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Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa

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INFORMAL CROSS-BORDER TRADE AND TRADE FACILITATION REFORM IN SUB-SAHARAN AFRICA

FINAL REPORT

OECD Trade Policy Working Paper No. 86

by Caroline Lesser and Evdokia Moisé-Leeman

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ABSTRACT

The informal sector still constitutes an important part of developing country economies. In Africa, it is estimated to represent 43 percent of official gross domestic product (GDP), thus being almost equivalent to the formal sector. While this phenomenon may provide short-term solutions to poor households, in the longer term, it can seriously challenge the economic development of African countries. This study explores one particular aspect of the informal economy, namely *informal cross-border trade* in selected Sub-Saharan African countries, and identifies which trade facilitation measures (such as those currently negotiated at the World Trade Organisation) have the potential to encourage traders to switch from informal to formal trade. The paper considers measures that help reduce direct and indirect trade transaction costs arising from mandatory import- and export-related procedures; mechanisms that simplify trade-related regulations and requirements for selected low value transactions; and policies that help enhance compliance levels with existing international trade regulations. In addition, the study explores a number of complementary measures (such as the provision of effective business support services to "formal" traders and enhanced dialogue between traders and border agencies) which can further encourage firms to formalise their cross-border transactions. The paper does however not suggest that trade facilitation reform alone will help reduce informal cross-border trade nor that governments will be able to fully eliminate its incidence in the region.

Keywords: Trade facilitation, customs procedures, customs modernisation, informal trade, economic development, simplified trade regime, World Trade Organisation, Sub-Saharan Africa.

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The Working Party of the OECD Trade Committee discussed this study and agreed to make the findings more widely available through declassification on its responsibility. The study is available on the OECD website in English and in French: http://www.oecd.org/trade

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EXECUTIVE SUMMARY

The informal sector still constitutes an important part of developing country economies. In Africa, it is estimated to represent 43 percent of official gross domestic product (GDP), thus being almost equivalent to the formal sector. While this phenomenon may provide short-term solutions to poor households, in the longer term, it can seriously challenge the economic development of African countries. This study explores one particular aspect of the informal economy, namely *informal cross-border trade,* in selected Sub-Saharan Africa countries, and seeks to identify which trade facilitation measures (such as those currently negotiated at the WTO) have the potential to encourage traders to switch from informal to formal trade. There are of course other policies than can contribute to curbing informal trade, yet these are not explored in-depth in the framework of this paper.

How important is informal cross-border trade in Sub-Saharan Africa? And what are its key characteristics?

While it is difficult to get an accurate overview of the extent of informal cross-border trade in Sub-Saharan Africa, reviewed surveys suggest that such trade still represents a *significant proportion* of regional cross-border trade. In Uganda, for example, informal exports flowing to its five neighbouring countries were estimated to account for USD 231.7 million in 2006, corresponding to around 86% of Uganda's official export flows to these countries. Similarly, informal imports were estimated at USD 80.6 million, corresponding to approximately 19% of official import flows from these countries. Available surveys indicate that a substantial proportion of informal cross-border trade in the region concerns *staple food commodities* (e.g., maize, rice and cattle) and *low quality consumer goods* (e.g., clothes, shoes and electronic appliances). It is mainly conducted by individual traders (a large proportion of which are women) and micro-, small and medium-sized enterprises and often consists of small consignments. Some of these traders operate entirely outside the formal economy; others are registered domestically yet escape fully or partially trade-related regulations and duties (e.g., they avoid official border posts or pass through such posts yet resort to illegal practices such as under-invoicing, misclassification of goods and misdeclaration of country of origin).

What are the main explanatory factors for this phenomenon?

A number of factors explain why firms conduct informal trade. Businesses are incited to escape trade-related regulations and duties 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* (e.g., in Côte d'Ivoire, where cocoa exports were taxed by a marketing board). In addition, officially traded goods might be subject to *complex, non-transparent or divergent regulatory requirements* (e.g., customs formalities, technical regulations and sanitary standards) that contribute to increasing trade transaction costs and encourage traders to escape formal procedures and duties (e.g., in the East Africa Community, where traders often lack information on regulatory requirements and face long and costly customs delays when trading formally). Informal cross-border trade can also arise due to the *obstructed entry or exit of certain commodities*, caused by import quotas or export bans (e.g., on some food commodities) or foreign exchange controls. Finally, *weak law enforcement at the borders* not only facilitates the conduct of informal trade, letting some traders "get away with it" (e.g., as in Ethiopia, where customs officials have often ignored informal flows in foodstuff), but also acts as an important trigger for it, since generating arbitrary applications of trade laws and regulations and requirements for "facilitation payments" (bribes).

What are the likely implications for developing countries?

Informal trade can in the *short- to medium-term* encourage entrepreneurial activity and regional trade, contribute to greater food security and enhance income earnings and employment opportunities for poor households. Yet, in the longer run, it is likely to have negative economic and developmental effects, which might further marginalise Sub-Saharan African economies. First, informal cross-border trade creates "*unfair competition*" vis-à-vis formal traders, reduces the incentives to invest in the formal economy and lowers business opportunities in regional and global markets, which diminishes the prospects for private sector (and overall economic) development in Sub-Saharan Africa. Second, informal cross-border trade *lowers the efficiency of measures* put in place to ensure health, safety and environmental protection. Agricultural commodities which are traded informally, for example, escape sanitary and phytosanitary controls meant to ensure adequate food safety at home and avoid proliferation of diseases across borders. Third, informal trade *erodes government revenues*. Millions of dollars are lost annually in unpaid customs duties and value-added tax (VAT). Such losses are particularly significant for Sub-Saharan African countries for which trade taxes still account for an average 25% of total tax revenue and where VAT collected at the border often represents more than 50% of total VAT revenues. *Finally*, unregistered trade flows lead to unreliable external trade statistics which might hinder the formulation of appropriate trade and macroeconomic policies.

Which trade facilitation measures can help curb informal trade?

Governments could reduce the incentives to trade informally, by diminishing the costs of formal importing/ exporting; enhancing compliance levels with existing regulations; and improving trading opportunities and services for traders in the formal sector. It is however not suggested that authorities will be able to fully eliminate the incidence of informal cross-border trade in Sub-Saharan Africa. Individuals with low literacy levels, trading very small amounts of low-value goods with their family members across borders, often through unofficial routes with no border posts, usually do not declare any of their business activities and are thus unlikely to formalise their cross-border trade transactions. The procedures and tools examined in this paper therefore mainly concern individuals or firms that have (partially) registered their activity and/or are partially compliant with trade-related regulations.

The measures currently discussed in the framework of the *WTO Negotiations on Trade Facilitation* have the potential to reduce informal cross-border trade among this latter category of firms. Simplifying and reducing documentation requirements and formalities; lowering the levels of fees and charges for importation and exportation; expediting the release and clearance of goods from customs custody; enhancing transparency and predictability of trade-related regulations and fees; and improving border agency coordination (both within and across countries) will lower both direct trade transaction costs arising from compliance with trade-related regulations and the payment of fees and charges, and indirect costs arising from waiting times at the border and lack of predictability of the trading environment. Furthermore, they can lower the incidence of corruption and significantly enhance the efficiency of controls at the border (e.g., through risk management techniques and enhanced regional border coordination), thus improving compliance with trade-related regulations. Such measures bear a particular importance for smaller firms which often do not have the necessary capacity nor resources to deal with complex documentation requirements; cannot easily absorb trade-related fees and charges and might be subject to additional inspections at the border (due to the lack of rich track records with Customs authorities).

Beyond these measures, a *simplified trade regime* — consisting of simplified documentation formalities, lower trade-related fees and charges, and immediate release from Customs custody for goods under a certain threshold — could be introduced to encourage micro-, small and medium-sized enterprises to formalise low value cross-border transactions for which they currently face a disproportionate compliance burden. A simplified trade regime for selected staple food commodities is, for example, being promoted by COMESA member countries whereby small-scale traders benefit from a Simplified Customs Document and a Simplified Certificate of Origin, under which goods that are COMESA-originating and whose value does not exceed USD 500 per consignment, qualify automatically for duty-free entry in the COMESA market. Any special regime should however not become a "refuge" where small businesses stagnate. There must be sufficient incentives for small businesses to want to outgrow from these schemes.

Moreover, *complementary measures* — such as *assistance* to help traders understand and comply with existing trade regulations (through targeted information material and training) and efficient *support services* for formal importing and exporting — could further act as strong incentives towards formalisation. Policymakers should sensitise firms to the advantages they might gain from formalising their international transactions. Such advantages may include access to up-to-date information on cross-border business opportunities and trading conditions, marketing and business development advice, participation in trade fairs, and enhanced access to trade finance, which is still a major concern for many African traders. Finally, *improved interaction* between traders and border agencies (e.g., through systematic consultations) and *enhanced integrity* of Customs administrations, could also result in stronger trust among these parties and higher compliance levels with trade-related regulations.

In any case, to help policymakers implement policy measures to curb informal trade, calibrated to the exact needs and situation of a country, it essential to assess more precisely the magnitude and nature of informal cross-border trade and the motivations behind it (for different categories of firms). Authorities could conduct annual surveys to evaluate the extent and key characteristics of informal cross-border trade and its evolution over time (as has been done in Uganda).

I. INTRODUCTION

1.1 Background

1. The informal economy — defined here as the market-based production of *legal* goods and services that are deliberately concealed from public authorities and escape detection in official gross domestic product (GDP) statistics (Schneider, 2006) — constitutes an important part of developing country economies, providing employment and income to many poor households. In Africa, for instance, the informal sector is almost equivalent to the formal sector, as it was estimated to represent an average 43 percent of official GDP in 2002/2003 (Schneider, 2006, and OECD, 2007). This corresponds to an average annual increase of 1 percentage point compared to 1999/2000. Africa though is not the only region to have such a large informal sector. In Latin America, the average size of the informal sector was estimated to be approximately 43 percent of official GDP and in Central and Eastern European countries approximately 40 percent of official GDP (Table 1).

Table 1. Average size of the informal sector as percentage of GDP

	Africa	Central and South America	Asia	Central and Eastern Europe and former Soviet Union	OECD
1999/2000	41.3%	41.1%	28.5%	38.1%	16.8%
2001/2002	42.3%	42.2%	29.5%	39.1%	16.7%
2002/2003	43.2%	43.4%	30.4 %	40.1%	16.3%

Source: Schneider, 2006
Note: The data pertains to 37 African countries, 28 Asian countries, 21 Central and South American countries, 25 Central and Eastern European Countries and former Soviet Union countries, and 21 OECD countries.

2. As expected, it is often small and medium-sized enterprises (SMEs) that remain in the informal sector. As firms grow, they may require more formal services and institutions (e.g., for contract enforcement, formal credit and access to government programmes) and face greater risks of "being caught", which drives them to formalise. Perry et al. (2007) in fact find that in Latin America and the Caribbean region, the size of the firm but also the degree of firm productivity, the quality of public institutions, the extent of linkages to large companies and the use of third party contract enforcement are negatively correlated with the incidence of informality. In contrast, they find that the level of corruption in the country and the rigidity of labour regulations (e.g., ability to hire and fire workers) are positively correlated with such a phenomenon. On a worldwide scale, Schneider (2006) identifies increased taxation, social security contributions and (labour market) regulations as the three key driving forces of informality.

3. A large informal sector can pose problems for policymakers and the overall economic development of their country. As a recent OECD Development Assistance Committee paper notes "*while informal enterprises may provide a short-term solution to a household's livelihood needs, creating an economy with a higher proportion of* formal *enterprises and jobs is important to long-term welfare creation, stability and poverty reduction*" (OECD, 2005). A large informal sector could indeed deprive governments of needed tax revenue which could be reinvested into infrastructure development and other national development priorities; it could influence the development of economic policy objectives by skewing the reliability of (trade, income and labour market) data; breed a culture of corruption in public administrations (including in Customs) and hinder further investments in local (formal) SMEs, which constitute the major part of the private sector in developing countries and are key to their economic development and growth.

1.2 Objective and structure

4. The objective of this paper is twofold. First, it aims to explore in greater detail one particular aspect of the informal economy, namely the *extent and nature of informal cross-border trade*, focussing on selected Sub-Saharan African countries. Second, it seeks to identify which trade facilitation measures (such as those currently negotiated at the World Trade Organisation (WTO)) have the potential to encourage traders from the region to switch from informal to formal trade.[1] There are of course other policies besides trade facilitation measures than can contribute to curbing informal trade flows (e.g., the elimination of import or export restrictions on certain commodities), yet these will not be explored in depth in the framework of this paper. The study ultimately aims to *raise awareness* of the importance of simplified, harmonised and efficient import- and export-related procedures for integrating, as much as possible, informal cross-border trade into the formal economy. The paper is targeted at OECD and African trade policymakers and customs officials as well as at donor representatives working on aid for trade (facilitation).

5. The paper is organised as follows: *Section 2* provides an overview of the scope and key features of informal cross-border trade in Sub-Saharan Africa. It first explains the methodological difficulties in measuring informal trade and outlines the estimated volume of informal cross-border trade in selected African countries and sub-regions (sub-section 2.1); it then summarises its key characteristics and the types of products concerned by it (sub-section 2.2); the key explanatory factors for this phenomenon (sub-section 2.3); and, finally, the likely implications for developing countries (sub-section 2.4). *Section 3* examines which trade facilitation measures can help lower the incidence of informal cross-border trade, by reducing trade transaction costs arising from formal import- and export-related procedures and enhancing compliance with existing trade-related regulations. It first analyses the likely effects of selected measures currently being negotiated at the WTO (sub-section 3.1); it then considers the introduction of simplified trade regimes for low-value consignments (sub-section 3.2); and finally, examines other, complementary trade policy measures that can help curb informal trade (sub-section 3.3). *Section 4* provides conclusions and policy recommendations.

1.3 Methodology

6. In the framework of this paper, informal cross-border trade refers to "trade in *legitimately* produced goods and services, which escapes the regulatory framework set by the government, as such avoiding certain tax and regulatory burdens". Informal trade thus refers to goods traded by formal and informal firms that are unrecorded on official government records and that fully or partly evade payment of duties and charges.[2] Such goods include commodities which pass through "unofficial" routes and avoid customs controls, as well as goods 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), *misdeclaration* of the country of origin, or *bribery* of customs officials (see Figure 1). 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.

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1 . Trade facilitation measures here refers to the simplification and harmonisation of border processes in the narrow WTO sense, hence excluding measures relating to technical barriers to trade or sanitary standards.

2 . Interestingly, cases where unregistered/informal firms comply with existing trade-related regulations and pay the required taxes and duties at the border (hence conducting formal trade) also exist in some countries, such as in Ghana. Source: Ghana delegation to the WCO.

Figure 1. Types 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)

7. The analysis draws on a literature review as well as on information provided by customs and trade experts from relevant international and regional organisations (e.g., World Food Programme; Common Market for Eastern and Southern Africa (COMESA), and World Customs Organisation (WCO)) and African countries. It relies on monitoring reports of informal trade in selected countries; past OECD work on trade facilitation; and business surveys regarding the customs environment in Africa. It is however important to note that accurate information on the extent of informal cross-border trade is *scarce*. The study therefore only provides a rough picture of the situation in several African countries.

8. Furthermore, the paper does not include any new econometric analysis on the effects of trade facilitation measures on informal trade flows (due to data limitations) but builds on existing research to identify which measures are of particular importance to curb informal cross-border trade in Sub-Saharan Africa. A forthcoming OECD study assessing the relative impact of different trade facilitation measures on trade flows and economic welfare could help further refine the analysis. Unfortunately, relatively little research has been carried out on how different trade facilitation measures affect trade by firms of varying sizes, and particularly SMEs and individual traders. This could however be the subject of further analysis.

II. WHAT IS THE EXTENT AND NATURE OF INFORMAL CROSS-BORDER TRADE IN SELECTED AFRICAN COUNTRIES?

2.1 Magnitude of informal cross-border trade

9. It is difficult to get an accurate and aggregate overview of the extent of informal cross-border trade in Sub-Saharan Africa (and elsewhere) due to the lack of consistent measurement tools and reliable estimates on the subject. While the phenomenon has been examined by several researchers and organisations (cited in this paper), their work often consists of "one-off studies" or "snap shot surveys" of specific borders rather than systematic attempts to monitor informal cross-border trade in the entire region, which would indeed be very time-consuming and costly (the most consistent monitoring conducted to date concerns trade in maize, rice and beans in Eastern and Southern Africa) (Table 2). Furthermore, most existing surveys concern goods transported by land to neighbouring countries (and do not examine goods transported by air or sea, and/or originating directly from more remote international markets). Finally, relevant studies often use differing definitions of "informal cross-border trade" and diverse monitoring methodologies (due to their different final objectives), which lead to data discrepancies and difficulties in comparing and aggregating data. Figures included in this paper should therefore be interpreted as rough approximations, subject to margins of error.

