



Paul Brenton, Nora Dihel, Mombert Hoppe, Carmine Soprano

IMPROVING BEHAVIOUR AT BORDERS TO PROMOTE TRADE FORMALIZATION: *The Charter for Cross-Border Traders*

HIGHLIGHTS

- Informal cross-border trade is a **major feature of African economies**: it creates jobs (especially for women and youth), supports livelihoods and contributes to food security. Yet, small traders in Africa still face high duties, burdensome bureaucracy, corruption, harassment and other difficulties at the border.
- The **Charter for Cross-Border Traders** tries to address those challenges by introducing a framework of rights & obligations for traders and border officials, and a SMS-based mechanism to report abuses. This is complemented by intense training and large-scale dissemination for target beneficiaries, and relies on a network of local stakeholders including Government, border agencies, traders associations and CSOs.

1. BACKGROUND - Why informal trade matters

Informal trade supports the livelihood of hundreds of thousands of households in Africa, reaches markets and clients that are underserved by formal channels, and contributes to regional food security. Despite numerous benefits, conducting cross-border transactions remains expensive for small traders in Africa. For example, small traders in Malawi and Zambia pay 62 percent more in per unit terms for border costs than large formal traders. While there are systems in place to facilitate cross-border trade such as the current Simplified Trade Regime (STR) that eases certain customs processes, a host of registration and other requirements remain in place and increase small traders' costs to uncompetitive levels.

This note presents an overview of key challenges faced by small traders across Africa, and proposes the Charter for Cross-Border Traders as a potential solution to address them. Special attention is given to the case of Malawi and Zambia, where the Charter is currently being piloted by the World Bank in collaboration with the respective Governments, Traders' Associations, and border officials as part of the first joint policy action emerging from the Diagnostics Trade Integration Studies (DTIS) carried out in the two countries.

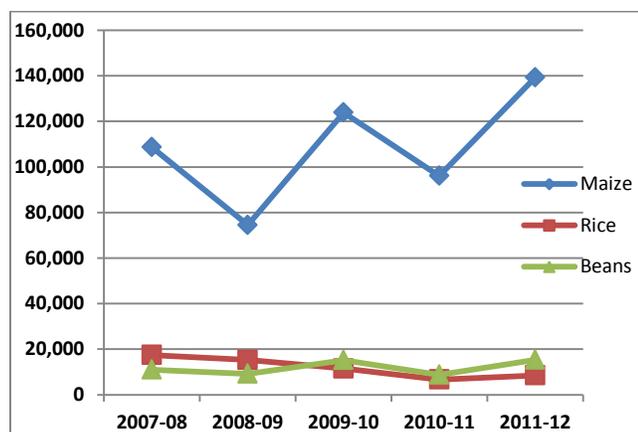
Informality in general and informal cross-border trade (ICBT) in particular, are major features of African economic and social landscapes. Despite the inherent difficulty in measuring it, the informal sector is thought to account for about **38.4% of Sub-Saharan African economies** on average [Schneider et al., 2010], and to be **worth a \$17.6-billion/year** in the Southern African Development Community (SADC) [Southern Africa Trust, 2008]. Available data on African countries' informal trade also show that these flows are substantive. For example, about three million

1 | www.worldbank.org/afr/trade

metric tons of staple food commodities were traded in 2013 in East Africa (FEWSNET, 2014). Similarly, total volumes of informal cross-border trade of maize, rice and beans in Southern Africa are estimated at respectively 139,243; 8,485 and 15,380 metric tons in the 2011/12 season [FEWSNET, 2012]. Such major transactions of staple foods, depicted in table 1 below with data for the period between 2007-08 and 2011-12 seasons, are critical to food security in the region.

This informal trade is also essential for welfare and poverty reduction, as poor people are intensively engaged in the informal production and trading of the goods and services that are actually crossing African borders. Allowing these traders to flourish and gradually integrate into the formal economy would boost trade and the private sector base for future growth and development.

TABLE 1: Informal Cross-Border Trade in Southern Africa (metric tons/season)



Source: FEWS NET, 2012.

