

HORN OF  
AFRICA  
BULLETIN

Horn of Africa Bulletin is a publication  
of the Life & Peace Institute

HORN  
OF  
AFRICA

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## The African Continental Free Trade Area (AfCFTA)

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Informal Cross-Border Traders in a  
Disadvantaged Position to Benefit from  
Continental Trade Agreement

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This publication is produced by the Life & Peace Institute (LPI) with support from the Swedish International Development Cooperation Agency (Sida) and Church of Sweden International Department. The donors are not involved in the production and are not responsible for the contents of the publication.

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ISSN 2002-1666

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# Informal Cross- Border Traders in a Disadvantaged Position to Benefit from Continental Trade Agreement

Oduma Philip Dennis

I write this reflective piece based on my experience as a team leader at the Busia District Farmers' Association and a border resident in Buyengo Parish, Busia District, in the Bukedi Sub-Region of Eastern Uganda. In this piece, I emphasise the challenges that informal cross-border traders face in my district and the actual implications that the African Continental Free Trade Area (AfCFTA) can have in addressing these challenges. I will identify the challenges that informal cross-border traders face on a daily basis and propose recommendations. I firmly believe that such kind of actual experiences will serve as a vital input to policy and decision-makers at every level in the implementation of the AfCFTA.

The AfCFTA has been in existence since 1 January 2021 and has been hailed by many economic analysts as the largest trade agreement in the world in terms of the number of participating countries. The agreement aims to create a single market for goods and services and also facilitate the movement of persons and resources within the continent. The agreement represents a major opportunity for countries to boost growth, reduce poverty, broaden economic inclusion, and lift 30 million people out of extreme poverty by 2035 when fully operational (World Bank, 2020). However, to achieve its full potential, emphasis has to be placed on putting in place policy reforms and trade facilitation measures, not only for the large multinational companies, but more importantly for the rural, smallscale informal cross-border traders who are majorly the women, youth and persons with disabilities.

According to the UN Conference on Trade and Development (UNCTAD), informal cross-border trade is trade between neighbouring countries conducted by vulnerable, small, unregistered traders. Typically, it is proximity trade, involving the movement of produce between markets close to the border. The informality refers to the status of the trader (unregistered), not necessarily to the trade itself (captured or unrecorded by the official customs system).

Due to the nature of this trade, it is hard to get actual data on informal cross-border trade, however such trading activities contribute to the income of about 43% of Africans. It is estimated that this type of trade contributes between 30 to 40% of total intra-regional trade in the Southern African Development Community (SADC) region and 40% in the Common Markets for Eastern and Southern Africa (COMESA) region (African Development Bank, 2012). Informal cross-border trade is also gender sensitive as women constitute between 60

to 70% of those engaged in these trading activities (AFREXIM Bank, 2020).

In a continent with very high unemployment rates and protracted conflicts, informal trade contributes to job and income creation for the vulnerable and marginalised members of the population. It should be noted that in the history of African trade, informal cross-border trade has been in existence from as far back as when bartering was the main form of trade between the border communities. However, despite the rich history and the importance it continues to play in borderland communities, informal cross-border trading has failed to catch the attention of key policy and decision-makers in the majority of African countries. The failure by policy actors to integrate both the sector and the actors actively involved in informal cross-border trading into the intra-African trade framework, has contributed to the regulatory blindness to its importance by the majority of African countries.

Even though some Regional Economic Communities (RECs) have initiated policies aimed at facilitating informal cross-border trade, the AfCFTA faces an even bigger task to not only expand those initiatives but also to put attention on other critical challenges affecting the informal cross-border traders. Some of the initiatives like the use of national identity cards as travel documents in the East African Community (EAC), the simplified trade regimes (STR) in the COMESA, and the non-tariff barriers (NTBs) reporting mechanism, are positive steps. However, the impact of these initiatives is debatable considering the low level of literacy among informal cross-border traders and the awareness levels of such measures to the intended beneficiaries. Some of the daily challenges faced by informal cross-border traders are too complex to be solved only by the establishment of STR and national identity cards. Informal cross-border traders seldom feature in the decision-making realms of policymakers. Hence, these key economic actors will undoubtedly remain the last segments of society to benefit from any positive consequences from the implementation of the AfCFTA.

