$231.7 million, corresponding to around 86 percent of official export flows to these countries over the same period, or 46 percent of total (formal and informal) export flows to these countries (Omiti, 2009; Lesser &. Moisé-Leeman (2009).

3.2.3. Estimates from monitoring flows of Agricultural Category B ICBT in the Economic Community of West African States (ECOWAS) and UEMOA

The magnitude of unregistered trade in total exports varies from 1.7% in Mali to 92% in Benin (Soulé, 2011).

3.2.4. Estimates of Agricultural Category B ICBT in COMESA

In the first half of 2011, a total of 65 different food commodities and livestock were traded across the 21 border markets monitored in COMESA/Eastern Africa. In terms of volume, beans was the most traded food commodity (39,215 MT) followed by maize (30,525 MT) and sorghum (17,131 MT). About 37 percent of food commodities were traded informally (FEWS NET/FAO/WFP, 2011).

3.2.5. Results from estimating Category B ICBT in the Economic Community of West African States (ECOWAS) and UEMOA using aggregate trade gap data

Nigeria lost $6.3billion to smuggling and product counterfeiting in 2003 (Garuba, 2010). In Benin, the volume of certain traded goods which is not declared at customs is thought to correspond to 10 times official trade flows, or over 90 percent of actual traded flows (Omiti, 2009).

3.2.6. Estimates from monitoring flows of Industrial ICBT in East African Community

Bilateral exports from Uganda to Sudan have experienced skyrocketing growth since 2005—from US$60 million in 2005 to US$635 million in 2008 (Yoshino et al, 2012). The main destination for Ugandan industrial exports is DRC and the top five exported goods are shoes (US$25.2 million), clothes (US$17.6 million), maize flour (US$ 6.9 million) and *bitenge* (traditional printed textile) (US$5.7 million).

3.3 Results of measurements of Category C ICBT

3.3.1. Estimates from monitoring flows of Agricultural Category C ICBT in ECOWAS

Rice is an important ICBT product in West Africa. Following the 1987 embargo on rice imposed by Nigeria, Benin imported 387,000 tons of rice during that year over and above the country's food sufficiency need of 60,000 tons. By 2008, Benin was importing over 950,000 tons of rice over and above the national requirement of 100,000 tons. The rest was simply re-exported to Nigeria (Soulé, 2011).

3.3.2. Estimates from monitoring lows of industrial Category C ICBT in the Arab Maghreb Union

Illegal market for veterinary products (underground circuits at the borders) is estimated at 15% of turnover for the Arab Maghreb Union (El Bahri, 2011). Egypt loses LE 4 billion (about $662 million) annually due to illicit trade in cigarettes to Maghreb neighbours (Abdellatif, 2012).

3.3.3. Results from estimating industrial Category C ICBT in the Arab Maghreb Union, using aggregate trade gap data

Informal trade between Morocco and Algeria is estimated at $2 billion. (Globalarabnetwork.com, 2011).

3.3.4. Results from estimating aggregate trade gap of industrial Category C ICBT in ECOWAS

In Benin over 75% of the goods landed at Cotonou harbour are estimated to be headed for Nigeria up to a value of over FCFA 80 billion a year (Club du Sahel/OECD 2001). At least 10% of Nigeria's domestic consumption of petroleum flows to regional neighbours (Garuba, 2010). A more recent account puts the loss of Nigerian government to illegal oil bunkering at $7.7 billion annually. This is calculated based on estimated US$7.7million on every 100,000 barrels loss per day (Opara, 2010). There is high level of fraud in Nigeria's trade with Niger Republic amounting to 15 percent of exports, 79 percent of imports and covering 123 percent of goods in transit (Soulé, 2011).

3.3.5. Results from estimating aggregate trade gap of industrial Category C ICBT in SADC.

It is estimated that around 10 tonnes of gold leave the DRC per year, of which only 10 percent is as registered exports (DFID 2007:17). Trade in industrial products between Mozambique and Zimbabwe is estimated to be worth US$5.2 million (Macamo, 1999).

4. Opportunities for Private Sector participation in ICBT in Africa's RECs

Private sector participation can deepen regional cooperation and integration in several ways: (i) it will increase and diversify trade (including ICBT), at the same time building links across regions, such as with East Asia; (ii) it eases market access, especially through REC agreements; (iii) it improves intraregional investment as doing business becomes easier; and (iv) it allows for an accelerated improvement in infrastructure (Nag, 2009). The continent has a huge market base, with a population of one billion people, which is expected to rise to over 2 billion by 2025.

