The Informal Economy and the African Continental Free Trade Agreement: Making Trade Work for the Often Overlooked

By:

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The African Continental Free Trade Agreement (**AfCFTA**) has received widespread attention in trade circles and the general media. It has been described as history's largest free trade agreement and labelled one of the most historic achievements of the African Union. If successful, the AfCFTA would significantly promote intra-African trade in goods and services, bringing together fifty-four African countries with a combined population of over 1 billion and a combined gross domestic product (**GDP**) of more than US$3.4 trillion. Recognising the potential of the AfCFTA for the continent, this article questions whether the AfCFTA would also positively impact informal cross border trade (**ICBT**), an often-neglected part of the intra-African trade discourse. Currently, intra-African trade in goods is estimated at between 15-18% of total trade on the continent and limited statistics available show that intra-African trade in

services is nascent. The United Nations Economic Commission for Africa estimates that the AfCFTA could increase intra-African trade by 53.2% and if non-tariff barriers are removed, intra-African trade could double. However, official statistics on intra-African trade do not present an accurate picture, as estimates show that ICBT which is mostly unrecorded, constitutes approximately 60% of regional trade on the continent. For example, in the Southern African Development Community (**SADC**), ICBT is estimated to be 30-40% of total intra-SADC trade, with an estimated value of US$17.6 billion.

In West Africa, ICBT is estimated to account for 20% of GDP in Nigeria and 75% in Benin. ICBT is practiced by a range of actors in Africa, including the unemployed, small and medium enterprises (**SMEs**) and women who on the average constitute 70% of informal cross border traders. Despite the prevalence of ICBT in Africa, there appears to be a measure of regulatory blindness to its importance in intra-African trade. Generally, the informal economy receives mixed reactions from regulators and policymakers. Some view the informal economy as a threat to formal business, some clamour for regulation as they view it as a backdoor to escape government taxes, while others argue that the informal economy is a creative ecosystem responding to inefficiencies in trade regulation. Irrespective of these varying opinions, the reality is that ICBT is now an integral part of the intra-African trade framework.

In order for the benefits of the AfCFTA to trickle down, African countries need to adequately consider ICBT when designing and implementing trade policies. Trade policies will be incompletely conceived and may not sustain the economic development goals that integration is supposed to deliver if African countries do not adopt a holistic approach that recognizes the importance of ICBT. Some African countries and regional economic communities (**RECs**) have recognized the importance of ICBT and are implementing policies which facilitate ICBT within their respective jurisdictions. For example, since January 2014, in East Africa, Kenya, Rwanda, and Uganda began to accept national identity cards as an alternative travel document to international passports. This initiative has led to a significant uptick in the number of cross-border traders travelling across these countries. Women cross-border traders now travel more confidently, as their national identity cards allow them to cross borders legally and avoid the harassment that often surrounds illegal border crossing. Governments have also benefited from this initiative, as data from one of the

Ugandan borders estimates that tax revenues from small trade in goods increased by 5–10% since the identity card registration drive. Other countries like Rwanda, Liberia, and Ghana cater to the needs of small-scale traders within their countries and at their borders by providing necessary market information, promoting direct engagement with informal cross-border trade representatives, linking them directly with the international markets, and ensuring that their needs are considered when policies and legislation are developed.

Some RECs have also introduced initiatives that impact ICBT. For example, simplified trade regimes (**STRs**) in the East African Community (**EAC**) and in the Common Market for East and Southern Africa (**COMESA**) allow a pre-agreed list of small consignments to benefit from duty free treatment. In addition, the COMESA, EAC and SADC non-tariff barriers (**NTBs**) reporting mechanism is an online platform through which cross-border traders can report NTBs encountered during trade. However, the impact of these efforts on ICBT is debatable, considering the level of illiteracy among informal cross-border traders who oftentimes are unaware of such initiatives and may lack the capacity (for example access to internet or literacy level required to report NTBs online) to benefit from these initiatives. Nonetheless, these national and regional efforts could serve as inspiration for the development of policies and initiatives that benefit ICBT on a continental level. Despite the potential of ICBT, challenges surround the design and implementation of beneficial trade policies. One of such challenges is the limited quality of data available on ICBT. In addition, ICBT encompasses both legally and illegally traded goods and services, therefore, it may be difficult for regulators to design policies that simultaneously facilitate legal trade while curbing the illegal.

However, while regulators work to curtail illegal trading activities, it might be useful for them to gain insight into how illegal trading networks function effectively. In conclusion, the current attention on the AfCFTA presents a good opportunity for a comprehensive examination of how ICBT can be better integrated into the intra-African trade framework. Intra-African trade occurs both formally and informally, therefore trade policies need to be designed to address both formal and informal cross-border trade. As policymakers strive to make it easier for African business executives or tourists to travel around Africa, they also need to make it easier for women to trade fresh vegetables and fabric across borders. While governments discuss cross-border movement

of capital for multinationals, they also need to discuss ways to facilitate easy cross-border payments for SMEs and ICBT actors. While protocols on the provision of cross-border services are being implemented, the hair stylists and domestic workers who have historically provided services across borders at great danger to themselves should also benefit from appropriate trade policies.

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