Another recurrent feature of ICBT, as well as a consistent finding of most studies, is that a majority of individual traders are **women**, for whom this activity is the main or the only source of income (World Bank 2012; Lesser and Moisé-

Leeman 2009; Perberdy and Rogerson 2000; Macamo 1998; Muzvidziwa 1998; Perberdy and Crush 1998). ICBT is then of critical economic and social importance for many households in Sub-Saharan Africa, particularly so in poor households without other income earners (e.g. absent or unemployed husband). Improving opportunities for formal cross-border trade by women, notably in agricultural products, could therefore generate economic growth and promote food security, as well as reduce poverty among vulnerable households (Ityavayar, 2013).

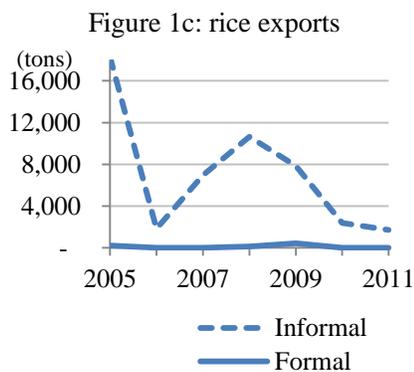


In the case of **Malawi** and **Zambia**, national trends well reflect the regional ones presented above. Both countries trade significantly more basic commodities than is reflected by official statistics, and cross-border trade also goes beyond agricultural commodities.

Data collected by Njiwa *et al.* in 2011-12 suggests that about 40% of \$7 mln.-worth trade at three major Zambian borders i.e. Chirundu, Livingstone/Victoria Falls (Zimbabwe) and Mwami/Mchinji (Malawi) is informal - most of that trade actually takes place with Malawi. Also, on a monthly basis the number of informal traders using those border posts is estimated at between 15-20,000, 12-13,000 and 20-30,000 respectively.

FEWS Net data indicates that informal exports of beans, maize and rice from Zambia to

neighboring countries add up to tens of thousands of tons every year. Out of the three products, maize represents the largest volumes of informal exports (124 thousand tons between 2005 and 2011, compared to 50 thousand tons of rice and 31 thousand tons of beans). For beans and rice these flows are much larger than formal exports. Figure 1 and 2 provide an overview of, respectively, Zambia's informal exports and imports of maize, rice and beans between 2005 and 2011.



Source: World Bank, 2013B

FIGURE 1: Zambia's informal exports of maize, rice and beans¹.

FIGURE 2: Zambia's informal imports of maize, rice and beans².

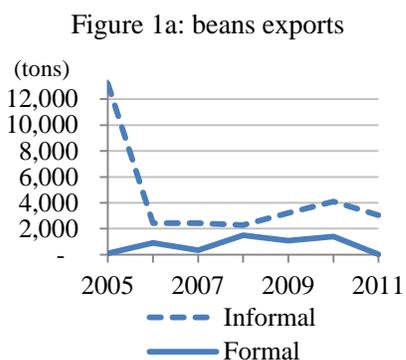
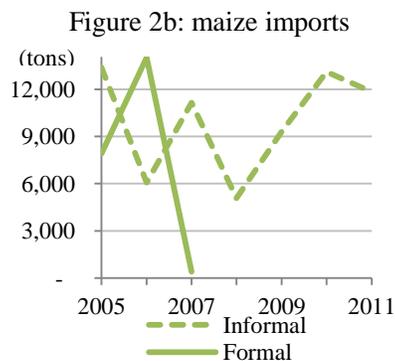
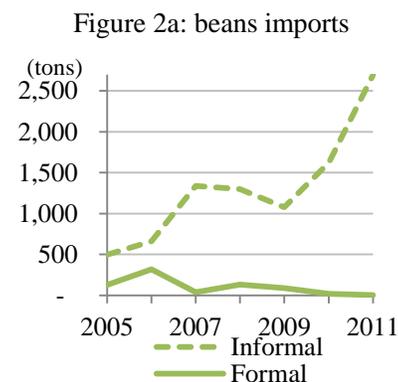
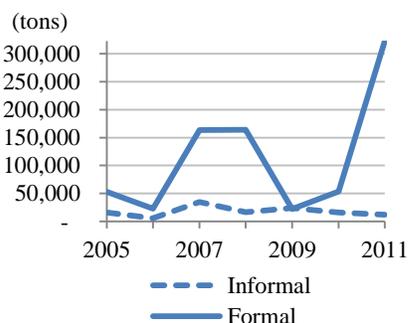
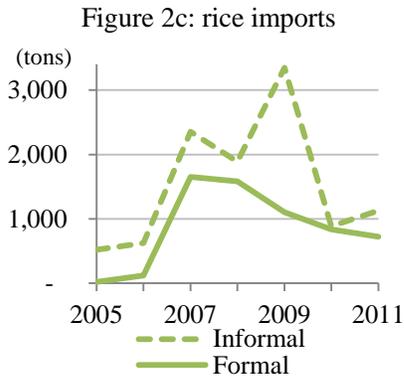