The investment climate is becoming increasingly friendly to business as governments across the continent continue to embark on comprehensive reforms geared towards macro-economic stability and investment attraction. Also, given that the continent offers some of the highest returns on investment, opportunities to attract investment from across the globe are huge. Africa’s robust growth in recent years has largely been fuelled by the private sector. Studies suggest that businesses along informal routes grow faster than those located far away (UBOS, 2008). Kenyan, Tanzanian and Ugandan businesses have expanded by about 86%, 78% and 60% respectively since the launch of EAC Customs Union in 2005 (EACB, 2008). Excess capacity is a major hindrance to competitiveness of some African businesses particularly in Burundi and Rwanda, where 40% to 50% of the companies reported operating at between 10% and 30% capacity (EACB, 2008).

(1) It is important to create an improved operating environment for ICBT stakeholders. The immediate priority must be to improve the conditions at the border and the treatment of cross-borders traders.

(2) Interference in trade opportunities should be minimised via a significant reduction in customs procedures and delays at border posts.

(3) African RECs should promote non-discriminatory investment policies that attract regional investors as a way of encouraging cross border investment in trade.

(4) Access and utilization of financial and marketing services serve as key drivers to business survival.

(5) Improved transport and other infrastructure facilities will assist to boost marketing of ICBT in Africa. Contiguous countries within African RECs should help facilitate the provision of storage facilities at border posts.

(6) Sourcing of inputs from REC member countries is still low and can improve.

5. Summary and Conclusions

The nature, extent and clear characteristic of ICBT trade in Africa's RECs are not well known. However, it is evident that ICBT still represents a significant proportion of regional cross-border trade in Africa. Few agencies in the region are monitoring the informal sector trade but a lot of the data remain unrecorded. Missing informal trade data leads to unreliable external trade statistics which might, in turn, affect effective formulation, implementation and monitoring of domestic, regional and international trade policies. To measure ICBT at a sub-national level, field surveys are recommended with traders, transporters, and consumers in the identified regions as well as key informant interviews with officials from sub-national authorities. For a quantitative assessment of informal trade, a long-term monitoring at border posts is required.

6. References

Abdellatif, Reem (2012) Egypt loses LE 4 billion to illicit cigarette trade, Daily News Egypt, available at http://www.thedailynewsegypt.com/industry/egypt-loses-le-4-bln-to-illicit-cigarette-trade-dp3.html, March 21, accessed 22-03-2012

Acacia Consultants Ltd. (2005). Evaluation of the WFP / FEWS NET Informal Cross-Border Trade Monitoring System: Draft Final Report June 2005 Assignment undertaken for UNWFP by: Acacia Consultants Ltd. Available at: http://v4.fews.net/docs/Publications/XBT%20Evaluation%202005_06.pdf. Accessed 18-03- 2012

Club du Sahel/OECD, (2001) Prospects for Trade between Nigeria and its neighbours . Available at http://www.inter-reseaux.org/IMG/pdf_Prospects_for_Trade_between_Nigeria_and_its_Neighbours.pdf, accessed 23-03-2012

Department for International Development (DFID). 2007. *Trading for Peace. Achieving security and poverty reduction through trade in natural resources in the Great Lakes area*. London: DFID.

East African Business Council (2008) Deepening Regional Integration through greater Private Sector Involvement, EACB Briefing Paper, October, p.32

El Bahri, Lotfi (2011) Regional Experiences on The Veterinary Medicinal Products Regulations in North Africa and The Middle East, Paper presented at the Advanced Training for OIE Focal Points on Veterinary Products, countries of North Africa and Middle East (2ND CYCLE), Casablanca, Morocco, 6-8 December

Feige, Edgar L. (1990) Defining and Estimating underground and Informal Economies: a new institutional approach. *World Development*, Vol 18 No. 7. pp 1-29

FEWS NET/FAO/WFP (2011) East Africa Crossborder Trade Bulletin, Issue 2, July p.3

Fisman, Raymond and Shang-Jin Wei(2007) The Smuggling of Art, and the Art of Smuggling: Uncovering the Illicit Trade in Cultural Property and Antiques, Columbia University.

Garuba, D. S. (2010). *Trans-Border Economic Crimes, Illegal Oil Bunkering and Economic Reforms in Nigeria,* Global Consortium on Security Transformation, Policy Brief Series, No. 15, October.

Hashim Yahaya and Kate Meagher (1999) *Cross-Border Trade and the Parallel Currency Market: Trade and Finance in the context of Structural Adjustment, A case Study From Kano, Nigeria,* Nordiska Afrikainstitutet, Research Report No. 113, Uppsala.

Hoppe Mombert and Francis Aidoo (2012) Removing Barriers to Trade between Ghana and Nigeria: Strengthening Regional Integration by Implementing ECOWAS Commitments, Policy Note No. 30, World Bank.