Table 2. Reviewed surveys of informal cross-border trade in Sub-Saharan Africa, by methodology

Organisation/ author	Region/ borders	Regional integration initiative	Commodity	Methodology
World Food Programme and Famine Early Warning Systems Network (ongoing)	*Southern Africa* 29 border points between the Democratic Republic (D.R.) of Congo, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe and South Africa (see Annex 1)	Common Market of Eastern and Southern Africa (COMESA)	Maize, rice and beans	Continuous border monitoring, on a monthly basis
Regional Agricultural Trade Intelligence Network (ongoing)	*Eastern Africa* 7 border points between Uganda, Tanzania, Kenya and Rwanda	East African Community (EAC) COMESA	Maize, rice and beans	Continuous border monitoring, on a monthly basis
Uganda Bureau of Statistics (2006) and Uganda Bureau of Statistics (2007)	*Eastern Africa* 14 custom stations between Uganda and DR. of Congo, Sudan, Kenya, Tanzania and Rwanda.	EAC COMESA	All	Snap shot survey covering a 10 month period in 2004/5, and a 5 months period in 2006
Ackello-Ogutu (1996)	*Western Africa* 40 border points between Kenya, Tanzania, Malawi and Mozambique	Southern African Development Community (SADC)	Agricultural commodities	Snap shot survey covering a 12 month period in 1995
Little (2007) and Little (2005)	*Eastern Africa* Sudan, Kenya, Somalia, Ethiopia, Eritrea and Djibouti	EAC COMESA	Livestock	Interviews, during two distinct periods: 1986-1998 and 1996-2001
B Ndlela (2006)	*Southern Africa* Mainly the borders between Zimbabwe and South Africa and Zambia	COMESA	All	Interviews and existing surveys
Meagher (2003)	*Western Africa* Benin, Mauritania, Chad, Cameroon, Niger, Mali, Senegal, Guinea, Côte d'Ivoire, Nigeria, Ghana, Burkina Faso, Guinea-Bissau, Sierra Leone, Gambia, Togo, Liberia	Economic Community of West African States (ECOWAS) West African Economic and Monetary Union (WAEMU)	All	Interviews and existing surveys

Note: The other studies on which this paper relies can be found in the References section.

10. Some national customs authorities and experts have attempted to estimate the extent of informal cross-border trade by comparing their customs data with that of their trading partners (e.g., Levin and Widell, 2007 which compare Kenyan and Tanzanian customs data to identify "missing" imports in each country). 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.[3] Against this background, experts have proposed to use three complementary techniques (individually or concomitantly) for collecting primary data on informal cross-border trade (Ackello-Oguto, 1996, Peberdy, 2002 and Azam, 2006):

- *Border monitoring*: This technique consists of posting people to observe traders at the "most active" border crossing points and their surroundings. Observers record all traded goods that are not recorded or officially cleared by the customs authorities. This method has, for example, been used by the World Food Progamme – Famine Early Warning Systems (FEWS NET) (on a continuous basis) and the Ugandan authorities (through "snap shot" surveys). A census approach can be used, meaning that monitoring actually occurs on a limited number of randomly selected days or weeks within each month, and concerns a selected number of border posts. The data obtained can subsequently be extrapolated to get monthly and annual estimates for all border monitoring posts.[4] Some experts note that it is essential to have co-ordinated monitoring on both sides of the border to obtain more accurate data. Finally, it is important to note that such a technique often solely focuses on goods that pass through official border crossing points.
- *Tracking movements of large transport vehicles*: This approach requires tracing the movement of a sample of containerised vehicles and trucks that are not recorded by customs, in order to establish their mode of movement, origin, destination, nature and value of goods transported. The information obtained can then be cross-checked against official custom declaration papers at relevant points of entry and exit. A sample consisting of 10% of trucks passing through the border could for example be traced once or several times a month.
- *Stocktaking at open markets or warehouses*: The third technique consists in observing traders who deal in markets, or to survey traders' warehouses located near the border and to compare actual observed data with customs data.

11. In any case, independently of the methodology used, all reviewed surveys suggest that informal cross-border trade still represents a *significant proportion of regional cross-border trade* in Sub-Saharan Africa (Ackello-Oguto, 1996, Peberdy 2002, Mwaniki, 2004, Soko, 2006, Uganda Bureau of Statistics, 2006 and 2007). In some countries, the volume of informal flows is in fact estimated to exceed formal trade flows for certain commodities. The Uganda Bureau of Statistics (2007) also notes that informal cross-border activities have overall grown in the past 10 years among East and Southern African countries.

12. In *Eastern Africa*, Uganda's border monitoring survey, for example, indicates that in 2006, informal exports flowing from Uganda to its five neighbouring countries (i.e., Democratic Republic (D.R.) of Congo, Sudan, Kenya, Tanzania and Rwanda) reached an estimated USD 231.7 million, corresponding to around 86% of official export flows to these countries over the same period, or 46% of total (i.e., formal and informal) export flows to these countries (Table 3). Informal imports were estimated at USD 80.6 million, corresponding to approximately 19% of official flows from these countries or 16% of total imports from these countries (Table 3). This represents an increase compared to 2005 informal trade flows. Informal exports flows to the D.R. of Congo, Rwanda and Tanzania, in particular, experienced the most important annual growth (Figure, 2 and Uganda Bureau of Statistics, 2007).

3 . Divergences in customs data cannot only be explained by customs evasion. They can also arise due to different statistical and reporting methods.

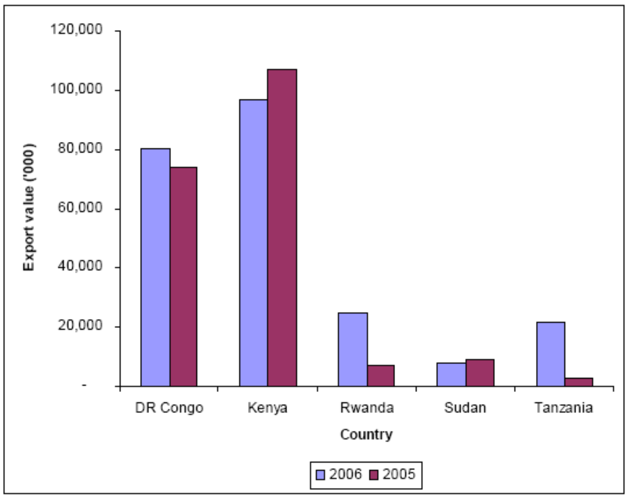
4 . This was done by the Uganda Bureau of Statistics. In Uganda, monitoring was actually done during 2 weeks per month for a total period of 10 months in 2004/5 and 5 months in 2006.

Table 3. The extent of informal trade between Uganda and its neighbours in 2006 (in thousand USD)

Trading partner	Exports	Imports	Net balance
D.R. of Congo	80,453	11, 288	69,165
Kenya	96,882	63,880	33,002
Rwanda	25,046	694	24,353
Sudan	7,842	517	7,325
Tanzania	21,518	4,255	17,263
Total informal trade with neighbours	**231,741**	**80,633**	**151,108**
Total formal trade with neighbours	**268,842**	**430,366**	**-161,524**
TOTAL	**500,583**	**510,999**	**-10,416**
Share informal vs. formal	**46% vs. 54%**	**16% vs. 84%**	

Source: Calculated by author, based on Uganda Bureau of Statistics, 2007 and the UN COMTRADE database.
Note: Figures regarding informal trade in 2006 are estimations based on the data obtained for the monitored weeks.

Figure 2. Informal Ugandan merchandise exports by country of destination, 2005 and 2006



Source: Uganda Bureau of Statistics, 2007
Note: Figures for 2005 and 2006 are estimations based on the data obtained for the monitored weeks.

13. In Benin, informal cross-border trade seems to be even more acute for some selected commodities, as 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% of actual traded flows. Between October 1993 and February 1994, for example, 3453 bicycle tyres were estimated as being imported to Benin but only 291 (or less than 10%) of them were officially recorded (Azam, 2006). Meagher (2003) highlights that some policymakers assumed that structural adjustment programmes and market liberalisation policies of the 1980s-1990s would have diverted most informal trade into formal market channels, yet this has not been the case in most of Africa.

2.1.1 Agricultural commodities

14. Several organisations have examined in greater detail informal cross-border trade flows in agricultural goods, as the agriculture sector still represents an important share of GDP in Sub-Saharan Africa and plays an important role in the livelihood of many of those countries.[5] The surveys conducted by the Uganda Bureau of Statistics, for example, show that informal agricultural export flows have been particularly important between Uganda and its five neighbouring countries. In 2006, Uganda informally exported to these countries agricultural products of an estimated value of USD 113 million, which corresponds to an estimated 75% of official agricultural export flows, or 43% of total agricultural exports to these countries (Uganda Bureau of Statistics, 2007 and UN COMTRADE).[6] Informal exports were mainly destined to the Kenyan and Congolese markets and the top five exported products include maize, fish, beans, groundnuts and bananas (Uganda Bureau of Statistics, 2006 and 2007 and UN COMTRADE). In the Horn of Africa (Sudan, Ethiopia, Eritrea, Djibouti and North-East Kenya), Little (2005) notes that for some agricultural commodities — like livestock and grain — unofficial exports to neighbouring

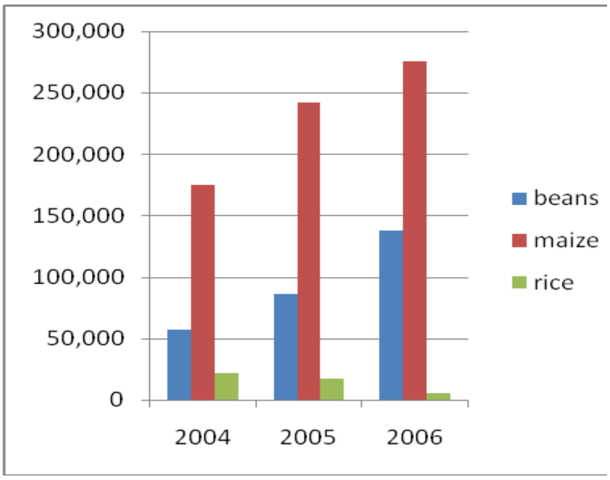
5 . In Eastern Africa, agriculture represented on average 37% of GDP in 2004/6 and in Southern Africa, 27% of GDP (in Tanzania and DR. Congo it reached over 45% of GDP). Source: World Development Indicators

6 . Data on informal exports is obtained by extrapolating data pertaining to the monitored days to a full year. See Uganda Bureau of Statistics, 2007. Data for formal trade is obtained through the UN COMTRADE (categories of food, live animals, beverages and tobacco).

countries in fact *exceeded at times official trade* by a factor of 30 or more, hence constituting over 95% of total trade in these commodities.

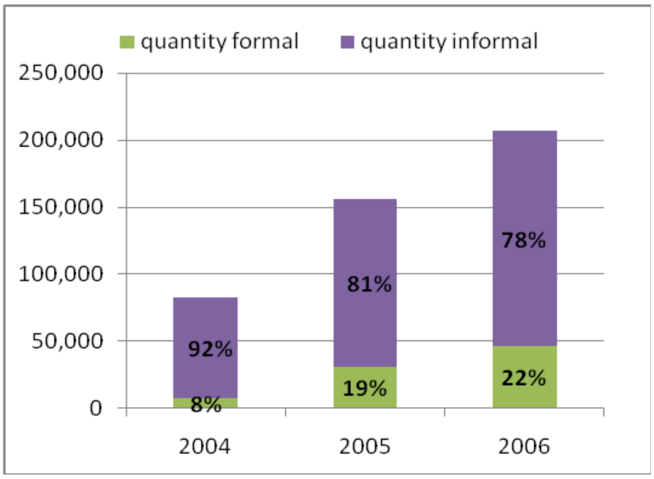
15. The Regional Agricultural Trade Intelligence Network (RATIN), in collaboration with the Famine Early Warning Systems Network (FEWS Net), both supported by USAID, carries out periodic cross-border monitoring surveys of informal trade in maize, beans and rice in *Eastern Africa* (i.e., Kenya, Uganda, Rwanda and Tanzania), by observing seven different border points.[7] RATIN data shows that informal cross-border trade in maize, rice and beans increased from 2004 to 2006, to amount to a total of 418,781 metric tons (MT) observed in 2006 (or an increase of 65% compared to 2004). During the three monitored years, a total of 1,017,860 MT of maize, rice and beans was recorded by RATIN as informal trade. Maize seems to be the most traded good (with a total of 691,620 MT traded over three years, or 68% of all informal flows), followed by beans (281,431 MT) and rice (44,809 MT) (Figure 3). Uganda was found to be the largest informal exporter of maize during the three monitored years, with a total of 444,989 MT traded in 2004-6, mainly to Kenya (Figure 4).[8]

Figure 3. Informal cross-border trade in Eastern Africa, 2004-2006 (in metric ton)



Source: Calculated by author, based on RATIN
Note: The years refer to 12 calendar months

Figure 4. Volume of formal and informal maize exports from Uganda to Kenya in 2004-6 (in metric ton)



Source: Calculated by author, based on RATIN
Note: The years refer to 12 calendar months

16. A similar yet more comprehensive border monitoring exercise is being conducted in *Southern Africa* by FEWS Net and the World Food Programme. Together, these organisations have recently established a system to monitor continuously 29 selected border points to measure informal flows of maize, rice and beans between the D.R. of Congo, Malawi, Mozambique, Tanzania, Zambia, Zimbabwe and South Africa (see Annex 1).[9] The latest WFP-FEWS Net data shows that informal cross-border trade

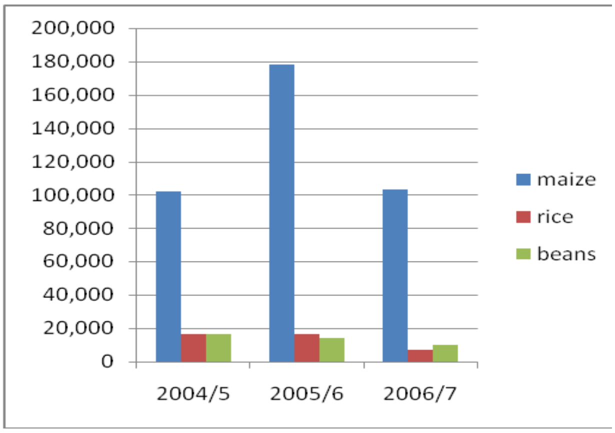
7 . The objective of such monitoring is to supply traders with improved early warning marketing and trade information that would lead to more efficient and competitive transactions in food trade between surplus and deficit regions in East Africa, in view of reducing regional food insecurity.

8 . In 2004-6, Uganda's informal maize exports to Kenya amounted to a total of 361,716 MT, of a value of USD 73 million, representing almost 5 times the volume of formal maize export flows, or an average 83% of the total volume of maize exported from Uganda to Kenya over the same period. In contrast, formal exports of maize from Uganda to Kenya in the same period amounted to USD 16.5 million (Figure 3)

9 . Monitoring began in July 2004. The objective is to better understand the volumes and direction of trade of major food commodities to enhance risk management and food aid planning by traders, governments and donors, and ultimately support hunger reduction in this region. The monitoring system only measures a proportion of cross-border trade, hence the data provided should be interpreted as "minimum" estimates.