Figure 1b: maize exports



¹ Each graph only includes exports to countries for which FEWS Net reports data for beans (DRC, Tanzania, Zimbabwe), maize (DRC, Malawi, Mozambique, Tanzania, Zimbabwe) and rice (DRC, Malawi, Zimbabwe)

² Each graph only includes imports from countries for which FEWS Net reports data for beans (Malawi, Tanzania), maize (Malawi, Mozambique, Tanzania) and rice (Malawi, Tanzania).

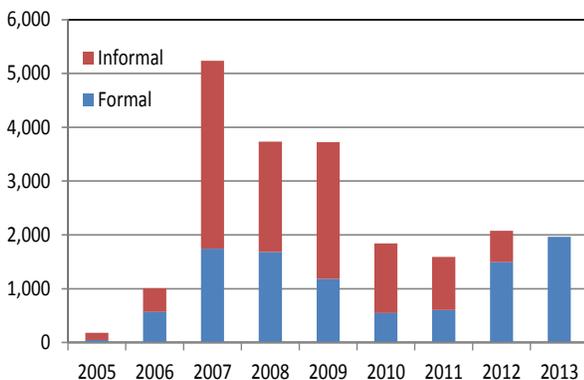


Source: World Bank, 2013B

It must also be noted that Malawi is amongst the main destinations of informal food exports from Zambia (figure 3)

Finally, data surveyed by Southern Africa Trust [2008] suggests that ICBT in Zambia/Malawi also concerns manufactured products in addition to agricultural commodities. Those include small electronics, household appliances, clothes, shoes, cosmetics and plastic articles, among others.

FIGURE 3: Zambia's imports of beans, maize and rice from Malawi



Source: authors' calculations based on FEWS Net and Comtrade/WITS data for dried beans (code 05423), maize and maize meal (code 044 and 04721), and rice (code 042).

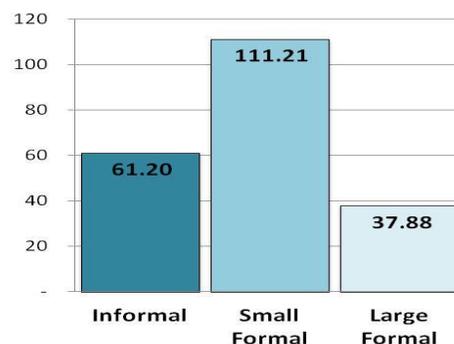
Source: World Bank, 2013B.

1. THE PROBLEM - Challenges faced by cross-border traders

Usually traders choose the informal path to avoid burdensome administrative procedures taxes, as well as to escape from abuses committed at the border. Indeed, informality flourishes when the transaction costs incurred by operating through official channels are perceived to be too high, are not compensated by sufficient benefits and/or the required procedures are not transparent. Such conditions are particularly burdensome for people with small consignments that may not cover the fixed costs of complying with formal sector procedures. In the case of cross-border trade, this notably includes high customs duties and taxes, as well as procedures at the border which can be time-consuming, inefficient, or unclear (e.g. customs, sanitary and phytosanitary standards, immigration procedures, technical regulations etc.). In particular, small traders face highly regressive costs and have little choice but to trade informally. In this case they pay on average around 62% more per ton to move a ton of commodity across the border than large traders do - they would however pay almost double the current informal rate if they switched to the small formal route. In this sense, they are trapped in informality.

