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African Growth & Development Policy
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AGRODEP BULLETIN

AFRICAN GROWTH AND DEVELOPMENT POLICY (AGRODEP) MODELING CONSORTIUM

WHAT DETERMINES INFORMAL CROSS-BORDER TRADE? THE CASE OF BENIN

Informal cross-border trade in Africa has become a topic of growing interest for policymakers and economists. Since 2005, the Bank of Uganda and the Uganda Bureau of Statistics have collected information on informal cross-border trade – i.e., "trade in *legitimately* produced goods and services, which escapes the regulatory framework set by the government, as such avoiding certain tax and regulatory burdens"[1] – between Uganda and neighboring countries. Since March 2011, the Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA, a specialized agency of COMESA), the World Food Programme (WFP), and the Famine Early Warning Systems Network (FEWS Net) have collaborated to install cross-border monitors in Malawi, Mozambique, Zimbabwe, and Zambia in order to record data on informal cross-border trade on a regular basis. In 2011, the National Institute of Statistics of Benin conducted a survey on informal cross-border trade in order to identify the determinants of these trade activities and compare them to the determinants of formal trade.

> *Informal cross-border trade represents an important source of income and food security for poor households.*

This survey, called ECENE for its French acronym, Enquête sur le Commerce Extérieur Non Enregistré, recorded every informal trade flow at 171 border points over the course of 10 days in September 2011.

Informal cross-border trade is a concern for several reasons. From a macroeconomic point of view, informal cross-border trade is the source of a major loss of public revenues for African governments. Since commodities traded through this channel do not need to go through sanitary and phytosanitary control measures, it is also the source of increased disease and pest contamination. Finally, there is extensive debate about the participation of Africa in global trade and the level of regional

AGRODEP is a Modeling Consortium of African researchers living and working in Africa with research interests ranging from economic modeling to regional integration and development to climate change, gender, poverty, and inequality. There are currently 183 members from 27 countries; our members work at top research institutions and universities in their own countries as well as various government agencies and non-profit organizations.

The benefits of being an AGRODEP member include opportunities for research grants, free access to cutting-edge economic research tools, data, and training. Members also gain access and exposure to large global networks of economic researchers and experts. Click here to learn more.

[1] Lesser, C., and E. Moise-Leeman, 2009, Informal Cross-Border Trade and Trade Facilitation Reform in Sub-Saharan Africa, OECD Trade Policy Working Paper n. 86, Paris, OECD.

trade within Africa. Concerning regional trade, on one side is the view of many international institutions, which finds relatively low trade levels (for example, the African Development Bank has stated that in 2009 *"intra-African trade accounted for about 10 percent of the continent's total trade... This is far below the levels of intraregional trade achieved in Latin America and Asia (22 percent and 50 percent, respectively"),* and academic literature, which concludes that regional trade reflects African economies' Gross Domestic Products (Rodrik, 1998;[2] Coe and Hoffmaister, 1998;[3] Iapadre and Luchetti, 2010[4]). On the other side is the consensus that trade databases measuring African trade, particularly regional trade, lack reliability (Mitaritonna and Traoré, 2016)[5]. Consequently, it is important to know the exact level of informal trade in Africa in order to determine what trade policies should be recommended.

However, from a microeconomic point of view, informal cross-border trade also represents an important source of income and food security for poor households. According to OECD (2003), it provides income to about 43 percent of Africa's population. ACTESA and FEWSNet point out that in times of high world agricultural prices, informal cross-border trade increases.

A forthcoming study released by AGRODEP and based on the ECENE survey[6] examines informal cross-border trade in the context of Benin. Benin is what economists call an *entrepôt* economy, i.e. a trade hub for neighboring countries, specifically Burkina Faso, Niger, Nigeria, and Togo. This economic and trade status is related to its excellent geographic location, as well as its lack of natural resources and an industrial base. Due to these factors, Benin is a local transit for both legal and informal trade.

Most informal trade in Benin takes place with Nigeria, not only in terms of trade volume but also in terms of the number of products illegally traded. Niger and then Togo follow Nigeria in terms of where informal cross-border trade with Benin occurs most often. Informal trade is balanced between agricultural and non-agricultural products.

Based on the study's econometric analysis, trade policies appear to be the main determinants of informal cross-border trade in Benin. Compared to the other neighboring countries, Nigeria is a protectionist economy and implements high tariffs and many import prohibitions. The analysis concludes that these tariffs and bans play a positive and significant role: the more Nigeria implements high tariffs and bans, the more informal trade through Benin to Nigeria is recorded.

The paper raises another interesting question: does the time-sensitiveness of traded products play a role in informal cross-border trade? If official customs procedures are lengthy, as described by many official reports, we may expect that when products are fresh and perishable, traders prefer informal trade to official trade. Using a measure of time-sensitiveness given by Hummels and Schaur (2013), based on an econometric estimation of exporters' choices, the authors show that when a product is time-sensitive, it is indeed more often informally traded.

This study paints an interesting picture of the potential determinants of informal cross-border trade in Africa. It also raises questions about policy recommendations. Today's policymakers appear more and more interested in "formalizing informal trade"; that is to say, giving traders more incentives to choose the formal and legal channels to trade goods across borders. These incentives include lower import duties and fewer import prohibitions, as well as trade facilitation practices to accelerate and smooth the transition of goods across official borders.

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[2] Rodrik, D. 1998. Trade policy and economic performance in Sub-Saharan Africa. NBER Working Paper No. 6562, National Bureau of Economic Research. Cambridge, MA.