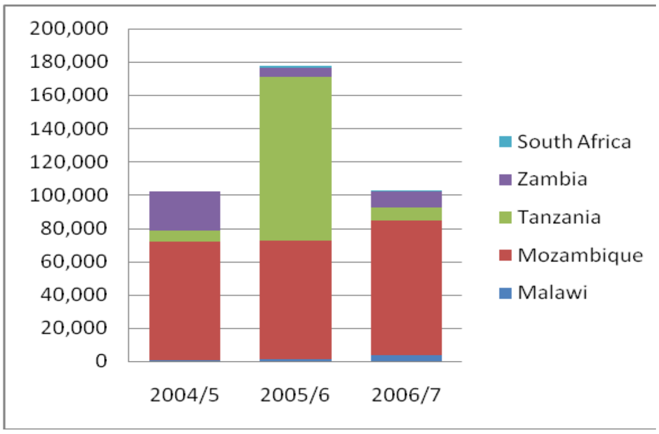
in maize, rice and beans in Southern Africa amounted to an estimated 464,400 MT for the three monitored marketing seasons (Figure 5). The Word Food Programme — which emphasises that informal flows in these commodities play an important role in alleviating food shortages — notes that it is however difficult to estimate the total value of these flows since commodity prices vary across border points in the region and from year to year.[10] Moreover, the data provided pertains to a ten month marketing season only.

Figure 5. Informal cross-border exports in maize, rice and beans in Southern Africa, 2004/5 to 2006/7 (in metric ton)



Source: Calculated by author, based on FEWSNET, March 2007. Note: The years refer to marketing seasons ranging from April to March.

Figure 6. Volume of informal maize exports per country, 2004/5 to 2006/7(in metric ton)



Source: Calculated by author, based on FEWSNET, March 2007. Note: The years refer to marketing seasons ranging from April to March.

17. The 2005/6 marketing season, in particular, was marked by an exceptionally important volume of maize traded informally due to the surge in demand for this commodity, mainly by Malawi, because of a bad harvest.[11] In 2006/7, informal cross-border trade in maize actually corresponded to approximately 40-45% of all maize traded officially between the D.R. of Congo, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe, or an equivalent 31% of total maize trade among these countries (WFP- FEWS Net, March 2007 and South African Grain Information Service).[12] More generally, throughout the three reviewed seasons, maize has by far been the most traded commodity in Southern Africa (representing 82% of all informal flows), followed by rice and beans (Figure 5). It is worthwhile noting that for some of these countries, food trade still represents an important share of total regional and international trade. In Kenya, for example, formal food exports represented 40% of the country's total merchandise exports in 2005, while in Malawi this share reached 80% (World Development Indicators).

2.1.2 Manufactured goods and other commodities

18. Surveys examining in detail informal trade flows of manufactured goods are scarcer. The Uganda Bureau of Statistics, for example, found that Uganda has been a net exporter of industrial goods to its neighbouring countries, with informal exports amounting to an estimated USD 118 million for 2006,

10 . Information provided by Mr. Dradri, WFP.

11 . Mozambique has consistently been the largest exporter of maize, with flows mainly entering Malawi. This trend can be explained by the fact that Northern Mozambique is a low-cost maize producing area which is actually closer to agriculturally poor Malawi than to the consumption areas in the South of its own territory (WFP-FEWS Net, March 2007).

12 . This figure should be considered as the *minimal estimate* since it only take account of goods traded informally at monitored border points.

corresponding to 96% of official industrial exports, or close to 50% of total industrial exports to these countries.[13] The main destination for Ugandan industrial exports is the D.R. of Congo and top five exported goods are shoes (USD 25.2 million), clothes (USD 17.6 million), maize flour (USD 6.9 million) and "bitenge" (i.e., traditional printed textile) (USD 5.7 million) (Uganda Bureau of Statistics, 2006). Furthermore, the Uganda Petroleum Dealers Association estimates that 25% of petroleum fuel (petrol, diesel and paraffin) consumed in Uganda is smuggled from Kenya, costing the Ugandan government about USD 1.2 million annually in lost tax revenue (Ackello-Ogutu, 1996).

2.2 Key characteristics

19. The available surveys — which mainly offer snapshot views of specific borders and examine goods transported by land — indicate that informal cross-border trade in Sub-Saharan Africa mainly concerns *individual dealers and micro-, small-, and medium-sized enterprises* (MSMEs) (Peberdy, 2002 and Mwaniki, 2004, B Ndlela, 2006). In Eastern and Southern Africa, several surveys find that informal cross-border flows often consist of relatively *small consignments* of goods. (Such consignments can however add up to important aggregate volumes of informal trade). Along the Malawi-Mozambique border of Milange-Muloza, for example, maize is traded by passing an average daily rate of 2000 bags (of 50-90 kg of maize each). Because of the small volumes per transaction, it is usually uneconomic for such traders to follow the official documentation formalities (B Ndlela, 2006). The average daily or monthly volume of informally traded goods in fact varies in function of the specific border point. Some border points experience more important informal flows due to their specific location (WFP-FEWS Net, March 2007).

20. In Eastern and Southern Africa, some surveys note that a large share of informally traded goods are transported by vehicle, bicycle, push carts or by head/hand (Little, 2007 and Uganda Bureau of Statistics, 2007). Furthermore, existing surveys indicate that some informal traders are not registered at all (hence, their activities in the domestic market are also informal; see category A, Figure 1). Moreover, informal cross-border trade is generally characterised by an important share of *female traders* for whom profits from informal trade often constitute the sole source of earnings and "economic empowerment".[14]

21. Other particular sub-regional features are outlined below. In Eastern Africa, for example, most of the informally traded industrial commodities are actually re-exports, i.e., imports that are exported without much value addition. In Western Africa, informal cross-border trade is not only confined to border areas, but has extended to the whole national territory of countries. Trans-border flows of Nigerian petrol, grain and fertiliser, which were once confined to border areas of central Niger, have, for example, penetrated to the far north and west of Niger, with a considerable quantity traded onward to Mali, Burkina Faso and Ghana (Meagher, 2003). Finally, in Eastern and Southern Africa, most traders were found to be aged between 25 and 39 and to have benefitted from some secondary education (Peberdy, 2002, Little, 2005 and COMESA, 2007).

22. Interestingly, almost all types of goods (i.e., agricultural and manufactured) seem to be concerned by informal cross-border trade in Sub-Saharan Africa (Peberdy, 2002 and Uganda Bureau of Statistics, 2006). Generally, an important proportion of the monitored informal trade flows concerns *staple food commodities* that have a direct impact on regional food security (e.g., maize and rice), and *low quality*

13 . Industrial or manufactured exports refer to all items that have been processed under the International Standard Industrial Classification (ISIC). This category includes processed agricultural commodities and manufactured goods. Source: Uganda Bureau of Statistics, 2007. Data regarding formal industrial exports was obtained through UN COMTRADE database.

14 . Studies of trade between Mozambique and South Africa found that over 70% of traders were women. Similarly a study of trade between Zimbabwe and South Africa found that over 65% of traders were women (Peberdy, 2002). See also B Ndlela (2006) and OECD (2007).

consumer goods such as clothes, shoes and electronic appliances (TV, fridges, etc.).[15] Some experts also note that goods traded informally often reflect many of those recorded in formal regional trade statistics and promoted through government export promotion schemes (Peberdy, 2002 and Tegegne, 1999). In the COMESA region, for example, the most formally traded products in the region in 2003 were food and vegetable products, tea and coffee, sugar, non-alcoholic beverages, cement, tobacco and parts of electrical apparatus for line telephony and line telegraphy (COMESA Statistical Database). Goods are often bought in the formal sector and then sold in another country's formal or informal sector. B Ndlela (2006) also notes that some manufactured goods imported in Southern Africa are of Asian origin (mainly from Chinese Taipei, Japan and China). Interestingly, many informal traders in this region pass through official border points (Peberdy 2002).

2.3 Main explanatory factors

23. Entrepreneurs and MSMEs engage in informal cross-border trade due to a combination of factors. First of all, individual traders and businesses that are not registered at all and escape domestic taxes and regulations are most likely to conduct trade informally since most of their operations (whether domestic or international) are informal (see category A, Figure 1). In addition, formal firms and entrepreneurs are incited to engage in unofficial trade and resort to illegal practices (such as under-invoicing, misclassification or misdeclaration of origin) due to "cost advantages" inherent to such transactions. Informal trade is likely to occur when important price disparities exist between formally and informally traded goods in the importing country and when transaction costs arising from compliance with regulatory requirements are significant; when the formal entry or exit of certain goods is obstructed; and/or when, due to low law enforcement, a high degree of corruption and the requirement of "facilitation payments" prevail along official border posts. Finally, cross-border trade (whether formal or informal) is likely to be influenced by the degree of availability of certain goods, the quality of road and transport infrastructure and the existence of trust-based networks among traders.

2.3.1 Important price disparities and high trade transaction costs

24. Price disparities can in part be accounted for by the existence of significant levels of *import duties* (in destination countries) and *export duties* (in exporting countries) *on selected commodities*. In Côte d'Ivoire and Ghana, for example, agricultural exports have been taxed by a marketing board (e.g., the Cocoa Marketing Board), which contributed to raising their consumer price in formal markets (Azam, 2006). More generally, Keen (2003) notes that while collected tariff rates (i.e., tariff revenues as percentage of import values) have more than halved in OECD countries between 1980 and 1998 (decreasing from 4.2 to 1.2), this was not the case in Africa, where the average effective rate remained more or less unchanged (at 17).[16] In fact, in 2004, the average collected tariff rate in Sub-Saharan Africa was still close to 15, with trade taxes representing almost 5% of GDP (Mansour, 2007). In this regard, Levin and Widell (2007) find that the extent of informal trade is directly correlated with the average applied tax rate (i.e., tariffs and value-added tax, or VAT) in the importing country. In Tanzania, for example, a one percentage point increase in the overall imposed tax rate on imported goods from Kenya led to a 3.8 % increase in tax evasion on those same goods in 2004.

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15 . In Southern Africa, informal imports and exports in recent years have mainly concerned maize, rice, beans, sugar, wheat flour, spices, coffee, including food aid, as well as clothes, shoes, electronic appliances (e.g., TVs, radios, DVDs, fridges), household goods (e.g., furniture, mats) and crafts (B Ndlela, 2006, Mwaniki, 2004, Peberdy, 2002). In Western Africa, they mainly concern rice, flour, sugar and cattle, and low quality consumer manufactures, such as textiles, used cars and electronics (Meagher, 2003 and Azam 2006). In Eastern Africa, they concern maize, beans, fish groundnuts and bananas, agricultural raw material (e.g., cotton), shoes, clothes, textile and vehicle and bicycle parts (Ackello-Ogutu, 1996 and UBOS 2007).

16 . This average however conceals important variations across countries.

25. Some traders are also incited to trade informally as they are *unaware or unable to apply (formal) preferential tariff rates or tax exemptions* for which they are eligible in the importing or exporting country. A recent report highlights that some qualifying COMESA traders have been unable to benefit from the duty- and quota-free access in the COMESA market due to their inability to obtain the necessary documentation (e.g., certificate of origin) to enable them to qualify for duty-free status (as key documents are issued in capital cities and large commercial centres, away from where actual cross-border trade is conducted). Obtaining the required documents is not only expensive, but also inaccessible to small traders. As a consequence, some of these traders have been inclined to trade informally (COMESA, 2007).

26. More importantly, formally traded goods might be subject to *non-transparent, complex or non-harmonised regulatory measures* in the importing and exporting country, which contribute to augmenting "trade transaction costs" associated with formal trade and thus further increase price disparities between formally and informally traded goods. This in turn is likely to incite traders to avoid formal trade-related regulations and duties. Several studies examining the informal economy in general indeed emphasise the strong *correlation between the intensity and complexity of regulations (i.e., number of enforceable regulations) and the size of the informal economy* (Schneider, 2006). Trade transaction costs arising from official import- and export-related procedures (TTCs)[17], including Customs compliance costs, have been estimated to range between 1% and 15% of the trade transaction value. They include direct as well as indirect costs (Table 4). Some costs are directly related to the level of regulation, others arise due to *differences* in regulations across countries. The costs outlined in Table 4 are multiplied when differing regulatory requirements apply across neighbouring countries.

Table 4. Activities contributing to costs arising from official import- and export-related regulations

Direct costs	Indirect costs
• Complete and supply documents to the relevant authorities (e.g., customs declaration, certificate of origin, phytosanitary certificate, bill of lading etc.)	• Long delays at the border causing depreciation costs (e.g., due to spoilage of perishable food products)
• Payment of border agency fees and charges (e.g., administrative and inspection fees, license fees, consular fees, terminal handling charges, etc.)	• Unreliable customs clearance and arbitrary application of regulations, leading to lack of predictability in the trading environment
• Compliance with other formalities which bear additional expenses (e.g., conformity assessments with technical regulations, insurance, pre-shipment inspections, customs brokers, etc.)	• Loss of business and foreign investment opportunities (e.g., for goods that need to be delivered just-in-time), leading to loss of international competitiveness
• Transportation and storage costs	

Source: OECD, 2002

27. The extent and impact of such transaction costs actually vary depending on the *quality of border processes* and services in the importing and exporting country, the *geographical situation* of the country (i.e., landlocked or not), the *type of good* that is traded (i.e., agriculture or manufactured goods) and the *type of company* that is trading (i.e., SMEs or larger enterprises). Limao and Venables (2001), for example, empirically demonstrate that TTCs in intra-Sub Saharan Africa trade are substantially higher (and more obstructive) than those for other African countries due to the relatively low efficiency of customs procedures and institutions in that region. Similarly, perishable agriculture and food products are often subject to additional trade-related procedures to ensure compliance with sanitary and phytosanitary requirements. This can lead to a considerable increase in border process fees and clearance times per

17 . The term "trade transaction cost" is sometimes used to refer to a broader set of expenses, arising not only from compliance with trade-related procedures. All costs other than the money price that are incurred in trading goods or services could in fact be coined as "trade transaction costs". This study nevertheless refers to costs only arising from international trade procedures.

consignment, hence leading to higher TTCs. In addition, perishable agriculture and food products are more vulnerable to delays at the border, hence trade in such products might be more affected by TTCs than other goods. Likewise, MSMEs often do not have a rich track record with Customs authorities and are thus classified in a higher risk category. As a consequence, they are more frequently subject to costly documentary and physical cargo checks, which, in turn, contribute to increasing TTCs (which are relatively high in proportion to their sales and turnover). Furthermore, MSMEs often have lower capacities and resources to internalise such costs (OECD, 2003a). This might in part explain why it is often these firms that are involved in informal cross-border trade. (Further information on TTCs and their impact on trade volumes and GDP can be found in Annex 1).

28. Beyond the costs they bear, regulatory requirements are sometimes also unknown or unclear to traders. In recent surveys and workshops conducted in the East African Community (EAC) and COMESA, for example, traders have consistently cited *lack of information on regulatory requirements* (e.g., quality standards, customs documents and procedures and certificates of origin and conformity) as a key constraint towards formal cross-border trade in the region. A recent EAC report for example notes that "the lack of information on regulation compels many traders to engage in unrecorded trade across the borders" (EAC, 2005).[18] In some cases, traders are aware of the mandatory trade-related requirements yet have difficulties complying with the latter. In Uganda, for example, the only offices that can provide phytosanitary certificates required for export are located at or near the Entebbe airport, and may thus be difficult to access for traders located in remote areas.[19] Generally, informal trade surveys pinpoint that the existence of non-transparent, complicated or costly import, export and customs formalities and charges in the importing and exporting countries constitute important obstacles to formal trade in Sub-Saharan Africa, particularly for SMEs which often do not trade large quantities (Peberdy, 2002, Dzaka-Kikouta, 2004 Uganda Bureau of Statistics 2007, and COMESA 2007).

29. Among the wide range of regulatory requirements facing traders, *customs procedures, formalities and charges* have often acted as important barriers to formal trade, contributing to raising TTCs. According to UNCTAD, the average customs transaction in Africa involves 20–30 different parties, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60% - 70% of all data at least once (UNCTAD, 2004). On average, Africa has the longest customs delays in the world. Consignments commonly experience substantial and unpredictable delays –of 30 to 40 days - before release from customs control (Table 5). Not only are the delays long, they are also costly. Recent OECD work also emphasises that the barriers to formal South-South trade, including intra-regional trade in Sub-Saharan Africa, are often more important than barriers to North- South or North-North [formal] trade (Kowalski and Shepherd, 2006).

18 . As a result, EAC has issued a Guide on regulatory requirements for imports and exports of maize in EAC.

19 . Information provided by C. Lozano.

