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Formalization of informal trade in Africa

Trends, experiences and socio-economic impacts



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**Suffyan Koroma, Senior Economist
FAO Regional Office for Africa**

**Joan Nimarkoh, Policy Officer
FAO Regional Office for Africa**

**Ny You, Agribusiness Economist
FAO, Rome**

**Victor Ogalo, Head of Policy
Research and Programmes, Kenya Private Sector Alliance**

Boniface Owino (Assistant Policy Analyst, CUTS ARC)

Regional Office for Africa

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

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Acronyms

AfDB	African Development Bank
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
CUTS	Consumer Unity and Trusts Society
EAC	East African Community
EAFF	Eastern Africa Farmers Federation
EAPS	East Africa Payment Systems
ECOWAS	Economic Community of West African States
FAO	Food and Agriculture Organization of the United Nations
ICBT	Informal Cross-Border trade
ILO	International Labour Organization
IMF	International Monetary Fund
MIS	Market Information System
MRA	Malawi Revenue Authority
RECs	Regional Economic Community
SADC	Southern African Development Community
SIRESS	SADC Integrated Regional Electronic Settlement System
STR	Simplified Trade Regime
UN	United Nations
UNECA	United Nations Economic Commission for Africa
WAMZ	West Africa Monetary Zone

Executive summary

There are numerous definitions of the informal economy. In this paper, an informal economy is defined as: “all economic activities by workers or economic units that are – in law or practice – not covered or sufficiently covered by formal arrangements”, includes legitimately-produced goods and services that do not necessarily follow formal processes such as standards regulations, business registration or operational licenses. This form of trade is estimated to provide up to 70% of employment in sub-Saharan Africa, providing access to domestic goods and services that are not available through the formal economy, and bringing significant socio-economic benefits for those engaged in such activity. Governments typically disapprove of informal activity as it results in revenue losses, and the difficulty of regulating such activities can often lead to negative effects on overall economic growth.

Informal cross-border trade (ICBT) constitutes a major form of informal activity in most African countries. In the Southern African Development Community (SADC), for example, it makes up an estimated 30- 40 percent of total intra-SADC trade, with an estimated value of \$17.6bn. Typically, women represent up to 70% of ICBT in the continent, trading a variety of commodities either in raw or semi-processed, including basic to luxury goods produced in other countries. In Western and Central Africa, women represent nearly 60% of informal traders. In these regions there is a high degree of avoiding formal border processes. It is mainly practiced by the unemployed, Small and Medium Enterprises and some large firms, and even formal worker desiring to supplement their salaries. As such, there is considerable overlap between informality and formality given the linkages between the two and the fact that there are formal firms which engage in informal trade and there are informal traders who are suppliers of the formal firms.

ICBT presents unique benefits to those engaging in such activities, but equally presents unique challenges. One of the key benefits is the employment creation potential. In Zimbabwe, where unemployment is estimated at up to 90% when considering only the formal economy, it has created significant employment opportunities, with an estimated 5.7-million people currently employed in the informal economy. This in turn has significantly alleviated poverty for both the employed and unemployed. In addition, profits generated from such informal trade are often employed to sustain families, providing for their healthcare and education.

More generally, ICBT provides access to goods that are unavailable domestically to meet domestic demand. As a matter of fact, ICBT has proven to be more responsive to shocks compared to formal trade especially in times of food crises. Traders are often forced to engage in informal trade because of barriers to entering the formal sector, including difficulty in getting access to traveling documents or trading licenses, excessively long waiting times at borders, overcharging by customs officials, and inadequate of knowledge of official procedures. Equally, due to the nature of this trade and the dirt of adequate legal framework, traders are often faced with unique challenges. These include corruption, where officials solicit bribes in order to smuggle goods, harassment, sexual abuse and confiscation of goods.

Governments are therefore typically concerned about the negative aspects of ICBT, which includes the fact that at times the informal imports present unfair competition to domestic industries — products traded informally are often counterfeit goods sold at lower prices, not

subject to import taxes, and simply cheaper than locally manufactured equivalents. Informal trade represents a significant revenue loss for governments.

Beyond poverty and social issues, the prevalence of ICBT is closely related to business environment rigidities characterized by weaknesses in three institutional areas: taxation, regulation and private property rights. Punitive tax rates, tax administration and complicated business registration, licensing and inspection requirements are barriers that tend to prevent informal traders from formalizing their activities. Moreover, limited access to capital is an important constraint for operators working in the informal sector. Poor skills, education and training are also impediments to the formal sector in Africa. Other factors include limited access to technology and poor infrastructure. Although, the significant potential of Informal sector to economic growth has been recognized by many African countries, the informal sector doesn't seem to be the proper attention it deserves on the development agenda of African countries or their multilateral development partners.

By addressing challenges related to ICBT, both traders and governments stand to benefit. For traders, a more secure operating environment will likely lead to greater trade and higher incomes; while for governments, increased revenue will benefit countries as a whole. One way to achieve this is through formalisation of the informality i.e., bringing informal traders into the formal economy, which can be done through simplifying legislation and regulations governing trade, as well as educating traders on formal procedures.

The different regional economic communities in Africa (RECs) can learn from each other and so can different African countries learn from each other the various approaches that have successfully been implemented towards promoting the transition to formality. For instance, the Common Market of East and Southern Africa (COMESA) and the East African Community (EAC), where significant attention has been given to formalizing cross-border trade provide a good case study to both SADC and ECOWAS. One measure has been the establishment of simplified trade regimes (STR), which simplify the rules and procedures for small traders and provide tax incentives for trading within the formal sector. In the ECOWAS region, the "brown card" allows vehicles to move free by providing mutual recognition and acceptance of insurance across the region. Some countries like Uganda, Rwanda, Liberia and Ghana cater expressly for the needs of small-scale traders within the countries and at their borders, by providing them with necessary market information, promoting direct engagement with informal cross-border trade representatives, linking them directly with the international markets and ensuring their needs are considered when policies and legislation are developed. A number of case studies in these areas have been presented in this report that will further highlight the lessons learnt and successes achieved.

However, as most of these networks and information platforms are donor-driven, their content reflects more the priorities of the donors, rather than that of the country or region concerned. In most cases, they often provide information in the context of industrial country

market structures and operations with very poor understanding of the nature of the social networks that are froth in both urban and rural African markets.

Ultimately, as there are different rationales for operating in informal trade, approaches to formalisation also differ and are many. This study has recommended a categorization approach to incorporate the heterogeneity of solutions that one could possibly come across into four approaches to formalisation, namely, Policy and legislation approaches to formalisation, Partnership-based approaches, Rights-based approaches, and, Incentives and compliance based approaches. It is important to note that none of these is superior to the other; rather, they complement each other and it is possible that they can all be pursued at the same time in the same country. What is more important is that there's need for a tailored or variegated approach towards facilitating formalisation based on country context and resources as well as partnerships that a country can avail for any approach.

The study ends by proffering a set of recommendations of good practices that are important for countries in facilitating transition to formalisation:

- i) It is important to support broad programmes of regulatory reform to eliminate barriers of most concern to enterprises at the local level, including those that are identified as barriers to formalisation. Measures to create a business-friendly regulatory environment and of effective service provision need not require significant resources. There are steps that can be taken to improve the delivery of services to business by government and in reducing, mostly, administrative barriers to formalisation including unnecessary costs. For instance, creation of once stop shops for business registration and rationalizing business registration and licensing regimes by deploying user friendly IT-based systems.
- ii) Partnerships are important in facilitating transition to formalisation as indeed some initiatives may require a huge outlay of resources and expertise to implement.
- iii) Incentives are crucial and need to be tailored as businesses formalise. Retroactive regulations, especially in the area of taxation have to be avoided at all circumstances for businesses that formalise. Otherwise the informal businesses may be reluctant to formalise if they fear being exposed to burdensome regulations such as large tax bills. This goes with the need to simplify tax administration as it is sometimes the main problem for informal traders rather than tax rates.
- iv) Separate the function of revenue generation from business registration and licensing. Remove registration from (usually overburdened) courts wherever possible.
- v) The sheer number of business licenses that a business is required to have to operate has been found to be a key hindrance to formalisation. Good practices have demonstrated that there is gain in limiting the licensing to only those activities where it is justified on health, safety, environmental or other grounds. Small traders would find it easy and be encouraged to formalise if they were to only have one license and in an environment where it is easy to submit applications without exorbitant costs.
- vi) It is important to initiate dialogue with participants in the informal economy, in order to understand their constraints (including resistance to formalisation) and generate buy-in. this

can sometimes take time but it is necessary that the relationship between government and informal traders moves away from a matter of mutual suspicion towards mutual support. This can be achieved by creating programmes through national televisions, radios and focused groups or town-hall meetings on a sustained basis.

- vii) Efforts to tackle corruption are likely to have a significant impact on restoring confidence of informal traders in public administration and their willingness to formalize.

Chapter 1: Introduction

1.1. Informal cross-border trade: a spectre of Africa's economic integration

Although the regional and continental level efforts towards establishing a Pan-African Free Trade Area (CFTA) continues to formalise trade within Africa, a common spectre of Africa's cross-border trade is the sight of women crossing the borders with their heads and backs laden and arms overloaded with goods for sale. Blending with this glorious spectre is the sight of male traders transporting heavy loads on bicycles, trucks, buses and pushcarts for sale across borders. They are carrying goods that include industrial and agricultural commodities ranging from electronics, vehicle spare parts, cereals, fruits and vegetables to mattresses, duvets and other household goods.

These people are engaging in what has become known as **informal cross border trade** (ICBT). Others have referred to this form of trade as 'survival economy' or 'parallel trade'. This kind of cross-border trade is usually called informal as: it involves small entrepreneurs; traders who do not access preferential tariff agreements; traders who may buy, or more often sell, in informal sector markets; and traders who do not always pass through the formal import and export channels for all or part of their goods. Generally, this form of trade today averages half of intra-African trade and this practice predates the independence of all African countries.