The following key areas are identified as major challenges that informal cross-border traders are facing:

**Poor information dissemination channels:** Information on different policies intended for the benefit of border communities does not always trickle down to the intended beneficiaries, despite the fact that there is a lot of trade and cross-border

information available. As a result, most traders do not benefit from this information that may help them.

For example, according to the coordinator for Busia Women Cross border Traders Association, there is a lot of trade-related information but they do not have ways of spreading it to the beneficiaries. Therefore, the majority of border communities do not have knowledge of the various cross-border conventions, the taxes applicable to them, the custom procedures, and the various product standards required for the different products. Lack of clarity and sufficient knowledge on these key trading issues compromises the success of informal cross-border traders. The lack of reliable market information systems makes dissemination of the needed information difficult, hence making it more challenging for informal cross-border traders to tap into the regional markets. The poor access to information means the traders will not be able to realise the opportune markets created by the AfCFTA.

#### **Limited access to and complicated procedures at customs:**

The Government of Uganda's decision that all traders must use the Busia One-Stop Border Post (OSBP), is very costly for the informal traders because it is not easily accessible. The OSBP is approximately 24kms from Majanji in the south and 15kms from Tororo in the north. Along that whole stretch though, informal cross-border traders use a number of ungazetted routes across the border, which makes them unauthorised crossing points. Legally they are supposed to obtain temporary travel documents every time they intend to cross the border to Kenya. According to the fishing community on Lake Victoria Majanji Sub-County, it is very costly for them to get clearance from the immigration offices due to the high costs of transport to reach the customs office. Thus, the fishing community enters Kenya illegally.

Illegal border crossing means risking being arrested, which in turn increases the total cost of informal cross-border trading. Traders usually end up paying unnecessary 'fees' in the form of bribes to security personnel which affects their businesses negatively. It has been observed that even those in Busia municipality are uncomfortable using the OSBP and prefer using routes at Sofia and Marachi, due to the restrictions at the OSBP, even though they are impassable during the rainy season. One female trader who buys second-hand clothes from Kenya, said that she prefers to use the Sofia route despite the poor road network, because she rides through it. If she were to use the OSBP, there is a policy against actually riding a motorcycle or bicycle. She says that pushing the motorcycle with luggage is very difficult

and so feels that they are discriminated against compared to some of their counterparts with larger vehicles which have no such restrictions. As a result of such custom procedures, some small-scale traders still do not use the official routes suggesting that the positive impact of the STRs and temporary travel documents remains negligible and is not reaching its potential in benefitting these traders.

#### **Volume of goods and services traded by the informal traders:**

Informal cross-border trade is characterised by the small scale of both production and sale of goods. Most traders carry small volumes of goods on their heads, bicycles, and motorcycles to the market for sale. Hence, their market access and coverage is within a limited radius from the border. While the AfCFTA aims at widening the market for goods, it is hard to see how this is applicable to the context of informal cross-border traders who lack the capacity to supply the needed volume of goods to the bigger markets further from the border. At the moment, market access does not seem to be the biggest challenge for informal cross-border traders compared to the issue of their being limited by only being able to supply small quantities of goods. So, they may not be able to take advantage of any increase in market demand. Interventions to improve the quantity and quality of goods and supply are key if the informal cross-border traders are to benefit from the wide market potentially being outlined by the AfCFTA. According to one of the informal cross-border traders who buys produce from Uganda and sells it in Kenya, it is hard for her to meet any extra demand of the produce because she has little capital. Hence, an increase in demand will not necessarily lead to an expansion of her business.

