



Tropentag 2011
University of Bonn, October 5 - 7, 2011
Conference on International Research on Food Security, Natural
Resource Management and Rural Development

Challenges and prospects of tracking informal cross border trade in Eastern and Southern Africa (ESA)

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Introduction

Informal cross border trade (ICBT) refers to unrecorded business transactions undertaken across the borders (Uganda Bureau of Statistics (UBOS), 2009). It includes goods moved through unofficial and official trade routes (through under-invoicing and mis-declarations of cargo). Goods traded informally are not restricted to small volumes but may include even large volumes of containerized cargo. Most cross border food staple trade in the ESA region is informal thus ICBT plays a key role in regional food security and income generation. Despite the importance of ICBT in agricultural trade, there is no reliable data throughout the region to validate the contribution of such trade to the food security of participating countries and clearly depict trends of such trade over time. Trade information is very important for informing investment decisions by private sector, public sector, donors and policy-makers. While various studies (see Lesser, 2009; UBOS, 2006; Ackello-Ogutu, 1996; Macamo, 1998; Minde and Nakhumwa, 1998) indicate that informal trade still represents a significant proportion of regional cross-border trade, a substantial volume remains unrecorded (UBOS, 2006). Moreover, inadequate knowledge of the informal trade magnitude may lead to under estimated figures in national trade statistics (UBOS, 2009) and may complicate the formulation of appropriate macroeconomic policies and strategies.

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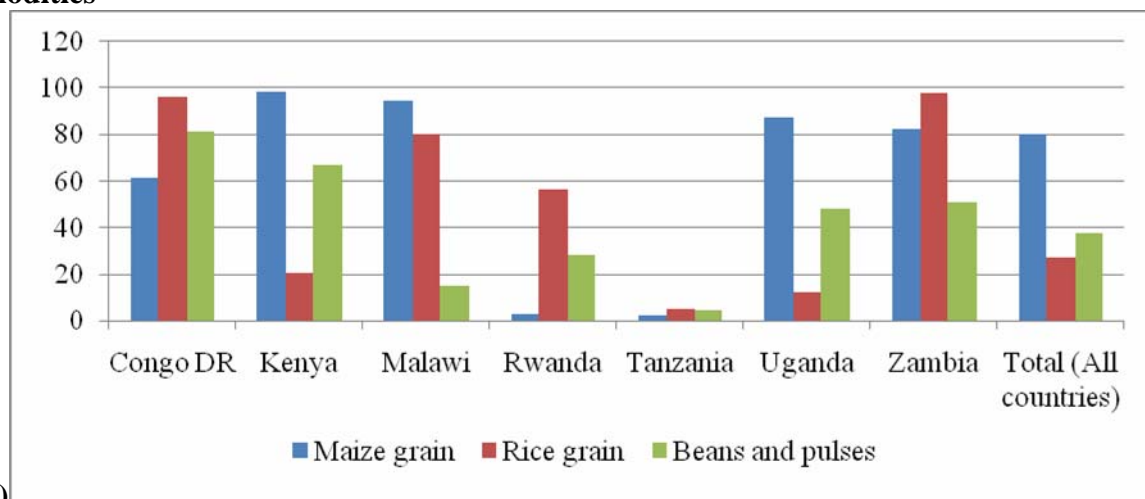
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The Magnitudes of informal trade in selected countries in ESA region

Informal trade data in ESA region is either missing or, at best, incomplete in terms of commodity coverage or locations of data collection points. In addition, the available informal trade data is collected by only a few agencies. This makes it difficult to get an accurate and aggregate overview of the extent of informal cross-border trade in the region. Despite the challenges, figure 1 shows the proportions of informal trade flows in volume terms of main traded commodities in selected ESA countries. The results show that informal trade volumes for maize, rice, beans and pulses account for over 30% of total trade volumes in most selected countries in the region.

Figure 1: Proportion (%) of informal Volumes to total trade volumes of selected commodities



(2009)

Data source: UBOS, EAGC⁴ and FEWS Net⁵

The challenges of monitoring ICBT data

Acacia Consultants (2005) summarize the main practical challenges related to implementations of informal trade monitoring. Official border points tend to be located next to unofficial border points called '*panya*' routes, which are characterized by substantial informal trade that can easily go unrecorded. Some informal trade surveys also do not consider the unrecorded value or volume of trade caused by under-reporting or misclassification at official border points. In addition, most estimated values of informal trade do not account for night trade activities, thus need to find the best time to monitor informal trade. Currently all agencies time of monitoring is between 6 am to

⁴East Africa Grain council

⁵Famine Early Warning Systems Network

7 pm. This monitoring time especially when carried out all days in a week may lead to monitor fatigue, thus compromising the quality of data. There are challenges related to methodological tools used in estimating the volume or value of informal trade. The direct observation technique, without any 'balance-weighing scale' to measure the volume of trade, is unlikely to provide accurate estimates of traded quantities. Another issue related to monitoring informal trade in general relates to the selection of the prices used by border monitors, whether to use farm gate, wholesale or retail price and what the Cost, Insurance and Freight (CIF) and Free on Board (FOB) equivalent prices are. What exchange rate to monitor is also a challenge, official or local border hawking exchange rate? Further, informal trade monitoring surveys are done few weeks in a month and thus, the results from such surveys are unlikely to provide an accurate picture of informal trade. The ideal monitoring period is actually all year round due to agricultural sector seasonality. In addition, which borders to monitor is much undefined. Monitoring all borders has financial implications, hence the need to have key representative borders. Moreover, limited funding in the region for compiling trade statistics implies restricted ability for ICBT monitoring.

Summary and Conclusions

The nature, extent and clear characteristic of ICBT trade in ESA region are not well known. However, it is evident that ICBT still represents a significant proportion of regional cross-border trade in the ESA region. Few agencies in the region are monitoring the informal sector trade but a lot of the data remain unrecorded. The missing informal trade data leads to unreliable external trade statistics which might, in turn, affect effective formulation, implementation and monitoring of domestic, regional and international trade policies. Various development agencies cannot clearly tell the impact of any trade related policy initiatives in the region. Some of the suggested improvements in monitoring informal trade relate to improving the quality of the informal trade data. Specific actions include increasing the number of border points monitored for informal trade as well as the need to identify key borders with significant trade for monitoring. Furthermore, it is

necessary to continuously monitor informal trade all year round to capture seasonal trade patterns. Finally there is the need to use international harmonization codes for data comparability and inclusion to external trade data. This paper concludes that the operations of ICBT as it is now are not effective to inform trade related decision making. The existing informal trade flow data cannot measure the levels of informal trade as the underlying data are very incomplete. There is therefore need to enhance the ICBT monitoring activities. The study recommends investments geared towards improving the systems for collecting, analyzing and reporting informal trade data in the ESA region. Further the study recommends partnership among the agencies monitoring informal trade in the region in order to ensure data comparability, harmonisation and cohesiveness.

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