Informal cross border traders are perpetually progressing what others have come to regard as the '**real**' but '**invisible**' integration of Africa's economies. ICBT is also viewed as furthering integration of Africa's people at a time when formal integration efforts are still fraught with many constraints. An important observation is that for all African countries ICBT is dominated by women. In the SADC region, women comprise about 70 percent of those involved in ICBT (UN Women, 2011; Afrika and Ajumbo, 2012). In Western and Central Africa nearly 60 percent of informal traders are women (Afrika and Ajumbo, 2012).

The informal cross-border trade-ICBT has been ongoing for several years and is one of opportunities for livelihood sustenance in a continent where opportunities for formal employment are very limited and have been shrinking. In the context of feminization of poverty, ICBT is often considered as offering a lot of employment and income opportunities to women traders. Thus, ICBT appears to play a vital role in alleviating poverty and promoting women economic empowerment (Chen & al., 2006). Yet, while it remains a vital part of both rural and urban economic activity and invisible regional integration, ICBT has been largely ignored by African policy makers.

However, in a few countries and RECs, limited attention is being paid by policy makers to this sector. But, despite the prominence and seeming importance of these activities to regional trade, economic development, poverty alleviation, the organization of regional markets and regional integration, ICBT remains a significantly under-acknowledged and under-researched area in Africa's regional and international trade activities. The poor attention paid by policy-makers to the activities of ICBT actors reflects, in part, the limited amount of information about their activities as well as inappropriate knowledge of the profile of the actors. Clearly, without any good quality data and information on ICBT, trade policies and integration strategies in Africa are lacking on accurate or, more specifically, half of trade-related activities.

High incidence of the informal trade in Africa poses major challenges to enterprise progress and rights to workers (ILO, 2015). But, what's clear is that most people enter the informal economy not by choice but as a consequence of different causes, of which low opportunities in the formal economy and absence of alternative tangible means of livelihood is a common cause (Hart, 1971). Poor governance and structural adjustments in an economy that leads to a shrinkage of the formal sector as well as the interventionist role of government are often associated as contributing to the growing rate of informal economy (Charmes, 1998a). Hence, public policies, legislations, proactive programmes and incentives could help speed up the process of transition to the formal economy.

A number of players are involved in promoting formalisation of informal cross border trade. Different countries and Regional Economic Communities (RECs) have over the years tried individually and collectively to implement reforms and programmes to enable informal traders and workers break the barriers of formalisation. There are also commercial programmatic relationships that have been established between formal economy firms and informal ones to enable the latter enjoy some benefits such as insurance and access to finance and information usually associated with the formal economy.

As there is no one-size-fits-all approach to formalisation, invariably, different approaches to formalisation are being applied depending on reasons for informality and depending on the country contexts. However, there is consensus that formalisation or transition of informal cross border traders to formal economy does require countries to promote implementation of comprehensive, coherent and well-coordinated policy framework that protects and promotes the interests of both informal entrepreneurs and workers in tandem (ILO, 2015). Formalisation has got also to be supported by different types of incentives that make the process and cost of formalisation a lot easier with positive net gains to the informal traders and workers during the transition.

This paper contributes to the subtle body of literature of providing evidence of the emerging trends of formalisation of informal trade, including cross-border trade in different countries and regional economic communities (RECs) in Africa. It also provides an analysis of socio-economic impacts of the transition to formality among the informal entrepreneurs and workers, laying particular emphasis on women given the prevalence of women in the informal trade estimated to comprise 60-to-70 percent of the players in the informal trade (UN Women, 2011; Afrika and Ajumbo, 2012).

Subsequently, the report highlights some of the best practices and lessons learnt in Africa and around the world on how formalisation of trade could be better mainstreamed to maximize benefits and minimize constraints to informal entrepreneurs and workers. Finally, the report aims to develop practical policy advocacy recommendations on inclusive trade formalisation targeted at high-level policy makers. Eventually, this report could be used for offering technical assistance, training, dialogue and consensus-building meetings.

1.2. Study rationale

As initiatives to enhance regional trade integration in Africa are evolving and yielding results, it is important at the same time to be cognizant of the potential social and economic impacts of the resulting formalization of cross border trade and, to develop effective modalities to deal with these or to minimize their negative effects. Without pro-active policies, changes in the way that cross border trade is conducted can further marginalize those who already face difficulties in taking advantage of trading opportunities.

In Africa, it is generally accepted that constraints on women, such as limited access to finance, traditional values, gender roles, violence and even health issues, have in the past hindered them from seizing the opportunities provided by the expansion of trade, and in particular the move from informal to formal trade regimes. It is therefore important to ensure that trade policy and infrastructural constraints to trade are removed in ways that potentially benefits women as it would benefit all other traders in general, especially in countries where women constitute a large percentage of the informal trading network. It is also necessary to identify and reduce less visible constraints to trade that women face in order to increase women's participation in the formal trading system, reducing inequality and decreasing poverty.

1.3. Study objectives

The overall objective of this paper is to develop a body of evidence in form of a report on the emerging trend of formalisation of cross-border trade in Africa and the socio-economic impacts of that trend on those engage in informal cross-border trade in Africa, with emphasis on impact on women. The report also seeks to analyze past and ongoing initiatives in Africa (in RECs and/or countries) aimed at improving conditions and benefits for actors in ICBT and to highlight relevant best practices and lessons learnt in Africa and around the world on how formalisation of trade could be better mainstreamed to maximize benefits and minimize constraints to ICBT. Finally, the report aims to develop practical policy advocacy recommendations on inclusive trade formalisation targeted at high-level policy makers. Eventually, this report could be used for offering technical assistance, training, dialogue and consensus-building meetings.

1.4. Scope and methodology

The study has employed an assessment on the barriers to formalisation that have their rooting in the national economic policy frameworks of different African countries including monetary and fiscal policies and their linkages with enterprise development and specific sectoral policies around trade, industrialisation, taxation, labour market and educational policies. The study has also reviewed the incentive frameworks that could be embedded in these policies or legislated upon that have the potential to promote the transition of informal traders to formalisation.

Within this context, the analysis has been carried out within a conceptual framework with four prisms: policy and legislation-induced approaches to formalisation; partnership-based approaches predominantly implemented through partnerships between informal traders and workers and either formal private sector or non-governmental organization (NGOs), or development partners among other players; rights-based approaches which are mainly concerned with measures promoting rights and freedoms of informal traders; and, incentives and compliance measures for formalization of informal traders.

Using the conceptual framework developed, the study has undertaken a comparative analysis of existing strategies from Africa and around the world how to highlight how informal traders have been mainstreamed into formal support structures and frameworks of the case countries and have helped to minimizing challenges while increasing benefits to ICBT actors and strengthening their integration in the regional/or cross-border trade. The comparative analysis of best cases has further brought out the experiences and lessons for learning and to advise any future replication efforts. Some of the national and regional initiatives and best practices on capturing the activities of women in informal trade that were reviewed include the following:

- Uganda's best case of estimating the contribution of informal cross border trade;
- COMESA Simplified Trade Regime;
- ECOWAS Free Movement of Persons;
- SADC Advocacy Strategy;
- EAC Use of ID as Travel Document;
- SADC Trade Protocol;
- Regional payment systems such as SIRESS-SADC Electronic Payment System;
- Kenya's example of mobile money transfer/small loan via mobile money;
- National and regional payment systems for cross-border trade;
- E-soko market information platform in Rwanda which uses local language
- Organizational infrastructure of ICBT network

The selection of the case studies and initiatives that have been reviewed was based on the assessment on the extent to which they address or meet the elements identified in the proposed ICBT Growth Theory. Finally, the evidences brought out by this report were further corroborated through consultations with key stakeholders and validated through stakeholders' workshop that brought together different players: policy makers, donors, civil society and associations of the informal trade networks in the respective countries and RECs.

1.5. Organization of the report

The report is organized into five chapters. Following this introductory chapter, Chapter Two provides information on analysis of status of informal cross border trade and its role in Africa. Chapter Three then provides a comparative assessment of experiences in formalisation based on a conceptual framework developed from literature insights adopted from ILO (2015). The use of this conceptual framework is carried forward in Chapter Four in undertaking a comparative assessment of national, regional and international case studies and experiences in inclusive formalisation and promotion of ICBT. The section ends with analysis of gaps impeding inclusive formalisation of trade in Africa. The report concludes with Chapter Five which provides policy and practice recommendations.

Chapter 2: Situational analysis of informal cross border trade and its role in Africa

2.1. Understanding ICBT in Africa: its definition and magnitude

The first dilemma that must be resolved within the endeavours to respond to ICBT opportunities and challenges of informal trade is to define it in no uncertain terms. Attempts at defining ICBT have not been universally conclusive. However, much thinking has gone into this and not only in the context of Africa but a definition that could be universally applied. In 2014, there was a concerted effort to reach a consensual definition of informal cross border trade (ICBT) by 40 African experts comprising of macro-economists, gender economists, trade economists, gender activists among others who were convened together by UNECA in Lusaka, Zambia. After considering different definitions used by institutions such as AfDB, COMESA, SADC and ECOWAS, the 40 experts reached a hybrid definition, thus, that “ICBT refers to trade in goods/merchandise and services which may be legally imported or exported on one side of the border and illegally on the other side and vice-versa, on account of neither having been recorded in the official trade statistics nor subjected to statutory border formalities such as customs clearance.”

What is tricky about the above definition is that for the first time we are coming across the **inclusion of services** in the definition of ICBT. While this is a growing area of research, services involved in ICBT could include practices such as informal exchange of money across borders, which is part of financial sector services. Others may include workers from one country crossing over to provide labour services in different sectors e.g. agriculture or construction without necessarily going through the set immigration procedures of the respective countries.

What one can conclude from this adventure into definitions of informal trade is that informality does not have to be illegal. The commercial activities involved are simply considered informal in terms of the procedure (failure to *record the goods in the official trade statistics or subjecting them to statutory border crossing formalities and in-land regulatory requirements*). In this sense, ICBT involves import and export of ‘legal goods’ outside the official channels (Meagher, 2003).

