

A [new report](#) published by COMESA examines the informal economy in 7 COMESA Member States (DRC, Ethiopia, Kenya, Malawi, Tanzania, Zambia and Zimbabwe), where government authorities are seeking ways not only to guide the development of the informal economy, but also to increase formal small-scale cross-border trade flows leading to higher revenue, as well as greater security and higher incomes for small-scale cross-border traders.

According to the International Labor Organisation (ILO), the informal economy includes all those economic activities, excluding illegal activities, carried out by workers and economic units that are – in law or in practice – either not covered or insufficiently covered by formal arrangements (ILO, 2019). In other words, the informal economy is an unregulated part of a market economy that produces goods and services for sale or other forms of remuneration.

The COMESA analysis estimates that all the 7 targeted COMESA Member States have a sizeable informal economy which exceeds the official economic activity, reaching rates of 90% and over in countries like the DRC, Kenya, Tanzania, Ethiopia, and Zimbabwe, while it ranges between 75% and 89% in Malawi and Zambia. The report also notes that countries like Ethiopia increasingly rely on informal cross-border trade, being the share of Informal cross-border trade (ICBT) with its neighbours (Kenya, Djibouti and Northern Somalia) particularly large and superior to formal trade.

ICBT, in particular, is the phenomenon where small scale traders exchange goods in small quantities across borders evading all regulatory requirements and causing governments to lose significant proportions of tax revenues. This sector, which represents an important component of the informal economies of the analysed countries,

is dominated by female traders
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agricultural products
representing the main
goods
informally
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allenges faced by ICB traders include burdensome customs and border procedures, hostility by border officials, corruption and insecurity, poor or lack of border infrastructure (lack of storage facilities or accommodation, poor transport infrastructure, etc), lack of understanding of the trade formalities and procedures due to illiteracy and lack of information, etc. These challenges are compounded by the lack of clear information on export and import procedures (including the COMESA Simplified Trade Regime, "STR") and opaque or arbitrary application of rules.

The study points out a worrying trend in some of the countries under study, namely the lack of mainstreaming of ICBT in their national trade and other development policies. In most of analysed countries the trade policies are silent about ICBT. Only in a few countries, like Zimbabwe, authorities are shifting to a new approach towards informality that considers this sector as a driver of economic growth in terms of job creation and poverty reduction, while in the other countries public policies are mainly focused on putting informality under control, rather than to help it to formalize.

In this regard, a number of policy actions aimed at promoting the transition of the informal sector to the formal economy are recommended, of which the following ones seem to be particularly important :

- **Promotion of broad regulatory and administrative reforms aimed to encouraging the formalization of informal activities**

. For instance, costs of incorporating a business could be reduced and procedures for termination of a business can be simplified (as informal traders can be more prone to formalize their business if they know they can enter and exit the market freely). This should be accompanied by information campaigns and rights education on formalization. The report notes that the implementation of this action would be particularly important for Ethiopia, where the procedures and formalities for registering a business are complex and prohibitive.

- **Creation of a business-friendly culture in government:** an example is the creation of service charters in Ministries, local administrations and at border crossing-points to help firms understand and comply with their obligations, with training of government officials in treating informal operators with patience and courtesy, etc.;

- **Reduction of the cost of trading formally and enhancement of efficiency at the borders** : multiple regulatory requirements of border control agencies such as agriculture, veterinary, health and phytosanitary standards commonly result into duplicat e

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respective procedures

and requirements

so to operate in a coordinated way

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- **Addressing the implementation challenges of the COMESA Simplified Trade Regime (STR).** The report notes that currently the COMESA STR faces a number of implementation challenges which include lack of awareness of the regime among informal cross-border traders,

non-compliance by some countries with the agreed threshold value (USD 2,000) or even the common list of goods, limited understanding of the requirements by the traders, among others. Countries should consider commissioning studies to try to understand the challenges of STR implementation and come up with recommendations on the way forward. The STR should also be accompanied by the deployment of

help desks

at borders, such as the Trade Information Desk Officers (TIDOs) created at border posts of some COMESA member States to assist traders in clearing their goods and to sensitize them on how to benefit from the STR. Such kind of initiative is also common in the ECOWAS region, where a series of

help desks

called

“Border Information Centres”

have been established

to give information to cross-border traders on customs procedures, required documentation for goods, vehicles and drivers, traffic laws and transport regulations, protocols on transport and transit and other aspects related to the movement of goods and vehicles across the border and along the road corridors.

The role of all these help desks is to provide trade facilitation services and relevant trade information including documents to traders crossing the border and where necessary to other traders and stakeholders that may require similar information or facilitation.

- Provision of technical assistance and better support services to traders:

Governments should consider offering technical support to help traders understand and comply with existing trade regulations and procedures as well as efficient support services for formal importing and exporting to improve trading opportunities. This could include for instance the provision of market information (on prices, availability of goods and customers, etc), as poor access to market information poses a significant obstacle for the development of a formal trading sector, without which traders are forced to rely on costly market brokers. An improvement of price information at different locations will encourage investment in formal trade, particularly in large-scale trade, since it will improve knowledge of the profitability of trade operations. The COMESA report also recommends the provision of training to informal traders regarding regulations, administrative procedures, and access to credit, as well as on the advantages of formalizing their activity. Training should also be provided to customs administrations as well about efficient procedures and codes of good conduct.

Finally, the report suggests that countries should replicate the initiative started between Malawi and Zambia and piloted at the Mwami/Mchinji border of adoption of [charters for Cross-Border Traders](#) aimed at improving their treatment at the various border crossing points and at 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. The Charter enshrines basic rights and obligations for traders and officials, and ultimately aims to improve behaviour at borders and to promote the gradual formalization of ICBT.