Table 5. Average custom delays, number of required documents and trade-related costs in Sub-Saharan Africa

Region	EXPORT			IMPORT		
	No. of documents required	Days spent	Costs (US$/ 20-foot container)	No. of documents required	Days spent	Costs (US$/ 20-foot container)
Eastern Africa	7.9	36.2	1578	9.1	44.3	2076
Western Africa	8.3	30.2	1297	8.6	36.8	1602
Central Africa	8.3	44.1	2257	9.8	55.2	2430
Northern Africa	7.0	20.4	950	8.2	27.2	1203
Southern Africa	8.0	31.4	1588	9.2	37.0	1674
SSA Average	**8.0**	**34.8**	**1630**	**8.9**	**42.4**	**1944**
OECD average	4.5	9.8	905	5	10.4	986

Note: Numbers represent simple averages which are derived from the data of the countries for each region. The UN definition is used for the classification of regions. Costs exclude tariffs or trade taxes, yet include costs for documents, administrative fees, terminal handling charges and inland transport.

Source: World Bank Doing Business Report, 2008.

30. In addition, as noted in Table 4, *technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS),* such as quality control, packaging and sanitary requirements, might also raise the price of formally traded commodities in the importing country and as such incite entrepreneurs to trade informally (Uganda Bureau of Statistics, 2007 and USAID/RATES Policy Programme). Traders in Sub-Saharan Africa not only face costs for complying with such regulations or lack information on the latter, they often do not have the capacity to implement them. Many MSMEs and farmer groups lack the financial and human resources needed to upgrade their products to meet standards and technical regulations applied in the importing country.[20]

2.3.2 Obstructed entry/exit of certain goods and lack of formal trade finance

31. Furthermore, informal cross-border trade might be motivated by the *existence of import quotas* in the importing country or *export bans* in neighbouring exporting countries. In Zimbabwe and Nigeria, the government imposed important quantitative restrictions on selected imports (e.g., rice), which limited their formal entry into the country and triggered informal trade. When in 1995, the Nigerian government decided to lift these restrictions, it helped divert trade flows back to the formal market (Azam, 2006). Similarly, in Malawi, Zambia and Zimbabwe, the government has maintained export bans on cereals, which have limited formal export flows of these commodities to neighbouring countries in 2004-2007 (information provided by Mr. Dradri, WFP).

32. In addition, measures that negatively affect *access to foreign currency and to trade finance* can also motivate small firms and entrepreneurs to trade informally. African countries that introduce foreign exchange controls when faced with balance of payment problems (e.g., Mozambique in the mid-1980s), impede the entry of “formal” imports, as traders are unable to convert their currency into the currency of their trading partner (Azam, 2006). In addition, when traders have difficulties in contracting formal credits, they might turn to informal sources of finance. This can in turn provide additional incentives to trade informally (Little, 2007, Tegegne, 1999). Little (2005), for example, finds that when credit is used in cross-border trade in the Horn of Africa, more than 95% is obtained informally from kinsmen or friends since very few traders have had access to formal sources of finance in the reviewed periods. This finding is corroborated by the latest World Bank/IFC Enterprise Survey which indicates that more than 30% of

20 . Information provided by C. Lozano, African Development Bank.

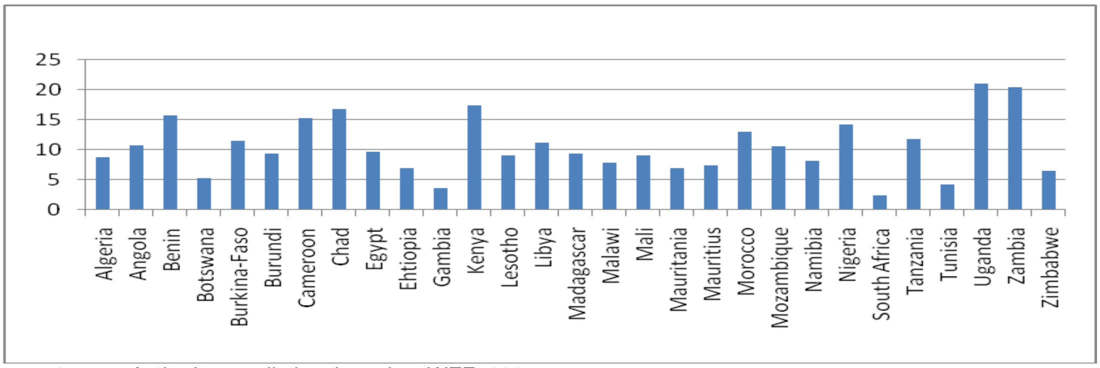
surveyed firms in Sub-Saharan Africa identify access and cost of finance as a major impediment to their (domestic and international) operations. [21]

2.3.3 Weak law enforcement, arbitrary application of regulations and corruption

33. Finally, a factor that can further facilitate or trigger informal cross-border trade is the weak enforcement of laws and regulations, the arbitrary application of trade-related regulations and the pervasiveness of corruption at borders (Mwaniki, 2004). Weak law enforcement (e.g., in fragile states and countries in conflict) can, on the one hand, facilitate the conduct of informal cross-border trade, by letting traders "get away with it". In Ethiopia, for example, customs officials have often ignored informal trade flows in bulk foodstuff (Little, 2007). Similarly, Dzaka-Kikouta (2004) explains that following the civil war in the Republic of Congo (1997-1999) and the breakdown of the nation-state in the D.R. of Congo, people from the two countries had to find alternative ways for doing business, and turned to a "parallel system of informal trade relations". Furthermore, 80% of the informal traders interviewed by Dzaka-Kikouta admitted to have close relationships with border officials in Congo and the D.R. of Congo, which facilitated the evasion of custom duties and charges.

34. On the other hand, the arbitrary application of regulations and the quasi-automatic requirement of "facilitation payments" (bribes) at some border points might incite some traders to engage in illegal practices such as under- invoicing and/or pass through other, sometimes unofficial routes and crossings, to avoid having to disburse such payments. In this regard, the 2006 World Economic Forum's (WEF) Executive Opinion Survey, which covered 29 African countries, indicates that corruption is still one of the most important obstacles to doing (formal) business on the continent (WEF, 2007 and Figure 7).

Figure 7. Corruption as a main barrier to doing business
(% of respondents)



Source: Author's compilation, based on WEF, 2007

2.4 Direction and pattern of informal cross-border trade

35. Finally, the direction and patterns of informal cross-border trade are likely to be shaped by elements that influence both formal and informal trade. Cross-border trade flows are often determined by the *unavailability or low availability of certain goods*, due to unfavourable climatic conditions (such as drought or erratic rainfalls) or conflict. The World Food Programme indeed emphasises that the low availability of certain staple commodities due to bad harvests has greatly influenced informal (and formal) flows in Southern Africa. Food trade has generally flowed from net food surplus to net deficit countries (e.g., Mozambique to Malawi) (Dradri, 2007). Similarly, Little (2005) notes that the war in Southern Somalia in the 1990s has led to a significant increase in informal cross-border cattle trade with neighbouring countries.

21 . Further information on the survey can be found at: http:// www.enterprisesurveys.org/.

36. Likewise, the *quality of road transport and communications infrastructure* is also likely to influence the patterns of informal and formal cross-border trade flows. An inefficient roads system can result in poor access to a country's own domestic market or to its established (official) border posts. Traders often choose to use to most effective and economical route, hence possibly avoiding formal border posts (see category B, Figure 1). In northern and central Mozambique, for example, farmers often prefer to trade informally with neighbouring Malawi rather than formally with southern Mozambique (Tchale, 2001, Little 2005 and RATIN, October 2007). Similarly, in some African countries such as Mozambique and Burundi, where border posts in remote areas are not connected to the customs automated network and have low control capacity, traders are requested to go to the capital city to expedite clearance procedures. In such cases, firms might be incited to avoid custom controls and other regulatory requirements and trade informally.

37. The recent World Bank Logistics Performance Index indeed points to the relatively low quality of transport and IT infrastructure for logistics ("quality of infrastructure") in Sub-Saharan Africa, and more particularly in Eastern Africa (Table 6). The related survey conducted by the World Bank amongst logistics professionals confirms that the quality of infrastructure is indeed a concern for 43% of all respondents in Sub-Saharan Africa (World Bank, 2007). The Index also finds relatively low scores for the competence of the domestic logistics industry ("logistics competence", i.e., competence of private and public logistics service providers) in the region, particularly in Eastern Africa (Table 6).[22]

Table 6. Logistics Performance Indicators for Sub-Saharan Africa

Region	Quality of infrastructure	Logistics competence
Eastern Africa	2.05	2.24
Western Africa	2.08	2.33
Central Africa	2.13	2.31
Northern Africa	2.36	2.83
Southern Africa	2.47	2.69
SSA average	**2.11**	**2.32**
OECD average	3.62	3.65

Source: World Bank, 2007. Note: Numbers represent simple averages. Scores range from 1 to 5 (lowest to highest performance). OECD excludes Iceland.

38. Lastly, it is important to note that (formal and) informal trans-border trade often *reflects long-standing relationships and indigenous patterns*, which often pre-date colonial and post colonial state boundaries. Cross-border trade is often conducted among people of the same "clan" or ethnicity group (e.g., Ethiopia-Kenya trans-border trade or trade between Uganda and D.R. of Congo, Sudan, Kenya, Tanzania and Rwanda). The communities spread along the territorial boundaries share a lot in common both culturally and socially. They speak the same or similar languages, they inter-marry and own land on either side of the borders. This alone provides an incentive to these communities to engage in trade to exploit available opportunities on either sides of the border (Uganda Bureau of Statistics, 2007). In the absence of formal contracts and adequate market information and when other important obstacles to formal trade prevail, trust-based networks can play an important role in establishing trade relations, although informal (Little, 2007 and Tegegne, 1999).

22 . Important divergences may exist within a region. For further information, see World Bank, 2007.

2.4 Likely implications

39. Informal trade can in the *short- to medium-term* encourage entrepreneurial activity and regional trade (which is currently marginal in the formal economy of the continent), contribute to greater food security (in food-importing countries suffering from drought, e.g., Somalia and Malawi) and enhance income earnings and employment opportunities for poor households (particularly for women) in importing and exporting countries (Meagher 2003, Little, 2005 and FEWS Net-WFP, 2007). Peberdy (2002), for example, notes that the interviewed informal traders in Southern Africa employ 1 to 8 people (in their home country or in the country of destination). Informal cross-border trade can, in that sense, contribute to poverty alleviation and women's economic empowerment across Sub-Saharan Africa. Yet, informal cross-border trade is also likely to have negative effects on both importers and exporters in the *longer term*, which might contribute to further marginalising African economies.

2.4.1 Loss of competitiveness and weaker formal private sector development

40. First of all, a high incidence of informal cross-border trade is likely to lower investments in the local economy and reduce possibilities to integrate the world economy effectively, as such weakening formal private sector development and ensuing growth prospects. Informal trade creates unfair competition vis-à-vis formal traders. According to a 2006 World Bank enterprise survey, approximately 39% of manufacturing firms ranked competition from informal firms as one of the top three obstacles to doing business.[23] Experts have, for example, noted that informal cross-border inflows of agricultural commodities in Niger, Cameroon and Benin undermined the longer-term viability of local formal agriculture, by under-cutting commodity prices. Similarly, in Nigeria, informal cross-border outflows have disrupted agricultural development initiatives by transferring key subsidised inputs to neighbouring countries (Meagher, 2003). Meagher (2003) also notes that the flood of informal Asian manufactured imports has crippled some manufacturing industries throughout West Africa.[24] More generally, when local businesses face higher basic production costs and the inability to evade official taxes, they are unable to compete effectively with informal traders (Meagher, 2003, OECD, 2007, Uganda Bureau of Statistics, 2007).

41. When the incidence of informality and tax evasion is high, formal traders carry the totality of the tax burden, which reduces their incentives to invest in the formal economy. This in turn is likely to reduce the longer-term prospects for economic development of Sub-Saharan Africa. Bringing informal traders back to the formal economy would not only help broaden the tax base and, as a consequence, potentially permit to lower tax rates, but would also help create a "level playing field" for all firms within the importing country. Furthermore, (cross-border) business opportunities for firms trading informally are limited. Important numbers of informal cross-border traders imply that a lower proportion of firms in Sub-Saharan Africa are likely to integrate (formal) regional and global production networks and supply chains (which characterise today's international manufacturing and trade patterns) in which firm-level linkages are contract-based. As a consequence, Sub-Saharan countries may have more difficulties to integrate effectively the world economy and achieve export-led economic growth (Subramanian and Matthijs, 2007, Perry et al., 2007).

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23 . Gonzalez and Lamanna (2007) find that firms in sectors with low fixed costs, such as food products, textiles and garments, are generally more concerned about informal competition than firms in other sectors.

24 . While WTO members may take a "safeguard" action (i.e., restrict imports of a product temporarily) to protect a specific domestic industry from an increase in imports of any product which is causing serious injury to the industry (GATT Art. XIX), such an action can however not be undertaken in the context of informal trade.

2.4.2 *Lower efficiency of health, safety and environmental protection measures*

42. Second, a high incidence of informal trade can lower the efficiency of policy measures to ensure health, safety and environmental protection. Agricultural commodities which are traded informally escape sanitary and phytosanitary controls which are conducted at the border, and can thus reduce the effectiveness of control efforts governments have put in place to ensure adequate food safety at home and avoid the proliferation of human, animal and plant diseases across borders (this is for example the case in Mozambique, where there is a need to reduce contamination affecting peanuts but where the volume of peanuts that by-passes quality controls is high). Similarly, informally traded manufactured goods escape inspections that aim to ensure that goods comply with regulations set to promote national security, public safety and environmental protection. Increased risks of the spread of diseases and product defects may in turn undermine industries' reputation across countries.[25] Thus, while SPS and TBT requirements are important to promote public policy objectives, they should be designed and implemented in such a way as to avoid acting as important barriers to formal trade, as such reducing incentives for firms to move into informality and ensuring the efficiency of the existing measures in place.[26]

2.4.3 *Erosion of state revenues*

43. Third, informal cross-border trade also erodes state control of resources. Millions of dollars are lost annually in unpaid duties and custom taxes, not to mention the losses in foreign exchange receipts. In Uganda, for example, the tax revenue loss arising from the estimated informal imports from its five neighbouring countries during the 10 monitored months in 2004/5 is estimated at USD 10.1 million, representing approximately 3% of Uganda's total customs revenues excluding oil in 2004 (Republic of Uganda, 2007).[27] It is important to note that informal cross-border trade triggers losses from unpaid custom duties and from unpaid VAT (as import duties and VAT are often collected simultaneously on imported goods). Losses arising from informal cross-border trade are particularly significant for Sub-Saharan African countries where trade taxes (mainly on imports) still represent a *significant source of fiscal revenue* for many countries. Such taxes in fact still accounted for about 25% of total tax revenue in the region in 2004 (Walsh, 2006, Table 7 and Mansour, 2007), or about 4 percent of GDP in 2008 (Gupta and Tareq, 2008). In the Southern Africa Development Community (SADC), the share of customs revenues as part of total government revenue stands at almost 50% for Lesotho and Swaziland (Table 8). Similarly, VAT collected on imports at the border, often represent more than half of total VAT revenues in developing countries. In Benin and Zambia, this share even reaches 70% and 67% respectively (Walsh, 2006 and Keen 2003).

44. While generally, taxes collected at the border might not be the most efficient way to collect government revenue, the difficulty developing countries still face to collect VAT and other taxes domestically through self-reporting implies that they are still very reliant on such taxes (Keen, 2003). Government revenue losses arising from informal trade are, in turn, likely to reduce the quality and quantity of publicly provided goods and services and limit the possibilities to make further public investments in productive industries and essential (technological, communications and transport)

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25 . Information provided by Ms. C. Lozana.

26 . This can be done by applying good regulatory practice and by conducting regulatory reviews and regulatory impact assessments. See also Fliess and Lesser (forthcoming).

27 . The figure is computed using the customs duty rate of 4% (the existing COMESA rate) and VAT rate of 18% (Uganda Bureau of Statistics, 2006). Unfortunately it is difficult to get data for the corresponding 10 month period in 2004/5, for imports from the five neighbouring countries only.

infrastructure, which are crucial to facilitate trade, attract foreign investors and boost economic development (Meagher, 2003 and Ishengoma and Kappel, 2006).[28]

Table 7. Trade taxes as share of total tax revenue (unweighted average, percentage)

Region	1980	1990	2003
OECD[1]	4.7	2.7	0.8
Africa	**38.6**	**31.9**	**25.3**
Asia-Pacific	29.0	27.6	19.0
Middle East and Central Asia	31.7	28.9	19.8
Western Hemisphere	24.9	14.3	12.4

Source: Walsh, 2006
1: Excluding Czech Rep., Hungary, Luxembourg, & Poland

Note: Trade taxes include import and export duties, exchange profits and exchange taxes.