The difficulty in defining ICBT arises from the fact that there are inter-linkages between informal and formal trade. For instance, in some cases the merchandise obtained through informal means ends up being traded through formal supply chains in another country where they enter into the official trade statistics of that country (Ogalo, 2014). The other challenge in defining ICBT comes from the fact that in some cases the people trading in goods acquired informally may go through formal clearance at the border points in terms of migration rules and other regulations, except that their goods are smuggled across unofficial border channels or they are wrongly declared at the official border crossing points. Thirdly, one has to make a distinction between the merchandise and the agents of such trade when defining ICBT. There are neither ‘informal goods’ nor ‘informal traders’. Therefore, in the definition of ICBT, we talk about ‘informality’ when we are merely referring to the procedures of trade itself and neither the goods nor the agents of that trade.

What we have proposed in this study can therefore not be regarded as universally consensual but it is a definition that was agreed to at the Expert Group Meeting held in Lusaka, Zambia in August 2014 by experts, among them macro-economists, gender economists, trade economists, gender activists among others from over forty (40) African countries.

Note that in this definition does not refer directly to the agents of this form of trade, the size of the consignment involved, the size of the enterprises (small, medium or large) nor their legal registration status (formally registered, informal or unregistered) and whether it is conducted by an individual or a firm. The definition is simply narrowed to the procedure of the trade itself. So, the definition of ICBT lies in drawing a common understanding of the organization of cross-border business and the procedures that are considered as ‘formal’ and ‘informal’. What one can conclude from this definition is that ICBT does not have to be illegal. It is simply informal in terms of the procedure (failure to *record the goods in the official trade statistics or subjecting them to statutory border crossing formalities*). In this sense, we must draw a distinction between informal cross border trade (ICBT) and what we can call ‘criminal cross border trade’ (CCBT). In this case, CCBT refers to the trade in ‘illegal goods’ such as arms, drugs or human trafficking, which are serious crimes and are deemed socially undesirable by the general public, whereas ICBT involves import and export of ‘legal goods’ outside the official channels (Meagher, 2003).

In the context of this study, we will use the term ICBT to refer to traders who both import and export goods from/to retail and wholesale outlets in the neighbouring country to trade without paying due duties or registering those goods with the customs. Although a majority of actors in ICBT are unregistered small traders, some studies have found that agents from formal businesses also do engage in ICBT and that they have the ability to bring in bigger volumes of goods than the unregistered small businesses involved (Ogalo, 2010).

2.2. Dimensions of magnitude and determinants of informal trade growth in Africa

The magnitude of ICBT is known to be significantly large in Africa. For instance, 30 to 40 percent of the total intra-SADC trade has been estimated to be in ICBT (Afrika and Ajumbo 2013) and ICBT generates nearly US\$18 billion a year for the players (UN Women, 2011). In some African countries, the flows through ICBT do account for 90 percent of official trade flows (UNECA, 2013). Lastly, ICBT has also been estimated to provide employment to 20 to 75 percent of populations in most African countries (UNECA 2010).

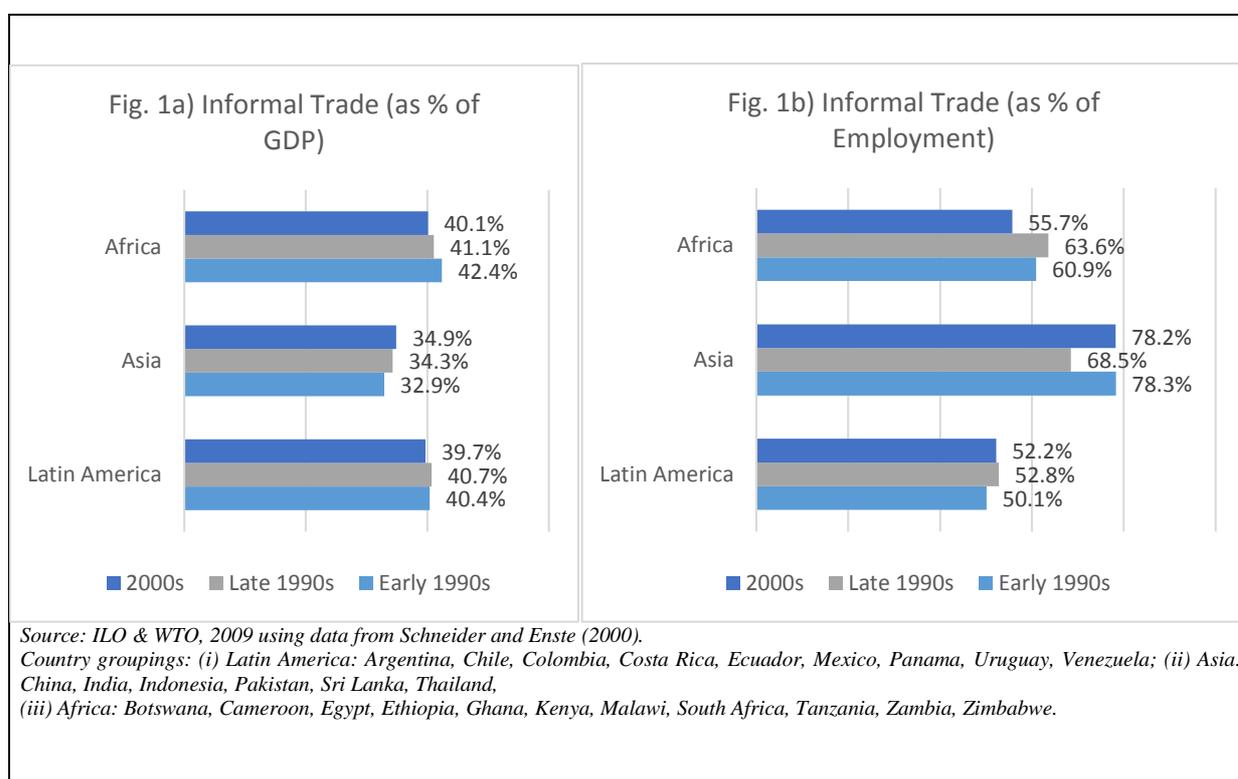
There are regional variations on the magnitude of informal economy; but again, within specific regions there are variations in the magnitude of informality between member countries. The magnitude of the informal economy in any country and/or region present two facets: the size as a percentage of GDP or of employment in the respective regions or countries. When measured as a share of GDP, much of the empirical work tell us that the average size of the informal economy is larger in Africa where it comprises 42% of GDP, followed by Latin America at 40% of GDP, Asia at 35%, the transition economies of Europe and the former Soviet Union at 20-25%, and the OECD countries at 2% (OECD, 2006). This is summarised in Table 1 below.

Table 1: The average size of the informal economy in developed and less-developed countries

Development stage	Country groups	Size as % of GDP
Developed Countries	OECD Countries	12
Transition Countries	Former Soviet Union	25
	Middle and Eastern Europe	20
Developing Countries	Africa	42
	Latin America	40
	Asia	35

Source: Based on Schneider and Enste (2003, P.37 table 4.5) and OECD (2006, p.viii table 1)

Figure 1: Informal Trade as percentage of GDP and Employment



From Figure 1a) and 1b) above we can observe certain trends and derive a number of conclusions. The first is that in terms of regional averages of the share of informal trade in GDP, informality seems to be highest in Africa and Latin American countries compared to Asian countries. Coupled with this observation, we also see that during those three decades, the average share of informal trade in Asian GDP tended to rise slowly while the average share in African GDP tended to decline. The second observation is that of an opposite picture emerging from the regional averages of the share of informal trade in total employment in the three regions during the same period where on average informality seems to be highest in Asia

as a contributor to employment than in both Africa and Latin American regions. Coupled with this, we also see that where Asia experienced a decline in the contribution of informal trade to employment in the late 1990s, that of Africa and Latin America increased markedly.

The first conclusion we can draw from these observations is that both Africa and Latin America are directly linked to Asia in terms of trade but it is not clear the direction of the linkage between Africa and Latin American countries. The second conclusion is that while informal trade appears to provide employment opportunities to a majority of the populations of the three regions, their productivity is low, hence the disproportionately low contribution of informal trade to GDP. Low productivity remains a major obstacle to the successful integration of developing countries into the world economy.

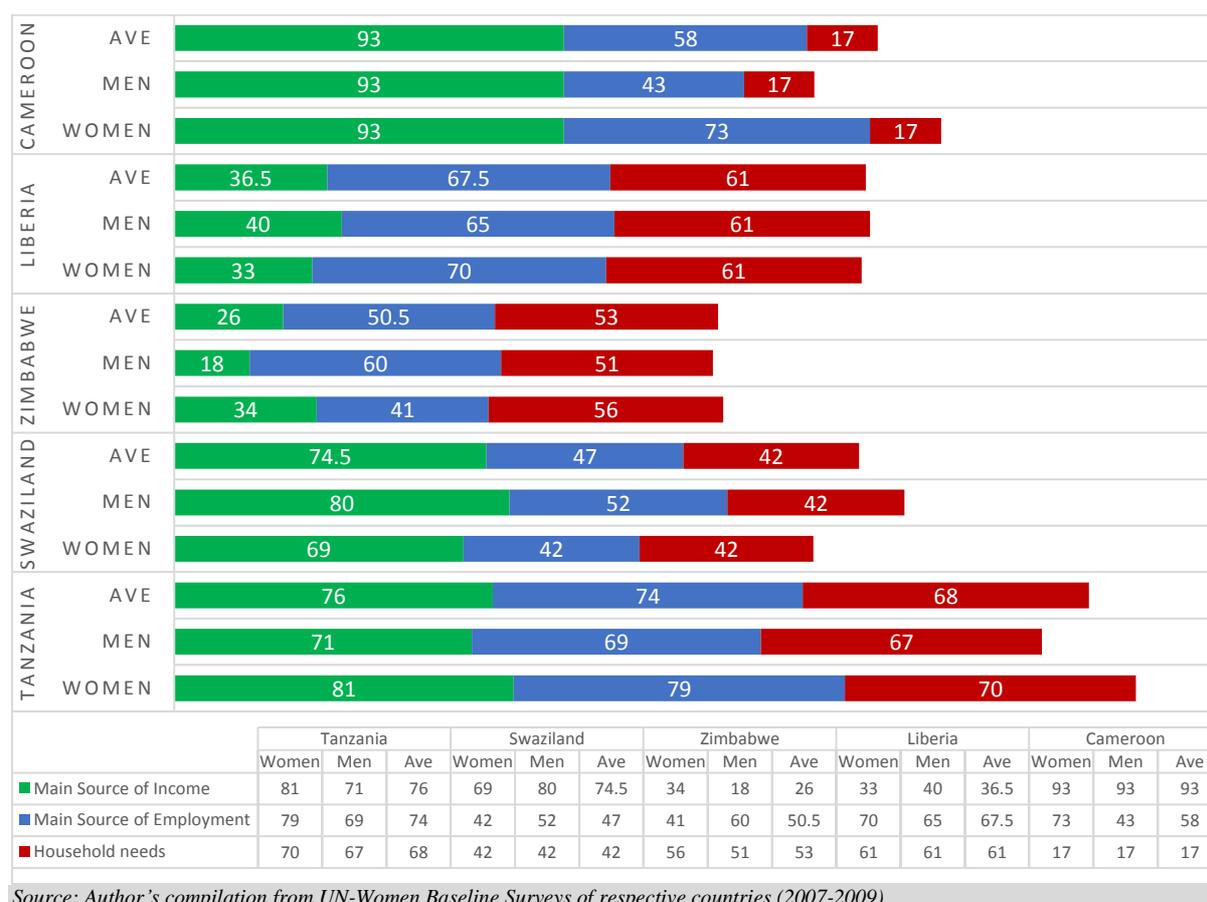
2.3. Gendered dimensions of ICBT growth in Africa