Figure 4 offers an example of this for the Kasumbalesa border (Zambia/DRC).

FIGURE 4: Border Costs at Kasumbalesa (USD/ton maize)



Source: World Bank, 2013B

Due to high **illiteracy rates**, small traders are also likely to find it even harder to comply with complex requirements and controls, and may not have the capacity and resources needed to take advantage of regional agreements such as duty-free entry in COMESA and SADC countries for their products. Similarly, they may fail to benefit from the potential advantages offered under STR regimes - these provide for simplified certificate of origin procedures and, for selected items on a Common List of products, also eliminate the need for licensed clearing agents to process consignments worth less than US\$ 1,000.

Lack of clear information on export and import procedures (including the STR), and opaque or arbitrary application of rules are also serious challenges for traders. The latter issue, in particular, often means that they are not able to claim the advantages they are entitled to, even when they are aware of them. In this case it is much easier and less risky to pay a bribe and pass than to argue with officials.

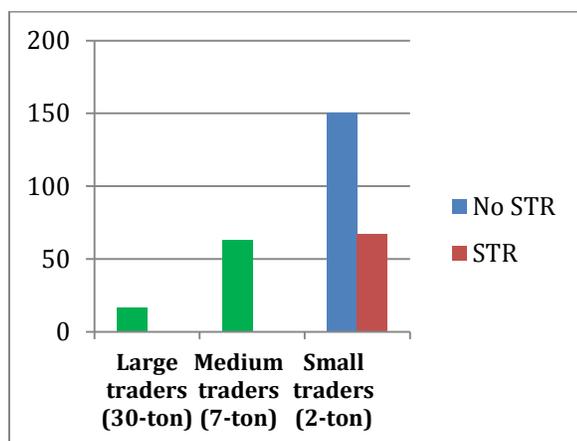
The **centralization of certain procedures**, notably the issuance of export/import permit and SPS certification for agricultural products, represents an additional challenge: it makes them costly for all traders, yet prohibitively so for the smaller ones. For instance, traders at Livingstone/Victoria Falls (Zambia/Zimbabwe border) can obtain a permit from the Ministry of Agriculture in Livingstone to import products in Zambia, yet must go to Harare if they want to do the same in Zimbabwe. This permit is deemed expensive and only has a limited validity in time, making it not worthwhile to trade agricultural products, at least through official channels.



The situation is not at all different in Malawi. Traders carrying, for instance, agricultural products across the border are required to provide a number of export/import documentation including trade licenses, phytosanitary certificates, certificates of standards compliance, foreign exchange certificates, and certificates of non-GMO conformity. As a result, for the smaller ones it is often much cheaper and more practical to use informal routes and thus avoid border procedures completely.

A World Bank **case study** [2013A] has measured the total costs of exporting rice from Malawi into Zambia using a big (30-ton), medium-sized (7-ton) and small (2-ton) truck. Due to poor economies of scale, for the smaller traders those costs end up being \$3.98/ton higher than the amount paid by the medium-scale trader, and \$50.23/ton more than what a larger trader would pay (see figure 5). Moreover, in order to use the formal route small traders should be formally registered as exporters, and have a valid taxpayer identification number (TPIN) and bank account. The incentive for them to avoid formal sector trade requirements is obviously very strong.

FIGURE 5: Total costs (USD/ton) of exporting rice from Malawi into Zambia per size of trader.



Source: World Bank, 2013A

Among the challenges faced by cross-border traders, **hostility by border officials** deserves special attention. Despite policy-makers' growing interest in facilitating transactions and some progress made at certain border points, crossing some of Zambia's borders remains a challenge due to officials' attitude towards small traders. Similarly, the Cross-Border Traders Association of Malawi maintains that the majority of informal traders actively avoid the formal border crossing as many members complain of harassment and humiliation, ranging from goods over-valuation to delays, bad language and physical violence. Women, who in Malawi account for approximately 80% of cross-border traders, are especially vulnerable to such abuses – these sometimes also take the form of sexual harassment, including rape and cited cases of women providing “favors” to officials in exchange for a smooth border crossing. In turn, this also facilitates the spreading of HIV/AIDS and other sexually-transmitted diseases.