#### **Restrictions on the means of transport used by border communities:**

The most common means of transporting goods by informal cross-border traders are carrying on the head, bicycles and motorbikes. However, there are many restrictions on motorcycles with foreign number plates. In February 2021, Uganda Revenue Authority started a crackdown on all motorbikes with Kenyan number plates. In essence, a Ugandan trader would need to use a Ugandan motorbike up to the border, then thereafter they would have to hire a Kenyan motorbike for the journey in Kenya and vice versa, making movement of goods and services difficult and expensive. Due to the small-scale nature of their businesses, any such disturbance in the means of transport increases on the cost of doing business.

**Limited access to finance:** Most informal cross-border traders find it extremely hard to acquire financial support from financial institutions because they are not registered and so are not easily traceable. As a result, it is hard for them to expand their businesses even when there is demand. The absence of financial institutions in such rural areas makes it even harder for the rural communities.

## Recommendations

If the AfCFTA and similar continental and regional policy initiatives aim to benefit informal cross-border traders, the following key issues might be useful starting points:

**Boosting production capacity of borderland communities:** The AfCFTA gives us the opportunity to widen the market, but if the production capabilities of the informal cross-border traders are still limited then they will be unable to supply their commodities to the wider market. Regional markets require consistency in quantity and quality hence the need to build the capacity of the borderland communities to meet the market demands of the commodities they trade-in.

**Establishment of needed trade infrastructure:** Most border areas are marginalised and do not have the infrastructure to support their businesses. The road network connecting border communities is not maintained by governments and is usually left in the hands of local communities for routine maintenance. Small-scale cross-border traders also tend to sell their produce in open spaces and hence are affected by either direct sun or rain. The women who trade in perishable commodities like vegetables and fruits lose much of their commodities due to the lack of facilities to increase their shelf life thus governments must invest in infrastructure which will directly benefit the small-scale cross-border traders.

**Clustering the informal traders into various commodity cooperatives:** Acquiring the capacity to supply the large regional markets hopefully emerging from the AfCFTA, may require informal cross-border traders to get organised into cooperatives for bulk and collective marketing as opposed to working at the individual level which is unlikely to be able to meet the demands of the regional markets. Through the various cooperatives, it will be much easier to pass the needed production and market information to the traders, ensure value addition to their commodities, and link

them to financial institutions which can then boost their businesses and also enable traceability of the commodities when required. Borderland civil society organisations like farmer organisations, and cross-border traders' associations can play a key role in the process of bringing the informal traders together.

Interventions to ease the activities of informal cross-border traders entail the following:

**Gazetting more entry/exit points for small-scale traders:** The current restrictions to only using the OSBP for crossing is expensive for informal traders because of the distances involved. So, any efforts to force them to use the one-stop border posts hardly bear fruit. Informal traders already have unofficial routes, so, governments should work on mechanisms to ensure they can be used safely without harassment from law enforcement officers. More entry/exit points will ensure that travel documents and STRs are brought nearer to the beneficiaries ensuring they are more relevant and useful. At this stage, even if the continent adopted the Continental Simplified Trade Regime without decentralising it to lower levels, it might not have much impact.

**Gazetting a range within which foreign motorcycles can move:** Motorbikes are the most common means of transport used by informal cross-border traders. To avoid the inconveniences and costs resulting from these restrictions of use in foreign countries, policymakers should gazette particular distances from the border point within which these motorbikes can move freely without hindrance.

## Conclusion

Informal cross-border trade plays a key role in supporting vulnerable border communities. The AfCFTA presents them with hope and an opportunity to access bigger and better markets which are distant from them and in so doing could lead to more economic empowerment, creation of jobs and wealth, and promote cross-border collaboration for the border communities. However, currently, informal cross-border traders are not well organised and able to tap into the opportunities presented by the trade agreement. Informal cross-border trading has multiple and intertwined challenges. These include: the limited business networks, limited market information, poor trade infrastructure, and difficulties to access finance coupled with government policies which restrict their movement across the borders. These challenges limit the ability of border communities to seize any potential opportunities created by the AfCFTA. Hence policy and decision-makers need to take action. Any delay to effect changes in such policies continues to put the lives and safety of informal cross-border traders at risk through the actions of the law enforcement personnel and the high levels of corruption and harassment.

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