Poverty Reduction Dimensions of ICBT: The growth of ICBT in Africa tends to be associated in most cases with increasing poverty and weak employment conditions. ICBT is not only a common feature of the growing intra-Africa's trade, it has been incentivized over the years through longer periods of dysfunctional policies that have resulted in shrinkage of formal sector of the economy (Ogalo, 2014). It is further observed that the sole reason for women engagement in ICBT is economic reasons; that is, to earn income and sustain their families due to relatively low levels of formal employment opportunities (Jawando et al., 2012).

What is striking about informal trade is that it includes a disproportionate number of young people most of who are women and others from disadvantaged groups. For example, in some sub-Saharan African countries, 84% of women's employment is in informal employment (OECD, 2006).

Jawando et al., (2012) notes that the push to earn incomes and sustain families due to poor formal employment opportunities are the main economic reasons for a majority of women's employment in informal cross border trade. Therefore, ICBT is not only a means of survival as the formal sector jobs seem to shrink, but it is a source of income and employment, which plays a crucial role in household poverty reduction thus complementing the development objectives of African states. A majority of women seek employment in ICBT as the main source of income and they tend to use the income earned from ICBT mainly to meet the basic needs of their households, particularly food for household, rent, school fees for children and healthcare services. These views strongly resonate with the findings of the numerous ICBT baseline surveys conducted by UN-Women in several African countries recently between 2007 and 2009: Cameroon, Liberia, Swaziland and Tanzania as depicted in Figure 2.

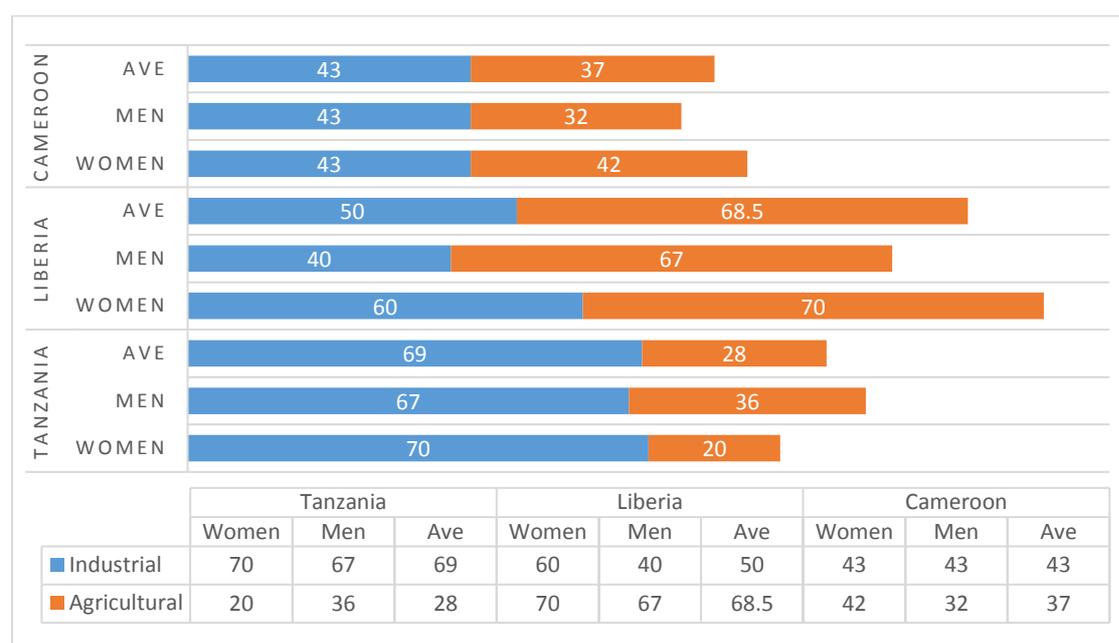
Figure 2: Comparative Analysis of Reasons for and use of ICBT income in Africa (%)



Source: Author's compilation from UN-Women Baseline Surveys of respective countries (2007-2009)

Gendered Dimensions on Goods Traded through ICBT: While women tend to be over-proportionately represented in ICBT, there are also gender dimensions in the types of goods traded through ICBT. There are clearly differences from region to region and country to country about the proportions of women and men in ICBT involved in either industrial or agricultural products. For instance, female informal cross border traders in Tanzania tend to dominate trade in industrial products more than men who tend to do better in agricultural products (see figure 3). In Liberia on the other hand, women in ICBT dominate both the trade in industrial as well as agricultural products as opposed men (figure 3). However, further evidence from literature alludes to the fact that in the Great Lakes region, women dominate sale of foodstuffs of low market value while male traders dominate sales of high-value agricultural goods (Titeca and Kimanuka, 2012). In West African region, at three border posts of Cameroon, male traders mostly deal in mining and forestry products and services while women traders deal in agriculture products (Njikam and Tchouassi, 2011). Notwithstanding that most of the goods traded by women in ICBT are agricultural products, more women traders than men are engaged in industrial products trading (UN-Women, 2009; Ama et al. 2013), albeit of low profit value.

Figure 3: Gendered Dimensions of Goods Traded through ICBT in Africa (%)

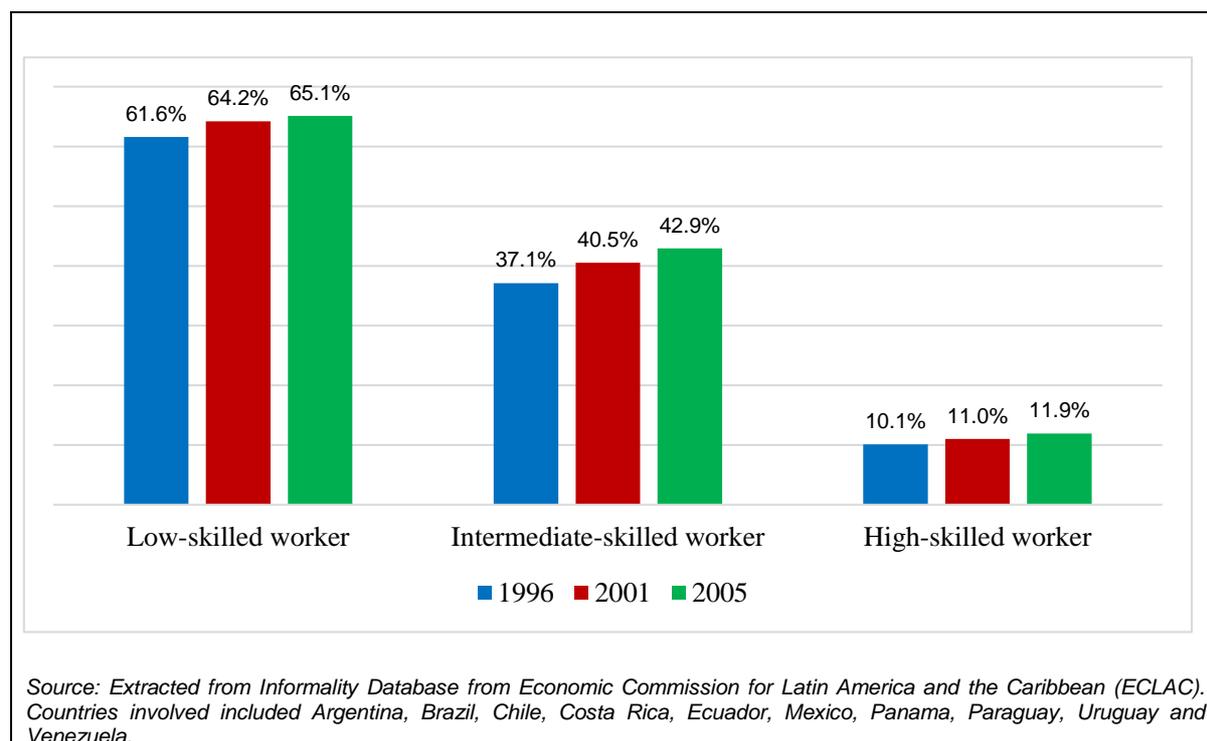


Source: Author's compilation from UN-Women Baseline Surveys of respective countries (2007-2009)

Age of the traders: In terms of variations in age of the individuals involved in informal trade, in Central Africa region, it is observed that a **majority of female informal traders are aged between 30 to 39 years** and are often older than their male counterparts (Njikam and Tchouassi, 2011). Poor conditions of transport and accommodation, insecurity, harassments, among others tend to refrain younger women from seeking business opportunities or employment from ICBT. Similarly, in East Africa, most women traders in ICBT fall in the age bracket of 30 to 40 years (Masinjila, 2009) because this is the age when women tend to have increasing need for money for their growing families. Similarly, at this age, the women have matured enough to engage in trade as they possibly have also developed strong networks with other women nationally and across the borders.