Table 8. Total government revenue by type of tax in SADC, 1999 (percentage)

Country	Customs revenue	Direct tax	Indirect tax
Angola	n.a.	n.a.	n.a.
Botswana	15.4	21	4.5
Lesotho	45	13.4	11.1
Malawi	22	45	26.1
Mauritius	33.5	26.5	25.6
Mozambique	22.2	14.1	50.9
Namibia	29.8	26.4	32
South Africa	1.8	56.1	38.6
Swaziland	49.4	27.2	14.4
Tanzania	27.6	21.9	26.2
Zambia	11.6	36.4	43.7
Zimbabwe	16.1	42.3	26.5
Average	*24.9*	*30.0*	*27.2*

Source: Chauvin and Gaulier, 2002

2.4.4 Difficulty to formulate appropriate trade and macroeconomic policies

45. Finally, informal cross-border trade , which is not captured by official records, leads to unreliable external trade statistics which might, in turn, hinder the effective formulation, implementation and monitoring of domestic, regional and international trade policies and negatively affect the negotiation of trade agreements. Missing trade data (which impacts balance-of-payment and national income data) can also complicate the formulation of effective macroeconomic and development policies (Uganda Bureau of Statistics, 2006 and B Ndlela, 2006). Experts have highlighted the importance of having adequate and reliable country statistics to conduct evidence-based policy making in Sub-Saharan Africa and to guide donor actions, particularly in the current period, since there is an urgent need to track progress towards international commitments such as the UN Millennium Development Goals and the Doha Development Agenda (Scott, 2005).

28 . In 2004/5, for example, Uganda decided to devote 40% of its government development expenditure to investments in "Roads and Works", representing the most important development investment in one same sector (Uganda Bureau of Statistics website).

III. WHICH TRADE FACILITATION MEASURES CAN HELP CURB INFORMAL CROSS-BORDER TRADE?

46. This Section examines a number of selected trade facilitation measures that can help lower the incidence of informal cross-border trade in Sub-Saharan Africa, by reducing direct and indirect trade transaction costs arising from formal import- and export-related procedures, simplifying trade-related regulations and requirements for low value transactions and enhancing compliance with existing international trade regulations amongst informal traders. It first analyses the likely effects of measures currently negotiated at the WTO (sub-section 3.1). Some measures (e.g., automation of customs management systems) listed in this section are currently *not* proposed for inclusion in a future WTO agreement on trade facilitation, yet have been included due to their relevance and close links with measures under negotiation. It then considers the introduction of Simplified Trade Regimes for low-value transactions (sub-section 3.2); and finally outlines a number of other, complementary (trade) policy measures that can encourage firms to switch from informal to formal trade (sub-section 3.3).[29]

47. It is not suggested that governments will be able to fully eliminate the incidence of informal cross-border trade in Sub-Saharan Africa. Individuals with low literacy or education levels, trading very small amounts of low-value goods with their ethnic group or family members across borders, often through unofficial routes with no border posts, usually do not declare any of their business activities and are thus unlikely to formalise their cross-border trade transactions, despite possible reductions in the cost of doing "formal" business or more efficient control mechanisms (these traders are often found in category A, Figure 1).The measures examined in this Section therefore mainly concern micro- and small and medium-sized firms (MSMEs) or entrepreneurs that have (partially) registered their activity and/or are partially compliant with existing (trade-related and other) regulations and duties.

3.1 Measures under discussion in the WTO Negotiation Group on Trade Facilitation

48. WTO Members formally agreed to launch negotiations on trade facilitation in July 2004, on the basis of modalities contained in Annex D of the Decision Adopted by the General Council on 1 August 2004 (the so-called "July package", WT/L/579). Under this mandate, Members have been asked to clarify and improve existing *GATT Article V* (Freedom of Transit), *Article VIII* (Fees and Formalities Connected with Importation and Exportation), and *Article X* (Publication and Administration of Trade Regulations). The negotiations also aim to enhance the technical assistance and capacity building in this area and improve effective co-operation between customs and other appropriate authorities on trade facilitation and customs compliance issues (Art. 1, WTO July package). To date, Members have submitted a great number of proposals under the mandate, which provide the basis for the ongoing negotiations (see WTO Secretariat Compilation of Submissions, TN/TF/W/43).[30] Specific proposals concerning goods in transit, special and differential (S&D) treatment and the future implementation of the WTO agreement on trade facilitation are not referred to in this paper as they are less relevant to the focus of this study. The measures of interest to this analysis mainly fall under GATT Articles VIII and X.

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29 . This Section does not examine in detail the likely impact of reductions in import/export duties, the elimination of import quotas or export bans on selected commodities, or the harmonisation of technical regulations and standards (TBT and SPS) on the incidence of informal cross-border trade.

30. As of March 2008, 38 textual proposals on GATT Art. V, VIII and X had been submitted.

3.1.1 Simplified and reduced documentation requirements and formalities (GATT Art. VIII)

49. A number of studies estimate that the simplification and streamlining of documentation requirements and formalities for importation/exportation can significantly reduce transaction costs associated with formal trade (see e.g., Martinez-Zarzoso et al., 2007). Such a measure is particularly important for sole traders and MSMEs which often do not have enough financial resources or human capacity to deal with complex administrative requirements. Moreover, for small or low value consignments usually channelled by such traders, the costs of complying with complex requirements and formalities may be disproportionate relative to the transaction value (OECD, 2003a). This, in part, might explain the high incidence of informal cross-border trade among such firms.

50. Simplifying documentation requirements - for example by accepting commercially available information and authenticated copies; applying international standards for document formats (Box 1); and eliminating requests for redundant data - would reduce costs associated with formal trading, and thereby provide greater incentives to trade on a "formal" basis. As smaller traders (and inexperienced) are likely to fail to satisfy the criteria for "authorized trader" or "fast track" schemes (see below), it is all the more important for them that standard documentation requirements be as simple as possible.

Box 1. Aligning trade documents to international standards

In view of streamlining and harmonising documentation requirements, government authorities could for example base their customs declarations and other trade documents on the *UN Layout Key for Trade Documents* (UNLK, developed by UN/CEFACT). It is an international model for trade documents which integrates a set of international standards and codes (e.g., ISO codes) that can be used to design aligned series of forms, using a master document.

The UN Layout Key ensures that the same data is included in the same place on all trade documents and that differing formats and sizes of documents are compatible with each other. It can also be used to design screen layouts for the visual display of electronic documents (see www.unece.org/cefact/recommendations/rec_index.htm). Aligning trade documents to international standards will also facilitate automation of trade procedures and electronic document submission (see below).

To assist government authorities to develop aligned trade documents, the UN Regional Commissions have developed a Toolkit for the Alignment of Trade Documents (see http://unece.unog.ch/etrade/tkhome.aspx).

Source : www.unece.org

51. In addition, to simplify the submission of all required trade-related documentation, authorities could establish a *single window or one-stop shop* for the lodging of all trade-related documents (even when those are destined to different border agencies). Again, such an initiative is particularly important for MSMEs that lack capacity to deal with a variety of administrative procedures and border agencies. The establishment of a (physical or virtual/web-based) one-stop-shop can help reduce both direct trade transaction costs related to compliance with document requirements and indirect costs related to long customs clearance time, as such having the capacity to incite firms to formalise their cross-border trade operations. The implementation of a virtual one-stop-shop can however be an extensive and costly undertaking, involving significant infrastructure and institutional investments and requiring donor support. This explains why countries often *gradually move* to such a system. In Cameroon, for example, the government has set up a physical Single Window which groups, in the same physical location, public and private actors involved in importation/exportation at the Douala Port (e.g., port, customs and sanitary authorities, as well as private banks, certification bodies and other service providers). The Single Window links together various agencies' information networks with a view to speeding up data transmission amongst them. In the near future, the Cameroon government aims to phase out all documents and forms in

order to move to a system that would enable all files and transactions to be processed electronically (see http://www.guichetunique.org/).

52. To lower the number of formalities and at the same time reduce the incidence of corruption at the border, which often incite firms to trade informally, governments could also gradually *phase out the mandatory use of customs brokers*, i.e., companies that help traders clear goods through customs (i.e., they help prepare documents and/or electronic submissions; calculate and pay on behalf of the client taxes, duties and excises; and facilitate communication between the traders and governmental authorities). The World Bank Customs Modernisation Handbook notes that customs brokers are often the conduits through which "facilitation payments" are demanded and paid, and added to the brokerage fees. It indicates that "anecdotal evidence suggests that brokers regularly inflate the amount of the bribes paid and reimbursed by their clients, and keep the excess for themselves. This practice provides brokers with a strong economic incentive to perpetuate a cycle of corruption." (De Wulf and Sokol eds., 2005).

53. Similarly, *gradually eliminating pre-shipment inspections* (PSI) — which are conducted by private surveillance companies at embarkation ports and airports or in exporters' premises — would also simplify border formalities, lower fees and charges and help prevent corruption and duty evasion. While PSI was originally intended to fight the use of over-invoiced imports to evade capital controls, with the progressive phase-out of these controls, it became a tool intended to combat under-invoicing and subsequent import-tariff evasion. PSI is thus meant to provide additional information on shipment description and value which is then used by the client government to control fraud. In practice, however, PSI controls add an extra layer of formalities and delays to the complexity of local border procedures. As the interaction and co-ordination between the Customs administration and the PSI company is often quite poor, those additional delays and formalities are generally not affected by facilitation efforts undertaken in the importing country. Furthermore, insufficient transfer of know-how and operational responsibility from PSI mechanisms to the local administration does not encourage border authorities to gradually build control capacity.

54. Moreover, the PSI company usually charges the importer a fee of about 1% of the value of the traded goods which adds to the burden associated with formal cross-border trading, particularly for smaller traders. Anson et al. (2003) also finds that PSI may sometimes demotivate customs officers, who do not expect to receive any bonuses when reporting fraud uncovered by such inspections. Officers' only motivation to report PSI data and force importers to pay penalty duties is often the threat of sanctions if the data is later reconciled. Yet, as the frequency of reconciliation is usually low in developing countries, the incentive for customs officers to report fraud is therefore often weak. Finally, PSI information is sometimes being exploited by corrupt customs officers who can use it to extract higher rents from importers through bribery arrangement (i.e., "facilitation payments") (Anson et al. 2003). A recent survey report by BAFICAA (Business Action for Improving Customs Administration in Africa),[31] for example notes that private inspection agencies are often a source of grievance for African importers, mainly due the amount of time they take to generate verification reports on routine imports. Most interviewed firms also feel that private inspection companies are not accountable to anybody for the delays and obstruction they may cause. In addition, in all the countries surveyed, such companies create new opportunities for corruption, mostly at an individual level. This phenomenon is particularly noticeable in countries where a single company has been granted the entire concession for inspection (BAFICAA, 2006).

31 . The objective of the business survey conducted by BAFICAA was to identify practical Customs improvement proposals, which could be implemented easily and would deliver benefits quickly. The survey was conducted through questionnaires and face-to-face interviews with businesses in West Africa, Southern Africa and East Africa, including local SMEs. Source: BAFICAA (2006).

55. Finally, the adoption and implementation of the *same documentation requirements* and formalities for import clearance *across all member states of a regional free trade agreement or customs union* could further incite micro- and small traders, especially those who mainly trade regionally (with neighbouring countries), to formalise their cross-border transactions. The Southern African Customs Union (SACU) and the Southern African Development Community (SADC), for example, are proceeding with the implementation of shared documentation (i.e., single clearance document SAD500) in order to facilitate formal regional trade (see Box 2). To date, all SACU Member States have adopted and implemented the SAD 500 form.[32] In addition, the SACU Secretariat is working on developing a common SACU Single Administrative Document Manual to guide traders and customs officials in the use of the SAD.

Box 2. Results of the pilot implementation of the SAD500 in the Trans-Kalahari Corridor

Botswana, Namibia and South Africa signed the Trans-Kalahari memorandum of understanding (MOU) in November 2003. The MOU serves as a basis for co-operation and joint efforts to streamline and enhance transport and customs operations along the Trans-Kalahari Corridor. The objective is to make the corridor an effective vehicle for the Southern African Development Community's (SADC) efforts in becoming globally competitive.

The Trans-Kalahari Corridor Management Committee (TKCMC), established in 2000, has been working on streamlining border and customs operations, improving infrastructural developments and facilitating trade into and out of the SADC region. The Committee comprises stakeholders from the public and private sectors of Botswana, Namibia and South Africa (e.g., including the National Road Transporters Associations and the Federation of East and Southern Africa Road Transporters Associations (FESARTA)). It has since its formation been able to effectively co-ordinate border post operations with border opening times having been extended by Botswana, Namibia and South Africa. Furthermore, the customs departments of the three countries have been able to formulate and introduce joint procedures through the introduction of the Single Administrative Document (SAD) for goods in transit.

An initial assessment indicates that this initiative has helped reduce the number of under-declarations and under-valuations for trade between the three countries, hence helping to curb informal cross-border trade. In addition, border crossing time has been reduced significantly, from 4 hours to 30 minutes.

Source: Presentation by Evans Simba Marowa, USAID, for the 2006 OECD Regional Forum on Trade Facilitation.

56. COMESA has undertaken a similar initiative. It designed a single form for use as a customs declaration, the COMESA Customs Document, which was adopted in 1997.[33] To date fifteen countries are using a Single Goods Document based on the COMESA Customs Document (i.e., Angola, Burundi, DRC, Egypt, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Sudan, Uganda, Zambia and Zimbabwe). The remaining five countries (Comoros, Djibouti, Eritrea, Seychelles and Swaziland) are in the process of adopting a single goods document (see www.comesa.int/trade). Again, the objective is to facilitate trade in goods within the COMESA Market.

57. These initiatives are important as regional intra-African trade currently lies below its potential. Hummels (2006), for example, finds that trade between African countries that share a land border currently only approximates 1% to 5% of world trade. [34] The general perception of businesses on the ground also

32 . Information provided by Mr. Daya.

33 . Articles 71 of the COMESA treaty further calls for such trade documents to be designed and standardized in accordance with internationally accepted standards, practices and guidelines and to be adaptable for possible use in computer and other automatic programming systems (e.g., ASYCUDA++).

34 . Similarly, Miti (2004) notes that less than 10% of agricultural trade conducted by COMESA countries is actually conducted within the region. For example, out of a total of USD 808 billion total maize trade, only USD 30 million (or 3.71%) constitutes intra-COMESA trade.

confirms that regional trade blocs have, in practice, done much less than what might be expected to facilitate intra-African trade to date (BAFICAA, 2006). Different trade blocs existing in Eastern and Southern Africa (e.g., SACU, EAC and COMESA) should also aim to *harmonise their trade-related regulations* (e.g., customs procedures, technical regulations, standards, conformity assessment requirements) among themselves to further promote intra-regional trade on the continent.[35]

3.1.2 Transparent and lower fees and charges for importation and exportation (GATT Art. VIII),

58. *Lower trade-related fees and charges* for import and export procedures and formalities, reflecting the approximate cost of the services rendered, would reduce the cost of formal cross-border trading and encourage smaller traders, who are disproportionally affected by such fees, to formalise their cross-border trade. Government authorities should provide a clear legal basis for applicable fees, and clarify and widely advertise how trade-related fees and charges are being set (i.e., according to what criteria); when and where these should be paid; which methods of payments are allowed and the conditions under which legal action and reimbursement might be undertaken in case of non-payment or overcharge of the trader (UNCTAD, 2006a and WCO, 2006). They should also allow businesses to comment on any changed or new fees and charges (see 3.1.2).

59. Authorities could also consider removing consular fees, which are paid when a consular invoice or any other customs documentation for the importation of the good needs to be "authorised" or stamped by the importing country's embassy or consulate in a foreign country (UNCTAD 2006a, UN/CEFACT 2001). Finally, customs authorities should *periodically review fees* to ensure their appropriateness in light of technological improvements and evolving business practices and *consolidate and simplify the fee structure* as much as possible. Lower, simpler and more transparent fees and charges for importation/ exportation will lower the cost of doing formal trade and, likely, also increase the degree of compliance with existing trade-related regulations, and as such, act as an additional trigger to lower the incidence of informal cross-border trade (OECD, 2008).