3. OUR PROPOSED SOLUTION: The Charter for Cross-Border Traders

To strengthen the rights of small traders and facilitate their cross-border transactions, the World Bank, in collaboration with the the Ministry of Commerce, Trade and Industry of Zambia, and the Ministry of Industry and Trade of Malawi has developed a “**Charter for Cross-Border Traders**”. The initiative responds to the need, clearly expressed by stakeholders in those countries, for improving the treatment of traders at the border and increasing the efficiency of trade flows, as well as for introducing effective mechanisms for the reporting of abuses, based on extensive use of modern technology. It also builds on the importance of actively involving key players such as border agencies and traders associations, and of conducting regular training and sensitization among target beneficiaries on key issues related to cross-border trade.

The document is being currently piloted at the Mwami/Mchinji border.

The Charter for Cross-Border Traders enshrines a basic set of rights and obligations for traders and officials, and ultimately aims to improve behavior at borders and to promote the gradual formalization of informal cross-border trade. The idea of a charter might be relatively new in the context of African cross-border trade problems, but public displays of consumers and passengers rights and responsibilities have been used even in context of trade and travels. For example, the posting of passengers' rights at airports, videos on what to expect and what are appropriate procedures at security checks and prominent placement of major customs rules at borders crossings have been used to reduce misunderstandings and complaints. The goal is to achieve faster processing times for travelers and traders, while allowing border officials to undertake their essential duties effectively. Plain language guidelines, publicly displayed, can serve as easy reference for all parties in case of disputes.

It must be noted that, in most cases, border agencies already have in place their own Service Charter, Code of Conduct etc., each of which usually applies only to the agency that has developed it. The Charter for Cross-Border does not replace those internal codes - it rather builds on their experience, and yet is innovative in that it applies indistinctly to all stakeholders at the border. In other words, it operates at **horizontal level** to promote standard behavior among border agencies.

In order to ensure a fair balance between its two main categories of target beneficiaries, in addition, the Charter has been developed using a mirror approach: each right of the traders has a corresponding obligation for the border officials, and vice versa.

Obligations are spelt out very clearly for both categories. For instance, the Charter requires that, whenever a physical check is requested, the relevant official must provide a reason for that, and that female traders have the right to receive a physical check by female officials in a private but regulated and accountable environment. Similarly, officials are obliged to announce any change to duties, fees, taxes and documentary requirements publicly at the border and within reasonable time, so that traders can plan their transactions accordingly - they must provide a receipt for any payment made, and all payments must be properly recorded.

On the other hand, the Charter states that traders must pay appropriate duties and present the required documentation when crossing the border. They are also required to treat the officials with respect, and to avoid offering bribes and/or other favours in exchange for any preferential treatment.

CHARTER BASIC PRINCIPLES

- ❖ **No abuse or harassment**
- ❖ **Efficient processing and no discrimination**
- ❖ **Transparent duties, fees and taxes**
- ❖ **No bribes**
- ❖ **Clear documentary requirements**

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 lines (see details below).
- 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.

As a way to provide a tool for real-time reporting of abuses, addressing emergencies arising from harassment and overall monitoring of the implementation of the Charter, the initiative also includes the setting up of toll-free phone numbers. These will allow cross-border traders to access information on required trading documentation e.g. duties, permits, certificates etc., file complaints and report abuses affecting themselves and their peers, particularly women, as they cross the border. The

numbers will be also linked to an ICT platform, which would work in the following two ways:

1. On the one hand, it would allow for collecting information queries and reports of abuses submitted by traders;
2. On the other hand, it would provide designated organizations e.g. Traders Associations and CSOs with a mechanism to a) provide the requested information to traders, b) collect further evidence e.g. pictures, GPS coordinates etc. on the reported cases, and c) refer them for immediate action to the responsible authorities (Revenue Authorities, Police, Immigration etc.) and follow-up on their response.