Relationship between ICBT and Literacy of the traders: Apart from the contribution of informal trade to employment in general, there's an observed trend of a higher probability for low-skilled workers to work in the informal sector. Hence, informal jobs highly correlate with the skill level of the individual as shown in Figure 4 below. Throughout the past three decades, informality rates for high-skilled people (post-secondary education degree) appear to have remained low and stable in Latin American countries. Likewise, in Africa, trend shows that those with tertiary professional or semi-professional training including university degrees are getting into ICBT-their share has remained between 9 and 11% of individuals employed in the informal trade (Masinjila, 2009, Ogalo, 2010). At the same time, in Eastern Africa, Mijere (2009) and EASSI (2012) corroborate the observed trend in other regions that a majority of players (44.2%) in the informal cross border trade have completed secondary school certificate; 25.8% have up semi-professional and diploma certificates while those with Degree Certificate constitute 10% of individuals involved in ICBT.

Figure 4: Incidence of Informality by skill level (in %)



The conclusion to make here is that not only has the incidence of informality tended to increase significantly at lower educational levels; but, over the past three decades, there has been an observed significant increase for those with lower skills to be more involved in the informal trade despite relatively high economic growth that African region has experienced in the past decade, which, theoretically speaking, should have created more jobs in the formal sector and provide opportunities to absorb even the semi-skilled laborers during the period. What is not lost here is that this period also corresponds with the period when the global economy experienced increased trade liberalization; high foreign direct investments inflows especially to developing countries; and increased expansion in global value chain development.

This conclusion highlights the skill-biased nature of international trade and may be at the heart of some of the observed linkages between trade liberalization and increased informality among low-skilled populations (Goldberg and Pavcnik (2007)).

2.4. Push and pull factors underpinning the growth of ICBT

The AfDB and Uganda Bureau of Statistics (2012 and 2013 respectively) place **the poor levels of formal employment opportunities** as the foremost push factor for engaging in ICBT. Indeed, ICBT offers employment cushion to semiskilled and unskilled labour whose supply has been increasing in both relative and absolute terms in most African countries but who are unlikely to be absorbed by the formal sector where increasing demands are for skilled labour.

Difficulties of conforming to all the trade requirements applicable in the formal sector is another primary push factor to women resorting to informal trading. Traders would rather avoid

customs control than go through the **lengthy and cumbersome**, yet mandatory, documentation required for formal trading. Documentation requirements such as acquisition of rules of origin certificate, sanitary and phyto-sanitary certificates (EASSI, 2012), **non-transparent and divergent regulatory requirements** and **conflicting local bi-laws** (Lesser and Moisé-Leeman, 2009; Masinjila, 2009) feature as some of the documentation challenges as they result in **delays and detention of consignment**. They also **increase costs of trading** and discourage women traders from using formal routes. Yet, even where there have been efforts to reduce constraints on formal trading, better incentives have not been provided to the traders to encourage formalization. Does this imply that informality will not be wiped out?

Misuse of office by customs and security agents does also contribute to ICBT particularly by **women with little or no information on regional trade treaties and protocols**. Women trading between the border posts of Kenya-Uganda and Rwanda-Burundi prefer to use middlemen and brokers who appear to facilitate trading and shield them from unprofessional behavior of customs and security officials (Masinjila, 2009). In some cases, the women in ICBT may be well aware of various general provisions of the protocols and treaty provisions but they attribute their continued engagement in ICBT to the **presence of physical¹ and technical² barriers in formal trade, incentives inherent in ICBT as well as to socio-economic problems hindering beneficial engagement in formal trading** (Ogalo, 2010).

ICBT is also **common where there are restrictive trade regimes or subsidy policies in a country**. For instance, the regulated gasoline price in Nigeria on average was half of the price levels prevailing in neighbouring countries in 2011; it is then no surprise that 80 percent of domestic gasoline consumption in Benin was smuggled gasoline from Nigeria (IMF, 2012).

In terms of pull factors, gainful business opportunities arising from **shortage of essential commodities** in certain countries or from **high price differentials** between neighbouring countries due to, for instance, currency differential (e.g. Guinea, Liberia and Sierra Leone) and high transportation costs in a landlocked neighbouring country (e.g. Mozambique-Zambia-Zimbabwe) prompt traders into the ICBT business.

Social and ethnic affinities have also been found to stimulate ICBT. Take for instance, in East Africa, people from the Borana ethnic group live across borders of Ethiopia and Kenya; the Afars live in Ethiopia, Eritrea and Djibouti; Somalis live along Ethiopia, Djibouti, Somalia and Kenya borders; and in West Africa, the Yorubas live along the sides of Benin and Nigeria. The fact that the border areas in two neighbor countries are often inhabited by people of the same ethnic origin or even same family members considerably facilitates not only ICBT but also deeper integration of communities across borders.

Weak trade-related services also create certain problems to ICBT players and push them into this form of trade. Due to the weakness in formal banking and currency exchange services in most of the border sites, the informal moneychangers regularly inflate the exchange rates, thus reducing the profit margins of the informal cross border traders. Excessive exploitation by intermediaries, including those who volunteer to assist them with needed information for

¹ The typical physical barriers to trade could include the location of some important trade facilitation agency offices that provide, for instance, rules of origin certification and SPS certificates. Most of these offices are located away from the borders and traders and it is costly for traders to travel over long distances to get them.

² The technical barriers in this case would include network failure -customs inability to access and use the available online clearance systems which increases the amount of time to clear products at the border; unclear rules of origin or misinterpretation of rules of origin; limited knowledge on customs procedures etc.

clearing their goods is also a major challenge coupled with lack of communication services at border level.

Inappropriate information on regional trading agreements and protocols is a major problem as most women are not well informed on existing tariffs, customs regulations, documents required for trade and even opportunities offered, such as those provided by the East African Community (EAC) Customs Union Protocol. This subjects them to exploitative relations with intermediaries who often distort information. Some of the traders are unable to complete import declaration forms, or fear to fill them out due to ignorance of what they entail. Often women in ICBT are surprised to learn about goods that are subject to taxes and those that are duty-free under the formal trade route (EASSI, 2012) notwithstanding most are engaged in trading small amounts of agricultural products and consumables produced within the region. **The difference between import duties and other duties and charges is also not clearly articulated to most cross-border traders so they are mostly confused about the concept of free or preferential trade.**

Box 1. Recap: The Push and Pull Factors into ICBT

- Profit motives due to tax evasion and avoidance of other official transactions;
- Shortage of essential commodities in neighboring country;
- Price differentials in products at both borders/countries;
- Social and ethnic affiliations;
- Low start-up capital;
- Limited access to finance;
- Lack of employment in the formal sector of the countries in Africa;
- General shortages and non-availability of specific goods;
- Limited trade facilitation depicted by tariff and non-tariff barriers, and, cumbersome, lengthy and complex customs and administrative procedures;
- Misuse of office by customs and security agents;
- Poor information on regional trade treaties and protocols;
- Inadequate border infrastructure;
- Knowledge, education and management skills.
- High transportation costs due to poor infrastructure and bribery paid to traffic police;
- Administrative harassment and human rights abuses (including sexual), violence, molestation, verbal abuse and insults;
- High cost of trade due to insecurity, confiscation of goods, fines and forced bribes to customs;
- Complexities of cross border trade rules and regulations;
- Weak access to market linkages and information;
- Inadequate finance to facilitate larger volumes and high quality of products;
- Weak access to formal currency exchange facilities;
- Prohibitive' taxes and high transaction and compliance costs.

2.5. Role of women in ICBT in economic growth and human development

Usually, we require adequate statistics on women in ICBT to be able to measure their ‘contribution’ to development – both in terms of economic growth and overall human development. The contribution of women in ICBT to economic growth can be assessed through a prism that combines self-employment, the employment of extra labour, contribution to value addition in trade; government revenue in form of taxes and duties, and production of goods and services traded by the country. In this regard, an ILO 2004 study showed that trade was the most important source of employment among self-employed women of Sub-Saharan Africa providing 60 percent of non-agricultural self-employment. The study further showed that the contribution of women informal traders to national GDP amounted to 64 percent of value added in trade in Benin; 46 percent in Mali and 41 percent in Chad (Charmes 2000, cited in ILO 2004). In Zimbabwe, 84 percent of the traders interviewed in the UN-Women studies revealed that they paid the required duties for the goods they imported into the country. Furthermore, in West and Central Africa, women in ICBT “employ more than one person in their home businesses and support on average three children as well as three dependents who were not children or spouses.”³

On the other hand, the specific contribution of women in ICBT to human development can be assessed by considering the effect of expenditures of income earned from ICBT on *life expectancy, adult literacy levels, and income per capita* at national and household levels. On this note, ICBT income expenditures on health, food and nutrition are good proxies of assessing the contribution of ICBT to longevity. Similarly, ICBT income expenditures on education will often make a positive contribution to national and household-level literacy. Finally, the increase in per capita income buoyed by rising ICBT incomes reflects the power that women have over resources needed for a decent living. As we saw in **Figure 3**, an average of 48% of ICBT incomes are spent on household needs: food, rent, education and healthcare services –all are primary contributors to human development.