3.1.3 Simplified and expedited release and clearance of goods from customs (GATT Art. VIII)

60. Alongside simplified documentation requirements and more transparent and lower fees and charges, governments may seek to simplify the release and clearance of goods from Customs, with a view to further *reduce waiting times at the border*, which particularly burden MSMEs. A recent OECD study, for example, stresses that an average 4.76% reduction in the time spent at the border (in terms of number of days) in Sub-Saharan Africa could help exporters from the region achieve a 10% increase in formal intra-regional export volume. A time reduction of 4.60% for importers into Sub-Saharan Africa could lead to a 10% increase in formal intra-regional imports (Wilson, 2007). Speedy customs clearance is particularly important for perishable food products, which are often concerned by informal cross-border trade (see for example, COMESA, 2008). In this regard, Nordas et al. (2006) finds that time delays at the border not only negatively affect formal trade volumes but also reduce the probability that firms producing time-sensitive goods will enter formal export markets at all.[36] Reducing the time spent at the border could thus encourage such businesses to enter formal cross-border commercial transactions.

61. A number of measures - such as separation of release from clearance, pre-arrival clearance, post clearance audits and risk management- allow expediting movements at the border by shifting controls by

35 . For further information on approaches to reduce trade barriers arising from conformity assessment, see Fliess and Lesser, forthcoming.

36 . "Time delays" here relate to delays due to customs clearance and inefficient transport and logistics infrastructure and services. The study points out that the implementation of trade facilitation measures alone is sometimes not sufficient to significantly reduce such delays. See Nordas et al. (2006).

the border authorities at an earlier or later stage, thus reducing waiting times at the border. This implies being able to track and trace the consignment and the trader beyond the moment when the goods cross the border, which may seem difficult, if not impossible, in the case of informal cross-border movements. Against this background, some African countries have expressed concerns about their capacity to implement these measures, particularly pre-arrival clearance and post-clearance audits. While these are valid concerns, they should not obstruct the application of these measures to formal traders and transactions in these countries, so as to facilitate the release and clearance of formally traded goods.

62. *Separation of release from clearance* allows goods to be released *prior* to the payment of duties and taxes in cases where final classification of the goods, assessment of the value and other transactions are pending, subject to the deposit of a surety in the form of a deposit or bond, or the participation in a credit system (UNCTAD, 2006a). It is a measure that can be applied irrespective of the reliability and traceability of the trader, as far as an appropriate financial guarantee has been made available. This guarantee usually varies in importance, depending on the value of the traded goods. Thus, a trader importing low value goods (which is the case of many informal traders in Sub-Saharan Africa) would only have to pay a relatively small deposit to obtain the release of the imported goods before their clearance. However, *problems of access to formal sources of finance* are widespread in the region. They not only provide incentives to trade informally but also often make it impossible to guarantee potential Customs liabilities other than through a cash deposit. In order to make this measure widely applicable and encourage informal traders to formalise, it is therefore necessary to promote the development of financial mechanisms offering easier access to trade finance (Box 3).

Box 3. Enhancing access to trade finance in Sub-Saharan Africa

The availability of trade finance, particularly in developing and least-developed countries, plays a crucial role in facilitating international trade. Exporters with limited access to working capital often require financing to process or manufacture products before receiving payments. Conversely, importers often need credit to buy raw materials, goods and equipment from overseas. In addition, traders might require depositing a guarantee in view of expediting the release and clearance of goods at the border.

A recent study by Coulibaly and Lolila-Ramin (2005) which looks at Rwanda and Benin finds that large enterprises generally have little difficulty financing trade as they have a good capacity to promptly repay loans given they can present tangible assets for collateral. SMEs, however, appear to be more credit constrained, with local exporters facing the greatest difficulties.

Key problems facing SME exporters in Rwanda and Benin:

- Lack of familiarity of bankers with trade transactions and related risk assessments
- Lack of information and awareness on the part of traders on available financial schemes
- Lack of organization of producers and exporters into a structure by specific industry, which means that local banks are often reluctant to lend.
- Relatively high trade risks, due to the political situation in certain countries (political risks) and risks of non-payment (commercial risks)
- Lack of export credit insurance and guarantee schemes except for the African Trade Insurance, the French Export Credit Insurance and Guarantee Scheme (COFACE) and the World Bank/IFC Global Trade Facility.

Policy options to improve access to trade finance for SMEs

- Disseminate information on available financial schemes to exporters and producers/farmers
- Insure risks through guarantee funds from donors
- Encourage the organization of producers and exporters into a structure/ industry association
- Provide targeted credit to SME exporters
- Create a regional export guarantee and insurance schemes

Source : K. Coulibaly and Z. Lolila-Ramin (2005) and Auboin and Meier-Ewert (2003)

63. *Pre-arrival clearance* allows traders to submit clearance data to the Customs administration for advance processing and release of the goods immediately upon arrival to the country (UNCTAD, 2006a). The WCO has released *Guidelines for the Immediate Release of Consignments by Customs* which could guide African countries in the implementation of this measure. While pre-arrival clearance hardly concerns informal traders, which by definition avoid (fully or partially) regulatory requirements at the border, it could still be applied to formal traders, who would benefit from shorter waiting times at the border and thus reduced trade transaction costs. Government authorities would also benefit, by being able to better organise their human resources at the border.

64. Similarly, *post-clearance audit* entails Customs control of individual transactions or imports/exports undertaken over a certain period by a given trader. It is performed *subsequent* to the release of the consignment from Customs custody, at a Customs office or on the premises of the trader. Thanks to this measure, time previously spent waiting for customs clearance is reduced to a minimum, and traders can dispose of their goods quickly after arrival in the country (UNCTAD, 2006a). Again, such a measure is essential for MSMEs which are disproportionally affected by costs incurred due to long waiting times at the border. Post-clearance audits focus on the trader as opposed to the consignment, by verifying the accuracy of the customs declaration through accounting records, books, business systems and all customs-related commercial data held by persons and companies directly or indirectly involved in international trade. In the case of informal trade flows, post-clearance audit is hardly applicable. Sometimes, informal trade is conducted by businesses that are not legally registered and escape not only border but also domestic taxes (e.g., category A, Figure 1). Such audits can thus not be applied to these firms as it is impossible to track them. Furthermore, even when registered for domestic tax purposes, informal traders often use unreliable invoices, have poor bookkeeping standards or maintain no bookkeeping at all, frequently change corporate names, and are thus difficult to audit too. As with other trade facilitation measures which disconnect customs controls from the time and place of border crossing, the implementation of post-clearance audits will thus be limited to formal traders that can be traced following the release of the consignment from customs custody.

65. The efficient application of post-clearance audits requires the introduction of *risk management techniques*, which provide the necessary background information to support post-clearance audit based on the profiling of importers (considering *inter alia* the volume of imports made by specific importers; taxes paid and frequency of payment; the origin and type of goods; offenses committed and their nature). The primary objective of risk management is to allow a *selective reduction of physical inspections* at the border. It is a systematic process for identifying, analyzing, evaluating, treating and monitoring risks that may affect the achievement of Customs objectives, in particular the objective of ensuring compliance with regulatory requirements. It is characterised by the identification of potentially high risk areas, so as to direct control resources (e.g., physical inspections) toward such areas and arrange for minimal intervention (no physical inspections) in similarly identified low risk areas.

66. Risk management therefore seeks to manage compliance with the law in a way that ensures the facilitation of trade. An effective risk management system has not only the potential to significantly reduce trade transaction costs for compliant, "low risk" businesses (which benefit from expedited release from customs), but can also help free up resources to improve inspections and, subsequently, enhance compliance levels with existing laws and regulations among firms or transactions assessed as "high risk" (including businesses trading informally). Such systems can thus incite traders to formalise. Even if imports channelled by informal traders cannot benefit from these systems, the impact on traders with recognised track records would still be significant for the overall economy. De Wulf (2005a), for example, estimates that in Ghana some 10% of traders account for 50 to 70% of all imports and that the introduction of a "gold card scheme" (an automatic green channel with possible later audits) for those traders would significantly reduce trade impediments. For developing countries relying heavily on manual processing systems, risk-based strategies can be difficult to put in place, but implementation is now facilitated by the

inclusion of a selectivity module in recent versions of UNCTAD's Automated System for Customs Data (ASYCUDA), which is widely applied in Sub-Saharan Africa (see 3.1.4).

67. BAFICAA has been working with customs administrations in the East African region to implement a "Fast Track" system - or simplified procedures for businesses that have demonstrated a history of full compliance with existing trade regulations and tax payments. The system aims to reduce clearance times for such businesses. The initiative has met with considerable success in its first phase. The system consists of a menu of accelerated processing options that aims to reduce clearance time from the current levels, e.g., payment of duty and tax on normal credit terms, payment by electronic bank transfer, pre-clearance of goods ahead of arrival ("advance clearance", e.g., initially for a limited set of goods), replacement of inspection and verification for repeat cargoes with on-site audit checks after customs release ("post-clearance audit" at the premise of the importer), valuation and coding queries to be resolved after release of goods ("separating release from clearance"), and acceptance of scanned and photocopied documents for clearance ("authenticated copies"). The "menu of options" can be adjusted to suit particular local circumstances and could be introduced in phases to speed up initial implementation. The requirements to qualify for such a system should of course be transparent and easily accessible to allow all firms to apply for participation in such a system (BAFICAA, 2006).

68. Finally, Customs authorities could also regularly measure and publish average release and clearance times and inform all traders of the delays they might incur, to ensure transparency and predictability (see below) but also to encourage accountability and performance assessment of their own services. The BAFICAA business survey, for example, indicates that interviewed African firms want to be able to identify responsibilities for the impact of customs and related processes on their business. This can be addressed by establishing trade-related targets (e.g., customs clearance time) which are publicly shared (BAFICAA, 2006).

3.1.4 Automated customs management systems[37]

69. An automated system for handling customs data and declarations, deployed at all border crossing points, would not only help shorten clearance times (thanks to a more effective administration of customs data) but also make all customs functions more transparent and efficient and enhance the levels of compliance with trade regulations (Box 4). Automation of customs data management and clearance can lower (direct) documentation-related costs (thanks to electronic forms), allow for an automated risk management system, and lower incidences of fraud and corruption (and thus lower the incidence of extra facilitation payments) thanks to reduced face-to face interactions between customs officials and traders (OECD, 2003a). UNCTAD has, for example, developed an automated system for customs data (ASYCUDA), which handles manifests and customs declarations, accounting procedures, transit and suspense procedures. The system has been installed or is being implemented in over 90 (developing) countries and regions (see www.asycuda.org). Alternatively, some African countries have developed and implemented their own home-grown system, such as Senegal which implements an automated customs clearance system developed by a private local IT company, GAINDE 2000 (see www.gainde2000.sn).

37 . Cross-cutting issue not a requirement in current WTO text proposals.

Box 4. The benefits of automated customs management systems

Automation has significantly *speeded up clearance times* in several countries. In Costa Rica, for example, the switch towards an automated single window warehouse clearing, electronic customs declaration, and risk management with automated method of selection made it possible to reduce customs clearance times from an average of six days in 1994 to 12 minutes (115 minutes in case of physical inspection) in 2000 (WTO, 2001). Similarly, Morocco's automated customs system contributed to a reduction of the average clearance time from 132 hours in 1997 to less than one hour in 2002. It is noteworthy that all African businesses interviewed in the framework of the BAFICAA survey reported that an automated system for customs clearance and management had made a significant difference where implemented, by dramatically increasing transparency and reducing corrupt practices (BAFICAA, 2006).

Interestingly, automation of documentation processing only, e.g. through electronic data interchange (EDI) systems, also reduces clearance time significantly if applied to all border posts (event those in remote areas). In Thailand, for example, it takes less than an hour on average to process customs documents through EDI systems, while 3-4 hours are needed for non-EDI processing (OECD, 2005). Similarly, in Kenya, the Community Based System that utilises EDI has helped reduce the average time to clear goods at Mombasa by 77% (Commonwealth Secretariat, 2007). Most developing countries with automated customs systems report that average customs clearance have been reduced to an average 72 to 24 hours (OECD, 2005).

Source: OECD, 2005

70. While automation of customs management is costly, most existing studies emphasise that return on investment comes within a few years of operation only (OECD, 2003b). The main challenge is rather that automation requires the preliminary *existence of adequate telecom and IT infrastructure*, which is often lacking in Sub-Saharan African countries. A recent telecommunications survey of selected customs border posts in Kenya, Tanzania, Uganda and Rwanda, for example, found that border posts in these countries often lack a reliable grid power, are faced with poor quality of fixed line service, lack local Internet Service Providers to provide connectivity, have inadequate or non-existent building infrastructure to house electronic equipment and require training and maintenance plans to accompany the deployment of computers and new information systems (Mathur, 2005). These constraints explain why automated customs management systems are not systematically deployed to all border crossing points (particularly remote ones).

3.1.5 Enhanced transparency and predictability (GATT Art. X)

71. Enhanced transparency of trade-related laws and regulations, Customs requirements, applicable fees and charges for importation/exportation and related judiciary mechanisms will reduce direct costs associated with the gathering of information on such issues, and indirect costs arising from a lack of predictability of the trading environment. Improved transparency and accessibility of trade-related information will particularly benefit MSMEs which generally lack the means to search out trade laws and Customs procedures from a variety of sources (UNCTAD, 2006a). The *publication* of comprehensive information on trading conditions (e.g., border agency procedures, duty and tax rates, fees and charges for importation and exportation, import and export restrictions, information on tariff classification, procedures for the appeal of customs determinations, information on advance rulings, etc.)[38] in official gazettes, and the application and *administration of trade-related regulations in a non-discriminatory* (impartial) and

38 . The provision of advanced rulings in a time-bound manner would let smaller and relatively inexperienced traders know in advance which regulations would apply to their imports (e.g., goods' tariff classification and the application of preferential tariff rate, duty drawback or quotas), hence enhancing predictability of the trading environment. Traders should also be given the possibility to appeal Customs' decisions if they consider this necessary, through independent appeal mechanisms.

reasonable manner would alleviate the cost of doing "formal" cross-border business and is likely to encourage MSMEs trading informally to formalise their cross-border transactions. Examining bilateral trade flows of 25 African countries in 2003 and 2004, Njinkeu et al. (2008) finds that the degree of transparency of trade-related regulations (and the quality of the regulatory environment in general) in the importing country has a *significant effect* on formal trade flows. Enhanced transparency is likely to have a greater impact on the incidence of informal trade if existing regulations and procedures are simplified too. Simplification and enhanced transparency will not only cut transaction costs for formal traders, but also reduce administrative expenses for governments, which will enable them to re-direct resources to tackle other challenges, e.g., informality, fraud and corruption.

72. The 2006 BAFICAA survey conducted among African firms indicates that communications from Customs authorities is still generally viewed as poor. While some authorities make good use of websites, for example in Côte d'Ivoire and Senegal, others have sometimes set websites up but have not updated them for months or even years. In addition, the survey report also indicates that "in general, there was a tendency for customs services, in common with most government bodies, to implement very sudden changes, sometimes with effect from a date before the communication was issued" (BAFICAA, 2006). This observation is reiterated by Miti (2004) which examined more specifically Eastern and Southern African countries. The author notes that changes to trade requirements in the region are often ad-hoc and not communicated to traders in advance.

73. Information on trade-related regulations and charges should be available on a non-discriminatory basis and should be easily accessible to all, e.g., through *enquiry points* that centralise all relevant information and that are *located in different parts of the country* (and not just in the capital), as to enable even small traders with low capacities to get access to the data; and/ or through a website (which can be accessed from anywhere). In the case of a regional trade area or customs union, an additional enquiry point could be established at the regional level to inform traders of regulations in application in the region. The COMESA Secretariat has, for example, set up a website (http://www.tradecomesa.com/) that synthesizes and publishes all trade regulatory requirements applicable to target commodities in the COMESA region (Box 5). Physical enquiry points can be created on the basis of already existing infrastructures within the government or by taking advantage of non-governmental entities providing similar or complementary services (see sub-section 3.3 below), which means that set-up costs can be kept fairly low. Yet, the establishment, maintenance and regular update of a virtual enquiry point (website) may require targeted capacity building in computer technology, as well as staff training and technical assistance in website programming for publishing relevant trade information (UNCTAD 2006a).