4. Progress in the Malawi/ Zambia pilot and next steps

Reaction to the Charter was highly positive in Malawi and Zambia: all stakeholders were supportive of the initiative, and expressed interest in being involved in its implementation. In Zambia, in particular, CSOs and Traders Associations led by CUTS (Consumer Unit & Trust Society) have agreed to cooperate on the monitoring of Charter enforcement and on the management of information queries & complaints through the Taarifa/ComCol platform. In Malawi, on the other hand, key stakeholders have defined an official division of roles & 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.

Additionally, **training courses** were delivered on the Charter for Cross-Border Traders with the participation of over 70 direct/indirect beneficiaries, including traders (especially women), senior border officials and representatives of CSOs and Traders Associations from both Malawi and Zambia.

Technical arrangements are also being made with the major mobile phone operators in those countries in relationship to the setting-up & testing of toll-free numbers.

Finally, the Africa Trade Team plans to conduct a large-scale **dissemination campaign** for each of the piloting countries.

As the Charter for Cross-Border Traders is rolled out in Malawi and Zambia, the Africa Trade Team is also preparing the ground for its implementation at other borders. Indeed the existing literature on informal cross-border trade, although limited, is consistent in showing that there is a significant degree of similarity across challenges faced by traders in the continent. Once tailored to the specificities of the local contexts, the Charter could therefore impose itself as an innovative, effective tool to improve behavior at several African borders, and ultimately help promote gradual formalization of informal trade on a regional basis.

It is with this ambitious vision that the Team is currently preparing for Charter implementation at the Tanzania/Zambia and Tanzania/Malawi borders. Early discussions with stakeholders there have indeed indicated that there is real demand for a similar initiative, and that again the use of ICT technology would add significant value in relationship to an effective enforcement of the Charter.

Although similarities are observed regarding some general aspects of cross-border trade (e.g. traders usually originate from poor rural areas/are often illiterate/tend to be mostly women etc.), other issues may vary across borders. In order to reflect the peculiarity of each context, the Africa Trade Team therefore plans to tailor the Charter to the specific challenges faced at the borders where the document will be applied.

5. Conclusions

Small-scale cross-border trade represents a unique, yet still largely untapped opportunity for many Africans. Whether informal or not, it is still often viewed as a threat or a nuisance, rather than as a legitimate entrepreneurial activity contributing to regional integration, livelihoods and food security, as well as a basis for more formal activity and employment in the future. If offered a favorable environment to grow, cross-border trade has the potential to create stable jobs and make trade more broad-based and inclusive. Yet, at present the transaction costs imposed by official trade procedures and taxes still result in informality being seen by a majority of small traders as the only viable way of conducting business. On the other hand, the existing literature shows that excessively tight controls and high taxes are self-defeating as they are relatively easily avoided by traders, often with the complicity of border officials. Trade facilitation measures tailored to the needs and constraints of small traders are therefore required.

In this scenario, the Charter for Cross-Border Trade imposes itself as a new initiative with potential to dramatically change behavior at borders, and therefore to gradually pave the way for formalization of informal cross-border traders. The ultimate outcome would clearly be a **win-win situation**. From the perspective of traders, indeed, operating in the formal sector (provided it does not impose excessive costs) could facilitate the transition from a survivalist activity to a more stable employment, and could make it easier for them to scale up their business, notably by enhancing their capacity to apply for credit at formal financial institutions. Indeed lack of start-up capital and limited access to finance are systematically indicated by small traders as the major threat to the creation and sustainability of their business. This is particularly the case of women, who are the most

exposed to financial and other challenges including physical violence, sexual harassment and HIV/AIDS infection. In this sense, the Charter with its clear focus on gender would offer a unique opportunity for empowerment of women cross-border traders, which ultimately could have a tremendous impact on households' income levels as well as economic and social advancement at community level.

The initiative also presents clear benefits for the authorities operating at borders. Amongst others, those include increased tax and custom duty collection; improved quantity and accuracy of key data on trade flows, which would be beneficial for policy analysis and policy-making purposes; enhanced respect of rules and of health/safety standards; improved governance at the borders.

To quote an official: “**Small traders pay our salaries through taxes**. The more they are, the more revenue are collected. We must help them”.

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