Usually, assessing the contribution of women in economic growth and human development can be a very tedious process as it entails tabulation of various parameters that are linked to production, employability and the industry in which one works/operates. This is further complicated by the need to break down the macro data on the above indices into the share that is contributed by the informal sector for each one of them further extracting the share representing the contribution of ICBT and of women in particular. This is however, not the subject of this report, but points to the need for African governments to develop Toolkits for tracking and measuring ICBT and contribution of women in ICBT in particularly in a more improved way. Although some caution should be given the production of these sets of statistics which is often not readily-available, owing to the cost of generating such data and low level of prioritization. For those African countries who do have, the statistics in many cases is not updated because they are not collected regularly and consistently. This can critically limit the measurability of the contribution of women in ICBT to the key national development indicators as we may wish to have. Over the last 3 years, the Namibian Statistics Agency has been conducting cross-border surveys but the information collected are not sex/gender disaggregated, although steps are in place to do so in future surveys. Additionally capacity constraint exist in conducting data analysis.

³ UN-Women (2011): *Unleashing the Potential of Women Informal Cross Border Traders to Transform Intra-African Trade*.

Chapter 3: Approaches to formalisation of ICBT

Despite the potential impact that ICBT has on a) **women economic empowerment**; b) **wealth creation and poverty reduction**; and, c) **improved household livelihoods**, the evidence adduced from literature shows a worrying trend of ICBT-blindness in the national trade policies, poverty reduction strategies, national development plans and budgets of substantially in many African countries and RECs. This notwithstanding, some of the promising practices and initiatives we find in some countries and RECs which need to be identified, strongly advocated and replicated for bigger impact. Because of the continued lack of appreciation of the potentials of ICBT in mainstream trade policies, plans and strategies, actors in ICBT are technically excluded from access to and benefit from public and private resources available to actors in the formal trade setups. Thus, the conceptual approach we adopt seeks to improve our understanding of the challenges faced in ICBT and the different approaches that have been recommended in addressing the challenges.

3.1. Approaches to formalisation of informal trade

The high incidence of the informality in Africa's trade systems in all its characterisation poses a major challenge for both employers and workers in the informal enterprises. It disables workers in the informal trade sector from realising their fundamental freedoms and rights, such as, right to occupational safety, social protection and health protection; freedom to organise, federate, confederate and to bargain collectively; freedom to participate in social dialogue in the transition to the formal economy. Where incidence of informality is prevalent, it tends to hold back efforts at promoting inclusive development and the rule of law and it has a negative impact on the development of sustainable enterprises.

The literature review in Chapter 2 pointed at three schools of thoughts on the causes of informality. In deed there are multiple causes and so there are multiple potential solutions and best practices a country can implement to break the barriers to formalisation and hence, support the transition of informal traders to the formal economy.

As there are potentially countless approaches and experiences in transition to formalisation, this study has attempted to group the approaches studied into four categories as its conceptual analytical framework. These four approaches have been used as the prism to document the emerging trends of transition to formalisation, which could be adopted by future studies. The four approaches recommended by this study are:

Policy and legislation approaches to formalisation

Under this approach, the focus is to highlight the main dimensions/provisions in the policy architecture of a country by considering the established policies that unambiguously facilitate/promote the creation, preservation and sustainability of small enterprises⁴ and decent jobs in the country or within a REC context. Some of the elements that can be considered in a country's or a REC's policy framework to support transition to formalisation could include creation of macroeconomic policies that directly seek to promote sustainable small enterprises, business confidence, and addressing inequalities.

⁴ The term 'small enterprises' is used to depict informality as indeed majority of informal traders are small enterprises.

Policies on trade, industrialisation, taxation, infrastructure and sectoral policies e.g. agriculture and manufacturing policies have been used to promote employment, enhance productivity and facilitate structural transformation processes. These have the effect of expanding the formal sector of the economy and expanding potential for formal job creation. Recalling that one of the reasons given for the expanding size of the informal economy was the inadequate opportunities for employment in the formal sector, such policies could be well targeted to promote growth of the formal sector and in effect reduce the attractiveness of the informal sector including informal cross border trade.

Within trade policy, governments could target to improve trade facilitation measures to directly and effectively address the challenge of cumbersome, lengthy and complex customs and administrative procedures that visit informal traders and tend to push them towards favoring informal trading means.

Another policy dimension that a number of governments are beginning to adopt in Africa include data collection on ICBT activities and establishing special trade facilitation desks within the RECs and at border stations. Examples in this regard include **Uganda's ICBT Surveys** which have now been institutionalized under the Uganda Bureau of Statistics and the Bank of Uganda, collecting official the statistics on ICBT and improving the country's estimation of its total trade and its trade integration with neighbouring African countries and with different RECs. In the 2009 Uganda's ICBT survey, for instance, the report recommended that *“a policy framework be formulated to guide informal trade activities where quality control and value addition issues take precedence to enable the traders to earn more revenue”*. The fact that such recommendations can appear in official government reports improves the chances that such action will be initiated. However, the gap in the Uganda ICBT Survey is its poor focus on sex/gender disaggregated data. There is the need to add the sex/gender dimension to this survey, which can easily be done and will provide valuable information on the activities of women in ICBT (UNECA, 2014).

One best known legal approach to the issue of formalisation of informality is the **Colombia's "Formalization Law"** (Law 1429 of 2010). This law appeared as a solution to the unemployment problem and the formalization issue. The main objective of Law 1429 of Colombia was to formalize firms and workers, and generate new formal employment, thus enhancing the transitions between the formal and informal sectors. The idea was to foster formalization in the early stages of business creation by reducing its costs and simplifying the required paperwork, which were identified as key push factors for informality. According to Colombia's president, Juan Manuel Santos, the law is a “progressive measure that will generate employment, increment formality, reduce paperwork and make us more competitive” (Dinero, 2011).

The reform helps firm formalization, by simplifying the firm formalization process, especially for Small and Medium Enterprises (SMEs). First, no income taxes for the first two years of the firm's existence and an applied progressiveness in the ensuing payments of the tax; only until the sixth year of operation does the tax level paid reach 100 per cent. It also attempts to generate employment and reduce informality through fiscal incentives e.g. the reduction of non-wage

costs (NWC)⁵ for firms to hire women over 40 years of age and young, reinserted, displaced and disabled workers. Progressiveness is also applied in the payment of payroll taxes and the company registration fee. The benefit was provided exclusively to companies that increased the number of jobs and therefore promoted formal employment (Joumard & Londoño Vélez's, 2013).

The **COMESA's Simplified Trade Regime (STR)** has also been identified as among the best cases of trade policy-induced initiatives to promote trade activities of the informal traders across COMESA borders. It recognizes informal cross border traders as an important player in cross-border trade, allowing the traders to trade openly on a commercial basis using a simplified form for the declaration of goods. It also allows these traders to trade mainly on duty free basis within a reasonably high threshold of goods worth US\$1,000 or less without the need for a Certificate of Origin. However, the goods must be on an agreed Common List by both the exporting and importing country. This initiative has therefore responded directly to a key challenge of lengthy customs procedures and documentation requirements that often turn ICBTs away from compliance, particularly for small traders. The merit of this initiative as a case study is due to the fact that it has enhanced the capturing of ICBT contribution to total trade within COMESA through the STR form from where information is captured in the Automated System for Customs Data (ASYCUDA). In this way, like in the case of Uganda, ICBT trade becomes part of total trade, and if separated in analysis it can clearly indicate the contribution of the sub-sector to the economy.

In addition, this initiative has helped reduce harassment of ICBTs in general and WICBTs in particular, thus promoting women's rights as they conduct business across the borders; and supported cross border traders at both national and regional levels, thereby improving recognition of the subsector and empowering them to lobby for a conducive operating environment. However, like in the case of Uganda, this initiative is not gender sensitive. There is the need to add the gender dimension to the STR form as well as in the ASYCUDA, which will provide valuable information on the gender disaggregated activities in ICBTs.

Facilitation of REC citizens to move freely without compromising the effective implementation of the REC Protocols is an important legislative and policy milestone that is working somewhat successfully in both the ECOWAS and EAC regions. In both RECs there is the use of common passport and movement of citizens free of visa requirements within the partner states. It is worth noting that **the Common Passport for ECOWAS** will soon replace the national passport, which will further enhance movement of ECOWAS citizens and their trade within the region. Furthermore, ECOWAS is working on an ECOWAS common identity card to promote ECOWAS citizenship. Within EAC, the **use of national IDs and single tourism visa** are also being experimented since January 2014 and brings together three of the EAC partner states: Kenya, Rwanda and Uganda. According to Rwanda's Immigration and Emigration Department, just within 3 months of the launch of the ID initiative, 304,520 Rwandans had used their IDs to travel to Uganda and Kenya respectively. On the other side, 61,614 Ugandans and 10,761 Kenyans had crossed the Rwandan borders with their identity cards by the end of April 2014. A majority of the people crossing these borders with national IDs are ICBT actors. Both Tanzania and Burundi are in the process of putting in place

⁵ Non-wage costs (NWC) are those costs faced by the employer, other than the wage. These include labour taxes (employer contributions to finance public social services such as job training and childcare), health and pension contributions and commuting subsidies, among others.

mechanisms for issuance of electronic machine-readable IDs to their citizens upon which time they will also join the rest of the three partner states in this initiative.

The **SADC Advocacy Strategy on Informal Cross Border Trade of 2011** is a best case in terms of formulating policies which explicitly target ICBT in general and women in particular. This strategy is meant to mainstream ICBT issues in economic and trade related policies and structures at national and regional levels. If effectively implemented as designed, it will put to rest most of the problems of weak access to information on the activities of ICBTs in general and women in ICBTs, in particular, in SADC. The SADC Advocacy Strategy on ICBT presents best practice in terms of its holistic advocacy for the ICBT economic sub-sector as a whole, with gender mainstreaming. This is a more practical approach in influencing policy, rather than only advocating for women ICBTs. The strategy also presents a best practice in that it seeks to support the efforts of REC's in harmonizing their trade policies with their gender policies; simplifying and popularizing the provisions of regional protocols and agreements from a gender perspective; advocating for gender sensitive border control procedures and taxation systems; and systematizing collection and analysis of gender-disaggregated data on informal cross-border trade.