74. Businesses should also be alerted (through notifications in official journals and specialised websites) of any changes that may occur or of newly enforced regulations and charges, ensuring a reasonable time interval between the publication of new or amended trade-related regulations and their entry into force, in view of enhancing compliance with the new or modified official regulations.[39] This is crucial as traders often do not comply and trade informally because of *lack of awareness* of compulsory requirements. Government authorities should also allow for prior consultation by giving the opportunity to interested parties within the country (e.g., private sector associations) to comment on new or amended trade-related regulations or fees and charges before their entry into force. Businesses will be more inclined to comply with new trade-related regulations and fees if they perceive that their views have been taken into account.

39 . Changes in technical regulations, standards and conformity assessment procedures should be notified at least 60 days before their entry into force, according to the WTO TBT Committee.

Box 5. COMESA's enquiry point for trade and investment-related information

The Trade COMESA website provides information on:

- *Trading requirements*: customs documentation and procedures, rules of origin, certificate of origin, import and export requirements, product quality standards, SPS requirements, applicable tariffs, restricted goods and transport and logistics infrastructure (by country and/or products).
- *Trade opportunities* (by country): list of all (government) investment and trade promotion boards, and of (private) business associations and chambers of commerce.
- *Cross border trade*: provides trade statistics (regarding total COMESA trade and intra-COMESA trade) and explains the tools and programmes designed by COMESA and SADC to encourage regional trade
- *Trade environment*: explains the COMESA customs documents and simplified trade regime
- *Events*: lists relevant conferences, exhibitions, meetings and workshops

The website also provides information on investment opportunities and the Investment environment.

Source : COMESA, www.tradecomesa.com

3.1.6 Border agency co-operation[40]

75. It is important to recognise that delays and bottlenecks caused by other border agency requirements can sometimes be a *greater source of administrative costs and delays than Customs formalities*. Multiple regulatory requirements of border control agencies – e.g., dealing with agriculture, veterinary, health and phytosanitary standards — frequently lead to duplicative formalities and controls, generating increased compliance costs, risks of error and delays (IFC, 2007). To reduce such costs and delays and incite traders to formalise, border agencies *within one same* country (e.g., customs, immigration and food inspection authorities) should co-ordinate their activities and requirements (Box 6). According to the BAFICAA survey, businesses everywhere in Africa have expressed the need for enhanced border agency co-ordination alongside the implementation of reforms and improvements to customs (BAFICAA, 2006).

Box 6. Ways to improve border agency co-ordination within one same country

The International Finance Corporation (IFC) Guidebook on *Reforming the Regulatory Procedures for Import and Export* lists several methods to enhance co-ordination between different border agencies within one country:

- Establishing one-stop-shops and single windows to integrate the offices and staff of all border agencies under one roof with a single set of counters for customer service (see 3.1.1);
- Concentrating documentation verification within a single agency (e.g., Customs);
- Coordinating physical inspections of cargo at one location and time, with all inspectors from the various agencies present;
- Utilizing risk management techniques to ensure that cargo inspections initiated by other border agencies and samples taken for laboratory analysis are minimized (see 3.1.3);
- Implementing electronic messaging between Customs and other border agencies to ensure laboratory testing results are returned quickly and non-release 'holds' that are placed by other agencies are subsequently removed with minimum delay; and,
- Undertaking periodic reviews of the laws governing import restrictions, licensing, permits, labelling requirements, etc. to ensure they conform to international standards.

Source : IFC, 2007b

40 . WTO cross-cutting issue.

76. Furthermore, border agencies *across (neighbouring) countries* could consider setting up a multilateral mechanism for the exchange of information across customs authorities (e.g., on matters such as HS classification, description, quantity, country of origin, valuation etc.) to combat informal trade and speed up clearance times. For example, in October 2007, the Uganda Revenue Authority and the Kenya Revenue Authority, with assistance from the East and Central Africa Global Competitiveness Trade Hub (funded by USAID), launched a system called *RADDEx* to electronically exchange customs information between revenue authorities. This data exchange should reduce customs clearance time, which will be beneficial not only to Kenyan and Ugandan traders but also to traders in the entire Eastern Africa region, with benefits accruing to the private sector and revenue authorities alike (Box 7). Another example of cross-country co-ordination is also outlined in Box 2 above.

Box 7. Exchanging information across countries' customs authorities through RADDex

Subsequent to the successful introduction and use of modern computerized customs systems in East Africa, a need became rapidly apparent for an automated and timely method to exchange information across borders between the various customs systems, which would meet international standards as per World Customs Organization rules in the Revised Kyoto Convention.

The positive impact of this automated exchange on clearance time, anti-corruption and resulting global competitiveness was recognized by the East and Central Africa Global Competitiveness Hub (ECA Trade Hub) which undertook a preliminary technical study on methods of integration in early 2005. This study was subsequently presented to the Revenue Authorities of Kenya and Uganda along with a proof of concept demonstrating the integrative capability of Kenya's automated customs management system, SIMBA 2005, and Uganda's automated customs management system, ASYCUDA++. The proposed solution was presented and unanimously accepted by both Revenue Authorities and building on discussions and meetings of the previous year, documentation and plans were put forth for a modern, extendable method to link any and all of the various customs systems in use throughout the region.

RADDex will enable customs data to be communicated instantly from point of transit origin, through all points of transit, to point of destination. This advance notification will allow for streamlined processing of goods, increased transparency, increased accuracy in goods verification and risk assessment, and enhanced overall efficiency, including avoidance of duplicate data capture at border posts. In addition, complete communication will include a reconciliation report transmitted to country of exit upon receipt of goods into the country of entrance, which should help combat informal and illegal trade. This data exchange will greatly reduce customs clearance time and improve controls. Communication and access security is built into this solution to ensure the safety of information being transmitted. The first phase of the integration of the Kenya's SIMBA 2005 and Uganda's ASYCUDA++ has now been successfully accomplished.

Source : ECA Trade Hub, www.ecatradehub.com

3.2 Simplified trade regimes for low value transactions

77. In addition to trade facilitation measures meant to expedite the release and clearance of goods in general, customs authorities could propose a simplified trade regime particularly aimed at low value consignments, which represent an important share of informal cross-border trade in Sub-Saharan Africa (see sub-section 2.2). The key motivation of such a regime is to encourage MSMEs to formalise low-value cross-border transactions and as such reduce the incidence of informal trade. *De minimis procedures* could allow consignments valued below a *de minimis* level (i.e., threshold) to be exempted from formal customs clearance procedures, such as the submission of an import declaration, and be subject only to the submission of a consolidated manifest (such as an airway bill of lading or a commercial invoice) or simplified documentation. Furthermore, for some of these consignments, the collection of duties and taxes and other regulatory impediments may be waived and immediate release issued, based on information contained in the consolidated manifest detail records. The consignments could still be subject to random checks for verification and enforcement purposes. The minimum value of a consignment or the minimum duty and tax payable below which simplified procedures will be applied, varies depending on the country.

78. A simplified trade regime for selected types of commodities is, for example, being promoted by COMESA member countries whereby small-scale traders benefit from a *Simplified Customs Document* and a *Simplified Certificate of Origin*, under which goods that are COMESA-originating and whose value does not exceed USD 500 per consignment, qualify automatically for duty-free entry in the COMESA market (COMESA, 2007 and Box 8). In the East African Community too, a *Simplified Certificate of Origin* for cross-border trade of a maximum value of USD 500 is in force since July, 1st, 2007. Such a Certificate is to be issued at the border posts, and not just in capital cities, to enable traders located in remote areas to benefit from the regime (COMESA, 2007).[41]

Box 8. COMESA's Simplified Trade Regime

As of today, 11 of the 19 COMESA member countries belong to the COMESA Free Trade Area which entails duty- and quota-free market access for products meeting the rules of origin criteria (under which goods should either be fully produced within the region or have 35% value-added). Yet, non-tariff barriers, such as complex import and export procedures, continue to hinder intra-regional trade in the COMESA area.

Recently, COMESA Trade Ministers have agreed to fast-track the implementation of a simplified system of documentation and border procedures. At the COMESA Business Summit and Exhibition held in Kigali, Rwanda on May 2007, Ministers agreed to introduce a "*Simplified COMESA Trade Regime", which would first apply to maize, rice, beans and traditional food crops* such as cassava, as well as cotton and dairy products (i.e., "common list of eligible products"). Under the simplified system, consignments of US$500 or below which are produced in the region will be exempt from the normal rules of origin requirements. In addition, traders will be able to use a simplified "certificate of origin" and "customs document".

This initiative is intended to facilitate "formal" agricultural trade in the region and ***reduce the incidence of informal cross-border trade***, which still captures a high share of intra-COMESA trade. The Simplified Trade Regime will first be implemented on a pilot basis in a 10 selected countries and border posts (Burundi, DR of Congo, Ethiopia, Kenya, Malawi, Rwanda, Sudan, Uganda, Zambia and Zimbabwe). After the completion of the pilot phase in late 2008, the implementation of the Regime will be extended to all COMESA countries.

The implementation of the COMESA Simplified Trade Regime is supported by the Regional Agriculture Trade Expansion Support (RATES) programme, financed by USAID. The RATES programme is designed to increase agricultural trade within the East and Southern Africa region and between the region and the rest of the world. It works closely with the private sector to identify trade policy constraints, develop commodity-specific regional trade initiatives and initiate change through regional institutions such as COMESA, EAC, SADC and the Eastern Africa Grain Council (EAGC). RATES supports additional trade-facilitating initiatives within the region, such as:

- The harmonization of maize and dairy standards across COMESA and EAC member countries and dissemination of information on these new regional standards.
- The synthesis and publication of trade-related regulatory requirements for target commodities on a centralized webpage (www.tradecomesa.org)
- The provision of technical assistance to inform and educate traders on the requirements under the COMESA FTA and EAC Customs Union.

Source: www.ratescenter.org , COMESA, 2007 and COMESA, 2008

79. Alongside simplified documentation requirements, authorities could introduce lower trade-related fees and charges for transactions below a certain value (threshold), or suppress these fees and charges altogether if no duty is collected on the transaction (i.e., non-dutiable, *de minimis*, transactions). This is

41 . Ghana too has introduced a simplified trade regime for very small-scale (and often unregistered) traders, The regime – which is referred to as the "head load module" in the automated customs management system-- entails a simplified customs declaration document, the elimination of the Destination Inspection Valuation Certificate and the phytosanitary certificate, and the removal of the network charge usually levied on declarations submitted to the customs automated system. Ghana's authorities have indicated that the regime has reduced the incidence of informal trade. Source: Ghana delegation to the WCO.

particularly important for MSMEs and individual dealers trading low-value goods consignments for which "economies of scale" on (fixed) fees are often not possible. Such traders therefore often face a disproportionate compliance burden. To date, the BAFICAA survey indicates that in order to combat informal trade, a number of African countries have introduced additional border checks, which require extra payments by the importer. Yet such initiatives have been inefficient since they have created an additional cost burden, added to the time it takes to clear goods and also created further opportunities for solicitation of "facilitation payments".

80. Any special MSME regime or procedures should however not become a "refuge" where small businesses stagnate. There must be sufficient incentives for small businesses to want to outgrow from these regimes (Stern, 2005). In addition, it is essential to *raise awareness* of the existence of simplified procedures and forms among MSMEs in all parts of the country and explain how these can be used. In the case of COMESA's Simplified Trade Regime, for example, a User Handbook has been developed in English, French and Kishwahili, which has been distributed widely across the COMESA region. The Handbook is aimed at both traders and border officials. The COMESA Secretariat also plans to launch advertising and training campaigns (COMESA, 2008).

3.3 Other complementary measures

81. While the implementation of a simplified trade regime for selected consignments and trade facilitation measures under discussion at the WTO can make a significant contribution towards integrating firms into formal trade, these measures are probably not sufficient to encourage traders to formalise their cross-border transactions. Other, complementary measures — such as assistance to help traders understand and comply with trade-related regulations; the provision of adequate support services for "formal" importing/exporting; awareness-raising regarding the benefits of formalisation; improved interaction between border agencies and the private sector and enhanced integrity of Customs administrations — could further act as strong incentives towards the formalisation of cross-border transactions.

3.3.1 Assistance to help traders understand and comply with existing trade-related regulations

82. To maximise the effect of transparency, it is essential to *sensitise and educate traders* on the import/export requirements and formalities in application in their own country, in neighbouring (or other) countries and in regional trading blocs. A recent paper on simplified tax regimes for SMEs, for example notes that, in general, tax avoidance –- including avoidance of trade-related taxes — in Africa often occurs due to lack of "tax literacy", i.e., lack of information, education and skills to comply (Stern, 2005). Technical assistance and capacity building efforts should therefore not solely concentrate on government officials and agencies but also be directed to (potential) traders, as is recommended by a recent OECD/DAC study on technical assistance and capacity building for trade facilitation (OECD, 2006). Helping MSME traders comply with existing trade regulations is important even when a simplified trade regime has been put in place.

83. Specific information material and training for smaller traders could be aimed at *raising awareness* and understanding of compulsory trade-regulations, adequately fill and submit the required documentation (e.g., customs declaration, sanitary certificate and certificate of origin) and comply with all other import/export formalities. Such assistance is best channelled through local (government-funded) trade promotion agencies or (private) business associations which already provide a range of support services to SMEs (see Box 9). Alternatively, a special advisory unit for SMEs could be set up within Customs administrations.

3.3.2 Efficient support services for formal trading

84. In addition, to further encourage a move towards formal trade, governmental and private agencies (e.g., trade promotion agencies, chambers of commerce and business/industry associations) should sensitize informal traders to the potential advantages they might gain from formalising their trade transactions. Effective service provision could increase the probability that traders comply voluntarily with existing trade-related regulations. Organising information campaigns to sensitise traders to the benefits of conducting formal cross-border transactions could therefore be useful.

85. This of course also implies that efficient and market-driven business support services and institutions are available to formal traders. Official trade promotion agencies and business associations could provide targeted and timely *market intelligence* and make information available on cross-border business opportunities; deliver tailored *marketing and business development advice;* organise *trade fairs*; and facilitate access to formal *trade finance* (which is an important barrier to formal trade, see sub-section 3.1 above), in view of enhancing cross-border trading opportunities in the formal sector. In addition, as noted above, they should inform traders of trade-related obligations and benefits, including tax exemptions and preferential tariff rates in application in neighbouring markets. Giovanucci (2008) identifies several pre-conditions for effective service delivery: e.g., such organisations should be adequately funded and staffed with qualified people who are paid commercially competitive salaries; they should be somewhat independent of government; and market-driven.

86. In addition, to ensure efficient and relevant service delivery, the activities of support agencies should be *regularly evaluated and benchmarked*. Conducting surveys among users of the services can help measure client satisfaction, identify needed improvements and adapt service delivery accordingly. Given the complex nature of trade performance and the large numbers of related variables, it is however difficult to measure the direct relationship between trade support services and export performance in the formal sector. Besides customer satisfaction, agencies could nevertheless monitor a number of indicators that pertain to the export performance of their clients, e.g., the number of firms benefitting from its services that have engaged in formal import/export; the value and origin/destination of such import and exports; and the types of goods and services traded.

87. Technical assistance and capacity building can help strengthen trade support services (see e.g., USAID, 2005 and OECD, 2006). The Regional Agricultural Trade Intelligence Network (RATIN), supported by USAID, has, for example, set up a special website for traders in maize, beans and rice in Eastern and Southern Africa. The *TradeAfrica Commodity Trade Link* is the leading African grain trade online market place that provides maize prices, enquiries to buy, and offers to sell maize, beans, rice and other agricultural commodities in the Eastern and Southern African region. RATIN also issues and distributes monthly bulletins regarding food trade in the region (http://www.tradeafrica.biz/), which are mainly available to formal traders.

Box 9. Selected good practices regarding trade support services in Africa

Usually, trade support services include the provision of market information and analysis; the identification of potential trade opportunities; the organization of trade fairs and exhibitions (to bring sellers and buyers together); information on trade agreements, trade-related regulations and standards in application; and information on how to access to trade finance. The International Trade Centre (ITC) has collected a range of good practices for the delivery of trade support services to (formal) export enterprises in developing and transition economies. Below are a few examples:

- *Information on market prices*: The Zambia Cross-Border Trade Association has put in place a system that enables traders to access information on commodity prices prevailing in major markets, as well as trade volumes, via the Internet (www.marketprices.co.zm) or via SMS. The implementation of this system has been financially supported by the International Fund for Agricultural Development (IFAD).