International Institute of Tropical Agriculture (2004) *Tree Crops to Ensure Income Generation and Sustainable Livelihoods in Liberia: Unlocking the potential of the cocoa sub-sector.* STCP

Levin, J. and Widell, L. (2007), Tax Evasion in Kenya and Tanzania: Evidence from Missing Imports, *Working Paper No.8*, Department of Business, Economics, Statistics and Informatics, University of Orebro, Sweden.

Lesser, C. and E. Moisé-Leeman (2009), "Informal Cross-Border Trade and Trade Facilitation Reform in Sub- Saharan Africa", *OECD Trade Policy Working Papers*, No. 86, OECD Publishing, available at http://dx.doi.org/10.1787/225770164564, accessed on 12-02-2012

Little, P.D. (2007), Unofficial Cross-Border Trade in Eastern Africa, paper presented at the *FAO Workshop on Staple Food Trade and Market Policy Options for Promoting Development in Eastern and Southern Africa*, March 2007, FAO Headquarters, Rome.

Little, P.D. (2005), Unofficial Trade When States are Weak: The Case of Cross-Border Commerce in the Horn of Africa, *Research Paper No. 2005/13*, United Nations University/WIDER, Helsinki.

Kallungia, S.K (2001) Impact of Informal Cross Border Trade in Eastern and Southern Africa, Common Market for Eastern and Southern Africa, Lusaka.

MacGaffey, J. (1991). *The Real Economy of Zaire*. London & Philadelphia: James Currey & University of Pennsylvania Press.

Macamo, Jose Luis **(**1999) "Estimates of unrecovered cross-border trade between Mozambique and her neighbours", *World Vision International- Mozambique,* SD Publication series. Technical paper No.88, June. p10

Meagher, K. (1990) 'The hidden economy: informal and parallel trade in North Western Uganda', *Review of African Political Economy,* Vol. 47: 64-83.
Nag Rajat M (2009) Harnessing Business Opportunities for South Asian Economic Integration, Opening remarks by Asian Development Bank Managing Director General, Conference on Harnessing Business Opportunities for South Asian Economic Integration, 17 November, New Delhi, India.

Ng Francis and Alexander Yeats (2005) Kenya: Export Prospects and Problems, The World Bank, Africa Region, Working Paper Series No. 90, October

Nkendah, Roberts (2010) The Informal Cross-Border Trade of agricultural commodities between Cameroon and its CEMAC's Neighbours, Paper for the NSF/AERC/IGC Conference, December, Mombasa, Kenya

Nzuma Jonathan Makau (2011) A Data Collection Methodology for Informal Cross-Border Trade in the East African Community, Revised Draft Manual, East Africa Grain Council (EAGC), November.

Omiti, John (2009). Informal Cross border Trade and Trade Facilitation reform in sub-Saharan Africa, *PAAP's Electronic Newsletter*, Vol. 12 No.08, April,pp.1-15.

Opara, S. (2010). Nigeria loses $7.7m daily to oil theft. *The Punch* (Lagos), retrieved from http://www.punchng.com/Articl.aspx?theartic=Art201006170313720, June 17

Titeca Kristof (2009) The Changing Cross-Border Trade Dynamics between north-western Uganda, north-eastern Congo and southern Sudan, Working Paper no. 63, Series No.2, - *Cities and Fragile States, LSE, DESTING Development Institute.*

Uganda Bureau of Statistics (2008) *The Informal Cross Border Trade 2008 Qualitative Report,* Kampala: UBOS and Bank of Uganda, Kampala

Uganda Freight Forwarders Association. (2011). *Northern Corridor News*, March 4.

United States Agency for International Development (2006) West African Financial Flows and Opportunities for People and Small Businesses, available at http://www12.georgetown.edu/sfs/isim/Publications/RCRCCPubs/Orozco/West%20African%20Financial%20Flows%20and%20Opportunities%20for%20Small%20B.pdf, accessed 21-03-2011

World Bank (2012) De-Fragmenting Africa Deepening Regional Trade Integration in Goods and Services, Washington DC.

World Bank (2009). Nigeria: Employment and Growth Study." Report No. 51564-NG, Washington DC.

World Bank and International Finance Corporation (2011). *Doing Business 2011: Making a Difference for Entrepreneurs*. Washington: World Bank and International Finance Corporation.

World Food Programme and Ministry of Agriculture (2011) Market Bulletin Ministry of Agriculture, Forestry and Food Security | Sierra Leone Issue 2, Apr-Jun 2011

Yoshino Yutaka, Grace Ngungi, Ephrem Asebe (2012*)* Enhancing the Recent Growth of Cross-border Trade between South Sudan and Uganda, Chapter 4, in World Bank (2012) De-Fragmenting Africa Deepening Regional Trade Integration in Goods and Services, Washington DC, pp43-54