The **Regional Payment Systems** also features as an important policy step that has been adopted in SADC, ECOWAS and EAC to stem out informal payments concerned with making cross border payments. In SADC, we have the **SADC Integrated Regional Electronic Settlement System (SIRESS)**, launched in July 2013. Reportedly, the SIRESS initiative is already having a significant impact on cross-border payments. As at May 2015, 43% of intra-SADC payments were now taking place through SIRESS.⁶ The SIRESS initiative promotes transition to formalisation in two main ways. It helps by increasing cross-border money remittances and lowering of incentives to transact through informal channels. Secondly, it ensures there is an efficient and affordable cross-border remittance systems thereby reducing incentives for cross-border traders to rely on informal means of sending money across borders. In so doing, SIRESS also reinforces regional efforts to curb movement of dirty money and the financing of terrorism and money-laundering.

In West Africa and East Africa, there are similar examples, which include the **West African Monetary Zone (WAMZ)**, and the **East Africa Payment Systems (EAPS)** of the East African Community (EAC). The EAPS is a secure, effective and efficient funds transfer system that enhances efficiency and safety of payments and settlements within the region. It also facilitates cross-border transactions that are essential for boosting intra-regional trade among East African countries.⁷

Perhaps the single most drawback of these regional payment systems is their non-innovation in the integration of mechanisms or modules that are targeted at the ICBT traders, which defeats their objective of reduction of incidence of informal cross border payments. Advocacy efforts need to focus on this gap and have the ICBT banking products also integrated within these regional payment systems. That gap is currently being partially plugged by the increasing use of **Mobile phone-based payments and credit system known as 'M-Pesa' and 'M-Shwari'** that Safaricom telecommunication company in Kenya has been pioneering. By helping to bank the *unbanked* informal traders, Safaricom is enhancing their access to credit without much hassle of collaterals requirements. In addition, informal traders do not have to rely on informal

⁶ <http://www.fin24.com/Economy/Cross-border-payment-systems-key-in-Africa-Kganyago-20150505>

⁷ *Ibid*

credit schemes to secure supplies within East Africa as the mobile-based money transfer system is now being implemented in Tanzania, Uganda and Kenya. This initiative has proven as one successful way of trying to formalise the informal sector traders by increasing their access to credit. The initiative could also have positive impact on exchange rate losses that informal traders across EAC border could be facing. Several similar initiatives have been initiated in other parts of Africa, including in road transportation.

Partnership-based approaches to formalisation

These are partnerships involving formal private sector, non-governmental organization and development partners' strategies and programmes fostering formalisation of informal trade. The domain of transition to formalisation need not be a strictly government affair. Formal private sector organization also in a bid to expand their market and within the context of their own sustainability have also come up with products and market linkage relationships with informal traders as their clients. Within this context, therefore, the transition to formalisation of informal trade could be achieved through multiple strategies and programmes developed by formal enterprises, NGOs and development partners towards addressing some of the critical needs and gaps of the informal cross border traders such as access to finance, access to technical information (health & technical standards), access to market information (inputs, product). The focus of this study is therefore to highlight with examples some of these strategies and programmes in different countries in Africa and outside Africa including their positive socio-economic impacts.

The **Charter for Cross-Border Traders in Malawi and Zambia** is one example of a partnership-based approach to addressing some of the debilitating challenges and push factors for ICBT. It is a joint initiative between the World Bank and a network of stakeholders including the respective Governments of Malawi and Zambia, border agencies, Traders' Associations, and CSOs to address challenges being faced by small cross border traders such as high duties, burdensome bureaucracy, corruption, harassment and other difficulties at the border. This initiative was informed as a result of the Diagnostics Trade Integration Studies (DTIS) carried out with World Bank's support in the two countries. The Charter works by introducing a framework of basic set of rights and obligations for traders and border officials in trying to improve behaviors and treatment of traders at the borders and, increasing the efficiency of trade flows and introducing effective mechanisms for reporting abuses, ultimately, to promote the gradual formalization of informal cross-border trade. It is based on extensive use of modern technology, particularly, mobile-based SMS mechanism to report abuses. This is complemented by intense training and large-scale dissemination for target beneficiaries.

In comparison to the internal Codes of Conduct that exist within each border agency, the Charter for Cross-Border Traders adds value in a number of areas. In particular:

- It introduces a credible complaint mechanism, based on the use of toll-free numbers/lines as a tool for real-time reporting of abuses, addressing emergencies arising from harassment and overall monitoring of the implementation of the Charter.
- It puts strong emphasis on the importance of maximum transparency at borders, both in trade-related transactions as well as in the quality and quantity of information publicly displayed and made available to traders.

- It has a clear focus on eliminating sexual harassment and other gender-related abuses, in order to reflect the prevalence of women among cross-border traders in Africa.
- It is designed to be accompanied by an effective performance measurement system, where context-tailored indicators are used to assess progress made in the improvement of the overall border experience.

Notable progress with the piloting of the Charter is the positive reaction by stakeholders in Malawi and Zambia who have expressed support and interest in being involved in its implementation. In Malawi, key stakeholders have defined an official division of roles and responsibilities in the implementation of the Charter, with the lead role being played by Malawi Revenue Authority (MRA), and are also in the process of designating Charter focal points. In Zambia, on the other hand, CSOs and Traders Associations led by CUTS (Consumer Unity & Trust Society) have agreed to cooperate in the monitoring of Charter enforcement and in the management of information queries and complaints through the Taarifa/ComCol platform.

A Grain trade financing facility has also been formed under a partnership between the African Banking Corporation (ABC Bank), the East Africa Exchange (EAX) and the East Africa Farmer Federation (EAFF). It launched a Sh200 million grain trade finance facility targeting about 20 million smallholder farmers represented under EAFF with access to post-harvest management services provided by the regional commodity exchange and link to markets and agricultural financing. In addition, the initiative seeks to help traders, millers and farmers doing business across eastern Africa borders to access data on type and quality of products by locality through the EAFF's virtual granary platform **e-granary**. Furthermore, **warehousing services** embedded in the program seeks to insulate farmers against challenges relating to post-harvest losses due to lack of proper storage facilities at the farm level.

Another related partnership-based initiative is the **e-Granary initiative between FAO and Eastern Africa Farmers Federation (EAFF)**. The e-Granary is basically an ICT (Mobile-based) aggregation platform where market information can be passed from farmers to buyers (national and regional buyers) and vice versa. It therefore enables farmers to send information about their enterprise, which then helps EAFF a find market for them. It is designed as an agribusiness strategy that engages with farmers to provide market information, implement virtual warehouse, create an all-inclusive market place, monitor and track their progress. In so doing, the e-granary helps to solve five main challenges facing the informal farmers with interest in trading across borders: warehousing and record keeping, value addition, access to credit (value-chain financing), e-extension, agricultural inputs access.

The **National and Regional Market Information Systems (MIS) for Agricultural and Livestock Commodities** can also be isolated in their important role in promoting increased trade in Africa. Within Africa, there are a number of MIS systems that are serving informal crop and livestock farmers *albeit* with numerous limitations. Regional MIS examples include COMESA's Food and Agricultural Marketing Information System (FAMIS); and, EAGC's Regional Agricultural Trade Intelligence Network (RATIN). On the other hand, national MIS include: Kenya's Agricultural Commodity Exchange (KACE); Uganda's FIT Uganda limited;

Tanzania's Ministry of Agriculture Market Database & Livestock Market Information Systems; Rwanda's eSOKO; Ghana's eSOKO; Malawi's Agricultural Commodities Exchange (MACE); Zambia's National Farmers Association's Agricultural Market Information Services (AMIS), and Smallholder Enterprise and Marketing Programme (SHEMP).

These MIS mostly serve as price collection and dissemination platforms. They use SMS facilities where farmers can send an SMS and get information on commodity prices. Some of them provide newsletters in both electronic and hardcopies. Others like eSOKO of Rwanda and Ghana are providing information in local dialects, which has been credited as effective and impactful. The Rwandan eSOKO plans to expand to other languages along the Great Lakes Region and open up e-trading platforms. The main goals served the various MISs are five:

- Intended to increase market transparency and intelligence so that producers, traders and processors can trade more effectively and increase the profitability of their venture.
- Increase bargaining power and reduces or even eliminates spatial arbitrage opportunities.
- Allows for more informed decision-making on financing and market research
- Advices on grades and standards required for trade of grains.
- Allows for an independent system of determining the value of financing trade

Despite their well-intentioned goals, the main drawback of these systems is that they are mostly Web-based applications so a trader/farmer needs access to a smartphone or computer, this is not always available or practical for smallholder rural farmers. Even in cases where smartphones are available, network coverage may not be reliable. Furthermore, getting price information via SMS can be very expensive for small traders. Similarly, these systems are not robust in providing extra information that farmers may need beyond price; as often, developers don't have a proper perspective of the link between farming systems and markets for example, in most African agro-food markets,, commodity prices vary several times a day, but unfortunately, the data collection occurs ones a day, more often than not they tend to report the previous day's prices. Lastly, while there is wealth of information from Grain Traders, Smallholder Farmers and Regional MIS, the poor convergence of the three in terms of generating and sharing necessary market information means that 90 percent of the cross border traders and producers are probably not using the existing MIS (EAGC, 2010).

Rights-based approaches to formalisation

Measures promoting rights and freedoms of informal traders within country or regional contexts could include reference to specific laws and policies, but more importantly actions by trade unions or confederations that are promoting the organization of informal traders. Such measures have proven successful in supporting formal measures that enable informal traders and employers to work together to realise the fundamental principles, rights and freedoms of informal workers and employers. Some of these will invariably include addressing unsafe and unhealthy working conditions that often characterize work in the informal economy. In some instances, they have helped to promote extension, in law and practice, to all workers in the informal economy, the social security, social contributions, coverage of social insurance, maternity protection, decent working conditions and a well-thought out minimum wage.

A very important best practice is that of the Senegalese National Trade Union Centre (Confédération Nationale des Travailleurs du Sénégal (CNTS) that recently (2016) sought to organise informal workers in Senegal drawn from different sub-sectors/industries: fishermen, mechanics, street vendors, security guards, textile workers, seamstresses, waiters and many others to give them voice in negotiating with government to enable them access to basic labour and social rights attached to employment. Such results are supported under the ILO's Recommendation 204 adopted in June 2015. Some of the demands that CNTS enlisted from the informal mechanic workers that the union is negotiating for include: providing access to credit to buy equipment, decent working conditions, shorter working hours and medical insurance.