- *Trade information services*: The Jordan Export Development and Commercial Centres Corporation (JEDCO) provides up-to-date trade information through four information networks (incl. the Amman Trade Point) and is conducting awareness-raising seminars to introduce Jordanian businesses to these networks (the cost of which are in part borne by participating businesses). Trade-related information is provided via websites, email, telephone and fax.

- *Co-operative exporting*: The Uganda Export Promotion Board (UEBP) is working with organised farmer groups and private sector exporters to promote the export of grains and legumes. For this purpose, it has helped organized farmers under cooperatives such as *Export Production Villages* to identify products with export potential, and has encouraged farmers to produce according to export market requirements. UEPB has also linked groups of farmers with potential importers, helped them acquire common facilities (e.g., a collection centre and cold storage facilities) for horticultural products, helped them gain access to a financial facility of USD 5 million for stock management (provided by the Export Refinance Scheme) and conducted training for farmers in such areas as post harvest handling, packaging, labelling, standards, costing and pricing etc.

- *One-stop-shop for exporters*: In South Africa, the main government body tasked with assisting exporters is the Department of Trade and industry (DTI). DTI has designed an Export Readiness Assessment questionnaire for potential international traders. In addition, it markets South African exports internationally, with teams operating from regional offices around the world; offers regulatory information and market intelligence; identifies business opportunities for local companies; and provides specialists offering advice on export processes and procedures in specific sectors. DTI won ITC's "Best Trade Promotion Organisation from a Developing Country" Award in 2008.

Source : ITC website, www.intracen.org and COMESA 2008

3.3.3 Improved interaction and trust between border agencies and the private sector

88. More generally, beyond technical assistance and improved service delivery for formal traders, government authorities should aim to strengthen the degree of interaction and trust that exist between (potential) traders and border agencies, in view of *enhancing compliance levels* with existing regulations. In this regard, the BAFICAA survey highlights that improved interaction between border agencies (including Customs administrations) and the private sector is urgently needed in all parts of Africa. As the main beneficiary of streamlined and simplified trade requirements, the private sector's views and suggestions must also be taken into consideration to *ensure that trade facilitation measures produce real and practical benefits* and that issues related to implementation activities can be identified and resolved. Enhanced interaction with the private sector — through *regular consultations* and/or through the establishment of a dedicated private sector expert resource unit on Customs — would enable traders' associations to provide feedback on new or amended trade-related laws and regulations (see 3.1.5) and enable government authorities to better understand the constraints firms face when trading formally, hence facilitating the formulation of effective trade facilitation measures.

3.3.4 Enhanced integrity of Customs administrations

89. Finally, an additional means to enhance trust between traders and border agencies and reduce the arbitrary application of trade-related laws and regulations and the incidence of corruption, is to improve the integrity of Customs and other border agencies. Introducing a *code of good conduct* for officials — which sets out standards of behaviour, rights and obligations in respect of the exercise of their public duties, and disciplinary measures in case of non-compliance — could encourage a higher level of integrity in their dealings with traders and act as an incentive to formalization (UNCTAD, 2006a). In this regard, the WCO has elaborated the *Revised Arusha Declaration for Good Governance and Integrity in Customs* (1993, revised in 2003), which calls for:

- Leadership and commitment at management level for enhanced integrity;
- Simplified and more transparent customs regulations and procedures, including efficient appeal and administrative review mechanisms to enable traders to challenge or seek review of customs decisions;
- Modernisation of the customs administration, through improved operating procedures and automation of customs functions (see 3.1.4);
- Audit and control mechanisms and investigation and prosecution regimes to combat corruption;
- A code of good conduct which sets out the terms of behaviour of customs personnel and penalties for non-compliance;
- Sound human resource management strategies, including adequate salary scales; merit-based promotion policies; adequate training; staff rotation and performance appraisal systems; and
- Transparent and open relationship with the private sector (see 3.3.3).

90. De Wulf and Sokol eds. (2005) note that the Declaration has been designed to strike an appropriate balance between the positive strategies to combat corruption (e.g., modernisation, leadership, progressive human resources management policies, etc.) and repressive strategies (e.g., sanctions, controls, investigation, prosecution). They also emphasise that the Declaration, which has a non-prescriptive nature, provides a comprehensive conceptual framework but that actual implementation is up to individual customs administrations.

IV. CONCLUSIONS AND POLICY RECOMMENDATIONS

91. Informal cross-border trade still represents a significant proportion of regional cross-border trade in Sub-Saharan Africa. For some selected goods, the volume of informal flows in fact exceeds formal trade flows. Available surveys indicate that a substantial share of informal flows concerns staple food commodities (e.g., maize, rice, beans and cattle) and low quality consumer goods (e.g., clothes, shoes and electronic appliances). Furthermore, they pinpoint that informal cross-border trade is mainly conducted by individual dealers and micro, small and medium-sized enterprises (MSMEs) and often consist of relatively small consignments of goods.

92. While informal trade has several short- and medium-term benefits (e.g., increasing food security, alleviating poverty and providing employment), in the longer run, it is likely to lead to negative economic and developmental effects. Governments should therefore aim to *better integrate and link informal trade with formal trade*. This can be done by encouraging, in a first instance, informal firms to register and formalise their domestic activities (recommendations on how to reduce the incidence of informality in general can be found in the existing literature, e.g., Perry et al. 2007, Schneider, 2006 and OECD, 2005). For firms that are registered yet evade (fully or partially) formal trade-related regulations and duties, governments could facilitate formal trade, along the recommendations outlined below. A full elimination of informal cross-border trade is however unlikely, as there will always be traders (e.g., with low literacy levels, who trade very small amounts of goods with their family members and avoid official border posts) for which the costs of trading formally will remain *higher* than the opportunity costs related to informal trade, despite the introduction of facilitation and simplification measures. Yet, even if some degree of informality persists, greater incentives to formalise will clearly benefit all traders and the economy in general.

Gain a better understanding of the magnitude and characteristics informal cross-border trade and the motivations behind it

93. What clearly emerges from this study (as well as from the examined literature and surveys) is that *more accurate and systematic data* on informal trade is needed, for more countries and covering different modes of transport, to assess more precisely the magnitude of this phenomenon, the motivations behind it and its implications for the domestic economy. In view of tackling informal cross-border trade, governments need to take into account the specificity and nature of different categories of informal traders and the particular hurdles they face when trading formally across borders. Policymakers should recognise that the informal traded sector is *heterogeneous*. It encompasses all sorts of activities from the self-employed to small businesses employing a handful of workers to medium-sized and large enterprises engaged in illegal practices such as under-invoicing, misclassification and misdeclaration of origin. Gaining a better understanding of the nature and scope of the informal traded sector in a country could, for example, be achieved by conducting annual surveys on the extent and nature of informal cross-border trade, as has been done in Uganda (UBOS 2006 and 2007), or by initiating a dialogue, at local level, with informal traders (e.g., through town hall meetings and focus groups, see USAID, 2005). Collecting and analysing this type of information will help identify adequate policy options for curbing informal cross-border trade, and will contribute to evidence-based policy-making.

Reduce the cost of trading formally and enhance the efficiency of border controls to improve compliance with existing trade-related regulations

94. Governments could reduce the incentives to trade informally by diminishing transaction costs associated with formal trade and enhancing compliance levels with existing trade laws and regulations. This could be achieved through the implementation of some measures currently discussed in the *WTO Negotiation Group on Trade Facilitation*. More specifically, to reduce direct costs arising from compliance with customs and other trade-related regulations and fees, and lower indirect costs arising from lengthy border waiting times and lack of predictability of the trading environment and enhance the efficiency of controls at the border, governments could:

- *Simplify and reduce documentation requirements and formalities*, e.g., by accepting authenticated copies; aligning document formats to international standards; and gradually phasing out the mandatory use of customs brokers and pre-shipment inspections.
- *Enhance the transparency and reduce the levels of fees and charges for importation and exportation*, e.g., by ensuring fees reflect the cost of the services rendered; removing consular fees; clarifying how fees and charges are set and how they should be paid; and consolidating and simplifying the fee structure.
- *Simplify and expedite the release and clearance of goods from customs*, e.g., by separating release from clearance; allowing for pre-arrival clearance and introducing a risk management scheme that enables authorities to better target controls at "high risk" transactions and conduct post-clearance audits.
- *Enhance transparency and predictability* of trade-related regulations, procedures and fees and charges, by regularly publishing such information in official gazettes; making such information available through an enquiry point; and giving traders the opportunity to comment on new or modified regulations in advance of their entry into force.
- *Improve border agency coordination within and across countries*, e.g., by improving document exchange and co-ordinating physical inspections between agencies, within and across countries.[42]

95. To further boost formal intra-regional trade, countries within trade blocs (e.g., COMESA) should better harmonise their trade-related regulations (e.g., customs procedures, technical regulations and standards) among themselves, and with countries of other African trade blocs.

Consider the introduction of a Simplified Trade Regime for low-value consignments

96. In addition to that, and in view of further curbing informal cross-border trade conducted by micro-, small and medium-sized enterprises (MSMEs) in particular, African policymakers could consider designing a simplified trade regime –consisting of simplified documentation formalities, lower or no trade-related fees and charges and immediate release from Customs custody — for goods whose values do not exceed a certain threshold. Defining "optimal" documentation requirements, formalities, border fees and charges in the context of a simplified trade regime is however challenging. First, there is always a chance that small traders will prefer to trade informally despite simplified procedures, lower charges and reduced waiting times. Second, there is also a risk that beneficiary firms will never want to "graduate" from such a scheme. Simplified trade regimes therefore need to be designed in a way that avoids disincentives to comply with "regular" trade-related procedures. Furthermore, any attempt to introduce a simplified trade regime should also undergo a cost-benefit analysis to define the optimal "threshold level".

42 . A forthcoming OECD study will enable to assess in greater detail the relative impact of these measures on formal trade flows, hence will help refine the analysis.

Offer technical assistance and quality support services to formal traders and build greater trust between the private sector and border agencies

97. Finally, inciting MSMEs in Sub-Saharan Africa to formalise their trade transactions may require additional, related measures, such as assistance to help traders understand and comply with existing trade regulations (complementing transparency-related measures cited above); efficient support services for formal importing and exporting to improve trading opportunities in the formal sector, and advertisement of such services among (potential) traders. It should be clear to firms that they will enjoy additional benefits by joining a culture of compliance. In addition, it is essential to improve interaction and trust between traders and government agencies, e.g., through better public-private dialogue on trade-related regulations and enhanced integrity of Customs administrations. The rationale for this is twofold. *First*, businesses are likely to be more inclined to comply with trade-related regulations and fees if they sense that their views have been taken into account by government authorities and if they perceive the latter as trustworthy. *Second*, through enhanced interaction, government authorities are likely to better grasp the specific hurdles firms face and thus better target the necessary measures that need to be put in place to reduce the cost of trading formally.

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ANNEX I

1. Trade transaction costs arising from formal import-and export-related procedures (TTCs)

98. Direct and indirect TTCs are closely interlinked, since indirect costs arising from time delays are often, in part, determined by the amount and nature of document requirements and cost of import/export. In this regard, Duval (2007) notes that about **75%** of all examined delays worldwide are attributable to administrative hurdles, such as customs and tax procedures, and not to poor infrastructure (which only accounts for an average 25% of the delays).

99. Several quantitative examinations and case studies indicate that even modest reductions of TTCs triggered by the implementation of trade facilitation reforms would have a positive impact on (formal) trade volumes and global welfare in both developed and developing countries (OECD, 2005 and De Wulf, 2005). Wilson et al. (2005), for example, estimates that trade facilitation improvements in 75 selected developed and developing countries (covering improvements related to GATT Articles V, VIII and X but also improvements beyond the scope of the current WTO negotiations) could yield an increase in trade in manufacturing goods worth about USD 377 billion, equivalent to 10% increase in total trade among these countries.[43] Similarly, Njinkeu et al. (2008) underlines that TTC reductions have the potential to significantly boost intra-regional African trade. Most available quantitative studies also highlight that trade facilitation reforms introduced in one country would not only yield benefits to that country's trading partners but also to itself, emphasising the "win-win" aspect of such reforms.

100. In terms of welfare gains, APEC (2004) estimates that a 5% reduction in TTCs in its region would bring its member countries gains of a total value of USD 154 billion (or an equivalent 0.9% of the region's aggregate GDP). Similarly, an OECD study assesses that a 1% reduction in TTCs worldwide would bring annual global welfare gains of almost USD 40 billion (or an average 0.15% of worldwide GDP), with most gains accruing to developing countries (OECD, 2003a).[44] The study also finds that trade facilitation measures that focus on reducing indirect TTCs, notably by shortening border clearance times, might have a more important impact on economic welfare than measures aimed at reducing direct TTCs.[45] The World Bank also highlights in its annual Doing Business reports that "ease of trade" is highly correlated with a country's GDP per capita: the higher a country scores on the "ease of trade index" (which actually measures *barriers* to trade, namely the number of days spent at customs and the number of

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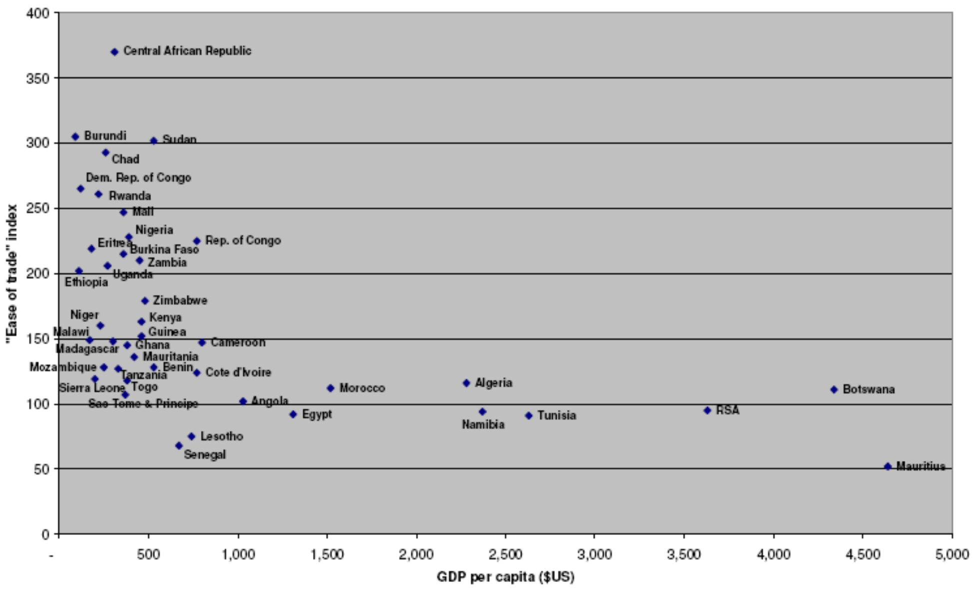
43 . In Wilson et al. (2005), "trade facilitation improvements" refer to simultaneous improvements in 4 areas: customs environment (i.e., no. of hidden import barriers and no. of irregular extra-payments and bribes); regulatory environment (i.e., degree of transparency of government policy and control of corruption), port efficiency (no. of port facilities and inland waterways, and air transport) and service sector infrastructure (speed and cost of internet access and effect of internet on business). The quantitative analysis was conducted for 2000 and 2001 and for trade flows among 75 countries (30 developed and 45 developing countries).

44 . Sub-Saharan Africa would, for example, gain 0.9% of GDP from a 1% reduction in TTCs (OECD, 2003a).

45. The study finds that over 80% of the welfare gains arising from trade facilitation reforms are due to reductions in indirect TTCs. This finding is corroborated by the business survey conducted by BAFICAA which states that it is indeed indirect costs that cause the most damage to African businesses (BAFICAA, 2006).

signatures required for import/export), the lower its GDP per capita (Figure 8). Finally, there is also evidence that a reduction in TTCs through improved customs practices could help increase individual household income and as such reduce poverty levels in low-income agricultural economies (see for example, Porto 2005).

Figure 8. The relationship between "ease of trade" and GDP per capita



Source: BAFICAA, 2006, quoting World Bank, 2006

Note: "Ease of trade" refers to the sum of all days spent at customs plus the number of signatures required for import and export

2. Cross-border monitoring sites of the WFP and FEWS Net in Southern Africa