[3] Coe, D.T., and A.W. Hoffmaister. 1998. North–south trade: Is Africa unusual? IMF Working Paper No. 98/94, International Monetary Fund, Washington, DC. http://www.imf.org/external/pubs/ft/wp/wp9894.pdf.

[4] Iapadre, L. and F., Luchetti, 2009, Trade Regionalisation and Openness in Africa, European Report on Development.

[5] Mitaritonna C., and F. Traoré, 2016, African Trade Databases, IFPRI Discussion paper, forthcoming.

[6] Bensassi, S., Jarreau, J., and C. Mitaritonna, 2016, *The Determinants of Informal Cross Border Trade: the Case of Benin*, AGRODEP Working Paper, forthcoming.

DATA

Recent statistics about Africa

Table 1. Africa Regional Integration Index: Five dimensions in eight Regional Economic Communities (RECs)

REC	Trade integration	Regional infrastructure	Productive integration	Free movement of people	Financial and macroeconomic integration
CEN-SAD	0.353	0.251	0.247	0.479	0.524
COMESA	0.572	0.439	0.452	0.268	0.343
EAC	0.780	0.496	0.553	0.715	0.156
ECCAS	0.526	0.451	0.293	0.400	0.599
ECOWAS	0.442	0.426	0.265	0.800	0.611
IGAD	0.505	0.630	0.434	0.454	0.221
SADC	0.508	0.502	0.350	0.530	0.397
UMA	0.631	0.491	0.481	0.493	0.199
Average of eight RECs	0.540	0.461	0.384	0.517	0.381

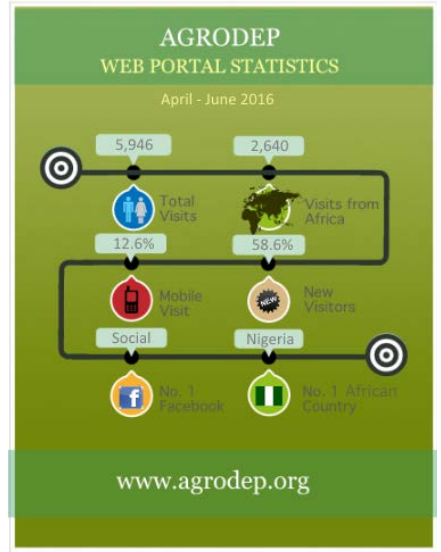
Source: UNECA 2016 Report on Africa Regional Integration Index

CEN-SAD for Community of Sahel-Saharan States; COMESA for Common Market of Eastern and Southern Africa; EAC for East African Community; ECCAS for Economic Community for Central African States; ECOWAS for Economic Community for West African States; IGAD for InterGovernmental Authority on Development; SADC for Southern African Development Community; UMA for Arab Maghreb Union

The United Nations Economic Commission for Africa (UNECA) has just released its 2016 Africa Regional Integration Index Report. This yearly publication measures Africa’s current status in terms of regional integration, focusing on five key dimensions and sixteen indicators. Table 1 presents the rankings obtained by eight Regional Economic Communities (RECs) in these five dimensions. The East African Community (EAC), composed of Burundi, Kenya, Rwanda, Tanzania, and Uganda, is the most advanced REC in terms of trade integration.

NEW AGRODEP WORKING PAPERS

Working Paper Series Grows to 31



AGRODEP has released two new papers in its working paper series, making a total of 31 papers.

"Have Migration Remittances Influenced Self-Employment and Welfare among Recipient Households in Nigeria?" by Kabir Kayode Salman finds that despite the high levels of remittances flowing into Nigeria, households receiving those remittances often do not invest them in income-generating activities, such as starting a business. This suggests the need for further educational campaigns targeting remittance recipients, as well as improvements in the political enabling environment to encourage investment. The paper also finds that remittances have a positive effect on recipient households' welfare in terms of per capita expenditures.

"Does Distance Still Matter for Agricultural Trade?", by authors Mireille Ntsama Etoundi and Christian Ebeke, examines the effect of distance on bilateral agricultural trade, using a sample of over 200 countries and a time period from 1995-2013. The paper finds that the distance effect is stronger for agricultural products than for other commodities and that the effect has not diminished over time, despite other factors like a growing range of regional trade agreements that may also have an impact on trade.

UPCOMING AGRODEP TRAINING

Training Course Series Continues

The AGRODEP training course will continue in October with a course on "Losses along Food Value Chains." The course, held from October 5-7 at the IFPRI office in Dakar and conducted with support from the CGIAR Program on Institutions and Markets (PIM), will be taught by Maximo Torero, Division Director of the Markets, Trade and Institutions Division at IFPRI, as well as Luciana Delgado and Anusuya Sivaram of IFPRI. The course is part of AGRODEP's Value Chain Analysis Virtual Hub. Applications will be accepted through August 19, 2016.

The course will introduce participants to the key concepts and issues related to food loss and waste (FLW) along value chains, as well as the methodological approaches to measure this multidimensional concept. Participants will also learn about a new proposed methodology to account for Potential Food Loss and Waste and its practical application along maize, potato, and bean value chains.

Participants should have a background in agricultural economics and quantitative analysis, as well as experience in value chain analysis.

WHAT IS AGRODEP?

The African Growth and Development Policy (AGRODEP) Modeling Consortium is an initiative led by the International Food Policy Research Institute (IFPRI). The goal of AGRODEP is to position African experts to take a leading role in both (1) the study of strategic development questions facing African countries as a group and (2) the broader agricultural growth and policy debate, which traditionally has been dominated by external actors and concerns.

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