Some of the positives of the initiative by CNTS in engaging government and employers in trilateral and bilateral negotiations are that (i) the government is at least open to discussing the demands of informal workers and the unions; and, (ii) arising from past engagements, the government has been able to come up with the 'Emerging Senegal Plan' (PSE), which is Senegal's economic and social policy blueprint paper for the period 2014–35 on formalizing workers and increasing the tax base.

Another good practices is Ghana's National Health Insurance Scheme (NHIS) which has developed an innovative attempt to extend social protection to informal workers, and, as such, it may hold important policy lessons for other countries where the informal economy is large and growing and where informal workers are excluded from existing social protection mechanisms.⁸

Incentives and compliance-based approaches to formalisation

Under this approach, a country or a REC could implement **incentives and compliance measures for formalization of informal traders** usually in response to the main barriers for effective transition of informal traders to the formal economy such as breaking barriers to market access, provision of capitalization funds at affordable rates for SMEs among other incentives. There are numerous examples within country and regional contexts that will also be reviewed in this study.

In Rwanda, the **Peace Basket Initiative** provided women with skills for high quality production and linked women basket producers to global markets. The result is that baskets are now being sold in the famous Macys department stores in the United States, one of the biggest department stores in New York and women are now earning increased incomes from this intervention. The merit of this case is in its direct linkage with market access information. Such information requirements include export markets' requirements in terms of quality and standards, which is one the ICBT's "Business Growth Imperatives".

In Liberia, the **Sirleaf Market Women's Fund** has rebuilt women's markets destroyed during the conflict and provided literacy training to women traders. This case has been selected based on its merit in enhancing business skills of informal traders as part of informal education and skills enhancement measures for improved outcomes and the fact that business literacy remains one of the key hindrances to advancement of women in informal trade.

⁸ <http://www.wiego.org/sites/default/files/publications/files/Alfers-Ghana-Health-Insur-Informal-Workers-WIEGO-WP30.pdf>

Chapter 4: Gaps impeding inclusive formalisation of trade in Africa

4.1. Analyzing gaps impeding inclusive formalisation of ICBT in Africa

Need to address ICBT in mainstream trade policy-making

Women in informal trade still suffer from invisibility, stigmatization, violence, harassment, poor working conditions and lack of recognition of their economic contribution. By ignoring women's informal trading activities, African countries are neglecting a significant proportion of their trade. There is need to address the issue of informality in the mainstream trade policy making and to strengthen the notion that women informal traders are also an important client of Ministries of trade and regional economic communities.

Data challenges

Data related challenges still compound the adequacy of reflection on women's trading activities in national accounting systems and statistical databases of the RECs. All the economic transactions taking place at the borders are not systematically documented in terms of data and statistics, making it difficult to capture and understand the different dynamics at play to inform trade policies and processes.

Weaknesses in trade-related institutions and services

Trade-related institutions, services and resources in support of women's trading activities remain weak as evidenced by the limited access of women traders to credit facilities, foreign currency exchange, transport services, information on market opportunities and trade rules and protocols, and poor infrastructure for storage of agricultural commodities in cross border markets.

Weak implementation of regional trading agreements and protocols

The deficient implementation of regional trading agreements and protocols, with potential conflicts between national and regional trading policies are observed: for instance, the case of restricted agricultural food trade for national food security purposes hinders the free flow of agricultural food products within countries of the same REC and is pushing traders to source for them informally.

Low skills and poor education among actors in ICBT

Low skills and poor education are also critical issues facing women cross border traders in some countries. As demonstrated in Chapter 2, the incidence of informality has tended to increase significantly at lower educational levels. In addition, over the past three decades, there has been an observed significant increase for those with lower skills to be more involved in the informal trade despite relatively high economic growth that the African region has experienced in the past decade, which, theoretically speaking, should have created more jobs in the formal sector and provide opportunities to absorb even the semi-skilled laborers during the period. Obviously, what this shows is that a good proportion of actors in ICBT are clearly disadvantaged in terms of education and appropriate business skills. Adult education programs and capacity building in business management skills programmes should be institutionalized within the RECs to plug this gap.

Chapter 5: Conclusion and recommendations

5.1. Conclusions

While this study set out to demonstrate the importance of informal trade to African economies by distilling a collection of facts from a body of literature and to find out the different experiences and trends in transition to formalisation among countries in Africa, one of the major findings has been on the options that different countries have employed when dealing with the question of the informal sector. Historically, four potential options for public policy have been employed in trying to tackle the ‘menace’ of informal trade, namely maintenance of status quo (or laissez-faire), abrasive eradication of informal trading, deregulation or facilitating formalisation. The insights gathered from the literature reviewed on this major finding are quite compelling.

Firstly, as Africa aspires to achieve objectives of Agenda 2063 of transforming the continent in a healthy, wealthy and prosperous region, the business-as-usual option needs to be reformed to address the existing negative impact that informal trade can cause on formal businesses (e.g., unfair competition), on informal businesses themselves (e.g., the inability to benefit from significant growth opportunities accessible only by formal businesses such as formal credit), on customers (e.g., no guarantee that health and safety standards have been followed) and on governments (e.g., taxes owed are not collected). Secondly, the option of abrasive eradication of informal traders is also not a feasible option and is equally unacceptable because part of the reasons for the emergence and growth of informal economy results from dysfunctional policies and poor governance and painful structural adjustments that often shrink opportunities for formal business and jobs creation in the first place. It is a self-defeating approach to try and repress informal entrepreneurship as it is precisely the entrepreneurship and enterprise culture that any government wishes to nurture. Thirdly, full or complete de-regulation is deemed unacceptable because it results in a levelling down rather than levelling up of working conditions. Fourthly, and hence we conclude in this paper, facilitating formalisation is the only viable policy option for Africa’s transformation agenda to realise its objectives.

Opinions remain contestable on whether governments should legitimize informal trade or eradicate it. However, we find that facilitating its formalisation is emerging as the dominant approach in recent years (Dekker et al., 2010; European Commission, 2007, Renooy et al., 2004; Small Business Council, 2004, Williams, 2006; Williams and Renooy, 2009). Until now, however, there is no conclusive agreement on the rationales for operating in informal trade as in deed there are varying reasons. Therefore, we find that different approaches have been employed in facilitating the transition to formalisation in different countries and among RECs. There is no singular approach that could be applied across a set of countries given the heterogeneity of country contexts and so numerous approaches that have been applied in facilitating transition to formalisation have been categorized into four approaches: *Policy and legislation approaches to formalisation*, *Partnership-based approaches*, *Rights-based approaches*, and, *Incentives and compliance based approaches*. It is important to note that none of these is superior to the other; rather, they complement each other and it is possible that they can all be pursued at the same time in the same country. What is more important is that there’s need for a tailored or variegated approach towards facilitating formalisation based on country context and resources as well as partnerships that a country can avail for any approach.

5.2. Elements of good practices in facilitating transition to formalisation

There are a number of ways of trying to reduce informality and eventually achieve full transition to formality. The following is a summary of good practices that this study has distilled from the literature reviewed on the experiences based on the four approaches:

- i) It is important to support broad programmes of regulatory reform to eliminate barriers of most concern to enterprises at the local level, including those that are identified as barriers to formalisation. Measures to create a business-friendly regulatory environment and of effective service provision need not require significant resources. There are steps that can be taken to improve the delivery of services to business by government and in reducing, mostly, administrative barriers to formalisation including unnecessary costs. For instance, creation of one stop shops for business registration and rationalizing business registration and licensing regime by deploying user friendly IT-based systems.
- ii) Partnerships are important in facilitating transition to formalisation as indeed some initiatives may require huge outlay of resources and expertise to implement.
- iii) Incentives are crucial and need to be tailored as businesses formalise. Retroactive regulations, especially in the area of taxation have to be avoided in all circumstances for businesses that formalise. Otherwise the informal businesses may be reluctant to formalise if they fear being exposed to burdensome regulations such as large tax bills. This goes with the need to simplify tax administration as this sometimes poses a greater problem for informal traders than tax rates.
- iv) Separate the function of revenue generation from business registration and licensing. Remove registration from (usually overburdened) courts wherever possible.
- v) The sheer number of business licenses that a business is required to have to operate has been found to be a key hindrance to formalisation. Good practices have demonstrated that there is gain in limiting the licensing to only those activities where it is justified on health, safety, environmental or other grounds. Small traders would find it easy and be encouraged to formalise if they were to only have one license and in an environment where it is easy to submit applications without exorbitant costs.
- vi) It is important to initiate dialogue with participants in the informal economy, in order to understand their constraints (including resistance to formalisation) and generate buy-in. This can sometimes take time but it is necessary that the relationship between government and informal traders moves away from a matter of mutual suspicion towards mutual support. This can be achieved by creating programmes through national televisions, radios and focussed group or town-hall meetings on a sustained basis.
- vii) Efforts to tackle corruption are likely to have a significant impact on restoring confidence of informal traders in public administration and their willingness to formalise.

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Key messages

As initiatives to enhance regional trade integration in Africa are evolving and yielding results, it is important at the same time to be cognizant of the potential social and economic impacts of the resulting formalization of cross-border trade and, to develop effective modalities to deal with these or to minimize their negative effects. Without pro-active policies, changes in the way that cross border trade is conducted can further marginalize those who already face difficulties in taking advantage of trading opportunities.

In Africa, it is generally accepted that constraints on women, such as limited access to finance, traditional values, gender roles, violence and even health issues, have in the past hindered them from seizing the opportunities provided by the expansion of trade, and in particular the move from informal to formal trade regimes. It is therefore important to ensure that trade policy and infrastructural constraints to trade are removed in ways that potentially benefits women as it would benefit all other traders in general, especially in countries where women constitute a large percentage of the informal trading network. It is also necessary to identify and reduce less visible constraints to trade that women face in order to increase women's participation in the formal trading system, reducing inequality and decreasing poverty.